MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Tuesday, January 10, 2017
TIME:	2:30 P.M.
PLACE:	EW42
MEMBERS PRESENT:	Co-Chairman Patrick, Senators Guthrie, Martin, Lakey, Thayn, Souza, Anthon, Ward-Engelking, and Burgoyne. Co-Chairman Anderson, Representatives Hartgen, Wood, Harris, Holtzclaw, Packer, Redman, King, and Chew
ABSENT/ EXCUSED:	None
NOTE:	The sign-in sheet, 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. (All presentations can be found at https://legislature.idaho.gov/sessioninfo/2017/joint/cec-material.)
CONVENED:	**Co-Chairman Patrick** called the Change in Employee Compensation Committee (CECC) meeting to order at 2:30 p.m. **Co-Chairman Patrick** welcomed everyone to the meeting and explained the responsibilities lie with the CECC for any change in compensation for a large number of employees in the State.
PASSED THE GAVEL:	Co-Chairman Patrick passed the gavel to Co-Chairman Anderson.
DISCUSSION:	**Co-Chairman Anderson** asked the CECC to thoroughly review and make recommendations to the Joint Finance-Appropriations Committee (JFAC) to use in their funding process throughout the session.
PASSED THE GAVEL:	Co-Chairman Anderson passed the gavel to Co-Chairman Patrick.
DISCUSSION:	**Co-Chairman Patrick** read over the agenda and stated the goal was to finish next Tuesday, January 17, 2017.
PRESENTATION:	**Robyn Lockett,** Principal Budget and Policy Analyst, Legislative Services Office (LSO) introduced the State Controller's Rainbow Report, published at the beginning of each session. She said the Rainbow Report provides a comprehensive look at salaries and wages, including the number of employees in the State workforce. **Ms. Lockett** defined a state employee, and said this excludes contractors, teachers, employees of school districts, persons affiliated with state agencies, other educational institutes paid from local funds or non-state appropriated funds or individuals paid through the State Controller's office. These employees are compensated on a statewide level with a compensation schedule. The majority of individuals are full-time and hired on merit based on the ability and aptitude for a position. Most of the employees at the

Department of Health and Welfare (DHW), Department of Transportation (DOT), Department of Corrections (DOC), Idaho Department of Labor (DOL), the Idaho Department of Lands (IDOL), and State Police work full-time on behalf of the State.

Non-classified employees were defined as persons and positions exempted from the classified system. Each non-classified position will be paid a salary comparable to classified positions, and they are exempt from merit increases. These non-classified employees include staff of the legislative branch, judicial branch, elected officials, board members, agency directors, deputy directors, public information officers, and division administrators.

These employees can be part-time, full-time, temporary, or seasonal. There are 25,000 employees in the State workforce. The information can be referenced in the Rainbow Report which details the employees and the count by agency.

Ms. Lockett stated the personnel system was established fifty years ago and formed by the Department of Human Resources (DHR) to provide a compensation system to classified employees of the State of Idaho. This system examined, selected, promoted, retained, and recruited on the basis of merit and performance of job duties.

Idaho Code § 67-5301 defined the action affecting the economy and efficiency in administration of State government. Idaho Code § 67-039A outlines four goals and the foundation of an employee compensation philosophy. **Ms. Lockett** stated that regardless of the specific budgetary conditions in the State, it is vital to fund necessary compensation adjustments. At times it may be necessary to increase revenues or to prioritize and eliminate functions, programs in State government, or to reduce the overall number of State employees in the workforce.

Ms. Lockett explained that each year the DHR, the Governor, and the Legislature set compensation and benefits budgets for State employees. Idaho Code § 67-5309B requires DHR to make specific funding recommendations to the Governor through surveys, reports and a collection of information. State salaries are 24 percent below the private sector and 14 percent below comparable jobs in the public sector. The Governor's recommendation to DHR was addressed in the State-of-the-State Address.

Ms. Lockett stated the Legislature can accept, modify, adjust, or reject the recommendations. If the Legislature fails to take any action, by default, the recommendation of the Governor goes into effect. The Legislature makes a decision on a total benefit package for state employees through funding and policy considerations.

DISCUSSION: **Senator Souza** asked for clarification with regards to the comparisons DHR does for salary adjustments and benefit packages, and if the benefits package was considered as part of the overall compensation package. **Ms. Lockett** remarked the compensation package can be found in the report made by the DHR.

Senator Souza responded with concerns about salaries verses compensation packages. **Ms. Lockett** affirmed references were made about salary only. **Representative King** questioned the difference between classified versus non-classified employees. **Ms. Lockett** stated that the statutes relating to classified and non-classified employees are specifically for the State of Idaho.

