MINUTES
Change in Employee Compensation Joint Committee
Tuesday, January 07, 2014

DATE:	January 7, 2014
TIME:	1:15 p.m.
PLACE:	Lincoln Auditorium
MEMBERS:	Co-Chairman Senator Tippets, Co-Chairman Representative Neil Anderson, Senators Patrick, Cameron, Goedde, Guthrie, Martin, Lakey, Schmidt, and Ward-Engelking; Representatives Hartgen, Loertscher, Anderst, Holtzclaw, Mendive, Romrell, King and Woodings.
ABSENT/ EXCUSED:	None
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:	The meeting was called to order by Co-Chairman Tippets at 1:19 p.m.

Co-Chairman Tippets thanked all of the Committee members for being there. He recognized Representative Hartgen and welcomed him. He thanked Co-Chairman Anderson from the House for being the Co- Chair of this Committee. **Co-Chairman Tippets** welcomed the audience and Senator Ward-Engelking as a new member of the Senate Commerce and Human Resources Committee and a member of the Change in Employee Compensation Committee (CECC). He thanked Senate Commerce and Human Resource Committee Secretary Linda Kambeitz for taking the minutes. **Co-Chairman Tippets** also thanked Jeff Youtz, Director, Legislative Service Office (LSO), and his staff for doing such a good job in working on the items for the agenda. He acknowledged Robyn Lockett, LSO Senior Budget and Policy Analyst, for all of her hard work and for helping everyone understand the numbers.

Co-Chairman Tippets made some opening remarks. He said the last time the Committee met was in 2008. He thanked leadership from both the House and Senate. He indicated the Committee could make a decision to meet every year after evaluating their work this year. He explained that it was important to have a Committee that has some expertise on this subject matter, to specifically look at and make recommendations about State employee compensation. He said he thought it was important as well to give State employees the opportunity to provide their input to the Legislature on issues affecting their pay and compensation, including both pay and benefits. It is extremely valuable, he said, for the Legislature to develop expertise on issues relating to the human resources area, as seen on the agenda, to help us start to build that base of information.

Co-Chairman Tippets indicated there had been a change in the agenda from an earlier version. The presentation by Senator Cameron and Representative Bell has been moved from Friday to Wednesday to accommodate a scheduling problem for Senator Cameron. The last item on the agenda indicates time for discussion and consideration of motions. He said that it is possible that when they get to that point, if they feel like there is additional information that they need, they could defer a decision on motions to another meeting. He said the CECC was encroaching upon meeting times of other Committees and he apologized for that. Generally, the Committee Chairmen have been very understanding and the Committee was very appreciative. That also means that some of the committee members may be leaving at times for other committees and they are excused.

Co-Chairman Tippets invited Co-Chairman Anderson to make a few comments.

Co-Chairman Anderson said he had the opportunity to meet quite a few of the members and he appreciated they were there. He said the Committee learning is a process that we are going to go through to evaluate where we are and to have a conversation about government State employees. Other benefits may result as well. He said the Committee was there to listen, that they were all in this together trying to run the State of Idaho in the best fashion that they can. He reminded all that what we were dealing with was a complex, interrelated and multi-faceted issue. He indicated there were many reasons why a person would decide whether to be employed or not to be employed by a particular entity. He asked everyone to have a broad outlook, because of the complex and interrelated project. He explained the term "multi-faceted" by using an example from his life as a farmer using flood irrigation. He said that when he was irrigating, he realized the other needs that the water could have gone towards. He said other uses could be for municipal needs, recharging the aquifer with water, recreational uses, and fish flush bringing the water level up or down. He said he didn't get a good overall view of the situation when he was farming. He said the subject of employee compensation was not simple, and the Committee would do their very best to consider points of view and then will make a judgment on what they think is most fair for the State employees as well as what is beneficial for our State.

Chairman Hartgen said he was glad to be able to participate in this endeavor. He said he had been working on this project with Senator Tippets for a long time, and he thought this was an excellent idea when it was proposed, and he recommended that we reinstate the Compensation Committee to take a look at the broad range of issues. He said it was nice to be back and thanked everyone for their support during his illness.

PRESENTATION: **Jeff Youtz,** Director, Legislative Services Office, gave a history of the Change in Employee Compensation Committee (CECC). He said the employee compensation decision was important as part of the budget decisions. He gave a PowerPoint® presentation, giving a 20-year historical comparison by year, appropriation, percent of change CECC recommendations, Consumer Price Index (CPI) percentage of change and the funding for agency change in employee compensation that has been funded. He said some of the changes were structural. The overall general fund appropriation from 1995 to 2014 has been approximately 5 percent (See attachment 1). A copy of the PowerPoint® presentation and all handouts are attached to the minutes and are available in the office of Senator John Tippets with his secretary.

