MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Tuesday, January 13, 2015
TIME:	1:00 P.M.
PLACE:	WW17
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, Rudolph
ABSENT/ EXCUSED:	None
NOTE:	The sign-in sheet, testimonies and other related materials will be retained with the minutes in the Senate Commerce & Human Resources Committee office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.
CONVENED:	The meeting was called to order by Co-Chairman Tippets at 1:05 p.m. **Co-Chairman Tippet**s welcomed the Change in Employee Compensation Committee (CECC) and the audience. He introduced the presenters: Janie Revier, Administrator, Division of Financial Management (DFM), Bryon Welch, Principal Performance Evaluator, Office of Performance Evaluations (OPE), and Cathy Holland-Smith, Division Manager, Budget and Policy Analysis Division, Legislative Services Office (LSO).
PRESENTATION:	**Janie Revier**, Administrator, Division of Financial Management (DFM), presented the Governor's recommendation for funding and employee compensation. She gave an overview of the DFM's involvement in employee compensation management. **Ms. Revier** said the Change in Employee Compensation (CEC) and salary savings must follow identical policy and procedures as well as Idaho Code §67-5309B and §67-5309A. The plans must be approved by the Division of Human Resources (DHR) as directed by code before being reviewed by DFM for compliance with the budget and additional direction by the Governor. The State Controller's Office (SCO) was also closely involved in the process of approving a CEC and the individual agencies' salary plans. These three agencies, DHR, DFM, and SCO, have begun to release joint guidance to ensure proper compliance from plan submission to final release of the statewide payroll. DFM's additional duties included the approval of object transfers, program transfers in conjunction with the SCO and statutorily required reports. Object and program transfers were not the preferred use of payroll funds, but it was not an uncommon practice. The Governor's 2016 CEC recommendation increased the overall base pay of permanent employees through the use of appropriations, not salary savings. This compensation structure better served employees as well as taxpayers.

The Governor's recommendation called for payline exceptions to be maintained, a 3 percent merit-based compensation increase for permanent employees, and to keep the current benefits package.

Senator Schmidt asked how the problem of an adequate pay structure aligned with the Governor's priority of limited government growth.

Ms. Revier stated salary structure was not tied to the increase in government size. The limitation of government could be made through limited or reduced programs.

Co-Chairman Anderson thanked Ms. Revier for her presentation. He wanted to know if, in her opinion, the CEC was in conformance with Idaho Code §67-5309B. **Ms. Revier** explained that due to the budget pressures, the State was in conformance.

Co-Chairman Anderson and **Ms. Revier** discussed wage compression and targeted increases toward lower income or entry level employees. **Ms. Revier** replied that CECs generally targeted the lowest level employees. Other factors that aided compression included poor management decisions and the inability to move people up the pay scale.

Co-Chairman Anderson expressed his desire to have a free and open discussion between all the stakeholders. He asked if direction had been given by the DFM to agency directors regarding their involvement with the CECC. **Ms. Revier** stated all directors were notified that they could speak with the CECC. However, agency directors could not speak to the Governor's recommendation or any specific line items until the State of the State address.

Co-Chairman Anderson asked if there were specific areas of need where the CEC funds could be most effective. **Ms. Revier** reaffirmed her agency's support of the Governor's recommendation.

Representative Hartgen wanted to know if any unused agency appropriations could be redirected to other agencies. **Ms. Revier** replied that the 3 percent was per agency; it would be difficult to find an agency director who would revert their funds to another agency.

Representative Hartgen wanted to be clear on how the agencies issued wage increases. **Ms. Revier** further explained that merit had to be a component of the salary plan. However, each agency would focus on agency-specific goals, such as compa ratio, longevity, or a specific classification of workers. She informed the CECC that the scale was set up as a large grid based on levels of performance. Within each performance level, there could be separate metrics based upon the agency-specific goals.