Representative King responded with questions regarding a Cost-of-Living Adjustment (COLA). **Ms. Lockett** stated that the Public Employee Retirement System of Idaho (PERSI) has a COLA for retirees, which is separate and different from classified and non-classified employees.

Representative Packer wanted to know what was contained in the employee benefits package being considered.

PRESENTATION: **Susan Buxton,** Administrator, DHR, expressed appreciation for elected officials, and public, city and county employees. She referred to the DHR Report for her presentation. Linda Riley, Principal for Korn-Ferry Hay Group, was introduced and referred to for questions.

Ms. Buxton proceeded to make recommendations for DHR, offering specific recommendations on salary structure, occupational inequities, merit increases, and the employee benefit package. Based on merit, a 3 percent increase in pay is recommended. The estimated fiscal impact is $129,500 for 394 employees to be brought up to the new minimum of salary ranges. Other options would be a 2 percent increase that would have a fiscal impact of 68,500 for 107 employees, or a 4 percent increase that would have a fiscal impact of $306,200 for 506 employees.

Ms. Buxton outlined a second recommendation regarding specific occupational inequity/pay-line exception components. The goal of maintaining the current pay-line exceptions includes benefits such as continuing with job classifications, and addressing specific recruitment and retention issues. The pay-line exception report identifies requests by state agencies to have a temporary assignment of pay grade in excess of the pay grade allocated to that classification. For example, a hard-to-fill position or to retain an employee would be a pay-line exception, and the recommendation would be to continue this process.

Ms. Buxton explained the third recommendation is a merit increase component and a 3 percent increase to the budget, based purely on merit. The majority of employees are producing and meeting expectations. The evaluation forms include the following classifications: 1.) does not achieve; 2.) achieves; 3.) solid sustained; and 4.) exemplary.

Ms. Buxton stated the fourth recommendation is to maintain the current employee benefit package and to have funding continue to be a key component to the State's total compensation package for employees, and to maintain the cost for group insurance and retirement benefits.

DISCUSSION: **Representative Hartgen** asked if the estimated cost of a 3 percent increase is $18 million dollars. **Ms. Buxton** confirmed the cost to be correct. **Representative Hartgen** indicated that there was another component costing another $22 million and asked where the additional funds would come from. **Ms. Buxton** replied it would come from dedicated funds.

Representative Hartgen asked for a chart that showed the representation of a percentage increase over a period of time, going back to the recession of 2007. **Ms. Buxton** directed Representative Hartgen to the DHR Report and a bar graph that reflects the history of state employee salary increases.

Co-Chairman Anderson asked about the differences with changing the salary structure by 3 percent verses 2 or 4 percent. **Ms. Buxton** indicated when a raise to the salary structure moves across the entire structure, the fiscal impact affects those who do not meet the minimum standards. **Co-Chairman Anderson** wanted to know if someone at 4 percent would be affected. **Ms. Buxton** said there would be some compression. **Ms. Buxton** also addressed Co-Chairman Anderson's question regarding the change in salary structure, specifically regarding the percentage amount that was chosen. **Ms. Buxton** stated that the 3 percent increase was chosen according to the Governor's recommendation.

Co-Chairman Anderson followed up with another question regarding specific occupational inequities and asked how did a person or category enter the select group to receive a pay-line exception. **Ms. Buxton** used an example of Idaho State Police (ISP) sergeants and troopers and various types of nurses, and stated that reclassification would remove these employees from pay-line exceptions.

Co-Chairman Anderson questioned the pay-line exception and how an employee would be removed from the pay-line exception list. **Ms. Buxton** acknowledged there were several removals of classifications from the list, including reclassification and some raises. **Co-Chairman Anderson** asked about the minimum and maximum hourly wage policies.

Representative Harris questioned the salary range regarding reclassification. **Ms. Buxton** indicated that the DHR evaluates and makes recommendations with assistance from Korn-Ferry Group salary ranges.

Representative Harris inquired if the entire structure in its current range classification included an increase of 3 percent through the merit-based increase.

Melinda Riley, Principal, Employee Benefits and Compensation, Korn-Ferry Hay Group, summarized the compensation provided to State employees. She said certain market positions for salary, benefits and aspects of the compensation package offset some of the deficiencies on salary. **Ms. Riley** described the work provided by the Korn-Ferry Hay Group. Approximately 95 percent of companies surveyed increased salaries for some employees. The total salary increases reported were 3 percent at all employee levels. **Ms. Riley** emphasized that with a merit-based system increases can be given to ensure employees are retained. Other benefits such as pension, disability, and life insurance, are a function of pay and when salary is increased the benefits are enhanced.

