MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Thursday, January 07, 2016
TIME:	1:30 P.M.
PLACE:	Idaho State Capitol, Room EW 42
MEMBERS PRESENT:	Co-Chairman Patrick, Senators Lakey, Guthrie, Heider, Rice, Thayn, Schmidt and Ward-Engelking Co-Chairman Anderson, Representatives Anderst, Romrell, Holtzclaw, Mendive, King and Rudolph
ABSENT/ EXCUSED:	Senator Martin, Representatives Hartgen, and Loertscher
NOTE:	The sign-in sheet, 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.
RECONVENED:	**Co-Chairman Anderson** called the Change in Employee Compensation Committee (CECC) meeting to order at 1:33 p.m.
PRESENTATION:	**Bryon Welch**, Principal Evaluator, Office of Performance Evaluations (OPE), stated that OPE released a report in January 2013, titled "State Employee Compensation and Turnover" at the request of the Joint Finance-Appropriations Committee (JFAC). The initial evaluation revealed that despite legislative intent to provide a competitive compensation package, 90 percent of classified employees were paid less than policy rates. Exit surveys revealed that 25 percent left State employment because of poor pay. **Mr. Welch** stated that OPE provided recommendations to the Division of Human Resources (DHR) and the Legislature. Many of the job descriptions that applied to the pay scale were out of date. This was because job classifications needed to change. DHR monitored overtime job classification within the pay structure and assisted agencies in capturing reasons why employees leave. The OPE initially found that many agencies already had exit interviews in place so DHR was urged to work with those agencies to better understand why employees left for other jobs. **Mr. Welch** said that the Legislature made updates to the compensation schedule. He stated that minimum and policy pay rates were changed in fiscal year (FY) 2015 and FY 2016. In FY 2014, JFAC added intent language to appropriation bills, in absence of Change in Employee Compensation (CEC) money, for agencies to use salary savings for employee compensation where it was appropriate. The CECC conducted an additional study and released the report "Use of Salary Savings to Fund Employee Compensation."

Mr. Welch stated that the OPE updated the numbers in the original reports to see how State employment compensation compared between 2015 and 2012. He reiterated that 90 percent of classified employees were paid less than policy pay rate in 2012; in 2015, 86 percent were paid less than policy pay rate. The average pay rate in relation to the policy pay rate improved to 87 percent, whereas in 2012 it was 85 percent. **Co-Chairman Anderson** asked what the difference was between the numbers for average pay rate and numbers for policy pay rate. **Mr. Welch** responded that the policy pay rate described how many employees were below policy, while the average pay rate numbers defined exactly how far below policy those employees are. **Co-Chairman Anderson** asked for the definitions of market pay rate and policy pay rate and how they differ from each other. **Mr. Welch** answered that the policy pay rate is meant to be an accurate reflection of the market pay rate. The policy pay rate is meant to be the average pay per dozens of job classifications that have similar skill qualifications. He commented that ideally the policy pay rate should match the market pay rate if it was fully funded. **Co-Chairman Anderson** asked why the policy pay rate and the market pay rate are not the same. **Mr. Welch** replied that the policy pay rates have not been increased to reflect what the market rates have been. The compensation has not been updated for so long the two rates are different. **Co-Chairman Anderson** asked how the policy pay rate was established. **Mr. Welch** answered that the reason for the policy pay rate was to compare the pay for an employee to what they would be paid performing a similar job in the market.

Co-Chairman Patrick asked who is responsible for updating the policy pay rates? **Mr. Welch** stated that DHR is required by Idaho Code to suggest changes to the compensation structure in its yearly address to the Governor and the Legislature. He stated that the DHR recommended a 1 percent increase a few years ago. The DHR is responsible for recommending increases to policy pay rates and the Legislature is responsible to use that information accordingly. No employees would automatically receive a pay raise if the policy pay rate is increased. The State has a number of employees paid less than the policy pay rates, but the pay is moving closer to the policy pay rate line rather than the bottom of the pay grade.

Representative Anderst asked if policy pay rate takes into account a Cost of Living Adjustment (COLA) from one location to another. **Mr. Welch** responded that policy pay rate does not account for COLA. **Representative Anderst** asked if the policy pay rate was the best metric to compare to compensation. **Mr. Welch** replied that it is a limited metric in that it only compares compensation.

