MINUTES
Change in Employee Compensation Committee
Wednesday, January 08, 2014

DATE: January 8, 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 Anderso**n at 1:20 p.m.

Co-Chairman Anderson thanked all the Change in Employment Compensation Committee (Committee) members for being there and recognized **Co-Chairman Tippets** from the Senate. He thanked those that were to testify and stated that they were allied in a cause to do what was best for the citizens and the State. **Co-Chairman Anderson** stated that the Committee was aware that an employing entity cannot pay out more in compensation than they make in revenue, nor can they be successful without their employees. He continued that state employees were essential to government, and that the Committee appreciated their efforts.

Co-Chairman Anderson outlined the agenda for the day and stated that Joint Finance-Appropriation Committee (JFAC) members were present to give their insight into state finances. He said there would be speakers from the Division of Administration, Department of Financial Management, Legislative Services Offices, and State Police, as well as emails of opinion from constituents and then the floor would be open to the public for testimony. He said that public testimony would be limited to three minutes.

Co-Chairman Anderson introduced **Representative Steve Hartgen**, Chairman of the House Commerce & Human Resources Committee, who he said made a heroic recovery from significant health problems, and he expressed appreciation for his presence on the Committee.

Co-Chairman Anderson invited Jani Revier, Division Administrator from the Department of Financial Management, to give her presentation of the Governor's Change in Employee Compensation (CEC) recommendation.

PRESENTATION: **Jani Revier** stated that she would review employee compensation in fiscal year (FY) 2014 and the challenges state agencies are currently facing. She said that FY 2013 and FY 2014 appropriation bills directed agencies to use salary-savings for employee pay increases, which were merit-based and distributed through an approved matrix.

She said that agencies were required to use the State evaluation process and utilize a merit component in any plan they implemented. She said determining who would receive a pay increase was a complex issue that could have varying answers depending on differing qualifying criteria. She outlined the pay changes for state employees (see attachment 1, pages 2-4) and said that 5,519 state employees (41 percent) received an average increase of 6.68 percent. She stated that 8,273 state employees received a "one-time" bonus on the average of $1,096 (see attachment 1, page 4).

Jani Revier stated that the Governor supported the Division of Human Resources (DHR) recommendation that the salary structure be maintained for FY 2015 (see attachment 1, page 4). She said that a lack of a CEC in recent years meant state employees had not been advancing through the pay grades and that steps to mitigate that problem had been implemented (see attachment 1, page 5). To avoid undoing that effort, the Governor had repeatedly stated that they "let the directors direct". She said the Governor recommended maintaining the current payline exceptions. She stated that the DHR recommended a 2 percent CEC increase based on merit. She cited the 2013 HayGroup® Report which stated that salary adjustments would have the greatest impact on improving the State's total compensation market position and recommended a 3 percent CEC increase. She said each 1 percent increase in CEC increase for state employees, excluding public schools had a General Fund impact of $5.5 million and each 1 percent CEC increase for public schools had a $9.3 million impact, which results in a true cost of $45 million for the recommended 3 percent increase. She said the Governor decided to direct general funds to the increasing cost of maintaining the State's health benefits.

Jani Revier referred to Director Luna's presentation during the previous day's Committee meeting in which it was said that the State was projected to see a significant increase in cost in the health care plan. She said that all state employees were being penalized by high health care costs and that thriveidaho would reward employees that were actively helping to control those costs. She said the State was facing numerous challenges in adjusting compensation (see attachment 1, page 6), including salary compression, retention and declining federal funds. She said the Governor recommended an increase in the General Fund for key positions where federal funds were insufficient to cover benefit cost increases. She said it was a misconception that federal funding would automatically increase to cover a change in state compensation and that to implement a CEC in several agencies could result in cutbacks, layoffs or unfilled positions. She said many agencies already have a reduced workforce, and that further cuts could result in their inability to meet statutory obligations. She stated that the Governor was recommending the formation of an advisory committee for addressing the changes in compensation for employees in the education sector, and that they should not put more money into a system they plan to change. She closed by stating that the Governor's budget recommendation included a significant investment in total compensation for state employees.