DISCUSSION: **Co-Chairman Patrick** questioned the comparison to the previous year and asked about any supporting data. **Ms. Riley** explained the results are similar because of the approved 3 percent increase in the previous year. **Ms. Riley** talked about how the market has maintained and stayed consistent.

Representative Hartgen asked about the private sector comparison and how the data was determined. **Ms. Riley** stated the pension also serves as a retention tool which has more value the longer an employee is employed by the State; however, the value of the compensation package is changing and pensions in the private sector are going away.

Representative Hartgen asked about the terms of value to the State regarding long-term retention of employees for today and the future. **Ms. Riley** explained how the State programs are evaluated to make the comparison of what the State provides versus other employers. She said the value from an employee's perspective had not been surveyed.

Representative Redman asked about the 3 percent increase and whether or not the insurance benefits would go up in cost, including deductibles and co-pays. **Ms. Riley** explained that the percentage of cost-sharing is maintained, however, there may be an increase to employee premiums, but not deductible costs and co-pays.

Senator Burgoyne requested historical data regarding the merit system from Ms. Buxton, along with ratio data regarding classified verses non-classified employees.

Senator Guthrie referred to pay that is 26 percent above the private sector and 14 percent below other states, and wanted to know the benefit differential which was stated at 4 percent in the public sector and 9 percent in the private sector. **Ms. Riley** explained benefits should be looked at individually and that the package includes the State's benefit package relative to the market. The other figures include the reduction of pension in the market. **Senator Guthrie** stated more emphasis was placed on benefits. **Senator Guthrie** wanted to know about the option of a 4 percent Change in Employee Compensation (CEC) with a cut in benefits.

Ms. Riley said the programs are managed well and salary packages are handled efficiently. She said the State can make changes in a positive way.

Senator Thayn questioned about the $39 million price for the merit increase and the cost for maintaining employee group insurance. **Ms. Riley** said that the OGI would be able to answer questions regarding this pricing.

Co-Chairman Anderson wanted to know the difference between base salary and the actual pay grade an employee is assigned. **Ms. Riley** explained that base salary is the actual rate of pay that an employee is earning and falls within the range of a pay grade.

Co-Chairman Anderson questioned the pay category and if the figures were aggregated to get an average. **Ms. Riley** said the Korn-Ferry Hay Group looked at particular jobs and the average pay and aggregated the figures based on that pay grade to determine average pay, as well as individual jobs. **Co-Chairman Anderson** wanted to know if the average included all the nurses in that category. **Ms. Riley** said that was correct.

Co-Chairman Anderson also wanted to know about the benefits and what was the cost to the employer and whether or not the State was paying 26 percent more than the private sector or was the State paying 26 percent less. **Ms. Riley** stated that an actuarial valuation method is used that is not representative of the State's actual costs, but it does show what it is subsidizing for its employees in the form of welfare benefits and is not an indication that 26 percent more is being paid. The Korn-Ferry Hay Group looks at costs independently and compares those to typical costs for benefits in order to get cost efficiency. Because of the size of the State the cost for benefits is lower.

Co-Chairman Anderson wanted to know the cost to the State and the assignment of value to the benefits provided and wanted to know if are those costs were quantified. **Ms. Riley** indicated the methodology used in valuation of benefits was a function of salary and the comparison of the market.

Co-Chairman Anderson wanted to know what the total compensation was compared to the public and private sectors, the actual pay and base pay, and the variation of percentages in the report. **Ms. Riley** explained that base pay is equal to actual pay for employees and the figures were the same as aggregate pay, but also referred to the combined private and public sector. The two private and public sector markets are looked at separately.

Co-Chairman Anderson wanted to know how negative 8 percent and negative 11 percent equaled negative 21 percent in the comparison example. **Ms. Riley** explained that those percentages are total compensation which shows base salary plus benefits. The 21 percent is a base only salary comparison to combined private and public sectors. Policy rate of 16 percent is a comparison of the midpoint below the combined sector and what is actually paid is less competitive than the structure. The structure is in better shape than the market data indicates.

Senator Martin wanted to know about the history of the State employment salary increase over the last 10 years. He stated that in 2015 there was a 1 percent increase as well as other compensations. **Ms. Buxton** explained that the data provided only had a CEC and did not include the one-time increases.

Representative Packer wanted to know if the public sector was weighted more favorably than the private sector and why it was not a more consistent percentage breakdown of value between the two sectors. **Ms. Riley** explained that the private sector does carry more weight because salaries and benefits are higher and as a result Idaho's benefits program does not make up for that difference. **Ms. Riley** stated that 16 percent is significant and is 26 percent above the market and that benefits are less than half the pie. **Ms. Riley** explained the State is closer to median relative to the public sector, and that the benefits are almost the same. **Ms. Riley** said that is why there is not much of a difference between salary compensation and total compensation.