He discussed compensation philosophy and quoted Idaho Code §67-5309A. He talked about annual surveys, reports and recommendations and quoted Idaho Code § 67-5309C (See attachment 1, pages 2 and 3). Director Youtz said the tricky part was there was an acceptance that the salary part could reasonably lag behind the private sector. He said we have to determine how far behind the labor market is to keep this goal intact. Advancement in pay is based on job performance and market. He pointed out that we will be further and further behind without making large structural changes. We need to address compensation issues to stay competitive. He said the statutes have not been looked at for a while and the intent sections need to be brought up-to-date.

He said there were four components that the legislature was interested in to gauge where we were. These components are listed on page 3 of attachment 1, item 2, parts a-d. He said the State has had challenges in finding people for specific jobs and has had to adjust the pay scale to attract employees as we could not compete with industry.

He referred to item 4 on page 3 of attachment 1 and said other language could be added. He pointed out that sometimes the Joint Finance Appropriations Committee (JFAC) has added intent language, especially when the CECC does not meet.

A discussion ensued with **Senator Guthrie** and **Director Youtz** regarding needed changes, the economy, and a possible downward adjustment in salaries and positions. **Director Youtz** commented on a cut in salaries and positions one year and that Leadership has placed all of the responsibility on JFAC to come up with a way to balance the budget. Part of their approach was to cut personnel costs 5 percent. Director Youtz referred to page 4 of his handout, items 1-6, citing House Concurrent Resolution 35 from the 2000 Legislative session, which provided a 3.5 percent funding increase for a Change in Employee Compensation (CEC) (See attachment 1).

Co-Chairman Tippets asked **Director Youtz** to explain the process of a resolution that would be passed by this committee. Director Youtz said that a concurrent resolution may or may not be adopted, but it still goes back to either the House or the Senate Human Resources Committee.

Director Youtz referred to pages 4 and 5 of attachment 1, which indicated that in the 2004 Legislative Session the Legislature outlined how they wanted the 3 percent funding to be used. He said efforts are always collaborative with JFAC and this Committee. He discussed legislative sessions of 2007 and 2009 as outlined in attachment 1.

During the 2013 Legislative Session, there was no CECC. He said the Governor's recommendation did not address the components to provide policy recommendations. There was not a salary freeze and it was not clear to public and State agency directors what to do about salaries. The intent of the Legislature was for agency directors to use salary savings to invest in employees, even in tough economic times. He explained that salary savings was money left over when a vacancy was left open or when salary money was left over in the budget.

Representative King asked why we don't just give a merit raise. She and **Director Youtz** had a conversation about this issue. They discussed the idea that the State made the determination that emphasis was on a merit-based system, even if an employee was not a high performer, but by doing their job, an employee should still expect to move up on the scale. **Representative King** wanted to know when we switched to an annual raise. Director Youtz said it varied from year-to-year.

Senator Guthrie asked **Director Youtz** about the high turnover and if everyone who left was taken into account. Director Youtz indicated this question could be better answered by the Human Resources Director.

Representative Anderst asked **Director Youtz** if there was a tool to look back on a historical basis twenty years or so that gives us the annualized total cost of compensation that was a certain percent of the budget. Director Youtz said the information was available through the budget staff.

PRESENTATION: **Robyn Lockett**, LSO Senior Budget Analyst, gave a PowerPoint® presentation on the details of how the system should function for classified and non-classified employees. She provided a review of the system and salary structure. She said Idaho Code § 67-53 applied to classified employees. A copy of her presentation is attached (attachment 2) to the minutes and a copy is available in the office of Senator John Tippets with his secretary.

Ms. Lockett quoted the Code indicating it shall be the responsibility of each department director to prepare a department salary administration plan and corresponding budget plan that supports the core mission of the department and is consistent with the provisions of section 67-5309A.

She Stated advancement in pay shall be based on performance and market changes and be provided in a variety of delivery methods, including ongoing increases, temporary increases and market-related payline moves. Market-related payline moves may advance all eligible employees as well as the structure to avoid compression in the salary system.

Ms. Lockett said pay for performance shall provide faster salary advancement for higher performers based on a merit increase matrix developed by the Division of Human Resources. Such a matrix shall be based upon the employee's proximity to the State midpoint market average, and the employee's relative performance. Such a matrix may be adapted by each agency to meet its specific needs when approved by the Division of Human Resources.

Senator Schmidt said he wanted to try to understand the relationship between in-State and an out-of-State wage comparison because we hear Idaho has low wages in-State. His understanding was that this formula included surrounding State wages and asked if there was a weighting to the data or if it was an average. **Ms. Lockett** clarified that salary surveys include what Idaho is compared to in surrounding States and Idaho's private sector. She indicated that Human Resources would address the idea of weighting.

