MINUTES

# CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

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| **DATE:** | Thursday, January 12, 2017 |
| **TIME:** | 2:30 P.M. |
| **PLACE:** | EW42 |
| **MEMBERS PRESENT:** | Co-Chairman Patrick, Senators Guthrie, Martin, Lakey, Thayn, Souza, Anthon, Ward-Engelking, and Burgoyne<br>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 Senate Commerce and Human Resources Committee office until the end of the session and will then be located on file with the minutes in the Legislative Services Library. (A copy of all presentations can be found at https://legislature.idaho.gov/sessioninfo/2017/joint/cec-material.) |

**CONVENED:** **Co-Chairman Anderson** called the Change In Employee Compensation Committee (CECC) meeting to order at 2:30 p.m. He welcomed and thanked all those in attendance. He said that the CECC would be meeting on Friday, January 13 at 1:00 p.m. **Co-Chairman Anderson** noted that a break will be taken before public testimony. He invited all members of the public wanting to testify to sign up on a list in the back of the room.

**Co-Chairman Patrick** noted that the Economic Outlook Committee meeting was conflicting with the CECC meeting on January 12th.

**PRESENTATION:** **Jennifer Pike**, Office of Group Insurance (OGI) Program Administrator, Department of Administration (DOA), stated that the OGI program has five full-time employees, including herself as Administrator, a Benefit Manager, a Group Insurance Specialist, Employee Benefit Specialist, and a Personnel Technician. **Ms. Pike** said the OGI exists to assist employees and human resource staff to process applicants, reconcile premiums, and provide one-on-one training as well as group training. The OGI also provides information to customer agencies on their website. They are a dedicated fund program within the DOA with a fiscal year (FY) 2017 operating budget of $809,400.

**Ms. Pike** stated the purpose of the OGI is to negotiate and administer cost-effective, competitive group insurance benefits for State employees, retirees, and their dependants. Some benefits are automatically included, for example life insurance, while others have optional participation, such as dental. The medical insurance for active employees and retirees is the largest dollar value program, and the focus of the presentation. Over 47,000 people are included. Every State employee eligible for benefits automatically receives life, accidental death, and dismemberment coverage.

**Ms. Pike** explained that another plan is short- and long-term disability programs to supplement income following an illness or accident. Employees with an open disability claim can remain enrolled in active employee medical and dental coverages following the date of the accident. Employees can also purchase voluntary term-life insurance up to three times the employee's salary, a program in which over 6,000 employees currently participate. Flexible spending accounts (FSA's) are another optional benefit that sets aside pre-tax dollars to pay for eligible medical and day care expenses. These accounts do not require enrollment in any other programs.

**Ms. Pike** said that as of July 1, the OGI transferred their flexible spending account tech services to Navia Benefit Solutions to improve vendor knowledge and provide more value to the State and employees. Navia reduced employee-paid administration fees with a guaranteed rate for the life of the contract. The State now saves about $30,000 per year for Consolidated Omnibus Budget Reconciliation Act (COBRA) administration and has enhanced web-based accounting and claims processing with no additional fees for benefit access cards. Over 3,600 employees now participate in either one or both of the healthcare or day care FSA's.

**Ms. Pike** explained that eligibility is regulated by statute, administrative rule, and individual contracts with each carrier. Employee status and number of hours worked also factor into eligibility and determination of premium contribution rates. Medical and dental rates for active employees are broken into two tiers: full-time workers (30-40 hours per week), and part time (20-30 hours per week). Employees must turn in their own applications and applications for their dependants, which are all electronic for agencies on the State Controller's payroll system. Hard copies are used for other agencies.

**Ms. Pike** said the State contracts annually with Blue Cross of Idaho for its medical coverage. Employees can then choose from Blue Cross Traditional, Preferred Provider Organization (PPO), or a high deductible plan, allowing them to pick which plan best suits their needs. Traditional plans typically are preferred for rural employees, while the PPO plan is by far the most popular. Blue Cross has all providers on a multi-factor pay-for-performance model. High deductible plans are typically used for secondary coverage if primary coverage is provided through a spouse or alternate program.

**Ms. Pike** explained that in FY 2016 Blue Cross processed nearly 500,000 claims just for State employees. Medical plans include a vision benefit administered by Vision Service Plan Vision Care and an Employee Assistance Program (EAP) administered by ComPsych Guidance Resources Worldwide. EAP's provide short-term in-person and online counseling resources for employees and their dependants. EAP's also include conflict resolution and critical incident stress managemen. Details can be found on the OGI's website.

