MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Thursday, January 08, 2015
TIME:	8:15 A.M.
PLACE:	EW42
MEMBERS PRESENT:	Senators Co-chairman Tippets, Patrick, Cameron, Martin, Lakey, Heider, Lee, Schmidt, and Ward-Engelking Representatives Co-chairman Anderson, Hartgen, Anderst, Holtzclaw, Loertscher, Romrell, Mendive, King, and Rudolph
ABSENT/ EXCUSED:	Representative(s) Loertscher
NOTE:	The sign-in sheet, testimonies and other related materials will be retained with the minutes in the Commerce & Human Resources 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 Anderson at 8:18 a.m.

Co-Chairman Anderson thanked all of the Change in Employee Compensation Committee (CECC) members for being there. He stated the meeting was being streamed and would be on the legislative website. He said the CECC was authorized by leadership. He pointed out there were three stakeholder groups: 1) state employees; 2) the State as an employer; and 3) the taxpayer. The goal of the CECC is to balance decisions in the best interest of all the stakeholders.

Co-Chairman Anderson introduced Co-Chairman Tippets and thanked him for being the Co-Chair of the CECC. He stated Senator Tippets is a man of integrity who has extensive experience in the field of human resources.

Co-Chairman Tippets welcomed the audience and Senators Lee and Heider and Representative Rudolph as new members of the CECC. He thanked all for coming before the session started. He welcomed all who were listening to the broadcast.

Co-Chairman Tippets mentioned he had received a number of e-mails and thanked all who expressed their thoughts. He commented that after a five-year hiatus, this was the second year the CECC has met.

Co-Chairman Tippets thanked Robyn Lockett, Legislative Service Office (LSO), Principal Budget and Policy Analyst, and staff for doing such a good job in working on the items for the agenda and for all of her hard work in helping everyone understand the numbers. He also thanked Senate Commerce and Human Resources and CECC Secretary, Linda Kambeitz for taking the minutes.

Co-Chairman Anderson read Idaho Code § 67-5309A, which declared the intent of the Legislature. The goal of a total compensation system for state employees shall be to fund a competitive employee compensation and benefit package that will attract qualified applicants to the work force; retain employees who have a commitment to public service excellence; motivate employees to maintain high standards of productivity; and reward employees for outstanding performance.

Co-Chairman Anderson referred to Section 2 and stated the foundation for the philosophy recognizes that state government is a service enterprise in which the state workforce provides the most critical role for Idaho citizens. Maintaining a competitive compensation system is an integral, necessary and expected cost of providing the delivery of state services and is based on the following compensation standards:

(a) The State's overall compensation system, which includes both a salary and a benefit component, when taken as a whole shall be competitive with relevant labor market averages.

(b) Advancement in pay shall be based on job performance and market changes.

(c) Pay for performance shall provide faster salary advancement for higher performers based on a merit increase matrix developed by the Division of Human Resources (DHR).

(d) All employees below the State's midpoint market average in a salary range, who are meeting expectations in the performance of their jobs, shall move through the pay range toward the midpoint market average.

Co-Chairman Anderson said he appreciates the staff and thanked them for their help.

PRESENTATION: **Robyn Lockett**, Principal Budget and Policy Analyst, gave a PowerPoint presentation about Idaho's employee compensation system. She outlined how the system should function for classified and non-classified employees. She provided a review of the system and salary structure. A copy of her presentation can be found at http://legislature.idaho.gov/sessioninfo/2015/cec/cec.htm. A copy is also available in the office of Senator John Tippets, with his secretary.

Ms. Lockett guided the CECC through the State of Idaho Organizational Chart, located on slides 6 and 7. She explained the majority of State employees are classified employees. There are nearly 90 different agencies and boards. The community colleges are not a part of the chart. She pointed out that FTP stands for Full Time Positions. In addition, she emphasized the non-appropriated state agencies have authority to receive perpetual funds and are not subject to appropriation of funds.

Senator Schmidt and **Ms. Lockett** discussed the small change in the ratio of classified to non-classified employees during the past 20 years.

Ms. Lockett outlined the State's compensation plan, pursuant to Idaho Code §67-5309B, located on pages 8 and 9 of her PowerPoint. Key points were:

(1) Establish job classifications and assign all classifications to a pay grade utilizing the Hay profile method in combination with market data.

(2) Each department director shall prepare a department salary administration plan and corresponding budget plan that supports the core mission of the department.

(3) Advancement in pay shall be based on performance and market changes.

(4) Pay for performance shall provide faster salary advancement for higher performers.

(5) No employee shall advance in a salary range without a performance evaluation.

(6) Each employee's work performance shall be evaluated through a format and process approved by the DHR.

