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Joint Legislative Study Committee on State Employee Compensation

2001 Annual Report

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LEGISLATIVE STUDY COMMITTEE REPORTS

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Joint Legislative Study Committee On State Employee Compensation

2001 ANNUAL REPORT

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STATE DOCUMENTS

MEMBERS:

Senator Edward Cirillo, Cochair
Senator Marsha Arzberger
Senator David Petersen
William Adams
William Bell
Sandra Williams
Shawn Nau
Linda Strock
Carl Williams

Representative Debra Brimhall, Cochair
Representative Marian McClure
Representative Victor Soltero
Secretary of State Betsey Bayless
Leigh Cheatham
Cathy McGonigle
Kathy Peckardt
Pam Tenney
Alan Maguire

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JOINT LEGISLATIVE STUDY COMMITTEE ON STATE EMPLOYEE COMPENSATION

MEMBERS:

Senator Edward Cirillo, Cochair
Senator Marsha Arzberger
Senator David Petersen
William Adams
William Bell
Sandra Williams
Shawn Nau
Linda Strock
Carl Williams

Representative Debra Brimhall, Cochair
Representative Marian McClure
Representative Victor Soltero
Secretary of State Betsey Bayless
Leigh Cheatham
Cathy McGonigle
Kathy Peckardt
Pam Tenney
Alan Maguire

MEMBERSHIP:

- Three members of the House of Representatives, not more than two from the same political party and one designated as Co-chair, appointed by the Speaker of the House Representatives
- Three members of the Senate, not more than two from the same political party and one designated as Co-chair, appointed by the President of the Senate.
- One member who is an employee of the state and a member of an employee association, appointed by the Governor
- Two members who are experts on employee compensation, appointed by the Governor
- Three members who are state agency directors, deputy directors or assistant directors, appointed by the Governor
- One member from the university personnel system, appointed by the Executive Director of the Board of Regents
- One member who is an employee of the state and who has at least ten years of state service, appointed by the President of the Senate
- Two members who are employees of the state and have at least ten years of state service, appointed by the Governor
- One member who is an employee of this state and who has at least ten years of state service, appointed by the Speaker of the House of Represenatives

ESTABLISHMENT:

The Joint Legislative Study Committee on State Employee Compensation was created by Laws 1997, First Special Session, Chapter 3.

COMMITTEE CHARGE:

The purpose of the Committee is to: (1) study the various State personnel systems, State employee compensation and related issues, including salary, benefits, employee turnover, and comparisons to other comparable public and private employers; (2) review all payroll deductions made from State employee salaries pursuant to A.R.S. 36-612; and (3) consider issues concerning State employee medical and dental insurance coverage, including issues relating to the size of the risk pool and the type of coverage provided to State employees.

TERMINATION:

December 31, 2003

PUBLIC MEETINGS:

The Committee met on August 23, 2001 to discuss state compensation ranking and market comparison, benefits and heath insurance. A state compensation ranking and market comparison survey is contained in Attachment A.

REPORT:

The Committee is required to submit, on or before December 1 or each year, written recommendations on a long-term strategy for addressing State employee compensation.

However, the Committee did not adopt any formal recommendation in 2001.

ATTACHMENT A

PAY

MARKET
VS
STATE OF AZ

SALARY GAP BETWEEN THE MARKET AND THE STATE

		Data Source A	Data Source B	Data Source C
4/1/00	**Market Salaries Exceeded State Salaries** (JGSS Survey data)	**13.2%**	**13.2%**	**13.2%**
3/1/01	Market *Movement* from 4/1/00 to 3/1/01	3.2%	3.2%	3.2%
3/1/01	**Market Salaries Exceed State Salaries** (JGSS Survey data)	**16.4%**	**16.4%**	**16.4%**
4/1/01	***Average Merit Increase of ADOA Employees***	[illegible]	[illegible]	[illegible]
	Market Salaries Exceed State Salaries	**14.4%**	**14.4%**	**14.4%**
4/1/02	Projected Market *Movement* 3/01 - 4/02 * * 13 months	4.4%	4.7%	5.0%
	Market Salaries Exceed State Salaries	**18.8%**	**19.1%**	**19.4%**
4/1/02	***General Increase for ADOA Employees***	[illegible]	[illegible]	[illegible]
	Market Salaries Exceed State Salaries	**13.8%**	**14.1%**	**14.4%**
4/1/03	Projected Market *Movement* 4/02 - 4/03	5.5%	4.3%	4.6%
	Market Salaries Exceed State Salaries	**19.3%**	**18.4%**	**19.0%**
4/1/03	***General Increase for ADOA Employees***	[illegible]	[illegible]	[illegible]
4/1/03	**Market Salaries Exceed State Salaries**	**14.3%**	**13.4%**	**14.0%**

Data Sources for Projected Market Movement
A - 2001 Joint Governmental Salary Survey-Public Em
B - 2001 Watson Wyatt & WorldatWork
C - June 2001 Employment Cost Index (ECI)

Note: Although a salary increase is scheduled for next April, cost to employees for health insurance will rise October 1 of this year, further deteriorating employees' position relative to the market.