**Ms. Pike** commented that as of November 2016, 18,000 employees and 27,000 additional dependants were enrolled in the active employee medical plan. Numbers change month-to-month and generally trend upwards. Employers and employees share in premium costs. Almost 99 percent of full-time employees are enrolled in the Tier One plan. Employees on the PPO plan covering themselves pay $47 per month, while those paying for themselves, their spouse and children average $171 per month. This tier meets the definitions of "affordable" and "minimum essential benefits" under the Affordable Care Act (ACA). Part-time employees on the PPO plan play $210.40 for themselves and $334.40 when also covering a spouse and children. Approximately 160 part-time employees are enrolled, accounting for approximately 50 percent of benefit eligible part-time employees.

**DISCUSSION:** **Senator Thayn** wanted to know how often the State contributed $1,001. **Ms. Pike** stated that is $1,001 per benefit eligible employee per month. She explained that active employee dental is also contracted annually through Blue Cross of Idaho, where premiums again depend on how many people are enrolled in the plan and whether the employee is full-time or part-time. Dental coverage is the same regardless of which tier employees are on; the difference between the tiers is in the employee and employer contribution rates. The State offers a "premium only" plan for both medical and dental coverage, which means premiums can be taken out of an employee's paycheck pre-tax.

**Ms. Pike** explained that the State also offers group retiree medical coverage to eligible employees under age 65. Eligibility is determined by Idaho Code § 67-5761. Eligible retirees have the same plan options of traditional, PPO and high deductible plans, and benefits are similar to that of the active employee plan. However, retirees pay a larger portion of the premium, less a subsidy provided for in statute. Retirees who retire directly from State service also have the option to convert sick leave balances to PERSI to pay premiums. **Ms. Pike** attributes the decrease in those using the retiree medical plan to capitated eligibility, meaning payments are made based on the number of people enrolled rather than how many actually seek care, and employees working longer. This retiree plan includes about 823 enrollees as of June 2016.

**Ms. Pike** indicated that retirees 65 and above have an option to use sick leave balances to pay premiums for an individual Medicare supplement, Advantage, or Part D plans. The OGI has agreements with five carriers to provide those plans. The average age of an employee on a medical plan is 46, down from 51 the previous fiscal year. The average age of a spouse has also been reduced from 52 to 47. Average children's age has stayed about the same, as well as the average age of retirees. **Ms. Pike** noted that this was not an exact demographic of all State employees, just those enrolled in group insurance. In addition there are also 1,200 to 1,400 employees who decline benefits in any given month, and the Department of Human Resources (DHR) would have full demographics.

**Ms. Pike** explained that dependant eligibility verifications are conducted by HMS Employer Solutions (HMS) via their AuditOS system. When an employee enrolls a dependant, they receive instructions by mail and e-mail to provide necessary documents to verify eligibility. In 2016 HMS verified over 1,500 dependants on behalf of the State.

Turning from program structure to finances, **Ms. Pike** noted that the current model was developed many years ago as an alternative to self-insuring. OGI provides fully-insured plans that function much like a self-insured plan. The State is removed from ultimate liability for claims and defending claim decisions, and the setup removes any Health Insurance Portability and Accountability Act (HIPAA) obligations from the OGI. While regulated like a fully-insured plan, a unique funding mechanism allows OGI to take advantage of cash flow and investment earnings on the State's premium dollars. Following each month, OGI reconciles accounts with Blue Cross for all premiums and expenses, and once Blue Cross has paid all claims, any excess funds are returned to the State. If a balance is due after reconciliation, the State is notified and pays the balance. This ensures carriers never hold more funds than necessary to pay claims and expenses, and the carrier accepts an administrative fee as compensation. The State commissions actuarial services to predict future costs by reviewing historical data and industry trends. Projections are received in May and November. Funding allows the cash flow of a self-insured plan and the risk mitigation of a fully-insured plan.

**Ms. Pike** explained that historical and projected figures are taken into account when considering total plan costs, which include premiums paid by both the State and employees, as well as predicted copays, deductibles and any cost-sharing. Total plan costs for FY 2016 were $280 million. Projections for FY 2017 are $303 million, and $337 million for FY 2018. Total medical plan cost projections are based on expected trends for healthcare costs, including medical and prescription drug trends. Idaho's State healthcare plans are trending similarly to other states in the Northwest and nationwide. Costs are expected to increase by 8.6 percent between FY 2016 and FY 2017, mostly due to changes in federal ACA taxes and fees assessed on fully-insured plans. Due to a one-year moratorium on the health insurer fee in the ACA in 2017, which is based on the cost of the plan, fees have dropped significantly in the current fiscal year, but unless the moratorium continues costs are expected to increase again in FY 2018. A delay in the "Cadillac tax" until 2020 will also help to further offset costs.