Senator Goedde asked if there were any surveys that included benefits. **Ms. Lockett** said that last year the Division of Human Resources commissioned a group to study Idaho's compensation. She said they looked at salary, retirement and health benefits.

PRESENTATION: **Teresa Luna**, Director, Department of Administration, Office of Group Insurance, showed a PowerPoint® regarding benefits, including medical and vision plans. She spoke about the State's group insurance benefits, the rising cost of medical care and what her office was doing to combat the cost. She discussed components of the total plan costs versus contributions by the employee and the State. She pointed out the improvements in the plan from 2013 to 2014. A copy of her presentation is attached (attachment 3) to the minutes and is available in the office of Senator John Tippets with his secretary. She pointed out the enrollment numbers for the active and retiree medical plans by the three plan types available, which are Traditional, Preferred Provider (PPO) and High Deductible.

Co-Chairman Tippets and **Director Luna** discussed whether there was a Health Savings Account (HSA) included in the high deductible plan and the idea that the only advantage for an employee for selecting a high deductible plan would be a lower premium for the employee.

Director Luna emphasized that health care costs are rising and the State has no more reserves to help with the plans. In 2015, premiums will increase which will shift 2 percent of the cost of the plans to employees. **Co-Chairman Tippets** asked **Director Luna** whether the Governor was recommending the State pick up the increase in costs instead of a pay raise. Director Luna answered by saying the State will pay the employees' share, but employees will pay higher costs as well. Currently, the State pays 88 percent and employees pay 12 percent. That will not change. **Director Luna** said there will be a dependent eligibility study done to verify who qualifies, which based on national averages, could be as much as 3 to 5 percent who don't qualify, with an average savings of $3,000 per ineligible individual. This would be a new savings of over $3.5 million annually.

She also talked about the thriveidaho program which was instituted to encourage employees to become healthy. She said it was less expensive to keep people healthy rather than trying to get someone healthy after something happens.

Chairman Hartgen referred to page 5 under 2004, items 2 through 6. He said he would hope that at some point in time there would be a flattening of the rate of increase of medical insurance costs. He wondered if there were any long-term projections beyond 2017. **Director Luna** said there is conflicting information received about what things would look like past 2017. She said there were primarily two types of taxes that were paid and one is the 7. Patient-Centered Outcomes Research Fee (PCORI) tax,which is about $2 per employee and the other one is the Transitional Reinsurance Assessment Fee, which is currently $63 per employee. She said the Transitional Reinsurance assessment fee is expected to go up every year until 2017 and they have no information as to what will happen past 2017. She said the PCORI tax was expected to phase out in the same time period.

Chairman Hartgen discussed calculations and how the increases will impact the employee and the State as an employer. He asked would we be able to lower the other categories if we had some flat increase in the taxes, and if so, by how much. **Director Luna** said that they will not be able to eliminate any increases because we are out of reserves. We cannot change the plan design in any way because we are a grandfathered plan, which includes not being able to increase co-pays, deductibles, and co-insurance. She said the only way for the State to share in the cost of the plan for the employees is the premiums. **Chairman Hartgen** discussed with **Director Luna** the 2 percentage points available and the options beyond that to reduce benefits by some significant way to keep the costs down, the loss of the grandfather status and the impact of that loss.

Senator Lakey discussed the tracking of participation in thriveidaho and the estimated cost savings with **Director Luna.**

Co-Chairman Anderson talked with **Director Luna** about the plan improvements which included that the costs were borne by both the employee and the State. They discussed that most of the changes were at the request of higher education because they believed we had deficiencies in our plan. They also discussed the high taxes and fees mandated by the Affordable Care Act (ACA), which have a direct effect on the State's plan.

Senator Guthrie asked how the State's health insurance and retirement compared to that of the private sector and Director Luna indicated that issue would be addressed in the meeting tomorrow. **Senator Guthrie** asked that the figures for health insurance and retirement be broken out separately.

Co-Chairman Tippets asked **Director Luna** what the benefit load or the benefits compared to salaries was and she said it was about 23 percent.

BREAK: 3:21 TO 3:30 P.M.

RECONVENED: **Co-Chairman Tippets** called the CECC meeting back to order at 3:33 p.m.

PRESENTATION: **Don Drum**, Public Employee Retirement System of Idaho (PERSI), Executive Director, made a PowerPoint® presentation (See attachment 4). A copy of the PowerPoint® presentation is attached to the minutes and is available in the office of Senator John Tippets with his secretary. He said he was going to discuss the current financial position of PERSI, possibilities of future contribution rates, and discuss any changes that may be needed. He addressed the strengths of the PERSI system and the funding status going forward.