(Average Salaries Represent All State Employees)
2000 Central States Survey

State	[illegible]	[illegible]	[illegible]
Illinois	$44,744	$51,133	$46,125
Colorado	$40,296		
Minnesota	$40,027	$44,704	$40,904
Washington	$37,992	$51,792	$38,469
Nevada	$36,365	$56,025	$37,520
Oregon	$36,336	$58,416	$37,766
Utah	$34,327	$42,888	$35,183
Idaho	$34,320	$48,963	$36,296
Wisconsin	$34,295	$52,714	$36,028
Kansas	$31,677	$44,925	$29,838
Texas	$29,733	$30,288	$30,011
Arizona	*$29,725*	*$43,798*	*$30,519*
Wyoming	$29,412		$29,412
New Mexico	$29,214	$53,590	$30,465
North Dakota	$29,088		
Montana	$28,959	$33,247	$29,212
Missouri	$27,880		
Indiana	$27,818		
Arkansas	$27,773	$48,273	$28,885
South Dakota	$27,595	$42,357	$29,070
Louisiana	$26,932	$28,626	$27,519
Oklahoma	$24,623	$34,854	$27,384
Iowa			$37,878
Michigan			
Nebraska			$30,421
Average	*$32,233*	*$45,094*	*$33,495*
Variance	*8.4%*	*3.0%*	*6.3%*

Variance Between Market and Arizona

JGSS, Western and Central States Surveys

	A	B	C	D	E
JGSS					
	# Resp	State Formal Min vs Mkt Formal Min	State Avg vs Mkt Avg	State Midpoint vs Mkt Avg	State Formal Max vs Mkt Formal Max
All Participants (Private/Public) *	232	13.60%	16.40%	4.90%	0.30%
Large Public Participants in Maricopa County *	5	21.31%	28.21%		8.88%
Large Public Participants in Pima County *	4	5.60%	11.10%		2.90%
Western States					
	# Resp	State Formal Min vs Mkt Formal Min	State Avg vs Mkt Avg	State Midpoint vs Mkt Avg	State Formal Max vs Mkt Formal Max
All Participants **	29	10.10%	19.20%	5.00%	0.20%
Cities/Counties only in Maricopa County **	5	24.12%	31.51%		1.61%
States **	9	3.11%	16.69%		(5.60%)
Central States					
	# Resp	State Formal Min vs Mkt Formal Min	State Avg vs Mkt Avg	State Midpoint vs Mkt Avg	State Formal Max vs Mkt Formal Max
States in Central and Western Regions	25	4.48%	8.14%	8.58%	(6.96%)

* Number of responses excludes Arizona, Universities, DPS and State Comp Fund
** Number of responses excludes Arizona

INCREASE RANGE MINIMUMS

- Last increase to range minimums was October 1997 (2.5%)
- Surveys indicate State minimums are below market
  - 13.6% - JGSS Survey Market Formal Minimum exceeds State's Formal Range Minimum
  - 20.6% - JGSS Survey Market Actual Minimum exceeds State's Actual Minimum
  - 10.1% - Western States Survey Market Formal Minimum exceeds State's Formal Range Minimum
  - 17.4% - Western States Survey Market Actual Minimum exceeds State's Actual Minimum
- Low starting salaries impact our ability to hire

APRIL 1, 2002 and APRIL 1, 2003
GENERAL SALARY ADJUSTMENTS (GSA)

IMPACT OF $1500 vs. 5% FOR GENERAL POPULATION

- The cutoff for a $1500 GSA is $30,000
- At a salary of $30,000 and above, employees will receive 5%
- The increases for employees earning $30,000 or less will fall between 5.2% and 13.7%
  - Employees affected fall in grades 1 - 19, C1 - C2, S1 – S6
  - 21,087 or 56% of ADOA Personnel System employees are in these grades

CORRECTIONAL OFFICERS (Adult and Youth)

- All levels of these employees will receive $2500 April 1, 2002
- All levels of these employees will receive $1500 April 1, 2003

C/C8/23/01

BENEFITS

MARKET
VS
STATE OF AZ

JOINT GOVERNMENTAL SALARY AND BENEFITS SURVEY 2001
BENEFITS SUMMARY

BENEFITS OFFERED

The following Employer sponsored programs are offered to employees

Number Employers Responding	53	20	61	99	State
	Public	Private	Private	Private	of
Number of Employees	All sizes	1000 + ees	250-999 ees	50-249 ees	Arizona
Medical Insurance	98%	100%	95%	99%	X
Dental Insurance	96%	100%	89%	94%	X
Vision Care	79%	85%	66%	72%	X
Life Insurance	98%	100%	92%	91%	X
Supplemental Life Insurance	79%	95%	66%	48%	X
Short Term Disability	72%	85%	70%	61%	X
Long Term Disability	85%	90%	77%	67%	X
Stock Purchase Plan	0	25%	28%	11%	
Profit Sharing	0	15%	28%	26%	
401(k), 403(b)	42%	100%	85%	88%	X
Flexible Spending Account	62%	85%	52%	54%	X
Credit Union	77%	75%	64%	64%	X
Education Reimbursement	79%	90%	80%	66%	V
Sabbatical	19%	5%	5%	4%	U
Voluntary Participation Pension Plan	19%	5%	5%	4%	
Mandatory Participation Pension Plan	72%	10%	15%	11%	X
Relocation	11%	45%	38%	32%	*
Housing Assistance	2%	10%	5%	4%	S
Pre-placement Physicals	30%	30%	30%	19%	X
Child Care (on site)	13%	5%	5%	2%	X
Recreational Facilities	17%	15%	7%	5%	
Employee Assistance Program	72%	95%	54%	49%	X
Legal Assistance	13%	20%	20%	14%	
Service Award Programs	66%	70%	59%	48%	X
Long Term Care	8%	25%	18%	9%	
Financial Planning Assistant	9%	30%	13%	16%	
Signing Bonus	4%	30%	31%	11%	N
Referral Bonus	2%	45%	49%	33%	
Flextime	58%	35%	28%	33%	X
Telecommuting	25%	25%	16%	14%	X
Equipment for Telecommuting	6%	10%	8%	8%	X
Pay for Hot Skills (i.e. Technical)	2%	5%	1%	45%	
Benefits for Part-time Employees	49%	5%	34%	25%	X
Medical Insurance for Retirees	58%	25%	26%	11%	X
Discount on Products	17%	55%	41%	24%	
Pay for Bilingual Skills	19%	20%	8%	7%	
Benefits for Domestic Partners of Employees	4%	15%	11%	9%	

U = Universities only N = New
V = Varies by Agency S = Selected employees only
* = Current employees moving over 50 miles, @ agency discretion