**Ms. Pike** pointed out that the State maintains a contingency reserve as part of their annual contract to assure carriers will be compensated should claims and expenses exceed 100 percent of annualized premiums. Reserves are set at 10 percent of annualized premiums. If the 10 percent threshold is not met, a risk fee is assessed. The State holds and controls these reserves, so the carrier does not add a risk charge to their fees unless the threshold is not met. Any leftover reserves are used the following year during the OGI's annual contracting. **Ms. Pike** remarked that at this point in time, a 10 percent contractual reserve will be enough going into the next plan year, however there is a high degree of unpredictability in healthcare at the moment, and that these reserves are at risk. FY 2017 is projected to end positively, so there will be an adequate reserve as FY 2018 begins.

**Co-Chairman Patrick** asked how much the risk fee would be when the threshold is not met, in order to figure out which option is cheaper. **Ms. Pike** responded that the reserve fee is roughly $600,000 to the carrier as compensation, which cannot be returned to the State. **Co-Chairman Patrick** noted that the interest on $35 million could be more than the $600,000 risk fee. **Ms. Pike** replied that the State invests those funds at the Treasurer's office in short-term and long-term investments, although she did not have the earnings figures with her. **Co-Chairman Patrick** then recalled that the investments offset the cost of holding the reserve so it is not a problem.

**Senator Thayn** asked if there was a benefit to State employees who decline the medical benefit. **Ms. Pike** replied there was no inherent incentive, but an employee may decline if their spouse already has coverage. **Senator Thayn** then asked for confirmation that there is no increase in wages for those who decline. **Ms. Pike** confirmed that there was no increase in wages.

**Representative Chew** wondered if these figures include employees who work for school districts. **Ms. Pike** responded that school district employees do not currently participate in the plan. **Representative Redman** noted that the ACA fee may not exist under the new Trump administration. **Ms. Pike** replied that they are watching the situation very closely. **Representative Redman** followed-up by noting that the University of Idaho has a self-insured plan, which does not include an ACA fee in any case. He then asked how does that compare? **Ms. Pike** responded that the State would be able to avoid that fee by switching to a self-insured plan instead of a fully-insured plan. The OGI has done studies comparing the costs in the past and has provided information to the interim CECC in the past.

**Representative Chew** stated that she was interested in using taxpayer money in the most efficient way possible and asked if switching to a self-insured plan would provide savings or is something the CECC should consider. **Ms. Pike** replied that it is being considered by both the interim committee and her office. Besides saving the ACA fee, **Ms. Pike** noted that the rest of their funding currently operates like a self-funded plan, and that the largest difference would come from the ACA fees.

**Co-Chairman Anderson** clarified that there was an interim committee that convened to study group insurance and total employee compensation, and the committee spent a considerable amount of time looking at group insurance. The decision of the interim committee was to invoke the services of an individual who worked in the industry to help decide how to best proceed on the health insurance issue. **Co-Chairman Anderson** also expected the interim committee to expand their purview in future years. **Co-Chairman Anderson** reminded the CECC that there are four things CECC is statutorily obligated to do, primarily to make a recommendation to the Joint Finance and Appropriations Committee (JFAC) whether to fund an addition to the insurance, and whether that should come from the employee or the employer and which portions go to whom. **Co-Chairman Anderson** also stated that deciding what type of insurance plan is best is a decision better left to the interim committee.

**Representative Chew** stated she believed having more people in that insurance pool increases efficiencies. She asked if including school districts in the insurance pool is something that will or should be considered in the future, or if doing so would not help the state. **Representative Wood** answered by stating that school district employees are not employees of the State but of the school district. To create an insurance pool for school district employees rather than the current mechanism of giving them extra money in non-discretionary funds is a good idea, but would cost about a quarter of a billion dollars to put them on an equal pay scale with other State employees and to make all school districts equitable. Several people are interested in doing so, but a sustainable healthcare plan and operating platform is a higher priority.

**Representative Hartgen** asked Ms. Pike to clarify a statement that the reserves are at risk and could be depleted. **Ms. Pike** answered that those reserves are actuarily established when contracts are negotiated annually, and they are set at 10 percent of the costs for the coming year. Those reserve funds are sometimes used to compensate carriers in years when claims are numerous or worse than anticipated. **Ms. Pike** remarked that is why she had to come to JFAC last year and ask for supplemental funding to reach an adequate level heading into the next fiscal year. **Representative Hartgen** asked what gap existed that led to the statement saying the reserves are at risk. **Ms. Pike** responded she merely meant to emphasize that those funds are not idle and can be used and depleted. **Representative Hartgen** asked what actions the OGI is considering to address the concern of funds being depleted. **Ms. Pike** replied that the OGI follows claims trends and analyzes spending carefully. **Representative Hartgen** asked if the reserve estimates for FY 2018 incorporate the risk of using those reserves from 2017. **Ms. Pike** responded that the projections for the contingency reserves are based only on the projected spending for that fiscal year.