(7) All supervisors who evaluate state employees shall receive training in the evaluation format and process to assure fairness and consistency in the evaluation process.

(8) All classified employees of like classification and pay grade allocation shall be treated in a substantially similar manner.

Ms. Lockett referred to the Hay Methodology and Salary Structure slide on page 10. She said the Hay Group is a proprietary, multi-national company. **Co-Chairman Anderson** requested that Ms. Lockett elaborate on the Hay Group. **Ms. Lockett** explained the Hay Group is a company that has a proprietary method of setting up compensation structures and systems. She said the company makes market comparisons across states and across the non-profit and private sectors. The Hay Group provides their analysis to states and companies so they can analyze where employees fit in the bigger picture of employment and the national workforce. The State pays for their services through the DHR. The service includes monthly reports on relevant market data.

Senator Patrick wanted to know how cooperative businesses were in releasing salary figures for the Hay analysis. **Ms. Lockett** explained she did not know the details. **Co-Chairman Tippets** commented that typically when the surveys are done, they have a minimum number of companies participating anonymously. The company and salary information is protected.

Ms. Lockett pointed out there are 19 pay grades in the pay structure which agency management uses to figure out how much to pay their classified employees. The Division of Financial Management (DFM) and the State Controller's office, provide all of the State's accounting and payroll services. **Ms. Lockett** referred to page 11 and outlined how a new employee position is approved. She explained that once an FTP is authorized, an agency requests that a position be filled and it is then approved. The position could be modified, or if a position was vacant for 12 months, the position may be eliminated with the approval of the DFM.

Ms. Lockett went to page 12 and discussed the types of pay changes. She explained pay changes can be in the form of ongoing increases, short-term increases, or one-time bonuses.

She talked about the compensation approval process on page 13. She pointed out that only an agency can request an increase in compensation, subject to approval by the DFM. Payline and equity adjustments are analyzed by the DFM and DHR. If an employee is at maximum pay, there could be an override in the form of equity adjustments.

Ms. Lockett referred to page 14, Annual Surveys, Reports and Recommendations, Idaho Code §67-5309B, indicating the DHR conducts or approves annual salary and benefit surveys within relevant labor markets to determine salary ranges and benefit packages that represent competitive labor market average rates. She told the CECC that the compensation report and recommendation to the Governor were due December 1 of each year. The report at a minimum must address: 1) salary structure adjustments; 2) specific occupational inequities (payline exceptions); 3) merit increases; and 4) the benefit package. The Governor submits his own recommendations on proposed changes in salaries and benefits to the Legislature. The Legislature may, by concurrent resolution, accept, modify or reject the Governor's recommendations. The recommendation must address, at a minimum, the four components and subsequent funding for each component.

In summary, **Ms. Lockett** said Idaho Code directs the State's compensation philosophy, its system, and its plan.

Representative King commented that many employees receive pay raises by going from one agency to another to do a similar job. **Ms. Lockett** acknowledged many factors go into what a person is paid. She referred to page 11 and the approval process. She pointed out that every agency has its own challenges and successes regarding employee compensation.

Next, **Ms. Lockett** explained what happened to salaries in 2014. She referred to the PowerPoint on Salary Adjustments – 2014/2015. The data included all state agencies, with the exception of K-12 public schools; the State Insurance Fund, and four-year institutions (Boise State University (BSU), Idaho State University (ISU), University of Idaho (UI), and Lewis and Clark State College (LCSC)). Also excluded were agricultural research and extension services (UI); health education and special programs, and community colleges (College of Southern Idaho (CSI), College of Western Idaho (CWI) and North Idaho College (NIC). She referred to the pie chart on page 3, Fiscal Year 2015 Personnel Appropriations of $1.4 billion, and stated that education (excluding K-12) was 35 percent; health and human services was 14 percent, public safety was 15 percent; natural resources was 9 percent; economic development was 16 percent and general government was 9 percent.

Ms. Lockett said that included in the $1.4 billion was the Change in Employee Compensation (CEC) that this CECC recommended and the Legislature supported last year. That included for fiscal year (FY) 2015, the equivalent of an ongoing 1 percent increase in salary for performing employees and a 1 percent, one-time CEC, which was effectively a bonus for State employees, based on merit. The Legislature also supported the CECCs recommendation of two of the three other components the Governor recommended. Benefits remained the same, continued approval of payline exceptions and the salary schedules were moved up by 1 percent. Minimum salaries in each pay grade went up by 1 percent. When these decisions were solidified in the Legislature, agencies began to create and get approval from DFM on their compensation plans. Some agencies used salary savings or excess personnel bonuses from FY 2014 to implement the 1 percent CEC early.