Representative King referred to the data on slide 3 (see attachment 1, page 2) and asked if the 30 percent of state employees not receiving a raise were primarily from smaller agencies. Jani Revier responded that it varied and a generalization could not be made based on the size of the agency. Representative King followed up by stating that the Idaho Transportation Department (ITD) had large salary savings, while the Board of Pharmacy likely did not and asked if that would result in ITD having the ability to raise salaries and give bonuses. Jani Revier responded that some larger agencies that had salary savings were able to give one-time bonuses and that some were not able, and the ability to give bonuses varied considerably among different agencies.

Representative Hartgen asked if the state employees who had remained in the same positions since 2008 received a 4 percent total increase over that time period or if it was employees who had been promoted who received the majority of the increases. If so, was the way to get advancement in pay to move up in responsibility? **Ms. Revier** responded that the bulk of the increases went to those who had advanced on the pay scale and the top performers of each agency. **Representative Hartgen** asked what the Department of Financial Management was doing for the state employees who performed according to set standards but did not advance. **Ms. Revier** responded that in the approved plans, every agency must implement a matrix for determining performance and that as long as an employee maintained a "solid-sustain" status they would receive some form of increase.

Senator Guthrie asked what would be the percentage increase in a given year if all salary savings were rolled back into the General Fund and then distributed as a CEC. **Ms. Revier** responded that they cannot take back dedicated or federal funds and redistribute them to the general funds of the agencies. **Senator Guthrie** asked how much was spent in respect to salary savings. **Ms. Revier** said that they did not have that number, but that they should have it by the end of the day.

Co-Chairman Tippets stated that when an agency has not been funding its formal compensation program and then attempts to fund that program through informal means problems arise, such as maintaining vacant positions, as well as eroding the formal process. He asked if Ms. Revier felt that was a concern. **Ms. Revier** responded that it could be a concern that would need to be taken into consideration, but she did not think that it was widespread throughout the agencies.

Representative King asked if the Employee Benefit Program increase included the employee's contribution, to which **Ms. Revier** replied that it did not.

Co-Chairman Anderson asked if there was a problem with state compensation and if they were in compliance with Idaho Code § 67-5301. **Ms. Revier** responded that she believed they were in compliance with the Code and that the lower pay was compensated by other factors including the benefits package, quality of life, and flexibility in working hours.

PRESENTATION: **Cathy Holland-Smith**, Division Manager, Legislative Service Office (LSO), Budget and Policy Analysis, said that her office reconciled all salary and benefit costs for each fiscal year, and it was their responsibility to ensure that an agency had sufficient appropriations to meet the commitments that had been made, as well as to identify changes in employee pay benefits. She went over the main points of the budget development process (see attachment 2, page 1). She said that CECs were calculated at 1 percent in order to avoid the misconception of a recommendation at a higher level. **Ms. Holland-Smith** explained the cost of a 1 percent CEC for the general and federal funds, and then the distribution by category (see attachment 2, page 2). She said that "salary savings" were the dollar difference between an agency's cost of employees and the appropriation for personnel costs, and went on to explain the reasons they were either one-time or ongoing (see attachment 2, page 3). **Ms. Holland-Smith** said that it was important to know the difference between the two in order to determine whether temporary bonuses or permanent increases could be given. She went on to illustrate the issues state agencies were facing (see attachment 2, page 4), including inequality of resources, funding processes and differing methods of seeking additional funding.

Ms. Holland-Smith then outlined her supplemental report of the FY 2013 Reverted Appropriations Personnel Costs (see attachment 2A) in which it was reported that of the $55 million appropriated for agencies in the General Fund $1.6 million was reverted, which demonstrated they were maximizing what they had. Her second report was a detailed breakdown of the total cost of a 1 percent CEC (see attachment 2B), the cost for permanent employees (see attachment 2B, page 2) and the cost for temporary employees (see attachment 2B, page 3).