CENTRAL STATES vs. STATE OF ARIZONA
2000

Premiums	Arizona Traditional*	Central States Traditional Avg	Arizona HMO*	Central States HMO
Health Insurance Cost/Employer Cost for EE + Family	$387.92	$339.76	$387.92	$386.67
Employer Cost for EE only	$168.00	$214.10	$168.00	$222.47
Health Insurance Cost/Employee Cost for EE + Family	$189.66	$180.58	$75.00	$140.04
Employee Cost for EE only	$59.40	$27.89	$8.52	$27.90

Sick/Holidays	Arizona	Central States Avg
Sick Leave - days per year	12	12.99
Holidays Per year	10	11

Annual Leave Accrual Rates / days	Arizona	Central States Avg
1-4 yrs srv	12	12.79
5-9 yrs srv	15	15.53
10-14 yrs srv	18	18.7
15-19 yrs srv	21	21.4
20-24 yrs srv	21	22.84
>25 yrs srv	21	23.3

Retirement Benefits	ASRS Arizona	Central States Avg
Employer Contribution	2.17%	8.88%
Employee Contribution	2.17%	3.65%
Full Vesting	5 years	6 years

Note: Traditional Plans are fee for service plans in which the employee is not required to use the services of a particular clinic or doctor. State of Arizona reported under the Traditional Plan but noted that it included a PPO component.

* 93.4% of employees including universities participate in HMO.
6.6 % of employees including universities participate in traditional plan.

Central States Benefits Survey 2000

Table 34 Benefit Value Comparison

Average Salary = $33,599.00
per hour = $16.15

State	Vacation Hours 5.9 yrs	Sick Hours	Holiday Hours	Health Insurance Employer Cost Employee Only	Life Insurance	Dental Insurance	Retirement	Social Security	Total Benefits	% of Salary	[illegible]
Arizona	120.0	96	80	$173.10	$3.77	$15.24	2.17%	6.20%			
per hour	$0.93	$0.75	$0.62	$1.00	$0.02	$0.09	$0.35	$1.00	$4.76	29.46%	$20.91
Arkansas	144.0	96	96	$261.00			10.00%	6.20%			
per hour	$1.12	$0.75	$0.75	$1.51			$1.62	$1.00	$6.73	41.68%	$22.89
Colorado	120.0	80	80	$131.76	$2.16	$14.25	11.40%	6.20%			
per hour	$0.93	$0.62	$0.62	$0.76	$0.01	$0.08	$1.84	$1.00	$5.87	36.35%	$22.03
Idaho	120.0	96	80	$283.33	$0.96	$11.99	9.77%	6.20%			
per hour	$0.93	$0.75	$0.62	$1.63	$0.01	$0.07	$1.58	$1.00	$6.59	40.78%	$22.74
Illinois	120.0	96	100	$296.33	$0.49	$7.06	13.79%	6.20%			
per hour	$0.93	$0.75	$0.78	$1.71	$0.00	$0.04	$2.23	$1.00	$7.44	46.04%	$23.59
Indiana	120.0	72	104	$237.64	$1.56	$11.33	9.20%	6.20%			
per hour	$0.93	$0.56	$0.81	$1.37	$0.01	$0.07	$1.49	$1.00	$6.23	38.58%	$22.39
Iowa	120.0	144	88	$244.60	$1.80	$15.56	5.75%	6.20%			
per hour	$0.93	$1.12	$0.68	$1.41	$0.01	$0.09	$0.93	$1.00	$6.18	38.23%	$22.33
Kansas	176.0	96	80	$216.12	$7.20	$15.51	3.98%	6.20%			
per hour	$1.37	$0.75	$0.62	$1.25	$0.04	$0.09	$0.64	$1.00	$5.76	35.63%	$21.91
Louisiana	144.0	144	76	$127.54	$5.52		13.00%	6.20%			
per hour	$1.12	$1.12	$0.59	$0.74	$0.03		$2.10	$1.00	$6.70	41.45%	$22.85
Michigan											
per hour								$0.00	$0.00	0.00%	$16.15
Minnesota	130.0	104	88	$223.36		$22.70	4.00%	6.20%			
per hour	$1.01	$0.81	$0.68	$1.29		$0.13	$0.65	$1.00	$5.57	34.47%	$21.72
Missouri	120.0	120	96	$260.00	$3.48		11.59%	6.20%			
per hour	$0.93	$0.93	$0.75	$1.50	$0.02		$1.87	$1.00	$7.00	43.35%	$23.16
Montana	120.0	96	84	$258.64	$2.76	$23.60	6.90%	6.20%			
per hour	$0.93	$0.75	$0.65	$1.49	$0.02	$0.14	$1.11	$1.00	$6.09	37.70%	$22.24
Nebraska	120.0	112	96	$181.98	$2.28		6.75%	6.20%			
per hour	$0.93	$0.87	$0.75	$1.05	$0.01		$1.09	$1.00	$5.70	35.30%	$21.86

Central States Benefits Survey 2000

Table 34: Benefit Value Comparison — Average Salary = $33,599.00; per hour = $16.15