Representative King asked if the increased spread between the lower salary grades and the higher salary grades has been studied. **Mr. Welch** answered that the OPE has not studied that occurrence. The DHR reported on the changes in average salary over time. The OPE looked to see if there was a difference in policy pay rate achievement between different pay grades, and the OPE found that almost all of the pay grades had employees earning less than policy pay rate. **Representative King** asked if the State could slip back to the problems faced in FY 2012 if it did not address the pay rate of the lowest group again. **Mr. Welch** explained that with the increase of the minimum pay rate, there will no longer be individuals earning more than 30 percent below policy pay rate.

Senator Guthrie asked why it was difficult to get comparative data for other states. **Mr. Welch** responded that in 2013 when the Hay Group produced a report for Idaho, it took significant effort to make the comparisons. The comparison group that was made between Idaho and other jurisdictions in the report was not as large as the current comparison group.

Co-Chairman Anderson asked if information from State departments is readily provided? **Mr. Welch** responded that all the agencies have been very responsive to the OPE requests, and the OPE has received good feedback.

Mr. Welch presented the "Application of Holiday Leave Policy" and pointed out that when the holiday leave policy was designed, most employees worked a five-day week. As time has passed however, agencies have moved to nontraditional schedules. Paid holiday leave has been a part of the benefit package for a long time and it warranted consideration to see if employees were being treated equitably. The OPE reviewed the holiday leave policy in all the agencies and how that policy is applied in accordance with how State funds are used for this benefit. One of the major objectives was to examine a situation in which employees were required to work more than eight hours a day and if they were justified in receiving more than eight hours of holiday leave. The OPE examined traditional schedules, which encompassed the majority of state employees, and then also examined nontraditional schedules. The traditional schedule is five 8-hour work days, while nontraditional schedules are those that might reflect a combination of days and hours equal to a 40-hour work week.

Mr. Welch stated that the current policy in Idaho Code § 67-5302(15) defines holiday leave as "a day of exemption for work granted during which the employees shall be compensated as if they actually worked." The holiday leave policy has been changed many times since 1997. He said that the State grants ten paid holidays to employees every year. Holiday leave was interpreted differently by different agencies and so a change was requested to even out those discrepancies. He reviewed the history of holiday leave policy changes and proposed changes.

Mr. Welch stated that OPE conducted a comprehensive review of all 86 agencies' holiday leave policies and found that 65 have policies addressing holiday leave. Fifty-one of those 65 agencies restricted holiday leave to a maximum of eight hours. The other 14 agencies allowed more than eight hours of holiday leave if the employee is regularly scheduled to work longer shifts. He reviewed the numbers for nontraditional schedules among agencies by stating that 38 agencies may request nontraditional schedules, 17 forbid nontraditional schedules, 11 were a combination of required and requested nontraditional schedules and four agencies required nontraditional schedules. The data revealed 2 percent of State employees, approximately 384 people, received holiday leave in excess of eight hours on at least one holiday in FY 2014.

Mr. Welch reviewed how the State pays for the holiday leave benefit. He stated that holiday leave is included in the annual salary appropriated for employees. When hours worked and holiday leave are balanced with the regularly scheduled work week total, a change in holiday leave hours would not have a fiscal impact.

Mr. Welch said that the OPE explored the data of other right-to-work states on how holiday leave policy is determined and found that they restricted holiday leave to eight hours. Four options were offered by the OPE for policy makers to move forward in granting holiday leave:

- First, the status quo could be maintained, which is to give agencies full discretion to interpret code, rule and/or DHR memos accordingly. This would mean that agencies might have different criteria for holiday leave.
- Second, agencies could restrict holiday leave to a maximum of eight hours for all employees. This would require the adjustment of employees on nontraditional schedules, including those agencies that require their employees to work weekends or holidays. This policy could be perceived as equitable in establishing a common standard for all agencies, but also unfair for those agencies with employees who are required to work ten hours on a holiday and only received eight hours of holiday leave.
- Third, there could be statewide criteria for granting more than eight hours of holiday leave. He stated that this would be a more consistent application, but cautioned that those who work nontraditional schedules and fail to meet the criteria outlined would have to adjust their schedules back to a traditional schedule during the week of a holiday.
- Fourth and finally, all employees could receive the number of hours they would regularly work. He stated that the employee could receive more holiday leave if approved by the agency. He said that this would result in more hours of paid holiday leave granted. He stated that this may be perceived as unfair because employees working nontraditional hours would have a higher percentage of their work hours paid in holiday leave.

Mr. Welch stated that the OPE recommended that DHR and other policy makers provide clear guidance to agencies in implementing holiday leave policy, regardless of which option was chosen. This was necessary to quell the confusion that currently exists among agencies. The full OPE report was available on their website, http://www.legislature.idaho.gov/ope.