PRESENTATION: **Senator Cameron** spoke on the role of the Governor and JFAC as they relate to employee benefits and the importance of state employees. He said the dilemma was increasing demands in the face of decreasing funds and that many agencies were struggling. He said that state employees had stepped up and helped contribute to the solution during the economic downturn. **Senator Cameron** said there were options for the Committee to recommend a resolution to be passed by the Legislature or to make a recommendation to the Joint Committee. **Senator Cameron** said that it has been the public policy of the State to use salary-savings, but expressed a concern that it might not be the best policy as the financial situation improves.

Representative Bell spoke about the people employed by the State. She said that after the downsizing of the number of employees during the economic downturn the people that were left were essential, and they have accomplished more with less over the last five years. She said they have downsized the government, but asked if it was right-sized. She expressed appreciation to the Committee for the process of attempting to find resources for state employees.

Co-Chairman Tippets asked about the option of making a recommendation to JFAC and if it had been exercised in the past. **Senator Cameron** responded that it had been used in the past and that other committees made recommendations which they have taken into consideration. He also stated that it was not very often that the Committee put forward a resolution.

Senator Guthrie asked about the three components of the benefit package and questioned whether the balance was correct among wages, health benefits and retirement and how they stacked up against the private sector. **Representative Bell** responded that they have both good benefits and retirement but that was not necessarily the point. She concluded that they cannot justify sacrificing wages for benefits and retirement. **Senator Cameron** said the State retirement package was excellent and the health benefits were average, but the salary issue was what not only attracts employees, but was the reason for losing state employees to competing entities. **Representative Bell** added that most young potential employees were not attracted by either health packages or retirement benefits. **Senator Cameron** responded to Co-Chairman Anderson's follow-up on health care plans saying that the state's benefit plan was more expensive but more secure than private sector correlates.

Cathy Holland-Smith continued with her presentation on the budget and the Governor's recommendation, which was that $86,863,400 be transferred to the Stabilization Funds for budget, public and higher education and permanent buildings. She then outlined the different funds that the revenue would be transferred to (see attachment 2C).

Co-ChairmanTippets asked if the $49.8 million in revenue available was conditional on the agreement of the 6.4 percent revenue growth. **Ms. Holland-Smith** replied that he was correct, and that the resources would only be available on acceptance of the revenue projection.

Chairman Hartgen asked if there would be other expenditures that would affect the projection and **Ms. Holland-Smith** replied that it was a firm number; however there were a few other committees that may still have some affect on the projection.

PRESENTATION: **Donna Yule**, Executive Director of the Idaho Public Employees Association, thanked the Committee for convening. **Ms. Yule** said that not only were low wages an issue that needed to be addressed, but the disparity in pay between rank-and-file government employees and management. She proposed a plan that would bring all current classified employees up to 90 percent of policy rate over three years. She concluded that merit raises should be awarded on a regular basis and set by policy so that state employees know they are attainable (see attachment 3).

TESTIMONY: **Fred Rice**, Chairman of the Idaho State Police Association, thanked the Committee Members for what he said might at times, like law enforcement, be a thankless job. He outlined the pay disparity, especially average trooper pay among law enforcement personnel in Idaho versus that of surrounding states (see testimony 1). He stated that the advanced training the Idaho troopers receive make them extremely sought after by other agencies and the below average pay incentives prompt them to move to those agencies. Mr. Rice referenced Idaho Code § 67-5309 (a), (b), and (c). Co-Chairman Tippets responded that the Committee had received testimony on those code sections. Mr. Rice concluded that the retirement formula for state employees relied heavily on earnings history, and without reasonably consistent market-based pay adjustments employees of the State will continue to have to work longer than planned so they can afford to retire.

Co-Chairman Tippets thanked Mr. Rice for his service to the State of Idaho and asked what the Idaho State Police (ISP) "without choice" signified on the graph of his testimony. **Mr. Rice** responded that it was the "base wage" without the enhancement of the "choice points". **Co-Chairman Tippets** asked if state troopers were paid those wages. **Mr. Rice** responded that they were and the points had to be earned to get the wage increase.

