MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Thursday, January 07, 2016
TIME:	9:00 A.M.
PLACE:	Idaho State Capitol, Room East Wing 42
MEMBERS PRESENT:	Co-Chairman Patrick, Senators Lakey, Guthrie, Heider, Rice, Thayn, Schmidt and Ward-Engelking; Co-Chairman Anderson, Representatives Anderst, Romrell, Holtzclaw, Mendive, King and Rudolph
ABSENT/ EXCUSED:	Senator Martin, Representatives Hartgen and Loertscher
NOTES:	The sign-in sheet, testimonies and other related materials will be retained with the minutes in the Commerce and Human Resources office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

CONVENED: **Co-Chairman Anderson** called the Change in Employee Compensation Committee (CECC) meeting to order at 9:01 a.m.

Co-Chairman Anderson gave a brief overview of the task before the CECC. He summarized the philosophy and read from statute Idaho Code § 67-5309A, which declared the intent of the Legislature. The goal of a total compensation system for state employees shall be to fund a competitive employee compensation and benefits package that will attract qualified applicants to the workforce; retain employees who have a commitment to public service excellence; motivate employees to maintain high standards of productivity; and reward employees for outstanding service. He said the CECC was started three years ago. During the first year, a 1 percent raise was given; last year there was a 3 percent raise based on merit. He indicated the charge of the CECC was broader than a Cost of Living Adjustment (COLA) and included benefits.

Co-Chairman Anderson stated Senator Martin and Representatives Hartgen and Loertscher had been excused from the meeting for various reasons. He introduced Co-Chairman Patrick. **Co-Chairman Patrick** welcomed all and said he would try to follow in former Co-Chairman Tippets' footsteps. He stated that a good workforce is of benefit to the State. The CECC would make the best decisions possible. He thanked the CECC, the Legislative Services Office (LSO) and those who were going to testify.

Co-Chairman Anderson indicated there would be several presentations during the meeting. He outlined the items on the agenda. He announced the next meeting would be Wednesday, January 13, at 2:00 p.m. in Room EW 20 and the following meeting would be Friday, January 15, time to be determined, to make a final recommendation to the Joint Finance and Appropriations Committee (JFAC) for funding.

PRESENTATION: **Robyn Lockett**, Principal Budget and Policy Analyst, gave a PowerPoint presentation the reviewed Idaho's compensation system and salary adjustments during 2015. A copy of her presentation can be found at http://Legislature.idaho.gov/sessioninfo/2016/cec/cec.htm. A copy is also available in the office of Senator Jim Patrick, with his secretary.

Ms. Lockett explained that about one-half of the State's workforce are classified employees. Classified employees are defined as those who hold a position in any department of the State whose position is subject to the provisions of the merit exam, selection, retention, promotion and dismissal requirements of the compensation system. These employees are compensated based on a statewide salary structure. The majority work full-time. They are hired based on merit and their ability to do a certain job with a specific aptitude for that particular position. There are approximately 13,000 classified employees in the State. She mentioned examples of classified jobs include the majority of employees at State agencies such as the Department of Health and Welfare (DHW), Transportation Department, Department of Correction, the Department of Labor, the Department of Lands and the Idaho State Police (ISP).

Ms. Lockett explained the other category of State worker is non-classified. Non-classified employees include staff of the judicial and legislative branches, as well as the elected officials' staff. Non-classified employees are also considered to be board members, agency directors, deputy directors, public information officers and division administrators. These employees can be full-time, part-time, temporary or seasonal. There are approximately 12,200 non-classified positions in the State's workforce.

Ms. Lockett explained the State employee compensation philosophy goals. She said the goal of a total compensation system for State employees will be to fund a competitive employee compensation and benefit package that will attract qualified applicants to the workforce; retain employees who have a commitment to public service excellence; motivate employees to maintain high standards of productivity; and reward employees for outstanding performance. According to Idaho Code § 67-5309A, state government is a service enterprise and the State workforce provides a critical role for Idaho citizens. Maintaining a competitive compensation system is an integral, necessary and expected cost of providing the delivery of State services and is based on the following compensation standards:

- 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 higher performers.
- All employees below the State's market average in a salary range who are meeting expectations in the performance of their jobs shall move through the pay range toward the market average.

Ms. Lockett said that regardless of specific budgetary conditions from year-to-year, it is vital to fund necessary compensation adjustments annually to maintain market competitiveness in the compensation system. In order to provide this funding commitment in difficult fiscal conditions, it may be necessary to increase revenues; prioritize and eliminate certain functions or programs in state government; reduce the overall number of State employees in a given year; and any combination of such methods.

Data includes all State agencies, with the exception of K-12 public schools, the State Insurance Fund and four-year institutions (Boise State University [BSU], Idaho State University [ISU], University of Idaho [UI] and Lewis-Clark State College [LCSC]). Agricultural Research and Extension Services (UI) and Health Education and Special Programs are also included, as are the community colleges, namely,the College of Southern Idaho (CSI), the College of Western Idaho (CWI) and Northern Idaho College (NIC).