Co-Chairman Anderson asked what happened if an employee works the nontraditional schedule of four 10-hour days and does not work on a Friday which happens to be a holiday? **Mr. Welch** answered that the employee receives the holiday leave for that Friday and could elect to take that leave on another day of the week.

Representative Anderst asked if the CECC were to make a recommendation to statutorily to restrict holiday leave to ten hours for a given day, what would that cost? **Mr. Welch** responded that it would be hard to put an exact number on that rate. In the 2014 legislation, there was an estimate for what the costs would be, but that assumed that every employee who received more than ten hours of holiday leave didn't adjust their schedule. Certain employees that cannot adjust their schedule are policemen, prison facility workers or similar occupations that must be staffed 24 hours, 7 days a week. The Idaho State Controller's Office estimated in 2014 that the total amount of holiday leave hours was 2,800, which comes out to approximately $427,000.

PRESENTATION: **Don Drum**, Executive Director, Public Employee Retirement System of Idaho (PERSI), stated that for 2009 there were 67,813 active employees and total membership was 123,096, whereas in 2015 there were 67,008 active employees and a total membership of 139,492. Retiree numbers are increasing 4.5 percent to 5 percent annually due to the increased retirement of the baby boomers. The increase of the number of retirees means there is an increase in the amount that PERSI pays out each year to those retirees. For example, in 2010 PERSI paid out $526 million per year, in 2015 the payout was $754 million.

Director Drum explained that the funded status as of June 30, 2015 was 90 percent. PERSI has to make a net 7 percent annually to break even and was on track to break even going into May 1, 2015. The market downturn in May and June dropped the net return from 6.95 percent to 3 percent, which resulted in PERSI's funded status dropping from 94 percent to 90 percent. He stated that the amortization period for the unfunded liability rose from 11.1 years to 18.5 years.

Director Drum stated that PERSI's unfunded liability peaked in 2009 and the PERSI Board (Board) implemented one of the three rate increases, which amounted to approximately 1.5 percent total increase. He noted that the subsequent two rate increases were eliminated. He reviewed the amortization years and stated that there are no future contribution rates included in the 18.5 amortization years. If the contribution rates increased, the Board would be involved in that process and would have to bring those changes before the Legislature.

Co-Chairman Anderson asked about the effect the recently approved COLA would have on the contribution rates. **Director Drum** answered that in October the Board authorized a 0.2 percent COLA and also a retroactive COLA of 0.8 percent, giving the retirees a COLA total of 1 percent. He clarified that the retroactive 0.8 percent would have an effect on the contribution rates.

Director Drum stated that the PERSI investment returns, from the fiscal year until now, are a negative 2.1 percent. As of yesterday, the returns were a negative 3.7 percent, and it is estimated to keep growing in the negative. This means the asset value has dropped, but there is no worry about paying retirement benefits. He remarked that the Board will have to monitor the costs in unfunded liability.

Director Drum explained that dropping 2.1 percent for investment returns also drops the funded status from 90 percent to 84.9 percent. The funded status as of that morning was 83.5 percent due to the volatility of the market. The State will have to wait and see if the market can rebound enough by June 30, 2016, to avoid forcing the Board to propose contribution rate increases.

Director Drum referenced Idaho Code § 59-1322(5), which says that if the amortization period for PERSI's Unfunded Actuarial Liability (UAL) exceeds 25 years, the Board must take action. If the State ended its fiscal year today, the amortization period is more than 25 years. Also, if the investment returns start trending upward from the negative 3.7 percent, the Board will have to propose contribution rate increases this fall. The changes would not take effect until 18 months later, by which time improvement in the market could result in the postponement of those increases.

Director Drum reviewed the historical perspective of the contribution rates. He stated that the present rates are slightly below the rates between 1994 and 1996. **Director Drum** expounded on the biggest challenge facing PERSI, which is the possible market turnaround for the avoidance of possible contribution rate increases. The United States economy is pretty healthy and it seems that the market is being impacted more by other economies in the world. He stated that another challenge for PERSI is the process of preparing their individual employers for statement 68 implementation from the Governmental Accounting Standards Board (GASB 68). GASB 68 requires that the employers report their share of PERSI's unfunded liability; if the unfunded liability is $1 billion, PERSI calculates each employer's share, which must go on their financial statement. The employers had to put footnotes, not dollar amounts, on theirfinancial statements prior to GASB 68. There are people who would like to change PERSI based on these public financial statements. Other states have made changes to their retirement systems after the implementation of GASB 68. These changes are made to bring retirement systems up to where PERSI is currently.

