MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Thursday, January 11, 2018
TIME:	2:30 P.M.
PLACE:	Lincoln Auditorium
MEMBERS PRESENT:	Senators Co-Chairman Patrick, Guthrie, Martin, Lakey, Thayn, Souza, Potts, Ward-Engelking, and Burgoyne Representatives Co-Chairman Anderson, Hartgen, Wood, Harris, Holtzclaw, Packer, Redman, and King
ABSENT/ EXCUSED:	Representative Chew

CONVENED: **Co-Chairman Anderson** called the Change in Employee Compensation Committee (CECC) meeting to order at 2:30 p.m. and asked the secretary to take a silent roll. **Co-Chairman Anderson** introduced the analysts and thanked them for their work.

OVERVIEW: **Co-Chairman Senator Patrick** informed the CECC that the Division of Human Resources (DHR) has provided the Report to the Governor, FY 2019 Change in Employee Compensation & Benefits Report, submitted by Susan E. Buxton, DHR Administrator (see Attachment 5) (DHR Report) required by Idaho Code § 64-5309c. The DHR Report contains pertinent information that will assist in the work of the CECC. Decisions of the CECC will affect state employees as well as other entities across the State. The report can be accessed electronically at https://dhr.idaho.gov/PDFs/CEC/FY2019CEC.pdf.

Co-Chairman Anderson reviewed the obligation of the CECC, emphasizing that the CECC represents the legislature. He stated that DHR publishes its projections by December 1 each year, and he noted that the Governor gave his recommendations in his State of the State address. **Co-Chairman Anderson** advised the CECC members to consider the recommendations of the DHR and the Governor.

In referring to the DHR Report (see Attachment 5, page 22), **Co-Chairman Anderson** identified and summarized the four recommendations that the CECC is responsible to address. They are:

1. Salary Structure Adjustment.
2. Specific Occupational Inequity/Payline Exception Component.
3. Merit Increase Component.
4. Employee Benefit Package.

Co-Chairman Anderson directed the CECC members to the DHR Report for clarification of the term "Total Compensation", which includes all forms of cash compensation and benefits (see Attachment 5, page 10).

Co-Chairman Anderson announced the two upcoming meetings. He informed the CECC that there would need to be additional meetings if agreement was not achieved. He pointed out that additional meetings would result in conflicts with other committees.

PRESENTATION: **FY 2019 CEC Report to the Governor**. **Susan Buxton**, DHR Administrator, informed the CECC that State of Idaho employees form the largest workforce in the State, numbering approximately 25,300 employees. She pointed out that Idaho's compensation code is found in Idaho Code § 67-5309 (see Attachment 5, page 6).

Ms. Buxton pointed out that Idaho's economy is continuing to recover following the downturn, indicating that there has been a steady increase in compensation, and that the State is almost at full employment. She explained that public and private employers are competing to attract and retain quality employees, and that there is a healthy job market in Idaho. **Ms. Buxton**, using the DHR Report (see Attachment 5), explained the State's compensation plan, market factors reviewed for the CEC report, the local salary survey, the Total Compensation Report, and the DHR CEC recommendations.

Ms. Buxton named the aspects of a competitive compensation plan necessary to attract and retain productive employees (see Attachment 1, page 2). She praised the public employees of Idaho for their commitment to their jobs and the betterment of Idaho communities. **Ms. Buxton** reported that there are some issues relating to personnel, but the DHR is working with the directors and their human resources officers to ensure the use of best practices management systems. She identified the top five contributors to employee satisfaction as follows:

1. Respectful treatment of all employees at all levels.
2. Overall compensation.
3. Trust between employees and senior management.
4. Job security.
5. Opportunities to use skills and abilities (see Attachment 1, page 2).

Ms. Buxton discussed the Idaho State survey as well as other surveys which have been conducted to compare the State's salary structure and competitor markets in order to assess Idaho's competitiveness. To complete the surveys, it was necessary to establish a job classification system to be able to accurately compare the survey items with competitors. **Ms. Buxton** discussed the make up and development process of the surveys that were used (see Attachment 5, pages 12-13). She introduced Mr. Greg McNutt, Senior Strategic Rewards Consultant for Milliman Inc., who was instrumental in the development and application of the surveys.

