MINUTES

SENATE COMMERCE & HUMAN RESOURCES COMMITTEE

DATE: Thursday, January 31, 2013

TIME: 1:31 P.M.

PLACE: Room WW54

MEMBERS PRESENT: Chairman Tippets, Vice Chairman Patrick, Senators Cameron, Goedde, Guthrie, Martin, Lakey and Schmidt

ABSENT/ EXCUSED: Senator Durst

NOTE: The sign-in sheet, testimonies and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Tippets** called the meeting to order at 1:31 p.m. He said there was a change to the agenda regarding the presentation of the International Business Division of the Department of Commerce. They would be presenting last, since they were currently making their presentation to the House of Representatives.

PRESENTATION: **Vicki Tokita**, Administrator from the Division of Human Resources, introduced her staff and made a presentation on State Employee Compensation. She indicated that Idaho Code §67-5309C, requires the Division of Human Resources (DHR) 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 said the DHR's analysis of salary survey results indicated classified employees' salaries for 212 jobs combined were, on average, 18.9 percent below the market. **Senator Goedde** asked if salaries included benefits. **Ms. Tokita** said the report included salaries only. When compared to eight surrounding state governments, 127 of the 212 jobs were matched. Idaho classified employees' salaries were, on average, 10.7 percent below these eight states. **Chairman Tippets** asked Ms. Tokita if she knew how the benefit package in Idaho would compare to those eight states. **Ms. Tokita** said the Hay Group would be presenting that information.

Ms. Tokita reported classified employee turnover, including all separations whether voluntary, involuntary, layoff, retirement, or transfer, were 12.1 percent in 2011 and 12.9 percent in 2012. The length of service in 2011 for employees was 9.8 years and in 2012 was 9.5 years. Voluntary separations included personal reasons, transfers to another agency, such as city, county, federal government, private sector, school district, or another state, excluding Idaho, in 2011 was 4.7 percent and in 2012 was 5.8 percent. The length of service for employees in 2011 was 5 years and 6.2 years in 2012. There were 745 separations and 251 exit interviews from January to June 2012. The top four reasons for leaving were 80 retirements, 66 better pay, 43 transferred to another job and 58 "other". Chairman Tippets and Ms. Tokita had a discussion regarding the focus of the Office of Performance Evaluation (OPE) report regarding employees finding new employment, as opposed to why they were leaving. **Ms. Tokita** said that prior to 2012 there were more options to indicate why people were leaving. The category "other" was not helping, so they had a conversation with the employee to find out why they were leaving.

She defined the policy rate as salary relative to the external labor market (public and private sector), as determined by salary surveys of similar jobs. **Ms. Tokita** explained why it was an issue when a state employee moved from one agency to another. When she had spoken with other agencies, they said they trained someone, and because another agency had dedicated funding and were able to pay more, they lost their employees. The policy rates, on average, were 7.4 percent below the market, but on average, two percent ahead of the eight surrounding state governments. **Chairman Tippets** asked for clarification on the policy rate and why were most of our employees significantly below that rate. **Ms. Tokita** said that was correct. **Vice Chairman Patrick** asked how often the policy rate was adjusted. **Chairman Tippets** indicated the last time was in 2010. **Ms. Tokita** said that in addition, the challenges and considerations were low entry salaries, salary compression, salary inequity and the ability to retain employees. She recommended a two-year plan to allow agency directors to continue to address compensation issues and prepare for a proposed salary structure adjustment in fiscal year 2015.

Ms. Tokita said that DHR offered two options to address compensations in fiscal year 2014.

