MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Wednesday, January 13, 2021
TIME:	3:00 P.M.
PLACE:	Room EW42
MEMBERS PRESENT:	Senators Co-chairman Patrick, Agenbroad, Guthrie, Souza, Ward-Engelking Representatives Co-chairman Holtzclaw, Syme, Kingsley, von Ehlinger, Gannon
ABSENT/ EXCUSED:	None

Co-chairman Holtzclaw called the meeting to order at 3:30 pm.

Dave Jeppesen, Director, Department of Health and Welfare (DHW), testified **in support** of the Governor's change in employee compensation (CEC) recommendations for FY 2022; the Governor's recommendations align with the Department of Human Resources (DHR) recommendations to increase the salary structure by 2% in an effort to continue toward the market average, continue current payline exceptions for job classifications which target specific recruiting and retention situations, increase the merit-based salary component by 2%, and to maintain the overall design of the benefits package and percentage contributions for employee benefits. Director Jeppesen thanked the committee for providing a 2% across-the-board salary increase for 20 high-need job classifications last year. He noted voluntary turnover at DHW increased for the fifth year in a row, with 43% of those individuals citing pay as their primary reason for leaving. He stated his employees need and deserve a pay increase, as they stepped up and delivered during the COVID-19 pandemic, when Idaho needed them most.

In response to committee questions, **Director Jeppesen** explained DHW did not give most employees a merit-based pay increase because the Governor asked agencies to hold off due to the pandemic. He noted there was more turnover than usual in jobs that are public facing and unable to be done from home; this could have been due to safety and/or family concerns.

Dean Cameron, Director, Department of Insurance, testified **in support** of the Governor's recommendations. 43% of department employees who left did so for pay-related reasons; they went to both the private sector and other government jobs. He stated a pay increase is critical to attract and retain good employees.

Tom Kealey, Director, Department of Commerce, spoke **in support** of the Governor's recommendations, which will help attract, retain and reward employees. He noted the department's turnover continues to be high, ranging from 15-28% over the last two years; 80% of employees who leave move to the private sector.

In response to committee questions, **Director Kealey** gave an overview of the types of companies coming to Idaho and the current state of international trade. He noted the highest job turnover has been from specialists in business attraction and retention, including those who are specialists in foreign markets.

Patti Perkins, Director, Department of Finance, noted last year presented many challenges for state employees, including the abrupt transition to remote work. She explained the department did not provide any merit-based pay increases because of the Governor's 5% budget holdback. She stated it is important for state wages to keep pace and avoid returning to a time when employees go several years without receiving pay raises.

In response to committee questions, **Director Perkins** reviewed the difficulty in hiring qualified auditors, noting federal senior examiners are paid twice as much as state senior examiners, with comparable benefits.

Ed Schriever, Director, Department of Fish and Game, spoke **in support** of the Governor's recommendations. He noted demand on their resources and facilities is at an all-time high. He expressed appreciation for the committee's work over the past few years to maintain momentum for salary gains and move closer to the market average.

Tony Faraca, Chief Deputy Director, Liquor Division, discussed how his employees have continued to operate in an uninterrupted fashion during the pandemic. He noted there is especially stiff competition for warehouse employees from private companies like Amazon. Employees often leave for private companies with higher starting pay, even when the state offers better benefits.

Becky Schroeder, Chief Operating Officer, Idaho Lottery, explained how her employees have ensured the Idaho lottery has not stopped or delayed paying tickets during the pandemic, and noted sales have remained fairly steady.

Susan Buxton, Interim Director, Department of Parks and Recreation, spoke **in support** of the Governor's recommendations. She noted it has been very difficult to fill positions and keep people on the job over the past year; the department competes for frontline workers across the state and with higher paying federal agencies. She stated the department provided 80 people with additional funds after the Governor authorized state agencies to move forward with merit-based pay increases in hard to fill/retain positions in October.

