COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2013-14 STAFF BUDGET BRIEFING

COMPENSATION COMMON POLICIES

JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision

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November 16, 2012

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COMPENSATION COMMON POLICIES

Overview

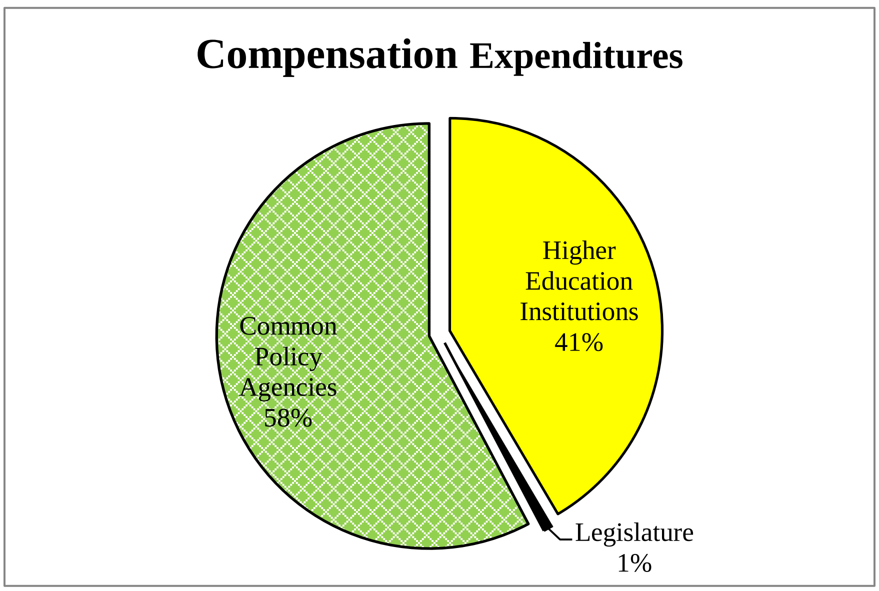
The General Assembly typically establishes common policies to budget for compensation consistently across departments. The compensation common policies address three issues:

1. Establish a standard method for calculating base continuation personal services;
2. Determine the amounts, if any, for salary and benefit increases; and
3. Set assumptions for determining the cost of compensation for new FTE.

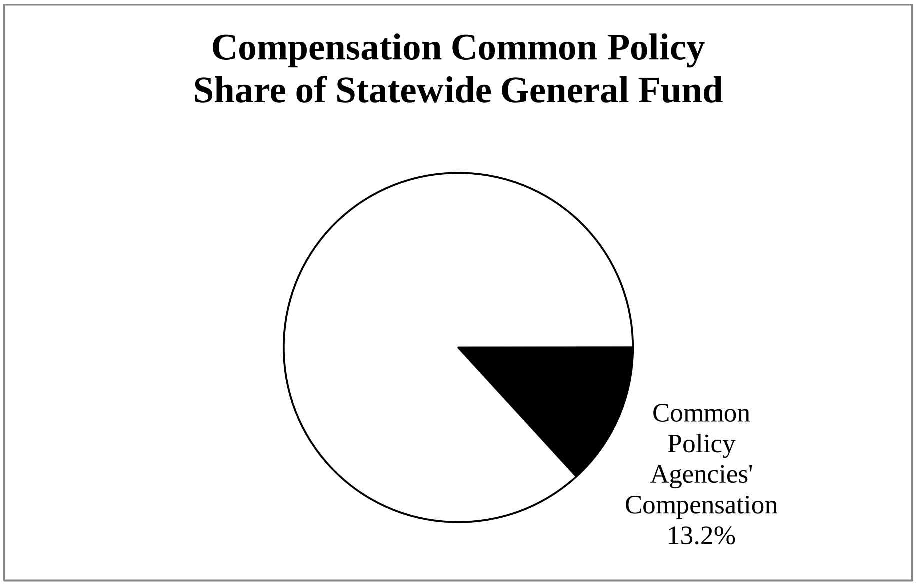
The common policies generally apply to a subset of all compensation that excludes the higher education institutions and the legislature. These agencies are traditionally excluded in the case of higher education due to the lump sum budgeting format and in the case of the legislature due to the budget following a different process than other state agencies. In addition, a large portion of positions at the higher education institutions and the legislature are exempt from the constitutionally created State Personnel System, and so the compensation for those positions is not bound by the same job classes and pay ranges. However, there are still a significant number of positions at the higher education institutions and in the legislature that are part of the State Personnel System. Also, many of the exempt positions use the same retirement and insurance benefits as the personnel system. So, while the common policies are not usually developed to apply to the higher education institutions or the legislature, it is important to consider that the common policy decisions will impact expenditures by the higher education institutions and the legislature.

Department Budget: Graphic Overview

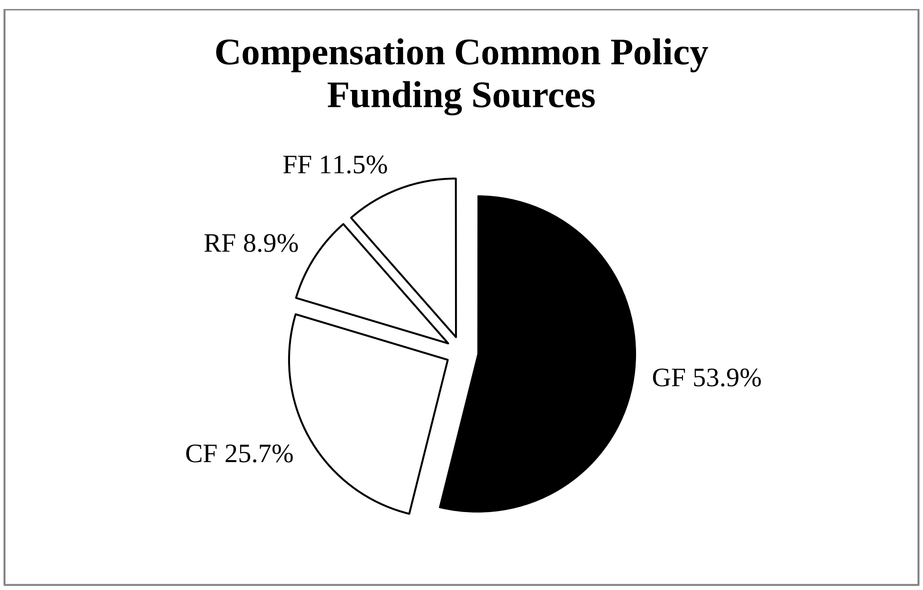
This issue brief focuses primarily on a subset of compensation that does not include the higher education institutions and the legislative branch. Estimated expenditures on compensation by agencies impacted by the common policies represent 58 percent of total estimated compensation expenditures.