Ms. Lockett indicated she had two reports she wanted to share with the CECC. She referred to page 5 of her PowerPoint, Permanent Statewide Pay Changes, which captured year-to-date approval by the Governor and the Legislature of salaries, and it also captured the early implementation of the CEC. She pointed out the report showed the median and average pay increases by agency and the reasons for the pay changes. She said the second report was a one-time bonus report for FY 2014-2015.

Co-Chairman Anderson stated the reports were on the legal paper the CECC received, entitled Permanent Statewide Pay Changes and One-Time Bonuses and Temporary Merit Increases.

Ms. Lockett explained the first report included all pay changes given to employees as well as the early implementation. She remarked there were 15,000 unique pay changes, which equated to an overall increase of 1.9 percent median for approximately 10,000 employees. Because the agencies' compensation plans were so heavily driven by merit rather than across the spectrum, **Ms. Lockett** pointed out it was important to understand that in some agencies an employee received a 1.15 percent CEC and the person in the office next to them received a 1.35 percent CEC, which was a minimal distinction because the compensation was based on merit. In other instances, where an agency was larger or had a salary savings, there may have been opportunities for an agency to implement greater than the 1 percent raise, which indicated a median increase of 1.9 percent. The average increase was actually 2.9 percent, but the median more accurately reflected what most employees received. The median equated to a 38 cents per hour increase for employees.

Ms. Lockett referred to the Department of Health and Welfare on line 15 of the Permanent Statewide Pay Changes Report, and pointed out there were 3,100 individual pay changes, with a median increase of 1.3 percent. The average increase was closer to 2.9 percent, which included promotions and equity adjustments. In LSO, the median increase over the last year was 1.1 percent. The average was 2.6 percent. She explained she looked at 75 out of 77 pay changes, took out 2 significant promotions, and that was how she arrived at the 1.1 percent increase.

Co-Chairman Anderson clarified the number of pay rate changes did not equate to the number of employees in that department and, typically, the number of employees would be a lower number. **Ms. Lockett** explained there were some employees who received more than one pay change. For example, a CEC and a promotion during the time period would show up as two pay changes for one person. There were 2,500 employees who received no pay change. Each agency received the equivalent of a 1 percent increase in personnel funding. Agency management provided pay at their discretion. Approximately 2,000 employees were hired and were not included in the report.

Ms. Lockett said the report outlined each area of government. The first functional area was education, and that part of the report was left blank because that was difficult to generalize.

In summary, most agencies were able to implement an equivalent of a 1 percent minimum, with an additional .9 percent for a total of 1.9 percent. She referred to the gray headings of the report and pointed out that it showed what the pay changes were. She said this was outlined on page 7 of her PowerPoint. Most of the pay changes were due to the CEC.

Ms. Lockett referred to the second report, One-Time Bonuses and Temporary Merit Increases. She said bonuses were given last summer to many State employees in one lump sum. Short-term merits were a different way to give a bonus greater than the $2,000 bonus limit. If an employee picked up an additional duty, they would receive an increase in merit. She said the State gave out approximately 18,000 bonuses, which was almost $12 million. Most employees received $600 to $650 if they were deemed to be high performers by an agency or the agency didn't have the cash for everyone. Bonuses were attributable to the CEC funding and based on performance. Thirteen bonuses were given out to retain employees.

Ms. Lockett cited the data in the Rainbow Report and explained the employee count by pay range. She said that 1 in 5 employees, or 20 percent, earn less than $20,000 annually. She explained the colors on the chart on page 9 were colors by year and represented how many employees were in each pay range. She said that 35 percent of State employees earn between $20,000 and $39,999. Twenty-nine percent earn between $40,000 and $59,999, and the remaining 17 percent make more than $60,000.

Ms. Lockett emphasized it was important to understand what was happening in the State with the workforce and what was happening in each individual agency.

Representative Hartgen wanted to know how one-time bonuses were taxed and how bonuses applied to Public Employee Retirement System of Idaho (PERSI). He also wanted to know if PERSI was taken out of the gross amount. Did the amount contribute to the employee's total PERSI earnings or was it treated differently? Ms. Lockett explained bonuses were taxable both at the federal and state level. When a bonus was given in these instances that amount was factored into the monthly salary. She made it clear that when an employee was in their 42 months of high service for compensation (what PERSI measures when retirement data is calculated), the bonus would be considered part of regular and normal salary and factored into PERSI. However, if a bonus was considered to be an abnormal or extraordinary instance, for example, given near retirement, the bonus may not be counted in the salary figures. Representative Hartgen commented the average was $600 gross, so what would be the net figure after average deductions? Ms. Lockett replied the data would have to come from the State Controller about gross wages versus taxable and net income.

