FY2008 Idaho State Employee Compensation Report

Idaho Division of Human Resources

Report to the Governor

Idaho State Employee Compensation

Idaho Division of Human Resources
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I. Executive Summary

The report on Change in Employee Compensation (CEC) is written annually and submitted by the Division of Human Resources (DHR) to the Governor and the Legislature on December 1st.

The report is mandated by law in recognition that adequate compensation is necessary to retain and recruit a quality workforce. State employees are a vital resource empowered to provide great service for Idaho. These employees preserve Idaho's quality of life by protecting our citizens and our natural resources. They work to improve our social and physical environments by providing services that make Idaho a better place to live and work.

Employee Compensation & Benefits Comprises The Largest Portion of State Budget

Recognizing that state employees are a vital resource, the compensation and benefits expense to fund that resource comprise the greatest portion of the State's Budget. The State of Idaho is the largest employer in Idaho. Because employee compensation utilizes a large portion of taxpayer dollars, it is imperative that this budget item be given significant attention and focus. While it is important to achieve and maintain competitive compensation systems compared to market, it is equally important to insure the money is distributed in a manner that serves to maximize return to the taxpayers.

Positive Changes Made To State Compensation System In 2006

Several positive changes were made to the employee compensation system that will serve as a foundation to build upon in coming years. Senate Bill 1363 amended the section of Idaho Code 67-5309 A, B, C, and D resulting in recommendations on the content of this report. The legislation specifies that at a minimum this report must include:

1. A recommendation for a proposed market related structure adjustment
2. A recommendation to address market related inequities impacting specific occupational classes
3. A recommendation for a merit increase budget
4. A recommendation for any changes to the makeup or design of the employee benefit package

The 2006 legislation directed DHR to revise a number of components related to the existing compensation system, all of which have been completed and are included in this report.

In addition to the 2006 legislation, the 2005 CEC Report proposed numerous recommendations for revisions to the

State's Compensation System, many of which have been adopted and implemented. **Following is the status of the 2005 recommendations:**

1. Increase the Salary Structure Pay Ranges so the midpoint is on average within 95% of market. **This has been accomplished.**
2. Increase the number of pay ranges. **DHR increased the number of pay ranges from 24 to 35.**
3. Budget a 5.7% overall CEC to fund merit increases. **The Legislature funded a 3.8% merit increase budget. With salary savings and other funding streams, base salaries on average increased by approximately 4.6%.**
4. Appropriate more funds to those agencies below market, less to those closer to market averages. **With HB 844, the legislature directed funds to classes deemed to have specific needs in terms of turnover and market.**
5. Implement a merit increase matrix that delivers greater increases to the best performers. **Some agencies have adopted this approach with great success, while other agencies are in the process of refining a performance matrix that will more closely align with their business objectives.**
6. Incorporate the salary budget increase as a part of the agency budget development process. **In the 2008 budget process, agencies were directed to budget a 3.5% merit increase. This is more realistic and closer to reflecting this year's competitive average market merit budget of 3.8%.**

Significant progress has been made to improve the State's compensation system. Credit for these improvements can be attributed to the work completed by the Legislature's Interim Committee on Employee Compensation and the legislation that was passed in 2006.

It is DHR's recommendation that the State continue to advance the pay structure to market in terms of a total compensation approach.

The goal is to achieve market after taking into consideration the pay structure and the value of the State of Idaho benefit package. For example, if the benefit package is found to be 2% richer than market, then the goal would be to get the pay structure to 98% of market. It is also critical that the state continue to make gains in bringing actual pay to market as measured by compa-ratio. Major surveys indicate pay structure increases are averaging 2.6% and merit increases are averaging 3.8% annually. DHR is recommending that the Legislature continue with the 10 year plan proposed in 2006. For the State of Idaho to catch up and attain market average over the next 10 years, average merit increases must

be approximately 2% above the market average. This year that number would be 5.8%. It is recognized that a 5.8% merit increase budget is a major consideration. DHR believes it can be achieved with proper planning and greater commitment.

Recommendations

1. Provide annual funding to allow the state to recruit and retain a quality workforce.
2. Promote and reinforce a pay for performance system.
3. Provide funding that would allow the State of Idaho to move the pay structure to 96% of market.
4. Adopt a 10 year pay plan and allocate a 5.8% merit increase budget for the next fiscal year.
5. Review salary savings and other funding streams to develop a strategic plan related to them.
6. Identify additional revenue sources and/or cost reduction options to consider in difficult fiscal times.
7. Incorporate Idaho Cities, Counties, and other public entities in an annual survey analysis.
8. Adopt a compensation distribution plan specific to agency needs using compa-ratio as a distribution tool.
9. Conduct an extensive review of the value of the State's benefit package compared to market.
10. Conduct a survey to assess employees and prospective employees level of understanding of the monetary value of the benefit package and its affect on recruitment and retention.
11. Review the compensation of key leadership positions.
12. Consider programs that provide greater recognition for employees performing exemplary service.
13. Encourage agencies to focus on workforce planning strategies to prepare for loss of key employees through attrition and retirement.

