

MINUTES
CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE: Tuesday, January 15, 2019

TIME: 3:00 P.M.

PLACE: Lincoln Auditorium - Idaho State Capitol

MEMBERS PRESENT: Senators Co-Chairman Patrick, Agenbrood, Lakey, Guthrie, and Burgoyne
Representatives Co-Chairman Anderson, Holtzclaw, Syme, Kingsley, and Gannon

ABSENT/ EXCUSED: None

CONVENED: **Co-Chairman Patrick** called the Change in Employee Compensation Committee (CECC) meeting to order at 3:03 p.m.

WELCOME, ROLL CALL, OPENING REMARKS: **Co-Chairman Patrick** welcomed the CECC and the audience. He recognized the substantial contribution of input given by stakeholders to the CECC. **Co-Chairman Anderson** reiterated Co-Chairman Patrick's appreciation of all those who participated with this year's CECC.

DISCUSSION: **Co-Chairman Patrick** recalled Susan Buxton, Administrator, Idaho Division of Human Resources (IDHR), to answer questions related to the prior meeting. Ms. Buxton provided a written response to some of the prior meeting's questions (Attachment 1). **Representative Gannon** asked Ms. Buxton if a 3 percent recommended salary increase would effectively address the disparity in the wage gap. He pointed to the fact that between 2015 and 2018 the State had fallen from 8.4 percent to 12.4 percent below the private sector. **Ms. Buxton** responded that the recommended 3 percent, given all relevant factors, met statutory requirements as well as provided a necessary, incremental step towards closing the wage gap.

Senator Burgoyne asked if the cost to increase the salary structure from 2 percent to 3 percent would be an additional \$251,000, and if an increase to 4 percent would be \$412,000. **Ms. Buxton** stated his assumptions were correct and referenced page 26 and page 158, Appendix L of the Report to the Governor Fiscal Year (FY) 2020 Change in Employee Compensation (CEC) & Benefits Report (IDHR Report). **Senator Burgoyne** asked if the recommendation addressed inflation. **Ms. Buxton** stated when the recommendations had been completed, inflation was less than the 3 percent recommended increase.

Senator Guthrie reiterated his continued interest in providing appropriate compensation to state employees. He expressed a continued interest over the equitable management of payroll funds through the various agencies. **Ms. Buxton** stated it was her belief that the agency directors and management were effective in their ability to direct personnel funds towards the recruitment and retention of staff.

Co-Chairman Patrick thanked Ms. Buxton. He commented that the goal of the CECC was to utilize both agency and third-party information to make the final recommendation.

PRESENTATION: **Don Drum**, Executive Director, Public Employee Retirement System of Idaho (PERSI), outlined PERSI membership, Idaho Code, and stated his presentation would be limited to items relevant to the State agencies (Attachment 2). He wanted it on record that he represented other public and private employers.

Mr. Drum discussed various details regarding employer contribution rates and how they related to the sustainability of the PERSI Fund. A contribution rate increase would be necessary if the PERSI Fund amortization period extended beyond the mandated 25-year maximum. The current amortization period had risen to just above the 25-year period due to investment volatility. This projection included a planned 1 percent contribution rate increase. The increase was planned for July 1, 2019. PERSI's investment managers projected the slight differential to disappear in the coming months with the anticipated stabilization of the markets.

DISCUSSION: **Co-Chairman Anderson** asked Director Drum for the current market allocation of PERSI's investments. **Mr. Drum** stated the asset allocation was approximately 70 percent equity and 30 percent debt. PERSI's investment management objective was for a short-term yield of 8.6 percent and a long-term yield of 7 percent. The higher short-term yield was desired in order to offset the need to further increase contribution rates in order to stay below the 25-year amortization minimum.

