MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE: Tuesday, January 19, 2016

TIME: 7:00 A.M.

PLACE: Idaho State Capitol, East Wing 42

MEMBERS PRESENT: Co-Chairman Patrick, Senators Martin, Lakey, Guthrie, Heider, Rice, Thayn, Schmidt and Ward-Engelking; Co-Chairman Anderson, Representatives Hartgen, Anderst, Romrell, Holtzclaw, Loertscher, Mendive, King and Rudolph

ABSENT/ EXCUSED: None

NOTE: The sign-in sheets, testimonies and other related materials will be retained with the minutes in the committee's 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 meeting to order at 7:02 a.m. He welcomed the Change in Employee Compensation (CEC) Committee (Committee) and the audience. He said the Committee was charged, according to Idaho Code § 67-5309C(4), with considering four items from the Governor's State of the State Address. He outlined the following: 1) market-related changes necessary to address system-wide salary structure adjustments; 2) market-related changes to address specific occupational inequities; 3) a merit increase component; and 4) changes, if any, to the employee benefit package. He indicated those items were also addressed in the December 2015 report received from the Division of Human Resources. He noted the Committee could take these items up individually and make recommendations or be silent and let the Governor's recommendations take effect. He said the plan was to have a discussion, with the opportunity for Committee members to voice their thoughts and input regarding the process.

Robyn Lockett, Principal Budget and Policy Analyst, Legislative Services Office, said she would be available to guide the Committee through the process and to stand for any questions.

Co-Chairman Anderson said the first item of discussion was the specific occupational inequities. He asked Robyn Lockett to review the inequities. **Robyn Lockett** explained that the occupational inequities are those job classifications that currently have a pay-line exception. She said a list of those positions is found in the back of the report from the Division of Human Resources, Appendix U, that was handed out at the January 7, 2016 meeting. There are currently 788 positions on the exception list. She pointed out that some of the positions were Idaho State Police and nursing positions. **Co-Chairman Anderson** asked for discussion.

MOTION: **Co-Chairman Patrick** moved to leave the market-related changes to address specific occupational inequities as they are, due to the lack of time for the Committee to properly analyze this information. **Representative King** seconded the motion. There was no discussion. The motion carried by **voice vote**.

Co-Chairman Anderson reminded the Committee that last year the Governor recommended a 3 percent merit-based increase, and the Committee concurred. He said the merit increase was before the Committee for discussion. **Senator Heider** asked for an explanation of merit-based pay. He wanted to know who determines the merit and the extent, and who evaluates the employee. **Co-Chairman Anderson** explained that merit pay is at the discretion of the executive branch of the government, primarily determined by the directors of the various departments, with the concurrence of the Department of Finance. Last year with the 3 percent that was given, even though it was merit-based, essentially all of the employees in the State received some kind of a raise, except those who were not meeting expectations or were in other special classes, such as, probation or some other unique situation. **Senator Heider** clarified that the merit raise was determined by the director of each department on an individual basis as a personal individual item.

Senator Schmidt mentioned the graph that showed Idaho salaries are below surrounding states. He said the Committee has a statutory obligation to make Idaho at least comparable with other states. He said he was concerned with a flat 3 percent merit-based raise and questioned whether or not the inequity would be addressed. He said he would be bringing a motion forward to address the problem.

Representative Hartgen said he had some concern about the straight merit approach as well. In years past, the proposal has been split into a base amount or an across-the-board amount, with a balance on the merit side. For example, two years ago there was a 50-50 split, with half given across the board and half given based on merit. He said he agreed with Senator Schmidt that the proposal would send a good message to State employees. He said he was inclined to support a proposal for some amount in the base and was open to what the percent should be.

Co-Chairman Patrick remarked that if a pay increase is given to the bottom tier, compression is created. He said the middle tier of the workforce would not keep up, while the bottom tier was catching up. He would prefer to have the whole pay scale increase. He said this would not be a huge expense and it brings salaries closer to policy. This increase would move the policy rate up for the top and the bottom of the pay scale, which affects approximately 379 employees.

Senator Rice said he was concerned about trying to compare what Idaho pays in wages with the West Coast, which has a much higher cost of living. He said he agreed with Representative Hartgen's recommendations. He commented that State employee wages could be increased more than that of the private sector.