Ms. Revier said agencies did not distribute the one-time merit bonus in the same manner as one-time ongoing pay increases. Due to agency growth, the 1 percent, one-time plus an additional 2 percent would be a larger amount than the Governor's recommendation of a 3 percent CEC. She noted the difficulty in using last year's one-time payment as a base line was that the increase was distributed as a lump sum, not in the appropriation.

Senator Lee asked if agency-specific needs included increases for all employees. **Ms. Revier** answered the matrixes developed must include merit-based increases. Across-the-board plans would not be approved; additional targets must be addressed within their agency's appropriation.

Senator Lee expressed concern about a 3 percent increase being enough to address the employee retention issue. **Ms. Revier** responded all agencies had some employee compensation problems. The State needed to address why employee compensation had fallen behind the private sector across all agencies.

Senator Schmidt asked if the growth of the benefits package, especially health insurance, contributed to the salary issues. **Ms. Revier** deferred to **Mr. Fulkerson**, Interim Administrator of DHR. Mr. Fulkerson answered that the overall benefit cost had risen. The percentage per employee depended on the wage base of the employee. **Mr. Fulkerson** said he would attempt to provide that information before the meeting adjourned.

Representative King questioned what steps were needed to achieve a policy level between 75 to 80 percent within the Department of Corrections (DOC). **Ms. Revier** responded a payline move would not address the issue because they were not at the bottom of the payline. The Governor's recommendation included additional appropriations for the first year of the CEC because of the magnitude of compensation issues within specific agencies, including the DOC.

PRESENTATION: **Bryon Welch**, Principal Performance Evaluator, Office of Performance Evaluations (OPE), offered a review of the Use of Salary Savings to Fund Employee Compensation Evaluation, January 2015. This report was a continuation of last year's 2013 State Employee Compensation and Turnover Report.

Mr. Welch said the compensation tools available to state agencies were salary savings and the CEC, in addition to line item requests. The Use of Salary Savings to Fund Employee Compensation Evaluation, January 2015 explored what influenced an agency's ability to generate salary savings, the extent to which savings were available, and what impact those savings had on employee compensation. Data used for the systems came from the SCO. Data was compiled from fiscal years (FY) 2005-2014.

Ms. Bartlett, Senior Evaluator, OPE, continued with the presentation. She explained salary savings were the difference between the personnel expenditures and the actual expenditures of an agency's budget. She detailed the generation of salary savings and the role within an agency's budget. She also provided information on how the funds were dispersed on an agency level. **Ms. Bartlett** discussed the impact of lump sum authority to generate and use salary savings.

Co-Chairman Tippets asked the presenters to pause and answer questions before continuing. **Representative King** asked if merit increases accounted for the 62 percent of employees who received raises. **Mr. Welch** explained the percentage was a median derived from merit increases or market changes. **Ms. Bartlett** replied that policies of some agencies did not allow an increase in compensation for new or underperforming employees. **Representative King** and **Ms. Bartlett** continued to discuss how merit raises were structured within an agency's salary plan.

Senator Cameron asked for confirmation on the statewide amount of salary savings. Additionally, he inquired if the study looked at which agencies reverted funds and if those agencies were meeting their salary needs. **Mr. Welch** affirmed that 11 percent of the $12 billion budget were salary savings. **Ms. Bartlett** said that the study did not go into that level of detail.

Co-Chairman Tippets asked if the Use of Salary Savings to Fund Employee Compensation Evaluation, January 2015 contained information as to the amount of actual cash reversions versus spending authority. **Mr. Welch** stated the first meeting of the CECC on January 8, 2015, contained a report in which at least one fiscal year contained those details.

Co-Chairman Tippets asked if it was the assumption that most of the reverted funds were spending authority and not actual cash and could not have been spent on salaries. **Mr. Welch** maintained the assumption was fair, though it varied by agency and fiscal year. **Ms. Bartlett** noted the chart on page 25 of the Use of Salary Savings to Fund Employee Compensation Evaluation illustrated the difference between agencies that use General Fund appropriations and those who do not in relation to their use of salary savings.