State	Vacation Hours 5-9 yrs	Sick Hours	Holiday Hours	Health Insurance Employer Only	Life Insurance	Dental Insurance	Retirement	Social Security	Total Benefit	[illegible]	[illegible]
Nevada	120.0	120	88	$368.75	$4.80		10.00%	6.20%			
per hour	$0.93	$0.93	$0.68	$2.13	$0.03		$1.62	$1.00	$7.32	45.31%	$23.47
New Mexico	96.0	96	82	$127.53	$2.51	$6.91	16.59%	6.20%			
per hour	$0.75	$0.75	$0.64	$0.74	$0.01	$0.04	$2.68	$1.00	$6.60	40.85%	$22.75
North Dakota	120.0	96	84	$139.69	$2.58		4.12%	6.20%			
per hour	$0.93	$0.75	$0.65	$0.81	$0.01		$0.67	$1.00	$4.82	29.82%	$20.97
Oklahoma								6.20%			
per hour	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		$0.00	0.00%	$16.15
Oregon	120.0	96	80	$387.14	$2.64		9.73%	6.20%			
per hour	$0.93	$0.75	$0.62	$2.23	$0.02		$1.57	$1.00	$7.12	44.08%	$23.27
South Dakota	120.0	112	96	$268.95	$2.47		5.00%	6.20%			
per hour	$0.93	$0.87	$0.75	$1.55	$0.01		$0.81	$1.00	$5.92	36.66%	$22.08
Texas	108.0	96	104	$215.58			6.00%	6.20%			
per hour	$0.84	$0.75	$0.81	$1.24			$0.97	$1.00	$5.61	34.71%	$21.76
Utah	130.4	104	88	$192.67	$2.04	$36.25	15.66%	6.20%			
per hour	$1.01	$0.81	$0.68	$1.11	$0.01	$0.21	$2.53	$1.00	$7.37	45.61%	$23.52
Washington	124.0	96	88	$293.00	$2.18		6.60%	6.20%			
per hour	$0.96	$0.75	$0.68	$1.69	$0.01		$1.07	$1.00	$6.16	38.15%	$22.32
Wisconsin	120.0	104	96		$0.84			6.20%			
per hour	$0.93	$0.81	$0.75		$0.00		$0.00	$1.00	$3.49	21.61%	$19.64
Wyoming	120.0	96	72	$215.00	$2.64		11.25%	6.20%			
per hour	$0.93	$0.75	$0.56	$1.24	$0.02		$1.82	$1.00	$6.31	39.07%	$22.46
Average	$0.92	$0.77	$0.66	$1.28	$0.02	$0.09	$1.30	$0.96	$5.86	36.00%	$22.42
	13 = AZ	11 = AZ	3 = AZ	0 = AZ	0 = AZ	0 = AZ	0 = AZ	All = AZ			
	2 < AZ	2 < AZ	2 < AZ	2 < AZ	16 < AZ	5 < AZ	0 < AZ				
	7 > AZ	9 > AZ	17 > AZ	9 > AZ	3 > AZ	4 > AZ	21 > AZ				

Note: Michigan Oklahoma and Wisconsin not included in average due to incomplete imformation

8/23/01

SHRM 2001 Benefits Survey

Executive Summary

- Survey sent to 2610 Society for Human Resource Management (SHRM) members seven hundred fifty-four responded (46 governmental agencies)
- Benefits separated into eight categories
- Benefits offered by the State of Arizona, as a major employer, are consistent with other governmental agencies and most large organizations
- Of the 46 governmental agencies, 76% reported that between 21 – 40% of salary for cost of benefits, the overall average was 30%
- Benefits are affected by workplace demographics
- Diverse workforce demographics drive individualization of benefits. Advantages:
  - Increased employee satisfaction
  - Image of progressive and caring employer
  - Less expensive then traditional model
  - Taxable income reduction
  - Allows for additions/deletions of benefits with changing demographics.
- Designed to allow balance of work and non-work life issues
- The number of benefits surveyed has doubled in the last six years addressing recruitment and retention issues
- Eighty-four percent (84%) of government/large organizations offer Preferred Provider Organization (PPO), 62% offer Health Maintenance Organization (HMO)
- Sixty-nine percent (69%) of all respondents (63% government) offer flexible spending accounts (IRC Section 125), an increase of 7% from last year
- Flexible spending accounts in true cafeteria plans (standard dollar amount for each employee) provide management control over benefit costs

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Financial Benefits

- Covers direct deposit, shift differentials, education assistance and retirement benefits

- The State of Arizona, as a major employer, is consistent with other governmental agency respondents. Arizona does not provide bonuses or stock options

Unusual Benefits

- Company purchased tickets, Ice cream socials, Theme Days and Pet insurance

All numbers that follow are in term of percent

Family Friendly – Tight labor market driving flexibility

Benefit	Overall	Govt.	Arizona
Dependent care flexible spending accounts	69	61	Yes
Flextime	58	61	Yes
Telecommute	38	28	Yes
Compressed workweek	31	30	Yes
Domestic Partner benefits	25	13	No
Childcare Referral	25	20	Yes
Elder care referral	19	9	Review

Housing

Benefit	Overall	Govt.	Arizona
Relocation assistance	62	15	Yes *
Cost of Living Allowance	22	11	No

** = Selected positions only.*

Business Travel

Benefit	Overall	Govt.	Arizona
Employee keeps frequent flyer miles	71	39	No
Long distance calls	66	28	Business

Health Care

Benefit	Overall	Govt.	Arizona
PPO	84	83	Yes
HMO	62	76	Yes
EPO	10	11	Yes
Dental	96	96	Yes
Life Insurance	96	96	Yes
Prescriptions	93	87	Yes
Mental Health	75	76	Yes
Vision	71	74	Yes
Chiropractic	51	57	Yes
Long Term Care	46	35	Yes
Flexible Spending accounts	69	63	Yes
Employee Assistance	67	87	Yes
On Site Vaccinations	61	70	Yes
Wellness Programs	52	57	Yes
CPR Certification	50	67	Yes
Health Screening	37	54	Yes

Personal Services

Benefit	Overall	Govt.	Arizona
Professional Development (courses,etc,)	93	83	Yes *
Professional Memberships Paid	85	78	Yes **
Casual Dress 1 day per week	55	76	Yes
Casual Dress everyday	49	26	Summer
Mentor program	39	24	No
Club Memberships Paid	32	20	No

** Varies agency/division*
*** Selected Individuals only.*

Leave

Benefit	Overall	Govt.	Arizona
Jury duty	88	98	Yes
Bereavement	88	91	Yes
Vacation	84	85	Yes
Sick Days	76	87	Yes
Long term Disability	84	52	Yes
Short term Disability	75	48	Yes
PTO Days	62	61	No
Floating Holidays	51	48	No
Paid Personal Days	44	54	No
Time Banks (Leave Banks)	11	26	Yes

Self-Insurance

Definition:

Self-Insurance is the paying of employee health related claims as they are incurred rather than paying an insurance company a monthly premium to underwrite the claims.