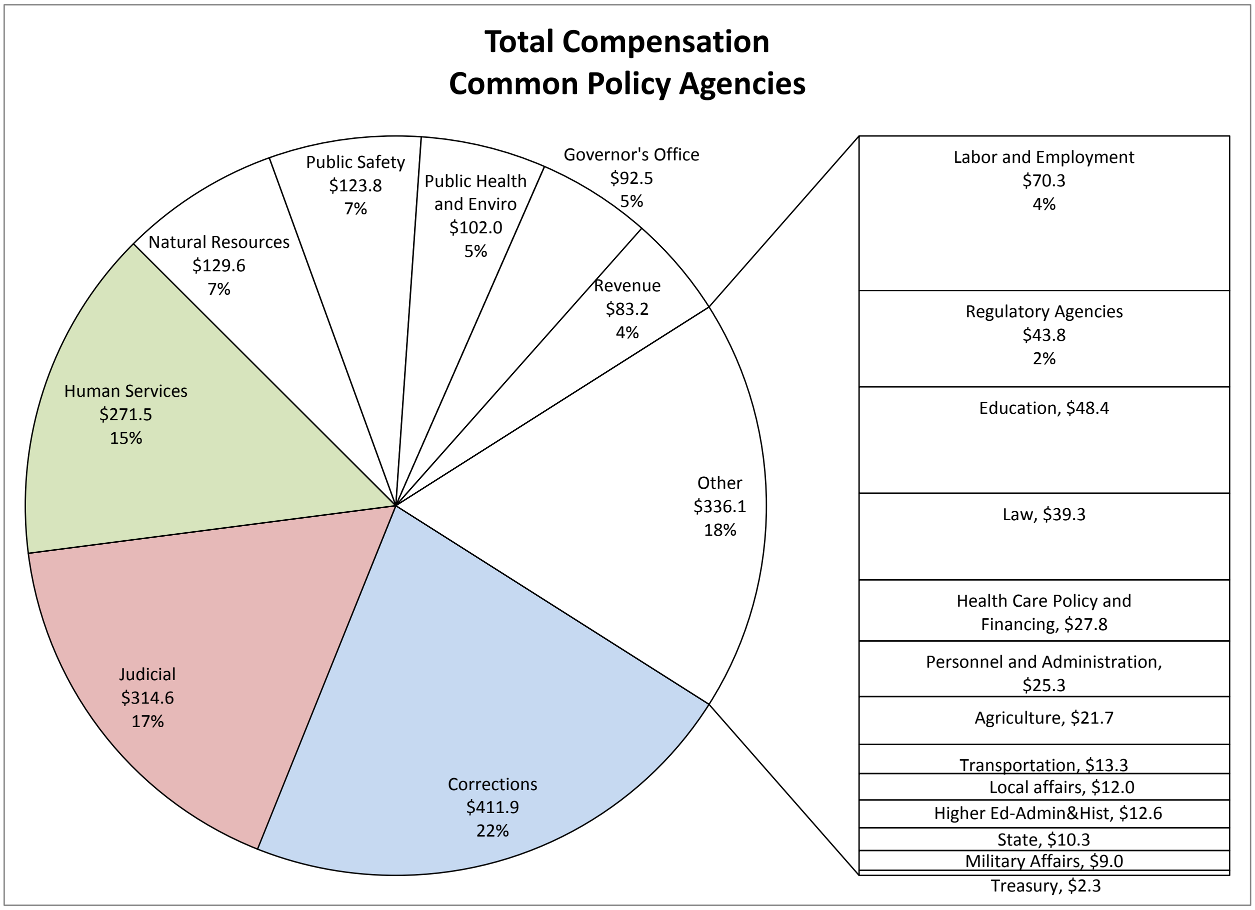
The estimated compensation expenditures by agencies impacted by the common policies (i.e. excluding higher education institutions and the legislature) represent 13.2 percent of total General Fund appropriations.



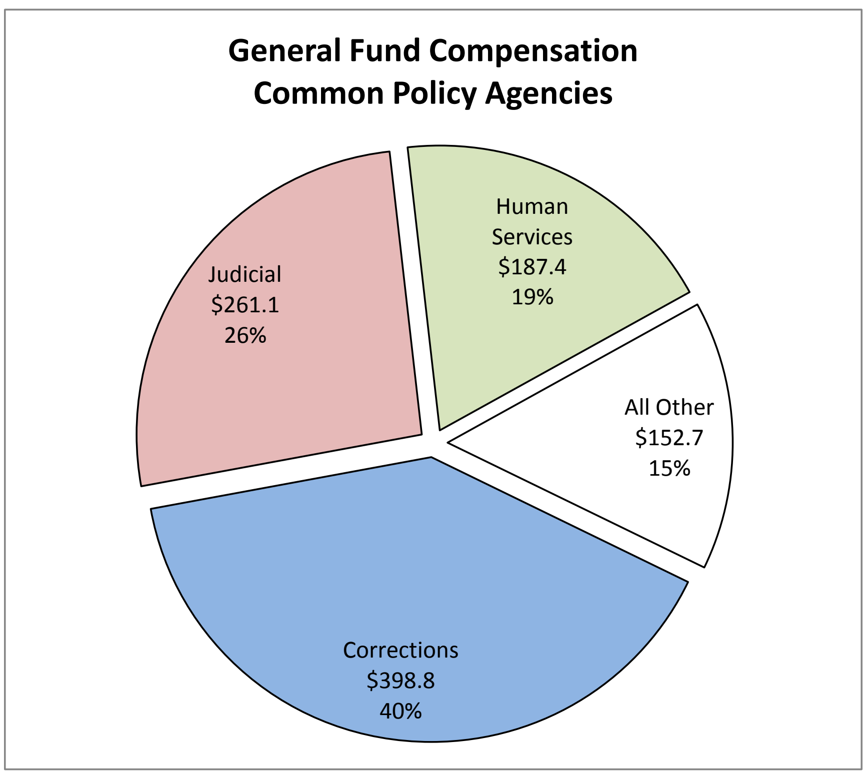
The table below shows the sources of funding for compensation for just the agencies impacted by the common policies.



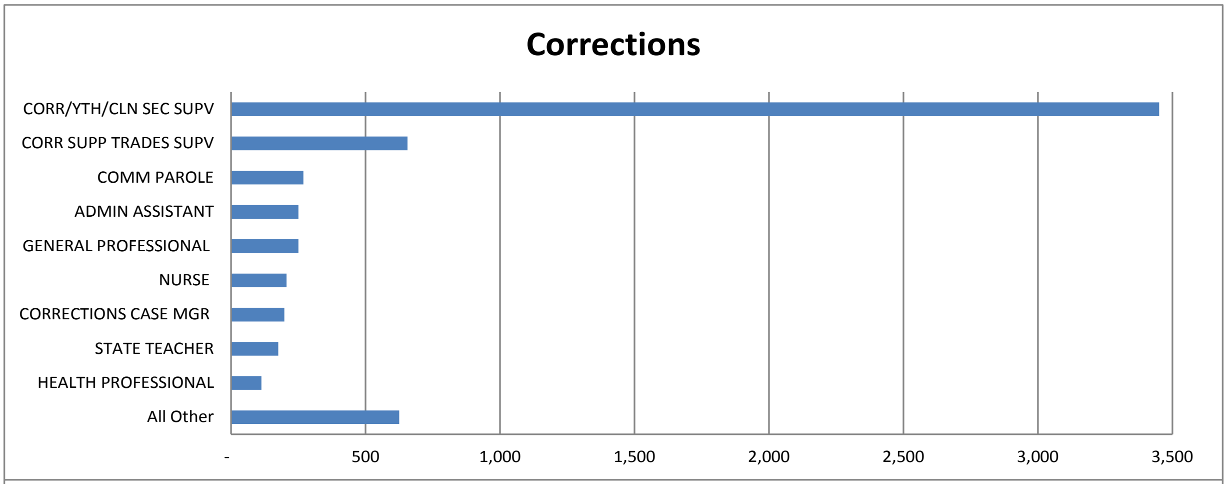
Estimated compensation expenditures by the departments of Corrections, Judicial, and Human Services represent 54 percent of total estimated compensation expenditures by the agencies impacted by the common policies.