Director Drum commented that Idaho Code governing PERSI is conservative. He complimented the Board and the Idaho Legislature for their performance and help for PERSI. PERSI is always in the top ten percent of funds in national reports.

Director Drum reviewed vesting in PERSI. He stated that traditional vesting in PERSI occurs after an employee has been employed in a traditional position for five years. There are a few positions that immediately vest (meaning after five months). Idaho Code § 59-1302(36) defined who immediately vests in PERSI as those who fit one of the following conditions:

- those who hold elected office, which has a fixed term by law;
- those who are the head or director of a State agency, division or department; and
- those employed as an elected state official, as exempt from any State merit system and therefore not classified.

Director Drum indicated that PERSI personnel were working with the Legislative Services Office (LSO) to identify what positions in the State system immediately vest in PERSI.

Co-Chairman Anderson asked if PERSI offered any defined contribution plans. **Director Drum** answered that PERSI offers a 401K plan and the State offers a 457 plan run from the State Treasurer's Office. A member of PERSI can participate in both plans, but PERSI does not run the 457 plan. **Co-Chairman Anderson** asked if employees could be covered with a defined benefit plan under PERSI while opting to contribute to a 401K plan through PERSI and also opting to participate in a 457 plan through the Treasurer's office? **Director Drum** answered that there are guideline and restrictions, but ultimately employees could participate in all three if they desired.

RECESS: 2:40 p.m. - 2:58 p.m.

RECONVENED: **Co-Chairman Anderson** called the meeting to order at 2:58 p.m.

TESTIMONY: The following people testified in favor of an increase in a CEC: Stacy Pearson, Donna Yule, John Tippets, Jake Thibideau, Heidi Graham, Rebecca Young, Cory Woodbury and Dean Cameron.

Stacy Pearson, Vice President of Finance and Administration, Boise State University (BSU), stated that last year's 3 percent CEC increase made a significant difference for State employees. She reviewed the positive outcomes that resulted from the CEC increase. Prior to the increase, BSU experienced a 23 percent turnover rate for professional staff and a 6 percent turnover in faculty. She stated that BSU focused the 3 percent CEC increase on their classified staff. BSU increased the compa-ratio for those employees from 80.6 percent to 85.1 percent and the minimum wage by $1 per hour for their lowest-paid employees. Classified employee turnover rate was reduced to 14 percent. The CEC increase also raised the average classified hourly staff rate 7.15 percent. Retirements are a challenge for BSU because hiring new staff has brought up the issue of salary compression. Another challenge is flexibility. BSU desired the ability to use the CEC funds to meet different needs. Also, unfunded parts of mandatory increases generated from a CEC that drive tuition costs upward are a challenge. She encouraged the CECC to continue funding the CEC increases as it is very important to BSU and the State.

Representative King asked how much more money the Legislature would need to give higher education institutions like BSU to cover the tuition portion of another 3 percent CEC increase. **Vice President Pearson** answered it would be approximately 3 percent more. **Representative King** asked if the Legislature provided the additional 3 percent to cover the tuition portion of the CEC increase, would BSU be able to negotiate with the Idaho State Board of Education (SBE) to have no increase in tuition? **Vice President Pearson** answered that BSU has had a multi-year discussion with the SBE about what it would it take to have a zero increase in tuition. BSU needed a funding source to go to for mandated costs. She stated that if BSU received funds from other areas then it could continue to provide programs. **Representative King** asked if the CECC and the Legislature still needed to consider the other higher education institutions. **Vice President Pearson** answered yes.

Donna Yule, Executive Director, Idaho Public Employees Association (IPEA), presented a brief history of the IPEA and spoke in favor of an increased CEC. She explained that a strict merit system for compensation resulted in numerous problems, such as salary compression, little opportunity for advancement and too much power to agency directors. She encouraged the Legislature to give generous raises to State employees and also to include COLA and longevity raises. An option to provide these raises is for the State to raise more revenue.

John Tippets, Director, Department of Environmental Quality (DEQ), spoke on the quality of State employees by citing his experiences with DEQ staff. He indicated that other agency heads would have similar comments about their employees. Previous CEC increases were well received. A 3 percent CEC increase kept the gap between actual employee salaries and market rates from growing. He spoke in favor of a 3 percent CEC increase.

Jake Thibideau, custodian, BSU, commented that he is no longer on food stamps and that he wanted to thank the CECC for the CEC increase last year. His coworkers were affected by the increase and were appreciative of the extra help. He spoke in favor of a continued CEC increase.

