

# Use of Salary Savings to Fund Employee Compensation

Office of Performance Evaluations  
Idaho Legislature





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## From the Director

December 30, 2014

Members  
Joint Legislative Oversight Committee  
Idaho Legislature

This report builds on the findings of our 2013 report *State Employee Compensation and Turnover*. Both reports conclude **that the state's budget priorities in recent years do not align with legislative intent to fund a competitive compensation and benefit package for state employees.**

Although the use of salary savings is a good management tool to compensate a limited number of employees, we have found that salary savings and a Change in Employee Compensation (CEC) are not adequate tools, even when used together, for bridging the gap between actual pay and policy pay rates set by the state. Ninety percent of classified state employees continue to be paid below their policy rate.

**In light of today's economic realities and budget priorities, we ask the Legislature to consider additional tools that would comprehensively address employee compensation issues on a long-term basis.**

We would like to thank the Office of the State Controller for providing access to the data and assistance in navigating the statewide systems necessary for our evaluation.



Sincerely,



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**Included in the back of the report are formal responses from the Governor and the State Controller.**



## Acknowledgements

We appreciate the cooperation and assistance we received from various staff at the Office of the State Controller, the Budget and Policy Analysis Division in the Legislative Services Office, and the Division of Human Resources and the Division of Financial Management in the Executive Office of the Governor.

Bryon Welch and Amanda Bartlett of the Office of Performance Evaluations conducted this study. Margaret Campbell copy edited and desktop published the report.

Les Alm, PhD, distinguished professor at Boise State University, assisted with data analysis and conducted a quality control review.

Brad Foltman, former administrator of the Division of Financial Management, researched the state budgeting process and conducted a quality control review.

Robert Thomas of Robert C. Thomas and Associates conducted a quality control review.

Matthew Von Hendy of Green Heron Information Services conducted a literature review of salary savings practices in other states.

## Executive summary

# Use of Salary Savings to Fund Employee Compensation



## Evaluation context

In March 2014 the Joint Legislative Oversight Committee asked us to quantify the extent to which agencies use salary savings as a compensation tool. We were asked to describe the benefits and potential negative effects of using salary savings and to provide policy considerations for the Legislature. [This request](#) came after we released a [report in 2013](#) on employee compensation and turnover where we found that 90 percent of classified employees **earn an hourly wage below the state’s policy or benchmark rate.** Of those employees, nearly half were 20 percent or more below policy.

We analyzed payroll data from the Office of the State Controller to estimate the amount of salary savings agencies had for fiscal years 2006-2014. Our analysis excluded postsecondary institutions because their data reporting and collection methods are different from other agencies. Our report identified factors that contributed to variation in the amount of salary savings available and how salary savings affected employee compensation.

## Findings

We found the average estimated salary savings was 10.5 percent of total personnel appropriations for fiscal years 2006–2014. Estimated salary savings varied to a large degree among agencies and from one fiscal year to the next. Most agencies had an estimated annual salary savings from 3 percent to 25 percent.

Agencies have a substantial amount of discretion and flexibility in how to apply salary savings. Managers closest to daily

The average estimated salary savings was **10.5%** of total personnel appropriations.

**Salary savings varies among agencies and varies from one fiscal year to the next.**

**Key data points necessary to precisely calculate salary savings are not captured in the statewide systems.**

operations prioritize the use of salary savings to meet the agency's unique needs. They use salary savings in several ways:

- Revert savings back to the appropriated fund

- Transfer savings out of personnel and into another expenditure category (operating, capital outlay, or trustee and benefit payments)

- Use savings to cover new or unexpected personnel expenditures, such as temporary or permanent pay increases, bonuses, paid overtime, and leave balance payouts

**We found several factors that influenced an agency's ability to generate salary savings:** turnover rate, dependence on the general fund, agency size, and branch of government. We also found the amount of salary savings an agency had affected the number of employees who received a bonus or salary increase.

Salary savings provides a way to fund targeted employee compensation increases, especially in years when the Legislature does not appropriate a change in employee compensation (CEC). In years where no CEC was appropriated, on average, 11 percent of employees received ongoing salary increases for performance or market reasons and less than 1 percent of employees received one-time pay increases.

Variation in salary savings creates challenges for agencies when planning for personnel expenditures. Because savings is heavily dependent on turnover and personnel appropriations, agencies may generate and use a large amount of savings in one year, and in the next year, they may generate none.

## Policy considerations

Based on our analysis, we present the following questions for policymakers to consider.



**Should statewide data systems be integrated to precisely monitor and manage salary savings?**

Neither the statewide accounting system nor the statewide payroll system capture key data points necessary to precisely calculate salary savings. For the most accurate calculation of salary savings, agency budget and expenditure data are needed by position level. Position-level budget data is not integrated with the statewide accounting and payroll systems.

The Office of the State Controller is now undergoing a study to modernize these statewide systems. This study could further elaborate the costs and feasibility of integrating position-level budget data.



**Should paid overtime and leave balance payouts be uniformly incorporated into agency personnel budgets?**

The [Government Finance Officers Association](#) recommends that states incorporate accurate expenditure projections into agency personnel budgets to more effectively budget for personnel costs. Idaho does not uniformly budget for paid overtime and leave balance payouts. When these costs are not budgeted, salary savings is used. These payouts limit the extent to which salary savings can be used for employee compensation. Policymakers may wish to more uniformly appropriate for leave balance payouts and paid overtime.



**Does the legislative intent in Idaho Code align with today's legislative priorities?**

In our [2013 report](#) on employee compensation and turnover, we asked policymakers to consider whether the intent language in [Idaho Code § 67-5309](#) was still relevant. The code currently states the intent is to fund a competitive employee compensation and benefit package that attracts qualified applicants to the workforce, retains employees who have a commitment to public service excellence, motivates employees to maintain high standards of productivity, and rewards employees for outstanding performance.

**One way to measure Idaho's progress toward meeting this intent** is to compare classified pay rates with policy pay rates. The [Idaho Division of Human Resources](#) reported that in 2014, pay rates of classified employees were, on average, 15 percent below the policy pay rate. Salary savings has not proven to be an adequate tool to close the gap between average and policy pay rates. Legislators may wish to consider whether intent in Idaho Code aligns with **today's fiscal priorities.**

**Idaho does not uniformly budget for paid overtime and leave balance payouts.**

**Salary savings has not proven to be an adequate tool to close the gap between average pay rates and policy pay rates.**

**Salary savings is best used for targeted compensation increases.**

**The Legislature may need to identify additional funding strategies.**

**Idaho should provide clear direction on the intended purpose of a CEC and salary savings.**



## **What other tools can be used to address unmet employee compensation needs?**

The data we analyzed for our current evaluation showed that salary savings and a CEC together have not substantially improved overall employee pay.

There are also other impacts of relying on salary savings, which can have consequences that the Legislature may not have intended:

Distribution of salary savings available to agencies is inequitable based on variable turnover rates and a lack of uniformity in the way agencies budget for personnel costs. Because of this variability, salary savings is not a comprehensive tool for career progression or longevity increases.

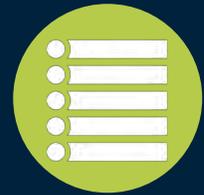
When agencies adhere closely to their position budgets, little or no salary savings becomes available. Agencies may have a perverse incentive to depart from their budgeted plans to generate salary savings for unplanned personnel costs or to transfer into other expenditure categories.

In many instances, agencies cannot carry over salary savings for use in the next fiscal year. Therefore, in long-term planning, salary savings is an unreliable compensation tool to address anything other than immediate compensation needs. To the extent salary savings are used for ongoing salary increases, their volatility from one year to the next may make some of these increases unsustainable.

Because salary savings cannot fund all types of compensation increases, the Legislature may need to identify additional funding strategies to address these needs. The Legislature should provide clear direction on the intended purpose of a CEC and salary savings and any additional compensation tools. Moving forward, the CEC Committee is an appropriate venue to build the **Legislature's knowledge base and address the proper role of salary savings in the state's compensation system.**

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**We examined data from the statewide accounting and payroll systems administered by the Office of the State Controller.**

**Our study sample incorporated 72% of total personnel costs.**

# Evaluation context

In 2013 we released a [report](#) on employee compensation and turnover, which focused on the state’s classified workforce. In January 2014 we presented our findings to the Legislature’s Change in Employee Compensation (CEC) Committee. The committee, who had reconvened after several years of not meeting, considered our report, along with others, in its final recommendation to the Legislature. The [committee recommended increasing agencies’ fiscal year 2015 personnel appropriations](#).

In March 2014 the Joint Legislative Oversight Committee asked us to study agencies’ use of salary savings and determine the extent to which salary savings had funded increases in employee compensation. The requesters of the study, Senators John Tippetts and Jim Guthrie, were members of the [2014 CEC Committee](#); **Senator Tippetts was the committee’s cochair and also served as the chair of the Senate Commerce and Human Resources Committee.**

The requesters posed a series of questions about the amount of salary savings generated by agencies, how salary savings had been used to provide compensation to state employees, and the benefits or negative impacts of using salary savings. In addition, the requesters asked us to offer policy considerations to the Legislature. The study request is in [appendix A](#), and our study scope is in [appendix B](#).

## Evaluation approach

We examined data from the statewide accounting and payroll systems administered by the Office of the State Controller. Based on available data in the statewide accounting and payroll systems, our study sample incorporated 72 percent of the total personnel costs. The remaining 28 percent belonged to either postsecondary institutions or agency programs with a continuous appropriation ([see exhibit 1](#)).

We excluded data from postsecondary institutions for several reasons.

Boise State University, Idaho State University, and the University of Idaho independently process payroll and are

reimbursed by the Office of the State Controller for the total personnel cost.

Earnings codes at the universities do not match the earnings codes of the statewide payroll system.

None of the postsecondary institutions, including Lewis-Clark State College and Eastern Idaho Technical College, process local fee revenues and expenditures through the statewide accounting system.

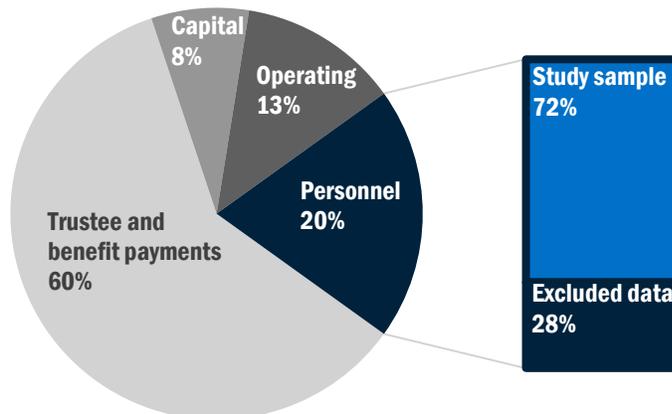
We also excluded agency programs with continuous appropriation authority because these programs do not record an appropriation amount. Without an appropriation or complete budget information, we were unable to calculate an estimate of salary savings for these programs.

Our report complements state employee compensation information presented annually by the Office of the State Controller, the Budget and Policy Analysis Division of the Legislative Services Office, and the Division of Human Resources and the Division of Financial Management of the Executive Office of the Governor. We worked with staff from these agencies to gather input and design our evaluation approach. More information about our report methodology is in [appendix C](#).

**Exhibit 1**

**Our study sample included 72% of total personnel appropriations.**

Personnel appropriations were the second highest expenditure category after trustee and benefit payments.



**\$59 billion**  
**Total appropriations for fiscal years 2005–2014**

Note: Percentages do not sum to 100% because of rounding.

Excluding trustee and benefit payments, personnel is the largest expenditure category.



**Salary savings is an expected result of the variation between planned and executed activities.**

**Salary savings can be reverted, transferred, or used for personnel expenditures.**

# What is salary savings?

**Salary savings refers to the difference between an organization's personnel budget and its actual personnel costs.** Salary savings is an expected result of the variation between planned and executed activities. During the normal operation of an agency, many possible scenarios may result in salary savings. Some of the most common scenarios include the following:

An agency is appropriated more money for personnel than its projected personnel expenditures.

An agency chooses not to fill a funded position.

Turnover occurs in a funded position and the position is vacant for a time.

An agency hires a new employee at a lower rate than the previous incumbent.