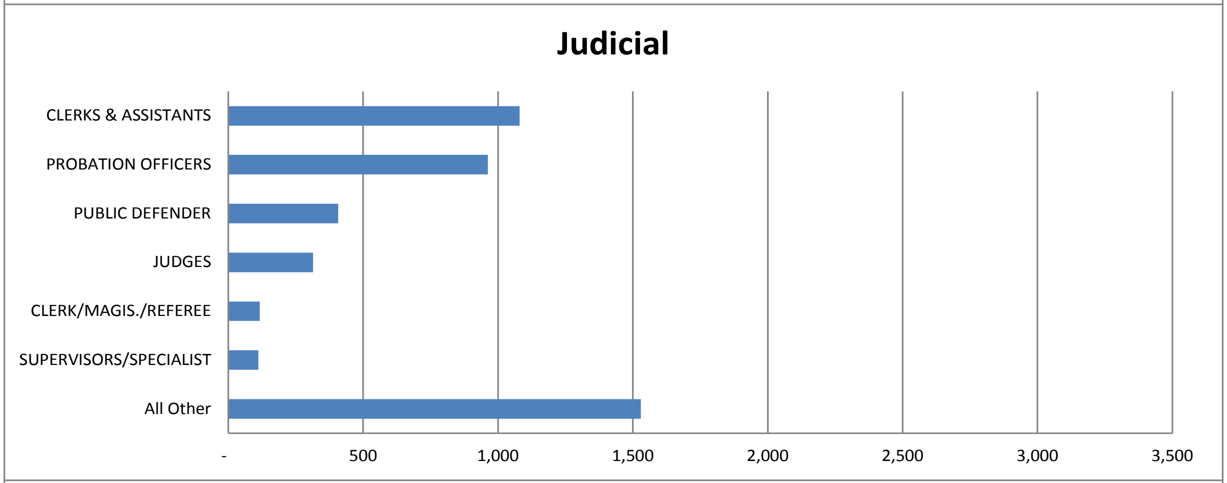


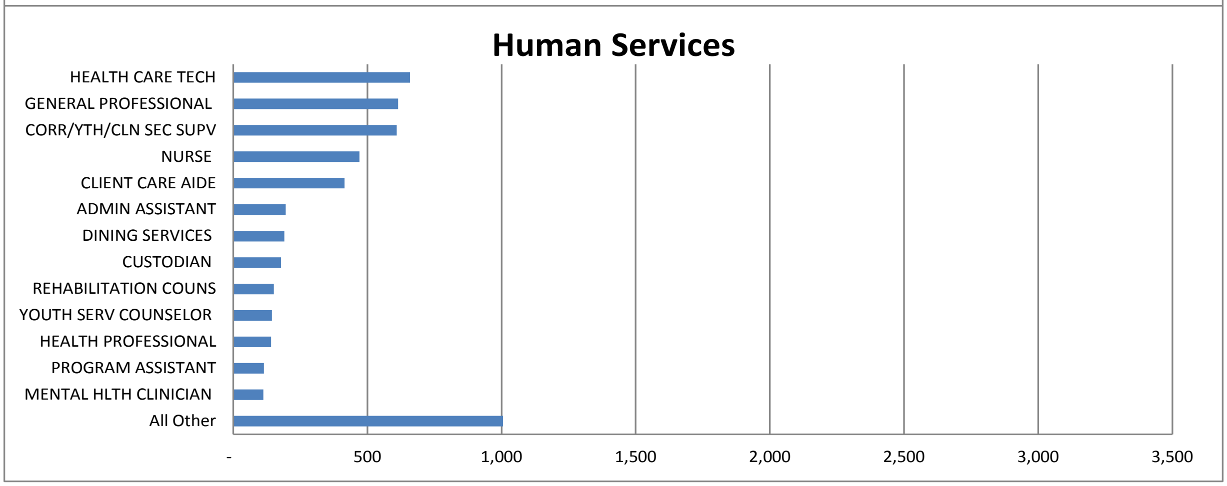
Looking at just General Fund, the estimated compensation expenditures by the departments of Corrections, Judicial, and Human Services represent 85 percent of estimated General Fund compensation expenditures by the agencies impacted by the common policies.



The number of different positions statewide is overwhelming to chart, but the tables below provide information about the most common categories of employees for the three departments that are the largest employers. These categories are one step above a job class, meaning they combine ranks I, II, III, etc. of a job class, such as corrections officer, into one group. Categories with 100 or more employees are charted and categories with less than 100 employees appear as "All Other".





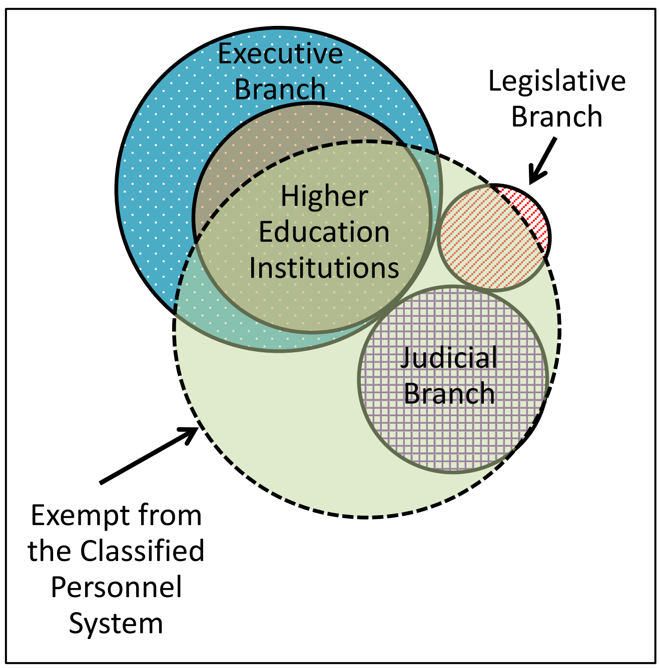


General Factors Driving the Budget

STATE PERSONNEL SYSTEM (CLASSIFIED SYSTEM)

To ensure a state workforce based on merit and fitness, and to protect against cronyism and discrimination, the Colorado Constitution establishes a State Personnel System, commonly referred to in budgeting parlance as the classified system, after the job classes used to determine appropriate pay ranges for employees. The Department of Personnel and Administration manages the personnel system, with policy direction from the State Personnel Board. Objective criteria must be used to fill positions in the personnel system and employees hold their positions during efficient service or until reaching retirement age. Of significance from a budgeting perspective, there must be standardization in the personnel system of the way people with like duties are treated with regard to grading performance and determining compensation.

The Constitution specifically exempts some positions from the classified system, allowing potentially different pay ranges, benefits, and hiring and termination procedures. Exempt positions include education faculty and certain education administrators, the judicial branch, the legislative branch other than the State Auditor's Office, assistant attorneys general, certain employees of the Governor's office, the heads of departments, and most boards and commissions. Referendum S will add to this selected management and support positions. Except at higher education institutions, these exempt employees use the same insurance and retirement benefits as employees of the classified system. All of the higher education institutions offer their exempt employees insurance benefit packages that differ from the state personnel system, and a large portion of them offer different retirement plans, although the Community Colleges, the Colorado School of Mines, and the Auraria Higher Education Center continue to use the same Public Employee Retirement Association (PERA) pension plan as classified employees. While the judicial branch is exempt from the state personnel system, the courts have developed their own version of a classified system for employees who are not judges, which largely mirrors the state personnel system with regard to salaries and hiring and termination procedures. For judges, salaries are set in statute. The vast majority of exempt positions are at higher education institutions and in the judicial branch.



PREVAILING COMPENSATION

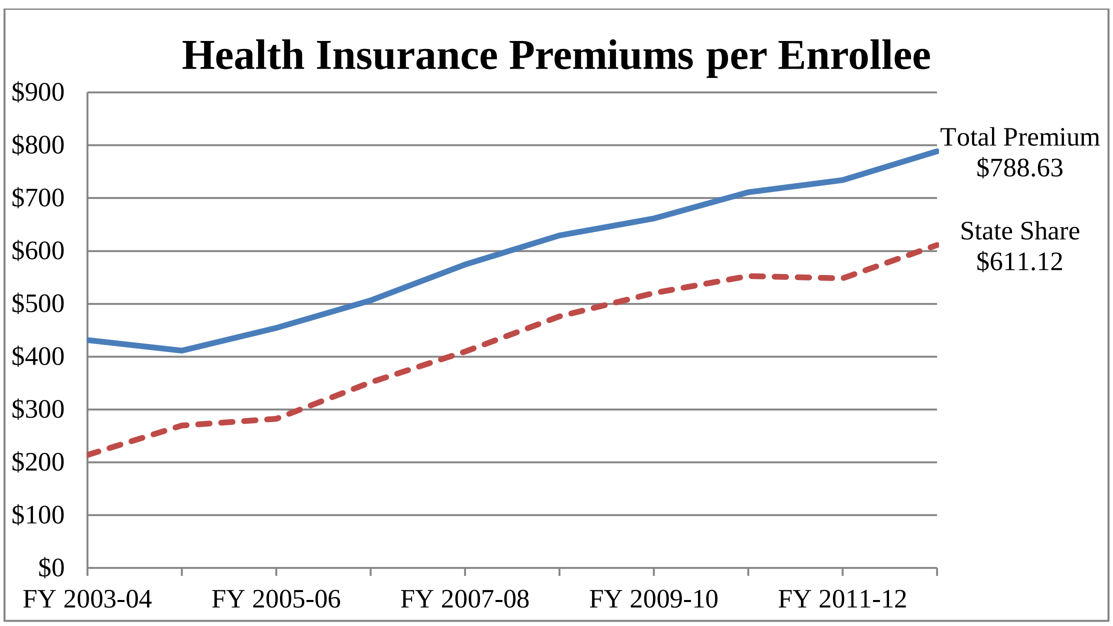
Pursuant to Section 24-50-104, C.R.S.:

> *It is the policy of the state to provide prevailing total compensation to officers and employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent work force.*

A statutory policy statement is not binding, but it provides direction about the General Assembly's intent that helps guide the budget setting process. Even with a clear goal, though, it can be difficult to determine the funding necessary to provide prevailing compensation. There are a wide range of compensation practices in the market and many state jobs are either uncommon or not found outside of government. To assist in the process, the Department of Personnel produces an Annual Compensation Survey Report by August 1 each year. The General Assembly is not required to follow the recommendations of the Annual Compensation Survey Report, but the report expresses the professional opinion of the Department regarding how state compensation compares to prevailing compensation.