Ms. Lockett pointed out that for fiscal year (FY) 2016, $1.5 billion pays the salary and benefits for more than 25,000 State employees, half of whom are classified and half are non-classified, for an average total compensation of $60,000.

For FY 2016, the CECC recommended and the Legislature funded the equivalent of an ongoing 3 percent increase in salary for meritorious employees. The Legislature also supported this Committee's recommendation of maintaining health, retirement and other benefits the same as the Governor's recommendation; approved continuation of certain existing jobs that are on pay-line exceptions; and moved the minimum amount on the pay schedule up by 2 percent (from 68 percent of policy to 70 percent of policy).

These decisions were solidified when the Legislature set each State agency budget in March 2015; by June, the majority of agencies had submitted their FY 2016 employee compensation plans to the Division of Financial Management (DFM). The DFM worked with the Division of Human Resources (DHR) to review and approve each plan. They considered internal equity, statewide equity and availability of funds. Plans were required to be based on employee evaluation ratings rather than any across-the-board increases due to the fact that the 3 percent Change in Employee Compensation (CEC) was approved to be distributed at the discretion of agency directors. Once an agency's compensation plan was approved by DFM and DHR, the agency could begin implementing their pay changes.

Ms. Lockett said that agencies have several means by which they can provide additional money to an employee, as long as the agency has the appropriated personnel dollars to warrant the compensation. Normal or typical career progression is part of the equation. The 3 percent CEC that was funded last session is included in the pay changes. A CEC, though major, is not the only way that an employee's pay rate can increase. Ongoing increases can include moving off of probationary status, merit, promotion, annual CEC, equity adjustment, position reclassification and refactored classification. An example of a short-term increase would be based on merit. Another example of an increase would be one-time bonuses, including recruitment, merit and retention.

Ms. Lockett explained the FY 2016 Permanent Pay Increases report includes all types of raises, as well as any early implementation of the FY 2016 CEC in FY 2015. During this time there were 16,800 unique pay changes for approximately 12,800 employees. Some employees received more than one increase. Those changes equated to an overall statewide increase of 3.6 percent for approximately 12,800 employees.

She said because the CEC was funded with the condition that it be distributed on merit, rather than across-the-board, it was important to understand that some employees received a 2 percent CEC and others received 3 percent. In other instances, when an agency is larger or has some salary savings, there may have been an opportunity for that agency to implement a CEC greater than the 3 percent ongoing amount. The median increase of 3.6 percent more accurately reflects the increase in pay that most State employees received, even though the average was a 4.4 percent increase. The median equated to 74 cents per hour for many employees. She pointed out that last year's median increase was 38 cents per hour.

Ms. Lockett used the DHW as an example of a large State agency that gave 3,025 individual pay changes to their employees for a median increase of 3.5 percent overall. The average increase was nearly 5 percent. There were 95 promotions that averaged an increase of $3 an hour, which equates to a 16 percent increase. Conversely, approximately 13 percent of employees did not receive any increase.

She cited the Legislative Services Office (LSO), where the median increase in pay over the last year was 2.9 percent and the average was 4.6 percent. When looking at the data for each employee in the LSO, there is some turnover due to retirements and subsequent promotions of more junior staff, as well as the CEC in those calculations. The middle or median in agencies is a fair representation of what many State employees received for raises when talking about generalizations statewide.

Colleges and universities are difficult to generalize because there are so many variances at each institution; some professors are funded with research grants, which is more difficult than a funding stream for administrative staff. She indicated that Manager Headlee would report on those pay changes later on in the meeting. Most agencies were able to implement the equivalent of a 0.5 percent increase above the 3 percent CEC that was funded for FY 2016,and many agencies gave more when they had additional personnel dollar appropriations.

Ms. Lockett said the second half of the report shows that of the pay changes, 86 percent were CEC-related, which is similar to last year in the same period for which 81 percent were CEC-related; 2.5 percent were promotions and 9 percent were salary equity adjustments. The vast majority of the pay changes were for a CEC increase. During her discussion, she referred to one-time bonuses. Between March 1 and December 15, 2015, State agencies gave out 1,418 one-time bonuses, valued at $1.8 million, which is just over 8 percent of all State employees. Last year there were 18,000 one-time bonuses, valued at $11.8 million. Of those receiving an 8 percent bonus in FY 2016, the median value of the bonus was $1,200, and the average value was almost $1,300. Just over 80 percent of the bonuses were provided for outstanding performance. Additionally, some bonuses were given to help keep certain employees for a certain time period, which are called retention bonuses. There were a handful of other types of bonuses provided.