An agency may use salary savings in one of three ways within a fiscal year:

1. Revert savings back to the appropriated fund
2. Transfer savings out of personnel and into another expenditure category (operating, capital outlay, or trustee and benefit payments)
3. Use savings to cover new or unexpected personnel expenditures, such as temporary or permanent pay increases, bonuses, paid overtime, and leave balance payouts

# How is salary savings calculated?

In concept, salary savings is simple. However, calculating salary savings for managerial and policy decisions is complicated. Neither the statewide accounting system nor the statewide payroll system capture key data points necessary to precisely calculate salary savings.

## Agency budget data is needed to precisely calculate salary savings.

An accurate calculation of salary savings is the difference between an appropriation for a single position and the salary and benefit expenditures for that position. However, appropriations are not made for specific positions but rather for specific agency programs. Therefore, agency budget data is needed to calculate salary savings and link position-level expenditure data to the appropriation.

Agency budgets are used for projecting expenditures, requesting appropriation amounts from the Legislature, and actively managing costs throughout a fiscal year. Proposed budgets detail the expected expenditures for individual positions and may also include line-item expenditures, such as paid overtime or leave balance payouts if the agency believes these costs will be substantial. Proposed budgets are the foundation for the **Legislature's appropriation. After the Legislature has set** appropriations, agencies translate the appropriation into an operating budget that details planned spending for the fiscal year by position. Agencies employ different strategies to accomplish this task. Some agencies use spreadsheets, while others use information management systems.



**We developed methods for estimating salary savings without using agency budgets.**

**The wage and salary report is a snapshot of an agency's employees by position control number.**

We estimated salary savings as the sum of an agency's personnel reversions, transfers, and expenditures for new or unexpected personnel costs. A detailed explanation of the availability of data necessary to calculate salary savings and the process we used to estimate salary savings by agency is in [appendix C](#).

## **The wage and salary report does not accurately reflect the total personnel budget funded by the Legislature.**

The *Wage and Salary Requirements Report* provides agencies with a starting point to prepare their proposed budgets. The wage and salary report is a snapshot of an agency's employees by position control number on the day the report is run and calculates the annualized cost of salary and benefits for the upcoming fiscal year based on current employees' compensation information. Vacancies are incorporated into the budget by using fiscal year-end budget formulas that are outlined in the Office of the State Controller's *Personnel and Payroll Manual*. Agencies incorporate the results of the wage and salary report into forms required for the budget submission process. Using these forms, agencies have flexibility to submit a proposed personnel budget with the following revisions:

- Remove funding for authorized positions that the agency does not intend to fill

- Adjust the budgeted amount for vacant positions

- Request new positions

- Adjust benefit premiums

- Budget for paid overtime, leave balance payouts, or any other substantial personnel expense the agency prioritizes

- Adjust allocation sources for positions paid through multiple funds

These revisions are not captured in the statewide systems. As a result, the total personnel budget an agency maintains may vary substantially from information in the wage and salary report.

The difference between the wage and salary report and the total personnel budget is problematic for estimating salary savings. The available salary savings reports in the statewide systems may be over- or underestimating salary savings for a particular agency program. The reports do not reliably differentiate between salary savings realized from a one-time event (e.g., savings generated for the time a funded position is vacant) or ongoing salary savings (e.g., an agency's personnel appropriation for one of its programs is higher than the projected personnel costs). These key pieces of information are necessary to properly manage and use salary savings. Agencies independently track salary savings because position-level budget data is not integrated with the statewide systems. Analysts in the Division of Financial Management and the Budget and Policy Analysis Division rely on agencies to provide them with that information or use incomplete data from the statewide systems.

**Agencies independently track salary savings because position-level budget data is not integrated with the statewide systems.**



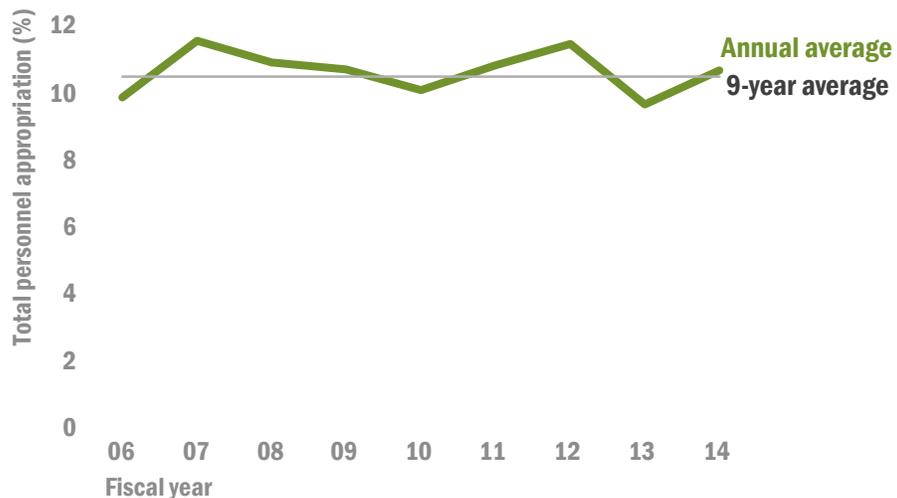
We estimated agencies had **\$105 million** in salary savings in FY 2014.

# How much salary savings has been generated?

As shown in exhibit 2, the average estimated salary savings for fiscal years 2006–2014 was 10.5 percent of the total personnel appropriation.<sup>1</sup> For fiscal year 2014, we estimated agencies had \$105 million (11.7 percent of total personnel appropriations) in salary savings.

**Exhibit 2**  
**Estimated salary savings was 10.5% of the total personnel appropriation for fiscal years 2006–2014.**

We found little variation between the **annual average** and the **nine-year average**.



**Note:** Total estimated salary savings average calculated only for agencies in our study sample.

1. When referring to average numbers in the report, we calculated the median or middle value of a distribution of data because of the presence of outliers.

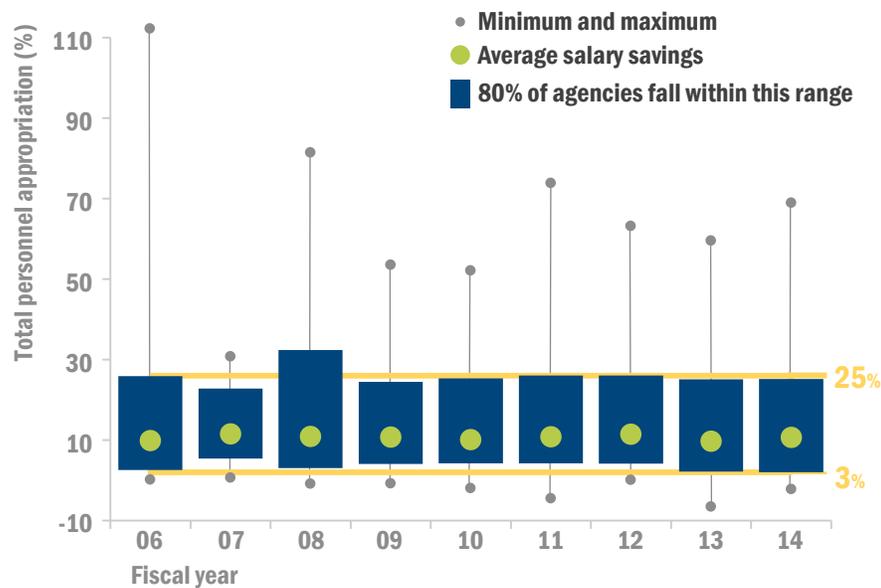
Although the average annual salary savings was stable at the statewide level over the past nine years, salary savings by agency varied to a large degree. As shown in exhibit 3, most agencies had an annual salary savings from 3 percent to 25 percent. Each year, a few agencies had salary savings outside that range.

**Most agencies had an annual salary savings of 3–25%.**

**Exhibit 3**

**Salary savings at the agency level varied from one fiscal year to the next.**

Most agencies had an annual salary savings of 3–25%. Every year a few agencies had more or less salary savings.

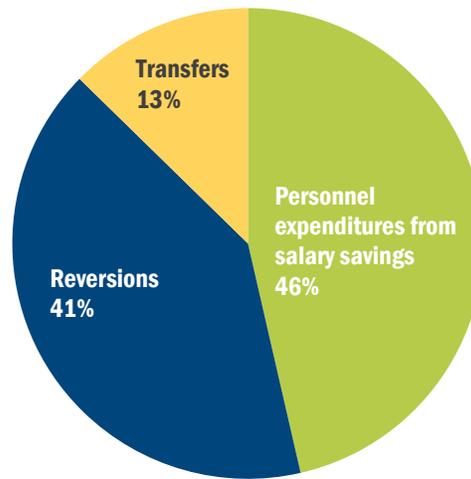


Note: A negative appropriation value indicates money was transferred into personnel to cover expenditures.

We estimate that since 2006, agencies used their salary savings by expending 46 percent in personnel, reverting 41 percent to the appropriated fund, and transferring 13 percent into other expenditure categories (see exhibit 4).

**Exhibit 4**

**Agencies used less than half of total estimated salary savings on new or unexpected personnel expenditures.**



**\$829 million**

**Total estimated salary savings for fiscal years 2006–2014**



**The Legislature appropriates more than \$1 billion a year for personnel expenditures.**

**Policy consideration**

**Should statewide data systems be integrated to precisely monitor and manage salary savings?**

The Legislature appropriates more than \$1 billion a year for personnel expenditures. To promote good governance and transparency, projected personnel costs should be accurate and data systems that track appropriations, agency budgets, payroll, authorized positions, and actual expenditures should be integrated. Providing policymakers with useful trends in personnel budgets, such as salary savings, depends on having a consistent and accurate source of data.

Position-level budget data is not integrated with the statewide accounting and payroll systems. Instead, agencies work with the Budget and Policy Analysis Division and the Division of Financial Management to complete spreadsheets detailing the projected personnel costs for the upcoming fiscal year by position, fund type, and agency program. Agencies manually enter their appropriation data into the statewide accounting system and develop various ways to track budgeting data throughout the fiscal year so they can properly manage their resources.

The lack of position-level budget data within the statewide systems presents a challenge for agencies and analysts when monitoring and managing salary savings. Although we have developed a method for estimating statewide salary savings, a more precise calculation could be made with position-level budget data integrated with the statewide systems. Projected costs for pay increases, paid overtime, and leave balance payouts could be tracked.

Recognizing the importance of accurately projecting and managing personnel costs, the [Government Finance Officers Association](#) recommends a number of strategies that governments should incorporate into their procedures to more effectively budget salary and wages. We present two.

**1. A personnel tracking system that integrates budgeted positions and personnel data for an accurate count of authorized and funded positions.**

Idaho does not have a system that integrates this data. The wage and salary report reflects the number of positions that have been entered into the system; however, those positions are not necessarily authorized or funded.

Agencies submit budget forms that accurately represent the number of authorized and funded positions. Appropriations are made from this data and entered into the statewide accounting system; however, details about planned spending for specific positions are not part of the statewide accounting and payroll systems. The [Government Finance Officers Association](#) emphasizes the need for one system that tracks multiple types of employees and produces consistent reporting data for all agencies.

**The lack of position-level budget data presents a challenge for monitoring and managing salary savings.**

Detailed tracking would help policymakers better identify and monitor statewide trends in salary savings and more precisely project personnel costs.

The Office of the State Controller is undergoing a study to modernize its systems.

## 2. A consistent policy to address various types of vacancies so projected personnel costs are a more accurate picture of where actual spending will occur.

The [Government Finance Officers Association](#) offers the following elements to incorporate into a policy:

**Start dates.** New positions start at various times throughout the fiscal year. Agencies need to track when they anticipate new positions will be hired and determine whether the position should be funded for a full 12 months.

**Turnover.** Agencies are likely to experience some turnover throughout the year. Projecting turnover rates may give insight into whether the agency will have available salary savings for unexpected or unbudgeted personnel costs.

**Frozen or eliminated positions.** Some agencies intentionally leave positions vacant. By tracking these positions, a determination could be made for eliminating some positions. Savings generated from these eliminated positions should be tracked.

**Funded or unfunded positions.** Not every authorized position in an agency is funded. A process of noting the number of unfunded positions should be required.