Self-Insurance - State Governments

- 75% of State Governments are self-insured using a standard indemnity or PPO model.
- Arizona is the only state, other than New York, with an employee population greater than 50,000 that is not self-insured.
- Arizona is the only state, other than New York, whose health care budget is over $200 Million that does not self-insure.

Source: 1999 Survey of State Employee Health Plans, the Segal Company

Not one state admin themselves.

ATTACHMENT B

REVISED **REVISED** **REVISED**

Agendas can be obtained via the Internet at http://www.azleg.state.az.us/iagenda/iagenda.htm

ARIZONA STATE LEGISLATURE

RESEARCH (2)
BASEMENT

INTERIM MEETING NOTICE
OPEN TO THE PUBLIC

JOINT LEGISLATIVE STUDY COMMITTEE ON STATE EMPLOYEE COMPENSATION

DATE: Thursday, August 23, 2001

TIME: 4:00 p.m.

PLACE: Senate Appropriations Room #109

AGENDA

1. Call to Order
2. Presentation of State Compensation Ranking and Market Comparison – ADOA
3. → Presentation of Benefits and National Trends, Including Self-Insurance Models – ADOA
4. Presentation of Statewide Health Insurance Pool – Arizona State Retirement System
5. → Discussion of Regional Health Insurance Contracting vs. Statewide – ADOA
6. Other Business
7. Public Testimony
8. Adjourn

Members:

Senator Edward Cirillo, Cochair
Senator Rusty Bowers
Senator Marsha Arzberger
William Adams
William Bell
Sandra Williams
Shawn Nau
Linda Strock
Carl William

Representative Debra Brimhall, Cochair
Representative Marian McClure
Representative Victor Soltero
→ Secretary of State Betsey Bayless
Leigh Cheatham
→ Cathy McGonigle
Kathy Peckardt
Pam Tenney
Alan Maguire

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Senate Secretary's Office: (602)542-4231 (voice). Requests should be made as early as possible to allow time to arrange the accommodation.

NS/cd 08/22/01

ARIZONA STATE LEGISLATURE
Forty-Fifth Legislature – First Regular Session

JOINT LEGISLATIVE STUDY COMMITTEE ON STATE EMPLOYEE COMPENSATION

Minutes of the Meeting
Thursday, August 23, 2001 – 4:00 P.M.
Senate Appropriations Room #109

Members Present:
Senator Edward Cirillo, Co-chair
Senator Marsha Arzberger
Secretary of State Betsey Bayless
William Bell
Sandra Williams
Shawn Nau
Linda Strock
Carl William
Representative Debra Brimhall, Co-chair
Representative Victor Soltero
William Adams
Leigh Cheatham
Kathy McGonigle
Kathy Peckardt
Alan Maguire

Members Absent:
Representative Marian McClure
Senator Rusty Bowers
Pam Tenney

Staff:
Nadine Sapien, Senate Government Research Analyst
Todd Madeksza, Senate Banking and Insurance Research Analyst
Tami Stowe, House Majority Research Analyst, Government Operations Committee

Senator Cirillo called the meeting to order at 4:10 p.m., and attendance was noted. For additional attendees, see Sign-In Sheet (Attachment A).

Opening Remarks:

Senator Cirillo recapped the status to date including wage increases for State employees, and improvements in the retirement program for retirees. He commended the Committee for its diligence; however, noted that there is still work to be done. He said it will probably not be conducive for any large expenditures of additional monies during the next session; however, he emphasized that work needs to continue in order to be ready for the next budget year.

Representative Brimhall said she would waive her opening remarks until after the presentations.

Representative Soltero commended the co-chairs for their good work in this area. He suggested that even though next year is not a budget year, he believes the state employees should be kept at the forefront. He said he would prefer if future meetings

were scheduled in the mornings, preferably at 10:00 a.m. Senator Cirillo indicated an attempt would be made to compromise on the time for future meetings.

Secretary of State Betsey Bayless stated that the existence of the Committee is very important, and hopes it will continue. Senator Cirillo responded the Committee will be in existence until 2003 under the present statute, and he hopes it will be extended another five or ten years.

Presentation of State Compensation Ranking and Market Comparison – Arizona Department of Administration (DOA)

Carolyn Friedman, Classification Compensation Manager, DOA, provided a handout (Attachment B). She explained that a section of the handout includes a summary of trends from the Society for Human Resource Management (SHRM). She said that over 2,000 organizations were approached, and 754 responded to the survey. According to the survey, there is a turnover of 7%, and it has been increasing each year. Highlights of the survey include the following:

- There has been a 40% increase in population growth in Arizona from 1990 to 2000.
- Women will represent 48% of the work force by the year 2008 in Arizona.
- Of the current work force, 13% is 65 and older, and is projected to increase.
- The Hispanic work force is approximately 20% and increasing.
- Compensation: 80% of government respondents were changing from seniority to performance pay.
- The Phoenix/Mesa area is considered the ninth best place for a business career.
- Arizona is better than the national average in payroll employment, persons below the poverty line, and wage growth.
- Arizona is less than the national average in hourly earnings, median household income, average earnings per job, and personal income per capita.
- Turnover: within the first six months of service, 32% leave State service, and 62% leave within the first two years.

Ms. Friedman referred to the handout for further statistics. She pointed out the three scenarios on page 1 based on three different data sources as follows:

- Source A – Joint Governmental Salary and Benefits Survey – Public Employers. It excludes the Arizona Department of Public Safety (DPS) and the universities.
- Source B – Watson Wyatt & WorldatWork, which is a worldwide organization in compensation and total rewards.
- Source C – Employment Cost Index, which is one of the best indicators of how the market is moving.

Ms. Friedman explained the percentages and comparisons involved in the study.