II. Purpose Of This Report

The purpose of this report is to meet the requirements of Idaho Code sections 67-5309 A, B, C, and D insuring that an annual market analysis is conducted reflecting prevailing pay practices and comparing the state's compensation and benefit practices to market. This report is a resource for the Governor's Office and the Legislature to assist them in making informed decisions relating to employee compensation and benefits.

This report includes a description of the progress that was made over the past year. It is followed by this year's market analysis and rationale for DHR's recommendations for the coming fiscal year.

III. Compensation Philosophy Adopted By The Legislature

The Interim Committee on Compensation adopted a compensation philosophy in 2006 that reads:
"*It is hereby declared to be the intent of the Legislature of the State of Idaho that the goal of a total compensation system for state employees shall be to fund a competitive employee compensation and benefit package that will attract qualified applicants to the work force; retain employees who have a commitment to public service excellence; motivate employees to maintain high standards of productivity; and reward employees for outstanding performance. The foundation for this philosophy recognizes that state government is a service enterprise in which the state work force provides the most critical role for Idaho citizens. Maintaining a competitive compensation system is an integral, necessary, and expected cost of providing the delivery of state services. It is based on the following compensation standards:*
(a) The state's overall compensation system, which includes both a salary and a benefit component, when taken as a whole shall be competitive with relevant labor market averages.
(b) Advancement in pay shall be based on job performance and market changes.
(c) Pay for performance shall provide faster salary advancement for higher performers based on a merit increase matrix developed by the DHR.
(d) All employees below the state's midpoint market average in a salary range who are meeting expectations in the performance of their jobs shall move through the pay range toward the midpoint market average."

Legislation Specifies Need To Fund Compensation Adjustments Annually

Legislation states that:
"*regardless of specific budgetary conditions from year to year, it is vital to fund necessary compensation adjustments each year to maintain market competitiveness in the compensation system. In order to provide this funding commitment in difficult fiscal conditions, it may be necessary to increase revenues, or to prioritize and eliminate certain functions or programs in state government, or to reduce the overall number of state employees in a given year, or any combination of such methods.*"

State Compensation Philosophy Recognizes Need For A Quality Workforce

This philosophy clearly recognizes the need to pay competitively in order to attract and retain a quality workforce. There is also recognition that the compensation system must be funded each year in order to stay competitive. Despite this philosophy, past funding history has left some agencies with concerns about whether the compensation system will be maintained each year, particularly in years when budgets are tight. These concerns have made it difficult for agencies to embrace a performance based merit pay system.

High performing employees expect and need a greater compensation reward. As the state becomes more competitive by funding the compensation system each year, employees will be motivated to improve performance by the incentive and reward of market based pay.

In order for the state to insure that employees are advancing through the pay range as stated in the compensation philosophy, it will be necessary for the state to provide annual funding. This will enable the state to recruit and retain a quality workforce.

IV. Review Of Last Year's Directives To DHR

House Bill 844 directed DHR to:

1. Revise the current Salary and pay grade structure
2. Increase the number of pay grades
3. Decrease the distance between pay grade midpoints
4. Assign classifications to the revised salary structure using Hay points and market data
5. Make pay grade assignments in a manner that serves to minimize compression
6. Implement the above changes in a manner that does not exceed the total funds appropriated

Senate Bill 1363 reiterated a number of the directives from HB844 including:

1. Revise the current salary structure
2. Assign all classifications to a pay grade using Hay Points and market data
3. Make assignments in a manner that minimizes salary compression
4. Weigh Hay points and market data appropriately in making pay grade assignments
5. Insure fiscal impact does not exceed total amount appropriated
6. Provide faster salary advancement for higher performers based on a merit increase matrix developed by DHR

Each of these directives has been implemented in accordance with the legislation. The programs have been successful and agencies are moving forward.

A. Development Of The Pay Structure

A new pay schedule was implemented in July 2006 consisting of 35 pay grades with range advancement between midpoints beginning at 4% and gradually increasing to 9%. This change was a significant improvement over the previous structure that had a varied range advancement structure ranging from a high of 12% at the bottom of the range to a low of 6% at the top of the range.

State's Pay Structure Not Maintained

There were challenges in designing a new pay structure as the old structure design was atypical and had not been updated since 2001 due to funding constraints. Various methodologies were reviewed and studied to revise the current pay structure with the least amount of disruption. The challenge was to develop a pay line that reflected market and created only small changes to the current structure, while minimizing the number of classes that might fall significantly below the minimum of the new pay grades. An approach was utilized that refined the pay line to be more reflective of market.