Representative King remarked that it is shameful that some of the State's employees are eligible for food stamps. She said she agreed with Co-Chairman Patrick's proposal and wanted to raise those at the bottom of the pay scale and give a 3 percent raise to everyone, even though it causes compression. She commented there were various ways to get money into colleges and universities, such as scholarships. She said the money should be invested in the employees.

Co-Chairman Anderson explained to the Committee that a 3 percent raise for the employee body of the State would cost approximately $6 million per percent or $18 million total, which would include higher education. He referred to Representative King's comment about food stamps, which was testimony heard earlier. The universities are not solely funded through the General Fund. If a 3 percent increase comes from the General Fund and the colleges give a 3 percent increase to their employees, they need to come up with more money from another source, which is called a fund shift. The colleges and universities would like the General Fund to fund the difference, which, if there was a 3 percent increase across-the-board, that would cost approximately $4 million for the four major universities in the State. That has been financed in the past, but there is not a close correlation between fund shifting from the Legislature and tuition increases from the universities. The Legislature has not chosen to fund the difference for the last several years.

Representative Anderst said he was comfortable with an entire merit-based raise. He has a concern about the Governor's 3 percent. He said he thought the State has shown an incredible commitment to education. There is roughly $40 million allocated for Idaho schools, which is not included in the Committee discussion. There is approximately $6 million that is unappropriated, which he thought would not be seen as sufficient. Because he thinks the Joint Finance and Appropriations Committee (JFAC) takes the recommendation of this Committee very seriously, he said this was an opportunity to place more cushion towards the budgeting process.

Senator Lakey said he preferred a merit increase, which gives the department heads an opportunity to compensate those who excel. He said the way to address an across-the-board raise is through coverage of benefits.

Co-Chairman Patrick commented that knowledge of the benefits is important. For example, a Boise State University (BSU) employee receives a $5 credit for tuition. He suggested the Department of Administration (DOA) send out a copy of the form, available on the Controller's website, that shows personal payroll pay plus the benefit package twice a year. He said BSU will be doing a study of all employees and the value of the benefits. In another year, the Committee could look at the value of benefits for employees.

Co-Chairman Anderson asked Robyn Lockett to review for the Committee the benefit costs for employees.

Robyn Lockett said in the Governor's recommendation there is an appropriation for health insurance. This appropriation would be $12,240 per full-time employee (FTE), 30 or more hours per week. There are also various benefits that are paid, such as a health insurance appropriation, Federal Insurance Contributions Act (FICA) tax and workers' compensation. The $1,040 per employee is the monetary increase over last year that is equal to the 9 percent increase. For example, in fiscal year (FY) 2015, there was a health insurance appropriation of $10,550, and there was a 6 percent increase in insurance to $11,200. The consideration of a 9 percent increase would total $12,240. There is the total appropriation and the increase over last year, which is the $1,040 per full-time employee (FTE), for a total of $12,240. The Governor's recommendation does not include the continuation of the thriveidaho bonus program which has been appropriated for the last two fiscal years, and will save the State $100 per FTE, a $2.1 million savings.

Senator Thayn said the structure of the State Employee Health Plan is what is making costs increase. He commented that if the rising cost of health care was stabilized, instead of approving a 3 percent raise, a 5 percent raise could be given. He said stabilizing the cost of the health care plan does not mean reducing benefits or shifting cost to the employees. He said he believes access can be increased, outcomes improved and costs reduced. He said the Committee must realize that the structure of the State of Idaho's State Employee Health Plan is what is driving up costs. The current plan is encouraging over-utilization. The costs will continue to rise unless structural changes are made. He referred to the State of Indiana's plan, started in 2006 and called a Consumer Driven Health Plan (CDHP), in which employees voluntarily participate. Enrollment has steadily grown from 4 percent in 2006 to 98 percent in 2014. Employees have a high-deductible health policy with a funded Health Savings Account (HSA). In 2006 the plan began with a $1,500 deductible for a single person and $3,000 for a family, with the State contributing 60 percent of the deductible to the HSA, or $900 for a single person, and $1,800 for a family. He outlined the various components of the plan. A copy of Senator Thayn's handout is attached to the minutes (see Attachment 1). **Senator Thayn** said the key is to change the system's structure so that outcomes are better, employees participate and costs are controlled. He said he wanted to make a motion during this meeting.