**Planned retirements.** Agencies need to be aware of upcoming retirements and budget for leave balance payouts.

To integrate budget data with the statewide systems, new software needs to be developed or purchased. Additionally, new processes would need to be established and agencies would need training. The Office of the State Controller is now undergoing a study to modernize its systems. This study could further elaborate the costs and feasibility of integrating position-level budget data.

# What factors influence an agency's ability to generate salary savings?

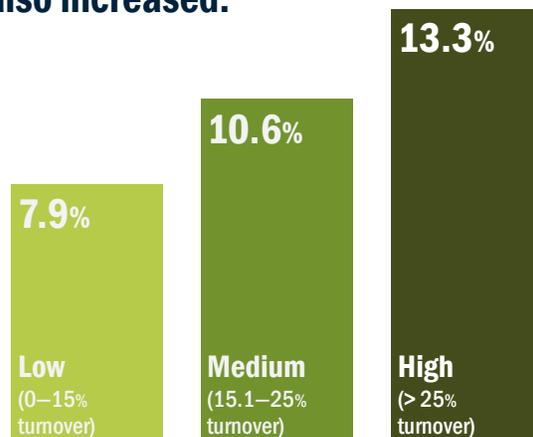
We identified four statistically significant factors that influence an agency's ability to generate salary savings:

- Turnover rate
- Dependence on the general fund<sup>2</sup>
- Size of the agency
- Branch of government

Turnover was a substantial factor for the amount of salary savings that an agency generated. As turnover increased, the total percentage of salary savings also increased. In our analysis, we found that turnover had a statistically significant positive relationship with reversions, transfers, and personnel expenditures from salary savings, as depicted in exhibit 5.

## Exhibit 5

**As turnover increased, the percentage of salary savings also increased.**



2. The general fund specifically refers to the State General Fund 0001 and does not include any of the miscellaneous general fund accounts.

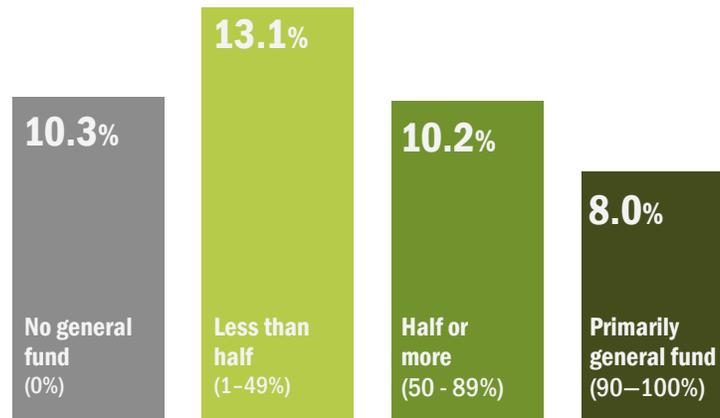


**Turnover was a substantial factor for the amount of salary savings that an agency generated.**

**Agencies who primarily depended on the general fund had less salary savings, on average, than agencies who had other funding sources.**

As shown in exhibit 6, we found that agencies who primarily depended on the general fund had less salary savings, on average, than agencies who had other funding sources. The general fund is the most widely appropriated fund across state agencies. When the Legislature appropriates money from this fund, agencies receive a corresponding amount of available dollars. When the Legislature makes appropriations from other fund types, such as special revenue or enterprise funds, it may appropriate higher or lower than the actual cash balance.

**Exhibit 6**  
**On average, agencies that primarily depended on the general fund had less salary savings than did agencies with other funding sources.**



We found that agencies more dependent on the general fund were statistically more likely to transfer salary savings into another expenditure category and statistically less likely to revert salary savings. Depicted in exhibit 7, agencies who received 90 percent or more of their appropriation from the general fund, on average, transferred 27 percent out of personnel and used 46 percent on other personnel expenditures.

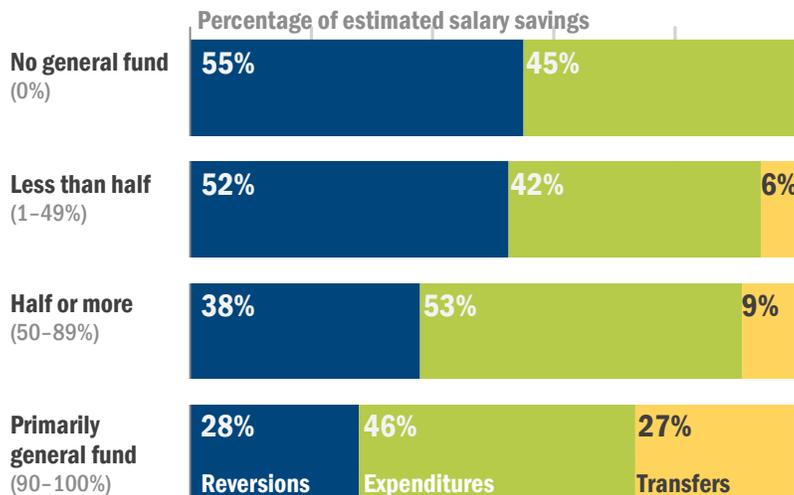
Agencies who had no appropriated general fund dollars reverted more than half of their total salary savings. This trend likely occurred because these agencies were reverting spending authority. If available cash was equivalent to the amount reverted, the money remained in the fund for use in the next fiscal year up to the amount appropriated.

**Agencies more dependent on the general fund were more likely to transfer salary savings into another expenditure category.**

**Exhibit 7**

**Funding source affected the way agencies used salary savings.**

On average, agencies that primarily depended on the general fund were more likely to use salary savings for personnel **expenditures** or **transfers**. Agencies with no general fund dollars **reverted** more than half of their salary savings.



Note: Percentages may not sum to 100% because of rounding.

**Salary savings in small agencies had more variability than in large agencies.**

As shown in exhibit 8, we found that agency size did not largely impact an agency’s percentage of salary savings. The average difference in salary savings as a percentage of the total personnel appropriations for small, medium, and large agencies was less than one percentage point. Salary savings in small agencies had more variability than in large agencies. Small agencies were more likely to have either more than 15 percent or less than 3 percent salary savings than medium or large agencies. This trend is likely caused by fluctuating turnover. A small agency with 10 full-time employees may have no turnover in one year and 30 percent in the next if three employees separate from the agency.

**Exhibit 8**

**Agency size did not have a large impact on total salary savings.**

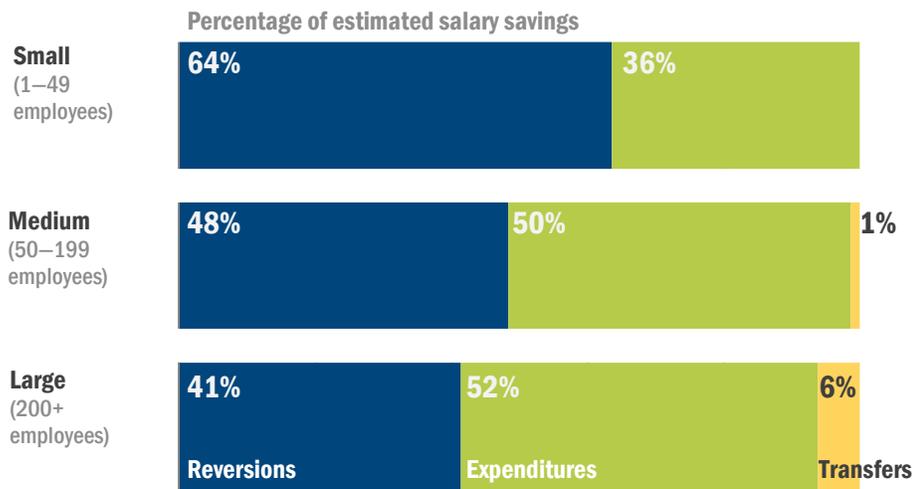
On average, the difference between **small, medium, and large** agencies was less than one percentage point.



When considering the size of an agency, we found statistically significant differences in the way agencies use their salary savings. Exhibit 9 shows that large agencies were statistically less likely to revert and more likely to use savings for personnel expenditures.

**Exhibit 9**  
**Agency size affected the way agencies used their salary savings.**

On average, large agencies were more likely to use salary savings for personnel **expenditures** or **transfers**. Small agencies were more likely to **revert** most of their salary savings.



Note: Percentages may not sum to 100% because of rounding.

**Large agencies were less likely to revert and more likely to use salary savings for personnel expenditures.**

**Agencies with lump-sum authority programs have discretion to apply their program's appropriation to the expenditure categories of their choice.**

Agencies in the judicial and legislative branches have lump-sum spending authority. Agencies with lump-sum authority programs **have discretion to apply their program's appropriation to the expenditure categories of their choice.**<sup>3</sup> They may also transfer money into personnel during the fiscal year.

We were not able to differentiate agencies with lump-sum authority because records indicating lump-sum authority are not available for all the fiscal years we included in our analysis. Instead, we used the branch of government as a substitute, even though some executive branch agencies have programs with lump-sum authority.

As shown in exhibit 10, executive agencies averaged more salary savings than judicial and legislative agencies. Executive agencies had seven percentage points more in total salary savings than judicial and legislative agencies.

**Exhibit 10**

**On average, executive agencies had more salary savings than did judicial or legislative agencies.**

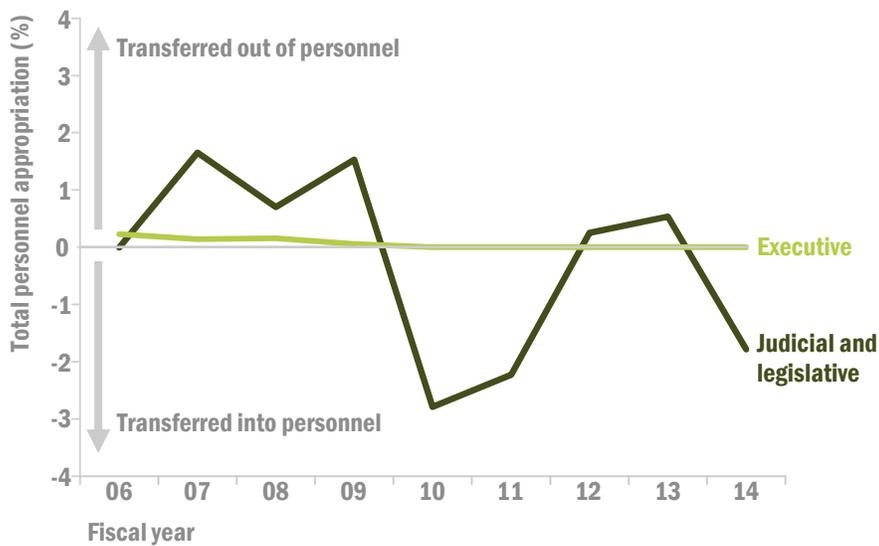


3. In agencies without lump-sum authority, the Legislature assigns the appropriation to four expenditure categories: personnel, operating, capital outlay, and trustee and benefit payments.

Judicial and legislative agencies transfer a greater percentage of money into and out of personnel than executive agencies. See exhibit 11.

**Exhibit 11**  
**Judicial and legislative agencies with lump-sum authority transferred a greater percentage of money into and out of personnel than did executive agencies.**

In most years, executive agencies, as a group, transferred 0% out of personnel.



Note: A negative appropriation value indicates money was transferred into personnel to cover expenditures.

**We used branch of government as a substitute for agencies with lump-sum authority.**



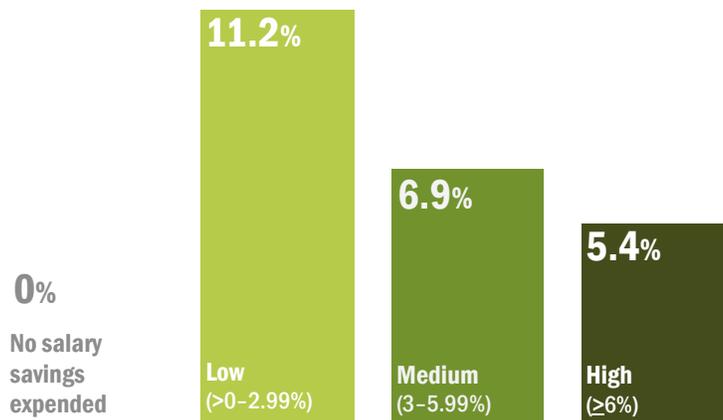
# How does salary savings affect an agency's ability to increase employee compensation?