With the changes made to the pay line, a new pay structure was developed that on average is at 95% of market. It should be pointed out that even though the pay structure is at 95% of market, the actual average pay of State employees still lags behind the market by over 15.6%. The new pay line is more reflective of market, and allows easier future revisions and adjustments to the pay structure, assuming the State continues to provide funding on an annual basis.

2006 Pay Structure

Pay	Total Points			Range	Range		Annual Pay						
Grade	Min	Mid	Max	Spread	Advance	% of Policy	Minimum	Policy	Maximum	% of Policy	Minimum	Policy	Maximum
21		93	96		4%	75%	$13,998	$18,678	$23,337	125%	$6.73	$8.98	$11.22
22	97	99	102	67%	4%	75%	$14,580	$19,448	$24,294	125%	$7.01	$9.35	$11.68
23	103	105	109	67%	4%	75%	$15,163	$20,196	$25,251	125%	$7.29	$9.71	$12.14
24	110	112	116	67%	4%	75%	$15,787	$21,028	$26,291	125%	$7.59	$10.11	$12.64
25	117	120	124	67%	4%	75%	$16,452	$21,923	$27,414	125%	$7.91	$10.54	$13.18
26	125	128	133	67%	5%	75%	$17,180	$22,900	$28,620	125%	$8.26	$11.01	$13.76
27	134	137	142	67%	5%	75%	$17,971	$23,940	$29,931	125%	$8.64	$11.51	$14.39
28	143	148	153	67%	5%	75%	$18,803	$25,084	$31,345	125%	$9.04	$12.06	$15.07
29	154	159	165	67%	5%	75%	$19,739	$26,312	$32,884	125%	$9.49	$12.65	$15.81
30	166	172	179	67%	5%	75%	$20,716	$27,643	$34,548	125%	$9.96	$13.29	$16.61
31	180	186	194	67%	5%	75%	$21,798	$29,078	$36,337	125%	$10.48	$13.98	$17.47
32	195	202	210	67%	6%	75%	$22,963	$30,638	$38,292	125%	$11.04	$14.73	$18.41
33	211	219	229	67%	6%	75%	$24,232	$32,323	$40,393	125%	$11.65	$15.54	$19.42
34	230	239	250	67%	6%	75%	$25,604	$34,153	$42,681	125%	$12.31	$16.42	$20.52
35	251	261	274	67%	6%	75%	$27,102	$36,129	$45,156	125%	$13.03	$17.37	$21.71
36	275	286	300	67%	6%	75%	$28,724	$38,292	$47,860	125%	$13.81	$18.41	$23.01
37	301	314	329	67%	6%	75%	$30,472	$40,643	$50,793	125%	$14.65	$19.54	$24.42
38	330	345	363	67%	6%	75%	$32,385	$43,180	$53,996	125%	$15.57	$20.76	$25.96
39	364	381	401	67%	7%	75%	$34,486	$45,968	$57,470	125%	$16.58	$22.10	$27.63
40	402	421	443	67%	7%	75%	$36,753	$49,004	$61,256	125%	$17.67	$23.56	$29.45
41	444	466	491	67%	7%	75%	$39,228	$52,312	$65,374	125%	$18.86	$25.15	$31.43
42	492	517	546	67%	7%	75%	$41,932	$55,910	$69,888	125%	$20.16	$26.88	$33.60
43	547	575	608	67%	7%	75%	$44,886	$59,862	$74,817	125%	$21.58	$28.78	$35.97
44	609	641	679	67%	7%	75%	$48,131	$64,168	$80,204	125%	$23.14	$30.85	$38.56
45	680	717	760	67%	8%	75%	$51,667	$68,889	$86,112	125%	$24.84	$33.12	$41.40
46	761	803	852	67%	8%	75%	$55,556	$74,068	$92,580	125%	$26.71	$35.61	$44.51
47	853	901	957	67%	8%	75%	$59,800	$79,747	$99,673	125%	$28.75	$38.34	$47.92
48	958	1014	1078	67%	8%	75%	$64,480	$85,987	$107,473	125%	$31.00	$41.34	$51.67
49	1079	1143	1217	67%	8%	75%	$69,617	$92,830	$116,043	125%	$33.47	$44.63	$55.79
50	1218	1291	1377	67%	8%	75%	$75,275	$100,380	$125,465	125%	$36.19	$48.26	$60.32
51	1378	1462	1561	67%	8%	75%	$81,515	$108,680	$135,844	125%	$39.19	$52.25	$65.31
52	1562	1660	1774	67%	9%	75%	$88,379	$117,852	$147,305	125%	$42.49	$56.66	$70.82
53	1775	1888	2020	67%	9%	75%	$95,971	$127,961	$159,952	125%	$46.14	$61.52	$76.90
54	2021	2152	2306	67%	9%	75%	$104,353	$139,152	$173,929	125%	$50.17	$66.90	$83.62
55	2307	2459	2459	67%		75%	$113,630	$151,507	$189,384	125%	$54.63	$72.84	$91.05