COST OF HEALTH CARE

Of all the components of compensation expenditures, one of the fastest growing components in recent years has been health insurance. The table below shows the trend in expenditures on health insurance premiums per enrollee.



RETIREMENT BENEFITS

Actuary analysis of the Public Employee's Retirement Association (PERA) led the legislature to pass bills increasing contributions to the pension plan above the base employer and employee contribution rates. These additional contributions are called the Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED).

Both the AED and SAED are paid by the employer, but Section 24-51-411 (10), C.R.S., specifies that the SAED contribution is to come from money that would otherwise go to state employees for salary increases. By reducing pay increases the SAED keeps the employee's tax base and PERA salary base lower. Otherwise, the SAED acts much as if it were an increase in the employee contribution rate to PERA with respect to the employee's take home pay.

The table below summarizes the statutory contribution rates to PERA for the majority of classified employees who are in the State division. Note that there are different rates that are not show here for troopers and for employees in the Judicial (judges and justices) division. All figures are percentages of the employee's base salary.

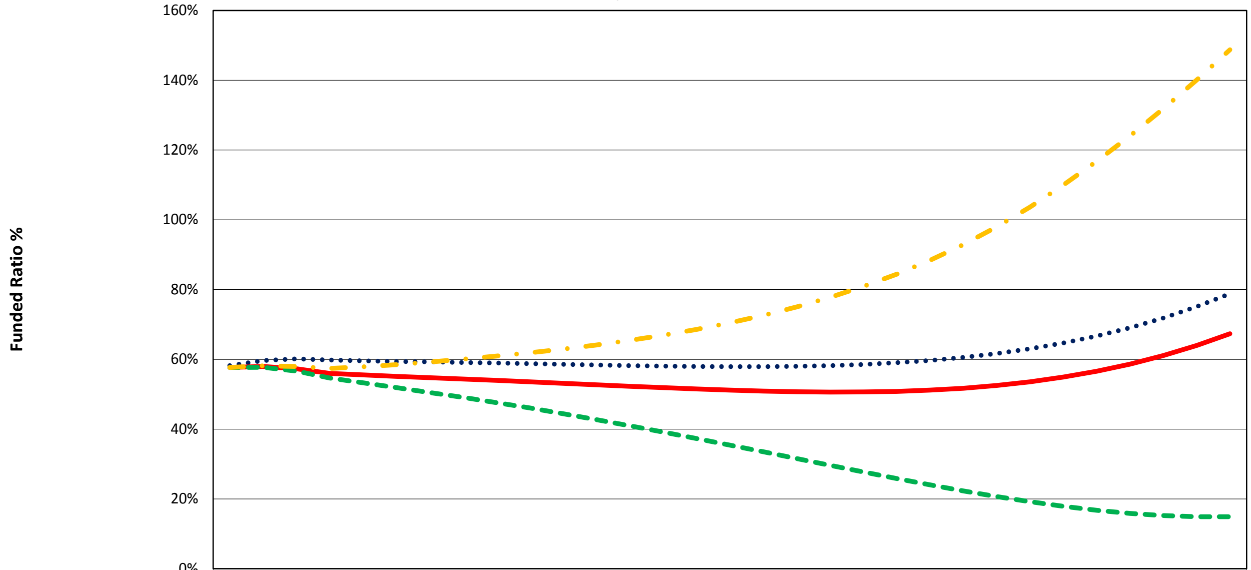
Public Employee Retirement Association Contribution Rates - State Division					
Year	Employer	AED	Employee	SAED	TOTAL
2012	10.20%	3.00%	8.00%	2.50%	23.70%
2013	10.20%	3.40%	8.00%	3.00%	24.60%
2014	10.20%	3.80%	8.00%	3.50%	25.50%
2015	10.20%	4.20%	8.00%	4.00%	26.40%
2016	10.20%	4.60%	8.00%	4.50%	27.30%
2017	10.20%	5.00%	8.00%	5.00%	28.20%

In addition to increasing PERA contributions, the General Assembly reduced benefits in S.B. 10-001 to shore up the pension plan. Some of the key provisions of S.B. 10-001 include:

- Eliminating the cost of living adjustment (COLA) for 2010
- Limiting future COLAs to a maximum of 2.0 percent
- Increasing the combined years of service and age required to receive the maximum benefit (employees hired after January 1, 2017 follow a rule of 90 with a minimum retirement age of 60)
- Reducing the percent of salary paid as a benefit to employees who retire early.

With these increased contribution rates and reduced benefits, PERA projects a 36-year amortization period. The first graph below shows projected assets as a percentage of liabilities.

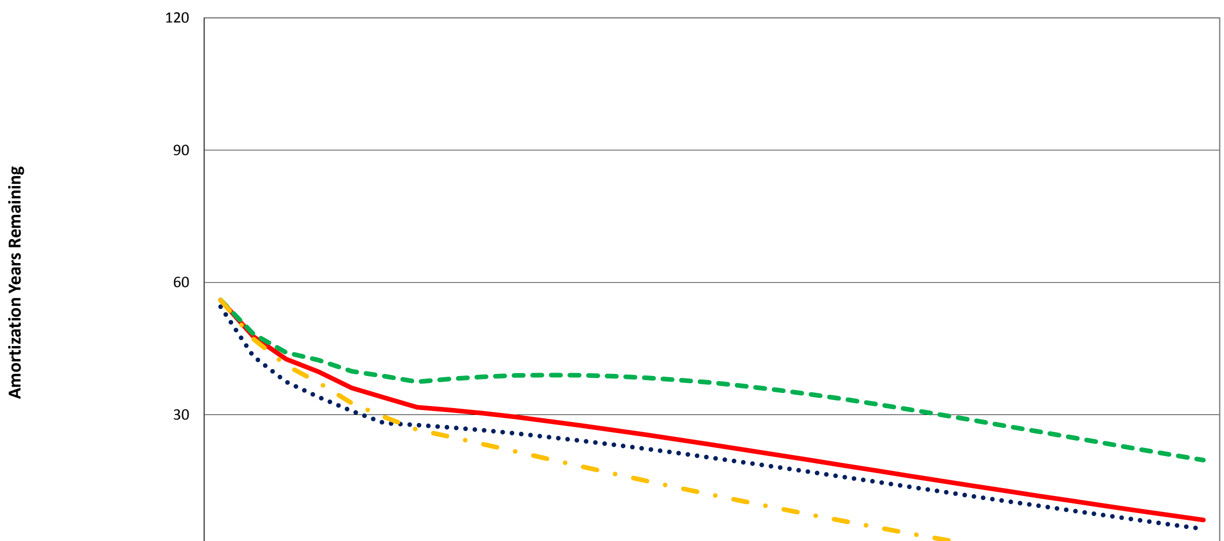
Colorado PERA - State Division
30-Year Projection of Funded Ratio on Actuarial Asset Value
Based on Dcember 31, 2011 Valuation Results



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Last Year Valuation	58%	60%	60%	60%	60%	59%	59%	59%	59%	59%	59%	58%	58%	58%	58%	58%	58%	58%	58%	59%	59%	60%	61%	62%	63%	65%	67%	69%	72%	75%	79%
Expected Return 8.00%	58%	58%	57%	56%	56%	55%	55%	54%	54%	54%	53%	53%	52%	52%	52%	51%	51%	51%	51%	51%	51%	51%	52%	53%	54%	55%	57%	59%	61%	64%	67%
Pessimistic Return 6.50%	58%	58%	57%	55%	53%	52%	51%	49%	48%	46%	44%	43%	41%	39%	37%	35%	34%	32%	30%	28%	26%	24%	22%	21%	19%	18%	17%	16%	15%	15%	15%
Optimistic Return 9.50%	58%	58%	58%	57%	58%	59%	59%	60%	61%	62%	63%	64%	65%	67%	69%	70%	73%	75%	78%	81%	84%	88%	93%	98%	104%	110%	117%	124%	132%	140%	149%

The next graph shows the projected years before assets exceed liabilities, or the amortization period.