Senator Cameron said he assumed the bonus report showing 18,000 bonuses was similar to the Statewide Pay Change Report. He wanted to know many employees received those bonuses. **Ms. Lockett** indicated there were 18,000 bonuses and some agencies gave some employees more than one.

Senator Lee referred to page 9 of the PowerPoint, Employee Count By Pay Range, where 1 in 5 employees, or 20 percent, earn less than $20,000 annually, and asked if that was FTP or total employees. **Ms. Lockett** replied that some employees included in this range could be part-time employees, including Legislators.

Representative King commented that 55 percent of employees make less than $40,000 a year, and how would that compare to other states. Ms. **Lockett** said the State was behind in pay grades by approximately 9 percent and compensation by approximately 19 percent. This was outlined in the report submitted to the Governor. **Representative King** asked, compared to private industry, if the State is more likely to be out of compliance in the lower pay grades than the upper ones. **Ms. Lockett** affirmed this information would be addressed in another presentation. She said the data was not there to compare like jobs with like jobs.

Co-Chairman Tippets wondered if the pay grade information would be available by job classification and pay scale. **Ms. Lockett** called on David Fulkerson, Interim Administrator of the DHR.

David Fulkerson, Interim Director of DHR, referred to page 9 of the PowerPoint and indicated the employee count by pay range did not always capture every job in the State, and the figures were an average.

Co- Chairman Tippets asked if the lower pay ranges were further away from the policy than the upper end. **Interim Director Fulkerson** said the DHR would retrieve the data and report back to the CECC. He indicated the DHR would have to look at where the 224 jobs that were matched in the surveys fell within the different pay grades.

Co-Chairman Tippets wanted to know how pay grade compared to the jobs that were being matched to the private versus the public sector. Where was the State related to the pay policy and actual practices? **Interim Director Fulkerson** answered by saying that the DHR matched what employees were actually being paid and on average it was about 19 or 20 percent. When DHR looked at the policy rate and matched policy rate compared to what was being paid in the private sector, Idaho was approximately 9 percent behind in the policy rate.

Paul Headlee, Deputy Division Manager, LSO, Budget and Policy Analysis, said he wanted to provide some insight into salary changes in higher education. He said higher education (for the purposes of discussion with the CECC), included four-year institutions (BSU, ISU, UI, LCSC), community colleges (CSI, CWI, NIC), agricultural research and extension services (UI), and health education and special programs. He pointed out on page 11 of the PowerPoint, some of the differences between the State Controller's personnel system and the institutions of higher education. He said the four-year institutions use different human resources systems. For example, BSU uses People Soft and U of I uses Banner. Due to the different systems, personnel transactions have different codes. Temporary employees are not reported to the Controller due to an agreement that goes back several decades. Not all employees were State employees, for example, they were community college employees. There is a workforce of 6,300 or more filled positions and over $283 million in FY 2015 state-appropriated salaries at the four-year institutions.

He referred to the pie charts on pages 13 and 14 of the PowerPoint and said the colleges and universities comprise about 95 percent of the higher education funding. The largest part of the pie chart was $776 million, which was nearly 61 percent of the total $1.26 billion operating budgets for FY 2015. These were non-appropriated dollars; they could be federal grants, donations to the universities, and local fees. Thirty-nine percent is controlled by the Legislature, which is $494 million for the four-year institutions for FY 2015. Of the 39 percent, 19.6 come from General Funds, 18.6 percent from tuition and fees and 1 percent from endowment funding. He then referred to page 15, Appropriations for BSU, ISU, UI and LCSC, which showed the salary changes from FY 2014 to 2015. The chart did not include benefits. The chart did not include additional funding the universities received through increases in tuition and fees that are set by the State Board of Education. **Mr. Headlee** directed the CECC members to look at the yellow Summary of Salary Changes for FY 2015 by Employee Group for BSU, ISU, U of I and LCSC, which contains the source data for the pie charts and shows the information by salary adjustment type, whether it was by promotion, performance, merit or equity. He pointed out the salary change for BSU was a 3.6 percent salary change, ISU 2.1 percent, UI 2.2 percent, and LCSC 2.4 percent with a total of 2.7 percent. This was not just the CEC portion, but total salaries, which included the CEC portion, but did not include additional line items.

Co-Chairman Tippets asked if there was any historical data to indicate whether or not there was a trend related to the 50/50 mix between General Fund dollars and tuition and fees. **Paul Headlee** said that in general, the gap had been closing since the tuition and fees portion had been increasing compared to the General Fund. Due to the downturn in the economy in 2009-2011, the General Fund decreased and much of that was made up with tuition and fees. However, he pointed out the gap was starting to widen again.

