

MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE: Tuesday, January 17, 2017

TIME: 4:00 P.M.

PLACE: WW17

MEMBERS PRESENT: Co-chairman Patrick, Senators Guthrie, Martin, Lakey, Thayne, 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 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 4:00 p.m. He thanked the Change in Employee Compensation Committee (CECC) for their attendance. He indicated that the direction for the CECC was to arrive at a total compensation package for State employees. The four items to be considered were as follows: 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 to the employee benefit package comprised of health insurance and Public Employee Retirement System of Idaho (PERSI) benefits. He indicated that this was the fourth year the CECC had met. The first year the CECC passed a 1 percent merit-based increase in salary and a 1 percent bonus. The second year there was a 3 percent increase suggested by the Governor. The next two years the Governor's pay increase was approved. **Co-Chairman Anderson** suggested that the CECC discuss the four items to be considered, give their opinions and ideas, and determine their feasibility.

Co-Chairman Patrick asked if the discussion would begin line-by-line and **Co-Chairman Anderson** agreed that would be an appropriate place to start.

DISCUSSION: **Senator Martin** stated that he had concerns about the use of salary savings which are not equal in all departments. The trend shows State employee compensation is going in the wrong direction. He was supportive of the career ladder 6.3 percent increase for teachers, but other State employees would receive 3 percent. Both groups are State employees but teachers would receive a larger pay raise. **Co-Chairman Anderson** indicated that the CECC did not have the power to make any changes in Senator Martin's areas of concern. He suggested those concerns should come as a recommendation to the appropriate interim committees.

Senator Burgoyne commented that employee compensation needs to be dealt with in the next 5 to 10 years. The issues are complicated and will take time to be solved. He stated that he was ready to work on what the CECC could accomplish, but was realistic about his expectations.

Senator Lakey stated that Representative Wood and his previous committee had looked at options available, and he suggested bringing in someone with expertise in this area to help sort through those options. He stated that Idaho was substantially behind other states in the compensation area. He supported the Governor's merit-based compensation proposal.

Representative Packer indicated that she supported the 3 percent salary increase and recommended that an Idaho-based foundation should be used as a baseline. She also suggested that recommendations should be made to other interim committees for examination.

Representative Harris stated that he agreed with Representative Packer, and asked if the motion was on each item or a combined one. **Robyn Lockett**, Principal Budget and Policy Analyst, Legislative Services Office (LSO), stated that a vote must be done on each individual item or by default the CECC would be accepting the Governor's recommendation. A resolution could be done if need be.

Co-Chairman Anderson suggested that the CECC start with a discussion on salary structure.

DISCUSSION: **Representative King** started the discussion by stating that good salaries should be paid to good employees. There will be many changes in employees in the next 15 years, and to hire and retain good employees, they must be paid well.

Senator Ward-Engelking commented that the issues being discussed were very complex and the CECC needed to take their time to make sure they were making the right decisions. Salary issues are very important to young people and as Idaho's older employees retire, it is important to entice young, innovative people to fill those positions.

Representative Wood indicated that he would support the Governor's proposal for salary structure adjustments, changes to address specific occupational inequities, and changes to the employee benefit package. He discussed the uncertainty surrounding health care costs, if the State should be self-insured or through an insurer, and the potential for going to a value-based health care system. **Representative Wood** suggested that the State continue to provide the benefits currently being given, including grandfathering, until a more definitive decision is made on health care. He stressed that employees are always concerned about salary and recommended giving those under \$40,000 a 3 percent across-the-board raise and a merit increase for everyone else.

Senator Burgoyne stated that there was real value to the package being presented. **Representative Hartgen** was in favor of compensating employees earning less than \$40,000 with the 3 percent increase and those earning above \$40,000 with a merit increase. He suggested the benefits package needed more review. **Representative Redman** stated that how the CECC looks at salary is how the CECC looks at benefits. He agreed with Representative Wood. **Representative Harris** and **Senator Guthrie** said they were strong supporters of merit pay. They also indicated that with a mid-point mean increase of 3.6 percent, those in the upper half are getting a larger increase than those in the lower half.