Co-Chairman Anderson wanted to know about bonuses as they pertained to Idaho Code § 67-5309B. **Ms. Lockett** clarified the department director may grant a classified employee bonus pay not to exceed $2,000 in any given fiscal year based upon exemplary performance. This is limited to 25 percent of the workforce. **Co-Chairman Patrick** commented that if some employees are promoted to a higher job level and others are hired to replace them, it seems right it would average out, unless the job was not filled. **Ms. Lockett** responded by saying each job was considered on an individual basis.

Next, **Ms. Lockett** referred to State agency pay, which came from data in the Rainbow Report, also called the Legislative Handbook, which is published annually by the State Controller's Office. She said this report shows the number of employees in each range. She said 2016 is somewhat similar to 2013, though there are approximately 500 fewer employees that are making less than $20,000 a year or 18 percent of the State's workforce. Employees making less than $40,000 represent 51 percent of the current workforce, which has decreased from 57 percent in 2013. Over the course of four years, the number of employees making more than $40,000 per year has increased by 6 percent.

Ms. Lockett emphasized that to really understand what is happening in the State agency workforce with compensation, the Committee needs to consider what is happening at each individual agency. She said she did see a trend that there were larger increases in compensation for many State employees during the end of FY 2015 and into FY 2016 than in the past few years. This seems to be strongly attributable to the ongoing 3 percent CEC recommendation from last session.

Ms. Lockett spoke about the elected officials whose salaries are set statutorily in Idaho Code. She remarked that the Governor, Lieutenant Governor, Attorney General, Secretary of State, Controller, Treasurer and the Superintendent of Public Instruction, as well as the Commissioners for the Industrial, Tax and Public Utilities Commissions are set in code. There is a history over the last 21 years that shows the average change in compensation for the Governor has increased 2.26 percent, the Secretary of State, Controller, Treasurer and the Superintendent of Public Instruction 2.35

percent, the Attorney General 2.76 percent and the Lieutenant Governor 3.55 percent. The average increase for the Industrial Commissioners is 2.9 percent, Tax Commissioners 2.6 percent and the Public Utilities Commissioners 1.8 percent. With the exception of the Lieutenant Governor, the average annual increase for those elected officials whose pay is set in code ranges from 2 to 3 percent.

Representative Anderst asked when the statute was first established. **Ms. Lockett** said the pay changes in code date back to 1929. **Representative Anderst** and **Ms. Lockett** discussed the history of pay changes as outlined in code.

Senator Schmidt and **Ms. Lockett** discussed the description of classified and non-classified employees and what other states have done. **Ms. Lockett** indicated the non-classified sector has been slowly growing over the past few years, which brings the State to an approximate 50/50 split. The split of classified and non-classified employees is outlined very clearly in Idaho Code.

Senator Guthrie asked about the 3 percent CEC awarded in 2015 and the management rationale of the early implementation of the raise by different agencies. He wondered if this was fair to other departments. **Ms. Lockett** said some agencies implemented their CECs right away because they already had money in their budgets from salary savings. Agency directors have discretion to implement a CEC early if they have the money.

PRESENTATION: **Paul Headlee**, Deputy Division Manager, LSO Budget and Policy Analysis, explained FY 2016 higher education compensation. He defined higher education as being four-year institutions (BSU, ISU, UI and LCSC). He noted that community colleges as CSI, CWI and NIC are community colleges. There are agricultural research and extensions services provided at the UI. Health education and special programs are provided at the University of Washington School of Medicine or Washington, Wyoming, Alaska, Montana and Idaho (WWAMI), University of Utah (U of U) Medical, Dental, Veterinary, Internal and Family Medicine and Psychiatry Residencies; Forest Utilization Research; Geological Survey; Museum of Natural History; Scholarships; Small Business Development Centers; and TechHelp.

Manager Headlee pointed out the differences of higher education personnel data:

- use different human resource systems than the State Controller
- different coding and timing of personnel transactions
- temporary employees not reported to the Controller
- not all State employees (community colleges)

At the four-year institutions there is a workforce of 4,200 positions and $290 million in FY 2016 State-appropriated salaries.

Representative King wanted to know why the Eastern Idaho Technical College was not included in the data. **Manager Headlee** said those were the employees of the State and are included in the State Controller's system; they are not included in the definition of higher education for personnel data.

Manager Headlee outlined the salary changes for the four-year institutions. He explained the total salary changes and said there was a 4.6 percent change. He said the data included new hires that were hired at full salary. He went over additional information for the four-year institutions for employees without the new hires, reflecting a 3.3 percent change in compensation.