Representative Hartgen asked if there was a breakdown by institution as to what portions of the various changes were in the administrative ranks as opposed to the instructional portion. **Mr. Headlee** indicated he had that information in the next two slides by category.

Co-Chairman Anderson and **Mr. Headlee** discussed the 1 percent endowment funding on page 14, unique to institutions. **Mr. Headlee** cited the distributions by school departments.

Mr. Headlee proceeded with his presentation. He explained how the increases were applied and which employees received an increase. At BSU, the increases were based on performance expectations. Merit pool with performance standards included promotions for faculty, and professional/classified staff included a merit matrix. A merit matrix was based on compa-ratio (the ratio of the employee's current salary compared to the mid-point of the pay grade to which an employee is assigned) and performance. He said that if there was a compa-ratio of 100 percent or greater and an exemplary performance, the employee would be eligible for a .75 to 2.25 percent increase. He went over the breakdown by faculty, executive/administrative, managerial/professional and classified who received the increases on page 18 of the PowerPoint.

Mr. Headlee said that at ISU, the increases were by merit with a 2 percent merit pool. Classified minimum salaries moved to 75 percent of policy rate. The minimum salary for employees was raised to $9.81. The employee bonus pool was 1 percent, and equity adjustments were 1 to 3 percent for employees under market and/or paid inequitably. He talked about who received the increases at ISU on page 20 of the PowerPoint. He pointed out faculty received 2.3 percent, adjunct faculty received a 1.3 percent and so on.

Mr. Headlee referred to UI and how the increases were applied. He said that eligible employees received a 1 percent merit increase if they met the eligibility requirements. He pointed out the additional CEC should be used for merit increases beyond the first 1 percent for employees who have demonstrated (and have the supporting documentation in the performance evaluation) exceptional performance. The CEC could also be used for any essential positions for which the State has experienced or will likely experience, increased risk or significant adverse effects to systems, services, programs or people if those individuals are lost. He said of those employees who received the $1.81 million increase, 2.8 percent were professors, and 3.4 percent were associate professors.

Lastly, **Mr. Headlee** summarized how the increases were applied for LCSC. There was a 1 percent ongoing CEC salary increase and a 1 percent one-time bonus based on merit, with flexibility in distribution as determined by agency directors. There was an upward adjustment of the classified employee compensation schedule by 1 percent (payline moves). Additionally, there was an emphasis on meritorious employees who were currently below policy compensation level. Faculty members who assumed increased rank as associates or full professors in FY 2015 received salary increases. The once-per-lifetime ongoing increases for faculty promoted to associate and full professors had each been increased by $1,000. He then went over those who received increases. A professor had a 2.8 percent increase; an associate professor received a 3.5 percent increase.

Mr. Headlee said that in his office they were discussing the personnel systems within each institution more in depth. More data requests would be made directly to the institutions in order to gain more information relating to position titles and Position Control Numbers (PCN), average and median salaries, vacant but funded positions, fund sources and allocation formulas, and information by division, program, or academic area. The overall goal was to better understand the higher education workforce.

Representative Hartgen said he noticed that in all of the schools, the graduate teaching assistants received the smallest increases, yet they carry a good share of the teaching load. He wanted to know if there was any explanation from the schools or was it presented statistically without any comment. **Mr. Headlee** said he did not receive any information regarding this, but some of those positions may have had an increase. BSU student teaching assistants received a 0 percent increase with the appropriation, but at the end of the table it shows they did receive a 5 percent increase when additional tuition and fees were factored in. He advised the CECC to look at the end of the yellow sheet to determine if there was a pay increase for a particular category.

Senator Schmidt asked if the CECC would be looking at a comparison of positions as outlined in the Hay Report for the university positions with other universities in other states. **Mr. Headlee** replied this information was not contained in the Hay Report, but there were other similar reports available.

Co-Chairman Tippets referred to slide 24 and asked for clarification on the last column entitled "Percent of Increase" and wanted to know if that was the mean of the increases of 2.8 that were given in that category. **Mr. Headlee** indicated that would be the average increase for that category.

CONFLICT OF INTEREST:

Representative Rudolph disclosed for the record that he is an adjunct professor at LCSC. **Co-Chairman Anderson** said there was no conflict as Representative Rudolph disclosed that information previously and the disclosure was passed by the Speaker and a member of the Attorney General's office to make sure there was no conflict, and the Representative was in good standing.

Senator Cameron asked who was included in the executive administrative line. **Mr. Headlee** said the university president would fall into the executive administrative line and the pay increases were approved by the State Board of Education.