- Option 1: If funding is available, it is proposed that a percentage be appropriated to agencies' personnel budgets and allow directors 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 salary savings may transfer funds from operating expenses to personnel costs on an on-going basis. **Ms. Tokita** defined salary savings by saying if someone left a job and the position was not filled for a period of time, the money would be there to use. **Vice Chairman Patrick** asked if salary savings were the same as lump sum savings. **Ms. Tokita** indicated they were not the same. She said a lump sum could be spent without any limitations. **Senator Martin** said he wanted to clarify the question of using salary savings and asked what happened to the money. **Ms. Tokita** responded that salary savings could be used to address salary compression issues or low entry salaries. She explained salary compression by using the example of someone who was hired in 2007 at the rate of $22 an hour and did not receive an increase because of the recession. Last year that person received a two percent merit increase. Another person is hired at $22 an hour, but the first person hired had five more years of experience, but was paid two percent more. There is a two percent difference between the two salaries.

Senator Cameron commented on Option 2 and said it was confusing because of the way it was worded. He talked about salary savings not being expended because a vacant position was still open. He said moving operating expenses to personnel costs had created issues because the agencies were now asking for funding to fill their positions.

He further commented that moving operating money for personnel costs was a different situation. Sometimes money had been allowed to be moved to a higher class. We have been cautious about doing that because most of the agencies have requirements they are trying to administer or services they are trying to provide to the public. A blanket authorization to move operating costs up to personnel costs could result in services being curtailed. Money that would be used to provide that service was being used to give pay raises or adjustments. He said lump sum had more to do with the second option than the first option. Lump sum allows shifting between classifications and between programs within an agency. **Ms. Tokita** said she agreed, but she also thought it would be by agency request through the legislature. The recommendations were done in November even though they had no idea what revenues would be or the demands on the budget. She said she tried to keep the budget neutral so there would be no cost or increases.

Ms. Tokita noted that in fiscal year 2015 the salary structure could be adjusted towards the market. If funding was available, there could be appropriate increases to agencies' personnel budgets and directors would be allowed to use salary savings to address continued compensation challenges. If agency directors are able to address compensation issues in fiscal year 2014, the cost to adjust the salary structure may be minimal. As of September 26, 2012, an adjustment to the salary structure resulted in moving employees to new minimum pay rates. She said they were asked why the three percent was so much more. The reason was there were so many more employees that were paid less than if the rate was moved up to three percent. **Ms. Tokita** said she recommended a plan so there was no compression and salary inequity within agencies.

Regarding group insurance, the Department of Administration, Office of Group Insurance, for the fiscal year 2014 will continue to offer a competitive medical and dental benefit package to employees at affordable premium rates. There is a proposed Public Employee Retirement System of Idaho (PERSI) contribution rate increase of .92 percent for the employer and .52 percent for the employee.

Senator Goedde asked Ms. Tokita if someone at the high end of their pay range retired or if there was someone at the entry level range, would that difference also be considered salary savings. She replied that was true.

Senator Cameron said he served on a committee that reviewed, revised and evaluated the functionality and dilemmas of the Hay System. They were having significant compression problems and other challenges with the pay system. He said he was struggling with not rewarding employees with some modest increase because many employees have taken on extra responsibilities and have had to take furlough days. He asked Ms. Tokita if she had considered having a full evaluation, rewrite and study of the complete system, as was done almost 22 years ago. He said moving money from operating costs to personnel costs was a bandaid. **Ms. Tokita** said she shared the same concerns. In 2007 Hay looked at all of the jobs and confirmed the methodology, but it was a money issue. By working together, she said, we could come up with a plan where there may be some things we could do differently. The Office of Performance Evaluation (OPE) just released a report on employee compensation yesterday. The governor was going to put together a task force to review compensation. She said the Hay report was after the Division of Human Resources (DHR) and was an executive summary of the full report. The full report would be on the DHR website tomorrow.