Manager Headlee described how the increases were applied. He said there was an increase in the minimum of each classified pay grade from 68 percent of policy to 70 percent of policy. The minimum pay increased from $9 to $10 per hour for regular, benefit-eligible employees. Additional classified pay was addressed based on performance. Professional/classified staff/faculty increased based on the merit matrix. There was a merit increase with a 3 percent merit pool. The classified minimum starting salaries were maintained at 75 percent of policy. The minimum for benefitted employees was raised to $9.95 per hour (performance evaluation must "meet performance standards") and equity adjustments were made for employees under market and/or paid inequitably. Eligible employees are those with a performance evaluation of at least "Satisfactory/Meets Expectations." All eligible employees will receive no less and a 2 percent CEC. An additional 1 percent CEC was awarded based on years of service and minimum placement at either the first quartile or midpoint of salary range. Very deserving eligible faculty, classified and exempt employees may receive additional increases based upon recommendations. After these adjustments just mentioned, classified and exempt staff will be increased to $12.01, which is the new minimum hourly wage. **Manager Headlee** said a 3 percent CEC based on merit was made with emphasis on those below policy. There was an increase in the minimum of each classified pay grade from 68 percent of policy to 70 percent of policy. The separate merit matrices include:

- Classified staff up to 3.6 percent if less than 80 percent compa-ratio for "exemplary."
- Professional staff up to 3.4 percent for "exemplary."
- Faculty 0 percent for "does not exceed standards" and 3 percent for "exceeds standards."
- Faculty members who will assume increased rank as Associate or Full Professor in FY 2016 will receive salary increases.

He noted the once-per-lifetime ongoing increases for faculty promoted to Associate and Full Professor have each been increased by $1,000 (to $5,000 and $7,000 respectively).

Co-Chairman Anderson commented the 68 percent of policy to 70 percent of policy was one of the recommendations of the CECC. He asked Manager Headlee to explain what a "3 percent CEC based on merit with emphasis on those below policy" meant. He wanted to know if those employees received more than a 3 percent CEC. **Manager Headlee** remarked the CEC would be at 3 percent, but focused on those individuals who were below policy. **Co-Chairman Anderson** said he would like some follow-up information from Manager Headlee.

Senator Thayn expressed an interest in the matrices that different universities use. **Manager Headlee** explained a typical matrix would be based on performance. He stated that an example would be a "does not meet performance standards" could be a 0 percent increase; a "meets standards" could be a 2 percent increase; and an "exceeds standards" could be a 3 percent increase. **Senator Thayn** asked about adjunct professors and would they be included? **Manager Headlee** answered that each institution has the opportunity to address those individual groups of employees differently, so they could provide more funding for that category or more funding for associate professors.

Senator Guthrie asked for an explanation on the information Manager Headlee had already presented regarding new hires and asked for clarification. **Manager Headlee** explained that he had omitted some figures for full-time positions (FTPs), which would have reflected a slightly higher FTP net, and that the information included new positions. The number of FTPs for 2016 is slightly higher than the 2015 figures. His information included funding for line items and salaries for new professors; he indicated the FY 2016 FTP figures were not included in one particular example. **Senator Guthrie** wanted to know how BSU's numbers decreased when all of the other universities and colleges increased. **Manager Headlee** said he would take a look at some of the positions; it is possible that BSU has fewer adjunct positions and has more associate professor positions with pay changes within the FTPs and non-FTPs. The pay average could be different based on those adjustments.

Manager Headlee talked about public school compensation. He stated that there are 115 school districts and 48 charter schools that amounted to approximately 291,000 students. He stated that the State appropriations for personnel is $973 million with $818 million going towards salaries and $155 million going to employee benefits in FY 2016. He stated that total staff in public schools was 37,244 actual and another 26,812 full-time equivalent (FTE). He expounded that the staff categories were certified (instructors, counselors, nurses, social workers and others) and classified (business managers, human resource personnel, technology, custodial, bus drivers, food prep, administrators and others). He talked about the salary bases apportionment, which is the allocation to school districts and charter schools. The districts and charter schools have their own salary schedules despite State allocations. He spoke on the funding formula variables, including average daily attendance, support units, staff allowance multipliers, base salary for each staffing category, experience and education index and minimum salary figures. He explained the pattern over the past seven fiscal years of base salary percentage increases for public school allocation and CEC percentage increases. He talked about the history of these two categories and also the history of increase freezes in FY 2010, FY 2011 and FY 2012.

Senator Schmidt asked how much local funding was there for personnel? **Manager Headlee** responded that the State Department of Education (DoE) found that for every $1 appropriated by the State, school districts add approximately 20 cents per employee in the administrator and instructor categories and approximately 54 cents per employee in the classified category. **Senator Schmidt** asked if the 20 cents per State allocated dollar had stayed constant over the last ten years or had it changed? **Manager Headlee** answered that the 20 cents has been steady.

Representative Romrell asked Ms. Lockett if there was consistency among departments in using the salary savings. **Ms. Lockett** stated there were inconsistencies because some agencies have additional cash and access to cash or even to a dedicated funding stream. She stated that the Office of Performance Evaluations (OPE) reported that they found variation across salary savings. She elaborated that salary savings is a way that agencies work with the money they have, usually money they have left at the end of the year. She stated that General Fund cash in salary savings reverts back into the General Fund, but appropriation for a dedicated fund or a federal fund allows an agency to keep its cash and revert only the appropriation.