Co-Chairman Anderson said almost all of these job classification increases were in excess of 2 percent and wanted to know if there were other people who received less than that amount. **Mr. Headlee** explained this was not just the 2 percent CEC, but included all increases. He said, for example, the institution received a line item for additional personnel hours, which was included. He said the institutions also had flexibility within their budgets and could move money around. **Co-Chairman Anderson** referred to page 24 and said there were four different categories of employment specifically listed with a total. He asked why those four categories were chosen.

Matt Freeman, Deputy Director of the State Board of Education (Board), stated these were the standard job categories in four classifications of classroom instructors at the institution and were requested by the Board. **Co-Chairman Anderson** asked if these categories would represent the entire faculty. **Mr. Freeman**responded that in addition to adjunct faculty, these categories would represent the entire faculty.

Representative King wanted to discuss matching the State's salary increases with the tuition increases. When the State gives a 1 percent raise, tuition increases by 1 percent and she wanted to know how this issue had been addressed. **Mr. Headlee** said the Legislature has chosen two different paths when providing a CEC. Approximately 51 percent comes from the General Fund, and 48 or 49 percent comes from tuition and fees. Either all of the CEC is absorbed into the General Fund, which is called a fund shift, or it is split based on the allocation between tuition and fees. He said the Legislature had approved fund shifts over the past couple of decades. **Representative King** asked if there was a fund shift, why BSU felt they had to raise tuition to match the shift and keep the percentage the same. **Mr. Headlee** said BSU would rather not shift that portion of CEC onto the students. However, doing a fund shift does not necessarily keep tuition lower. Tuition does not have to be raised for that particular CEC. During the years when the Legislature approved fund shifts, tuition and fees were higher. There was no guarantee whether there would be an increase in tuition and fees.

Representative Hartgen referred to the slide on page 23 and the one-time increase of $4,000 to $6,000 and wanted clarification on anyone who was promoted to associate or full professor. He wanted to know, for example, if a professor who made $60,000, and received a $6,000 one-time payment that was figured into their base salary, and in addition, they received the regular increase, was that correct? **Mr. Headlee** said that was correct.

Ms. Lockett gave a quick follow-up response to Senator Cameron's question about bonuses, stating there were 18,000 instances of bonuses and in that population there were 11,433 people or 77 percent of employees who received a bonus.

RECESS: 10:07 a.m. to 10:25 a.m.

RECONVENED: **Co-Chairman Anderson** called the meeting to order at 10:25 a.m. He thanked the presenters from the morning session.

PRESENTATION: **David Fulkerson**, Interim Administrator, DHR, made a presentation on FY 2016 CEC Report to the Governor, required by Idaho Law § 67-5309c regarding State employee compensation and benefits. He listed the four components of the recommendation: salary structure adjustments, specific occupational inequities (Payline exceptions), merit increases, and benefit package. **Interim Director Fulkerson** highlighted the report structure and said he would cover the areas of base pay and salary survey analysis, classified employee salary information, total compensation, classified workforce demographics, retirement forecasts, DHR recommendations and appendices. He referred to the base pay and salary survey analysis on page 2 of his PowerPoint. He went over the seven-state survey comparison. He said 56 jobs were matched in all of the states, namely, Colorado, Montana, New Mexico, Oregon, Utah, Washington, and Wyoming. He pointed out that Idaho was at the bottom of the comparison. He referred to Appendix D, indicating there was a list of the 56 jobs that were matched for the salary survey. He explained that DHRs analysis of salary survey results indicated classified employees' salaries for 224 jobs were, on average, 19.8 percent below the market and asked why the policy rates were, on average, 9.5 percent below the market.

When a similar comparison with the 7 surrounding states (of which 134 of the 224 jobs in this survey were matched), classified wages on average, were 13.1 percent below the other states and the policy rate was only 1.2 percent below.

Co-Chairman Tippets wanted to know how far Idaho was below the market. He stated policy rates were on average 9.5 percent below the market and asked why the DHR did not recommend a change in the pay grid? **Interim Director Fulkerson** commented further investigation was required to figure out exactly which jobs were significantly behind and what was needed to be done to get those jobs back into alignment.

Interim Director Fulkerson referred to the bottom of page 3 of the PowerPoint, outlining the past six years for classified employees, their average wage and the compa-ratio. For the past six years, on average, the DHR has been hiring employees well above the minimum of the pay grades. He pointed out this historical information would give the CECC a benchmark moving forward.

Interim Director Fulkerson referred to the pie chart on page 4 that reflects the value of a classified employee's total compensation package based on the average hourly wage of $19.86 an hour as of October 2014. He said the benefit package was $12.77, which was a fixed amount.