**Senator Thayn** asked for figures regarding the number of claims above $150 and the number below, as well as the administrative cost per claim, to be provided to the CECC at a later time. **Ms. Pike** said she would provide those figures.

**Senator Guthrie** clarified the purpose of the contingency reserves and asked if another reserve used for appropriating funds was part of the same reserve. **Ms. Pike** responded she would get more information and give it to the CECC.

**Ms. Pike** explained plans with "grandfathered" status, namely those plans that existed before March 23, 2010. **Ms. Pike** stated the State applied for this status, which was granted, and the OGI is limited regarding cost-shifting and cost-sharing with employees. In exchange, the State did not have to implement certain elements of the ACA. Mandatory changes that still had to be made included removal of lifetime and annual maximums, coverage for dependants up to age 26, and removal of preexisting condition exclusions. The grandfathered status allowed the State more control over what could and could not be added to individual healthcare plans, but there is little to no flexibility in the amount the State can shift to employees or share costs differently, increase deductibles, or increase out-of-pocket limits. **Ms. Pike** said legislation suggests changes upcoming to the ACA, but should the State choose to move away from its grandfathered status they would have to implement the remaining provisions previously opted-out of, as well as any further regulations.

**Representative Redman** noted that the Cadillac tax is likely to be removed soon. **Ms. Pike** replied that the Cadillac tax has been pushed out to 2020 but there was a possibility that it would be removed by then.

**Senator Thayn** inquired about the deductible for the high-deductible plan. **Ms. Pike** responded that it is $2,000 for an individual and $6,000 for a family.

**Ms. Pike** explained that OGI actuarial services have projected a cost for FY 2018 that is just under $351 million dollars. The State's appropriation based on number of eligible employees, which is how the State funds its share of the total cost of the plan including claims, retiree subsidy, and health insurance continuation premiums, is appropriated to agencies through the budget setting process and paid to OGI each month. The legislature previously funded an FY 2017 appropriation of $12,240 per eligible employee. Governor Otter has recommended funding at $13,100 per full-time employee for the State's share of plan contributions for FY 2018. This will allow the State to maintain the same employee-employer cost split, meaning costs for everyone are increasing.

**Ms. Pike** went over some examples of State employee premiums for FY 2018. Monthly plan costs for full-time employees will increase between $5 to $29 depending on the plan selected and the number of dependants on the plan. Monthly costs for part-time employees will increase anywhere between $29-$52. Dental premiums will also increase $1 to $2 per month. OGI will finalize rates for FY 2018 with carriers in March and early April, and appropriations will be set through the legislative budget-setting process.

**Ms. Pike** stated that all FY 2018 details will be posted on the OGI website. **Ms. Pike** noted that OGI had made the website easier to use and easier to find information on for both agencies and employees.

**PRESENTATION:** **Don Drum**, Executive Director of the Public Employee Retirement System of Idaho (PERSI), said Idaho Code directs PERSI how to administer the program, and he credits that direction as the foundation for PERSI's success. PERSI is one of the most successful public employee retirement plans in the United States. The code is very simple as compared to other systems, as it divides employees into two classes: general members and firefighter/public safety members. PERSI is the administrator who runs the plan and the legislature is the plan's sponsor. This means PERSI can adjust contribution and funding decisions for the plan, while the legislature is the only one who can make benefit adjustments.

**Director Drum** explained PERSI has three primary funding sources: employer contributions; employee contributions; and investment earnings. A little over 50 percent of benefits paid out come from investment earnings. PERSI's active members have grown recently, the bulk of which comes from outside the State system, namely schools or city and county employees. Two more counties have also entered the system in recent years. Employers are requesting to enter PERSI almost on a monthly basis, and it currently includes over 780 employers. The number of retirees in PERSI has grown by over 10,000 since 2010, although the percent increase dropped off slightly in 2016. PERSI pays out almost $800 million a year in retirement benefits, and approximately 89 percent is paid out in the State of Idaho. The remaining percent is people who have chosen to move out of the State.

**Director Drum** explained that PERSI has to make a net 7 percent in the market each year to break even and keep unfunded liabilities and the funded ratio the same. As of the end of FY 2016, unfunded actuarial liability had increased from the previous year and the funded ratio had dropped. The amortization period had also increased, and during the last fiscal year the return was a net 1.53 percent. **Director Drum** explained this was because of upheaval in the European Union, as the Greek default crisis made a huge impact at the end of FY 2015. During FY 2016 PERSI knew the 7 percent goal would not be met but assumed the contribution rate would not have to be increased. The Brexit vote then took place and the market tailed down right at the end of the fiscal year.