PRESENTATION: **Matt Freeman**, Executive Director, State Board of Education (Board), spoke about the challenges of salaries and compensation faced by all eight of Idaho's public education institutions. The annual compensation report provided a compelling case for DHR's recommendation for a 3 percent increase in CEC. This report indicated that classified employees salaries are, on average, 16 percent below market. He cited the competition for trained nurses as an example. The institutions could provide some funds to increase the base salary of nursing positions, but this would in turn create salary inequity and compression within the institution for other long-term faculty. He talked about BSU and how it directed a portion of its CEC funding to increase pay for classified positions, which addressed the turnover rate of classified employees at the university. BSU saw a reduction of classified employee turnover from 23 percent in 2014 to 14 percent in 2015. The State appropriation for higher education has not covered the entire cost of CEC and benefit increases in recent years. As a result, students are covering a portion of the CEC and benefit costs with a part of their tuition.

Director Freeman stated that tuition increases were the lowest this past year than in the past fifteen years. Revenue generated from the tuition increase covered the full cost of the 3 percent increase in CEC and benefits, as well as faculty promotions. The higher education institutions would prefer that 3 percent increases in CEC would come from the General Fund. Adjunct employees are typically not eligible for CEC. Instead, institutions determine a fixed dollar amount that adjuncts are paid per credit they teach.

Director Freeman stated that proposed changes from the United States Department of Labor (USDL) to the Fair Labor Standards Act (FLSA) will affect human resource management at higher education institutions. One of the proposed changes is an increase in the salary thresholds that separate hourly, overtime-eligible employees from salaried professional employees, or exempt employees, that are not overtime-eligible. The proposal will increase the threshold from approximately $23,000 up to $50,000. Higher education could be disproportionately affected from this change verses other Stat- funded agencies or groups. The Board has assembled a team to assess different higher educational institutions and other agencies to plan for these changes in order to comply with any new federal guidelines.

Director Freeman said that fair and market value of wages for faculty and staff continue to be a top priority for the higher education institution presidents. The 3 percent raise in CEC would be a welcome investment for them. He said that management discretion and flexibility are appreciated by the presidents so that the CEC dollars can be targeted towards areas of greatest need.

Co-Chairman Patrick asked if the Legislature gave a 10 percent increase in CEC to higher education institutions, would it cause an increase in tuition? **Director Freeman** answered that it does have an impact what the Board needs to do in order to accommodate the CEC, and therefore tuition would have to be increased. **Co-Chairman Patrick** asked how the CECC could be assured that the money appropriated would go towards higher education? **Director Freeman** answered that Board would be open to discussion with Legislators, as it has taken institution requests for tuition into consideration earlier in the process than it has in previous years.

Representative Rudolph asked how the incompatibility between raising fees for students and the desire of the State to see more students go on to higher education after college can be fixed. **Director Freeman** replied that the Board recognizes cost as one of the barriers to students going on to higher education. He stated that the Board would prefer that the State fully fund any increase in a CEC and benefits.

Representative King asked why no State agency other than the institutions of higher education split the costs of CEC and benefits. **Director Freeman** answered that when institutions prepare and submit requests, it is done by fund source. Since the State appropriates money for funding and fees, a certain amount of personnel costs are attributed to the General Fund and some are attributed to tuition and fees. Since the tuition and fee category is separate from the General Fund category, which is where CEC costs and personnel costs would be located, the institution has to submit requests for tuition and fees separately. **Representative King** reiterated her question asking why personnel and CEC costs are in a separate category for higher education institutions and not all in one category like other agencies have them. **Director Freeman** stated that other agencies have multiple funds sources just like the higher education institutions do and they have to submit their budget requests in different categories as well. The difference is students and the direct fiscal impact this has on them. He stated that it has been a policy decision in the past. He added that the last fund shift was approved by JFAC in FY 2009.

Senator Thayn asked why the State could not increase the State funding 3 percent instead of increasing the student funding 3 percent. **Director Freeman** stated that higher education institutions are required to submit their budget requests by fund source. He stated that the decision unit for a CEC has two lines: one line for general funds and one line for tuition and fees. He stated that the allocation for CECs has to be done against both of those fund sources and so the institutions cannot submit the costs of a CEC against just the general funds. **Senator Thayn** asked Co-Chairman Anderson what options the CECC had to fund a 3 percent increase in CEC across the board. **Co-Chairman Anderson** summarized the basic ideas Director Freeman presented. He stated that if the General Fund of the State authorizes a 3 percent increase for the employee body, then a fund shift would mean that the State would have to give the universities 6 percent in order for them to give a 3 percent increase in employee salary beyond the CEC. He stated that this has been done by the State. **Ms. Lockett** stated that the last time this type of increase was implemented was FY 2009.

Senator Rice asked if the change in spending in compensation over 3 percent had helped higher education institutions with retention of faculty. **Director Freeman** answered that BSU hoped retention had gone up.