PRESENTATION: **Greg McNutt**, Senior Strategic Rewards Consultant, Milliman Inc. (Milliman), identified and explained the consulting services provided by Milliman (see Attachment 2, page 2). He indicated that Milliman's work revolves around custom compensation and benefits studies with a focus on northwest employers. **Mr. McNutt** explained that he would address the methodology to ensure the steps of the research are credible, understandable, transparent, and statistically valid. He stated that he would then share observations based on the results of the research.

Mr. McNutt related that as a result of the 2017 Legislative Session, Milliman was retained to conduct an Idaho-centered survey to determine if there are gaps between how the State compensates its employees with respect to salaries as opposed to the market practice. He explained that if gaps were found, Milliman would provide information promoting a transparent and comprehensive total comprehensive program. **Mr. McNutt** specified that this research will be limited to salary compensation, and not to benefits.

Mr. McNutt identified the reasons for the survey, the components involved in producing a quality survey, factors affecting labor markets, and the project steps (see Attachment 2, pages 4-7).

Senator Souza asked what percentage of surveys were returned. **Mr. McNutt** replied that surveys were sent to 100 organizations, including both public and private, and 32 surveys were returned, yielding a 32 percent response. **Senator Souza** inquired how many individual people within those organizations responded. **Mr. McNutt** explained that the surveys were sent to one person within each organization.

Mr. McNutt presented the following observations resulting from the survey, together with charted documentation of the survey results (see Attachment 2, pages 8-9):

- For all surveyed jobs, the State's salary position, on average, is 9 percent below the middle of the market.
- Although nearly all jobs fall within a reasonable range of the middle of the market, more jobs fall below than above.
- While competitive overall, some variance exists by job function and salary levels.

Mr. McNutt pointed out that increases in the private sector salary budgets have remained steady at 3 percent each year since 2015, while the public sector salary budgets have dropped from 2.8 percent in 2015 to 2.5 percent in 2017, with a projected 2.0 percent increase for 2018.

For a more in-depth analysis of the survey data, see Attachment 5, pages 26-65.

Ms. Buxton affirmed that the Milliman group and the Korn-Ferry Hay group (KFH), who conducted a separate analysis which included benefits, functioned separately and had no knowledge of the work or the results of the other research group. **Ms. Buxton** reiterated that in November, 2017, DHR surveyed and analyzed Idaho's total employee compensation as required by Idaho Code § 67-6309A and Idaho Administrative Procedure Act (IDAPA) 15.04.01.070.04(a-c).

Ms. Buxton delineated the process used by KFH to conduct the total employee compensation analysis comparing Idaho's plans with other states as well as with the public sector. She then introduced Malinda Riley, Senior Principal, Korn-Ferry, Hay Group to report on their analysis.

PRESENTATION: **Malinda Riley,** Senior Principal, Korn-Ferry, Hay Group (KFH), explained that total compensation analysis included both salaries and benefits for both State and private sector employees. She commented that KFH did not use a custom survey, but reviewed other resources for their research. **Ms. Riley** identified the four tasks the State requested (see Attachment 3, page 1).

1. Compile salary market analysis results.
2. Conduct benefits market analysis.
3. Determine total compensation market position.
4. Present findings to legislative CECC.

Ms. Riley detailed the process used to conduct the total compensation analysis including the use of survey sources, the use of information from other state and private sector entities, and comparing results of those sources with KFH data. **Ms. Riley** explained the use of weighted averages for salary analysis, stating that under this form of calculation different values are assigned to different jobs based on the impact of the various jobs (see Attachment 3, page 2). She detailed the analysis findings at the different pay grades (see Attachment 3, page 3-6). Overall the findings for all components combined indicated Idaho has a compensation position that is more than 10 percent below the market average, both in the public and the private sectors (see Attachment 3, page 4).

