MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Monday, January 15, 2024
TIME:	4:00 P.M.
PLACE:	WW55
MEMBERS PRESENT:	Senators Co-chairman Cook, Guthrie, Burtenshaw, Carlson, Ward-Engelking
	Representatives Co-chairman Bundy, Holtzclaw, Kingsley, Wheeler, Gannon
ABSENT/ EXCUSED:	Representative(s) Holtzclaw, Representative(s) Kingsley

Co-Chairman Cook called the meeting to order at 4:05 P.M.

Mr. Keith Bybee, Division Manager, LSO Budget & Policy Analysis, presented an update on the FY2024 state budget. Estimated revenue is at $5.6B, 43% of the General Fund (GF) is appropriated for Personnel Costs (PC). Historically, the average annual growth of the General Fund has been 5.7%. Comparing GF revenue with Expenditures & Obligations, Mr. Bybee explained that the two respective lines on the graph displayed are getting closer to one another heading into FY2026 due to spending down of the surplus but added that the overall picture is that the state budget is structurally balanced. The Budget Stabilization Fund (BSF) is at its statutory cap of 15% of appropriations, or $880M and a 3.8% change from the previous year. The balance of the Public Education Stabilization Fund is $233M and capped at 8.67% of public schools' appropriation. Comparing the state's cash position at the beginning of FY2024 with the end of FY2009, Mr. Bybee briefly reviewed the state's Great Recession strategy, which was a combination of budget cuts and use of surplus cash over three years; he ended his remarks by noting that the state is still in a good position to utilize these strategies if needed.

In response to questions from committee members, **Mr. Bybee** pointed out that the growth trendline from 2014-2018 was not insignificant but slow and steady; that line is settling in looking at the projections starting in 2024. A straight line approach reflects historic population and income growth. Referencing the list of Rainy Day Funds, the Economic Recovery Reserve Fund had been funded by excess revenues from Cigarette taxes; beginning in 2017, the Legislature changed the formula for these taxes so that those funds would flow into water ($5M) and road ($5M) projects, and then GARVEE debt after that. The ERRF was zeroed out, but the Legislature increased the BSF cap from 10% to 15% to offset this.

Senator Burtenshaw requested clarification on the slide titled "General Fund with Obligations," noting that the gold line for expenditures was $6.1B but in EORAC it was only $5.1B. Mr. Bybee explained that the revenue line in that chart also accounted for the historic billion-dollar surpluses, while in EORAC, there is only interest in ongoing revenues.

Mr. Alex Adams, Administrator, Division of Financial Management, presented the Governor's FY2025 CEC recommendation. Mr. Adams summarized some of the challenges of putting together the budget, including back-to-back tax cuts, HB292, and the spending down of the $1B surplus, and added that the $1.1B in ARPA funds has been fully obligated, and that revenue is normalizing after consecutive years of 20% growth. YTD revenue is 5% behind specifically on sales and corporate tax. In consideration of all these factors, the Governor recommends a 3% merit increase, which is a $39.6M CEC recommendation. The recommendation also includes following the salary structure shift DHR recommended, but only funding for employees who fall below that minimum and maintaining current payline exceptions. The health insurance recommendation is $13,000/FTP (full-time equivalent position) from $13,750/FTP, which would revert $4.9M to the General Fund. Mr. Adams added that when this recommendation was made, the contract with the new carrier had not been signed, but based on the BAFOs, this amount would accommodate any of the finalist plans.

Addressing committee questions about payline exceptions, **Mr. Adams** deferred to **Ms. Janelle White**, Administrator, Division of Human Resources. Ms. White clarified that payline exceptions are the allowance to pay above the established pay grade for positions where the market demands a premium, to adequately recruit for them. She added that they were not the two new salary structures in IT and Nursing, but for positions that have been in place for the past decade. There is no additional CEC appropriation for payline exceptions because they are already budgeted at the higher paygrade. Ms. White confirmed that she would provide a report detailing the total fiscal impact of payline exceptions the committee, at **Senator Guthrie**'s request.

Representative Gannon asked about the decrease in the health insurance appropriation. **Mr. Adams** referred to the later presentations on the health plan but informed the committee that the state had rebid the plan contract and per the actuarial data based on the BAFOs submitted, the cost was less than $12,900 so the recommendation was set at $13,000/FTP. That number does not involve shifting additional payment onto members.