MOTION:

Representative King moved to include the following:

- 1.) the compensation schedule be shifted up by 3 percent at the minimum and a 1 percent Cost-of-Living (COLA) adjustment to all employees who are meeting or exceeding expectations. The cost to do this is estimated to be \$129,500 to bring 394 employees up to the minimum of the salary ranges. The exception to the change would be the minimum wage that would remain at \$7.25 per hour in pay grade D;
- 2.) the State maintain the job classifications that currently have a pay-line exception to address specific recruitment or retention issues;
- 3.) the State, as the employer, to fund the increased cost of insurance premiums in the amount of \$13,100 for each State employee; and
- 4.) to include Legislative intent that reads as follows: "It is the intent of the Legislature that the director of the Department of Administration shall re-negotiate the State's vision and dental insurance contracts upon the expiration of the current contracts in order to achieve a lower cost to eligible employees with commensurate benefits, or an increase in the benefit packages at a commensurate cost to eligible employees."

Ms. Lockett stated the 1 percent COLA for state agencies would total \$13,184,700 and the cost for the public school administrators (classified public school employees) would be \$2,238,700 coming only from the General Fund.

Senator Ward-Engelking seconded the motion.

SUBSTITUTE MOTION:

Senator Martin moved that a 2 percent raise be given to the base with a 3 percent merit-based raise for a total of 5 percent.

Representative Chew seconded the motion.

Representative Harris asked if the funds include the General Fund, dedicated or other funds. **Ms. Lockett** stated that \$8,414,000 is General Fund cost. All funds considered total \$14,918,200 for each 1 percent, referring to permanent current employees. **Senator Souza** asked Ms. Lockett if the estimates she gave included all ancillary costs. **Ms. Lockett** stated the variable costs are lumped into a fixed appropriation cost with the benefit package. The cost to the State would be none or minimal. **Keith Reynolds**, Deputy Division Director of Insurance and Internal Management Systems and Chief Financial Officer, Department of Administration (DOA), stated that the question pertains to risk insurance and it is not affected by payroll. Workers' Compensation is included in the package Ms. Lockett referred to. A discussion was held concerning variable benefits and their cost distribution.

AMENDED SUBSTITUTE MOTION:

Representative Wood moved to accept the Governor's recommendation with the exception of employees making \$40,000 or less who would receive an across-the-board raise of 3 percent and those employees above would receive 3 percent based on merit.

Representative Hartgen seconded the motion.

Representative Wood discussed his concerns about Idaho's economy and putting that much increase in the base salary. He stated that there are many State employees who work hard and deserve to be paid well. He was also concerned about the amount of money going into education and other areas.

Senator Guthrie indicated that he felt Idaho employees enjoy many positive benefits but also recognized that State employees' wage and benefits packages do not have a healthy balance when compared to other public and private sector groups. He cited three areas where this was evident. **Senator Guthrie** said Idaho's benefits are consuming resources that make it difficult to mitigate salary disparities. There is a lack of internal equity among grade levels and the cost of escalating health benefits is problematic. He pointed out that there needs to be a current study of the use of salary savings and more accurate tracking of this resource. **Senator Guthrie** stated that it is not relevant to compare Idaho to employment markets in major metropolitan areas. He said he felt it was important to have a comparison of Idaho public and private sector employers to get a baseline of salary and benefit packages.

MOTION:

Senator Guthrie moved that the compensation schedule be shifted 3 percent upwards at the minimum, policy, and maximum pay rates in all pay grades from Fiscal Year (FY) FY 2017 – FY 2018. The exception to the change should be the minimum wage that would remain at \$7.25 per hour in pay grade D. He also proposed that an increase in the overall package by giving a 2 percent merit-based increase to Grade V (a small number less than 10), a 3 percent merit-based increase to Grade R, and a 4 percent merit-based increase to Grade Q. All other grades would receive a 5 percent merit-based increase.

Senator Guthrie stated that there would be no new money budgeted to cover health benefits by either employer or employee contributions. He asked the CECC to support the efforts of the interim committee charged with studying salaries and benefits to be ongoing with emphasis on efforts to reduce health care benefit costs. The increases that were proposed would not exceed that recommended by the Governor.