Senator Agenbroad complimented Mr. Drum for his management of PERSI. He asked how a 1 percent cost-of-living adjustment (COLA) would affect contribution rates. **Mr. Drum** replied, as of today, a 1 percent increase would cost the PERSI Fund approximately \$100 million. This amount would increase annually as more employees retire. **Senator Agenbroad** recognized there was a need to balance the number of retirees, the amount of withdrawals, and the additional incremental expense of any COLA. He inquired as to the process for determining if PERSI will provide a COLA. **Mr. Drum** provided an overview of the determination process, which included a review of the annual valuation combined with considerations for current and future investment performance and the impact to the contribution rate.

Senator Guthrie asked if there was an upper threshold on the contribution rates that would require CECC to take aggressive action. **Mr. Drum** replied that there was no formalized threshold. Employers were reluctant to specify a glass ceiling for contribution rates because of a reliance on the PERSI benefit to attract and retain employees. **Mr. Drum** pointed out there are many factors the PERSI Board takes under consideration, including employer budgets, the law, the market, and the impact on retirees and active members.

PRESENTATION: **Robyn Lockett**, Principal Budget and Policy Analyst, Legislative Services Office (LSO), provided a presentation on the approximate 25,000 employees in Idaho state agencies (Attachment 3). **Ms. Lockett** recounted the four components used in the consideration of personnel dollars: salary structure adjustments, pay-line exceptions, merit increases, and the benefits package. The Idaho Office of the State Controller's annual Rainbow Report was a comprehensive list of state employee compensation. **Ms. Lockett** commented on the mix of classified and unclassified employees. Approximately half of the workforce is classified. Classified employees were subject to the provisions of a merit exam, selection, retention, promotion, and dismissal requirements outlined in statute. The remaining nonclassified employees are not subject to the same

statutes as classified employees, but the conformity statute required salaries to be based upon a similar classified position.

Ms. Lockett noted the FY 2019 and the projected FY 2020 health insurance costs. She explained how a potential appropriation level impacted the reserve fund projections. The 10 percent minimum balance in the reserve fund is outlined in the State's contract with Blue Cross Blue Shield of Idaho; currently, that amount is \$29 million. **Ms. Lockett** stated a decision on the actual amount of the reserve fund must account for the rising cost of insurance. She recommended the CECC consider the necessity for flexibility while the State contemplated alternative health care plans.

DISCUSSION:

Senator Guthrie inquired about the impact on the reserve fund if the State adopted a self-insured health care model. **Ms. Lockett** responded if funding was used in an unapproved way or in an untimely manner, the federal government could potentially ask the State to return a percentage of the money. The State would need direction from the federal government on how the Idaho Division of Financial Management (IDFM) could allocate reserve funds in excess of the reserve fund limit.

Ms. Lockett provided a summary of the Rainbow Report for the CECC. She commented that salary increases have been minimal and state employees have actually lost ground over the last few years when compared to the public sector. She believed it was important to understand the cause both as a whole and on an individual agency level.

Senator Burgoyne asked if the 17 percent of employees making under \$20,000 included part-time employees. **Ms. Lockett** affirmed that the 17 percent included all state employees.

Ms. Lockett reminded the CECC there were twenty additional agency specific budget requests to be presented to the Joint Finance and Appropriations Committee (JFAC). These separate appropriation requests included the Idaho Division of Veterans Services, Idaho Department of Juvenile Corrections, and the Idaho Department of Corrections.

Ms. Lockett recounted an example of a small state agency that had successfully used their flexibility within their personnel budget to improve operations when circumstances created a temporary surplus of funds. This agency maintained the same level of personnel funding for three years while adding three full-time personnel (FTP). **Ms. Lockett** cited another example of a General Fund agency that must return unspent personnel funds back to the General Fund. This agency reduced its FTP from 4 to 3-1/2. The other 1/2 of the payroll expense for that person was being federally funded. Both are instances in which the agency director worked within their agency's directives to manage payroll appropriations. **Ms. Lockett** explained how personnel dollars allocated in the General Fund appropriation could be redirected towards capital purchases or operating expenses. Any remaining monies reverted back to the General Fund. This was also acceptable management of appropriated funds.