Mr. Mike Hampton, Deputy Director of PERSI, presented a brief overview of PERSI's statutory authority, and updates for the agency. The PERSI board's impact is limited to contribution rate adjustments but there is some flexibility allowed. PERSI established a teacher class (a third distinct member class) in 2022, the contribution rate changed effective 7/1/23, and made improvements to the Choice 401(k) plan. The fund had a negative return of 9.66% as of 7/1/22; by statute, the board was required to adjust contribution rates to lower the amortization rate, which are phased in over a three year period. The phase in allows for a grace period so the market can recover and the board and delay or withdraw the adjusted rates. As of 7/1/23 the return rate was 9.11%; amortization rate would be 12.6% if current trends were to continue but Mr. Hampton emphasized that there is a lot of market volatility. He concluded that for the purposes of CEC that most active state employees are general members, and there are 15,138 currently active members as of 7/1/23 and added that the rates of general class have stayed consistent. Including those outside of state employment and retirees, total general members are 47,000. There are a total of 20,000 school employees along with 8,800 public safety members.

Responding to committee questions about COLA adjustments, **Mr. Hampton** summarized PERSI's plan to increase beneficiaries' purchasing power and that it was not dissimilar to action taken during the Great Recession but noted that the cycle took nearly a decade to catch up, and that due to market volatility, it would be difficult to make any predictions to the current timeframe, citing an 8% swing in the market in the past 60 days. While a 1% increase would cost $12M over the course of a single year, this would add an additional $2.4B in liability to the plan over a 30-year minimum. The rate of return was last adjusted around 2021, from 7% to 6.3%, and PERSI is on a 4-year cycle for assumptions.

Senator Guthrie offered his opinion that PERSI is just one part of a retirement portfolio; he advised caution so that the program is not compromised for future beneficiaries. **Mr. Hampton** responded that the Senator's comments echoed the sentiments of the board and they do consider long-term sustainability over the lifetime of members.

Ms. Valerie Bollinger, Administrator, Department of Purchasing (DOP), presented information to the committee to address questions about the ITN selection process, cost evaluation, and quality of the new carrier. She reviewed the timeline of the ITN between July and November of 2023. When DOP evaluated the costs of the four vendors in February 2023, there were significant variations in claims repricing, assumptions and variations, and DOP and DIIS (Division of Insurance and Internal Support) attempted to normalize these. DOP was expecting to complete evaluations by July of 2023 but because the difference between the first and second finalists was only 4 of 1000 points, they were unable to identify a clear winner. DOP decided to reopen negotiations and hired a single actuary to look at all finalist data and apply a single methodology with a single set of assumptions. Finalists had an opportunity to object but none did. The evaluation was completed in November of 2023 and DOP was comfortable that there was a clear winner and notified all finalists. The July-November period was to ensure that numbers were reliable and the evaluation was consistent, fair, and defendable.

Ms. Bollinger then addressed the questions about cost and quality of the selected carrier. The three primary components that ran through the plan objectives and scoring system were competitive employee benefits, improved health, and cost containment for both the state and employees. In the November scoring, Regence Blue Shield of Idaho (RBSI) had the lowest total cost but highest in tech and negotiated scope of work. If cost had not been a factor, RBSI would still have been the winning vendor due to scoring the highest in three of the four categories. Ms. Bollinger reminded the committee that RBSI did not win only because of the cost, but it was a contributing factor.

Responding to questions from the committee, **Ms. Bollinger** clarified that a new set of data was used in the July reevaluation (FY2023) for medical claims. Prescription claims data were the same in both evaluations but evaluated anew by the actuary hired. Finalists had the opportunity to resubmit their best and final offer (BAFO) and to renegotiate the scope of work. School districts coming on plan will be considered mid-year but would be aligned with the state fiscal year after the first year. Vendors were told at the onset of the ITN that the state was looking for the same quality or better in a plan. Disruptions would be minimal based on comparisons but she noted that disruptions do occur when there is a provider change; plans will be made to walk affected employees through the transition.

Representative Wheeler asked when the state began using ITNs and where they had been used previously and successfully. Ms. Bollinger responded that ITNs began being used in 2019 and mostly for complex procurements requiring more dialogue with, and input from, vendors. She cited IDOC's community reentry program, as well as several IT procurements as having used ITNs.

Representative Wheeler followed up with a question about how the ITN addressed the implementation timeframe. Ms. Bollinger stated that a short timeframe was always anticipated but had been pushed back to due to the delay of LUMA coming online. Per a Request for Information (RFI) vendors indicated that the proposed timeframe was doable but not ideal.

