MINUTES

# CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

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| **DATE:** | Thursday, January 08, 2015 |
| **TIME:** | 1:00 P.M. |
| **PLACE:** | EW42 |
| **MEMBERS PRESENT:** | Senators Co-chairman Tippets, Patrick, Cameron, Martin, Lakey, Heider, Lee, Schmidt and Ward-Engelking<br>Representatives Co-chairman Anderson, Hartgen, Anderst, Holtzclaw, Romrell, Mendive and King, Rudolph |
| **ABSENT/ EXCUSED:** | Representative Loertscher |
| **CONVENED:** | The meeting was called to order by **Co-Chairman Anderson** at 1:02 p.m. |

**PRESENTATION:** **Teresa Luna**, Director, Department of Administration (DOA), gave a presentation regarding policies that drive the Group Health Insurance Program structure. **Director Luna** introduced Amy Johnson, Administrator for the Office of Group Insurance (OGI); Amanda Visoski, Wellness Benefits Coordinator; Keith Reynoldson, Chief Financial Officer; and Jennifer Pike, Administrator, DOA.

**Director Luna** explained that the OGI was established to negotiate, provide, and administer a cost-effective benefits program for employees, retirees, and their dependents. The office has 6 employees, an annual operating budget of $913,900, and administers 9 different benefit plans. The plans include the active employees' medical and dental plan, retiree medical plan, life insurance, short-term and long-term disability and flexible spending accounts. As of June 2014, the medical and dental plans covered just fewer than 45,000 consumers at a total plan cost of approximately $258 million.

**Director Luna** explained the Preferred Provider Organization (PPO) continued to be the most popular plan with nearly 80 percent of active participants and over 50 percent of retiree plan participants. The traditional plan was the second most popular, followed by the high deductible plan. The DOA was looking at adding a high deductible plan for the retirees that was also Health Savings Account (HSA) eligible. The average age of covered employees and their spouses is 47, and the average age of dependents is 13. The enrollment consisted of 17,987 active employees and 26,742 dependents in the medical and dental plans; plus 938 retirees and 269 retirees' dependents.

**Director Luna** said the OGI continues to provide a well-rounded benefits package. In 2015, several changes were made to comply with federal requirements including:

- Removing the pre-existing condition waiting period for adults on all the medical plans.
- Replacing the $500 annual maximum for chiropractic services with an annual 18-visit limit

- Removing a $2 million lifetime maximum.
- Removing the $500 annual limit for Diabetes Self-Management Education Services.
- Removing the $10,000 lifetime limit on hospice covered services.

**Director Luna** reported that in fiscal year (FY) 2014 the following changes were made:

- Removed the $20 in-network co-payment for wellness visits on the PPO plan.
- Removed the $250 limit for wellness visits on traditional and high deductible plans in an effort. to encourage preventative health care visits by their members.

She said in FY 2013 the DOA made several enhancements to the program:

- Increased the vision reimbursement amount for exams, frames and lenses.
- Expanded the open enrollment time frame.
- Removed the waiting period for new employees enrolling in flexible spending accounts.
- Made premium tier changes for part-time employees.
- Expanded voluntary term life policy.
- Remarketed life and disability insurance.

**Director Luna** stated that as health care costs went up, the State had done its best to maintain a robust competitive plan and keep it affordable. In FY 2015, for the first time in five years, employee premiums increased. She said an employee alone now paid $47 per month, which was an increase of $12 per month over last year. An employee with children now paid $110 per month, which was an increase of $28 over last year. An employee covering a spouse and children now paid $171 per month, or an increase of $44 per month. The DOA's current appropriation request did not include employee premium increases for FY 2016.

**Director Luna** explained total plan costs including premiums paid by the State, premiums paid by the employees, and the co-pays, deductibles and cost-sharing paid by the employees. She said in FY 2014 the total medical care plan costs were nearly $240 million. Projected costs for FY 2015 were just over $258 million. Projected costs for FY 2016 were $276 million, which would be an increase of nearly 7 percent over last year. The annual percentage increase had gone up over the last few years over the 6.5 percent enjoyed in earlier years, mainly due to cost increases caused by the Affordable Care Act (ACA). Director Luna went over the State contributions, employee contributions, and the funds paid by retirees participating in the plan and any Consolidated Omnibus Budget Reconciliation Act (COBRA) contributions.

**Senator Patrick** asked what the ACA was costing the State, assuming there was a penalty or tax. **Director Luna** said she would cover that later in the presentation.

**Director Luna** explained the medical and dental reserve balances represented the changes in the reserve balances over the last few years and predictions for this year and next. For several years, the State carried significant reserves in the medical and dental accounts. In 2012, the State elected to reduce the reserve obligation to the carrier from 10 percent of premium to 5 percent of premium. In doing so the carrier required an additional risk charge of 0.32 percent for taking on the State's additional liability. Moving to a 5 percent reserve allowed the State to use the excess reserve funds to provide two premium holidays to state employees in FY 2011 and 2012. The State absorbed premium increases rather than passing them on to the employees. She said the lower reserves resulted in the loss of interest income and increased expenses in the form of risk charges. The DOA projected they would be over-reserved in FY 2015 and would move the reserve obligation back up to 10 percent. For FY 2016 the DOA would meet the 10 percent obligation which would save approximately $74,000 annually in avoided risk charges. The DOA plans to run reserve levels closer to the contractually obligated reserve requirements rather than be over-reserved. However, if there should be a bad plan year, the DOA may have to ask for supplemental funds from the reserves to meet contractual obligations.

**Director Luna** said the cost sharing history-premium split showed the premium split between the State and employees for the past seven years and future projections. The State has paid approximately 90 percent of the premium costs since FY 2008. In FY 2011 and 2012 the State's share increased due to the premium holidays that the State provided and the decision not to pass premium increases on to the employees. The DOA projected an 89 percent to 11 percent split for FY 2015 and FY 2016.

**Director Luna** said the FY 2016 appropriation request was $11,200 per eligible employee which was a 6.2 percent increase over FY 2015 based on information from the actuary. She said she thought it was important to differentiate between the State's per-employee appropriation and the increase in total plan costs.

**Director Luna** explained the 6.2 percent increase in the appropriation should not be confused with the 6.9 percent increase in the total cost of the medical plan in the same period. For FY 2016, there may be a plan cost increase of 6.9 percent or $17.9 million. Breaking down the $17.9 million gave a better understanding of the total plan cost increases. There was an increase of $740,000 in state administrative costs, an increase of $16.9 million in claims and plan administration, and an additional increase of $250,000 in ACA taxes and fees. The bulk of the increases came from claims and claims administration. For FY 2016, the DOA projected an additional $250,000 increase in ACA taxes and fees, in addition to what was already being paid, for a total of $9.7 million in ACA fees for FY 2016. She said that was about 3.5 percent of the cost of the plan. There were a few restrictions on the plan based on its grandfathered status.

**Co-Chairman Anderson** asked what percent of the total costs was the administrative fee. **Director Luna** stated the Blue Cross administrative fee was approximately 6 percent.

**Keith Reynoldson**, Chief Fiscal Officer, DOA, said the largest percentage of the total administrative cost was the Blue Cross administrative fee of approximately 4.5 percent of the total plan. In addition were the DOA's administrative costs of approximately 1.5 percent which included the Wellness Program. All combined, the OGI appropriation for the Wellness Program and the fees paid for administration of Blue Cross was approximately 6 percent.