Colorado PERA - State Division
30-Year Projection of Amortization Period
Based on December 31, 2011 Valuation Results



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Last Year Valuation	54	43	37	34	31	28	28	27	27	26	25	24	23	22	21	20	19	18	17	16	15	14	13	11	10	9	8	7	6	5	4
Expected Return 8.00%	56	48	43	40	36	34	32	31	30	30	29	28	27	25	24	23	22	21	20	19	17	16	15	14	13	12	10	9	8	7	6
Pessimistic Return 6.50%	56	48	44	42	40	39	37	38	39	39	39	39	39	38	38	37	36	36	35	34	32	31	30	29	27	26	25	24	22	21	20
Optimistic Return 9.50%	56	47	41	37	33	29	27	25	23	22	20	18	17	15	13	12	10	9	7	6	5	3	2	0	0	0	0	0	0	0	0

Some of the benefit reductions contained in S.B. 10-001 are currently the subject of a lawsuit. PERA won the initial hearing in district court, but the appeals court remanded the case back to the district for further analysis. Loss of the case would significantly change the amortization projection and likely result in a need for greater contributions to PERA, either from employers or employees or both.

Finally, legislators may be interested in recent new guidance on financial reporting and accounting for pension plans by the Government Accounting Standards Bureau (GASB). Among the changes proposed by GASB:

- If projections show that a pension plan has insufficient resources to make projected benefit payments, then the pension plans must use different assumptions about the expected return on investments. The new index is essentially the yield on 20-year municipal bonds, which is currently a lower rate than PERA's expected return of 8.0 percent.
- Employers who participate in pension plans are required to show their share of the net pension liability on statements of net position.

Based on the benefit reductions in S.B. 10-001 plus the increases in revenue from the AED and SAED, the actuarial projections for PERA show sufficient funds to make projected benefit payments, and so PERA will not be required to use the 20-year municipal bond rate. PERA does not anticipate change the expected return from the current 8.0 percent. For transparency purposes, PERA does provide in their financial statements projections of the amortization under more pessimistic assumptions about the expected return.

The requirement that governments include their share of the net pension liability on statements of net position will dramatically alter the financial reporting for some entities, but it is important to remember that this is a reporting change and not an actual change in financial position. Bond rating agencies indicate that they already take into account the net pension liability, but until the GASB change they were generally not transparent about how the calculation was done. Recently Fitch Ratings indicated that they will use a 7.0 percent expected return to normalize projections of net pension liability, and Moody's asked for comment on a proposed 5.5 percent expected return. Moody's is in the process of considering the voluminous feedback it received on the 5.5 percent rate. It is worth noting that in announcing the 5.5 percent rate Moody's indicated that they did not expect the 5.5 percent would change any state bond ratings and that it would have minimal impact on municipal bond ratings. All ratings are relative to the other options in the market.

Summary:FY 2012-13 Appropriation & FY 2013-14 Request

Compensation Common Policies						
	TOTAL	**General Fund**	**Cash Funds**	**Reappropriated**	**Federal**	**Net GF**
FY 2012-13*						
Salaries	$1,441,646,140	$749,255,587	$364,287,964	$162,984,257	$165,118,332	$766,371,798
Base Salary Estimate	1,430,709,734	740,331,351	363,818,252	161,484,290	165,075,841	756,836,869
Shift Differential	10,936,406	8,924,236	469,712	1,499,967	42,491	9,534,929
Insurance Benefits	$167,225,218	$95,988,377	$37,455,595	$19,784,456	$13,996,790	$99,061,878
Health, Life, Dental	164,855,172	94,688,619	36,870,108	19,503,500	13,792,945	97,721,524
Short-term Disability	2,370,046	1,299,758	585,487	280,956	203,845	1,340,354
Retirement Benefits	$251,241,230	$130,889,058	$64,718,705	$28,952,435	$26,681,032	$132,497,007
PERA	149,178,857	77,463,982	38,297,977	16,606,477	16,810,421	77,463,982
AED	43,785,763	22,908,445	11,384,931	5,471,053	4,021,334	23,640,712
SAED	37,368,664	19,648,992	9,753,509	4,511,107	3,455,056	20,275,273
Medicare (FICA)	$20,907,946	$10,867,639	$5,282,288	$2,363,798	$2,394,221	$11,117,040
TOTAL	**$1,860,112,588**	**$976,133,022**	**$466,462,264**	**$211,721,148**	**$205,796,154**	**$997,930,683**
Requested Changes						
Salary Increases	$62,067,016	$30,544,336	$18,391,593	$7,014,334	$6,116,753	$31,536,195
Salary Survey	30,667,178	14,058,677	10,056,928	3,399,594	3,151,979	14,518,802
PERA	3,542,405	1,693,573	1,377,146	350,085	121,601	1,774,008
Medicare	444,674	203,851	145,825	49,294	45,704	210,523
AED	1,104,017	506,112	362,049	122,385	113,471	522,677
SAED	996,683	456,907	326,850	110,487	102,439	471,861
Short-term Disability	54,281	24,884	17,801	6,017	5,579	25,698
Merit Pay	21,102,511	11,311,506	4,969,076	2,507,977	2,313,952	11,623,977
PERA	2,366,409	1,329,951	714,689	255,893	65,876	1,403,286
Medicare	305,986	164,017	72,052	36,366	33,552	168,548
AED	759,690	407,214	178,887	90,287	83,302	418,463
SAED	685,831	367,624	161,495	81,509	75,203	377,779
Short-term Disability	37,351	20,021	8,795	4,439	4,096	20,574
Health, Life, Dental	18,110,044	8,395,014	3,836,620	381,299	5,497,111	8,687,522
Shift Differential	281,145	236,700	7,840	36,325	280	320,606
AED	6,032,205	2,028,172	1,689,316	391,940	1,922,777	1,912,979
SAED	(132,272)	(548,930)	(276,584)	(214,964)	908,206	(732,225)
Short-term Disability	208,941	14,094	71,530	21,766	101,551	4,489
TOTAL	**$86,567,079**	**$40,669,386**	**$23,720,315**	**$7,630,700**	**$14,546,678**	**$41,729,567**

Compensation Common Policies						
	TOTAL	**General Fund**	**Cash Funds**	**Reappropriated**	**Federal**	**Net GF**
FY 2013-14						
Salaries	$1,493,696,974	$774,862,470	$379,321,808	$168,928,153	$170,584,543	$792,835,183
Base Salary Estimate	1,482,479,423	765,701,534	378,844,256	167,391,861	170,541,772	782,979,648
Shift Differential	11,217,551	9,160,936	477,552	1,536,292	42,771	9,855,535
Insurance Benefits	$185,635,836	$104,442,390	$41,390,342	$20,197,977	$19,605,127	$107,800,161
Health, Life, Dental	182,965,216	103,083,633	40,706,728	19,884,799	19,290,056	106,409,046
Short-term Disability	2,670,619	1,358,757	683,613	313,178	315,071	1,391,115
Retirement Benefits	$267,346,858	$137,497,549	$69,470,429	$30,225,718	$30,153,162	$139,024,906
PERA	155,087,671	80,487,506	40,389,812	17,212,456	16,997,897	80,641,276
AED	51,681,675	25,849,943	13,615,183	6,075,665	6,140,884	26,494,831
SAED	38,918,906	19,924,593	9,965,270	4,488,139	4,540,904	20,392,688
Medicare (FICA)	$21,658,606	$11,235,507	$5,500,165	$2,449,458	$2,473,477	$11,496,110
TOTAL	**$1,946,679,667**	**$1,016,802,408**	**$490,182,579**	**$219,351,848**	**$220,342,832**	**$1,039,660,250**

* The FY 2012-13 Base Salary Estimate is the continuation base assumption included in the requests submitted by OSPB and the elected officials. The PERA and Medicare (FICA) are calculated from the salary base estimate. All other FY 2012-13 figures are from the FY 2012-13 appropriations.

Salary Survey – The Governor's request includes a 1.5 percent across-the-board increase in salaries and a realignment of the pay ranges for several job classifications to better match the market. The Judicial Branch and other elected officials submitted similar proposals. If the across-the-board increase and a merit increase (described below) leave an employee's salary below the realigned range minimum for the employee's job class, then additional funding is requested to bring the employee's salary to the range minimum. The combined cost of the across-the-board increase and the adjustments to reach the revised range minimums is $30.7 million total funds before benefits, or a 2.1 percent increase on the Base Salary Estimate. When fully loaded with benefits the cost is $36.8 million, including $17.5 million net General Fund.

Merit Pay – The Governor proposes merit pay increases for classified employees according to a formula that rewards performance but also gives greater percentage increases to employees at the lower end of the pay range. For employees who are exempt from the classified system, the Governor proposes a 1.6 percent increase with flexibility for each department to determine how to allocate the funds. The Judicial Branch and other elected officials submitted similar proposals. The Department of Personnel estimates that the average of the percentage increases awarded through the merit pay formula will be 1.6 percent, but the dollar change of $21.1 million before benefits is a 1.5 percent increase on the Base Salary Estimate. When fully loaded with benefits the cost is $25.3 million, including $14.0 million net General Fund.