DISCUSSION: **Representative Gannon** inquired about how the salary structure adjustment affected the 17 percent at the bottom of a pay scale. **Ms. Lockett** responded that the salary structure increase is applied uniformly except for those who are at the bottom of the pay grade. Those employees are brought up to the new pay grade minimums. **Senator Guthrie** expressed concern over the pay averages being skewed by part-time employees' salaries being annualized. **Representative Holtzclaw** questioned the impact of the difference between classified and nonclassified employees and their average pay. **Ms. Lockett** acknowledged limitations of averages; however, the Rainbow Report contained detailed, individual employee information.

RECESS: **Co-Chairman Patrick** called a recess at 4:15 p.m.

RECONVENED: **Co-Chairman Patrick** reconvened the meeting at 4:20 p.m.

AGENCY TESTIMONY: **Chris Jensen**, Director, Idaho Division of Building Safety (IDBS), testified in support of the Governor's recommendation. **Mr. Jensen** expressed his belief that the strength of the construction industry was indicative of real growth, not speculation. With low unemployment, it was even more necessary to have competitive wages to fill positions.

Ron Pisaneschi, General Manager, Idaho Public Television (IPTV), testified in support of the Governor's recommendation. **Mr. Pisaneschi** encouraged the CECC to recommend as large a CEC as the budget will allow.

Teri Murrison, Administrator, Idaho Solid and Water Conservation Commission (ISWCC), testified in support of the Governor's recommendation. **Ms. Murrison** described the agency's responsibilities and payroll needs. Due to the ISWCC's payroll limitations, there was no flexibility in providing deserved promotions, pay increases, or rewards. The annual CEC was the only way to reward employees.

Colonel Kedrick Wills, Idaho State Police (ISP), testified in support of the Governor's recommendation. **Colonel Wills** stated the pay grade structure was extremely important to all employees. He expressed his appreciation to the CECC for allowing ISP discretion within its departments.

Janet Moyle, Commissioner, Idaho State Tax Commission (ISTC), testified in support of the Governor's recommendation. **Ms. Moyle** stated the three main issues faced by ISTC were compensation, employee turnover, and difficulty recruiting. She added that of the 231 employees affected by bumping wages up 2 percent, 97 were in the ISTC; many employees still needed to get to 70 percent of policy. She noted the cost of health insurance was of concern for many of the agency's employees.

Co-Chairman Anderson reiterated that there was an interim committee studying the State's health care plan. It was not the intent of the CECC to reduce insurance benefits.

Dean Cameron, Director, Idaho Department of Insurance (IDOI), testified in support of the Governor's recommendation. **Mr. Cameron** stated based on average salary information provided by the National Association of Insurance Commissioners, current Idaho salaries are more competitive with similar-size states than they were six or seven years ago.

Jeff Weeks, Director, Idaho Information Technology Services (IITS), testified in support of the Governor's recommendation.

Ann Lawler, Director, Idaho State Board of Medicine (ISBM), testified in support of the Governor's recommendation. **Ms. Lawler** explained the importance of the CEC on the agency's ability to recruit employees.

Marv Hagedorn, Director, Idaho Division of Veteran's Services (IDVS), testified in support of the Governor's recommendation. **Mr. Hagedorn** detailed the negative impact to veterans and the mission of the agency due to an inability to maintain appropriate staffing levels. Compensation was the largest driver of being able to achieve adequate employee retention and recruitment.

DISCUSSION:

Co-Chairman Anderson and **Mr. Hagedorn** discussed the pay line exception program in regards to IDVS. **Representative Gannon** remarked deeper attention needed to be given to the substantial turnover within IDVS. **Representative Kingsley** asked about the overall benefits package for IDVS. **Mr. Hagedorn** stated the compensation package has not kept pace with demand, especially for skilled care workers. JFAC would be considering a secondary appropriation budget specifically related to the IDVS' compensation needs.