After estimating the amount of salary savings that agencies realized over the past nine fiscal years, we looked for the effect of salary savings on compensation increases for state employees. We found statistically significant relationships between the percentage of employees who received compensation increases

## Exhibit 12

**When the percentage of salary savings used for personnel expenditures increased, the percentage of employees who received one-time pay increases decreased.**

On average, more employees received one-time pay increases in agencies where salary savings used for personnel expenditures was **low**, compared with agencies where salary savings was **high**.



Note: One-time pay increases represent temporary merit increases and bonuses.

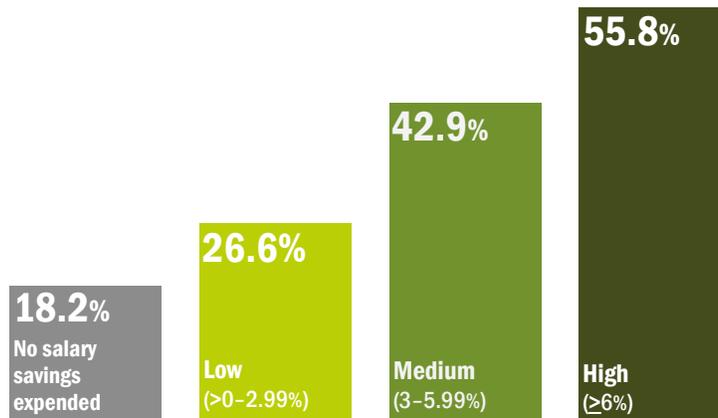
and the amount of salary savings. As shown in exhibit 12, the more salary savings an agency used for personnel expenditures, the fewer employees received one-time pay increases.

Exhibit 13 shows that the more salary savings an agency used for personnel expenditures, the more employees received ongoing salary increases instead of one-time pay increases. This trend is likely the result of how agencies manage their resources. Agencies with less salary savings likely had less ongoing savings and gave more one-time pay increases.

**Exhibit 13**

**When the percentage of salary savings used for personnel expenditures increased, so did the percentage of employees who received ongoing salary increases.**

On average, more employees received ongoing salary increases in agencies that had **high** salary savings used for personnel expenditures, compared with agencies that had **low** salary savings.



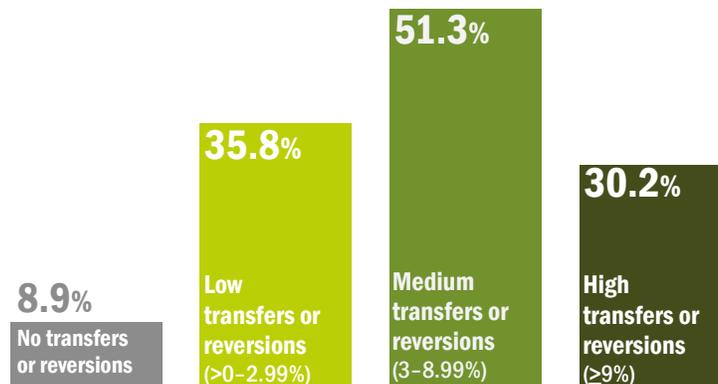
**Note:** Ongoing salary increases is defined as performance or market-based adjustments to an employee's pay rate.

We analyzed the effect that transferring and reverting personnel funds had on employee compensation (see exhibit 14). On average, the percentage of employees who received ongoing salary increases was greater in agencies with low or medium transfers or reversions.

Agencies who reverted or transferred a high percentage of personnel funds provided fewer employees with ongoing salary increases. This trend was driven primarily by (1) large reversions of dedicated funds, and (2) less money available for pay increases. Agencies in this category revert dedicated spending authority and not cash.

**Exhibit 14**

**The percentage of employees who received ongoing salary increases was greater in agencies with low or medium transfers or reversions.**



**Note: Ongoing salary increases is defined as performance or market-based adjustments to an employee’s pay rate.**

# Are there other demands on salary savings?

Beyond addressing employee compensation increases, salary savings has other demands. Any time an agency has unexpected or unfunded expenses in their personnel budget, salary savings is used.

Agencies have two major costs that may not be budgeted for but must be addressed: paid overtime for current employees and leave balance payouts for exiting employees. When agencies make their budget requests, they can ask for funds to cover expected paid overtime and large leave balance payouts. Often, however, agencies do not know when an employee will leave. This departure can trigger the payment of large compensatory or vacation leave balances. Agencies are generally expected to cover these costs within their existing budget. Systematically, agencies are not provided with additional appropriations for paid overtime or leave balance payouts as a part of their personnel budget.

[Exhibit 15](#) shows that for fiscal years 2008–2014, agencies spent \$72.8 million on paid overtime and leave balance payouts. We cannot estimate how much was budgeted for and how much was unexpected, but in talking with budget analysts, we found that many agencies use salary savings to cover these costs.



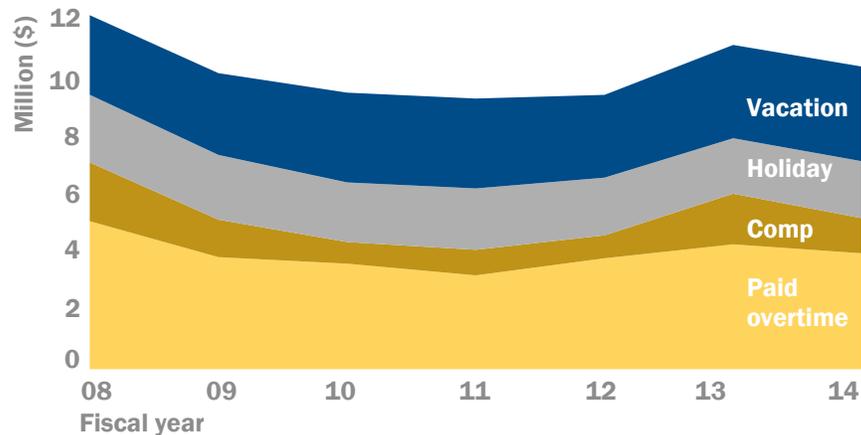
Agencies use salary savings to cover much of their unexpected paid overtime and leave balance payouts.



Exhibit 15

## Since 2008, agencies spent more on paid overtime than on leave balance payouts.

Agencies spent \$6 million–\$9 million per fiscal year on **paid overtime**, **compensatory time (comp)**, and worked holiday hours paid. **Vacation leave payouts** were \$2 million–\$3 million per fiscal year. Much of these expenses were paid with salary savings.



Note: \$553,743 was also paid out in paid regular hours held.

### Policy consideration

## Should paid overtime and leave balance payouts be uniformly incorporated into agency personnel budgets?

Agencies use salary savings for targeted pay increases and other unfunded personnel costs, such as leave balance payouts and paid overtime. Because these costs are not budgeted uniformly among agencies, the use of salary savings for employee compensation is further constrained.

The [Government Finance Officers Association](#) recommends that states consider eligible retirements when preparing personnel budgets. It also recommends that states budget and adequately fund leave balance payouts.

Policymakers may wish to consider appropriating uniform funding for leave balance payouts and paid overtime.

# How does salary savings compare with receiving CEC money for employee compensation?

Salary savings is one of many compensation tools policymakers and agencies have at their disposal. Policymakers and agencies also have a CEC or an agency-specific budget request appropriated by the Legislature to address employee compensation needs. Salary savings alone provides targeted pay increases for a small percentage of employees statewide. Pay increases from a CEC appropriated by the Legislature provides more widespread pay increases but typically at low rates.

We found that when the Legislature appropriated a CEC, more employees, on average, received performance or market-based salary increases, but also one-time pay increases such as bonuses or temporary merit increases. With the exception of 2008, in every fiscal year since 2005, more than half of the employees who received performance or market-based increases received a percentage increase equal to or greater than the CEC percentage (see [exhibit 16](#)).



Salary savings provides pay increases for a **small** percentage of employees.

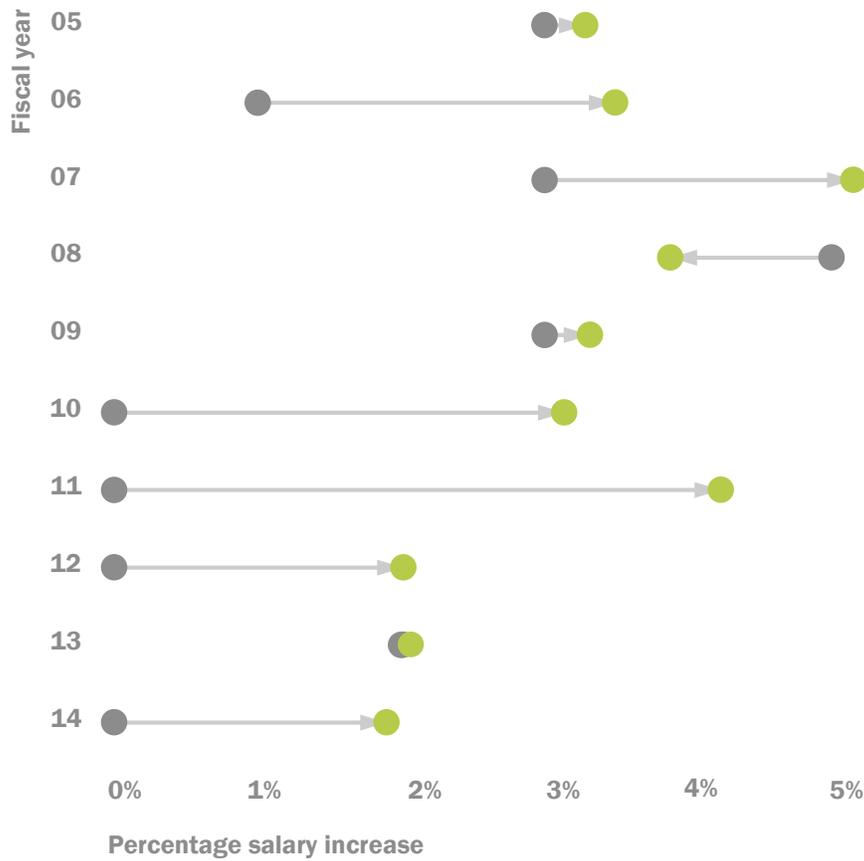
CEC provides pay increases for a **large** percentage of employees.

Generally, more than half of the employees who received performance or market-based increases received a percentage increase equal to or greater than the CEC percentage.

Exhibit 16

### Average ongoing salary increases have outpaced CEC increases in 9 of the past 10 years.

The average ongoing salary increase was greater than the CEC percentage in every year but 2008.



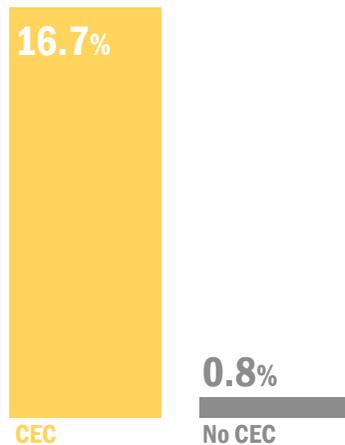
As shown in exhibits 17 and 18, for each year the Legislature appropriated a CEC since 2005, the percentage of employees who received an ongoing salary increase or a one-time pay increase was overwhelmingly higher than in years when the Legislature did not appropriate a CEC.

In years when a CEC was not appropriated, agencies did not award pay increases to a large number of employees. This trend was true for both ongoing and one-time compensation increases. Instead, agencies awarded compensation increases to a targeted group of employees with increases coming from salary savings. Although agencies may be able to increase employee compensation using salary savings, the state lacks uniformity in funding for agencies to provide meaningful compensation increases to a large percentage of its workforce using only salary savings.

**Exhibit 17**

**In years when a CEC was appropriated, agencies awarded one-time pay increases to more employees.**

On average, the percentage of employees who received a one-time pay increase in years when the Legislature appropriated a CEC was almost 16 percentage points higher than in years when no CEC was appropriated.