Heidi Graham, employee, Department of Health and Welfare (DHW), stated that she was there to represent herself. She was concerned about employee pay and the gap between actual salary and market pay rate, as well as for Idaho's ability to be competitive in attracting and retaining the best employees. She expressed gratitude to the CECC for meeting and being concerned for Idaho's State employees.

Rebecca Young, Business Manager for Housing and Residence Life, BSU, stated that she was concerned with employee salaries. She asserted that the State could not afford to continue the trend of paying State employees less than what they could make in the private sector. She felt the State had a duty to provide a livable and respectable wage to all of its employees. She thanked the CECC for the 3 percent CEC increase last year. She was concerned that talented, skilled and educated employees are looking past what BSU has to offer in order to go to the private sector.

Cory Woodbury, employee, DHW, commended the CECC for making increases in the past couple of years. He stated that one of the biggest problems faced by state employees is wage compression and the fact that a new employee will get hired at close to policy pay rate, but those employees who have been employed for a while are not paid close to policy pay rate. He used his job as an example to highlight how this creates issues with staff. Compression is causing high turnover rates.

Representative Anderst asked if the higher pay rates for new employees came from the agency director's discretion or if it was something that had changed in Idaho statute? **Mr. Woodbury** remarked that usually there is a salary range listed on the job description that starts at policy and goes to the maximum. When a new employee is hired, they are generally brought in on the "bottom rate," which happens to be policy pay rate.

Dean Cameron, Director, Idaho Department of Insurance (DOI), spoke to the dedication, caliber and quality of the employees at the DOI. Idaho employees want to provide good public service. The DOI is like other agencies that face difficulties retaining employees who leave for higher pay in the marketplace. He stated that another difficulty is the aging workforce. He stated that approximately 25 percent of DOI employees will retire within the next five years. He shared a few examples from the DOI. In one instance, in order for the DOI to fulfill its statutory obligations for company examination, the DOI had to employ private contractors at a rate of $100 to $300 an hour. There are difficulties in attracting new employees as well. Fewer applicants are coming forth; and some perspective employees do not even go through the interview process after they discover the rate of pay.

Co-Chairman Patrick asked if there were other low-cost benefits the State could incorporate into the compensation package? **Director Cameron** replied that the employees need to know how much they are appreciated. The benefit package is decent, but the State needs to have a quality work environment where employees are valued and trusted and that they have some flexibility in their work. He remarked that the Legislature could express this idea more.

Senator Heider asked how the State could justify continued pay raises if it would place the State in a position in the future where it no longer could afford to pay those? **Director Cameron** answered that this scenario should not hold the Legislature back from trying to reward, attract and retain good employees. It is most cost effective to treat and pay employees well in order to have a trained staff that will be retained. It was probably time for a more complete study and evaluation of the pay grades. He stated that State employees' pay should be addressed to at least the level at which the economy is growing.

The following people submitted written testimony, but did not testify, in support an increase in CEC: Fred Tucker; Jason Bradfish, employee, DHW; Terrisa Peterson, LPN, Idaho Department of Juvenile Corrections (IDJC); Teri Gormley, Vice President, IPEA; Stephani Law, service coordinator, DHW; Shalaine Edwards, Nurse Manager, employee, IDJC; Rochelle Cunnigham, Administrative Assistant, BSU; Randy Tucker, Financial Technician, BSU; Megan Davis, IDJC; Marly MacDonald, employee, DHW; Lori Targett, employee, ITD; Kim Tucker; John Barrie, Custodial Supervisor, BSU; Jeff Grisham, Rehabilitation Technician, IDJC; Heath A. Wade, employee, IDJC; Gwen Moa, Juvenile Services Coordinator, IDJC; Gina Giddens, Human Resources Administrator, BSU; Dusty D. Telford; Crystal Weston, Service Coordinator, DHW; Cody Olson, employee, IDJC; Chris Bjugstad, Plant Director, BSU ; Chad Purviance, Custodian, BSU; Carrie Zeller, Physical Therapist, DHW; Brian J. Poole, President, IPEA Association; Brian Bannan, District Geologist, Idaho Transportation Department; Bob Moor, Region IV Director, IPEA; Alyn Stanton, Building Facility Foreman, BSU; Blake Hobbs, Rehabilitation Technician, IDJC; and Ashlee Rohnert, Administrative Assistant, BSU.

ADJOURNED: There being no further business, **Co-Chairman Anderson** adjourned the meeting at 3:57 p.m.

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Senator Jim Patrick
Co-Chairman

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Linda Kambeitz
Secretary

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Representative Neil Anderson
Co-Chairman

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Michael Jeppson
Assistant Secretary