Roger Dubois, Idaho Commission for Libraries, Administrative Services Manager, stated that employees should anticipate incremental salary increases over the years. He gave an example of an employee who has been working for 25 years and was earning 89 percent of policy rate and another employee who started at $8.99 per hour 5 years ago and was still earning that same wage. He said that over the last four years their General Fund appropriation has decreased 28 percent and the Federal Fund Personnel Appropriation has increased 100 percent to compensate. He wondered if that solution was sustainable. He said there must be planned increases in appropriations in order to move employees up the pay scale through a merit-based process because salary savings are insufficient. He concluded that "total compensation" should be used as a basis to determine salary, but must be separate from benefit costs; otherwise employees would receive a negative CEC.

Kean Miller, State Employee, Idaho Industrial Commission, thanked the Committee for meeting and addressing the issue of a CEC. She said that at the Economic Outlook and Revenue Assessment Committee it was stated that Idaho ranks 50th in the nation for average wage per capita and for wage increases since 2007, as well as having the highest percentage of minimum wage workers. She said that lower wages have a downward spiral effect on the economy due to less money being available to spend at local businesses **Ms. Miller** said that wages were a tool that the Legislature could use to bring Idaho out of recession with higher pay having an "upward spiral" effect on the economy. She also said that lower wages result in the "state shuffle" where the only way an employee can receive a raise is to move to another agency, which impacts the State funds in recruiting, hiring and training. She advised that if national corporations that employed workers in the State increased their minimum wage by 25 percent it would spur the economy, start moving the State out of recession and increase the tax base.

Heidi Graham, State Employee, stated that she spoke before the Committee in the 1990s at a time when salary increases were minimal and requested then that the Committee support salary increases. She asked that consideration be given to employee compensation, not as an employee, but as a taxpayer. She said her experience with state agencies and employees showed her the value of competent service, which, in her opinion, was waning in the public sector. Subsequently, she asked that a CEC be enacted that would attract and retain the best employees most able to meet the needs of the public.

Terri Gormley, State Employee and former Federal Government Employee, said that when she was in federal service she knew when she would receive an increase and that it was based on longevity and meeting expectations. She said that upon her transfer to Idaho, the merit-based increase in pay did not happen. She stated that, in her opinion, keeping employee wages down resulted in high turnover, less qualified applicants and reduced efficiency (see testimony 2). Representative King inquired about the turnover in her agency. **Ms. Gormley** responded that, in the last month five administrative staff members have left for other agencies.

Patrick Guzzle, State Employee, said that increases in his salary have not kept pace with the increases in cost of living. He requested consideration from the Committee on the issue of CEC and thanked them for their time.

Shelley Doty, State Employee, testified and said that at least five employees from her agency have left for other jobs.

Michelle Thomas, Idaho State Veterans Home employee, stated that they had a 2 percent raise but with insurance costs it did not result in an increase in take-home pay. She said there was no merit-based pay increase structure at her agency.

Audra Campbell, Idaho State Veterans Home employee, said that she has worked for almost a year and was told that she would receive $9.25 an hour. She passed over other jobs that were at $10.50 an hour, but must now submit her resignation because she can no longer afford to stay employed at the agency.

Debra Warren, Idaho State Veterans Home employee, said she has worked for 12 years at the agency and has seen the high turnover rate due to wages. She said that Idaho's veterans deserve people who can be retained and who are quality personnel. **Representative King** inquired as to the rate of turnover at the agency **Ms. Warren** responded that there was a lot of turnover. She said when agencies are trying to fill the gap this can sometimes upset veterans who are used to working with the same individual. **Representative King** inquired about overtime. **Ms. Warren** responded that she seldom worked overtime.

WRITTEN TESTIMONY: The following submitted written testimony in favor of a CEC: Donna Harryman, Sondra Becker, Todd Brandel, Mariel Doyle, Karola Stock, Carolyn Zeller, Ron H., Gloria Baugh, and Kelley Daugherty (see 1-9).

Co-Chairman Anderson then thanked all who gave their testimony. He explained that the Committee could promise stakeholders a process, but not an outcome. He said that the Committee would do their best for the people of Idaho.

ADJOURNED: There being no further business, **Co-Chairman Anderson** adjourned the meeting at 4:07 p.m.

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Senator Tippets Co-Chairman	Linda Kambeita Secretary
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Representative Anderson Co-Chairman	David Ayotte Assistant Secretary