Note: One-time pay increases include bonuses and temporary merit increases.

**In years when a CEC was not appropriated, agencies did not award pay increases to a large number of employees.**

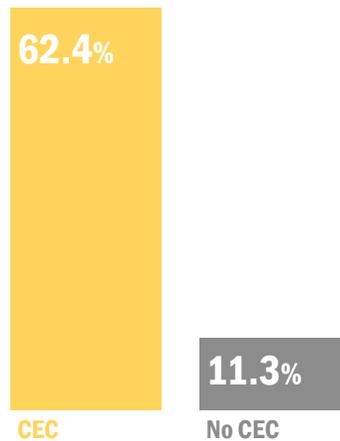
**The state lacks uniformity in funding for agencies to provide meaningful compensation increases to a large percentage of its workforce using only salary savings.**

Employee pay increases from salary savings alone are highly dependent on agency turnover and over-appropriation in the personnel budget.

Exhibit 18

**In years when a CEC was appropriated, agencies awarded ongoing salary increases to more employees.**

On average, the percentage of employees who received an ongoing salary increase in years when the Legislature appropriated a CEC was more than 50 percentage points higher than in years when no CEC was appropriated.



**Note:** Ongoing salary increases is defined as performance or market-based adjustments to an employee’s pay rate.

When policymakers do not provide additional personnel funds, such as a CEC or a line-item increase to an agency’s personnel budget, employee pay increases from salary savings alone are highly dependent on agency turnover and overappropriation in the personnel budget. As a result, agencies with more turnover, either in the number or percentage of the workforce, will be better situated to award compensation increases than those with little or no turnover.

## Policy consideration

### Does legislative intent in Idaho Code align with today's legislative priorities?

Together, a CEC and salary savings help address employee compensation needs statewide. However, when one tool is relied on more than another, or when some tools, like a CEC, are not used at all, agencies are limited in the types of pay increases they can provide and the number of employees receiving pay increases. No one compensation tool will be able to address all types of compensation issues, such as the cost of living, career progression, market adjustments, closing the gap between current and policy pay rates, and merit increases.

**One way to measure Idaho's progress toward meeting this intent** is to compare classified pay rates with policy pay rates. In our [2013 report](#), we found that pay rates of classified employees in 2012 were, on average, 15 percent below the policy rate. More recently, the [Division of Human Resources](#) reported that in 2014, the average pay rates of classified employees were still 15 percent below the policy pay rate.<sup>4</sup>

On average, agencies provided ongoing salary increases to 25 percent of their employees in 2013 and 44 percent in 2014. The pay increases given to employees in these two years did not increase the average pay of classified employees statewide. A CEC and salary savings together have not substantially improved overall employee pay.

In our [2013 report](#) on employee compensation and turnover, we asked policymakers to consider whether the intent language in [Idaho Code § 67-5309](#) was still relevant. The intent is to fund a competitive employee compensation and benefit package that attracts qualified applicants to the workforce, retains employees who have a commitment to public service excellence, motivates employees to maintain high standards of productivity, and rewards employees for outstanding performance. [Appendix D](#) has information on the statutory framework for employee compensation in Idaho. To date, there has been no change to legislative intent in Idaho Code.

4. We independently calculated the comparative ratios for active classified employees on December 29, 2014, and found that 90 percent of employees were paid less than the policy pay rate. The statewide average pay for all classified employees was 84.4 percent of the policy rate.



**No one compensation tool will be able to address all types of compensation issues.**

**A CEC and salary savings together did not substantially improve overall employee pay.**



## Policy consideration

### What other tools can be used to address unmet employee compensation needs?

The impacts of relying on salary savings as a primary compensation tool are the following:

A smaller percentage of employees will receive ongoing salary increases. Pay increases used from salary savings alone will not reach a large percentage of employees statewide because savings is limited and volatile.

Agencies will generate and use salary savings at different rates. This variance will continue to be an inequitable distribution of salary savings available to agencies based on variable turnover rates and a lack of uniformity in the way agencies budget for personnel costs.

Agencies using low amounts of salary savings for personnel expenditures provide mostly one-time pay increases instead of ongoing salary increases. Therefore, ongoing pay rates of employees do not increase as much in these agencies. One-time pay increases do not close the gap between average and policy pay rates.

When agencies adhere closely to their position-level budgets, little or no salary savings is available. This adherence creates a perverse incentive for agencies to depart from their budgeted plans to generate salary savings. Agencies who are prudent, plan well, anticipate potential costs, and do not depart from what is budgeted for each position will not have salary savings to use for employee compensation.

Agencies generating salary savings in one fiscal year have to use that money within the same fiscal year, and the amount of salary savings an agency generates varies by year. In many instances, agencies cannot carry over salary savings for use in the next fiscal year. Therefore, for long-term planning, salary savings is an unreliable compensation tool to address anything other than immediate compensation needs. Salary savings is not an effective tool for providing career progression or longevity increases in a comprehensive way.

Policymakers should consider other compensation tools to help **meet the Legislature's statutory obligations and provide the type** of career progression and market competitiveness that a CEC and salary savings cannot address. In doing so, policymakers may wish to clearly define the purposes of each compensation tool.

Neither a CEC nor salary savings have well defined purposes to fund employee compensation.

For example, a CEC cannot be classified as an inflationary or cost-of-living increase because it is merit based, not tied to an inflationary index, and not awarded every year.

Similarly, the purposes of salary savings are not well defined. In fact, salary savings does not have to be used on personnel pay increases—it can be transferred to a different spending category or reverted. Without definition or purpose, the state is unable to evaluate whether a CEC and salary savings are meeting legislative expectations.

The [Government Finance Officers Association](#) recommends that states consider the effects of inflation when forecasting personnel costs. Cost-of-living adjustments can be used and measured against the Consumer Price Index to keep pace with the rising cost of goods and services.

Idaho does not use a cost-of-living adjustment or COLA as a part of its compensation approach. In our [2013 report](#), we found that CEC increases did not keep pace with inflation in fiscal years 2003–2013.

The Government Finance Officers Association also recommends additional tools:

- Step and grade systems, where structured pay increases are budgeted and planned (Idaho does not use a step and grade system).

- Pay for performance, where funds are regularly given to agencies to reward performance, thereby attracting and retaining a qualified workforce (Idaho relies on a CEC and salary savings for performance increases).

- Wage surveys that monitor the average wage of employees and compare it with similar jobs in other jurisdictions.

In its annual report on employee compensation, the Division of Human Resources reports on the results of a wage survey that compares classified employees in Idaho to employees in other government and private sector organizations. In its fiscal year [2016 report](#), the division reported that, on average, classified employees in Idaho are paid 19 percent below comparable jobs in other jurisdictions (Idaho does not have a similar tool for systematically comparing wages of nonclassified employees with other organizations).

In our [2013 report](#), we recommended that policymakers form a task force comprised of key legislative and executive branch

**Without definition or purpose, the state is unable to evaluate whether a CEC and salary savings are meeting legislative expectations.**

**The CEC Committee and the Legislature should clearly define how a CEC and salary savings will meet the Legislature's intent to provide a competitive compensation system.**

policymakers, agency officials, and agency human resources staff, to formulate a plan to address how policymakers can use new and **existing compensation tools to meet the intent of Idaho's** compensation philosophy in Idaho Code. At the time, the CEC Committee had not convened in several years.

Because the CEC Committee has now reconvened and plans to meet more frequently, it is an appropriate venue to address the proper role of CEC increases, salary savings, and issues outlined in this report: (1) should [legislative intent in Idaho Code](#) be revised, and (2) should additional direction or compensation **tools be provided to address the totality of the state's** compensation needs. The CEC Committee and the Legislature should consider more clearly defining how a CEC and salary **savings will meet the Legislature's intent to provide a competitive** compensation system statewide.

Appendix A

# Study request



Sen. John Tippetts



Sen. Jim Guthrie



## Idaho State Senate

March 8, 2014

To members of the Joint Legislative Oversight Committee:

Please accept this letter as a formal request for a performance evaluation related to the use of salary savings to fund compensation and benefits for state employees. Specifically, we respectfully request that the evaluation address the following issues:

- Quantification of the extent of use of salary savings to provide compensation and benefits for state employees
- Inequities among state agencies regarding the availability of salary savings to provide increased compensation and benefits
- Impacts related to reliance on the use of salary savings to provide increased compensation to state employees, which may include, but are not limited to:
  - Strategies to increase salary savings—such as maintaining vacant positions. If this is a common practice, we would request an evaluation of the impacts of maintaining vacant positions.
  - Providing inappropriate promotions or reclassifying jobs in an attempt to provide increased compensation to key employees
  - Motivation to maximize revenue from other sources such as student fees or dedicated funds, and the impacts of such actions
- Positive outcomes related to the use of salary savings for employee compensation and benefits
- The appropriateness and/or desirability of encouraging the use of salary savings for employee compensation and benefits
- Identification of best practices related to the use of salary savings for employee compensation and benefits
- Identification of policy considerations the legislature may want to consider related to these issues

We also request that the evaluation take a close look at the issue of holiday pay for employees working a nontraditional work schedule that is mandated by the employer, such as a four-day 10-hours-per-day schedule or a 12-hour workday schedule. Specifically, we would like an evaluation of the degree to which agencies are consistent in how they compensate employees for holidays when working these nontraditional schedules. It is our understanding that the additional fiscal impact of compensating nontraditional employees for the extra hours they receive for holiday pay is potentially mitigated by allowing additional time off in lieu of paying the employee for those additional hours. We would like to know if this additional time off compromises department functionality.

We further understand that in the case of employee requested nontraditional work schedules, employees may be “flexed back” to a traditional schedule during the week of a holiday. We would be interested to know if this work schedule inconsistency causes problems for the department, or more importantly for the consumer.

The decision to compensate an employee more than 8 hours for a holiday is based on whether the nontraditional schedule is department mandated or employee requested. We would like to know what policies are now in place and being used to make this determination and if those policies need to be more thoughtfully developed.

On a somewhat regular basis, the legislature approves “one time” employee compensation—in the form of bonuses. We would appreciate an assessment of whether one-time compensation is an appropriate and effective method to address employee compensation needs. Any historical data on how much the state has spent on one-time compensation would be useful.

We believe an evaluation of these issues (holiday pay and one-time compensation) is appropriate for this study because of the likelihood that salary savings are being used to provide part of the holiday compensation as well as for bonuses. Furthermore, legislation was considered during the 2014 session that would have standardized pay practices for employees mandatorily working a nontraditional schedule. It was indicated during those discussions that agencies would be able to pay the additional costs that would have resulted from enactment of the legislation using salary savings.

The information derived from this evaluation would serve to inform the legislature (and specifically the Commerce and Human Resources Committees and the Change in Employee Compensation Committee) as to how salary savings are being used, the benefits from using salary savings for employee compensation and benefits, potential inequities, and other possible negative impacts of our current practices. The results of the study may influence the decisions that are made related to state employee compensation and benefits.

Sincerely,



Senator Jim Guthrie



Senator John Tippetts

# B

**Questions in the study request about the state's holiday compensation benefits have been taken out of this report and will be released in a separate report.**

## Appendix B

# Study scope

Salary savings are generated when personnel expenses are less than the appropriated personnel budget. Agencies can use salary savings in a variety of ways to fund pay increases to employees. Historically, the state has not regularly reported on the extent and use of ongoing or one-time salary savings.

In 2014 the Legislature convened the Change in Employee Compensation (CEC) Committee for the first time since 2008 to discuss compensation issues. The CEC Committee encouraged agencies to reinvest salary savings and recommended a combination of ongoing and one-time increases to deserving state employees. The committee has raised questions about relying on **salary savings within the broader context of the state's** compensation philosophy and the resulting impacts or potential inequities among state agencies.

## Evaluation objectives

Our evaluation will include the following objectives:

- Quantify the extent to which salary savings are expended to fund one-time or ongoing employee compensation increases **and identify key factors that influence agencies' ability to use salary savings**
- Identify the impacts of using salary savings including positive outcomes, inequities, and unintended negative consequences
- Discuss relevant best practices that can provide a decision-making framework for using salary savings and awarding one-time pay increases

Our evaluation will provide specific policy considerations for the Legislature as it deliberates future employee compensation decisions.