Answering additional follow-up questions from **Representative Wheeler, Ms. Bollinger** explained that LUMA was procured through an RFP via the Controller's office. Regarding communication to members, DOP has moved to a support role and more details would be in **Administrator Pike**'s presentation.

Senator Guthrie reiterated concerns about the implementation timeline and quality of product. **Ms. Bollinger** acknowledged Senator Guthrie's concerns and welcomed opportunities to explain the selection process further, but restated her confidence in the process, encouraging members to read the Determination Officer's recommendation. Responding to a follow-up from Senator Guthrie, Ms. Bollinger explained that the head of the office of Administrative Hearings, Bryan Nickels, agreed to serve as the determinations officer, and that was within the scope and purpose of the Department, and the officer was independent of the selection process.

Co-Chairman Cook asked for clarification on the scoring breakdown and if there was any plan in case pricing was underestimated. **Ms. Bollinger** explained that the vendor with the lowest cost received 250 points and all others got a ratio of 250 based on their costs. She clarified that costs were based on claims and there are a tremendous number of variables, but minimum discounts and rebates are guaranteed for the first three years, as are administrative costs. Claims make up the largest expense and those are not guaranteed with any carrier.

Ms. Bollinger concluded her presentation by providing an overview of the contract features and offered to share the contract upon request. **Co-Chairman Cook** asked how carrier performance would be monitored; Ms. Bollinger replied that it would be a shared responsibility between OGI and Purchasing and that deficiencies would be addressed via a credit the following month.

Ms. Jennifer Pike, Administrator, Office of Group Insurance, presented a summary update on OGI including an overview of its statutory authority and FY2025 budget request. She then provided a projection of costs for FY2025 under the new carrier, noting that while the plan cost would still increase year over year but less than it would under the current carrier. Based on actuarial data, there is a projected 8% increase per year if claims remain the same. The appropriation formula is the total cost of the claims, administration, retiree subsidies, HSAs, and OGI's operating budget less the amount from those employees who waive coverage (which are "swept" into the funding) and any excess reserve funds.

Ms. Pike then provided general information about Regence Blue Shield of Idaho (RBSI). RBSI is Idaho-based and has close to 300,000 members. She compared some of the new plan's features with those of the current carrier, and then reviewed the implementation process, adding that OGI included an $80,000 line item in their FY2025 budget to cover agency billing for LUMA updates. There will also be communication with agencies and DHR in preparation for the open enrollment period.

Responding to member questions, **Ms. Pike** explained that there would be data sharing between BCI and RBSI to minimize member abrasions. BCI billing would cease 6/20/24 and RBSI would begin 7/1/24. However, Ms. Pike noted that member disruptions would be rare. **Ms. Valerie Bollinger**, Administrator, Department of Purchasing, clarified that the disruption analysis was 2% of claims, not members. Ms. Pike also explained further that OGI was still developing a communication plan and stated that every employee would be notified with information specific to their needs, to mitigate abrasion. The timeframe of January-April is not standard; typically, implementation would take about 6-9 months but Ms. Pike expressed confidence in meeting the deadline of open enrollment. There is not a date by which OGI would pull back if unable to meet open enrollment but Ms. Pike informed the committee that she would provide a Gantt chart.

Ms. Christine Otto, Principal Analyst, Legislative Services Office, Budget & Policy Analysis Division, summarized the CEC testimony submitted by twelve agency directors and 178 members of the public. The director testimony expressed thanks to the CEC Committee, appreciation of CECs, support for DHR and the governor's recommendation, and concerns about challenges of recruitment and retention. Of the public comments, 69% of respondents cited the increased cost of living, 62% the lack of competitive wages, 60% turnover and retention, 27% ability to serve Idaho and benefits of state employment, 21% favorable remarks on the state's telework policy, and 12% non-wage benefits and policies, such as accruals and health insurance. Ms. Otto then reviewed the four components of a CEC motion: market-related changes, payline exceptions, benefit packages and merit increases, providing example motions of each and details on the state's cost for each, including health insurance appropriation scenarios.

Co-Chairman Cook addressed the committee, with general remarks about some of the information covered in the meeting that members need to consider. **Representative Gannon** requested data on the lowest paid full time employees making $20/hour or less. Ms. Otto confirmed she would provide that to the committee.

ADJOURN: There being no further business before the committee, the meeting adjourned at 6:47 P.M..

Senator Cook Chair	Tamara Figueiredo Secretary