Senator Cameron stated he would like to be able to look more closely at the idea of cash versus spending authority at a later time. He asked if the Use of Salary Savings to Fund Employee Compensation Evaluation, January 2015 went into how to avoid conflict within the agencies that reverted personnel funds to operating expenditure and then in turn reverted them. Mr. Welch said the report did not take that extra step, however, it would not impact what was spent on personnel.

Senator Schmidt discussed with **Mr. Welch** and **Ms. Bartlett** if there were changes to the use of salary savings in years where CECs were issued as opposed to years without an issued CEC. **Ms. Bartlett** noted that salary savings did increase in years with a CEC. Those savings did generate a larger number of ongoing pay increases.

Representative Anderst asked if the salary savings trend could be expected to continue. **Mr. Welch** said he had no reason to believe it would not.

Co-Chairman Tippets asked about the reliance and encouragement of salary savings. **Representative Anderst** requested confirmation that the appropriations could be expected to have similar availability in the future. **Mr. Welch** did not want to speculate on funding availability. **Ms. Bartlett** said the statewide salary savings average should remain the same, however, agency-wide salary savings were unpredictable.

Co-Chairman Anderson wanted further explanation on the discrepancy of salary savings between the executive branch and the other two branches. **Ms. Bartlett** answered that the agency size and method of funding were contributing factors. **Mr. Welch** provided further detail as to why the report was compiled by individual branches of government.

Co-Chairman Anderson asked how compression was addressed in this report. **Mr. Welch** responded the report focused mainly on how employees were moved through the pay scale policy. **Mr. Welch** finished the presentation with further details on how salary savings were used within the State. He offered up some of the suggestions presented within the report. He wanted the Committee to consider the other compensation tools not being utilized by the State.

PRESENTATION: **Cathy Holland–Smith**, Division Manager, Budget and Policy Analysis Division, Legislative Services Office (LSO), gave a presentation on appropriation considerations. She spoke about the differences between the Governor's recommendation and the proposed CEC. She reviewed the breakdown of 1 percent, 2 percent, 3 percent CEC, the Governor's recommendation of a 3 percent CEC and their impacts at the agency level.

Ms. Holland-Smith provided more details about the use of targeted funds. She recommended that the Joint Finance and Appropriation Committee (JFAC) ask each agency what specific personnel management considerations the Legislature needs to understand. **Ms. Holland-Smith's** final point was how the Committee could best communicate its intention which may be the use of a concurrent resolution as allowed for by Idaho Code §67-5309C, Section 4.

Senator Schmidt asked if motions should include how to proceed regarding either a concurrent resolution or a communication to JFAC. **Co-Chairman Tippets** said the Committee would address this issue.

PRESENTATION: **David Fulkerson**, Interim Administrator, Division of Human Resources (DHR), provided handouts requested from the previous meeting. He gave the Committee a Salary Survey Wage Analysis by Pay Grade 2014 report regarding a question asked earlier about more specific information on how far behind pay was compared to pay grade. The Workforce Demographics by Gender and Generation, Oct. 2005 handout was on the demographic breakdown of pay grades. The question about the width of pay grades across states was answered in the National Compensation Association of State Governments 2014 Pay Structures and Practices Survey. Mr. Fulkerson passed out the Idaho Total Compensation as of October 2014 report to answer Senator Schmidt's question about the overall breakdown of employee compensation.

Co-Chairman Tippets asked how the average pay range width percentage was derived in the National Compensation Association of State Governments 2014 Pay Structures and Practices Survey. **Mr. Fulkerson** replied it was the difference between the highest variation of pay grade and the lowest.

ADJOURNED: There being no further business, **Co-Chairman Tippets** adjourned the meeting at 3:03 p.m.

Senator Tippets Co-Chairman	Linda Kambeitz Secretary
Representative Anderson Co-Chairman	Jenny Smith Assistant Secretary