Senator Martin wanted to know if the increase in health insurance was funded through the General Fund and what percent on the average does that mean for employees? **Robyn Lockett** replied that $1,040 is the employer's share. There are six different plans in which an employee can enroll. Ninety-five percent of employees use the Preferred Provider Organization (PPO) plan. Within each of the plans, there are different costs, depending on whether one enrolls as an employee only, as an employee and spouse, or employee and child or employee and children. The costs range from $600 to $2,000 per year and depend on which plan an employee enrolls in, the employee's salary and what type of increase the employee receives. If there is a merit-based raise, there is no way to calculate what the increase would be. **Senator Martin** said he tried to devise a 2.5 to 3 percent compensation plan that is being passed on to employees by not raising premiums, which will have an effect on how much salary increase should be given.

Representative Anderst wanted clarification that $1,040 is 100 percent of the employers' cost increase or was that representative of the entire cost increase of which a portion would be shared by employees? **Robyn Lockett** answered the $1,040 is the entire cost for the new year to pay the insurance. She said the Governor is recommending the State pick up the entire $1,040, and there is no shift to the employees for fiscal year 2017. There is a maximum amount that can be shifted to employees in order to maintain the grandfather status. By not shifting any money to the employees, the State will be holding the grandfather status longer. Secondly, the State would fully fund the increase so as to not have potentially a 3 percent CEC offset by the increase cost of benefits, which would result in a negligible, if any, overall salary increase to an employee. **Representative Anderst** wanted to know what the current cost share percentage of benefits was to the State employees. **Robyn Lockett** said there is a 90 percent employer and a 10 percent employee split. **Representative Anderst** asked that in order to protect the grandfather status, did the State have to stay within a certain percentage of employee participation or was it a dollar amount? **Robyn Lockett** said that in order to protect the grandfather clause, the State must stay within a percentage amount. No more than 5 percent of costs can be shifted to employees. Currently, 3.4 percent has been used, which leaves 1.6 percent left to shift to employees. **Representative Anderst** asked for clarification of the percentage as an overall cost of the annual premium. **Robyn Lockett** explained that if the portion of the premium paid by the employee has increased, there would be a shared split. **Representative Anderst** asked if the 90/10 split was maintained, would that increase or decrease the percentage counted against the State to maintain grandfather status? **Robyn Lockett** explained that would maintain the grandfather clause.

Keith Reynolds, Deputy Director, Department of Administration (DOA), explained the test split that was used for grandfather status is based on total employee costs for health insurance, which includes not only the premium contribution, but also the co-pay and deductibles for services. With the Governor's recommendation, the State absorbs all of the costs. There is another 0.8 percent in savings that in the future could be shifted to employee costs, and the State would still maintain the grandfather status.

Senator Guthrie asked for clarification on the increase in health benefits. He wanted to know whether the whole raise was equivalent to 6.64 percent. **Robyn Lockett** said the $100 is savings from the elimination of thriveidaho. The projection to do so was approximately $1.9 million for 2017. The total cost increase statewide is $1,040 multiplied by 18,500. **David Fulkerson**, Interim Administrator, Division of Human Resources (DHR), said the 3 percent increase is approximately $17.4 million, which is a General Fund number. The increase in the health insurance benefits is a little over $10 million.

Senator Schmidt commented the Committee's role is to recommend an appropriate compensation for State employees and to make recommendations to JFAC.

MOTION: **Senator Schmidt** moved to approve a 3 percent merit-based CEC increase per the Governor's recommendation, in addition to a 1 percent increase for the pay grades that are farthest below, for an across-the-board pay increase for pay grades F, G, H, I, J, K, L, M, N and O. Total estimated cost for the 1 percent raise across-the-board for those pay grades would be in addition to the Governor's recommendation of another $6.7 million. **Representative King** seconded the motion.

SUBSTITUTE MOTION: **Representative Hartgen** moved that a 1 percent raise be given to the base with a 2 percent merit-based raise. **Representative Mendive** seconded the motion.

AMENDED SUBSTITUTE MOTION: **Representative Anderst** moved that a 2 percent merit raise be given and the 90/10 cost sharing split be maintained for the cost of insurance benefits ($1,040). **Representative Loertscher** seconded the motion.