Representative Soltero asked whether it was taken into consideration that the outside indicators will also rise relative to the pay scale. Ms. Friedman responded that is correct, and those comparisons are taken into consideration with respect to projected

market movement. She noted that the State's health insurance benefits will be increasing October 1, whereas a salary increase will not take affect until April 2002. She added that the additional cost will impact employees' salaries during that gap period. Senator Cirillo commented that employees outside the State would most likely also experience a raise in the cost of their health benefits. Ms. Friedmann replied that the State's employees may experience more of an added cost because of an attempt to "catch up" with the market.

Representative Soltero commented that the State will continue to lag behind in salary increases because a bill passed in 1998, which projected salaries to be within 5% of market by 2003. He noted that even with the salary increases, employees will be 14% behind the market by 2003. Ms. Friedmann responded that currently the increases will keep up with the market, but any gain will not close the gap.

Ms. Friedman pointed out that the data on page 2 provides comparisons with other states covering 25 companies, and pertains to the entire work forces in those companies. She noted that Arizona is in the middle of the group, and explained the data of the survey.

Representative Brimhall asked whether a cost-of-living (COL) comparison with the other states could be provided to the Committee. Ms. Friedman replied she would provide that information.

Ms. Friedman referred to page 3 relating to comparisons in the surveys, and explained the data. She pointed out that the public entities surveyed are paying considerably more to their employees than the State in both Maricopa and Pima Counties, as reflected in Column C. She added that two different surveys were utilized that included a mix of public entities, but involved the same cities and counties. She commented on the range minimums as outlined on page 4. Senator Cirillo stated that raising the minimums is a problem, and welcomed any suggestions that DOA may have to resolve that issue. Further discussion took place on the minimum and maximum salary ranges. Ms. Friedman explained Page 5 of the handout relating to general salary adjustments.

Ted Evers, Benefits Manager, DOA, explained the benefits portion of the handout. He pointed out comparisons to other states according to data gathered and surveys conducted. He commented on "self insurance" and defined it as the "paying of employee health related claims as they are incurred rather than paying an insurance company a monthly premium to underwrite the claims." The State would hire an administrator to pay claims as they are received, and would assume the risk for payment of those claims. He pointed out that 75% of state governments are self-insured. Senator Cirillo asked whether self-insurance is working properly in the states of similar size as Arizona. Mr. Evers responded he contacted seven states, and of the five that replied, the self-insured program appears to be working well. He stated that DOA is conducting a study on self-insurance with the hope of providing a recommendation by mid-December.

In response to Mr. Adams, Mr. Evers explained the costs involved with this year's insurance plan for employees as opposed to last year's. Senator Cirillo commented that he believes the health plan is a very good one for employees. Mr. Adams asked whether the State has researched providing certain other benefits for employees, such as being able to visit State parks without paying a fee by presenting an employee identification. He said that type of benefit would be a minimal impact for the State. Mr. Evers responded the majority of time was spent on providing the core benefits to employees; however, he is hoping to research those miscellaneous types of benefits in the future. He noted there is a statute outlining limitations, and he will research legislation on that issue. Senator Cirillo stated he is pleased that long-term care is being researched as well.

In response to Representative Soltero, Mr. Evers replied he would be pleased to attend a future meeting to provide additional information after the survey has been completed on the self-insurance program. He said he is working with Ms. Friedman on a total compensation package rather than just a typical salary and benefits package. Representative Brimhall stated she would also be interested if any surveys have been conducted in other states regarding any complaints or satisfaction with self-insurance. She commented on some of the situations and concerns of constituents and employees in her district. Mr. Evers commented that part of the problem associated with self-insurance is education, and explained the procedures involved with self-insurance.

Representative Brimhall questioned Mr. Evers regarding the concerns with HMOs.

TAPE 1, SIDE B

Mr. Evers stated that he has received hundreds of telephone calls regarding the change in the State's insurance program, and he pointed out some of those concerns.

Mr. Maguire commented that he would advise the Committee to be careful of averages when looking at the data regarding salary levels. He said he believes it is important to look at how different employment areas within State service compete in different labor pools because averages can be misleading. He commented it would be helpful to obtain additional information regarding the need for adequate continuous funding for performance increases to move employees through the ranges, and the ability to hire above the minimum based on experience. He said those are the tools that allow disbursement of employees through the ranges. He commented on self-insurance and explained that it encompasses a broad range of alternative applications of a concept. He said it is important to keep the following points in mind when discussing self-insurance:

- The concept of self-insurance needs to be separated as a financial analysis, which is separate from the delivery and management of health care services.
- Self-insurance can be a powerful tool for managing the financial aspects and cost of insurance.

He noted that there are three components:

- The ability to accurately make risk assessments.
- The issue of risk shifting on the financial side.
- Adverse selection problems may occur.

Mr. Maguire commented that the most important aspect that came out of the self-insurance process for the State of Arizona on the liability side was better decision making and better understanding of risk assessment and risk control, which is where the real savings occur. He urged that the Committee weigh all the benefits, risks and proposed savings when considering self-insurance.

Ms. Strock stated that employees are concerned about their premium, which relates to an employee's salary. She indicated that many employees are in the lowest quartile and are not moving through the ranges. She said that people are being hired at a higher level, but not much is being done to those employees who have been in their current positions. She noted it is a difficult problem that needs improvement. She added that she would like the Committee to recommend a way to include the market movement into the budget, and identify the cost to the State. She indicated it could be a systematic approach to include in the budget when introduced.

Presentation of Statewide Health Insurance Pool – Arizona State Retirement System (ASRS)

Pat Cline, ASRS, commended Mr. Evers and his group for the excellent enrollment process. He stated that within ASRS there are 450 employers, each with its own health care program. He indicated there is a variety of programs for both actives and retired individuals. He said of the 58,000 retirees, approximately 30,000 are covered. He noted that many manhours are expended within each participating employer in establishing and maintaining the programs, and pointed out the various duties. He noted that activities are being duplicated many times. He suggested taking every employee within the State, both actives and retireds, and including them under one program. He described the concerns with ASRS, and presented a vision for improvement. He remarked that a self-insurance program could work for the entire State or entire 450 employers.