**Projected completion date: January 2015**

## Appendix C

# Methodology

We developed the scope of this report and parameters for our analysis based on the study request and interviews with the Office of the State Controller, the Budget and Policy Analysis Division in the Legislative Services Office, and the Division of Human Resources and the Division of Financial Management in **the Executive Offices of the Governor**. Questions about the state's holiday compensation benefits have been taken out of this report and will be released in a separate report.

For this report, we analyzed data from the statewide accounting and payroll systems housed at the Office of the State Controller. The purpose of our evaluation approach was to give policymakers a statewide perspective of salary savings.

We determined that data from the statewide systems would provide the most consistent estimate of salary savings. The alternative was to gather data directly from each agency or from a sample of agencies. Collecting data from each agency would have taken longer than the time allotted for the release of this report. Interpreting data from a sample of agencies would not have represented all agencies.

We took a longitudinal approach and used data from before, during, and after the most recent economic recession. Where available, we have analyzed data for fiscal years 2005–2014. However, not all datasets were available for this timeframe; we note when a timeframe is different.

Our report focused on measuring salary savings of state employees only. We did not attempt to identify salary savings or one-time compensation for employees of the State Insurance Fund because they are not considered state employees.

We excluded postsecondary institutions because of several limitations in data:

Boise State University, Idaho State University, and the University of Idaho independently process payroll and are reimbursed by the Office of the State Controller for the total personnel cost.



**We took a longitudinal approach and used data from before, during, and after the most recent economic recession.**

**Where available, we have analyzed data for fiscal years 2005–2014.**

**Our analysis did not include the State Insurance Fund or postsecondary institutions.**

Earnings codes at the universities do not match the earnings codes in the statewide payroll system.

None of the postsecondary institutions, including Lewis-Clark State College and Eastern Idaho Technical College, process local fee revenues and expenditures through the statewide accounting system.

## Data source and query parameters

We queried data for appropriations, expenditures, and pay change reasons using the Idaho Business Intelligence Solution (IBIS), a data warehouse for two legacy mainframe systems: the Statewide Accounting and Reporting System (STARS) and the Employee Information System (EIS). We set the following parameters for our analysis:

Limited the data set to State of Idaho employees. We excluded employees at the State Insurance Fund because the state does not classify them as state employees.

Queried appropriation and expenditure data for fiscal years 2005–2014. We summed and reported appropriations, object transfers, reversions, and expenditures by agency and fiscal year.

Queried and grouped expenditure and compensation data by agency, fiscal year, and position control number (PCN).

We excluded four budget units used by the Office of the State Board of Education and the Division of Professional and Technical Education as these budget units were used for postsecondary institutions:

EDFB	College of Southern Idaho
EDFC	North Idaho Technical College
EDFD	College of Western Idaho
EDEC	Postsecondary Programs

Categorized ongoing and one-time compensation increase transactions in the fiscal year that expenses were paid. In almost every year that we observed, many pay rate changes and bonuses had a June transaction date occurring in the last two weeks of the fiscal year. Payments for these transactions were made in July of the following fiscal year. Pay increase transactions that occurred on or after the June dates were coded to the following fiscal year:

July 1, 2004: FY 2005 (EIS did not have earnings data before July 1, 2004)  
 June 5, 2005: FY 2006  
 June 18, 2006: FY 2007  
 June 17, 2007: FY 2008  
 June 15, 2008: FY 2009  
 June 14, 2009: FY 2010  
 June 13, 2010: FY 2011  
 June 12, 2011: FY 2012  
 June 10, 2012: FY 2013  
 June 9, 2013: FY 2014  
 June 8, 2014: FY 2015

Before running any statistical analysis, we grouped appropriations, object transfers, reversions, expenditures, and estimates of personnel expenditures from salary savings by agency and by fiscal year.

We queried and grouped appropriation data by agency, budget unit, and fiscal year. Budget units with a continuous appropriation were excluded because their original appropriations were not recorded in STARS. Personnel expenditures for these budget units in fiscal years 2005–2014 totaled \$4.5 million (3.8 percent of all personnel expenditures). Table 1 lists the budget units we excluded.

**Table 1. Budgets units with personnel expenditures and continuous appropriation authority excluded from analysis**

Agency	Budget unit
100 Senate	LBAA Senate
101 House of Representatives	LBAB House
102 Legislative Services Office	LBEA Legislative Capitol Facilities
130 Secretary of State, Office of the	SSAF Democracy Fund
130 Secretary of State, Office of the	SSBB Health Care Directive Registry
133 Code Commission	SSAD Idaho Code Commission
150 Treasurer, Office of the State	STAC College Savings Fund
170 Education, Department of	EDBF Continuous Appropriations
183 Public Employee Retirement System	GVFC Distribution Retirement Cont.
183 Public Employee Retirement System	GVFD Retirement Medical Insurance
190 Military Division	GVOE Military's Emergency
190 Military Division	GVOJ Emergency Communications Comm.

**We queried data for appropriations, expenditures, and pay change reasons.**

**Our analysis did not include agency programs with continuous appropriations.**

**Table 1 (cont.)**

Agency	Budget unit
200 Administration, Department of	ADAI Insurance Management
210 Agriculture, Department of	AGAN Management Services
220 Commerce, Department of	CDAB Commerce
231 Correctional Industries	CRAJ State Manufactured Goods
240 Labor, Department of	EMAA Labor—Adm.
240 Labor, Department of	EMAF Wage and Hour
270 Health & Welfare, Department of	HWTA DHW Trust/Children’s Trust
290 Transportation, Department of	TRLA Local Assistance
330 Police, State	LEAH Special Programs
360 Water Resources, Department of	WRAI Water Management
360 Water Resources, Department of	WRAP Planning and Technical Service
444 Veterans Services, Division of	SGVL Cemetery License Plates
444 Veterans Services, Division of	SGVX Veterans Support Fund
501 Education, Office of the Board of	EDIH Rural Physician Incentive Program
501 Education, Office of the Board of	EDJO Opportunity Scholarship
502 Deaf and Blind, Education Services for the	EDDB General Fund Contingency Reserve
521 Libraries, Idaho Commission for	EDLB Library Services Improvement
522 Historical Society, State	EDMC Archaeological Survey of Idaho

### **Estimated personnel expenditures from salary savings**

To estimate the amount of salary savings an agency used for personnel expenditures by fiscal year, we queried expenditure data by agency index number and PCN for fiscal years 2005–2014. We summed salary and benefit expenditures by PCN and paired those expenditures with the expenditures for the same PCN from the previous year. We used the following formula to calculate the difference:

$$\text{PCN expenditure variance} = \text{PCN expenditures} - \text{Previous year's PCN expenditures}$$

If the PCN expenditure variance was a positive number (current expenses were greater than the prior fiscal year), we recorded that amount in a column labeled positive. If the PCN expenditure variance was a negative number (current expenses were less than the prior fiscal year), we recorded that amount in a column labeled negative. Table 2 illustrates the results of this process.

**Table 2. Data table set up for calculating personnel expenditures from salary savings**

Agency index	Position	PCN exp. [A]	Previous PCN exp. [B]	PCN exp. variance [A] - [B]	Positive (\$)	Negative (\$)
999	A	38,000	41,500	(3,500)		3,500
999	B (new position in current FY)	35,000	0	35,000	35,000	
999	C	50,000	45,000	5,000	5,000	
999	D	71,000	72,000	(1,000)		1,000
999	E (deleted position in current FY)	0	65,000	(65,000)		65,000
<b>Total</b>		<b>194,000</b>	<b>223,500</b>	<b>(29,500)</b>	<b>40,000</b>	<b>69,500</b>

After completing these steps, we summed the negative column and compared it with the sum of the positive column by agency and by fiscal year. If the sum of negative was greater than the sum of positive, we used the sum of positive as our estimate of personnel expenditures from salary savings. If the sum of negative was less than the sum of positive, we used the sum of negative as our estimate of personnel expenditures from salary savings (see table 3).

**Table 3. Estimates of personnel expenditures from salary savings by agency and fiscal year**

Agency index	Fiscal year	Sum of positive (\$)	Sum of negative (\$)	Estimated salary savings expenditures (\$)
999	2006	40,000	69,500	40,000
999	2007	0	5,000	0
999	2008	17,000	11,500	11,500
999	2009	17,000	18,500	17,000
999	2010	45,500	20,000	20,000

**Absent necessary data, we developed an estimate of personnel expenditures from salary savings.**

**We included in our analysis only those pay changes that had a performance or market-based reason.**

## Ongoing salary increases

When an employee's pay rate increases or decreases, the agency assigns a change reason in EIS. In our analysis of how much agencies gave in ongoing salary increases to employees, we included only those pay changes that had a performance or market-based reason:

- Merit increase—performance (CC)
- CEC distribution (CD)
- Payline exception (CE)
- Class specific increase (CS)<sup>5</sup>
- Salary equity adjustment—internal (EA)
- Salary equity adjustment—external (MI)
- Nonclassified payline movement—downward (LD)
- Nonclassified payline movement—upward (LU)
- Compensation schedule change (PA)<sup>6</sup>
- Classified payline movement—downward (PD)
- Classified payline movement—upward (PU)

We included the following earnings codes in our calculations of the amount agencies have spent (not accrued) for paid overtime and leave balance payouts:

- Paid overtime
  - Board of Examiners overtime paid at straight time (OFS)
  - Board of Examiners overtime paid at time and half (ONL)
  - Overtime hours paid at straight time (OPS)
  - Overtime hours paid at time and half (OTP)
- Holiday hours worked and paid
  - Holiday worked paid at straight time (HOP)
  - Holiday work paid at time and half (HOW)
  - Holiday work paid at straight time for law enforcement (HNL)
- Compensatory time payouts
  - Compensatory time payoff (CPP)
  - Prior compensatory time payoff (GCP)
  - Compensatory time payoff, judicial branch (SJC)
  - Compensatory time payoff, employee separation (ZCP)
- Unused vacation leave payouts
  - Vacation payoff, judicial branch (SJV)
  - Vacation payoff with approval from Board of Examiners or Board of Education (VCP)
  - Vacation payoff, employee separation (ZVP)

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5. No longer in use; last active in 2006.

6. Ibid.

Regular hours held paid  
 Regular hours help payoff, employee separation (ZEP)  
 Regular hours payoff (RHP)

## Data analysis

We used a multivariate linear regression to produce five explanatory models. The first three models were built on our **prediction of factors that would influence an agency’s ability to generate salary savings** within a fiscal year. The fourth and fifth models were built to test whether salary savings had an influence on employee compensation.

## Generating salary savings

We identified three factors affecting the use of salary savings: reversions, object transfers, and estimated personnel expenditures from salary savings. For each of these factors, we ran a multivariate linear regression to estimate the effect of turnover, branch of government, dependence on the general fund, and agency size on the amount of salary savings generated.

## Model of reversions

**Table 4. Results of the multivariate linear regression analysis of reversions**

<b>Dependent variable</b>	Of total personnel appropriations, the percentage of the sum of agency personnel reversions
<b>Independent variables</b>	<p><b>Turnover rate:</b> Number of separations divided by the average employee count (%)</p> <p><b>Branch of government:</b> Judicial, legislative, or executive (1 = judicial or legislative; 0 = executive)</p> <p><b>Dependence on the general fund:</b> Percentage of the sum of the agency’s general fund (fund code = 0001) personnel appropriation of the total personnel appropriation</p> <p><b>Agency size:</b> Categorized by average agency employee counts</p> <p style="margin-left: 40px;">small = 1-49 employees</p> <p style="margin-left: 40px;">medium = 50-199 employees</p> <p style="margin-left: 40px;">large = 200 or more employees</p>
<b>Unit of analysis</b>	State agency by fiscal year (each agency had a unique case for each fiscal year)
<b>Number of cases</b>	676

**We used a multivariate linear regression to produce five explanatory models.**

**We identified three factors affecting the use of salary savings: reversions, object transfers, and estimated personnel expenditures from salary savings.**

**Table 4 (cont.)**

Model summary	Adjusted R square	F	Significance
	0.211	37.079	0.000*
Independent variables		B	Significance
Turnover rate		0.135	0.000*
Branch of government (judicial or legislative)		1.463	0.545
Dependence on the general fund		-0.068	0.000*
Agency size (medium)		-5.069	0.000*
Agency size (large)		-5.492	0.000*

\* Statistically significant;  $p < 0.05$

The adjusted R-square for the model is 0.211, which means 21.1 percent of the change in the dependent variable is explained by change in the independent variables. The model is statistically significant at a 95 percent confidence level, which means the change we observed in the dependent variable from the independent variables included in the model was not due to chance.