**Co-Chairman** Anderson asked if that rate was in line with other states and institutions. **Director Luna** replied that, based on bids for the contract over the last six or seven years, it seemed standard with other proposals. **Co-Chairman Anderson** added that Senator Cameron, who had experience in the industry, had indicated it was in line as well.

**Senator Schmidt** asked about the effect of lowered reserves on the reserve balance, and whether those costs were included in the administrative costs. **Director Luna** affirmed she believed they were in the claims and administration costs.

**Senator Schmidt** wanted to know about the previous explanation of saving $750,000 a year with a reserve of 10 percent and the total plan costs going up 6.9 percent with most of the cost being administrative. He said it sounded like the costs were going up significantly because the $750,000 was going down.

**Director Luna** explained the total plan costs were going up 6.9 percent or $17.9 million. Of the $17.9 million, $740,000 were state administrative costs, $690,000 were ThriveIdaho rewards and $16.9 million were claims and administration. Most costs would drop off next year as they implemented the 10 percent reserve.

**Senator Schmidt** asked how many years the State had been paying the 5 percent reserve costs. **Director Luna** said the DOA moved to a 5 percent reserve in FY 2012. From FY 2012 through FY 2016 there had been a 5 percent reserve. Because of that, the State was paying an additional 3.2 percent risk charge. **Senator Schmidt** asked if the State could go back up to a 10 percent reserve in 2016. Director Luna stated projections were that reserves should be 10 percent in 2016, but would definitely be 10 percent by 2017.

**Director Luna** explained the ACA grandfathered plan limitations. She said the State decided to grandfather its medical benefit plan in 2012. As a grandfathered plan, the State accepted certain limitations on cost-sharing that could be passed on to employees. In exchange, the State was exempted from having to cover all the requirements of the ACA. She explained most of the limitations on cost-sharing used a similar formula of medical inflation plus 15 percent. Using the formula, the co-payments on the PPO plan could never increase more than about $7 per visit and the deductible could never increase more than $60 per employee or approximately $180 per family. There were no acceptable changes in the percentage of the co-insurance split, and the employer contribution was not allowed to decrease by more than 5 percent as of March 2011. To date, the DOA had already moved 3 percent of the 5 percent allowable to employees and was prohibited from making any adverse changes to the level of benefits in the grandfathered options. If the State gave up grandfathered status, there would be greater flexibility in cost-sharing. However, the State would be required to cover the full cost of certain services, including all preventative services with no cost-sharing.

**Director Luna** said the appropriation request did not include premium increases for employees in FY 2016. She explained the DOA looked at a couple of scenarios for increases. The first option fit within the grandfathered status and would increase employee contributions by the same amount as medical inflation. The premiums would be a $4 increase from $47 to $51 for employees alone, a $10 increase from $110 to $120 for an employee and children, and a $16 increase from $171 to $187 for an employee, spouse and children.

**Director Luna** explained the second option for premium increases offered the ability to shift a total of 5 percent of the total plan cost to employees. Three percent has already shifted. The DOA estimated approximately 1.6 percent of the 5 percent was still available to shift to employees. If the shift happened, an employee's rates would go up by $13 per month, an employee covering children would go up by $30 per month, and for an employee covering a spouse and children the rates would go up $46 per month.

**Director Luna** said the OGI and the Group Insurance Advisory Committee (GIAC) undertook a complete verification of dependent eligibility; looked into options for Health Savings Accounts (HSA) and Voluntary Employee Benefit Associations (VEBA) plans; and began their second year of ThriveIdaho to proactively minimize yearly increases.

**Director Luna** explained that dependent eligibility verification began last summer and was completed the end of September. The result of this process was a recommendation that 1,800 of the State's dependents be removed from the plan. Fifty percent were recommended for removal because the OGI received no response from them. Approximately one quarter voluntarily terminated, and the other fourth provided only partial documentation. The OGI, Department of Human Resources (DHR) personnel, and the vendor worked with employees to obtain the proper documentation necessary to cover their dependents. The DOA estimated that each plan member costs the State an average of $3,000. The State would potentially save $5 million. The DOA was pleased with the results and believed dependent eligibility verification should be an ongoing process. To keep the dependent list accurate, the OGI would conduct another catch-up verification to capture all the dependents added to the plan between May and November. Beginning December 1, the OGI implemented Point of Enrollment (POE) verification so that any time a dependent was added to the state plan; the employee would be required to provide proof of eligibility within 30 days.

**Representative Hartgen** commented some states had capped the state's cost-sharing premium split as a way of making employees aware they had responsibility. He asked if Idaho had looked at capping the State's share and what the cost would be. **Director Luna** responded that currently the State paid 89 percent of the costs and employees paid 11 percent. The DOA could shift the State's and the employees' costs equally every year to stay at the 89 to 11 percent split. She said she did not know if other states were capping the cost-sharing premium splits and explained non-grandfathered plans may have greater flexibility than Idaho's. **Director Luna** also said she was not sure how the State of Idaho could cap the split, stay grandfathered, and stay within the constraints of the ACA.

**Representative Hartgen** wanted to know if the $250,000 included costs the employee would pay in additional ACA taxes and fees. He also wanted to know if each family paid an additional tax based on their calculated income that was over and above a quarter of a million. **Director Luna** replied the DOA's calculations indicated the State's plan would not require employees to pay a tax based on the current benefit level.

**Representative Hartgen** asked if employees knew they did not have to pay an additional ACA tax over and above what the State pays, or if the amount was estimated at this point. **Director Luna** said the DOA had not had any communication with employees about their individual tax situations under the ACA.

**Director Luna** said the DOA had worked on ways to incentivize employees in several ways. They looked at combining a HSA with the current high deductible plan and the implementation of a HSA plan in combination with a VEBA. Both options suggested possible savings. However, the DOA realized significant savings would require the State to change the way it provided benefits and would require most, if not all, employees to participate. A HSA could provide savings to the State over time. HSA plans required participants to be educated consumers about their medical needs, thereby making them aware of costs associated with each medical procedure. **Director Luna** explained a trend with users was to shop around for affordable medical care when they had not reached their out-of-pocket match. When a user reached the maximum and the onus of payment was on the employer, the desire of the user to find cost-effective alternatives was lower. Adding a HSA to a high deductible plan would likely only be effective as a cost savings to the State if the disparity between deductibles became much greater. Employees would be forced to choose between a now much more expensive PPO plan and a much more affordable HSA high deductible plan that would require each plan participant to manage their medical costs. Without a greater disparity in premiums, employees were not likely to take the risks of a high-deductible HSA plan.

**Director Luna** stated that ThriveIdaho was the most effective cost savings effort the State had tried. Employees were engaged in managing their health and the way they used medical insurance coverage. **Director Luna** explained the Group Health Statistics indicated who was using the health care plan and the correlation between the percentage of claims and enrolled members accessing benefits. About 80 percent of the State's members consumed only 23 percent of the plan costs. There was an acute group comprised of approximately 6 percent of the plan members who filed approximately 30 percent of the claims. Acute claims were difficult to manage as they were derived from short-term, critical medical needs such as pregnancies, broken ankles, and accidental injuries. She said the most troubling, however, were those employees in the at-risk, chronic, and catastrophic categories. That group comprised approximately 20 percent of the members, but was responsible for nearly 50 percent of the plan costs. The catastrophic category showed that less than 1 percent of the members were responsible for nearly 27 percent of the claims against the State's plan. **Director Luna** stated that meant only 3,500 of the roughly 18,000 employees and 26,000 dependents were responsible for about $39 million of all claims paid.