Senator Guthrie asked if the State could fund the 6 percent increase for higher education institutions alluded to earlier, and have the 3 percent in perpetuity. **Director Freeman** answered that in years past the funding was ongoing base funding. **Senator Guthrie** asked if this 6 percent increase would shift the 50/50 split talked about earlier. **Co-Chairman Anderson** stated that he was correct. **Director Freeman** clarified that the 50/50 example was hypothetical and was not quite the actual spread.

Representative Anderst asked how dual credit education was treated in its relationship to higher education when it comes to a CEC. **Director Freeman** answered that the majority of dual credit students are taught in high schools by teachers with at least a masters' degree, who are approved by the higher education institution. He stated that those teachers would fall under the compensation schedule talked about in a previous presentation. He stated that if a student is taking a dual credit class on campus from regular faculty, the regular faculty received the same CEC as the rest of the faculty.

Co-Chairman Anderson asked if tuition went up, but there was no CEC in a particular year, would the tuition increase be used for a salary increase across the board? **Director Freeman** responded that it was unlikely there would be a salary increase across the board, though there would be equity adjustments to fund faculty promotions. **Co-Chairman Anderson** asked if there was a disparity between only funding salary from the General Fund and not from the tuition. **Director Freeman** answered that in funding for institutions, the funding and tuition all go into one bucket. There is no designation for employees funded just from the General Fund or only from the tuition side. There is no disparity. **Co-Chairman Anderson** asked if there were instances where money could come back to the State because of higher tuition and fee increases verses salary increases. **Director Freeman** answered that there would never be such an instance.

RECESS: 10:45 a.m. - 10:55 a.m.

RECONVENED: **Co-Chairman Anderson** called the meeting to order at 10:55 a.m.

PRESENTATION: **David Fulkerson**, Interim Administrator, DHR, presented the "Summary of FY 2017 State Employee Compensation and Benefits Report." He stated that DHR participates in five major salary surveys, noting that these compare salaries only. The DHR matched 172 different jobs on these surveys. He stated that salary for Idaho jobs combined were 22.6 percent below the market and policy rates were 15.98 percent below market. He expounded on the results of the five surveys as broken down by employment type. He stated that the DHR still has the information from last year about which companies participated in the surveys. He reviewed where the State was last year compared to these surveys. The surveys were the Western Management survey, the Milliman Healthcare survey, the Milliman Management and Professional survey and the Milliman Information Technology (IT) survey. The National Compensation Association of State Governments' survey was a separate survey from the others; it gathered information on wages paid by state governments. He stated that DHR uses this final survey as a benchmark to compare Idaho salaries to those of surrounding states. He reviewed the results of the surveys and also spoke on the classified employee salary structure in Idaho.

Co-Chairman Anderson asked Interim Administrator Fulkerson to review the concept of compa-ratio for the benefit of all. **Interim Administrator Fulkerson** explained that compa-ratio is the percentage that the average pay rates during a fiscal year are below the State's policy rate. **Co-Chairman Anderson** asked if the average years of service affected the compa-ratio calculation. **Interim Administrator Fulkerson** responded that this calculation gives the State an idea of where employees are as they progress through the system. **Co-Chairman Anderson** asked if the average years of service parameter was separate from the wage structure. **Interim Administrator Fulkerson** answered that it was separate and that retirement and turnover drive that measurement down.

Co-Chairman Patrick asked what was the difference between the policy rate and the competitive rate? **Interim Administrator Fulkerson** answered that competitive rate is the midpoint of the policy rate range. The minimum of the range is 72 percent and the maximum is 125 percent of the policy rate. The salary surveys show that the State is approximately 20 percent below the market.

Representative Anderst asked how policy rate is established. **Interim Administrator Fulkerson** answered that pay rates have not changed in a while. Historically the rate has been moved down during times of downturn. The policy rate is ideally supposed to match the market policy rate. The State has been behind that market rate for 20-30 years. **Representative Anderst** asked where the market rate came from. **Interim Administrator Fulkerson** replied that the surveys matched jobs that are the same. It compared salary and policy rate for those jobs between Idaho and other states. The DHR will measure the cost of living as a factor as well.

Interim Administrator Fulkerson discussed the State's total compensation package. The average employee costs the State $20.55 an hour to employ, but factoring in the benefits for each employee means that they are earning approximately $33.77 an hour. This equated to an average annual wage of $42,744 per year, which compared well to the average general employee in Idaho for calendar year 2015 with a rate of $39,982.

Interim Administrator Fulkerson stated that the State's classified workforce demographics are a 50/50 split between males and females. He reviewed more demographic data about average hourly pay rate, average years of service and the percentage of the total workforce in each pay grade. He talked about turnover for classified employees and how 62.1 was the average age for retirement. He reviewed the total turnover by occupational category, generational category and by reason code in the payroll system. The exit survey conducted by agencies showed the top 3 reasons for leaving employment were pay, career opportunities and management. The top 3 reasons the exiting employees liked State employment were the benefits, the work and the relationships formed with colleagues.