Interim Director Fulkerson referred to Classified Workforce Demographics on page 5 and said it was a snapshot of what the State workforce looks like by generational groups and separated by categories. He explained when DHR looked at the reasons employees leave state employment, approximately 48 percent were voluntary. He went over the other categories: retirement, involuntary and entrance probation.

Representative Hartgen referred to page 4 and asked how Idaho compared to other states with respect to wages and benefits. **Interim Director Fulkerson** replied he did not have the data, but that information would be beneficial in the future.

Senator Lakey referred to the data that was separated by category, and asked if the Department did exit interviews. **Interim Director Fulkerson** said there was a process in place for each agency. Not all employees were interviewed, but the departments did their best to conduct exit interviews. The on-line survey needed to be scaled down. He explained the appendices contained more detail about reasons for separation. **Senator Lakey** asked how many voluntary separations were for higher pay. **Interim Director Fulkerson** pointed out Appendix K showed the total separations by categories. He said the exit interview asked about the pay question specifically and what the employee liked best about working for the State.

Co-Chairman Tippets and **Interim Director Fulkerson** discussed the maximum of policy which is 125 percent and the minimum which is 68 percent. **Co-Chairman Tippets** stated these ranges seemed to be broader in the public sector than in the private sector and asked if using such a broad pay range was common in the public sector. **Interim Director Fulkerson** said he did not know what the other states pay ranges were, but he would get that information.

Co-Chairman Tippets asked Interim Director Fulkerson to verify when the minimum range was 75 percent at one time and then decreased to 68 percent. **Interim Director Fulkerson** said that was true.

Representative King asked Interim Director Fulkerson what other states were doing with respect to a pay increases for their employees. **Interim Director Fulkerson** said he did not know specifically what other states were doing, but when he has inquired, he heard the standard answer was "providing funding was available."

Interim Director Fulkerson talked about general workforce demographics by generation and went over the chart on page 6. He indicated there was more information in Appendix O. He said employees on that slide included 12,000 classified employees and a little fewer than 1,700 non-classified employees. He referred to the chart on page 7 which showed where the bulk of the employees were on the pay scale. Within Idaho's salary structure, 74 percent of Idaho's employees are within pay grades H through M, and they earn between $29,972 and $56,846 annually.

Retirements comprised 22.9 percent of the total turnover for employees leaving State employment. The average age of retirement for the past five years was 61. He pointed out the cumulative retirement forecast chart was outlined on page 8 from 2015 through 2019.

Interim Director Fulkerson referred to FY 2016 required recommendations, which were the current salary structure be maintained; continuing with the job classifications currently on payline exceptions; if adequate funding was available, a 3 percent increase based on merit be considered; and the State fund the estimated employer increase in the cost of group insurance benefits.

Co-Chairman Tippets asked what the anticipated increase in employer costs in insurance benefits and the corresponding costs for employee group insurance would be. **Teresa Luna**, Director, Department of Administration (Department), stated the cost was 6.94 percent for the employer. She said her Department was not recommending any increases in employee premiums and the State would cover the whole increase.

Interim Director Fulkerson referred to appendices A, B, E, F and said these were reports included in previous years. He said Appendices G (added compa-ratio by pay grade and classified employees by salary range) and K (included more detailed turnover information comparing this year to last by agency) were enhanced from previous years. Appendices C (members of National Compensation Association of State Governments); D (comparator states matched jobs); H (classified employees by agency and pay grade 2009 to 2014); I (classified new hires by occupational group for FY 2014); J (classified new hires by occupational group FY 2014); L (workforce demographics by agency); M (workforce demographics by county); N (workforce demographics by pay grade reflecting 74 percent of employees); and O (workforce demographics by gender and generation) were new this year.

Interim Director Fulkerson pointed out the Hay Group methodology was based on three factors, each of which had sub-factors. The premise was that all jobs existed to achieve a purpose, which was to create value in their organization. The methodology evaluated this by analyzing and scoring the three factors by assigning points to jobs, which are know-how, problem solving and accountability.

Representative Hartgen referred to the slide on page 6, General Workforce Demographics, and asked if the demographics had changed significantly over time and particularly since the recession. He asked if there was any information that showed the predominant workforce age. **Interim Director Fulkerson** said he had no historical information in the report, but he could obtain that information. He pointed out that this report was meant to give a snapshot of what the workforce was now.