**Director Luna** said ThriveIdaho started in 2010 as Governor Otter's initiative to help state employees. Participants could earn $250 for their efforts by making an annual trip to their doctor, answering questions on their health status, and educating themselves on health matters. She noted over 1,500 employees already participated during the first half of FY 2014, and more than 740 earned a $250 reward in October. Blue Cross mailed over $185,000 in reward checks. That was real money going back to employees who had taken steps to understand their health status and make healthy choices. Approximately 850 employees were in the process to receive their rewards in January. Halfway through the year, the program had exceeded all past participation efforts. The DOA was very excited about the progress. Director Luna said this past summer the DOA hired Amanda Visosky as the State's Wellness Benefits Coordinator. Amanda came from Colorado where she worked in the public sector doing health promotions for many years. She had been a tremendous resource to the DOA as she continues to engage and educate employees on ThriveIdaho.

**Director Luna** recounted Governor Otter's message at the ThriveIdaho kickoff, October 2013. He said it was a lot less expensive to keep people healthy than it was to get them healthy after they have had a problem. Director Luna said the average wellness visit costs $120 and the average emergency room visit costs about $1,650, with follow-up care costing from $400 to $5,000. Participating in a wellness program creates the opportunity for employees in the healthy category to stay healthy, and for employees in the chronic, at-risk, and catastrophic categories to engage in a healthier lifestyle.

**Director Luna** recognized and thanked the GIAC members, including Senator Martin, Representative King, retired employee Dick Humiston, Tax Commission employee Roxanne Lopez, and Judiciary representative Andrea Patterson. She said the GIAC was established in 2009 by the Legislature to advise the OGI and provide feedback on issues concerning the State of Idaho and its employee benefits. The GIAC had been invaluable to the DOA over the last several years working through group insurance issues.

**Senator Martin** asked what percentage of the 1 percent permanent plus 1 percent bonus from last year was consumed in the increase in insurance premiums. **Director Luna** said the projected average annual increase in premium costs was $339. A 1 percent Change in Employee Compensation (CEC) for the average classified employee was $413. The average employee gained around $70. The DOA could not estimate what the plus 1 percent did for employees since it was subjective and different from agency-to- agency.

**Representative Anderst** asked if there would be extra protection by maintaining the grandfather clause and relation to the Cadillac tax, or were they completely separate. **Director Luna** did not know the answer but said she would find out.

**Senator Schmidt** asked if an incentive to be a member of a patient centered medical home had been incorporated into ThriveIdaho. He said it was recommended by the Governor's Task Force in order to encourage participants to use primary care last year. **Director Luna** said it had not been incorporated at this time.

**Senator Lee** remarked there was a proposal for a 3 percent increase in compensation. She asked what percentage increase would be needed if the State did not cover the 7 percent increase in benefits. For example, if an employee paid for 1 percent of the increase of the benefit costs, was there a number to compare in order to look at costs. **Director Luna** said she could get the information by running some different scenarios for Senator Lee. **Senator Lee** thanked her and said it would be good information to share with constituents, as everyone is looking at increased health care costs.

**Co-Chairman Anderson** asked how the State's sliding scale of premiums and deductibles compared to the private sector. **Director Luna** said the DOA had not compared the State's plan to other states and the private sector in three or four years. However, when the benefit comparison was done, the State was very competitive, particularly on premiums. **Co-Chairman Anderson** asked if a comparison was a regularly scheduled event. **Director Luna** responded that deductibles and premiums were compared only as needed due to cost. She said the private sector was reluctant to give out information.

**PRESENTATION:** **Don Drum**, Executive Director, Public Employees Retirement System (PERSI), introduced Chairman of the PERSI Board Jody Olson, Public Information Officer Kelly Cross, Deputy Director Lisa Steele and Retirement Board Member Jeff Cilek.

**Director Drum** reported that the asset value of the PERSI investment fund as of December 31, 2014, was $14.71 billion. The asset value had reached an all-time high of $14.94 billion in September or October 2014. He talked about the status of the Unfunded Actuarial Accrued Liability (UAAL) and the funded status of pensions. He said at the end of last fiscal year, as of July 1, the balance was $14.74 billion. He pointed out the difference between the two showed that the UAAL was $903 million, which was down significantly from the high during the great recession. The funded status had increased to 93.9 percent.

**Director Drum** explained the estimated UAAL had increased to $1.45 billion from July 1 to December 31, 2014. He stated one reason was the market had not performed as well as anticipated, and the other issue was a Cost of Living Increase (COLA) which was awarded and factored into the amount. The COLA was not taken into account in the figures as of July 1 last year.

**Director Drum** referred to PERSI's unfunded liability which peaked in 2009. He compared 2009 to 2014 to show how much the economy had improved. The funded ratio at the end of 2009 was 74.1 percent, the UAAL was $3 billion, and the amortization period was over 100 years. Between FY 2009 and FY 2014 the unfunded liability improved from 74.1 percent to 93.9 percent, and the UAAL dropped from $3 billion to $903 million. There was a significant increase in funded status and a significant drop in UAAL. Idaho Code § 59-1322(5) requires that if the amortization period of the unfunded liability is greater than 25 years, the PERSI Board (Board) must take action. In 2009, the amortization period was over 100 years, and the Board took action. They proposed a series of rate increases that brought the amortization period down to 5.5 years in 2014.

**Director Drum** explained that the Board decided in the fall of 2010 to postpone the rate increases that had been put into place in 2009. The market was coming back, and the Board was optimistic about recovery due to investment returns. They also considered the impact that changing contribution rates would have on employers, including the State. The Board felt comfortable postponing rate increases for a year. Rate increases were postponed again the next year. In the fall of 2012, the Board made the decision to enact a 1.5 percent total increase in contribution rates effective July 1, 2013. The 1.5 percent increase was split 1 percent for the employer and 0.5 percent for the employee and is reflected in the contribution rates today. The general employees' rate went from 6.23 percent up to 6.79 percent, and the State's rate for the majority of employees went from 10.39 percent to 11.32 percent, where those rates are today.

**Director Drum** explained that in 1996-1997 the Board lowered contribution rates. Current rates are slightly below the rates that were in effect in 1996. He pointed out this was important when comparing Idaho to other public pension systems. Many states have found their rates have been too low and have had to make significant rate increases to be sustainable. In Idaho, the most recent raise was 1.5 percent. **Director Drum** said the Board made a decision this fall to eliminate the future rate increases based on the funded status, the performance of the fund, the fact that benefits were reasonable and market projections were good. The Board did not see the need to raise contribution rates in the immediate future and hopefully not for a significant amount of time.