Senator Cirillo commented that a self-insurance study was conducted by Wyatt 18 months ago. He said the study concluded that by adding the retirees to the plan, it would increase the cost to the active participants and decreasing it slightly for the retirees. However, there would not be an overall reduction that would benefit everyone. Mr. Cline responded that there probably would not be reductions, but it depends on many factors. He explained that ASRS is a "dying" program, and steps should be taken to improve the overall program. He described the necessary steps to take in implementing a self-insurance program, and indicated there is a potential for tremendous savings. Senator Cirillo suggested that Mr. Cline coordinate the efforts of ASRS with DOA in order to include all dimensions of the program.

Representative Brimhall asked Mr. Cline if there is a way to know how many State retirees are not covered through ASRS. Mr. Cline indicated a survey could be conducted, and percentages would need to be estimated from the sampling returned. Representative Brimhall commented she is interested in knowing where the change occurred and what events caused the loss of 50% of the retirees' coverage. Senator Cirillo suggested that perhaps a graph could be devised for the past ten years showing the percentage of individuals in ASRS along with the related costs. Representative Brimhall stated she believes that the 50% represents a major portion of the rural areas because many retirees in those areas do not have any insurance. She commented that over the years she has requested information regarding the increase in the number of retirees who are on the Arizona Health Care Cost Containment System (AHCCCS) program, and is concerned that many retirees may be included in AHCCCS. She said she would like to have information relating to the costs to the State. Representative Soltero noted that in order to be on AHCCCS, a retiree would have to qualify with a certain income level. Senator Cirillo stated he would check with AHCCCS to see if the requested information is available.

Mr. Maguire commented that all of the risk elements mentioned are all separate topics. He added that the concept of pooling active employees with retirees has nothing to do with self-insurance, but rather it is a risk pooling and cost transfer process. He emphasized that the topics need to be debated separately. Senator Cirillo responded that the objective is to have a better health care program at an affordable cost to employees. He said if a study is going to be taken on self-insurance, he would also like to include "pooling" in order to be able to determine the differences. Mr. Maguire replied that his concern is the quality of the product, and he would not like to see everything "blurred together" because it creates a misimpression.

Discussion of Regional Health Insurance Contracting vs. Statewide – DOA

Mr. Cline said it is important to understand the issues of the Committee in looking at regionalizing versus State pooling, which overlaps ASRS as well. Representative Brimhall raised concerns on this subject, and suggested that the next agenda include an executive session item for discussion. In response, Mr. Bell commented that DOA is attempting to fully understand what is being asked by the Committee as far as a clear direction, and will be happy to discuss the issue during an executive session or publicly in order to be able to deliver the data requested. Representative Brimhall voiced her concerns and repeated her request for information. Mr. Cline responded he would follow up and attempt to provide the requested information. He noted that the problem of providing and keeping physicians and providers in the rural market is not only an Arizona issue, but a national issue as well.

Senator Arzberger asked whether consideration has been given to equity of health care and costs between rural and urban areas as a goal and priority for the Committee with respect to retirees. Mr. Cline responded that portability of health care is a major issue. He explained that the additional subsidy for the health care programs passed by the State for the next two years will help with the equity, but will increase at the end of 2003

when the subsidy expires. Representative Brimhall noted that one of the issues to address relates to the people living in rural Arizona who lose their ability to have the same health care as those living in the urban counties. Mr. Cline indicated that starting October 1, all 13 rural counties will receive the program as those living in Maricopa and Pima Counties. He noted that under the new plan, retirees will be eligible for the same coverage in rural areas as provided in the urban counties. Senator Cirillo stated that retirees should be knowledgeable and educated about the coverage when moving to a rural area.

Senator Cirillo commented on covered versus uncovered status, and indicated he has discussed the issue with Mr. Bell on several occasions. He indicated he does not have a problem with that status, as long as people are not paid differently because of their covered or uncovered status. He said pay should be based on performance, and people should not be encouraged or "bribed" to change their status from one category to another. He asked Mr. Bell to comment on that issue.

Mr. Bell commented that the status issue was discussed in various meetings, and he is not aware that such a practice is taking place in State government. He emphasized that DOA will insist on compliance with statutes in that regard.

Mr. Adams suggested he would like to see a subcommittee formed to research other benefits that could be provided to State employees. He asked whether DOA could research that issue. Senator Cirillo responded that the presentation today by DOA outlined various benefits that would be researched within the next few months.

Representative Brimhall asked whether DOA would like suggestions from the Committee. Mr. Cline replied he would welcome any suggestions and input, and would look forward to implementing any appropriate suggested benefits. Senator Cirillo encouraged Committee members to forward any suggestions for consideration.

Mr. Adams stated he would like the Committee to entertain a motion as follows:

> **Mr. Adams moved that the Committee urge DOA to compile and submit at its earliest opportunity the following information:**
>
> **1) The number of employees by agency that have been uncovered since July 1, 1997, which was the date the exemption in A.R.S.§41-771B was passed by the Legislature.**
>
> **2) The process utilized by each agency to uncover employees within that agency.**
>
> **3) The number of covered or exempt employees within each specific agency.**
>
> **4) Under what circumstances were the employees uncovered.**
>
> **This information should include any promotional or financial payments offered to employees as an incentive to forego merit**

system coverage. It should also include verbal or written comments of continued due process made to employees in exchange for agreeing to forego merit system coverage, and information regarding the impact of the uncovering of employees on the specific agency overtime budget.

Senator Cirillo indicated the motion was made and seconded, but he would speak against the motion. He stated that the Committee and DOA have been asking for some time for specific cases of any such allegations. He indicated that to force DOA to retrieve past data is not warranted.

Representative Soltero stated he has concerns regarding uncovering certain employees, and explained his reasons. He indicated it is a difficult situation, and believes the State should explore other ways to compensate employees rather than utilizing the uncovering process.