**Director Drum** reported PERSI had to propose a contribution rate increase, as Idaho Code § 59-1322(5) requires the PERSI Board (the Board) take action if the amortization period is above 25 years. As already explained, the only action the PERSI Board could take was to adjust the contribution rates. PERSI proposed a 1 percent total rate increase between the employers and employees together. The decision was made in October 2016, to go into effect on July 1, 2018, which is the beginning of FY 2019, so it is not an issue in this year's budget. The Board can review the rate increase recommendation in the fall. As of close of business on January 11, PERSI had a 5.2 percent return and the Board believed they could make a 7 percent return this year.

**Director Drum** pointed out the funded ratio climbed from a low of 74.1 percent at the end of the Great Recession, then declined following a high of 93.9 percent in 2014 due to the incidents mentioned above, to a current level of about 87.5 percent. The PERSI Board receives actuarial valuation in October and has until the end of December to make decisions about contribution rates.

**Director Drum** remarked that of the 1 percent proposed increase in the contribution rate, 0.6 percent would fall upon the employer, and 0.4 percent falling on the employee. A final decision will be made this coming October, with any changes going into effect July 1, 2018. **Director Drum** stated that PERSI may have to add to that requested 1 percent increase should the fund not meet its 7 percent goal, however at this point in time the 1 percent may be sufficient. There is a small chance the increase could be postponed or taken off the table altogether. The rate increase would be reviewed as a rule change by the Idaho Legislature.

**Director Drum** disclosed the rates as of now without the 1 percent increase factored in are 8.36 percent for fire and police employees and 6.79 percent for general employees. The employer rate is 11.36 percent, however this is a blended rate between general employers and fire and police employers. **Director Drum** said he estimated the firefighter employer rate is approximately 11.66 percent and the police employer rate is approximately 11.32 percent.

**Director Drum** stated the Cost-of-Living Adjustments (COLA) for retirees are mandated by Idaho Code § 59-1355 if the Consumer Price Index for Urban Workers (CPI-U) for the Western region increases by 1 percent or greater. If this occurs, PERSI retirees receive a mandatory 1 percent COLA. If the CPI-U increase is greater than 1 percent, the PERSI Board has discretion to give an equivalent increase or just the mandatory 1 percent. The goal of the Board is to keep the purchasing power of retirees the same, and historically the COLA given is at least 1 percent. This year's CPI-U increase was 1.1 percent. **Director Drum** said he recommended a COLA increase of 1.1 percent. When retroactive COLA's, "leftover" differences between the CPI-U increase and the COLA increase are considered, the oldest COLA's are addressed and eliminated first. There is currently a 2.95 percent remainder for future retroactive COLA consideration, meaning retirees are currently 2.95 percent behind having their purchasing power kept whole since 2008. Only those who were retired at the time of the retroactive COLA receive the benefit when the retroactive COLA deficit is eliminated.

**DISCUSSION:** **Representative Hartgen** asked if the contribution rate for employers would rise from 11.36 percent to 12.36 percent or if it would gain 1 percent of the 11.36 percent. **Director Drum** clarified that the employer rate would rise 0.6 percent, so the rate would increase from 11.36 percent to 11.96 percent. **Director Drum** then offered to e-mail CECC what the actual rates would be after the increase.

**Co-Chairman Anderson** asked why the contribution rate dropped so much following 1996 (both employer and employee contribution rates dropped by 1 to 2 percent in all categories). **Director Drum** replied that the addition of Bob Maynard, PERSI's Chief Investment Officer, in 1993 significantly changed the way the fund was managed. Following three years of Mr. Maynard's expertise, PERSI had higher returns, and the Management Board felt comfortable lowering contribution rates. **Director Drum** noted that the market was in a great state in 1997. **Director Drum** also explained gain-sharing, put in place in the early 2000s, which allows PERSI to give money back to retirees, active employees and employers should the fund reach a 116 percent funded ratio. Only one gain-sharing event has happened, which in theory returns the funded ratio to 100 percent.