Representative Packer seconded the motion.

DISCUSSION:

Senator Thayne stated that from his research he believed there were ways to reduce medical costs and other costs at the same time, but it would take more than six months to make that happen and it is a long-term goal. This motion focuses attention on the fact that health care benefits need to be improved without increasing the costs. He indicated that there are programs going on in other states that show the possibility exists, but it will take time to implement savings techniques. He is in support of Senator Guthrie's motion.

Senator Burgoyne indicated that he would not be voting for Senator Guthrie's motion. He stated that market comparison is very difficult and he did not hear answers to some of the questions he had regarding the markets that were examined by the experts. The fact that the State loses out to larger markets does not surprise him. He stated that he sees license plates here from almost every state so he does not believe the market studies received were totally incorrect. **Senator Burgoyne** said he agreed with Representative Wood regarding health insurance. **Senator Burgoyne** stated he was concerned about the people at the bottom end of the pay scale in regard to health insurance. The potential of putting more cost on low income earners by either having to pay more to get the same benefit or having a smaller benefit on health insurance would be problematic. **Senator Burgoyne** said he did not support the motion.

Representative Redman stated he liked Senator Guthrie's motion but asked Jennifer Pike, Administrator, Group Insurance, DOA, to explain insurance benefits renegotiation. **Ms. Pike** indicated that the CECC could change the insurance plan structure however they deemed fit. She stated that last year there was as much shifting and changing as possible to maintain the grandfather status. The changes resulted in an \$8,000,000 shift as a result of pushing everything to the limit, including co-pays, deductibles and premiums. She stated she could not be sure if in the current year it would be enough to offset the salary increase and not have to increase appropriations.

Representative Redman questioned Ms. Pike about the grandfather status and the fees in relation to the Affordable Care Act (ACA). **Ms. Pike** responded that the health insurer fee and the ACA fee are tied directly to the ACA. She stated that whether one is grandfathered or not, the State would still have to pay the ACA fees. The State will be required to pay those until there are changes at the federal level.

Co-Chairman Anderson questioned whether State employees would feel a lack of trust if the level of insurance coverage was changed at this time. **Ms. Pike** stated that the employees were very appreciative of the benefit package they have, but trust levels are very individual for each employee. A discussion was held concerning the enrollment period and the idea that State employees are not limited to an open enrollment period. They can enroll at any time during the plan year.

Senator Ward-Engelking voiced concern that the 5 percent increase asked for in Senator Guthrie's motion would be totally nullified by the additional expenses employees had to pay for medical care. **Ms. Pike** stated that the increased projections were between \$5 to \$29 a month. Absolute costs are driven by utilization. If employees did not go to the doctor, the impact would just be the increase in premium. If employees went often, they could have higher medical expenses.

Representative Wood stated that Senator Guthrie's motion raised several problems including health insurance, continuing ACA fees, and renegotiating fees for service by using a third party. By decreasing the benefit package, holding the Governor's recommendation the same or below, then the employees would receive less remuneration in the next fiscal year. **Representative Wood** could not support the motion.

Senator Martin asked what the cost of the annual ACA fee was to the State of Idaho. **Ms. Pike** stated that for FY 2018 the cost would be \$11,000,000.

Senator Guthrie indicated that his proposal would not affect the employee's grandfather status.

DISCUSSION: **Representative Harris** recognized that Senator Guthrie's motion included some areas that needed change but he stated that 5 percent was too high.

Senator Burgoyne stated that the compensation systems attract and keep a certain type of employee, changes to that system encourage some employees to leave and attracts new types of employees. Health insurance is important to small business owners. Many times a spouse will work for the State specifically for the benefit package which would enable the other person to keep his/her job. The CECC may want to consider what effect an insurance change would have on the types of employees currently employed and who potentially could be employed.

Senator Souza stated that Idaho needed to pay attention to how it markets itself to prospective employees and to present a more balanced package. Research shows that millennials are more focused on quality of life than money. Idaho has an abundance of quality of life. Idaho's turnover rate is also very low. She supports Senator Guthrie's motion because it addresses some of these issues.

