MINUTES

HOUSE COMMERCE & HUMAN RESOURCES COMMITTEE

DATE:	Tuesday, January 29, 2013
TIME:	1:30 P.M.
PLACE:	Room EW05
MEMBERS:	Chairman Hartgen, Vice Chairman Anderson(31), Representatives Loertscher, Anderst, Hancey, Harris, Holtzclaw, Mendive, Romrell, VanOrden, King, Woodings
ABSENT/ EXCUSED:	None
GUESTS:	Sharon Duncan, Vickie Tokita, Donna Weast, and Jess Simonds, Division of Human Resources (DHR); Malinda Riley and Cheryl Mikuls, Hay Group; Julie Cloud and Scott Johnson, Idaho Department of Juvenile Corrections (IDJC); Mark Lowe, Lava Hot Springs Foundation (LHSF); Donna Yule, Idaho Public Employees Association (IPEA); Lisa Steele and Don Drum, Public Employee Retirement System of Idaho (PERSI); Donna Caldwell, Idaho Department of Lands (IDL); Monica Young, Sandy Kloepfer Durland and Paul Spannknebel, Department of Health and Welfare (DHW); Barb Barrows, Idaho Public Utilities Commission (PUC)

Chairman Hartgen called the meeting to order at 1:31 p.m.

MOTION: **Rep. Anderst** made a motion to approve the minutes of January 23, 2013. **Motion carried by voice vote**.

Vickie Tokita, Division of Human Resources (DHR), gave an informational presentation. She stated that Idaho Code 67-5309C requires the Division of Human Resources to provide a report of the results of the annual salary and benefit surveys and recommendations for changes to meet the requirement of section 67-5309A, Idaho Code, together with their estimated costs of implementation, to be submitted to the Governor and the Legislature.

Ms. Tokita stated that DHR's analysis of salary survey results indicates that classified employees' salaries for 212 jobs combined are, on average, 18.9% below the market. The market includes public and private sector employees in the Western United States. When comparing Idaho with eight surrounding states, 127 of the 212 jobs were matched. Idaho's classified employees' salaries were, on average, 10.7% below these states. FY2012 has seen an increase in all classified employee turnover including retirements, voluntary and involuntary separations, layoffs and transfers. The top four reasons employees gave for separating were retirement, needing better pay, accepting jobs with other state agencies, and "other". Policy rates for classified employees were found to be, on average, 7.4% below the market, but on average, 2% ahead of the eight surrounding states. Challenges and considerations faced by DHR include low entry salaries, salary compensation, salary inequity, and ability to retain employees. DHR recommends a two-year plan to allow agency directors to continue to address compensation issues and prepare for a proposed salary structure adjustment in FY2015.

Ms. Tokita explained two options for FY2014. They are as follows: Option 1: If funding is available, it is proposed that a percentage be appropriated to agencies' personnel budgets and that agency directors be allowed to use salary savings to address their various compensation challenges. Option 2: If merit increases are not appropriated, allow agencies to use existing salary savings to address their specific compensation challenges. With legislative approval, agencies with limited salary savings may transfer funds from Operating Expenses to Personnel Costs on an ongoing basis. A 1% increase to agencies' personnel budgets as of October 23, 2012 would cost an estimated $5 million in General Funds and $6.6 million in all other funds, for a total of $11.6 million. A 2% increase would cost an estimated $10.1 million in General Funds and $13.1 million in all other funds for a total of $23.2 million. A 3% increase would cost an estimated $15.2 million in General Funds and $19.7 million in all other funds for a total of $34.9 million. Ms. Tokita stated that for FY2015, it is proposed that the salary structure be adjusted towards market.

Donna Weast, Division of Human Resources (DHR), responded to questions. She stated that DHR participates in five salary surveys, one of which is strictly state government. Of 212 jobs that were compared between Idaho and eight surrounding states, Idaho was 2% ahead. Maximum rates are 125% of policy. Entry level rates are 68% of policy rates, which represents a drop. Idaho's actual rates of salaries were approximately 10.7% below the eight surrounding states.