Representative Romrell referred to the recommendations on page 3. He said a 3 percent raise would mean $17 million from the General Fund and an additional $19 million out of public funds. He stated those were huge numbers in the cost to employers. He queried what he was missing in the additional costs of these recommendations. **Interim Director Fulkerson** clarified it was for the benefit costs increase. He said those were total costs, not new costs under this recommendation. He said this included the salary and the variable benefits.

Representative Anderst asked Interim Director Fulkerson if he could talk more in depth regarding the portion of increase that would be categorized as other funds; where was the $19.3 million coming from. How would it affect the agencies and the fees they charge? **Interim Director Fulkerson** stated the increase came from the General Fund and other funds, which include federal money, fees from agencies, and other state monies.

Interim Director Fulkerson referred to the Supervisor Academy, which he explained was a training program through DHR and was an effort to make sure the State has well-trained supervisors. The State also has a Certified Public Manager class where managers can learn supervisory and management skills. Agencies pay a fee based on the employees they send, which covers instructors and classroom materials. In 2014 they had a total of 726 participants in the Supervisor Academy.

Representative Hartgen referred to page 4 and asked Interim Director Fulkerson to look at the benefits wage ratio compared to other states and also the average cost of living before the next meeting. He stated it is commonly known that Idaho has a somewhat lower cost of living in some areas than other states. **Interim Director Fulkerson** said he would work on this request.

Co-Chairman Anderson referred to the DHR report for FY 2014, page 4. He said there was a recommendation for a two-year plan, which would allow agency directors to continue to address compensation issues and prepare for a proposed salary structure adjustment in FY 2015. He asked Interim Director Fulkerson if progress was made on that objective or if that remained an objective of the DHR. **Interim Director Fulkerson** responded the salary structure in general was something DHR would be examining. DHR would look at jobs and compare them to the market. He knew this had been a concern, especially with the Information Technology jobs.

Co-Chairman Anderson stated that on page 5, FY 2014, Option Two, that if merit increases were not appropriated, then agencies would be allowed to use existing salary savings to address this specific compensation challenge. He commented that with legislative approval, agencies with limited salary savings may transfer funds from operating expenses to personnel costs on an ongoing basis. He asked "does the State have departments that transferred money from operating expenses to personnel costs on an ongoing basis?" **Interim Director Fulkerson** said he did not have this information.

Co-Chairman Anderson asked Interim Director Fulkerson, if in his role as administrator of DHR, he saw any structural deficiencies in the State's present compensation plan for employees. **Interim Director Fulkerson** replied he thought CECC should look at this information in detail, knowing that the policy is about 9 percent behind. There is room in the structure, providing the State has adequate money for a CEC package, to start moving progressive people in that structure. Eventually, as wages increase in the market, DHR will have to look at the schedule to avoid stagnation.

Co-Chairman Anderson stated the Land Board has taken steps to hire outside counsel to help with some significant decisions they need to make. They are in the process of hiring a specialist group to advise them. Since the DHR has a relationship with the Hay Group, in Interim Director Fulkerson's opinion, should the State utilize more of their expertise in making some of these decisions regarding compensation? **Interim Director Fulkerson** commented that it was better to have a larger firm advise the State, and it was important to bring in experts when appropriate. **Co-Chairman Anderson** asked if that would be under the purview of DHR. **Interim Director Fulkerson** replied that traditionally, the State has had a contract with Hay and DHR has spearheaded and paid for their service.

Co-Chairman Anderson cited Idaho Statute §67-5309(a), Subsection 2 (b), advancement in pay shall be based on job performance and market changes, and asked if the CECC based the increased compensation on merit. Market changes would not necessarily be based on merit, but on the Consumer Price Index (CPI). He asked, "would the CECC fulfill the obligation of this statute with a merit increase solely or should there be some obligation to look at something besides merit?" **Interim Director Fulkerson** said he was a big fan of merit-based pay. Employees should be treated fairly. **Co-Chairman Anderson** thanked Interim Director Fulkerson for his testimony.

Representative Rudolph asked whether the recommendations were based on merit. **Interim Director Fulkerson** explained that each classified employee was required to have an evaluation every year by their supervisor. The higher performers receive a larger raise than performers who perform at a lower level. Non-performers do not receive a raise because they don't meet performance expectations. The agencies can include other factors based upon the employee's service date and compa-ratio.

Interim Director Fulkerson reiterated that DHR did not receive monthly reports from Hay, but received reports from them when asked. DHR does not pay an annual fee to Hay.

Co-Chairman Anderson announced the CECC would reconvene at 1:00 p.m. Public testimony was scheduled for the afternoon.

ADJOURNED: There being no further business, **Co-Chairman Anderson** adjourned the meeting at 11:25 a.m.

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Co-Chairman Anderson Co-Chairman Anderson

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Linda Kambeitz

Secretary