PRESENTATION: **Malinda Riley**, Consultant introduced Cheryl Mikuls, Vice President of the Hay Group, and made a presentation on the Analysis of Total Compensation for the State. **Vice Chairman Patrick** asked Ms. Mikuls to explain what the Hay Group did. She said they were a global human resources consulting firm and they have offices throughout the United States. The focus of the Hay System was to do job evaluations and they were the foundation of all of their consulting services for both the public and private sector. They also have a full-service benefits consulting practice with methodologies for evaluating benefits. **Chairman Tippets** said it was his perception the state had been using the Hay methodology for a significant period of time. **Ms. Riley** indicated the study was done because the State of Idaho requested a comprehensive benefits market analysis and a review of the State's total compensation market position. The findings of the analysis provided the basis for the state to determine the best combination of a salary/benefit mix. Some of the questions they asked were: How should the state balance being fiscally responsible with maintaining competitiveness in order to attract and retain a quality workforce? Where is the state not competitive with the market and what immediate and long-term options should it consider in reorganizing its total compensation mix so as to position itself as competitive, but also fiscally responsible.

She said the state's total compensation program was below market average when compared to both the private and public sector markets. Key findings regarding the specific aspects of the state's compensation program involved the cash compensation for state employees, which lagged behind the private sector by an average of 29 percent. **Chairman Tippets** asked if other states used the Hay methodology. **Ms. Riley** said they work with several other states including some of the eight states that were compared, namely, Wyoming, Utah and Oregon (Oregon was not on the salary side, but was included in the benefits portion). Benefits were at or above the market average of both markets for all employees, driven by strong retirement and health care programs. **Ms. Riley** presented various charts on market competitiveness with comparisons of the State of Idaho versus the general/public sector market. She explained that all of the charts were laid out in the same way, showing a mix of salary versus benefits. The benefits value for the State of Idaho, she said, was better than the private sector, but in total it did not make up the difference.

Chairman Tippets said he wanted the committee to know, as salary increases, salary becomes a larger portion of total compensation and the benefits become a relatively smaller portion, which is primarily related to the cost of health insurance. Health insurance is not adjusted according to salary. **Ms. Riley** said health care was the driver, for example, if someone was earning $25,000, health care costs from $12,000 to $15,000, whether one earns $25,000 or $55,000.

Ms. Riley said in their analysis, they were able to capture nearly 90 percent of the employees within the salary ranges, and the comparison was based on classified jobs.

Ms. Riley explained the benefits evaluation and said the State of Idaho was a large purchaser of health care. Their methodology was to capture the value of the provisions of a plan for the same group of employees. She referred to two charts comparing the State of Idaho versus the general market, and one comparing the State of Idaho versus the public sector. The State of Idaho generally fell in the 75th percentile when compared to the general market. The big driver of this was health care programs, which seem to be better in public entities. Local entities still continue to sponsor Defined Benefit Plans (DBP) which continue to have more value than a 401(k) program. She said health care and retirement were both at the 75th percentile and were the key drivers of the overall value. Salary compression was seen because there was not a lot of variety in what public entities offer. Two primary drivers were health care and retirement, which captured a few of the highlights and differences between the two programs.

Ms. Riley said the key findings showed strategic salary increases. A total of three percent would be applied, especially where the turnover was high with the challenge of attracting talent. **Chairman Tippets** asked why the recommendation was three percent. **Ms. Riley** said they try to recommend something feasible. If money was not an issue, they would recommend something significantly higher and this would be an "over time" approach. There would not be two, three or four years in between appropriations of funds.

Senator Cameron and Ms. Riley had a conversation about a three percent versus five percent turnover. Chairman Tippets and Ms. Riley discussed the fact that the turnover rate was higher at just under six percent when the retirement factor was removed. Senator Cameron and Ms. Riley discussed the low job turnover rate that has occurred in the past five years. They talked about the causes of many people being less mobile and unwilling to take risks. The allowance of salary savings was another factor discussed, allowing some creativity in addressing hard-to-fill positions. Senator Cameron and Ms. Riley discussed last year's two percent across-the-board permanent raise.

Senator Schmidt and Ms. Riley discussed other states offering better benefits and less salary. **Ms. Riley** cited the State of Utah where the employers went to a hybrid retirement approach. Flexibility was taken more seriously, so they could offer a higher starting salary rather than a higher retirement benefit.