For every 1 percent increase in turnover, the percentage of personnel reversions increased by 0.1 percent.

The branch of government did not have a statistically significant effect on the percentage of personnel reversions.

**For every 1 percent increase in an agency’s dependence on the general fund for personnel appropriations, an agency’s personnel reversions decreased by 0.1 percent.**

Agencies categorized in size as medium had an average of 5.1 percent less personnel reversions than an agency categorized as small.

Agencies categorized in size as large had an average of 5.5 percent less personnel reversions than an agency categorized as small.

## Model of object transfers

**Table 5. Results of the multivariate linear regression analysis of object transfers**

<b>Dependent variable</b>	Of total personnel appropriations, the percentage of the sum of agency personnel object transfers		
<b>Independent variables</b>	Turnover rate: Number of separations divided by the average employee count (%)		
	Branch of government: Judicial, legislative, or executive (1 = judicial or legislative; 0 = executive)		
	Dependence on the general fund: Percentage of the sum of the agency's general fund (fund code = 0001) personnel appropriation of the total personnel appropriation		
	Agency size: Categorized by average agency employee counts		
	small	=	1-49 employees
	medium	=	50-199 employees
	large	=	200 or more employees
<b>Unit of analysis</b>	State agency by fiscal year (each agency had a unique case for each fiscal year)		
<b>Number of cases</b>	676		
<b>Model summary</b>	<b>Adjusted R square</b>	<b>F</b>	<b>Significance</b>
	0.068	10.908	0.000*
<b>Independent variables</b>	<b>B</b>	<b>Significance</b>	
Turnover rate	0.012	0.041*	
Branch of government (judicial or legislative)	-3.171	0.007*	
Dependence on the general fund	0.029	0.000*	
Agency size (medium)	-0.615	0.154	
Agency size (large)	-1.077	0.025*	

\* Statistically significant; p<0.05

The adjusted R-square for the model is 0.068, which means 6.8 percent of the change in the dependent variable is explained by change in the independent variables. The model is statistically significant at a 95 percent confidence level, which means the change we observed in the dependent variable from the independent variables included in the model was not due to chance.

For every 1 percent increase in turnover, the percentage of personnel object transfers increased by 0.01 percent.

Agencies in the judicial or legislative branch averaged 3.2 percent less in object transfers than agencies in the executive branch.

For every 1 percent increase in an agency’s dependence on the general fund for personnel appropriations, an agency’s personnel transfers increased by 0.03 percent.

The percentage of object transfers was not different to a statistically significant degree between agencies categorized as medium or small.

Agencies categorized in size as large had an average of 1.1 percent less personnel transfers than an agency categorized as small.

### Model of estimated personnel expenditures from salary savings

**Table 6. Results of the multivariate linear regression analysis of personnel expenditures from salary savings**

<b>Dependent variable</b>	Of total personnel appropriations, the percentage of the sum of personnel expenditures from salary savings
<b>Independent variables</b>	<p>Turnover rate: Number of separations divided by the average employee count (%)</p> <p>Branch of government: Judicial, legislative, or executive (1 = judicial or legislative; 0 = executive)</p> <p>Dependence on the general fund: Percentage of the sum of the agency’s general fund (fund code = 0001) personnel appropriation of the total personnel appropriation</p> <p>Agency size: Categorized by average agency employee counts</p> <p style="margin-left: 40px;">small = 1–49 employees</p> <p style="margin-left: 40px;">medium = 50–199 employees</p> <p style="margin-left: 40px;">large = 200 or more employees</p>
<b>Unit of analysis</b>	State agency by fiscal year (each agency had a unique case for each fiscal year)
<b>Number of cases</b>	676

Model summary	Adjusted R square	F	Significance
	0.020	3.800	0.002*

Independent variables	B	Significance
Turnover rate	0.013	0.027*
Branch of government (judicial or legislative)	-3.089	0.009*
Dependence on the general fund	0.001	0.913
Agency size (medium)	0.556	0.199
Agency size (large)	1.218	0.012*

\* Statistically significant; p<0.05

The adjusted R-square for the model is 0.020, which means 2.0 percent of the change in the dependent variable is explained by change in the independent variables. The model is statistically significant at a 95 percent confidence level, which means the change we observed in the dependent variable from the independent variables included in the model was not due to chance.

For every 1 percent increase in turnover, the percentage of estimated personnel expenditures from salary savings within the fiscal year increased 0.01 percent.

Combined, judicial and legislative agencies had an average of 3.1 percent less in estimated personnel expenditures from salary savings than agencies in the executive branch.

**An agency's dependence on the general fund did not have a statistically significant effect on agencies' estimated personnel expenditures from salary savings.**

The percentage of personnel expenditures from salary savings was not different to a statistically significant degree between agencies categorized as medium or small.

Agencies categorized in size as large had an average of 1.2 percent more estimated personnel expenditures from salary savings than agencies categorized as small.

## **The effect of salary savings on employee compensation**

After analyzing different factors that had an impact on the amount of salary savings an agency generates, we wanted to know what effect salary savings had on employee compensation increases. We selected specific market or merit-based ongoing and one-time bonus compensation increases to analyze. For each type of employee compensation increase, we ran a multivariate linear regression to estimate the effect of estimated personnel expenditures from salary savings, reversions, and transfers on the percentage of employees in an agency who received a pay increase. We controlled for the size of the pay increases as well as whether the Legislature appropriated a CEC during that fiscal year.

**We controlled for the size of the pay increases as well as whether the Legislature appropriated a CEC during that fiscal year.**

## Model of ongoing salary increases

**Table 7. Results of the multivariate linear regression analysis of ongoing salary increases**

<b>Dependent variable</b>	Percentages of employees who received an ongoing salary increase for performance or market-based reasons		
<b>Independent variables</b>	Personnel expenditures from salary savings: Of total personnel appropriations, the percentage of the sum of personnel expenditures from salary savings  Transferred or reverted: Of total personnel appropriations, the percentage of the sum of personnel transfers and reversions  CEC year: If a CEC increase was appropriated by the Legislature (1 = yes; 0 = no)  Average ongoing increase: Median percentage of ongoing salary increase for an agency in a fiscal year		
<b>Unit of analysis</b>	State agency by fiscal year (each agency had a unique case for each fiscal year)		
<b>Number of cases</b>	676		
<b>Model summary</b>	<b>Adjusted R square</b>	<b>F</b>	<b>Significance</b>
	0.116	23.174	0.000*
<b>Independent variables</b>	<b>B</b>	<b>Significance</b>	
Personnel expenditures from salary savings	0.811	0.007*	
Transferred or reverted	-0.347	0.005*	
CEC year (yes)	23.856	0.000*	
Average ongoing increase	-1.359	0.000*	

\* Statistically significant; p<0.05

The adjusted R-square for the model is 0.116, which means 11.6 percent of the change in the dependent variable is explained by change in the independent variables. The model is statistically significant at a 95 percent confidence level, which means the change we observed in the dependent variable from the independent variables included in the model was not due to chance.

For every 1 percent increase in the sum of personnel expenditures from salary savings, the percentage of employees who received an ongoing salary increase increased by 0.8 percent.

For every 1 percent increase in the percentage of personnel transfers and reversions, the percentage of employees who received an ongoing salary increase decreased by 0.3 percent.

The percentage of employees who received an ongoing salary increase was 23.9 percent more in years when a CEC was appropriated by the Legislature compared with years when a CEC was not appropriated.

For every 1 percent increase in an agency’s median percentage ongoing salary increase, the percentage of employees who received an ongoing salary increase decreased by 1.4 percent.

### Model of one-time pay increases

**Table 8. Results of the multivariate linear regression analysis of one-time pay increases**

<b>Dependent variable</b>	Percentage of employees who received a one-time pay increase for performance		
<b>Independent variables</b>	Personnel expenditures from salary savings: Of total personnel appropriations, the percentage of the sum of personnel expenditures from salary savings  Transferred or reverted: Of total personnel appropriations, the percentage of the sum of personnel transfers and reversions  CEC year: If a CEC increase was appropriated by the Legislature (1 = yes; 0 = no)  One-time pay increase: Of total personnel expenditures, the percentage of one-time pay increases		
<b>Unit of analysis</b>	State agency by fiscal year (each agency had a unique case for each fiscal year)		
<b>Number of cases</b>	676		
<b>Model summary</b>	<b>Adjusted R square</b>	<b>F</b>	<b>Significance</b>
	0.413	118.178	0.000*
<b>Independent variables</b>	<b>B</b>	<b>Significance</b>	
Personnel expenditures from salary savings	-0.585	0.015*	
Transferred or reverted	-0.139	0.160	
CEC year (yes)	6.344	0.005*	
One-time pay increase	17.361	0.000*	

\* Statistically significant; p<0.05



The adjusted R-square for the model is 0.413, which means 41.3 percent of the change in the dependent variable is explained by change in the independent variables. The model is statistically significant at the 95 percent confident level, which means the change we observed in the dependent variable from the independent variables included in the model was not due to chance.

For every 1 percent increase in the percentage of estimated personnel expenditures from salary savings, the percentage of employees who received a one-time pay increase decreased by 0.6 percent.

The percentage of total personnel appropriation that was reverted or transferred did not have a statistically significant effect on the percentage of employees who received one-time pay increases.

The percentage of employees who received a one-time pay increase was 6.3 percent more in years when a CEC was appropriated by the Legislature compared with years when a CEC was not appropriated.

**For every 1 percent increase in an agency's one-time pay increase expenditures within a fiscal year, the percentage of employees who received a one-time pay increase increased by 17.4 percent.**

## Data categorization

To illustrate the results of our regression models, we developed categories for several of our independent variables as shown in table 9. Agency size, branch of government, and CEC year were the only categorical variables used in any of our regression analysis.

**Table 9. Reporting categories of independent variables**

Independent variable	Reporting category	Range or values	Number of observations (N)
Turnover rate	Low	0.0–15.0%	229
	Medium	15.1–25.0%	218
	High	25.1–293.4%	229
Branch of government	Judicial or legislative	Agency 102 and 110	18
	Executive	All others	658
Dependence on the general fund	No general fund	0.0%	326
	Less than half	0.1–49.9%	139
	Half or more	50.0–89.9%	115
	General fund primary	90.0–100.0%	96
Agency size	Small	1–49	296
	Medium	50–199	229
	Large	200 or more	151
Estimated personnel expenditures from salary savings	No expenditures	0.0%	41
	Low	0.1–2.9%	192
	Medium	3.0– 5.9%	235
	High	6.0% or greater	208
Transferred or reverted	No transfers or reversions	0.0%	20
	Low	0.1–2.9%	169
	Medium	3.0–8.9%	263
	High	9% or greater	224
CEC year	Yes	1	376
	No	0	300
Employees receiving ongoing salary increases	Small	-2.9–3.9%	415
	Medium	4.0–5.9%	166
	Large	6.0–66.7%	95
Employees receiving one-time pay increases	Small	0.0–0.9%	469
	Medium	1.0–1.9%	102
	Large	2.0–18.0%	105

## Selected bibliography

We reviewed research conducted about other states and jurisdictions on salary savings. The following list of selected sources represent the range of literature we reviewed.

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Montana Legislative Audit Division, “Follow-up Performance Audit (06SP-15): Managing Vacant Positions in State Agencies,” orig. 04P-05, 2007, [http://leg.mt.gov/content/Publications/Audit/Report/04P-05%20follow-up\\_06SP-15.pdf](http://leg.mt.gov/content/Publications/Audit/Report/04P-05%20follow-up_06SP-15.pdf).

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Oregon, City of Portland, Office of the City Auditor, “Vacant Positions: Few Positions Vacant Long-Term, But Enhanced Oversight Can Reduce Risk,” 2014, <http://www.portlandonline.com/auditor/index.cfm?a=489179&c=64479>.