Senator Guthrie wanted to know if some of the jobs were not full-time or year round in the private sector and was that taken into account. **Ms. Riley** explained that the methodology would include comparing annual rates of pay to other annual rates of pay.

Representative Hartgen asked if the comparison data was skewed because of private sector profiles, such as Boeing in Washington State. **Ms. Riley** said that there are many survey sources used and includes many incumbents. Geographic differentials are also based on what the cost of labor is nationally and how it differs in certain states.

Senator Souza asked what kind of analysis had been done on quantifying the value of salary to the employee and job security. **Ms. Riley** explained that those factors are intangible. Salary was better compared and looked at in dollars. **Senator Souza** asked if the valuation was dollars paid or the value of those dollars to the employee. **Ms. Riley** explained that the valuation was dollars in salary.

Senator Ward-Engelking questioned employee expenses attached to the benefits and the cost to the employee. **Ms. Riley** explained the methodology valuates the benefits that are paid for either fully or partially by the State and to what extent the employee contributes to that benefit. The value is discounted based on that subsidy.

Senator Burgoyne wanted to know what might happen if there was a premium increase and the employee paid a portion of that, would they have to pay a part of the 3 percent increase in benefit costs. **Ms. Buxton** responded that the employee contributions were researched in the process of the recommendation of the 3 percent increase. **Senator Burgoyne** asked what portions paid by employee raises was going toward higher benefit premiums and wanted to know if that was quantified in the report. **Ms. Buxton** replied that it was not quantified in the report and that the recommendation was based on the projections of the Interim Committee.

Senator Souza pointed out that the Governor's recommendation was the 3 percent compensation increase as well as funding the increase in health care cost.

Co-Chairman Patrick asked if the Governor's recommendation covered all of the employee costs. **Ms. Buxton** replied that her understanding was that the Governor's recommendation was to maintain the 90/10 split with regard to the State's portion of the payment for healthcare premiums.

Representative Redman remarked that during the last two years, the State paid for health insurance increases. **Ms. Lockett** explained that for Fiscal Year (FY) 2016 and FY 2017 there were no premium increases to the employees' share of the health insurance. For FY 2018 the Governor is recommending the State share the increase by 7 percent and the employee would pay an equal increase which ranges between $84 and $350 dollars per year depending on what plan the employee has.

Representative Packer wanted to know if the CECC would get a total of what the State pays for employee benefits overall versus salary. **Ms. Lockett** offered to have the information regarding the State's total cost provided before the next meeting. **Ms. Lockett** said the cost of benefits for health insurance would be approximately $16 million or a total of $8 million from the General Fund for FY 2018.

PRESENTATION: **Jani Revier,** Administrator, Division of Financial Management (DFM), said the Governor's recommendation for 2018 is a 3 percent shift to the salary structure as a step toward market rates. The Governor also recommends that employees falling below the new minimum must be brought up by additional funding for agencies. **Ms. Revier** stated the State Employee Compensation policy, Idaho Code § 67-309A, states all employees below the State's midpoint range who are meeting expectations shall move through the pay range toward the midpoint market average. Moving the pay structure 3 percent would mean employees need to receive a 3 percent increase in order to not move down in the pay range. This would affect all classified state employees and those at the bottom of the pay range at the minimum. The CEC would be applied rather than keeping employees at the bottom after the CEC.

Ms. Revier reported the Governor also recommends maintaining current payline exceptions, which would allow the State to recruit and retain employees. The 3 percent increase recommendation is based on merit and the ability for directors to develop agency-specific plans. The DOL reported that Idaho's second quarter in 2016 showed a 4.2 percent increase over 2015, which is twice the national average of 2.1 percent. The CEC is needed to retain and compete for new employees. Agency-specific plans include focusing funds for hard-to-fill positions. The recommendation does not include group positions which are part-time or temporary. Perma-temps have been converted into group positions that are benefited, year round and permanent in nature to Full-Time Position (FTP) for budgetary reasons. **Ms. Revier** said long-term employees did not receive the full benefit of the State's classified work force. Agencies are instructed and directed in the budget development manual to request the funding as a line item.

The Governor also recommends maintaining the current benefit package with the exception of reducing the health insurance continuation. Health insurance employer costs are being increased by $860 to $13,100 per employee. Employee costs will also increase. The health insurance continuation for those with an open disability claim is down from a 30-month maximum to a 6-month maximum, which is the industry standard, and would save approximately $2 million in employer premiums, except those grandfathered in. Where turnover or recruitment is an issue agency line item, requests will not be recommended.