Health, Life, Dental – The Governor proposes increases in health and dental appropriations to continue matching the average percentage of total premiums paid by employers in the market. This will impact both classified staff and exempt staff, and employees of the Judicial Branch and other elected officials. The Governor's request also includes updates to reflect more recent information about enrollment in total and by plan. The total cost of $18.1 million is an 11.0 percent increase over the FY 2012-13 appropriations, but the net General Fund cost of $8.7 million is an 8.9 percent increase over the FY 2012-13 appropriations, due to updated estimates of the mix of fund sources.

Shift Differential – The Governor proposes continuing the practice of funding shift differential at 80.0 percent of the prior year actual expenditures. This forces departments to come up with the remaining 20.0 percent from their base personal services appropriations. Shift differential is premium pay for employees who work weekends and holidays or hours outside the normal day-time hours. Departments only pay shift differential when it is the prevailing market practice for a job classification. Ninety-three percent of shift differential payments occur in the Department of Corrections and the Department of Human Services, mostly for employees providing direct supervision or care in institutional settings.

AED – The requests from the Governor, the Judicial Branch, and other elected officials reflect a statutory 0.4 percent scheduled increase in the Amortization Equalization Distribution. This payment goes to the Public Employees Retirement Association to reduce long-term liabilities and improve the amortization period. The AED is calculated as a percentage of salaries and the AED request also reflects a more recent Base Salary Estimate.

SAED – The requests from the Governor, the Judicial Branch, and other elected officials reflect a statutory 0.5 percent scheduled increase in the Supplemental Amortization Equalization Distribution. This payment goes to the Public Employees Retirement Association to reduce long-term liabilities and improve the amortization period. The SAED is calculated as a percentage of salaries and the SAED request also reflects a more recent Base Salary Estimate. Pursuant to statute the SAED contribution is to come from money that would otherwise go to state employees for salary increases

Short-term Disability – Short-term disability payments are calculated as a percentage of salaries and the requests from the Governor, the Judicial Branch, and other elected officials reflect a more recent Base Salary Estimate.

Issue: Calculating Base Continuation Personal Services

This issue brief discusses the pros and cons of the General Assembly's practice in recent years of applying a base personal services reduction to capture vacancy savings that occur when a new employee is hired at a lower pay rate than the outgoing employee.

SUMMARY:

- A lack of standardized measurements of the vacancy savings rate makes it difficult to determine an appropriate magnitude for a base personal services reduction.

- Inconsistent application of the base personal services reductions has contributed to a perception that the reductions are arbitrary.

- Attempting to capture vacancy savings up front in the budget process begets more vacancy savings, as managers are loathe to hire a full complement of staff and bet on the vacancies occurring.

- In an optimum scenario, staff believes vacancy savings should be recycled into pay raises to maintain the average compensation per employee and match the prevailing market.

- For this to work, departments need flexibility to deal with modest annual variations in personal services expenditures, and an executive-branch initiated change in state personnel rules to allow recycling of vacancy savings.

- Without a change in state personnel rules there may be a problem with classification creep, where employees are upgraded to a higher job class to bypass rigid personnel rules that prohibit recycling vacancy savings into pay increases within a class range.

RECOMMENDATION:

Staff recommends that the Committee discontinue the practice of applying a base reduction to all line items that include appropriations for personal services.

Over the last several years, often at the recommendation of the JBC staff, the General Assembly has frequently applied a base reduction to account for vacancy savings and as part of efforts to balance the budget. However, quantifying the amount of vacancy savings that actually occurs each year has proven problematic, resulting in base reductions that in retrospect appear arbitrary, rather than grounded in defensible analysis. Furthermore, the base reductions have been applied inconsistently as some departments have presented compelling cases why they should get an exception to the common policy while other departments have either accepted their fate quietly or not been as persuasive. The current JBC staff view is that base reductions to account for vacancy savings are both unnecessary and counter-productive to the statutory goal of providing prevailing compensation to employees in the state personnel system.

DISCUSSION:

Objective of appropriations for compensation

The first step in making appropriations for compensation is to define the goal. Helpfully, Section 24-50-104 (1), C.R.S., provides the following guidance:

> *It is the policy of the state to provide prevailing total compensation to officers and employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent work force. For purposes of this section, "total compensation" includes, but is not limited to, salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.*

The easiest way to make state compensation fit prevailing total compensation is to make each compensation component -- i.e. salaries, health insurance, retirement benefits, etc. -- match the prevailing practice. However, state compensation can meet prevailing total compensation with some components above and some components below prevailing standards. However, analyzing such a system requires valuation and comparison of unlike things, like retirement benefits and health insurance, which can be challenging.

Measuring prevailing compensation

The primary tool the Committee uses to determine prevailing compensation is the Annual Compensation Survey Report prepared by the Department of Personnel and Administration. The report is often referred to as the Salary Survey, but it actually deals with all aspects of compensation, rather than just salaries. The Annual Compensation Survey Report presents a projection of what is happening in the market outside of state government for each job class.

As with all projections, there are errors in the Annual Compensation Survey Report. A precise measure of prevailing compensation is probably unattainable. The situation is similar to what the General Assembly faces with revenue projections. The General Assembly accepts that the revenue projections are not 100 percent accurate, but still picks a forecast and makes appropriations based on that forecast, sometimes to the exact dollar amount of the forecast. Although there are known limitations to the Annual Compensation Survey Report, the legislature needs to budget to something, and the Report represents the best professional opinion of the Department of Personnel and Administration.

Determining prevailing compensation is an important step in the budget process, but this issue brief is more concerned with the Committee's method of applying the information to set the budget. This issue brief explores multiple potential scenarios where state salaries might be below, above, or on par with prevailing compensation. A discussion of the Department of Personnel's findings regarding current prevailing compensation and the Governor's recommendations for FY 2013-14 is reserved for the issue brief following this one.

The case for annual base reductions

Once target compensation levels are known, the General Assembly doesn't necessarily want to appropriate to an agency the full amount required for all positions, because turnover is likely to result in lesser expenditures. If the General Assembly can anticipate and capture some of the vacancy savings up front in the budget process, then it can apply the savings to other priorities, rather than tying the money up in programs that will ultimately not need all of it. Except in a few situations where there just hasn't been enough money to go around, the rationale for annual base personal services reductions has been tied to the concept of capturing vacancy savings.

There are actually two types of "vacancy savings," only one of which can reasonably justify an annual base personal services reduction. One form of vacancy savings occurs during the time a position is empty and waiting to be filled, when a department is not paying anybody. The second form of vacancy savings occurs when a department hires somebody to fill a position at a lower pay grade than the person who left that position. Vacancy savings from differences in compensation levels could justify an annual base personal services reduction, to the extent that departments experience this type of savings every year.

Vacancy savings from unfilled positions are one-time. When the position is filled for a whole year the savings go away. However, if the turnover rate and length of time positions are unfilled are consistent, one could expect roughly the same level of one-time vacancy savings to recur every year. It would not be reasonable to adjust the base budget downward for the savings from unfilled positions every time a vacancy occurs, but the base budget could potentially be adjusted downward once for the projected annual savings from unfilled positions, and then reasonably expected to stay at that reduced funding need in future years.

Vacancy savings from the difference in compensation between a previous employee and a new hire are ongoing. These savings can be taken from the budget every time there is a vacancy, as long as the new hires earn less than the previous employees. If there is no money to increase the compensation of new hires during their time with the state, then eventually when they leave they will be replaced with people making the same compensation, and then there will be no vacancy savings from a difference in compensation. But, as long as there is a difference in compensation, and there is turnover, a base personal services reduction could be justified to capture this type of vacancy savings.

Applying a base personal services reduction to capture vacancy savings has been the General Assembly's predominant practice for at least the last thirteen years, although some of the base personal services reductions have been small (0.2 percent) and included exceptions for selected programs. The Governor's request does NOT include a base personal services reduction for FY 2013-14. However, the General Assembly typically debates whether to apply a base personal services reduction regardless of the Governor's request, and so staff assumes that an analysis of the pros and cons is relevant for this year.