**Co-Chairman Anderson** observed that those who are currently working are contributing at a higher rate in order to sustain those who are already retired, many of whom contributed at a lower rate. He also noted that paying out COLA's exacerbates the problem for those who are still working. **Co-Chairman Anderson** asked if the PERSI Board considered this issue when deciding what COLA's to pay out. **Director Drum** responded that the Board does consider this, and that the actuarial calculations that are done also take this into account. **Director Drum** explained that the math is done so that when taking into account contributions by employer and employee, as well as interest earned on contributions, if retirees die when predicted, their accounts should be zeroed out. **Director Drum** noted however that people are generally living longer and that adjustments will have to be made. **Director Drum** also explained that the Board recently lowered the investment return assumption, and when this happens, generally contribution rates must increase to offset the difference. Theoretically active employees are not paying for the benefits of those already retired, but for their own benefits.

**Representative Hartgen** asked how the Board decides to split up COLA increases between the employer and employee, where employer contribution rates increased by 0.6 percent and the employee contribution increased by only 0.4 percent. **Director Drum** explained that Idaho State law mandates how the split is allocated, which is slightly different for firefighters and public safety members. He also noted that when discretionary COLA's are given (any COLA above the mandatory 1 percent), the Board has estimated that their investment returns will be able to fund that discretionary COLA. **Director Drum** observed that the market can be difficult to predict, and that is why rates are reassessed annually. **Director Drum** stated that the Board does not give out COLA's if the Board does not believe the COLA can be funded through returns from the investment fund without raising contribution rates.

**RECESS:** 3:53 p.m.- 4:05 p.m.

**RECONVENED:** **Co-Chairman Anderson** called the CECC meeting to order at 4:05 p.m. He asked all those testifying from the public to testify in good faith and avoid grandstanding, and asked both sides to respect one another. **Co-Chairman Anderson** stated those testifying would be held to a maximum of five minutes each, and he asked everyone to please be observant of this.

**TESTIMONY:** **Robyn Lockett**, Principal Budget and Policy Analyst, Legislative Services Office (LSO), gave the Committee members a packet containing written testimony from 12 members of the public, all of whom are in favor of increasing compensation, for various reasons. Written testimony in support of a pay increase was received from the following:

Dallas Payton, Clinical Supervisor, Idaho Department of Juvenile Corrections and employees Kristi James, Janalie Anello, Micah Buck, Owen Hirschi, Christie Beeler, Breonna Kraft, Rick Posel, Alan Butcher, Rosa Paz, Colleen Foster, and Scott Cook; Lieutenant Kevin Haight and Colonel Ralph W. Powell, Idaho State Police; Kellen Hill, Norm Sadler, and Michael Vasquez, Boise State University; Donna Yule, Executive Director, Idaho Public Employees Association; and Senator Steven Thayn.

**Rob Pangaro**, Ph.D. candidate at Boise State University (BSU), testified in favor of an increase in employee compensation. **Mr. Pangaro** said he is new to the Idaho community, having moved here just over a year ago. He is retired from the United States Army and is attempting to obtain his Ph.D. in Public Administration Policy from BSU. He is a former teacher and an ordained minister. **Mr. Pangaro** stated he was concerned that despite all his qualifications and experience in both the public and private sector, compensation in Idaho is not what he expected. Moving from a Washington school district, he took a large pay cut, and now earns $5 an hour less in Idaho than he did in Washington, which averages out to approximately $10,000 a year. **Mr. Pangaro** noted that Idaho offered family friendliness, good schools, and a low crime rate. **Mr. Pangaro** stated that despite the lower pay, many things still cost the same; if he were to pay for the same six-bedroom home he owned in Washington, it would cost him approximately $100,000 more in Idaho than in Washington. **Mr. Pangaro** implored the CECC to see that the cost-of-living is beyond that of what an average State employee can afford. **Mr. Pangaro** noted that colleagues in a position for over a decade are still making less than the minimum wage in other states, and that Idaho was in the bottom five in terms of wages in the past year. **Mr. Pangaro** stated he was not asking for a minimum wage increase, just an effort to make sure that those who invest their careers in the State be rewarded. **Mr. Pangaro** stated this issue was not about the man working, but those who depend on the worker, like a spouse or children.

**Representative King** asked Mr. Pangaro how the benefits package of Idaho compares to that of Washington. **Mr. Pangaro** stated that the benefits package costs more in Idaho, and he is lucky he was in the military and able to keep his Tricare coverage. **Mr. Pangaro** stated he uses his wife's insurance for vision and dental as is it is cheaper than his, even though she works at Hillside Junior High in the Boise School District and he works at BSU. **Mr. Pangaro** said he could not afford his benefits package working at BSU.