Senator Ward-Engelking commented that she believed that salaries were too small and the benefit package could be better with a plan for lower prices.

Representative Chew stated that many older employees stay employed with the State because of the benefit package, especially health care. She was concerned that some of these knowledgeable people might be motivated to terminate employment because of a benefit package change.

Senator Anthon stated the motion suggested giving the lowest paid employees a higher percentage raise and those who are paid in the higher compensation levels getting less of a raise. It appears that the State is trying to keep the system-wide salary structure in place with the first recommendation of the Governor. **Senator Anthon** said that this would create a problem for the future, and stated that it was not a good approach.

Senator Guthrie defended part of his motion by showing a comparison of the market rates from the private sector comparing grades V, R, and Q. If internal equity is the goal, these three grades are out of equity.

Co-Chairman Anderson stated that Senator Guthrie's motion needed to be voted on.

Senator Guthrie suggested negotiating using the same amount as was committed last year, which was just under \$13,000 per employee. This may result in a reduced benefit package such as higher deductibles or co-pays. The savings realized would come from the reduction in health care costs and would offset the additional increase in salaries beyond the proposed 3 percent. He also proposed a recommendation from the CECC to include support for the efforts of the interim committee. Focus would be on studying salaries and benefits and would be ongoing with an emphasis on the evaluation of the use of salary savings, internal equity, relevance of the Hay study and efforts to reduce health benefit costs.

Co-Chairman Anderson called for a roll call vote on Senator Guthrie's motion. **Senators Martin, Guthrie, Thayn, Souza, and Representatives Packer and Redman** voted aye. **Senators Anthon, Ward-Engelking, Burgoyne, Co-Chairman Patrick, and Representatives Hartgen, Wood, Harris, Holtzclaw, King, Chew, and Co-Chairman Anderson** voted nay. The motion failed.

Co-Chairman Anderson asked for unanimous consent to bring one more proposal forward. **Senator Burgoyne** objected.

MOTION:

Representative Wood moved to accept the Governor's recommendation to increase the pay structure 3 percent; to continue to do the varied pay structure based on hard-to-fill jobs; to give a 3 percent merit increase to those employees who make \$40,000 and above, and to give a 3 percent fixed salary increase to those making \$39,000 and below; and to fund health insurance as recommended by the Governor.

Representative Packer stated that she was in favor of the interim committee studying health care costs and to make recommendations to the CECC. She was concerned about telling the State health care carrier how much the State would "offer" them because she was afraid they would take advantage of that dollar amount.

Representative King stated that she saw the proposals from three companies, including Blue Cross. She felt like the State was getting the best deal for the amount of money being spent.

Representative Redman stated that he thought a fully-insured plan was not the way to go, but it was hard to predict because no one knows what the future holds. He supported Representative Wood's motion.

A discussion was held concerning the \$40,000 line for raises and the ramifications.

Representative Wood assured the CECC that if it was a real problem, the Joint Finance-Appropriations Committee (JFAC) would catch it.

Representative Wood reviewed the motion as follows: move the pay structure 3 percent in accordance with the Governor's recommendation; continue to do the varied pay structure based on hard-to-fill jobs currently in effect in accordance with the Governor's recommendation; give a 3 percent merit increase to those employees who make \$40,000 and above, give a 3 percent fixed salary increase to those making \$39,000 and below; and fund the health insurance in accordance with the Governor's recommendation.

Co-Chairman Patrick seconded the motion.

Co-Chairman Anderson called for a roll call vote. **Senators Thayn, Souza, Anthon, Co-Chairman Patrick** and **Representatives Hartgen, Wood, Holtzclaw, and Redman** voted aye. **Senators Martin, Guthrie, Ward-Engelking, Burgoyne, and Representatives Harris, Packer, King, Chew, and Co-Chairman Anderson** voted nay. The motion failed.

The Committee took a 10 minute break from 6:14 p.m. and to 6:24 p.m.

MOTION:

Senator Martin moved to accept the recommendation of the Governor except with the 3 percent merit and 2 percent COLA increase for a total increase of 5 percent.