Ms. Revier said the Governor respects the work of employees and recognizes the need to fairly compensate them through a CEC. Funding to address salary and equities between the Deputy State Appellate Public Defender and the Deputy Attorney General Appellate Unit is recommended, as well as a physician salary increase to avoid contracting fees. Some of the challenges include balancing increasing health insurance costs with the need to raise salaries. Recruitment and retention of employees is also a challenge in order to compete in the public market rates. There is a letter from the Governor with an insert containing links to the reports DFM is required to provide.

DISCUSSION: **Representative Hartgen** questioned changing the disability coverage from 30 months to 6 months and the grandfather clause. **Ms. Revier** explained the recommendation is to reduce the health insurance continuation for those with an open disability claim from the 30-month maximum to a 6-month maximum which would save $2 million annually and those that are currently receiving the benefits would be grandfathered.

Representative Hartgen asked if there was a provision that group insurance was continued in a reinsurance program. **Jennifer Pike,** Administrator, OGI, explained that there is not a reinsurance program for employees who have maxed out the continuation of health insurance, however they have access to the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) or the retiree medical insurance plan or an individual policy.

Senator Martin questioned the difference between a 3 percent merit increase and a 3 percent increase across-the-board. **Ms. Revier** explained the 3 percent merit increase meant that the agency would receive a 3 percent increase of their personnel funds and then work with DFM and DHR to have a plan approved to distribute the funds, which must be a merit component based on employee performance. The 3 percent increase would mean everyone would receive an increase in pay.

Senator Lakey wanted to know what the need was for a physician increase. **Ms. Revier** explained the recommendation is to bring the Public Defender up to the same level as the Attorney General's office. **Ms. Revier** indicated she could provide the details for the increases regarding physicians at a later time.

Senator Souza wanted clarification regarding the 3 percent shift to the salary structure and the total budget amount that would be incurred. **Ms. Revier** explained that the 3 percent shift is roughly $130,000.

Senator Burgoyne questioned the health insurance continuation and wanted to know if the insurance options would include social security disability, which comes with Medicaid entitlement. **Ms. Pike** responded that when an employee is on long-term disability the OGI does work with social security disability benefits. **Senator Burgoyne** wanted to know if anyone had calculated what the impact would be on the Federal Medical Assistance Percentage (FMAP) and Medicaid. **Ms. Pike** indicated that her office had not done those calculations.

Senator Guthrie wanted to know about how salary savings were applied to what was ongoing and what was one-time. **Ms. Revier** explained that salary savings is unique to each agency and depends on things such as turnover and the size of the agency. Salary savings can be used for one-time, ongoing or to augment the CEC. **Senator Guthrie** asked about the inequities and whether or not the distribution based on how the salary savings occurred could be reconciled. **Ms. Revier** said that a starting point needs to be established in order to make a decision. Every agency differs in salary savings. General funds and dedicated funds also vary. The Governor has not recommended any requests for additional personnel from the dedicated fund agencies because the treatment is the same for all agencies. Salary savings is a tool the directors use for managing agencies. Directors have to decide whether to retain the savings, whether or not they need to replace a person that leaves at the same salary or to disburse it within the agency to employees. The Governor believes the director should have the ability to balance the salary savings.

Representative Packer questioned what happens to smaller agencies that cannot distribute the salary savings and who may lose employees because of this and if the agency could tell the CECC what is needed. **Ms. Revier** said that it would be difficult to take all of the salary savings and pool the savings together and distribute the funds, because of the differences between general funds, dedicated funds, and federal funds. Salary savings really vary and the agency director needs to adjust because of these challenges.

Co-Chairman Anderson wanted to know about a report that showed an increase in what salaried employees actually receive and where was the report generated. **Ms. Lockett** informed the CECC that this would be presented at the next meeting.

Co-Chairman Anderson wanted to know about a provision regarding higher education and whether or not it was considered. **Ms. Revier** replied that this was a fund shift to the General Fund for higher education and there was no recommendation.

Co-Chairman Anderson wanted to know about increases for permanent part-time employees of the State. **Ms. Revier** explained that the DFM was willing to sit with the DHW and address the perma-temp issue classification of a part-time FTP.

ADJOURNED: There being no further business at this time, **Co-Chairman Patrick** adjourned the meeting at 4:50 p.m.

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Senator Jim Patrick Co-Chairman	Linda Kambeitz Secretary
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Representative Neil Anderson Co-Chairman	Katy Miller Assistant Secretary