B. Methodology Used To Assign Classes To Pay Grades

Pay grade assignments to the revised pay structure were based on Hay points and market data. In making the actual pay grade assignments, Hay points were given a 60% weight and market data was given a 40% weight. Using this approach, it was determined that in situations where the State was paying significantly below market, the market weighting tended to move the class to a higher pay grade. This approach enabled the state to pay closer to market for those positions. On the other hand, there were some positions where the market data suggested the State's previous pay range for these positions were above market. This same approach caused some of those positions above market to be assigned a lower pay grade. It is important to note that even though on average the State was found to be below market, some positions were found to be paid at or above market.

In last year's CEC report it was noted that while actual average pay was 16.5% below market and the pay structure was 8.6% below market, the pay structure midpoints of several positions were actually above the prevailing market rates. Although several pay ranges were found to be above market, no employee's actual pay rate was reduced as a result of a lower pay grade assignment. For those positions that went down, the market data was reviewed to insure that State of Idaho positions and the market survey position descriptions were correctly matched. In several situations the initial lower pay grade assignments were revised upward.

C. Pay Grade Assignment Results

- Pay ranges on average increased 3.7%
- 1014 Position Classifications moved to higher pay grades.
- 125 Position Classifications moved to lower pay grades (for most of the classes that went down, the actual percentage was not significant)
- 35 Employees were above the maximum of the new assigned range.
- 1253 Employees were below the minimum of the new assigned range.

Employees with salaries above the maximum are being maintained at current rates until structure movement surpasses their salaries. A transitional minimum was created for those employees with salaries falling below the new pay minimum until agencies find

salary savings or other funding to bring those employees up to the new policy minimum. To date, agencies have moved approximately 75% of the employees falling under the new minimum into the new pay ranges. The agencies have been able to utilize HB844 funding and or salary savings to bring those pay rates into the new policy minimums. For some position classifications, bringing employees to the new range minimums did create compression issues. Most of these issues can be avoided in the future by making changes to the structure prior to funding for merit increases.

In summary, the majority of employees benefited by the new pay grade assignments and most importantly, agencies are doing a good job implementing the changes.

D. Use Of A Performance Based Merit Increase Matrix

The concept of pay for performance has been in Idaho Code for a number of years. However, agencies had difficulty fully adopting this concept due to a combination of limited funding, the pass/fail performance appraisal system and the prevalence of an entitlement culture.

The State Is Better Positioned For An Effective Pay For Performance System

With the changes adopted in 2006, agencies are in a much better position to implement an effective pay for performance system. Senate Bill 1363 adopted a matrix approach for merit increases as a pay for performance tool for State agencies. Use of a merit increase matrix and the concept of pay for performance, is a major culture change.

Agencies have adopted the merit increase matrix but there remains a lack of confidence that the State will adequately fund a true pay for performance system on an ongoing basis. With adequate funding over time these concerns will be alleviated.

Agencies Given Flexibility In The Use Of A Merit Increase Matrix

Some State agencies viewed the directive to distribute merit increases through the use of a performance matrix as too rigid. In an effort to reduce these concerns DHR developed Rules that specify the types of increases that could be given that would not require a matrix. DHR rules allow the DHR Administrator to grant exceptions to the use of a matrix based on justification from an agency. There is also significant flexibility in the design of the performance matrix which allows agencies to design a matrix that addresses their specific needs. With this flexibility, agencies will be able to adopt a true pay for performance system that should serve to retain and reward employees making major contributions.

Continue To Promote Pay For Performance

It is critical that the State adequately recognize and reward those employees who are fully engaged and providing a great return to the taxpayers of Idaho for dollars expended.

Since performance based merit increases distributed using a matrix system are still foreign to the culture of some State agencies, it may take time for those agencies to gain confidence using this approach. If used properly, this approach will enable the State to retain its best employees. It should also help to reduce any entitlement mentality that can surface in pay systems where all employees are treated the same in terms of pay distribution. As the State's pay system becomes more competitive with market, increased accountability should be expected from managers and employees throughout the State. It is recommended that the State of Idaho continue to promote a pay for performance system.