Interim Administrator Fulkerson described the forecasted numbers for State employee retirement. A little less than 1,700 employees are expected to retire within the next year. In the next five to nine years an additional 1,900 to 2,000 employees will do the same. These projections are normal for the entire workforce and not just the State. **Co-Chairman Anderson** asked if the projected retirements have changed much over the last ten or 20 years; and what the DHR does with this type of information. **Interim Administrator Fulkerson** answered that the chart has not changed significantly. He stated that the DHR has this information on hand so that managers of agencies and the DHR can plan to cover job duties and maintain continuity of government moving forward. **Co-Chairman Anderson** asked if the retirement information was department specific. **Interim Administrator Fulkerson** replied that it is not department-specific, but is available as department-specific information on the State Controller's website.

Representative Anderst asked if the Idaho Department of Labor's (DOL) change in rules for exempt and non-exempt employees will affect a significant amount of State employees' compensation metrics. **Interim Administrator Fulkerson** responded that the State is covered for the bulk of employees concerning any change in those rules based on the overtime/compensated time system that the State has. The impact for the State will come for those employees that are on a yearly salary and the DHR is keeping an eye on the situation.

Senator Schmidt asked if the recorded responses on the exit surveys were raw numbers or percentages and if there was a way to determine the validity of the survey. **Interim Administrator Fulkerson** answered that the responses were raw numbers. Not all employees respond to the survey nor do all employees complete the survey. The DHR relies solely on the answer an employee provided at the exit survey and that the exact response might not necessarily reflect the true reason the employee left. **Senator Schmidt** asked if the number of responses for the exit survey met a level of validity found in other surveys. **Interim Administrator Fulkerson** responded that the data gets better with more responses, but that there was no threshold number to claim that the survey was valid or representative of the population as a whole. This data provides a benchmark for further responses.

Interim Administrator Fulkerson stated that the DHR recommends that the current salary structure remain in place for FY 2017. The DHR is working with the Hay Group on job descriptions. The DHR recommends continuing with the current job classifications until some of the job descriptions, especially in the IT sector, are updated.

Senator Schmidt asked what a 3 percent CEC increase would do for the State's competitiveness in retaining and hiring employees. **Interim Administrator Fulkerson** replied that this would place Idaho's employees in line with the rest of the country as far as pay increases are concerned.

Senator Ward-Engelking asked how long Interim Administrator Fulkerson had been the acting administrator of DHR. **Interim Administrator Fulkerson** replied that the DHR administrator retired at the end of December 2013. The Governor requested he serve as acting DHR administrator in conjunction with his normal duties at the DFM. **Senator Ward-Engelking** asked if he will be with the two departments for an indefinite period. **Interim Administrator Fulkerson** answered that there will be an announcement soon for a new DHR administrator.

Interim Administrator Fulkerson spoke to the need for specific pay-line exceptions in addition to the budget request. These one-time exceptions would allow agencies to fill specific positions they have previously been unable to fill. He stated that the retirement benefits continue to be a draw to employees. The recommendation for the medical plan was to keep the split between what the employee pays and what the State pays at the current percentage basis.

Senator Guthrie asked why the focus was on salary when the benefits package is cited by employees as the top reason to work for the State. **Interim Administrator Fulkerson** responded that the Hay Group is currently working on a study that includes benefits in the analysis, while the five surveys previously mentioned only look at salary.

Interim Administrator Fulkerson reviewed the changes in the appendices. The entire report and appendices are found on the DHR website, http://www.dhr.idaho.gov/compensation.html.

Co-Chairman Anderson asked how the turnover data compared to previous years. **Interim Administrator Fulkerson** answered that the DHR broke down turnover into voluntary and involuntary groups, which are displayed in two different appendices. **Co-Chairman Anderon** asked why the voluntary turnover rate was low last year. **Interim Administrator Fulkerson** stated that there was no explanation, but that it could be due to the 3 percent CEC increase given out at that time.

Interim Administrator Fulkerson referred to the Hay Group's handout on job evaluation. He stated that this corresponds to how a position is put into a pay grade. He noted that this information is also available on the DHR website, http://www.dhr.idaho.gov/compensation.html.

Senator Schmidt asked for a further explanation of the baseline noted in Appendix L. **Interim Administrator Fulkerson** explained that the number of employees shown for other years are not displayed, even though those numbers are figured into the overall number. He said the DHR staff would double check the baseline numbers.

Interim Administrator Fulkerson updated the CECC on the current projects of the DHR. These projects include:

- developing a uniform evaluation form;
- adding new reports;
- developing automated emails to remind supervisors to perform evaluations;
- training for the human resource staff throughout the State by the Hay Group regarding the Supervisory Academy; and
- working on turnover reports.