	Base PS	Exceptions[1]					
	Reduction	<20.0 FTE	COR	HUM	PUB SAF	JUD	Notes
FY 99-00	1.0%	0.0%					
FY 00-01	1.0%						
FY 01-02	1.5%						
FY 02-03	2.5%	1.5%					
FY 03-04	0.0%						No annualization of pay increases
FY 04-05	0.2%						
FY 05-06	0.2%						
FY 06-07	0.2%						
FY 07-08	0.5%						
FY 08-09	1.0%	0.0%	0.75%		0.75%		
FY 09-10	1.82%	0.0%					
FY 10-11	0.0%						
FY 11-12	1.5%			0.2%	0.2%	0.0%	
FY 12-13	1.0%	0.0%	0.0%	0.0%	0.0%	0.5%	

[1] These are exceptions specifically noted in the Appropriations Report. Staff suspects exceptions for <20.0 FTE were made in more years than the level of detail in the Appropriations Report describes.

Lack of measurements of vacancy savings

There are a number of potential problems with an annual base personal services reduction, and among these problems is a lack of standardized measurements about actual vacancy savings rates to help determine an appropriate magnitude for such a reduction. There is no way in the Central Personnel and Payroll System (CPPS) to make a direct comparison between new hire salaries and separation salaries, in part because there is not necessarily a common position number. Also, promotions can be entered in CPPS in a way that looks like a new salary in the same position, or in a way that looks like a separation and new hire. It would be possible to collect aggregate data from CPPS about separations and new hires in a selected time frame, but aggregate data would not show the true vacancy savings achieved by a department, because it would include promotions, position upgrades, and cases where departments hired above the minimum pay range. In other words, aggregate data would include some ways departments elected to spend or recycle their vacancy savings. Without standardized measurements of actual vacancy savings rates, the Committee has been forced to use a variety of other criteria to determine a reasonable base personal services reduction rate, and these criteria could probably be described as a combination of gut instinct, fiscal necessity, and political negotiation.

Inconsistent application of base reductions

Over the years the General Assembly has frequently made exceptions to the base reduction common policies that have contributed to perceptions among some state agencies that the base reductions are arbitrary and capricious. The most frequent exceptions have been for line items with fewer than 20.0 FTE and for "public safety" agencies.

The rationale for exempting line items with less than 20.0 FTE is that smaller programs may experience years with no turnover, making it difficult to absorb a base personal services reduction. However, this exception ignores the flexibility the General Assembly has provided to departments through centralized appropriations in the executive director's office that may be transferred to the programs that need the funding. Also, many line items with small numbers of FTE are actually "program" line items that afford significant flexibility to departments because they combine funding for personal services, operating expenses, contract services, and grant funds in a single line, in contrast to "personal services" line items that contain funding for only personal services and possibly contract services. Then there is the problem that 20.0 FTE is an arbitrary number, with no evidence that the cutoff shouldn't be 25.0 FTE or 15.0 FTE to reasonably assume the program will experience turnover. The exemption for line items with less than 20.0 FTE may make sense for very small departments, like the Treasury, and for highly independent programs within a larger department but for a large number of line items with few FTE, staff believes the exemption is not necessary.

The rationale for exempting "public safety" agencies is that these programs can't leave positions vacant for extended periods of time and maintain security. However, the base personal services reduction is not intended to capture vacancy savings from positions being unfilled, but rather vacancy savings from differences in compensation between departing senior staff and new hires. All agencies should experience this type of savings, regardless of whether they deliver public safety services. Another problem with this exemption is that the definition of what constitutes a public safety agency is nebulous. In every year this exemption has been implemented the Department of Public Safety has been among the agencies that benefited, but none of the staff at the Department provide direct care to institutionalized populations. A fluctuation in staffing levels for the Department of Public Safety is no more or less difficult to manage than the constant fluctuation in crime and accident levels that the Department deals with on a daily basis, and staff would argue that the Department is not under unusual pressure to fill vacant positions more quickly than other departments. In contrast, the Department of Human Services and the Department of Corrections both have employees who are responsible for direct supervision and care of vulnerable populations, but in some years the Department of Human Services has not been exempted, and in one year the Department of Corrections was not treated as a "public safety" agency. This was probably because the Department of Corrections represents approximately 40 percent of General Fund compensation among agencies impacted by the common policy, and so exempting the Department of Corrections significantly reduces the General Fund savings from a base personal services reduction. While all public safety agencies will experience some vacancy savings from differences in compensation, it may be true that some public safety agencies have less flexibility to manage an inaccurate estimate of vacancy savings from differences in compensation, because they can't leave positions unfilled for long periods without negatively impacting supervision and care, but the General Assembly has not consistently defined who fits in this category.

The "death spiral"

Capturing vacancy savings in the budget process can beget more vacancy savings. Managers are reluctant to gamble that they will have vacancy savings every year. If a manager receives less than full funding for the positions in a program, then that manager may not fill all those positions, in order to ensure that the program does not overexpend. Then, when the inevitable turnover occurs, the program has additional vacancy savings on top of what the Committee originally planned for and captured through the budget process. If the Committee revises the vacancy savings estimate to try to capture this additional savings, then the cycle becomes what some departments describe colorfully as a "death spiral" for the program.

It can be challenging to convince managers to hire a full complement of staff without full funding. Managers must trust that the vacancy savings estimates used by the General Assembly are accurate. Also, they must trust that there department has the necessary flexibility to cut expenses and/or transfer funds if actual vacancies are less than the forecast. Finally, if the necessary flexibility is in place, managers must trust that their department has the knowledge about what is happening in each program, and the will to move money between programs, to successfully use the flexibility to ensure that the manager's program does not overexpend. Sometimes for legitimate reasons and sometimes for naught, this level of trust is not always present for managers.

"There are no vacancy savings"

Some departments argue that vacancy savings are eaten up by the cost of payouts for accumulated leave plus overtime and/or temporary services to cover the work, although staff does not agree with this assessment. These costs are generally paid from vacancy savings generated while a position is unfilled, rather than from vacancy savings due to differences in compensation, which is the type of vacancy savings that the base personal services reduction is attempting to capture. Also, staff believes that departments tend to overdramatize the burden of payouts for accumulated leave. This is really just planned unproductive time that departments should be accounting for in their budgets. It should be no different to a department if an employee quits and then gets paid for leave time or if an employee takes the leave time and then quits. There are some state employees who are allowed to accumulate more leave time than others due to grandfather provisions that exempt them from current caps on accumulated leave. Departments have to plan for more potential unproductive time associated with these employees, whether that unproductive time is the result of long periods of leave or payouts at termination. Staff does not believe that the "there are no vacancy savings" argument is valid, or a reason not to apply a base personal services reduction, but it is listed here since it is an argument that is frequently referenced by the executive branch.

A more valid variation on the "there are no vacancy savings" argument is specific to FY 2013-14. After four years of no pay raises, plus base personal services reductions in three of those years, the available vacancy savings from differences in compensation is diminishing. Employees are clustered at the bottom of the pay range and departing employees are replaced with new hires who earn similar pay. The scenario in the next section illustrates the diminishing returns from base personal services reductions in greater detail.

Recycling vacancy savings

Rather than trying to estimate an unknown vacancy savings rate and then capture the savings through an annual base personal services reduction, staff recommends that the Committee treat vacancy savings as a part of how departments move employees through the pay ranges. In such an environment vacancy savings would be recycled into employee pay raises to maintain average employee compensation at the prevailing rate. Staff believes that it is not necessary to know the vacancy savings rate to set a budget that provides prevailing compensation.

The following scenario illustrates how recycling vacancy savings works. Assume a department hires one employee a year for four years at $100 each to fill positions A, B, C, and D. Each year after hire those employees get a $1 raise, so that in the fourth year the department is spending $406 annually on salaries. In the fifth year position A turns over and a new employee is hired at $100, saving $3. That $3 in savings gets recycled into $1 raises for positions B, C, and D. The department is still spending $406 annually on salaries. In the sixth year position B turns over, saving $3 that gets recycled into $1 raises for positions A, C, and D, resulting in annual salary expenditures of $406. By recycling vacancy savings the department is maintaining an average salary per employee of $101.50 per year through year 8.