V. Structure Movement Analysis

In 2006 a new pay structure was established and new pay grades assigned to all positions within classified service. On average the structure increased 3.7%. While most major employers increase their structure annually, this was the first time the State of Idaho pay structure increased since 2001. The changes made to the pay structure enabled the State to improve from a position that was 8.6% below market average to the current position of approximately 5% below market average. The objective last year was to get the pay structure to within 95% of market. That objective was achieved. "WorldatWork", a professional compensation association, conducts a major salary and merit increase survey each year. Their survey includes over 2400 employers employing almost 14 million people and is very reflective of how much pay structures are increasing on an annual basis, and the average merit increase in the labor market. The chart below shows the historical structure movement in the market over the past 10 years.

10 Year Market Structure Movement

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Salary Structure Annual Adjustment											Projecte
Officers/Executives	2.6%	2.7%	2.7%	2.9%	3.0%	2.4%	2.2%	2.0%	2.2%	2.7%	2.7%
Exempt Salaried	2.7%	2.9%	2.9%	3.0%	3.2%	2.5%	2.1%	2.0%	2.4%	2.6%	2.7%
Nonexempt Salaried	2.5%	2.7%	2.7%	2.8%	3.1%	2.4%	2.3%	2.0%	2.4%	2.6%	2.7%
State of Idaho	**3.0%**	**0.0%**	**2.0%**	**0.0%**	**5.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**3.7%**	

Note: The State of Idaho expanded the range by 6.3% in 2002
*Information taken from "WorldatWork" Survey

Next year pay structures in the marketplace are expected to advance approximately 2.7%. In an effort to continue to catch up with market it will be necessary for the State to increase the structure by more than 2.7% if we are to make any gains. If the structure movement exceeds the average merit increase, compression problems will be created. It is recommended that DHR be directed to manage the structure movement to achieve a structure that is 96% of market.

Continue With Incremental Improvement Of The Compensation System

Last year all the changes in the compensation system were rather dramatic and much needed. Over the next several years, structure changes should be less dramatic because of these improvements. The goal should be to continue with incremental improvement.

Last year the objective was to get the pay structure within 95% of market and eventually at 100% of market from a total compensation perspective which includes benefits. There is a perception that the State's benefit package may be richer than those typical among private employers. A limited review of the benefit package was conducted. This review suggests the benefit package is very similar to what is typically offered in the public sector. DHR believes the benefit package may be between 2% and 4% richer than the typical private sector benefit package. DHR recommends that a goal be established to move the pay structure to 96% of market this year pending results of a Benefits valuation survey to be conducted in the spring of 2007.

Treatment Of Public Sector Compensation Data

Within the State employee population there are a number of positions in classifications found only in the public sector; for example, correctional officers, tax examiners, and state troopers. In reviewing the benefit packages of neighboring states, DHR found the State of Idaho plan to be only marginally better. This means it may be appropriate to make pay grade assignments closer to 100% of the market as opposed to the 95% used last year. The methodology used this past year for making pay grade assignments was to get to 95% of market without taking into consideration whether the data was from a public or private source. Several agencies have requested that DHR also include Idaho cities, counties, highway districts and school districts in the market analysis. DHR is in the process of working with a survey provider to respond to that request. The current plan is that DHR will correlate neighboring states' benefit data with local Idaho public sector benefit data and use the combination of those entities to generate the proper pay levels in order to be competitive in terms of total compensation.

Several agencies have also mentioned that they lose employees to the federal government and an attempt should be made to capture and utilize that data. DHR has not yet found a credible resource that could be used year after year for federal government market data. Because of funding and compression issues, it may be necessary to implement a higher level public sector weight, contingent on the appropriate level of merit increase funding.

VI. Merit Increase Budget Analysis

Last year state employees were given a 3% increase in February. HB 844 allocated another $5 million, which was equivalent to .8%, to be used for employees within specific classifications. In last year's report, DHR developed a 10 year plan to catch up to market. The plan would require catch up increases of 2% annually over the market average merit increase, which currently averages approximately 3.8 %. To achieve this goal over the 10 year period, merit increases in the state must average approximately 5.8% a year. Based on this year's analysis the average pay for state employees is 15.6% below market which is a .9% improvement over last year. The state's loss of market competitiveness in recent years is depicted in the chart below.

Salary Budget Survey 2006/2007

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Salary Budget/Merit Increases											Projected
Officers/Executives	4.50%	4.60%	4.50%	4.80%	4.70%	4.00%	3.60%	3.60%	3.80%	3.90%	4.00%
Exempt Salaried	4.30%	4.50%	4.40%	4.60%	4.60%	3.90%	3.60%	3.60%	3.70%	3.80%	3.90%
Nonexempt Salaried	4.10%	4.20%	4.20%	4.40%	4.40%	3.70%	3.40%	3.40%	3.60%	3.70%	3.80%
State of Idaho	**3.00%**	**0.00%**	**5.00%**	**3.00%**	**3.50%**	**3.50%**	**0.00%**	**0.00%**	**2.00%**	**3.80%**	

*Information taken from "WorldatWork" Survey

It is recommended that the State adopt the 10 year plan that was suggested last year and allocate a 5.8% merit increases over the next year. The total fiscal impact of this recommendation would be approximately 37 million dollars to the General Fund and 21.6 million dollars to Dedicated and Federal funds combined.