PRESENTATION: **Ken Roberts**, Commissioner, Idaho State Tax Commission (ISTC), presented "CEC Committee Testimony." He talked about reclassification, equity adjustments and retention. He noted that there are specific challenges the ISTC faces. The first challenge is that the ISTC was funded primarily through general funds. The average age of talented workforce in his agency is rapidly rising. Challenges will come as the ISTC looks to hire, train and replace the current workforce at the current salary level. There are some vacancies the ISTC has to maintain in order to pay the employees that it has. The ISTC is continually hiring for positions when they are vacated.

Commissioner Roberts spoke about fairness and compression for the salaries at ISTC. He stated that the ISTC has been losing younger mid-level potential leaders due to salary constraints. Employees will come gain a few years of experience and then leave for better paying jobs with other states or private entities. When the economy is good, businesses can hire top-tier workers, but when the economy slows down the trend is for employees to migrate to State positions where there is more stability with benefits. He added that it is difficult right now to recruit and retain top-level employees.

Commissioner Roberts talked about the importance of the relationship between market, policy and actual compensation. The actual compensation for the average employee at the ISTC is 85 percent below policy and Idaho policy is 22 percent below market. This amounts to 279 individuals that are 85 percent below policy. The ISTC would need an additional $1,097,300 in order to bring all employees up to 100 percent of policy. This makes sense because not all positions are currently full. He compared this to the last three fiscal years and noted that this shortfall was about average.

Commissioner Roberts said that an additional expense was the premium increase for health care that occurs in June. This is not budgeted but is paid for out of the personnel budget. Another budgetary concern for the ISTC is the payouts for unused and accrued vacation and compensated time. The ISTC has little ability to double-fill important positions because training takes 6-12 weeks and because the ISTC is not funded for that expense.

Commissioner Roberts said that the ISTC has experienced a growing number of employees leaving their employment after a short service time. The time period is approximately 5 years or less. This appears to be a generational problem with younger generations changing jobs more frequently than the older generation. He cited examples of actual employee positions where the ISTC is challenged by budgetary constraints. The ISTC attempted to fill an IT position by starting the salary above the minimum pay rate, but only one candidate met the minimum qualifications after a two week posting. He stated that the ISTC would be advertising the position again to try and get a top-tier qualified candidate. He proposed that the salary structure be shifted upwards, with funding. If this structural move was not possible, then the ISTC proposed that agency management be given greater flexibility to move resources like personnel and actual dollars to positions where those resources are most needed. In order for the State to retain the best employees possible, compensation packages have to grow faster than inflation.

Representative Anderst asked if it was difficult to fill all job positions or just certain types. **Commissioner Roberts** answered that the ISTC hired approximately 70 temporary positions during the busy tax time. This year the ISTC did not have enough individuals apply. He reiterated the ISTC's need to have top-notch employees. **Representative Anderst** asked if it took the same amount of time to fill job vacancies or if it was taking longer. **Commissioner Roberts** answered that it is getting more difficult to fill those vacancies, on average, because the private sector is doing well and because of the highly trained individuals needed.

Senator Rice asked what percent of the consumer price index comprises health care cost increases and how much of those costs are offset by health care benefits offered by the State? **Commissioner Roberts** replied that he did not have that information, but health care costs are going up substantially. He stated that benefits are great, but what the younger generation is looking for is cash in their pockets to pay the bills.

Senator Guthrie asked if the personnel budget shortfall discussed earlier suggested that there were things approved but not funded, or was the shortfall the amount the ISTC felt was needed to do the job adequately? **Commissioner Roberts** responded that there are rolling vacancies at the ISTC. There is a time frame that elapses, such as weeks or even months, before job positions are filled. Salary savings help bridge the gap. The budget shortfall presented is an explanation of the salary savings the ISTC has based on this rolling process. He indicated the ISTC is funded adequately for the number of positions, but questioned whether the positions were funded adequately to retain employees. **Senator Guthrie** asked if the shortfall was due to self-inflicted problems that come from eliminating a position and using the money elsewhere, only to realize that the eliminated position was needed. **Commissioner Roberts** replied that this scenario is not occurring in the ISTC. He stated that the ISTC does have salary savings from vacancies. He noted that a job can only be open for 12 months before it is not longer available.

	Senator Ward-Engelking asked if the money from the consistent 3 percent to 4 percent vacancy rate is used by the ISTC for employee bonuses. **Commissioner Roberts** answered that the first thing the ISTC uses the money for is closing the shortfall gap mentioned earlier. The second thing the money is used for is to increase salary for a hard-to-fill positions. At the end of the year, any money left over is used to start a CEC a pay period or two prior to its start date.
	Co-Chairman Anderson announced that the CECC would reconvene at 1:30 p.m.
ADJOURNED:	There being no further business, **Co-Chairman Anderson** adjourned the meeting at 12:30 p.m.

____

Senator Jim Patrick
Co-Chair

____

Linda Kambeitz
Secretary

____

Representative Neil Anderson
Co-Chair

____

Michael Jeppson
Assistant Secretary