**Director Drum** said the Board made a decision last fall to act on the COLA for retirees. State law required using the Consumer Price Index for Urban Workers (CPIUW) for the 12 months ending each August. The CPIUW for the 12 months ending August 2014 was 1.7 percent. State law mandated that if the CPIUW was 1 percent or greater, there would be a mandatory 1 percent cost of living increase. An approximate 6.05 percent of retro-COLAs would be available because they had not given the full COLA since 2007. Because the CPIUW was 1.7 percent, there was a mandatory 1 percent COLA, and the Board recommended an additional 0.7 percent discretionary COLA so they would give the full amount of the CPIUW for this fiscal year. The Board elected to give approximately 2.3 percent retro-COLA. The total was approximately 4 percent. **Director Drum** said the most a retiree would receive would be a 3.96 to 3.98 percent increase because of the way the percent factored into the COLA.

**Director Drum** pointed out some important things help the fund. The Government Accounting Standards Board (GASB) 68 was a new standard going into effect for all public employers' pension plans this fiscal year. For the first time, public employers would have to report, on the face of their financial statements, their allocated portion of the funds that were formerly UAAL and were now called the Net Pension Liability (NPL). At the end of July, the total plan was $903 million. Each employer who participated in the State plan had a share of the $903 million. **Director Drum** stated, however, most constituents have not understood that they have had a share of the unfunded liability, and it was not very visible on their financials. He said he anticipated the Board would hear from constituents in the communities. He had been on the road consistently since last February talking to employers and explaining to people what the NPL meant and why they should not be overly excited about that amount. He said the

Board continues to hear from national groups about changing Defined Benefit (DB) plans.

**Director Drum** said he thought it important to understand that all retirement systems were not the same. He cited the City of Detroit's DB plan as an example of a plan with significant troubles requiring the city to make changes. He stated the majority of public pension systems were not in trouble. Idaho has one of the best public pension systems. Idaho Legislators deserve a lot of credit for the stability and sustainability of the PERSI fund. The Board has done an excellent job of monitoring the fund, and the State has some of the best statutes in the United States to govern the fund.

**Director Drum** asserted that if the Legislature recommends changes the Board will look at the changes and evaluate them. Idaho's PERSI was still over 90 percent funded after the COLAs and the market instability of the last 6 months. One measure the Board took was to reduce the net return assumption. Many of the systems that are in trouble have an investment return assumption over 8 percent. In 2012 the Board took action that reduced the investment return assumption to a net 7 percent. As of last summer, there were only four major public pension systems that had a lower return assumption than Idaho.

**Co-Chairman Tippets** inquired what the net return assumption was prior to 2012. **Director Drum** replied that it was 7.25 percent and had been 7.75 percent at the highest. The Board dropped the net return assumption down to 7 percent in 2012.

**Co-Chairman Anderson** asked Director Drum how dependent PERSI was on the stock market and if he could give insight into what rising interest rates might do to the returns and projected results. **Director Drum** said that PERSI is heavily invested in the stock market. Approximately 70 percent of their assets were in equities. The actuaries took volatility into consideration and the Board paid very close attention to market trends. **Director Drum** reported monthly to the Board to explain what the market was doing and why. Over the next couple of years, PERSI should be able to achieve an 11 percent gain, which was more than the current 7 percent. Obviously, the interest rates had an impact on the markets. One of the standard topics at the monthly Board meetings was what PERSI thought the interest rates were going to do. The local investors felt the interest rates were going to stay fairly stable for the next 12 months. At this point in time, PERSI is not concerned about the interest rates. Their strategies for investments do not need changes. The Board has the ability to act on the investment allocation on a monthly basis. The trustees stay very engaged regarding investments.

**Co-Chairman Anderson** asked if unfunded retro-COLAs were an obligation that were compounding. **Director Drum** explained retro-COLAs were not an obligation. If the CECC directed the Board to give the retirees 100 percent of their purchasing power, then retro-COLAs would have to be given. **Co-Chairman Anderson** said the Board must have a sense of moral obligation because retro-COLAs were being given. **Director Drum** said he believed the direction came from past Legislatures and the Governor to keep retirees at 100 percent of their purchasing power.

**Co-Chairman Anderson** asked PERSI Chairman Jody Olson if he thought the current plan was sustainable in the long term at the current funding levels. **Mr. Olson** said he thought anyone who was responsible for retirement wanted to know if there was enough money to run out the clock. **Mr. Olson** said he paid attention to the states that were in trouble such as Illinois, California, New Jersey, and otherwise fiscally sound states. He stated the reason he thought Idaho's plan was sustainable was because the Legislature had not made promises that could not be funded. When benefit increases were given, contribution rates were raised, coupled with a relatively modest benefit (average about $1,500 a month in Idaho) and a significant contribution by employees. What had troubled many state and corporate plans is that employees did not contribute.

**Co-Chairman Anderson** asked Mr. Olson if the State had the best DB plan in place. **Mr. Olson** said the PERSI system had a reasonable contribution rate, the benefits were relatively modest, and the benefits were assured.

**Representative Hartgen** asked if Mr. Olson would explain the decision process to take the potential increases to employees off the table, leaving the COLA piece aside. **Mr. Olson** said the three most important things the Board did was hire and manage their executive director, make a COLA recommendation to the Legislature, and make a contribution recommendation to the Legislature. Generally employers wanted a lower contribution rate. In 2008 to 2011 money was very tight. The Board would have raised rates, but did not because of the interests of the employer. The Board tries to reach a point where there is consistency and the rates are not fluctuating. They were at the point where the fund could be sustained at the current contribution rates. There was no reason to have the cities, counties, and fire districts budgeting on multiple assumptions when the Board believed the contribution rate was sustainable.

**Representative Hartgen** said he was concerned about whether employees contributed enough to protect from fluctuations in the market. He commented when times were good and the economy was better, maybe PERSI should expect employees to make more of a contribution. **Mr. Olson** said the Board never considered raising rates on just employees or just employers. Both had to be raised. Employers wanted to know what the cost was, and employees paid their share. He said employers wanted to pay the minimum rate to sustain the plan.

**Representative Anderst** asked Director Drum if the Board had the authority to approve and implement the other components of the 4 percent increase outside of the 1 percent mandatory COLA. **Director Drum** explained the Board proposed COLAs. Once a decision is made based on the valuation in October, a vote is taken, a recommendation is made, and Director Drum notifies the Legislature by letters to committees and leadership before the Session begins. If the Legislators are comfortable with the proposal and take no action, then the COLA is put into place. If the Legislature has concerns about the decisions the Board has made, they can amend or reject the Board's proposal within 45 days of the beginning of the Session.

**Co-Chairman Anderson** thanked Director Drum and Mr. Olson for their testimonies.

**PRESENTATION:** **Cathy Holland-Smith**, Division Manager, Legislative Services Office (LSO) Budget and Policy Analysis, presented Appropriation Considerations - How Agencies Manage their Personnel and said she would explain how the workforce was measured, how appropriated dollars compared to the entire workforce, where the controls were for appropriating and spending dollars on personnel, and what was and was not authorized. She said she would provide two additional reports for the CECC entitled State Workforce Authorized, Filled, and Vacant FTP and FY 2014 Personnel Cost Appropriation and Actual Expenditures.