Representative Chew seconded the motion.

Representative King added that dental insurance is not included in the State insurance but vision is. The Director of the DOA will renegotiate both vision and dental upon expiration to achieve lower costs.

A discussion was held concerning the total cost for the 5 percent increase. **Ms. Lockett** stated that the total cost would be \$74.5 million and \$42 million of that would come from the General Fund. She indicated that the \$7 million for benefit costs come from a different portion of the budget.

Co-Chairman Anderson called for a roll call vote. **Senators Martin, Ward-Engelking, Burgoyne, and Representatives King, and Chew** voted aye. **Senators Guthrie, Thayn, Souza, Anthon, Co-Chairman Patrick, and Representatives Hartgen, Wood, Harris, Holtzclaw, Packer, Redman, and Co-Chairman Anderson** voted nay. The motion failed.

MOTION: **Representative King** moved to accept the Governor's recommendation in regard to salary structure and hard-to-fill jobs; to accept the Governor's recommendation for salary with the addition of a 1 percent COLA for those that had a performance rating of "achiever or greater;" accept the Governor's recommendation on benefits and insurance costs; and renegotiate dental coverage.

Representative King stated that 4 percent is a solid number compared to the rest of the world. Benefits are going to cost more because of rising health insurance costs.

Senator Souza encouraged the CECC to think outside of Boise. She suggested that the CECC be sensitive to the fact that the majority of these raises are benefitting people who live in Ada county. The economy in all other parts of Idaho is not as robust.

Representative Harris commented that the actual average increase in income has been 3.1 percent. Studies show that a 3 percent CEC increase turns into an employee raise of 4.5 percent.

Senator Ward-Engelking seconded the motion.

Senator Ward-Engelking stated that if the average for State employees is 4 percent, that would mean others are getting 1 or 2 percent. By giving a 1 percent COLA, it would help with additional benefits issues.

Co-Chairman Anderson called for a roll call vote. **Senators Martin, Anthon, Ward-Engelking, Burgoyne, and Representatives King and Chew** voted aye. **Senators Guthrie, Thayn, Souza, Co-Chairman Patrick, and Representatives Hartgen, Wood, Harris, Holtzclaw, Packer, Redman, and Co-Chairman Anderson** voted nay. The motion failed.

MOTION: **Co-Chairman Anderson** moved to increase the pay structure by 2 percent and continue pay-line exemption as it is; to give a salary increase of \$300 across-the-board; give a 2 percent merit; and funding health insurance as recommended by the Governor with the addition of some verbiage. Convene an interim committee for further investigation of Senator Thayn's ideas and include salary savings as part of the investigation. PERSI benefits would be 12 percent for employers and 7 percent for employees, which is slightly in excess of 19 percent.

Representative Harris seconded the motion.

For safety employees such as firemen and policemen, the contribution on behalf of the State exceeds 12 percent and employees in those departments are contributing 8.8 percent for a total of 21.09 percent. The contribution between the employee and employer is slightly under 20 percent for regular employees and slightly over 20 percent for safety employees. There are concerns regarding the way PERSI is administered and if it is a sound financial investment. The motion would recommend that a germane committee look into PERSI.

SUBSTITUTE MOTION: **Senator Burgoyne** moved that the CECC accept all of the Governor's recommendations. **Senator Ward-Engelking** seconded the motion.

Co-Chairman Anderson called for a roll call vote. **Senators Martin, Anthon, Ward-Engelking, Burgoyne, Co-Chairman Patrick, and Representatives Wood, Holtzclaw, King, and Chew** voted aye. **Senators Guthrie, Thayn, Souza and Representatives Hartgen, Harris, Packer, Redman, and Co-Chairman Anderson** voted nay. The motion carried.

ADJOURNED: There being no further business at this time, **Co-Chairman Anderson** adjourned the meeting at 6:54 p.m.

Representative Neil Anderson
Co-Chairman

Linda Kambeitz
Secretary

Senator Jim Patrick
Co-Chairman

Sharon Pennington
Assistant Secretary