Mr. Bell stated that statutes exist that specifically indicate that uncovering certain positions can take place and the manner in which it can take place. He indicated he believes it is an unfair demand to make on DOA. However, if certain information is available on that issue, he would look into it. He said to date he has not received any such information, and believes it puts an undue burden on DOA.

Representative Brimhall stated she has mixed emotions regarding this issue. She suggested adding this issue on a future agenda for discussion.

TAPE 2, SIDE A

Representative Brimhall suggested inviting the Auditor General's Office (OAG) to compile data/research on this subject as the proper authority since DOA cannot investigate itself.

Mr. Williams stated that the group responsible for him becoming a member of this Committee has requested an opinion from the Attorney General's office (AG), which is the entity that would provide clarification. He noted that the opinion states that employees do not have the legal right to choose whether they want to be covered by the civil service system. He further stated that State agencies do not have the right to uncover positions in State service or to offer employees financial incentives to become an uncovered employee. In addition, DOA does not have the right to authorize uncovering positions unless they specifically fall within the exemptions granted by the Legislature. He commented he believes it is incumbent for the Committee to follow those guidelines, and perhaps the issue should be reviewed in light of the AG's opinion.

Representative Brimhall stated that she would ask staff to prepare a letter to the OAG and everyone is welcome to contact her office to sign that letter. She further stated that this subject needs to be put on the agenda regarding covered employees. She

commented that the Committee needs to be more willing to discuss the differences and have a healthy debate. She suggested a substitute motion as follows:

> **Representative Brimhall moved to remove the first portion of Mr. Adams' request regarding information to be submitted to the Committee by DOA as outlined in items 1 through 4, but to include on a future Committee agenda that a healthy debate, discussion and presentations take place with participation from both points of view regarding covered versus uncovered.**

Representative Brimhall stated she would prepare a letter for any Legislators to join her in asking OAG to compile the information.

Representative Soltero stated with that understanding, he would second the substitute motion.

Mr. Maguire stated he believes the issue of covered versus uncovered is a very important subject. He indicated the success of this Committee has been based on its narrow focus. He said that the issue is a good one for discussion, but should be taken up by a committee other than this Committee.

Representative Brimhall stated she would like to receive information for discussion purposes. Representative Soltero stated that he believes this Committee can deal with this issue because it is a Committee on state employee compensation. Mr. Bell stated that there is a statute, passed several years ago, that enables DOA and other agencies to uncover state employees under certain criteria. He noted that if agencies are not complying with the statute, then specific information should be made available. He reiterated that no such information has been received to date that would enable DOA to look into a specific incident. Senator Cirillo asked the Committee to vote on Representative Brimhall's substitute motion to include on an agenda the issue of covered versus uncovered.

> **The substitute motion carried by a show of hands.**

Public Testimony

David Mendoza, American Federation of State, County, and Municipal Employees (AFSCME), Council 97, a public employee union, stated that AFSCME has met with DOA regarding these issues and has not received any information. He commented on a circumstance regarding employees of the Department of Transportation (ADOT). He stated that he is in support of the substitute motion. He commented on the legislation mentioned earlier and the discussions with the AG, and said he looks forward to debating this issue.

Mr. Bell reiterated that there is a statute on the books that allows positions to be uncovered, and clearly states the criteria involved. He commented that when an

agency requests a position to be uncovered and meets the criteria, DOA will approve it under the statute. He emphasized that uncovering is legal and allowed in Arizona.

Debbie Adams, AFSCME, Department of Economic Security (DES) Local President, expressed her appreciation for the Committee's efforts to increase State employees' salaries. She stated that Proposition 204 will bring approximately 800 county employees to DES, which likely will cause great inequities to current DES central office staff and program managers. She noted that while S.B. 1577 states that county employees who transferred into DES will maintain their current salaries, there are no provisions in the bill to align the salaries of current DES employees to their salaries. She commented on certain examples of inequities. She appealed to the Committee to study the issue and explore recommendations and solutions to resolve the problems.

Senator Cirillo asked Mr. Bell to look into the situation regarding any inequities. Mr. Bell said he would be happy to research the issue and report back to the Committee.

Mr. Nau stated that he recently had an employee meeting involving all of their employees who were transitioning to DES. He noted that Director Clayton commented it is an issue being considered, and that some relief was forthcoming. He said from the standpoint of Maricopa County, it was a major issue and salary surveys were being conducted throughout the counties. He noted that Maricopa County strongly encourages resolving the equitable salary issue.

Ms. Strock commented that DOA includes a special market adjustment process in its annual recommendation each year. She indicated that although salary increases passed the Legislature, the job classifications furthest from the market are negatively affected and further inequities are developing. She said she is hopeful that something can be done with the special market adjustment process.

Paul Washo, ADOT employee, commented that ADOT is losing technical employees to the private sector. He noted that when they return, they are in a covered position and are able to negotiate their salaries to the top of the salary range. However, the individuals at ADOT with the same qualifications are now well below in salary compared to the individuals who returned. He emphasized that the situation needs to be reviewed. He added there is also a problem with the health insurance cost increase, and in some instances employees are being forced to drop their life insurance in order to pay for health insurance. He stated that this problem also needs to be rectified.

Representative Soltero commented that overall the Committee is making progress and many issues are being discussed. He said in fairness to DOA, many of the problems have arisen because State employees are behind in compensation and it has created other problems. He commented that he is pleased the issues have been brought to the attention of the Committee, and believes solutions will take place for the betterment of all State employees and agencies. Representative Brimhall agreed with Representative Soltero's comments.

There being no further business, the meeting adjourned at 6:43 p.m.

Respectfully submitted,

Nancy L. DeMichele

Nancy L. DeMichele, Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115)

Hearing Room No: 401
Date: 08-23-01
Time: 4:00 PM

MEETING OF COMMITTEE ON

STATE EMPLOYEE COMPENSATION

NAME	REPRESENTING	BILL NO.
DEBBIE ADAMS	AFSCME	
Crystal Rodgers	AFSCME	
Paul Wasko	AFSCME	
DAVID MENDOZA	AFSCME	

Attachment A