For a more in-depth analysis of the survey data, see Attachment 5, pages 66-115.

Ms. Buxton presented the four components of DHR's CECC recommendations (see Attachment 1, page 4):

1. Implement a 3 percent increase to the entire pay structure.
2. Maintain the current occupational inequity/payline exceptions (see Attachment 5, page 120).
3. Implement a 3 percent merit salary increase.
4. Maintain the current employee benefit package.

DISCUSSION:

Representative Packer directed her question to Mr. McNutt asking if, providing there were no privacy issues, an appendix page listing the legislators and directors who participated in the survey exists, and if not, where such a list can be accessed. **Mr. McNutt** replied that those names are not included and he offered to provide an addendum listing them. **Representative Packer** inquired if the blue dots on the State of Idaho Average Pay v. Survey Results graph (see Attachment 5, page 38) indicate the mid-point salary from the pay grade or the actual average of our employees in any given classification. **Mr. McNutt** explained that the dots represent the actual average salary. **Representative Packer** asked if there is a methodology that allows for compensation increases for the mid to low end salaries/hourly rates rather than across the board. **Ms. Buxton** advised that DHR addresses inequities using merit increases, a method based on statute. A discussion ensued clarifying how salary structure adjustment affects payline exceptions.

Senator Burgoyne inquired if Idaho is above or below market. **Ms. Buxton** stated that the State is below market. **Senator Burgoyne** asked if the recommended 3 percent increase will get the salary scale to market or if it will take more. He also asked if the target increase is measured against the private sector, public sector, or an amalgamation of the two. **Ms. Riley** addressed this question in terms of total compensation. She explained that total compensation is at 10 percent below both public and private markets, resulting in an actual increase of more than 3 percent. She pointed out that although including benefits would require some increase in percentage, benefits are enhanced with salary increases resulting in a minimal amount of increase for benefits. **Senator Burgoyne** mentioned that due to the healthy economy, salaries in the private sector may rise, and he asked if the recommended increase in state compensation would realistically close the gap. **Ms. Riley** acknowledged that the analyses represent a point in time and the economy could fluctuate.

Representative Harris expressed concern regarding perceived discrepancies among the CEC report from last year and the findings in those reports. **Robyn Lockett**, Budget Policy Analyst, Idaho State Legislative Services Office, advised that she will present the permanent state-wide pay changes information next week. She explained that it will show the impact of the increase in personnel dollars, agency by agency, with some differences in percentage of increase. **Representative Harris** requested further clarification of the discrepancy between 2.5 percent and 4.5 percent reported. **Mr. McNutt** explained that last year's report was from a different subset of data. **Ms. Buxton** added that these discrepancies may be the result of the appropriated increase being divided among the different agencies and the different employee compensation amounts.

Representative Harris referred to the Salary Market Competitiveness chart (see Attachment 5, page 74) and the Total Compensation Market Competitiveness chart (see Attachment 5, page 98), expressing concern that the extrapolated numbers do not correlate. **Ms. Riley** explained that some of the organizations did not provide benefit information, so the results would not correlate.

Senators Thayn inquired if the benefits paid for health care are based on the amount of money being spent on health care. **Ms. Riley** explained that the KFH methodology factors in premium costs and claims costs in an actuarial way because the State may get better rates than a smaller employer. Another factor is the extent to which the employee is obligated to pay.

Senator Guthrie pointed out that finding people to hire affects the private sector as well as the State. He remarked that there are large employers from five other states that do not compare with Idaho's demographics. He asked what difference there would be if these entities were eliminated. **Mr. McNutt** explained that KFH gained feedback from legislators and department heads. He reported that the results indicated they wanted the surrounding states and the private sector included in the survey. **Mr. McNutt** advised that the surrounding states could be extracted from the report, and that he could have that information available by Monday.