Need For Review Of Salary Savings

In recent years, merit increases have been extremely lean or non existent. Salary savings and other funding streams (such as fees and federal grants) create a source of funds for merit increases and in some ways create a disparity among agencies in terms of available money to increase base salaries. Larger agencies tend to produce more salary savings than the smaller agencies. DHR recommends a strategic plan and purpose for how funds are distributed taking into consideration funding streams and salary savings available to agencies.

VII. Funding Distribution

It has been difficult to assess the impact salary savings and other funding streams have had on base compensation. To make some general determination of how much base salaries increased, DHR looked at the average base salary in November 2005, and compared it to the average base salary of November 2006, and then calculated the average percentage increase. As a result of this calculation we believe the average increase to base salaries approximated 4.6%. Of the 4.6% increase to base salaries, 3% is attributed to CEC funding, .8% to HB 844 and the difference of an additional .8% is attributed to salary savings and other funding.

Variance In Agency Distribution

DHR captured all increases to base salaries between January and September of 2006, including CEC merit increases, HB 844 monies, salary savings and other funding. Because of turnover and other factors, this explanation is not the best calculation of increases to base salaries: however, it does give some indication of the variance of merit increases across agencies.

As is evident from this chart, there was significant variance across agencies in the funding that went into base salaries. We know that some of the variance in distribution was planned with the intent of addressing specific needs while in other agencies the differences could be attributed to salary savings or funding streams available specific to a given agency.

Variance In Agency Distribution

Number of Agencies	Number of Employees	Percentage Increase Range	Average Increase to Base Salaried
4	355	1% to 1.99%	1.4%
9	328	2% to 2.99%	2.6%
35	3592	3% to 3.99%	3.5%
15	4086	4% to 4.99%	4.3%
7	5019	5% to 5.99%	5.4%
1	94	6% to 6.99%	6.1%
3	2148	7% to 7.99%	7.2%
4	3079	8% to 8.99%	8.2%
2	1761	9% to 9.99%	9.6%
3	232	10% to10.99%	10.5%

Note: Excludes temporary employees and board members

VIII. Use Of Compa-Ratio To Address Inequities

Average Compa-Ratio By Agency

With the market analysis conducted last year and new pay grade assignments, the new pay ranges are now more reflective of market than they have been for several years. As we continue to work with the market data and gain confidence in that approach, the compa-ratios both by agency and by class become a more meaningful tool to be used in distributing funds. The midpoint of the range is intended to indicate the desired pay practice. Compa-ratio is a measure of actual pay compared to the midpoint of the pay range. A compa-ratio of 90% indicates a pay level that is 90% of the range midpoint. To the extent that pay ranges reflect market, compa-ratio is an indicator of the state pay practices compared to market and of relative pay across agencies and classes.

Use Of Compa-Ratio As A Distribution Tool

The intent is to provide greater funding to those classes and agencies with lower compa-ratios. There may be situations where the Legislature or an agency identifies positions critical to the mission of an agency where a strategic decision is made to maintain a higher compa-ratio for that particular class. The following table shows the average compa-ratio of the larger agencies.

DHR has also developed a similar report of compa-ratio and turnover rates by class. That document is too lengthy to include in this report. DHR believes a directed strategic approach to pay distribution is preferable to an across the board approach for distributing funds.

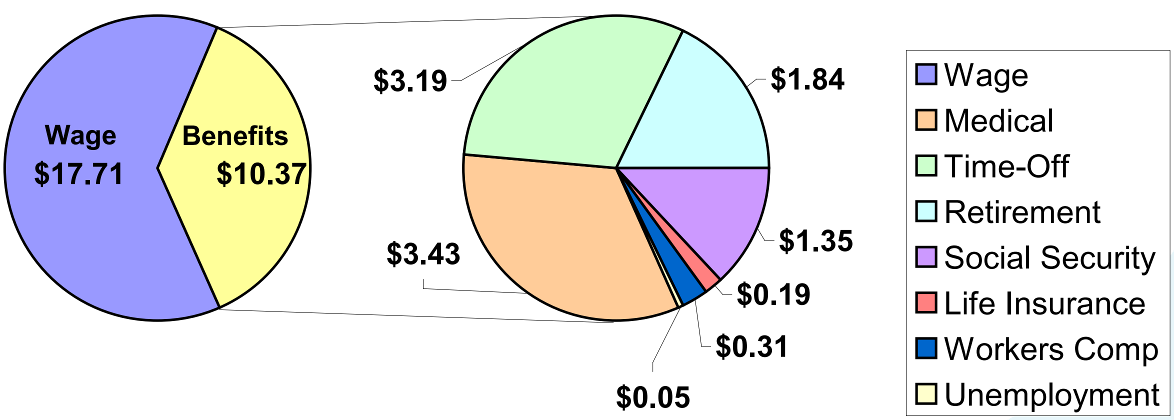
DHR continues to recommend more specific funding approaches that would serve to address disparities using compa ratio as a distribution tool.