A discussion took place between **Representative Mendive** and **Robyn Lockett** regarding the 90/10 split identified in FY 2010 and the maintenance of the grandfather clause. They talked about the Governor's recommendation, with an 0.8 percent leeway to shift funds. If the 5 percent level is exceeded, then the State will lose grandfather status and would have to implement the entire Affordable Care Act (ACA) regulations indefinitely and in totality.

Representative King asked for a roll call vote for all motions. **Co-Chairman Anderson** repeated the amended substitute motion made by Representative Anderst.

ROLL CALL VOTE: **Senator Lakey**, **Representatives Anderst**, **Loertscher** and **Mendive** voted **aye**. **Senators Martin**, **Guthrie**, **Heider**, **Rice**, **Thayn**, **Schmidt** and **Ward-Engelking**, **Representatives Hartgen**, **Romrell**, **Holtzclaw**, **King** and **Rudolph**, and **Co-Chairmen Anderson** and **Patrick** voted **nay**. The motion failed.

Co-Chairman Anderson repeated the substitute motion made by Representative Hartgen. **Co-Chairman Anderson** reminded the Committee that the proposed raise in this motion was an across-the-board raise for all employees and not based solely on merit.

ROLL CALL VOTE: **Senators Heider**, **Rice** and **Thayn**, **Representatives Hartgen**, **Holtzclaw**, **Loertscher**, **Mendive** and **Co-Chairmen Anderson** and **Patrick** voted **aye**. **Senators Martin**, **Lakey**, **Guthrie**, **Schmidt**, **Ward-Engelking**, and **Representatives Anderst**, **Romrell**, **King** and **Rudolph** voted **nay**. The motion failed.

Senator Schmidt restated his motion. **Co-Chairman Anderson** asked what the cost of the 1 percent raise would be. **Senator Schmidt** replied $6.7 million. **Representative Hartgen** clarified the total cost of the package is approximately $24 million. **Robyn Lockett** said that was correct and of that amount, $3.3 million is General Fund, plus $18.2 million, for a total of $21.5 million.

ROLL CALL VOTE: **Senators Schmidt** and **Ward-Engelking**, **Representatives King** and **Rudolph** voted **aye**. **Senators Martin**, **Lakey**, **Guthrie**, **Heider**, **Rice**, **Thayn**, **Representatives Hartgen**, **Anderst**, **Romrell**, **Holtzclaw**, **Loertscher**, and **Mendive**, **Co-Chairmen Anderson** and **Patrick** voted **nay**. The motion failed.

Co-Chairman Anderson said the Committee time was expended and he did not want to infringe upon other meeting times. **Senator Martin** indicated he was ready to spend more time. **Senator Guthrie** said he wanted to make a motion.

MOTION: **Senator Guthrie** moved that the Committee support the recommendation of a 3 percent merit-based CEC and refund the health insurance increases with an equivalent of 1 percent borne by the employees, instead of the State using that money to make up the increases.

He said the State was told they were 22 to 24 percent behind the market. Midway through the second day of meetings the Committee found out the benefits were 24 percent above the private sector, and if factored in, the State is only 8 and 11 percent behind the public and private sector markets. He is concerned the State is not putting more emphasis on health benefits employees receive. There has been a 15 percent increase a year given or proposed during the last two years in health benefits. The message to employees has to be changed as to how the money is spent. He said the State has to look at salary savings inequities. The Hay Group study showed the State is light on salaries and strong on benefits. He remarked that if these types of studies are being done and they are being ignored, why spend the money on studies. The State has to change the way the compensation package is delivered. He suggested an interim study committee be formed on how the package is delivered and to move in a different direction, such as Senator Thayn's comments on an HSA.

Senator Thayn seconded the motion.

Representative Loertscher asked if this motion would affect the grandfather clause. **Robyn Lockett** said she did not have enough information to know if this motion would affect the grandfather status. **Representative Loertscher** indicated that if this motion affected the grandfather status, it would have a different effect on employees.

Keith Reynolds said that as he understood the situation, the motion would not affect the grandfather status. He pointed out that cost shifts transfer to the employees, and medical inflation can be shared equally with employees without endangering the grandfather status.