Senator Guthrie said that assuming the state did exit interviews, was there a common theme that was targeted. **Ms. Riley** said there were charts and information in the booklet he had before him.

PRESENTATION: **Damien Bard**, Administrator of the International Business Division of the Department of Commerce, introduced Eddie Yen, Official Representative, State of Idaho, Asia Office, and Xu Fang, Official Representative, State of Idaho, China Office, who gave an update on Taiwan and China Economic, Investment and Trade Activities.

Mr. Yen gave an overview of Taiwan's population, Gross Domestic Product (GDP), GDP growth, foreign reserves and bilateral trade with the United States. He said the population of Taiwan was 23.2 million, GDP growth was 1.13 percent in 2012 and 3.15 percent in 2013. United States exports in 2011 were $760 million with 15 percent being Idaho exports.

Mr. Yen said there was participation in investment seminars to promote Idaho to interested overseas investors in support of Project 60. There were eight events in 2012 to promote tourism and education. Three delegations came to visit 35 Idaho companies in 2012. There was a select investment seminar in the United States in November of 2012. Eleven states joined the seminar with 150 companies and 210 people attending. He stated there was a strong interest in the United States investment environment. Many more companies now know about Idaho. On November 1, 2012, visa passport authorization time was reduced. The visa fee was reduced from $140 to $14, which should attract more individual travelers and group tours to Idaho, with an anticipated growth rate of 25 percent.

He said there were several tourism promotions in 2012. One of the promotions involved the "My Dream Vacation USA Program". There were four press conferences on different travel themes, which were national parks, parks, sports and shopping. Six companies joined the Idaho booth at the Taipei Building Materials Show in December of 2012, which attracted more than 750 visitors.

Idaho's interest was $3.5 to $5 million in increased sales potential for beef in Asia. Thirty-five chefs from different hotels and restaurants attended the seminar for "Plank" cooking sponsored by the Outdoor Gourmet Company. **Mr. Yen** defined ractopamine as a chemical a rancher used to reduce fat in cattle.

An industry-specific marketing brochure which promoted personal care products for Chinese and non-Chinese speaking markets in Asia was developed. New export opportunities for Idaho companies were new technology for biomass, technology and equipment for semi-conductor megafab, green building materials and pre-fabricated products, such as structural panel systems, products and services for the aging senior population, pet related products, and products for health and beauty.

Promotional programs for 2013 include the Governor's Trade Mission to Korea, Taiwan and Vietnam April 19-27, 2013, investment seminars in the spring and fall, six education and travel fairs in 2013, and a food show in late June. Bio-tech and SenCare shows are scheduled for July, which include a furniture materials show in Saigon, one in Vietnam in October, and a building materials show in December in Taipei. There is a buying mission scheduled to Idaho in the fall.

Mr. Fang gave an overview of China, indicating there was an increase in the GDP in 2012 of 7.8 percent. He indicated the United States was their second largest trade partner. Exports were the fastest growing market for the United States over the past decade. He went on to say in 2000 to 2011, there was a growth in Idaho exports to China of 596 percent. China was Idaho's second largest export market in 2011. He talked about the Idaho Trade Mission held April 14-21, 2012 that involved 17 Idaho companies with Governor Otter attending. State Trade and Export Promotion (STEP) activities included gold key missions, trade shows and company visits. There will be upcoming trade shows and missions in 2013, including in March 2013 the China Housing Show in Beijing and the Interzum in Guangzhou; April 2013 the United States and China Build Mission; September 2013 the China Foreign Direct Investment Fair and the United States and China Build Seminar Series.

Mr. Fang talked about custom water bottles that were designed in Idaho and he said there were 35,000 bottles of water on their way to China.

He said the State of Idaho, China Office had three full-time staff and one part-time person, with 18 collective years of working with United States companies and industry groups who were experienced in marketing and international market access.

ADJOURNED: There being no further business, **Chairman Tippets** adjourned the meeting at 2:58 p.m.

Senator Tippets
Chairman

Linda Kambeitz
Secretary