IX. Benefit Plan Analysis

In any discussion of total compensation which includes benefits, it is important to determine the value of the benefit package and how the benefits compare to market. Due to the variety of benefits offered to employees and the many variations in benefit design, it is difficult to determine a definitive value of the State's benefit package and its comparison to market. DHR has calculated the cost of providing each of the individual benefits offered to State employees.

The chart below indicates the average pay rate of a classified employee which is $17.71 per hour. The chart compares the per hour cost of the benefits provided to State employees to the average pay rate.

FY 2007 Total Compensation



*Average classified state employee

Based on this chart, the benefit package is valued at $10.37 per hour, or 37% of total compensation. The largest components of the benefit package are medical, dental, and vision costing $3.43 an hour or 12.2% of total compensation. Leave time is valued at $3.19 an hour and 11.4% of total compensation; retirement is valued at $1.84 an hour and 6.6% of total compensation. In reviewing the benefit package, DHR worked from the premise that if the State of Idaho benefit package is richer than what is typically found in the market, the difference would likely show in one of the more costly benefit categories described here.

State Employee Medical Benefits Slightly Better Than Market

Some general comparisons were made between the State of Idaho employee benefit package and other public and private sector employers. In making those comparisons, DHR focused on those areas where there seemed to be a noticeable difference in the State of Idaho benefit design.

In comparisons made against the Central States Benefit Survey, DHR found the State of Idaho pension and leave practices to be very similar to the average practice of the nine western states. The Survey indicates medical premiums paid by employees working for neighboring state governments tend to be slightly higher than contributions made by State of Idaho employees. The difference is valued at approximately 1%. Based on this general assessment, once the State of Idaho pay structure achieves 99% of market, the structure would be at market from a total compensation perspective.

DHR also participated in the Watson Wyatt 2006/2007 Benefits Survey which included 644 employers across the United States. When comparing against this survey, our average costs for medical coverage are 2.1% greater than the survey average. Part of that difference can be attributed to the average age of the State of Idaho workforce. Our workforce is older than the average age in the labor market and health care costs tend to increase with age. Differences in the health care costs can also be linked to the fact that our employees pay a smaller portion of the health care premium. Half of that amount might be attributed to plan design and half to the age of our workforce.

Retirement Plan

While defined benefit plans are predominate in the public sector, the private sector has seen a general decline in these plans. The Watson Wyatt survey indicated the number of employers that have defined benefits plans covering new hires is now 37.1%. On the other hand, the number of employers offering some type of defined contribution plan has increased to 99.5%. The average employer match for defined contribution plans is 3.7% of employee pay, assuming the employee contributes up to the required match limit. A number of employers offer both a defined benefit and a defined contribution plan. The current cost of the State of Idaho retirement plan is approximately .5% greater than the average defined benefit plan and 3.3% greater than the average defined contribution plan reported by employers participating in the Watson Wyatt survey. While it is difficult to reach any absolute conclusions from the above comparisons of benefit costs, there is some indication that the State of Idaho benefit package is slightly richer than what is typically found in the private sector.

A more valid approach to conducting a benefits comparison would be to have an actuarial firm value the State of Idaho's benefits against the market. There is currently a plan to have such a review conducted in the spring of 2007. DHR contemplated having a review done this past year but found we could save approximately $25,000 by participating in an established survey in the spring. Based on an extremely general comparison of the most costly components of the State of Idaho benefit package, DHR believes a more extensive analysis may find our plans to be very similar to or slightly better than other public sector entities and between 2% and 4% richer than a typical private sector plan.

Adopt A More Strategic Approach To Use Of Benefit Plans

Since benefits comprise 37% of the total compensation package for State employees, an effort should be made to design the benefit package to maximize the return for dollars expended. It is recommended that a study of the benefit package be conducted to determine which benefits have the greatest perceived value by employees and prospective employees. If it is determined that those benefits with high dollar costs have lower perceived value, it may be appropriate to review the benefit plan design. Targeted benefit design can help maximize recruitment and retention efforts.