**Fred Birnbaum**, Vice President of the Idaho Freedom Foundation, presented testimony regarding self-employed individuals. **Mr. Birnbaum** showed a photo of Tina Deboer, a realtor, and her husband, a rock quarry owner, who are both self-employed. He observed that the CECC had heard testimony regarding the costs of healthcare for public employees, but not much about those who are self-employed. In Idaho, premiums have gone up 20 to 30 percent. According to a Brookings Institution study, healthcare is the only category whose spending has increased in the average household since 2007. **Mr. Birnbaum** presented data that showed instead of the $58 premium single State employees pay monthly, single, self-employed workers over age 55 pay $725 a month. **Mr. Birnbaum** argued that self-employed workers are paying for their own healthcare while subsidizing healthcare costs of State employees. He claimed the State pays about 95 percent of the premium for State workers, while many insurance companies split costs 50/50. **Mr. Birnbaum** also contested the findings of the compensation report, claiming the data set was skewed, as many of the companies are large nationwide companies, and many of the cities and counties surveyed are in high-cost areas in Washington and Oregon.

**Janet Gallimore**, Executive Director of the State Historical Society (Society) and State Historic Preservation Office, testified on behalf of the Idaho Historical Society in favor of Governor Otter's proposed 3 percent increase in employee compensation and adjustment of the payline structure. **Ms. Gallimore** emphasized the Society's need for proper employee compensation to better preserve Idaho's history and educate the public. The Society employs 49 full-time employees with an average compensation ratio of 84 percent, one of the lowest in the State. **Ms. Gallimore** stated it is difficult to hire and retain certain staff positions, many of which have education and certification requirements mandated by federal law, when other agencies are able to hire them at higher wages. Both hiring under-qualified employees and having existing hires recruited away cost the State time and money. In particular, development directors, those responsible for managing fundraising campaigns, are also in demand at many universities, and prospective employees can choose from multiple offers. Over half of the Society's budget comes from non-State sources, so this is a critical issue for the Society.

**Representative Redman** asked if Ms. Gallimore's employees were happy with their benefits, or if they would be interested in taking more salary and less benefits. **Ms. Gallimore** stated that employees are happy to work for the State of Idaho and are grateful for the benefits provided, but the employees are focused on salary. **Ms. Gallimore** stated that the package must be attractive in all aspects and did not believe one aspect was more important than another. **Representative King** asked if Ms. Gallimore had positions that were staying open for long periods of time because they could not be filled. **Ms. Gallimore** replied that maintenance positions were particularly difficult, and that one position is open right now.

**Heidi Graham**, a worker for the Department of Health and Welfare, representing herself, testified about the overall understanding about State pay. **Ms. Graham** cited a CEC report from 2002 where the market lag was reported to be 11 percent, and another report for FY 2018 where the market lag was expected to be about 20 percent, noting that the gap has widened. **Ms. Graham** advocated for increased pay to help close that gap. **Ms. Graham** also recommended providing discretionary money to agencies to help recruiting and retention for key positions, as well as giving agencies more flexibility in how they use salary savings, for temporary bonuses for example. **Ms. Graham** wondered if the increasing minimum wages in surrounding states would eventually cause Idaho wages to rise. Overall **Ms. Graham** advocated an increase in pay and a plan to give agencies more flexibility in their hiring and pay standards.

**Megan Ronk**, Director of the Idaho Department of Commerce (DOC), testified in support the Governor's recommendation for a 3 percent pay increase. **Ms. Ronk** also supported the discretion given to Directors in the past to reward employees based on merit. **Ms. Ronk** noted the demand by local businesses for qualified, responsive employees in the DOC, and appreciated the support given by the legislature in the past. The DOC has had to make tough choices in order to attract and retain highly qualified employees, such as downsizing from 52 to 43 full-time employees from 2012 to 2017. This also raised the agency compensation ratio from 79 to 92 percent. The DOC's needs are expanding along with Idaho's economy.

**Representative Hartgen** asked if the DOC used a bonus system based on number of jobs created or revenue generated or any other quantifiable measures in the pay plan. **Ms. Ronk** stated this would be very hard to do on a consistent basis due to the group nature of the DOC's work. **Representative Hartgen** asked if Ms. Ronk had any data related to how the rollback in number of employees translated into pay increases for remaining employees. **Ms. Ronk** replied the DOC had not done any studies yet.

**Senator Guthrie** noted that other agencies do not have the opportunity to downsize and reallocate funds to raise compensation ratios, and asked if she had a "silver bullet" to help these other agencies. **Ms. Ronk** noted that every agency is different and the DOC had to make a decision best suited for the agency and noted the solution might not work for everybody.