**AGENCY
TESTIMONY:**

Ed Schriever, Director, Idaho Department of Fish and Game (IDFG), testified in support of the Governor's recommendation. **Mr. Schriever** noted the importance of director discretion in implementing and addressing unique agency pay structure issues.

Janet L. Gallimore, Director, State Historic Preservation Office, Idaho State Historical Society (ISHS), testified in support of the Governor's recommendation. **Ms. Gallimore** reported the ISHS has not been able to maintain competitive compensation within either the private or public sectors in order to retain key employees.

Gary Spackman, Director, Idaho Department of Water Resources (IDWR), testified in support of the Governor's recommendation. **Mr. Spackman** emphasized the need for more discretion of payroll funds at the agency level.

Dave Jeppson, Director, Idaho Department of Health and Welfare (IDHW), testified in support of the Governor's recommendation. **Mr. Jeppson** remarked that the work of the CECC has improved employee satisfaction, but the agency is still lacking in its ability to recruit and retain employees. A primary factor in that is not having a competitive compensation package.

Kelley Packer, Bureau Chief, Idaho Bureau of Occupational Licenses (IBOL), testified in support of the Governor's recommendation. **Ms. Packer** reiterated the negative effect of having a compensation package that is not competitive with other public and private sector jobs.

**PUBLIC
TESTIMONY:**

Fred Birnbaum, Vice President, Idaho Freedom Foundation (IFF), testified he did not intend to speak for or against a particular recommendation. **Mr. Birnbaum** pointed out the State's voluntary turnover rate is 7.8 percent and Mercer, Incorporated reported a national average of 14 percent.

Raj Sandou, Registered Nurse, Idaho Department of Health and Welfare (IDHW), testified in support of the Governor's recommendation. **Mr. Sandou** expressed his favor of at least a 3 percent pay increase for state employees, not only to retain the existing workforce, but also to attract individuals who will ensure the health and safety of Idaho citizens.

Mary Tipps, Director, Idaho Public Employees Association (IPEA), testified in support of the Governor's recommendation. **Ms. Tipps** commented that pay and benefits affect the daily lives and career decisions of her employees.

Heidi Graham, Human Resource Officer, Idaho Department of Health and Welfare (IDHW), testified in support of the Governor's recommendation.

Ramona Martin, President, Association of Classified Employees, Boise State University (BSU), testified in support of the Governor's recommendation.

Co-Chairman Anderson thanked those who took the time to provide oral testimony as well as those who provided verbal testimony.

**WRITTEN
TESTIMONY:**

The following submitted written testimony in support of the Governor's recommendation: David Smith, Dawson Chapman, Heather L. Dyer, Jeffrey L. Grisham, Beverly Sherman, Emily Berg, Bart Owens, Randy Ostberg, Olgie Castillo, Sharon Miller, Esther Lynne Given, Emilio Amaro, Shauna Christiansen, Connie Morris, Donna Caldwell, Zach Wixom, Keith Lench, Leadee Miller, John Barrie, Cynthia "Cindy" Orr, Mathew Dolan, Jane Gennrich, Tracy Varelmann, Marla Richardson, Leland Wassmuth, Philip Johnson, Dedra Sanna, Donita Martin, Terry Folks, Nathan Nielson, Ronnie Winks, Gina H. Judd, Jeff Morris, Angela Mielke, Annette Welburn, Dea Kellom, Martha Plascencia, Dallas Selig, Rochelle Cunningham, Jeffrey M. Harmon, Cynthia Pemberton, and Fred Birnbaum.

ADJOURNED: There being no further business at this time, **Co-Chairman Patrick** adjourned the meeting at 5:32 p.m.

Representative Neil Anderson, Co-Chairman

Linda Kambeitz
Secretary

Senator Jim Patrick, Co-Chairman

Machele Hamilton, Assistant
Secretary

Jenny Smith, Assistant Secretary