X. Planning For Future Funding

In the State Employee Compensation Philosophy adopted last year and addressed in Idaho Code 67-5309A(3) is the following statement: "*In order to provide this funding commitment in difficult fiscal conditions, it may be necessary to increase revenues, or to prioritize and eliminate certain functions or programs in state government, or to reduce the overall number of state employees in a given year, or any combination of such methods.*"

In order for this section of the philosophy statement to be implemented, a plan needs to be in place in which the State has identified those entities or employees responsible to insure that this section of code is actively pursued. In a challenging fiscal year, it may be difficult to eliminate services, increase revenues, identify efficiencies, or eliminate duplication in an appropriate manner without advanced analysis and planning. DHR recommends that an entity be designated to perform that advanced analysis and planning. Assuming such analysis is being conducted on an ongoing basis, confidence in the State's ability to adequately fund the employee compensation system would increase.

Because of the State's aging workforce we know that a number of state employees will be eligible for retirement over the next several years. DHR recommends that workforce planning analysis be encouraged within the agencies in order to be prepared for loss of some of our most experienced employees.

It is recommended that an entity be tasked with identifying opportunities to increase revenue and/or cost reduction options to insure that the compensation system is competitive.

XI. Compensation Of State Leadership

The compensation of key state leadership positions should be reviewed. Most of these key positions are non classified but it is still important to offer compensation that allows the agencies to attract and retain highly skilled professionals to fill these positions. Great public service is the result of effective leaders – leaders who assume accountability and who commit to holding employees accountable.

XII. Employee Recognition

DHR recommends that methods or programs be established to recognize employees for performing great public service at the agency level and higher. Programs that provide employee recognition for contributions to the agency's mission send the message that exemplary public service is appreciated and that employees are valued for the work they perform.

XIII. Recommendations

1. Implement the compensation philosophy passed in 2006 by providing annual funding that will allow the state to recruit and retain a quality workforce.
2. Continue to promote and reinforce a pay for performance system that pays competitively and holds all employees accountable for positive work results.
3. Provide funding that would allow the State of Idaho to move the pay structure to 96% of market. A 5.8% merit increase budget would enable DHR to move the pay structure to 96% of market.
4. Adopt a 10 year pay plan and allocate a 5.8% merit increase budget for the next fiscal year and a budget of 2% above the market average merit increase in the years that follow until market competitiveness is attained. The total fiscal impact of this recommendation would be approximately 37 million dollars to the General Fund and 21.6 million dollars to Dedicated and Federal funds combined.
5. Review salary savings and other funding streams to develop a strategic plan related to such funds.
6. Identify additional revenue sources and/or cost reduction options to consider in difficult fiscal times.
7. Incorporate Idaho Cities, Counties, and other public entities in an annual survey analysis
8. Adopt a compensation distribution plan specific to agency needs reflecting a planned strategy using compa-ratio as a distribution tool. This means that while on average, 5.8% would be distributed, allocations to individual agencies and classes could vary.
9. Conduct a more extensive review of the value of the State of Idaho benefit package compared to market.
10. Conduct a survey to assess employees and prospective employees level of understanding of the monetary value of the benefit package and its affect on recruitment and retention.
11. Review the compensation of key leadership positions.
12. Consider programs to provide greater recognition for employees performing exemplary service.
13. Encourage agencies to focus on workforce planning strategies to prepare for loss of key employees through attrition and retirement.

XIV. Implementation Plan

In the 2006 CEC report a 10 year plan was presented as an approach to increase employee compensation to a market competitive position. The chart below shows that goal is still attainable. With structure increase 1% above the market average, the structure could be at market within 5 years. Annual merit increases of 2% above the market average would be required for the average actual pay of state employees to be at market in 10 years. If the benefit package is determined to have greater value than the average benefit package in the market, competitive structure and compensation levels could be attained sooner.

Ten Year Plan

	Structure Market Movement	Idaho Structure Movement	Idaho Structure as a % of Market	Merit Increase Market Movement	State Average Salary Increase	Average Salary as a Percent of Market	Market Salary	Average State Salary
2006			91.4%	3.6%		83.5%	$41,750	$34,871
2007	2.70%	3.70%	95.2%	3.7%	4.6%	86.5%	$42,586	$36,839
2008	2.70%	3.70%	96.2%	3.8%	5.8%	88.2%	$44,204	$38,976
2009	2.70%	3.70%	97.2%	3.8%	5.8%	89.9%	$45,884	$41,236
2010	2.70%	3.70%	98.2%	3.8%	5.8%	91.6%	$47,627	$43,628
2011	2.70%	3.70%	99.2%	3.8%	5.8%	93.4%	$49,437	$46,158
2012	2.70%	3.50%	100.0%	3.8%	5.8%	95.2%	$51,316	$48,836
2013	2.70%	2.70%	100.0%	3.8%	5.8%	97.0%	$53,266	$51,668
2014	2.70%	2.70%	100.0%	3.8%	5.8%	98.9%	$55,290	$54,665
2015	2.70%	2.70%	100.0%	3.8%	5.0%	100.0%	$57,391	$57,398