**Hawk Stone** testified in support of an increase in pay. **Mr. Stone** said he had been a water scientist for the Department of Environmental Quality (DEQ) for past 15 years. **Mr. Stone** stated he has seen many of his former colleagues leave the DEQ to get higher paying jobs in the industry or with the federal government. Replacing people involves time and risk, and he noted that the government should want the best qualified people managing government and natural resources. **Mr. Stone** noted he has never received a negative performance review yet never received more than 82 percent of the policy rate. He also noted that the pay difference between employees who receive "solid" and "exemplary" reviews is only 11 cents an hour. The difference between market rates and government rates is increasing, and Idaho is becoming less competitive. Raising the average wage to the policy rate would cost $100 million dollars. **Mr. Stone** asked the State to fund education first, but also consider a multi-year plan to raise wages to the policy level.

**Representative Redman** asked Mr. Stone if he would consider taking a cut in benefits to receive an increase in pay. **Mr. Stone** noted that he could only speak for himself, but he would be happy to take a cut in benefits and receive an equivalent pay increase.

**Gary Spackman**, Director, Idaho Department of Water Resources (DWR), testified in favor of Governor Otter's proposed pay increase. **Mr. Spackman** stated his ability to analyze and prioritize employees was one of his greatest strengths, and thanked the legislature for their past appropriations for employee compensation. **Mr. Spackman** noted one of the biggest issues is employee retention, particularly in technical positions, as employees are required to speak confidently as an expert in front of attorneys and courts. Appropriations have also helped with compression issues, and new hires are not offered the same pay rate as existing employees. Many employees agency shop for higher pay.

**Senator Lakey** asked for an estimate on what percentage of compensation comes from taking the pay from employees who leave and distributing it among remaining employees. **Mr. Spackman** stated he did not have those numbers but he could look into getting them, and noted he was not always able to do redistribute funds for some professional positions because they have to pay market prices to get qualified employees. **Representative King** asked if the DWR had a hard time recruiting students out of college due to higher wages in neighboring states. **Mr. Spackman** replied that often in order to take a professional exam for certification in engineering fields requires four years of experience. **Mr. Spackman** stated that recent graduates come to the DWR to get that experience, and as soon as they receive certification they leave for another job. **Mr. Spackman** emphasized that retention is the most difficult part of the process.

**Rachel Duffy**, an employee of Boise State University (BSU) who has held various positions for over 10 years, testified in support of a pay increase for State employees. **Ms. Duffy** noted education translated into $3.3 billion of Idaho's gross product in FY's 2013 and 2014. In order to attract and retain the best students, universities must be able to attract and retain the best employees. Forty-six percent of those leaving the education system, when surveyed, stated they were leaving for pay.

**John Tippets**, Director, Department of Environmental Quality (DEQ), first noted that Hawk Stone is a DEQ employee and an excellent one. **Mr. Tippets** thanked the CECC for the 3 percent pay raise appropriated in previous years. **Mr. Tippetts** asked the CECC to approve the Governor's proposal for a further 3 percent pay raise this year. **Mr. Tippets** stated that employee pay should remain a priority, and that the State is losing ground to other states and the private sector on employee pay. **Mr. Tippets** noted private sector wages increased an average of 4.2 percent from 2015 to 2016, and while pleased with this growth, he believed a pay raise for public employees was needed to help compensate.

**Senator Guthrie** asked if benefits should be cut to increase wages and if this would help attract more qualified employees. **Mr. Tippets** said the responsible viewpoint was to look at both benefits and wages, and individual employees have different views on benefits versus pay. Younger employees care less about retirement than older employees, and generous retirement benefits help retain older employees. **Mr. Tippets** stated having good health care helps attract good employees to the State but could not speak to the views of his employees on benefits versus wages.

**Representative King** asked if Mr. Tippets had difficulty recruiting professionals. **Mr. Tippets** replied that it depends on the position, but it was particularly difficult in science, engineering and highly skilled positions. Often the DEQ has had to lower requirements to attract employees who can eventually be trained to fill the original position's requirements.

**Emilio Amaro**, a member of the landscaping services team at BSU, asked for a review of the conditions of all employees at BSU, but especially those in landscaping due to their low pay. **Mr. Amaro** stated their pay was lower than those working at other entities doing the same work, sometimes $6 an hour lower than those who work for Parks and Recreation and other State agencies. **Mr. Amaro** said he believed those working at BSU were living below the poverty line. **Mr. Amaro** stated faculty and staff are given priority and those who are underneath do not see any of the new money given to higher education institutions. **Mr. Amaro** asked for help from those on the CECC and stated BSU workers appreciate what the legislature does for them.

**ADJOURNMENT:** There being no further business, Co-Chairman Patrick adjourned the meeting at 5:13 p.m.

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| ___________________________ | ___________________________ |
| Co-Chairman Neil Anderson | Linda Kambeitz<br>Committee Secretary |
| ___________________________ | ___________________________ |
| Co-Chairman Jim Patrick | David Bujarski<br>Assistant Secretary |