Ms. Tokita responded to additional questions. She stated that the previously discussed 1%, 2%, and 3% increases did include benefits as well as salaries. The challenges that the State is facing have occurred over time, and cursory solutions have been provided. Those solutions have brought other challenges. A full compensation plan is needed to address the issues. DHR would be glad to pull together a team to address that plan, and Ms. Tokita stated that it should be a collaborative effort. DHR works closely with the Department of Administration and with Public Employee Retirement System of Idaho (PERSI).

Teresa Luna, Department of Administration, responded to a question. She stated that the yearly Change in Employee Compensation (CEC) Report is online and is updated. No changes to health insurance benefits are anticipated this fiscal year.

Ms. Tokita responded to additional questions, stating that allowing agency directors to make use of existing funds is an option that could perhaps be approved through the Joint Finance and Appropriations Committee (JFAC). If an agency has a limited personnel budget but has funds set aside elsewhere that are not being used, it is possible that the agency's director might want to utilize those funds for employee compensation.

Ms. Weast, in response to a question, stated that salary comparisons do not include lump sum payments such as bonuses.

Malinda Riley, Hay Group, presented an analysis of total compensation. She explained that the State of Idaho requested that The Hay Group provide a detailed benefits analysis including a review of the State's competitive position in health care, retirement benefits, death benefits, disability benefits, paid time off including sick leave, vacation and other holidays, and other benefits paid to general market organizations in Idaho, as well as Nevada, Oregon, Utah and Washington, and other public sector organizations in the Western United States, excluding California. They were also asked to conduct a high level review of the State's total compensation market position including benefits and salary, based on salary market data provided by the State. The Hay Group found that the State's total compensation program is below market average when compared to both private sector and public sector markets. Cash compensation for State employees lags behind the private sector by an average of 29%. The State's policy is 20% below the private sector market average. Idaho is trailing its counterparts in other states by an average of 10%. Benefits are at or above the market average for both markets for all employees driven by strong retirement and health care programs. At all salary levels, the State's benefit program is at or above the 75th percentile of the general market. Total compensation is below the market average in the private and public sector markets, as the higher benefits program value does not offset the low cash compensation. Actual benefit costs to the State were not compared, as geography, demographics, and number of employees would be too varied to ensure an accurate comparison.

In response to questions, **Ms. Riley** stated that the analysis did not include federal employees. Benefits are shown as part of total compensation. Certain benefits, such as retirement or death benefits, involve dollar benefits.

Discussing key findings, **Ms. Riley** stated that although the State's aggregate salary market position is 29% behind the private sector market, the State does not need to increase salary on that scale to improve the market competitiveness of its total compensation. She stated that the State should consider strategic salary increases of approximately 3% to improve competitiveness and help attract and retain employees in key jobs. Additionally, adjustments to the salary structure that increase the minimum, midpoint and maximum, will improve competitiveness and the State will be better positioned to attract employees in the future. When viewed in the context of total compensation, the strength of the State's benefits program offsets some of the impact of the below market salary position, but not all. As a result, salary adjustments will have the greatest impact on improving the State's total compensation market position. No significant changes to benefits programs are suggested at this time.

Ms. Tokita, responding to questions, stated that the analysis did not include public school employees including public school teachers.

Cheryl Mikuls, Hay Group, responded to a question. She stated that when comparison groups are selected, databases will not always be the same.

Ms. Tokita responded to questions. She stated that approximately 50% of Idaho State employees are classified. Separations from employment were sorted by agency. Length of service of separated employees can be evaluated.

Ms. Riley, responding to questions, stated that the Hay Group did not compare salaries with cost of living. She stated that this information could be researched with Idaho's Division of Human Resources.

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 2:44 p.m.

Representative Hartgen Chair	Mary Tipps Secretary