Representative Hartgen, Ms. Buxton, Senator Souza, Ms. Riley, Mr. McNutt, Senator Ward-Engelking, Senator Guthrie, Senator Potts, Representative Holtzclaw, Senator Burgoyne, and Senator Patrick engaged in an in-depth discussion of the following points and how they are related to each other:

- Use of other states for research comparisons.
- Major differences in the various states considering vast differences in employment practices.
- Lack of accurate comparisons.
- Cost of living.
- Cost of labor.
- Employee turnover.
- Survey process.
- Pay grades.
- Salary adjustments.

Representative Wood referred to the four recommendations made by DHR (see Attachment 5, page 44). He requested exact dollar figures for all four recommendations.

Co-Chairman Anderson expressed his appreciation to Ms. Buxton and the presenters for the work they have done, and for their sincere effort to address issues considered last year.

GOVERNOR'S CEC RECOMMENDATION PRESENTATION:

Jani Revier, Administrator, Division of Financial Management (DFM), commonly referred to as the Governor's budget office with the Governor being the chief budget officer of the State, stated that the duties of the DFM include ensuring that agencies have proper funding to implement any requested pay actions, as well as ensuring those actions follow law, rule, and executive branch policies. **Ms. Revier** informed the CEC that she will present the Governor's CEC Recommendations as required by Idaho Code § 67-5309c.

Ms. Revier reported that the Governor supports the recommendation of DHR that the pay structure for state employees be adjusted by 3 percent as a step toward market rates. She noted that moving the pay structure has a slight budget impact as employees falling below the new minimum must be brought up to the new minimum. She stated that the Governor recommends additional funding for agencies to accomplish this change (see Attachment 4, page 2).

Ms. Revier advised that the Governor recommends maintaining current payline exceptions relating to specific occupational inequities (see Attachment 4, page 2). She explained that maintaining these exceptions will allow Idaho to recruit and retain employees in difficult to fill job classes.

Ms. Revier said the Governor recommends a 3 percent increase in employee compensation for permanent positions based on merit with the ability for directors to develop agency-specific plans that address individual agency needs. She indicated that agency-specific plans are a component of the recommendation. **Ms. Revier** commented that the recommendation applies to public school administrators and classified staff. She announced that pay for classified employees increased an average of 3.3 percent last year, and that the Governor recommends a 3 percent increase in order for the State to be competitive as market wages increase.

Ms. Revier set forth the Governor's recommendation to maintain the current benefit package for state employees. As the State has had an accumulation of excess reserves, the Governor recommends the use of insurance reserves for a two-month employer/employee premium holiday. **Ms. Revier** detailed the forecast for fiscal year 2019 regarding the appropriation needed and the reasons for changes in health insurance benefits (see Attachment 4, page 6-7).

Co-Chairman Anderson asked why a permanent part-time person would not need an increase in salary? **Ms. Revier** replied that if the person is a permanent employee, he/she should received an allocated increase based on the amount of time worked.

Co-Chairman Anderson inquired what other options were considered regarding the insurance overage. **Ms. Revier** explained that options were limited because if the State accumulates too many reserves, the federal government will ask for a refund. She stated that the reserves need to be brought down. **Ms. Revier** noted that other options would be of little benefit for Idaho, but this approach helps Idaho and the employees.

Representative Wood asked what limit the federal government has on reserves. **Ms. Revier** replied that the federal government tells Idaho what can be kept in reserve, and it differs depending on which fund is being considered. She stated that in general it is 60 days of working capital, but for insurance the State is allowed to keep a percentage above the amount required. **Representative Wood** inquired if there was any difference in the amount that can be held in reserve between those funded by the State and those that are self-funded or self-insured. **Ms. Revier** explained that it is all based on the requirements of the current plan.

Representative Wood discussed a possible move toward a self-insured plan. He expressed some concerns about reducing the reserves until after a decision has been made regarding this possibility.

ADJOURNED: There being no further business at this time, **Co-Chairman Anderson** adjourned the meeting at 5:15 p.m.

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Co-Chairman Representative Neil Anderson	Linda Kambeitz, Secretary
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Co-Chairman Senator Jim Patrick	Carol Cornwall, Assistant Secretary