Oregon Legislative Financial Office, “Budget Information Report: How Positions Are Created, Budgeted and Utilized,” 2004, [https://www.oregonlegislature.gov/lfo/Documents/Position\\_Budget\\_Report.pdf](https://www.oregonlegislature.gov/lfo/Documents/Position_Budget_Report.pdf).

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Utah Office of the Legislative Fiscal Analyst, “Vacancies, Turnover Savings, and Personnel Cost Changes,” 2012, <http://www.ncsl.org/documents/nalfo/TurnoverSavingsUtahBrief.pdf>.

Virginia Fairfax County Public School, “Response to Questions on the FY 2014 Budget,” 2014, [http://www.fairfaxcounty.gov/dmb/fy2014/budget\\_questions/bos/responses\\_package\\_6/70\\_attrition.pdf](http://www.fairfaxcounty.gov/dmb/fy2014/budget_questions/bos/responses_package_6/70_attrition.pdf).



**The codified legislative intent is to fund a competitive employee compensation and benefit package.**

**Ensuring market competitiveness is a repeated theme throughout statute.**

## Appendix D

# Statutory framework for employee compensation

**Idaho's compensation system is guided by Idaho Code, Idaho Administrative Code, and agency policies and procedures, which detail how employee salaries and benefits should be administered.**

[Idaho Code § 67-5309A](#) explains legislative intent for the state's compensation system and focuses on the recruitment, retention, and motivation of qualified public employees:

It is hereby declared to be the intent of the legislature of the [S]tate of Idaho that 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.

Ensuring market competitiveness is a repeated theme throughout statute. For instance, [Idaho Code § 67-5309A\(3\)](#) explains that during difficult economic conditions, policymakers may need to fund necessary annual compensation adjustments by increasing revenues, prioritizing and eliminating certain functions in state government, reducing the overall number of state employees in a given year, or combining any of these. Making these annual compensation adjustments may allow agencies to retain employees with compensation packages that are competitive with other markets or employers.

[Idaho Code § 67-5309A\(2\)a–d](#) defines four major compensation standards intended to guide policies of the state's compensation system:

**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.**

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

Pay for performance shall provide faster salary advancement for high performers based on a merit-increase matrix developed by the Division of Human Resources.

All employees whose pay rate is less than their policy pay rate and who are meeting expectations in the performance of their job shall move through the pay range toward the policy pay rate.

## Idaho Code outlines options for salary increases

In our review of state compensation policies, we found that employees may receive salary increases in primarily two ways. First, an agency may give a salary increase to reward positive employee performance or to keep pace with changes in comparative market rates. Second, the Legislature may pass a change in employee compensation (CEC) legislation for a **percentage increase in agencies' personnel funds**.

[Idaho Code § 67-5309B](#) details several options that agencies may use when compensating employees, including ongoing, temporary, and market-related increases. All increases in compensation should be based on employee performance. Other compensation options available to agencies are outlined in [Idaho Code § 67-5309D](#). These options include performance bonuses, employee suggestion awards, retention bonuses, and in unusual circumstances, nonperformance pay increases. Idaho Code limits the total amount of one-time bonuses that an employee can receive in a fiscal year. For example, performance bonuses are capped at \$2,000 per employee per year.

### Compensation increases initiated by agencies

Agencies must consider several factors when determining an **employee's initial pay rate: pay equity, comparison to incumbents**, and perhaps most important, budget resources. The Division of Human Resources examines all pay equity requests for classified employees to ensure that a pay inequity exists. The Division of Financial Management reviews all agency budget requests and advises agencies about the proper use of appropriated funds marked for personnel use. Financial Management also reviews and approves agency compensation

**Two ways to increase employee compensation: (1) agencies provide increases with existing dollars, and (2) a CEC is approved by the Legislature.**

**Performance bonuses are capped at \$2,000 per employee per year.**

**In recent years, the Legislature has encouraged agencies to use salary savings for employee compensation.**

plans, which ensures that budget requests align with policies established by agencies in their compensation plans.

In years without a CEC, agencies rarely have enough funds available to provide widespread increases to a large percentage of employees. In instances where agencies are able to generate salary savings, Financial Management approves the distribution of savings either to employees who meet specific performance **criteria or to entire job classifications identified in the agencies'** compensation plans. In recent years, the Legislature has encouraged agencies to use salary savings when available to reward good performing employees and to increase the compensation of employees who are paid below policy.

### **Compensation increases initiated by the Legislature**

The Legislature can pass CEC legislation for statewide employee compensation increases as outlined in [Idaho Code § 67-5309C\(4\)](#). This legislation is an additional percentage **increase to agencies' overall personnel budgets.**

The Legislature gives agencies discretion for what performance criteria to apply when distributing the CEC amount. The Division of Financial Management requires agencies to submit compensation plans that articulate what criteria will be used to distribute the CEC to employees, either in one-time pay increases or ongoing salary increases.

The Legislature appropriates the CEC amount to agencies who receive personnel dollars from the general fund. For agencies who receive dedicated or federal funds for personnel expenses, the Legislature approves additional spending authority. Typically, the Legislature does not appropriate new cash to cover the cost of a CEC increase to dedicated and federal funds. Any pay increases to employees who are paid with dedicated or federal funds are subject to the existing availability of cash from those funds. As a result, a CEC increase might not apply to all state employees depending on their performance and the availability of cash for dedicated and federal funds.

# Responses to the evaluation



**“The use of salary savings is a vital tool for agency directors.”**  
—Butch Otter  
Governor



**“We believe the recommendations within the report are sound and based on good research.”**  
—Brandon Woolf  
State Controller



C.L. "BUTCH" OTTER  
GOVERNOR

December 29, 2014

Rakesh Mohan, Director  
Office of Performance Evaluations  
954 W. Jefferson St., 2<sup>nd</sup> Floor  
P.O. Box 83720  
Boise, ID 83720-0055

Director Mohan,

Thank you for sharing your report Use of Salary Savings to Fund Employee Compensation. I appreciate the opportunity to respond.

The use of salary savings is a vital tool for agency directors. It provides the flexibility to respond to changing needs, take advantage of efficiencies gained, and reward employee performance.

During my first term, my plan was to increase employees' cash compensation while balancing the share of benefits paid by the employer and employee. In a collaborative effort with the Legislature, we were able to increase employees' salaries for two years. However, we were not able to continue increasing pay during the Great Recession. As the economy improves, it is my hope that we can again address this important issue. To this end, I have proposed a 3% compensation increase, based on merit, for state employees in my FY 2016 budget recommendation.

I look forward to collaborating with the Legislature to address employee compensation and ensure directors have the flexibility to respond to the unique needs of their agencies.

As Always – Idaho, "Esto Perpetua"

A handwritten signature in black ink that reads "C.L. Butch Otter".

C.L. "Butch" Otter  
Governor of Idaho

CLO/dh



STATE OF IDAHO  
OFFICE OF THE STATE CONTROLLER  
BRANDON D WOOLF

December 29, 2014

Mr. Rakesh Mohan  
Director  
Office of Performance Evaluations  
954 W. Jefferson St.  
Boise, Idaho 83702

Dear Director Mohan,

Thank you for providing my office the opportunity to contribute to and review the Office of Performance Evaluations' study entitled "*Agencies' Use of Salary Savings to Fund Employee Compensation*," and for inviting me to comment on this study. The Controller's office is delighted to support your efforts. Your methodology regarding using the state's data warehouse, IBIS (Idaho Business Information System), I agree provides the most realistic representation possible to analyze the scope of understanding the uses of Salary Savings across state agencies. Without this tool, the difficulty in gathering and analyzing this information would have been challenging and would not have provided as accurate of a representation as you have delivered.

You, your staff and the members of the Joint Legislative Oversight Committee deserve to be commended for your competent work and contributions toward improving state government operations.

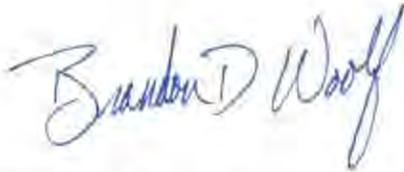
After carefully reviewing the study, there are a few points I shall address:

- Page 22 of the study notes that "to integrate budget data into the statewide systems, new software needs to be developed or purchased." This page also references my office's efforts to undertake a study of modernizing the state's fiscal and HR/Payroll systems. From a historical perspective, it is worth noting that when my office's accounting and payroll systems were developed more than three decades ago, they were designed to fulfill only the State Controller's constitutional and statutory duties; this original design did not contemplate other functions that fall outside the scope of the Controller's duties, like providing a statewide budgeting tool, which is under the purview of DFM & LSO. While we have endeavored to keep these legacy systems online and relevant, they are becoming obsolete. The Systems Modernization Study, which the Legislature graciously funded in its last session, will help us identify Idaho's options for replacing these obsolete systems with tools that are supportable, designed to meet current state agencies' business needs, and include value-added functionality such as budgeting components. We understand, particularly from a statewide-budgeting perspective, that it will require extensive cooperation between state agencies, and across multiple branches of government, to implement new statewide tools that will serve the business needs of all state agencies.

- As the Controller's office works in partnerships with various agencies, the Controller's office has developed reports on behalf of agencies that help accomplish the business needs of each agency. On page 16 of the study, your discussion on DFM's Wage and Salary report highlights the Controller's efforts to work with other agencies to provide reports that meet the needs of each agency. Although this report is generated by the State Controller's office, DFM is the actual owner and custodian of the report. In my opinion, clearly attributing the roles and responsibilities of stakeholders in the budgeting process will offer a consistent map of relationships as well as help policy makers understand the statutory and process changes that may be required if they choose to change the current budgeting system.
- We believe the recommendations within the report are sound and based on good research. Of particular note, regarding the role of the CEC committee on pages 41-42, we support the use of the CEC committee as a viable avenue to address the role of salary savings and the issues outlined in the OPE report.

In closing, please know I share your steadfast commitment to ensuring the people's money – tax dollars – are spent prudently and in accordance with the law, and I am grateful for you and your staff's extensive work on this project. On a personal note, I appreciate the high degree of cooperation and positive working relationship our two agencies share.

Sincerely,

A handwritten signature in blue ink that reads "Brandon D Woolf". The signature is written in a cursive, flowing style.

Brandon D Woolf  
Idaho State Controller

## Reports of the Office of Performance Evaluations, 2012–present

Publication numbers ending with “F” are follow-up reports from previous evaluations.

Pub. #	Report title	Date released
12-01	Reducing Barriers to Postsecondary Education	January 2012
12-02F	Delays in Medicaid Claims Processing	January 2012
12-03	Lottery Operations and Charitable Gaming	February 2012
12-04	Establishing an Efficiency Commission	February 2012
12-05F	Coordination and Delivery of Senior Services in Idaho	February 2012
12-06F	Operational Efficiencies in Idaho’s Prison System	February 2012
12-07F	Idaho’s End-Stage Renal Disease Program	March 2012
12-08F	Idaho Transportation Department Performance Audit	March 2012
12-09F	Delays in Medicaid Claims Processing	November 2012
12-10F	Increasing Efficiencies in Idaho’s Parole Process	November 2012
13-01	Workforce Issues Affecting Public School Teachers	January 2013
13-02	Strengthening Contract Management in Idaho	January 2013
13-03	State Employee Compensation and Turnover	January 2013
13-04	Policy Differences Between Charter and Traditional Schools	March 2013
13-05F	Coordination and Delivery of Senior Services in Idaho	March 2013
13-06	Guide to Comparing Business Tax Policies	June 2013
13-07F	Lottery Operations and Charitable Gaming	June 2013
13-08F	Governance of EMS Agencies in Idaho	June 2013
13-09F	Equity in Higher Education Funding	June 2013
13-10F	Reducing Barriers to Postsecondary Education	June 2013
13-11	Assessing the Need for Taxpayer Advocacy	December 2013
13-12	The Department of Health and Welfare’s Management of Appropriated Funds	December 2013
14-01	Confinement of Juvenile Offenders	February 2014
14-02	Financial Costs of the Death Penalty	March 2014
14-03	Challenges and Approaches to Meeting Water Quality Standards	July 2014
14-04F	Strengthening Contract Management in Idaho	July 2014
15-01	Use of Salary Savings to Fund Employee Compensation	January 2015

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