**Ms. Holland-Smith** explained the Idaho budget process and how spending was controlled with multiple Position Control Numbers (PCN). She said a PCN equated to a Full Time Position (FTP). When an FTP was authorized, a pay grade and classification (classified or non-classified) would be determined, a job code would be assigned, and the FTP would become a PCN. In the budget process FTPs that became PCNs were measured. Each PCN was assigned a fund number. Some agencies had one fund and some agencies had multiple funds. One PCN could be funded by multiple fund sources. All funds were assigned to a budget unit with a maximum of five funds per budget unit. In the budget process, PCNs were reconciled at the program level, the budget unit level, and at the fund level. The control level was at the program level. Everything about the PCN could be tracked. According to Idaho Code § 67-3602, money could not be transferred unless the money had been appropriated for personnel. That limited personnel costs. Idaho Code § 67-3508 stated agencies must pay for all personnel costs, salaries, benefits, and overtime from the classification called personnel costs, unless the Legislature expressly departed from the classification set forth.

**Ms. Holland-Smith** talked about flexibility with appropriated personnel costs and said agencies could not transfer spending authority from operating expenditures, capital outlay, or trustee and benefits into personnel costs. Agencies may be granted legislative exemption from Idaho Code § 67-3508 and could ask for a continuous appropriation so they did not have to ask for money again. Agencies could ask for a transfer of personnel costs into operating expenditures, capital outlay, and trustee and benefits subject to Board of Examiners approval in Idaho Code § 67-3602. Agencies could transfer up to 10 percent of their appropriation from one program to another, with the 10 percent being calculated on the smaller program, including all fund sources as authorized in Idaho Code § 67-35111(2), subject to Board of Examiners and Department of Financial Management (DFM) approval.

**Ms. Holland-Smith** explained that FTP was important to directors because it was what made a department able to provide services. There was resistance from agencies about cutting their FTP too close. She explained the State Workforce Authorized, Filled, and Vacant FTP report covered the agencies in the Departments of Education (DOE), Health and Human Services, Public Services, Natural Resources, Economic Development and General Government. **Ms. Holland-Smith** went over the report in detail and explained how the state workforce was being managed in view of the differences in FTP in Health and Human Services, DOE, the Department of Corrections and the Judicial Branch. She mentioned it was important when Legislators had to decide whether or not agencies should be funded at 100 percent. LSO looked at how consistently agencies filled all their authorized positions and asked whether the agencies had the funding to keep their entire FTP. Some agencies looked at excess FTPs as proof of their efficiency and how much they could get done with fewer people. Each agency was different, and some needed flexibility.

**Ms. Holland-Smith** explained the FY 2014 Personnel Cost Appropriation and Actual Expenditures report combined five or six of last year's reports into one four-page report for Legislators. She asked the CECC to look at what was appropriated for agencies and what they spent, not only in the General Fund but in the Dedicated Fund and Federal Fund.

She explained that the DOE self-reported because they used the State Controller's system. Agricultural Research and Extension Services reported that of their $21.55 million appropriation $2 million or 9.7 percent was unspent. In total, of $630 million appropriated in personnel from the General Fund, the DOE had $302.6 million not including public schools. She stated that if the agency had a negative number on the amount unspent, or spent more, it was because they had continuous funds or they had lump sum authority to take money from other object codes and spend it on personnel.

**Ms. Holland-Smith** said of the $630.6 million appropriated from the General Fund, agencies spent $619.1 million. There was a remainder of $11.5 million that was not spent on personnel costs or 1.8 percent of the appropriation, and $21.7 million came back from agencies into the General Fund. She explained the General Fund was different than the other funds. If an agency had money from the General Fund and did not spend it, the money went back to the General Fund. If an agency had an appropriation in dedicated funds and did not spend it, the money stayed in the fund of their agency. Appropriations for federal funds were mostly reimbursable federal grants. In order to be reimbursed, an agency had to prove to the federal government the money was spent. When it came to the dedicated funds, with 16.6 percent excess unspent, it would appear some agencies were over-appropriated. Federal funds were the same way, although the dedicated funds appeared to be over-appropriated by the highest margin. In the end, with 8.8 percent that was unspent, Legislators were asking LSO analysts "What is the opportunity here? What does this tell us?"

**Ms. Holland-Smith** used the Department of Health and Welfare (DHW), the Idaho Department of Corrections (IDOC), and Fish and Game (F&G) to explain the concept. She said DHW matched its General Funds and dedicated funds (state funds) to federal funds in almost a 50-50 split. In FY 2014, 8.6 percent of their General Funds were unspent. **Ms. Holland-Smith** showed that in December 2014, after looking at the percentage of the fill rate, DHW only had 93 percent of their FTP filled. This was an agency that traditionally underspent its appropriation. **Ms. Holland-Smith** said she understood DHW was having difficulty recruiting and retaining employees which was showing up as unspent personnel money.

**Ms. Holland- Smith** explained IDOC had only 0.9 percent unspent personnel dollars. Institutions were run 24-hours a day, 7 days a week. IDOC was managing overtime and holiday pay, and had some real challenges. The percentage of filled positions was 95 percent. F&G funds were dedicated federal funds. There was not enough cash and it appeared F&G was over-appropriated. There had been discussions about raising revenue. Most of the difference in unspent appropriation was due to license revenue. **Ms. Holland-Smith** commented F&G was an agency where there was not enough cash to back up the dedicated funds.

**Ms. Holland-Smith** next talked about Targeted Personnel Requests for FY 2016. She reported in the past agencies rarely asked for pay raises in a line item. Agencies submit their budget to the Governor's office and LSO on September 1. With the lack of an ongoing CEC, LSO started asking agencies why they were asking for raises in a line item. Agencies reported they did not think raises would be addressed in a CEC because the problem was so serious. She pointed out the budget requests for FY 2016 and said there was $17.4 million requested from the General Fund in line items outside of the CEC for personnel, and many of the reasons were similar to what would typically be addressed in a CEC. She said the universities had $14.1 million, which was by far the largest amount, because they wanted to be competitive with other states.

**Ms. Holland-Smith** outlined the requests from various agencies. Vocational Rehabilitation was having problems hiring non-classified counselors because DHW counselors who were classified were making more. There was a very high turnover rate in DHW social worker positions, and the same was true with laboratory staff. IDOC had put forth a whole correctional officers' retention plan to increase the rate for existing officers and all new officers because there had been a turnover of two thirds of their correctional officers in the last two years. IDOC had been able to hire people, but not able to retain them.

Idaho State Police (ISP) was looking for more spending authority and had a dedicated source to increase officers' pay. The Department of Finance (DOF) wanted additional money to move bank examiners closer to policy. The Department of Insurance (DOI) wanted a pay-line adjustment to move all of their employees up in the pay structure. **Ms. Holland-Smith** remarked the Historical Society had an interesting situation because they were closing the museum. Since there would be no revenue this year from dedicated funds, the Historical Society was asking for money from the General Fund. The Libraries Commission reported there was an internal pay policy to move employees toward the policy line, but money was needed to do that. The State Appellate Public Defender said that attorneys in the office of the Attorney General made more than their attorneys, and they wanted pay equity. The Office of Performance Evaluation (OPE) wanted funding for career advancement.

**Ms. Holland-Smith** talked about the cost to increase salaries by 1 percent (excluding public schools). She explained that currently it would cost $5.7 million to give a 1 percent pay increase, including the cost of benefits, to all state government. Another $4.4 million would come from dedicated funds and $1.7 million from federal funds for a total of $11.8 million. Those requests greatly outweighed what a 1 percent CEC would be. The needs of the agencies were very different from one another and would not be addressed at the level of funding that a 1 percent would be.