Jess Byrne, Director, Department of Environmental Quality (DEQ), testified **in support** of the Governor's CEC recommendations. He stated benefits are not enough, the state still needs to pay employees a fair and competitive wage. DEQ continues to have a high turnover rate and struggles to fill positions, many of which are highly technical and specialized. He noted compensation is typically cited as the biggest, or only, reason for leaving and an annual CEC is critical to prevent falling further behind.

In response to committee questions, **Susan Buxton**, Administrator, Division of Human Resources, stated the turnover rate in 2020 is about 15%, which is comparable to previous years. The Legislature authorized and funded a one-time annual increase of $550, not merit-based, for all permanent employees for FY 2020 and Ms. Buxton explained the challenges of administering that payment and some of the criticism it engendered.

Alex Adams, Administrator, Division of Financial Management, discussed managing the uncertainty of the revenue forecast and implementation of the FY 2021 CEC. When the Legislature adjourned in March 2020, the state had a balanced budget; however, the revenue forecast in May 2020 showed a $392 million shortfall. The Governor chose to cut agency spending by 5% to close the revenue gap, along with using rainy day and federal funds; the 5% holdback also included a compensation and hiring freeze. Mr. Adams reviewed the five components of the FY 2021 CEC authorized and funded by the Legislature: maintenance of the current benefit package and payline exceptions were both fully implemented; adjusting the salary structure by 3% was implemented starting July 1, 2020; the 2% across-the-board salary increase for 20 high-need job classifications is in the process of being fully implemented and will be retroactive to July 1, 2020. The final component, a 2% merit-based pay increase, was originally put on hold as part of the compensation freeze. As state revenue has continued to come in above forecasts, the Governor authorized agencies in October to move forward with merit adjustments in hard to fill/retain positions, but the 2% merit-based pay increase has not been implemented across-the-board. Mr. Adams acknowledged the frustration that the FY 2021 CEC has not been fully implemented, but noted the existence of mitigating factors that softened the blow for state employees, including use of federal funds for hazard pay, very few layoffs, federal stimulus checks, and eligibility for expanded family leave under the Families First Coronavirus Response Act.

Mr. Adams then presented **Governor Little's** four FY 2022 CEC recommendations: increase the salary structure by 2% in an effort to continue toward the market average, continue current payline exceptions for job classifications which target specific recruiting and retention situations, increase the merit-based salary component by 2%, and maintain the overall design of the benefits package and percentage contributions for employee benefits. He stated if an agency did not implement last year's 2% merit-based pay increase it will still be in their base budget and the FY 2022 increase would be in addition, giving agencies the ability to award an increase of up to 4%.

In response to committee questions, **Mr. Adams** noted most agencies took at least some of their 5% holdback from personnel costs. **Governor Little's** proposed budget reinvests these savings into projects including infrastructure, water and literacy, as well as tax relief. He stated budget cuts were not restored sooner because of ongoing revenue uncertainty and while the full FY 2021 CEC was not implemented across-the-board, most state employees kept their jobs, with only higher education institutions implementing furloughs. He agreed with some committee members' concerns about the public's perception of state employees receiving raises after a difficult economic year, but noted that is why the Governor chose to reinvest the savings returns in ways that benefit all Idaho citizens.

Christine Otto, Senior Budget and Policy Analyst, Budget and Policy Analysis Division, Legislative Services Office, followed up on information requested at the previous committee meeting regarding how many employees received a CEC in FY 2021. She clarified any personnel dollars from the general fund that are not spent by the end of the fiscal year revert back to the general fund.

Co-chairman Patrick encouraged committee members to prepare their motions ahead of time for the next meeting, including an estimated fiscal impact. He stated he understood concerns about the public's perception, but noted providing state employees a 4% merit-based raise would simply be returning money they have not yet received.

Sen. Ward-Engelking stated it behooves the state to keep good employees and it is not cost effective to continually train people who then leave for the private sector. She noted the committee should do what is right for state employees when possible, because it is not always possible to provide raises each year.

Rep. Kingsley reiterated concerns about the public's perception and stated the committee needs to be extremely careful with taxpayer dollars.

ADJOURN: There being no further business to come before the committee, the meeting adjourned at 5:32 pm.

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Co-chair

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Erica McGinnis
Secretary

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Co-chair