Senator Thayn remarked the motion is complex.

SUBSTITUTE MOTION: **Senator Martin** moved that a 3 percent merit increase be given, with the State covering the insurance cost increases. **Senator Rice** seconded the motion.

Senator Rice said he thought there was value in having an interim committee look at how the State handles insurance. He said this is the best motion moving forward this year. **Co-Chairman Anderson** said there has been discussion with Senate and House Leadership about the possibility of having an interim committee.

Representative Hartgen commented this motion is similar to a previous motion he made that failed, with the exception of moving 1 percent to the base. This keeps the 3 percent on the merit side and adopts the Governor's proposal to let the State pick up the additional insurance costs.

Senator Thayn said this was a good opportunity to make a recommendation for an interim committee and wondered how this could be communicated with Leadership. **Co-Chairman Anderson** said Robyn Lockett had drawn up some sample language that will indicate the intent of the Committee and will call upon some key departments to help with the study.

Representative Rudolph commented he reluctantly would support the motion. He said he felt this motion would help to attract the work force. He expressed a concern about higher education and the burden that is continually added to Idaho citizens who cannot afford tuition.

Senator Guthrie commented that if the State continues to keep funding enormous health insurance costs, that sends a message to health insurance carriers. The State needs to change.

ROLL CALL VOTE: **Senators Martin**, **Lakey**, **Heider**, **Rice**, and **Ward-Engelking**, **Representatives Hartgen**, **Romrell**, **Holtzclaw**, and **King**, **Rudolph**, and **Co-Chairmen Anderson** and **Patrick** voted **aye**. **Senators Guthrie**, **Thayn**, **Schmidt**, and **Representatives Anderst**, **Loertscher** and **Mendive** voted **nay**. The motion carried.

Senator Martin indicated he wanted to proceed with the recommendation for an interim committee to study insurance costs. **Robyn Lockett** outlined the options for the Committee. She said if the Committee is not inclined to make a policy change on insurance, such as considerations of Tier II, shifting costs to employees or grandfather status, the Committee could direct the Office of Group Insurance to research State policy options for next year. The Committee could form an interim committee during the summer, or meet next year and have more information for discussion purposes. The Committee has options to address the pay structure and insurance, such as action through intent language in the Legislature, JFAC through the DOA or write a proclamation. **Co-Chairman Anderson** asked Robyn Lockett to read from sample language.

Robyn Lockett said the Director of the DOA, in accordance with his duties outlined in Idaho Code, shall present a proposal to the Legislature (the Committee chooses a date in September or decides whether there will be an interim committee) that includes the following information: 1) a cost benefit and health plan that details changes for complying with the Federal Affordable Care Act (ACA) versus retaining the grandfather status; 2) a list of proposed benefit changes to the employee group insurance benefit package, compared to the current benefits, that would be implemented if the Legislature were to adopt removing the grandfathered status; 3) proposed rules outlining the minimum employee group insurance benefit plan design that would need to be adopted by the Idaho Legislature should the Committee consider the removal of the grandfathered status; and 4) analysis that details any potential savings due to the removal of the Tier II health insurance plan for the State of Idaho.

Senator Schmidt asked if a concurrent resolution would be in order and was that done last year? **Robyn Lockett** said that could be done.

Keith Reynolds said the request for a concurrent resolution was complied with and the grandfather status is examined every year due to the ACA. He noted some items are mandatory and because of that the costs change.

Senator Thayn said it was his recommendation that there be a resolution and an interim committee or health care task force to look into some structural changes. He commented that all stakeholders and the Legislature have to be involved. **Senator Rice** said he agreed.

MOTION: **Senator Martin** moved that the Committee Co-Chairs put together a recommendation to be previewed by the Committee, and submit to Leadership. **Senator Ward-Engelking** seconded the motion. The motion carried by **voice vote**.

Co-Chairman Anderson asked what the will of the Committee was regarding the policy rate and insurance. All agreed to leave these two items as they are. **Robyn Lockett** will address all obligations, and JFAC will receive the recommendations.

ADJOURNED: There being no further business, **Co-Chairman Anderson** adjourned the meeting at 8:32 a.m.

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Senator Jim Patrick
Co-Chairman

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Linda Kambeitz
Secretary

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Representative Neil Anderson
Co-Chairman