**Ms. Holland-Smith** said that an issue had been raised by the universities. A specific university asked why they did not receive General Funds. The university did not want to raise student fees because it was unfair. The same question had been raised by the DHW. The DHW did not want to use funds for increasing salaries but instead wanted to use funds for services for their clients. **Ms. Holland-Smith** commented that often agencies with multiple fund sources asked why they had to use their funds for pay raises. Agencies were more willing to give employees pay raises when it was General Fund money versus what they considered their money. Agencies were allowed to ask for the money in a line item but were not allowed to ask for money embedded in a CEC request. There was a little less scrutiny in the area of maintenance rather than in a line item. A line item meant it was an expansion, a new program and new people. She said the analysts conducted the scrutiny, but sometimes the policymakers did not look closely.

**Ms. Holland-Smith** said there were opportunities, especially regarding targeted CECs. The Legislature had looked at particular classes, whether or not there was sufficient funding available, and whether or not they wanted to direct the funding to that area. The CECC needed to address what groups of people needed pay increases and where the money would come from.

**Co-Chairman Anderson** complimented Ms. Holland-Smith for the amount of technical information she provided.

**Co-Chairman Tippets** asked if there was an increased trend in line item requests to cover personnel costs. **Ms. Holland-Smith** said there had been more requests in the last several years. She explained that when agencies were constructing their budgets in the executive branch, they were getting feedback, and they were asking the Governor's office and DFM if the timing was right to put the line item in. The budgets would be much larger if there was not a lot of dialogue and screening. Because there were so many requests, there was some acknowledgement there were issues. Five years ago, if a line item contained salary equity, it did not get considered.

**Senator Heider** asked if the unspent amounts went back to the General Fund or carried over into the next year. **Ms. Holland-Smith** replied that for DHW, all the general funds went back to the State. If there was any cash in the dedicated fund, it stayed with the agency to be appropriated the next year because federal and dedicated funds stayed with the spending authority. F&G had only dedicated funds and federal funds spending authority. The dedicated funds stayed with the agency. Federal funds were reimbursed, so there was no cash. For the agencies that did not spend general funds, the money went back to the General Fund.

**Senator Heider** asked if there was motivation for agencies to save money one year that they could spend the next year. **Ms. Holland-Smith** responded at this time there was no carryover to the General Fund, so there was no incentive. She commented there had been some good budget years where agencies were able to do so, but they could only use carryover for one-time purposes, not ongoing pay raises.

**Representative Anderst** asked if agencies tracked the costs to retrain when there was turnover, acknowledging that certain classifications of jobs cost more to train than others. **Ms. Holland-Smith** replied ISP estimated their cost to be $100,000 to train a trooper. IDOC estimated $16,000 to train a correction officer. One of the big challenges in state government was measuring productivity since there typically were no measures because of the nature of the work.

**Representative King** asked if the salary savings for unfilled FTPs included the cost of benefits. **Ms. Holland-Smith** replied the appropriation included both the salaries and benefits.

**Representative King** asked if the vacancy plus benefits was money that the agency could spend on bonuses or raises for other employees. **Ms. Holland-Smith** replied there were actual expenditures that included pay raises that were reallocated to other employees either on a one time or ongoing basis. A vacant position was one way to identify if there was additional money to be reused in the agency.

**Representative King** asked Ms. Holland-Smith to clarify whether salary increases were preferable to line item targeted personnel requests. **Ms. Holland-Smith** answered that the discussion was a way of helping the CECC understand all of the requests that were being received and making them aware of the problem. If the CECC remained unaware, then they may think only JFAC could handle the problem. It would be the call of the Legislature to use a CEC in targeted pay increases.

**Co-Chairman Anderson** asked if the responsibility of the Board of Examiners being delegated to DFM was a problem and, if so, was it authorized by law or was it something the CECC should look at. **Ms. Holland-Smith** responded DFM had that authority. LSO realized some of this authority had been delegated over the years.

**Senator Schmidt** recalled that DFM said they had a plan to address the salary scale two or three years ago. He asked if these line item requests were because DFM had not done that. **Ms. Holland-Smith** said she did not believe that in the last of two or three years the pay schedule had been changed to a degree that would significantly impact those requests.

**Co-Chairman Anderson** called for a 15-minute break from 3:10 to 3:25 p.m.

**BREAK:** 3:10 – 3:25 p.m.

**RECONVENED:** **Co-Chairman Anderson** called the CECC meeting back to order at 3:25 p.m.

**Co-Chairman Anderson** announced the CECC would consider testimony regarding compensation. He told the audience that public employees were appreciated and essential to the functioning of the State. He limited testimony to five minutes on a volunteer basis and asked people to try not to repeat what someone else said. The meeting would conclude at the end of the testimony.

**TESTIMONY:** **Donna Yule**, Executive Director of Idaho Public Employees Association (IPEA), testified on behalf of the members of the IPEA in favor of a raise for state employees. The IPEA considered the CECC to be crucial to the Legislators' adequate knowledge about the Idaho workforce. She said many state employees took home less now than prior to the last raise because of increases in the cost of health insurance, the increase in the employees' contribution to PERSI, and the expiration of federal payroll tax holidays that were given in the recession.

**Ms. Yule** also spoke in favor of changes to the merit pay policy and said it would be a good way to give raises. She commented that evaluation procedures needed to be improved, every supervisor needed to be trained to use evaluations correctly, and every employee needed to be evaluated. Last year when the Legislature approved a 2 percent raise, 70 percent of state employees received raises and 27 percent did not.

**John Rigby**, representing himself, talked about the need for improved funding and job classifications for Information Technology (IT) professionals. He said IT personnel were in huge demand across the country. The process to hire was expensive and took a long time. The State's IT field had lost candidates and employees to entities who paid higher with better career options. He said Idaho had a single track classification where a technician had to become a manager to be rewarded with higher pay. Some places in the country had dual track classifications where technicians were highly valued and could work toward higher compensation as a technician. He was in favor of dual track classifications.

**Jake Thibodeau**, representing himself, said he was in support of a pay increase for custodians at Boise State University (BSU). He had been at BSU six years. He said the 1 percent raise last year did not cover the increased cost of his health insurance, he qualified for welfare due to his salary, and he used a welfare card to feed his children. Several unfilled positions on his shift were affecting the quality of the job. **Representative King** asked if, in addition to the poor pay, the heat and air conditioning were turned off after 5:00 p.m. so the night custodians had to work in hot or cold buildings. **Mr. Thibodeau** replied yes, but he could understand the need for energy savings, and with a little more money he could work with that just fine. S**enator Schmidt** asked about his hourly pay rate. **Mr. Thibodeau** said he started at $9 an hour and was making $10.58 now after becoming a custodian lead worker and after the 1 percent pay increase last year.

**Stephanie Hoffman**, representing herself, spoke in support of more substantial and meaningful pay raises for state employees. She is a behavioral specialist at the DHW and, for the record, was testifying during her vacation time. She had been excited about the pay raise last year, but after deducting the increased health insurance and increased parking fee her total raise for the year was $34, not accounting for a 1.3 percent inflation rate. She went from hopeful to feeling unappreciated. A number of her coworkers took home less today than in prior years. She said state employees work hard, feed their families, put children through college and pay taxes just like everyone else. She stated everyone she worked with were good stewards of the tax dollars. She was happy the Legislature had done such good work and Idaho was doing so well, and she thanked the CECC for this opportunity.