Co-Chairman Tippets and **Executive Director Drum** discussed determining the percent of fund rate return and the average rate of return on a 10-year average. Historically, **Director Drum** said we were above 8 percent, which was a realistic assumption. He said because of the economic downturn, the Board had not provided a discretionary Cost of Living Adjustment (COLA) and there were problems associated with ongoing discretionary COLAs in the future. The cost of a COLA is in excess of $70 million for a 1 percent and if a discretionary 1 percent COLA is added, that would be another $70 million. He said the only way to fund discretionary COLAs is to increase contributions and that is why the decision was made not to give a discretionary COLA to retirees if the active employees were not receiving a CEC..

Director Drum indicated that if changes were considered, according to the Hay study, the State is behind surrounding States and with business within the State. He cautioned moving money from other parts of the budget. He said people over 65 are working because they have no retirement savings and that drives up the costs for medical insurance for an employer. He pointed out the State is in good shape due to above-average returns.

Chairman Hartgen said that some critics of Idaho suggest we are using unreasonably high amortization periods and are comparing Idaho to the private sector. In the event of a liquidation of corporate assets, that liability would be carried forward as a lump sum. Because not everyone is retiring on the same day, we are able to stretch the amortization out. He was wondering if there was a point that the Director would like to see that amortization figure at a constant level or is the level set in State law of 25 percent? Was that adequate at this particular point, he asked. **Director Drum** said he thought the 25 years of service was reasonable because we have a great partnership with the Legislature. He said the 25-year benchmark has served Idaho well and doesn't need to change.

Senator Martin said that since 2008, the Board has only allowed a 1 percent annual increase, leaving retirees behind inflation. He wanted to know what the inflation rate was since 2008 compared to the 1 percent that has been allowed. **Director Drum** said it was in excess of 5 percent and could be provided if the money and the times were there to give a retro COLA, at a cost close to $400 million.

PRESENTATION: **David Fulkerson**, Interim Administrator, Division of Human Resources, said he was going to briefly go through the CEC Report and summarize the fiscal year 2015 State employee compensation and benefits report.

He wanted to answer the question previously asked by Senator Schmidt about the compensation surveys on Exhibit G, and said the numbers were aggregated. He referred to the pay schedule grid and the minimum and maximum in the policies. He said the minimum was 67 to 68 percent of the policy rate and the maximum was at 125 percent of that policy rate for each of those pay lines.

Interim Administrator Fulkerson talked about the total compensation package on page 2 of his PowerPoint® presentation. He referred to the pie chart that reflected the value of a classified employee's total compensation package based on the average hourly wage of $19.56 as of October 2013. He said benefits were $12.06 for a total of $31.62.

The benefit component is approximately 38 percent (see attachment 5). A copy of the PowerPoint® presentation and all handouts are attached to the minutes and is available in the office of Senator John Tippets with his secretary.

A discussion ensued with **Interim Administrator Fulkerson**, **Co-Chairman Tippets, Senator Schmidt, Representative Anderst, Representative King, Senator Guthrie and Chairman Hartgen** about the hourly wage, comparing State employee wages with employees in other states, the mid-point of our pay range, the top three reasons why people leave their jobs due to pay, retirement, and other career opportunities, how the turnover trend compared to the private sector in Idaho, the age of the turnover group, how many employees are making 85 percent or less of policy rate, and the challenges for agency managers. They also talked about the fact that Idaho is 11.9 percent below other States in pay.

Senator Cameron had a discussion with **Interim Administrator Fulkerson** regarding his intention to give a recommendation, which was outlined on page 11 of the presentation. They also discussed whether the Department of Human Resources was concerned that the pay system was devolving because of the inaction of the Legislature and what the best answer would be to solve the challenges before them. They discussed how many jobs were reclassified in order to retain employees, and the inequity between agencies. **Senator Cameron** gave the example of an agency that has money for salary savings versus a "like" job classification in an agency where there is no salary savings because of budgetary constraints. He asked Interim Administrator Fulkerson if this idea had been looked at and the answer was the agency was conscious of this problem as they reviewed the salary plans. He said they do not have a complete report, but would look at the data.

Representative Anderst asked Interim Administrator Fulkerson if the State had data that looked at employee turnover rates. He then followed up by asking what the average time of employment for State employees was. They also talked about the vacant position report, and **Interim Administrator Fulkerson** noted that after a job had been vacant for 12 months, the job was eliminated.

ADJOURNED: There being no further business, **Co-Chairman Tippet**s adjourned the meeting at 4:30 p.m.

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Senator Tippets
Co-Chairman

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Linda Kambeitz
Secretary

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Representative Andersons
Co-Chairman