**Heidi Graham** represented herself in favor of an employee pay raise. She had been a state employee in Boise since 1985 and felt that competitive pay would enable the State to attract sharp talent, sustain efficiencies in the delivery of services, retain critical skills, move away from a culture of just getting by and compensate employees for helping their employer meet performance matrices. Paying attention to pay would give agencies flexibility to manage personnel resources. She thanked the CECC for keeping the topic of employee pay going and for seeing how the topic led to growth in areas critical to this government and the citizens of Idaho. **Co-Chairman Anderson** asked Ms. Graham if she received a bonus last summer. **Ms. Graham** said she did not remember receiving a bonus. She received a pay raise that was small.

**Dave Wiedemann**, representing himself, spoke in favor of employee compensation. He said he was a tax auditor and had been with the State for 26 years. He had originally agreed with the merit pay plan, but it was not working as it should. Previously there had been step increases in the pay plan before the State implemented a broadband evaluation that did not take experience into account. He said there was no longer an attempt to get anyone to policy, much less to the market value of positions. Ten years ago he was at 97 percent of policy, he is now at 90 percent of policy, and state averages were in the 80 percent range. In the past, the policy was to get people to market wage within five years. **Senator Schmidt** asked if he was saying that the pay plan could be functional if funded appropriately. **Mr. Wiedemann** said yes he felt the pay plan could be functional if funded properly. **Co-Chairman Anderson** asked if he received a bonus last year and asked what he did with it. **Mr. Wiedemann** said he received a one-time bonus that had little impact. He would rather have seen 2 percent awarded to the compensation plan to help with PERSI computation rather than one-time money. **Senator Ward-Engelking** asked if there was anything in his evaluation to reward him for the experience he brought to his profession. **Mr. Wiedemann** said there was no component for longevity. When he received an exemplary performance evaluation, there was no guarantee he would receive pay for performance. He had received raises four of the ten years in which he had seven exemplary ratings.

**Teri Gormley**, representing herself, spoke in favor of employee raises. She said she had worked at BSU for five years. She lost her home to foreclosure because she could not keep up. When she told coworkers she was testifying today, she heard stories about roofs and furnaces in need of repair, bald tires, and other needs from employees who were struggling to make ends meet but trying to hold on to their state employment. She said she felt concerned and disheartened about the results of the 1 percent raise last year and that pay for performance was not working as it should. She asked that the CECC consider the plight of the custodians, technical records specialists, and administrative assistants. She said they really wanted to do a good job but were looking for employment elsewhere because they could not continue living like this.

**Katie Chesbro**, representing herself, testified in favor of a CEC. She said she worked at BSU and was the sole provider for a family of three. She held two positions at BSU that equaled full-time work as an AA1 and AA2. She worked a total of 38 hours a week 10 months a year, and her take home pay was less than $1,000 a month during the academic calendar and less than $400 per month during the summer. She and her family were below the cost of living, so they were on food stamps and Medicaid for their child. Despite her track record of exemplary evaluations and continuing education, she was at the bottom of her pay scale and feared there was no hope of moving up. She said 48 percent of her pay went to insurance coverage. She lost pay with the pay raise. She believed many job classifications were misclassified, not to the benefit of the institution. She had proved the two positions she held should be reclassified. When the positions were reclassified, she remained at the bottom of her pay scale and did not receive any back pay for the two years she worked in misclassified positions. **Ms. Chesbro** said she would also like a health plan that was more flexible and provided coverage for 12 months for those who worked the academic year. She paid Tier 2 rates because Tier 1 only covered 10 months, and they had a medical need for full year coverage. She said she loved her job at BSU helping students achieve their goals. Her work is rewarding, she has excelled at her job, and she would like to remain a state employee and not have to be on state assistance. **Co-Chairman Anderson** asked what prompted her to come today. **Ms. Chesbro** said the Associated Classified Employee Senate (ACES) at BSU told their members that public testimony was available. **Co-Chairman Tippets** asked her to explain the need to get back pay. **Ms. Chesbro** explained that it took over two years to reclassify her positions. She was not given a thank you or back pay. **Co-Chairman Anderson** asked who made decisions and if there was an appeal process. **Ms. Chesbro** said she was told that back pay was not an option by her supervisor, business managers and DHR. **Representative King** asked if her boss wanted to reclassify her position and maybe others. **Ms. Chesbro** said both of her bosses supported the reclassification. The jobs are now properly classified. **Representative Hartgen** asked if back pay was in the request to reclassify. **Ms. Chesbro** said no, that she had to prove she had been doing those skills since 2012 solely to justify the reclassifications and title changes.

**Major General Gary Sayler**, Adjutant General, State of Idaho Military Division, spoke in favor of compensation for the Military Division state employees. He said Idaho Code provided that the Adjutant General, with the approval of the Governor, prescribed policies and salary schedules that were comparable to the federal military. Schedules adopted also had to be compatible with the State's accounting system. To explain his agency's need for a broader latitude and distribution of a CEC, he described certain aspects of their personnel and compensation systems. The Military Division worked side-by-side with federal and state employees. The basic premise was equal pay for equal work. The salary schedule provided the state employees with a visual map of expected career and salary progression. Consistent performance and proven dedication through longevity were attributes the Military Division rewarded through timed salary step increases called within-grade increases. The plan was not called an exclusive merit-based plan, but current performance evaluations were required showing that employees were achieving performance standards. Pay increases had historically been funded by CEC increases distributed as a COLA. The increase resulted in the upward pay line movement of the entire salary schedule by the approved CEC percentage. **Major General Sayler** said he would welcome any CEC increase. He would like the flexibility to use an increase above 1 percent for merit step increases for state employees who had not seen step increases that matched their federal counterparts over the last few years.

**Marta Baker-Jambretz**, representing herself, asked for a pay raise for DHW employees. She also suggested a policy being implemented to allow an employee to cash in vacation time. She said she is a volunteer with DHW. She is a retired nurse, social worker, and chaplain. She said she represents a battalion of angels (social workers) who worked with children who were abused and neglected. She said she had three broad concerns. The pay scale for social workers in child and family services in Idaho is gravely inadequate. The Social Worker I position is inadequately assessed and paid in terms of the responsibilities they had in working with families in need. They work 50 to 60 hours a week and are committed to welfare children. She was concerned about morale due to the size of the case loads and the increase in the number of children coming into care. She was also concerned about the shortage of workers. Turnover has been enormous. The job takes more than 40 hours a week, and comp time has not been an option because of the workload. If social workers were allowed to cash in vacation time, it would offer a choice in compensation for their extremely difficult jobs.

**Co-Chairman Tippets** wanted to know about accrued comp time that could not be taken and asked if that was a common situation. **Ms. Baker–Jambretz** said yes. **Co-Chairman Tippets** asked if accrued comp time added up or just went away. **Ms. Baker–Jambretz** had heard comp time could not be lost but could not be used because there was so much work.

**Margaret Butters**, representing herself, said she worked at the Idaho State Veterans home. She lives in Caldwell and chose to work at the Veterans home at a lower pay rate because she loves her guys.

**Kimberly Rockey**, representing herself, said she also worked at the Idaho State Veterans Home. She has been a Certified Nursing Assistant (CNA) for 15 years and has been at the Veterans Home for 5 years. She loves the vets. They fill her heart while the pay does not. Her paycheck goes strictly to car payments, insurance and gas. She has nothing extra to give to her family and they are barely making it. She related after being there for so long, people felt unsuccessful when they did not get compensated for all they did in taking care of veterans who had done so much for the State. She said she was out there working hard, and it was tough. **Representative King** asked how many years she had been working there and how much she was paid. **Ms. Rockey** said she had been there for 5 years and her pay was $11 an hour. **Representative Anderst** asked what her classification was. **Ms. Rockey** said her classification was CNA. **Co-Chairman Anderson** asked if policy rates and market rates of jobs ever came up in her discussion with anyone. **Ms. Rockey** said coworkers talked amongst themselves, but felt like they were talking to the walls. They did not get acknowledgement for the work they did. **Co-Chairman Anderson** thanked her for her service and for her testimony.

**Kelley Erickson**, a classified employee and President of ACES at BSU, spoke on behalf of ACES. She expounded on the growth and prosperity of Boise and the surrounding cities and said the success of BSU impacted the area favorably. Last fall term BSU admitted over 6,000 freshman students. **Ms. Erickson** said classified employees are the workhorses of the university. They provide services that are unique in helping BSU be the safest and most attractive environment for students. However, there is no opportunity for financial growth in the classified jobs. Almost any BSU employee could work for another agency and make more money. Many classified employees have shared they were taking home less after the raise and were staying due to loyalty. Merit evaluations are not accurate. She wanted employees at BSU to be financially self-sufficient and appreciated for contributions they had made. She did not want to have to have fundraisers to help employees pay for lunch. **Ms. Erickson** urged the CECC to provide a raise that compensated them for their fair value. She also suggested giving annual bonuses to compensate for parking costs. She said BSU employees pay far more than other agencies for parking and it would show a great appreciation for what they do there. She wished the CECC the best in finding a fair and equitable solution to all the requests they were receiving.

**Michelle Marler**, Vice President of ACES at BSU, said she was representing employees who made under $12 an hour. She spoke in favor of a different way to raise the pay of the classified employees. She was a single mother of four children making $9 an hour. She pays $376 a year for parking and takes home $333 every two weeks after a medical garnishment. She has three jobs at BSU and is paid the same rate for all her jobs. She came from a job where she made $20 an hour 8 years ago. She did not think it was good for state employees to be in poverty. She said they need help. She loves her job, the students and the staff. She felt the employees felt underappreciated. They all worked very hard and had labor-intensive jobs. A 4 percent raise for higher paid employees may be fair, but a 4 percent raise on $9 would only be 36 cents an hour. She would like the CECC to find a different structured way, rather than a percentage scale, to give raises to classified employees so they would be fairly compensated.

**Jeff Sayer**, Director, Department of Commerce (Department), came to share his thoughts on letting directors keep their flexibility in compensation. He said the competition for talent was getting intense, and he may lose some of his best people due to poor pay. There will be a time, when the market returns, when it will be hard to retain those in state government. In the past 3 years the Department went through 2 restructures, reducing their head count from over 50 to the mid 40s. The Department completely revamped their pay structure, using salary savings to pay people closer to market wage. State directors are very concerned about their ability to keep the very best. They needed to be held accountable for leading their teams, but if they do not have the capability to make decisions to adapt as needed, their hands are tied. He implored the CECC to let directors keep flexibility.

**Representative Anderst** asked Director Sayer if the merit system had inconsistency issues agency-by-agency in its application or if there was a process issue. He also asked if he felt, as a director, the merit pay system was functional in his department. **Director Sayer** said during the time of no pay increases people were given higher evaluations than they should have received to offset not receiving a pay increase. It required Department management to recalibrate the entire system which took three years. He said the merit system worked, but it was a challenge to make sure it was fair and consistent.

**Representative Anderst** said the CECC had heard the example of someone going through an evaluation process and determined to be sufficient or higher. After the evaluation was passed up the chain, the command came down to change the person's evaluation to a lower level even though there was no direct supervision. He asked if that happens. **Director Sayer** said it does happen. **Representative**

**Anderst** said it was important that merit pay was actually based on employees' performance, not just to get the numbers down.

**Representative Romrell** commented he had heard very heartfelt testimony which he appreciated. He had heard from constituents how important it was as a CECC to address these problems. He was getting a sense of how important it was to hear state employees' stories. He thanked everyone for their participation.

**Senator Ward-Engelking** said it seemed that the merit system was only as good as the person doing the evaluation or the person in charge of it. She said a merit system did not work well if the State is not paying a living wage to begin with, because then it was really not merit. **Director Sayer** replied agencies faced a challenge when employees had gone so long without a raise. There was tension that skewed the merit system. If they could pay employees more, it would allow the Department to go back to the original purpose and framework for merit systems to actually be for merit.

**Senator Lakey** said he supported the merit-based system. He asked Director Sayer if the Department was still operating under the same framework that other departments operate under or if they had the flexibility to change the system significantly. **Director Sayer** said they worked within the system. The Department spent countless hours with DHR to fix things. They had to rebuild the Department from the ground up. It took three years to revamp.

**Senator Cameron** acknowledged the difficult point Director Sayer made. He asked how he would use flexibility to retain and reward the very important positions and employees who were on the lower pay scales. **Director Sayer** replied he had respect for the reason rules were in the state system which was to balance flexibility with structure. He said inside the classified system there was a retention point system. Those who stayed longer received more retention points. There were employees inside those categories who were not the high performers. The high performance employees had low retention points, but because of points, another person was safe. He said he continued to question this. He dealt with managing people around the retention points so they could be successful. There was a need to ask if that was necessary or if it was a carryover from an old structure. **Director Sayer** said they need structure, but they also need flexibility for the State to keep up with the rest of the world.

**Co-Chairman Tippets** said he recognized the reason why the Department had funds available was because they went through restructuring and downsizing. The Department was successful at rewarding those who were the very best. What did the Department do about the solid group of people? **Director Sayer** said they took care of the very best, and he would include the solid group in the very best. He explained they tried to be consistent and fair.

**Senator Heider** asked Major General Sayler if a 1 percent, 2 percent or 3 percent increase would keep state military personnel mission ready and put their pay on par with the federal military. **Major General Sayler** said people liked doing what they were doing, wearing the uniform and serving the nation. He believed many full-time state employees were working second jobs to maintain their families. As the economy picked up, he said the State would be in danger of losing people, especially high tech people. He was worried about losing pilots to the commercial airlines if the airlines went into a huge hiring phase.

**Co-Chairman Anderson** thanked the participants for helping the CECC understand the situation. He said hopefully it would lead to a better outcome for everyone. He thanked the CECC for coming in a few days early before the Legislative Session started.

**ADJOURNED:** There being no further business, **Co-Chairman Anderson** adjourned the meeting at 5:17 p.m.

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|---|---|
| Senator Tippets<br>Co-Chairman | Linda Kambeitz<br>Secretary |
| Representative Anderson<br>Co-Chairman | Paula Tonkin<br>Assistant Secretary |