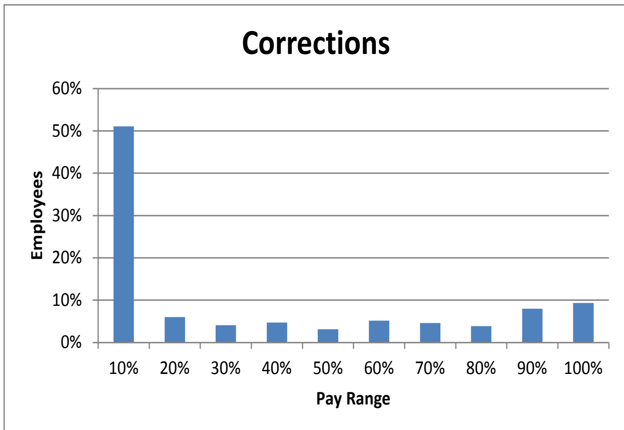
Scenario 1: Recycling Vacancy Savings

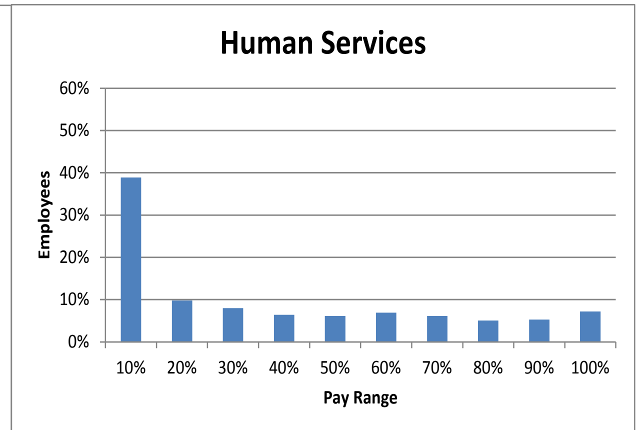
Position:	**A**	**B**	**C**	**D**	TOTAL	Average
Year	**Salary**	**Salary**	**Salary**	**Salary**	Salaries	Salary
1	100				100	100.00
2	101	100			201	100.50
3	102	101	100		303	101.00
4	103	102	101	100	406	101.50
5	100	103	102	101	406	101.50
6	101	100	103	102	406	101.50
7	102	101	100	103	406	101.50
8	103	102	101	100	406	101.50
9	100	102	101	100	403	100.75
10	100	100	101	100	401	100.25
11	100	100	100	100	400	100.00
12	100	100	100	100	400	100.00

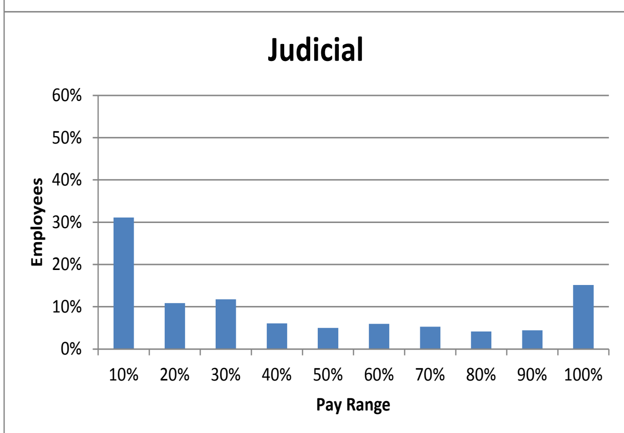
In year 9 the table illustrates the impact of a base personal services reduction. Extrapolating from prior experience, the General Assembly successfully predicts that position A will turn over and removes $3 from the personal services appropriation for the department. There are no funds for raises, and so positions B, C, and D remain at their year 8 salary levels. In year 10 position B turns over and the General Assembly again applies a base personal services reduction, but note that the total savings is less this time, because position B was not at the top of the salary range when the position turned over. Also note that salaries are beginning to cluster at the bottom of the salary range. Finally, note the salary compression where the difference in pay between the more senior employees and the new hire is shrinking. The average salary per employee in year 10 has dropped to $100.25.

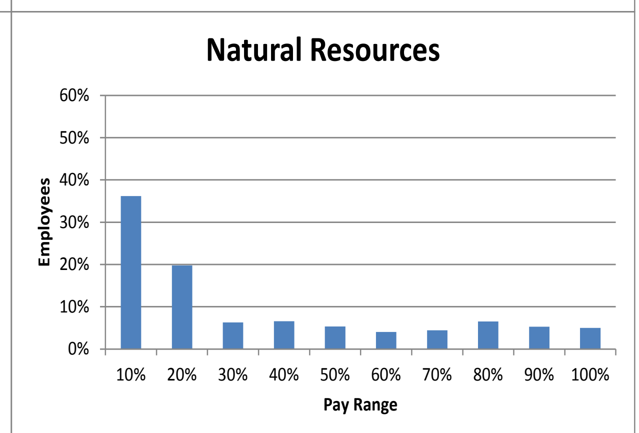
If prevailing compensation is decreasing, the base personal services reductions in the scenario may make sense. However, if market salaries are static or increasing, a base personal services reduction may be problematic. Although the salary range never changes in the scenario, the distribution of salaries within the range changes, which could mean that state salaries no longer match the most common or frequently occurring, i.e. prevailing, market salaries.

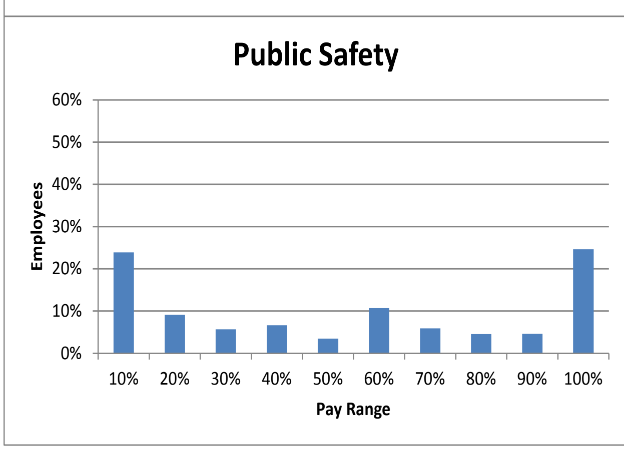
Based on the model and the General Assembly's pay practices over the last few years, one would expect state salaries to be compressed at the bottom of the pay range. This pattern doesn't show up in every department, due to a wide variety of mitigating variables, but it does appear to varying degrees in the five largest departments subject to the compensation common policies.











The average annual salary reflects the amount of vacancy savings being recycled into pay increases, and this is true in the market outside state government as well. If the market provides pay increases that are less than the total vacancy savings, then the average annual market salaries will decrease. Conversely, if the market provides pay increases that exceed the recycled vacancy savings, then the average annual market salaries will increase. In this context, pay increases would include decisions to hire above the range minimum. The General Assembly can ensure that there are adequate total funds to provide prevailing salaries by budgeting to the market average salaries for each pay class. The General Assembly does not need to know the state vacancy savings rate to appropriate funds to match prevailing salaries.

In the model employees move through the pay range in regular increments each year, but the relationship of vacancy savings to the average salary per employee does not change with different systems for how employees receive pay raises. A relatively consistent average salary per employee could be maintained using recycled vacancy savings in a system that offers big pay raises to employees in the first couple of years, to recognize greater competence as an employee masters the job, followed by declining or no increases in later years. Similarly, a consistent average salary per employee could be maintained in a system with little or no raises during a long beginning apprenticeship, followed by big pay raises at the end to reward employees who stay and master the position. It would also be possible to maintain a fairly consistent average salary per employee in a system where raises are based strictly on merit, with no consideration for tenure, as long as the distribution of high achieving and low achieving salaries remains constant. Decisions about what system to use to distribute funds to state employees do not impact the total funds necessary to match prevailing salaries.

There may be differing opinions about how much compensation should be based on merit versus tenure, or how much should be base-building versus one-time incentives, or how quickly employees should progress through the pay structure, or even if employees should progress through the pay structure. Budgeting sufficient total funds to pay prevailing salaries does not ensure that the money is distributed to employees in a way that mirrors prevailing practice. That will depend on the policies of the Department of Personnel and the implementation of those policies by individual managers.

Another observation from the model is that the General Assembly does not need to provide funds to move people through the pay ranges in addition to providing funds to bring salaries in line with the average market. This can be a point of confusion with both legislators and employees. If average salaries in the market increase 3.0 percent, some may argue that the state needs to increase all state salaries 3.0 percent and then add money for merit pay. However, an across-the-board increase equal to the market shortfall plus an increase for merit pay would result in state salaries that exceed the market.

Dealing with variability in personal services expenditures

The model admittedly over-simplifies what happens in the real world. For one, the model uses an employee length of stay that is a factor of the number of positions. If there were five positions instead of four, then every fourth year two positions would turn over, creating a spike in vacancy savings, and vice versa if there were three positions (every fourth year there would be no vacancy savings). Another way the model distorts the real world is by holding employee tenure constant. While the model has shortcomings in showing the actual variability in annual compensation expenditures, staff believes it fairly conveys the way base personal services reductions tend to cluster salaries at the bottom of the pay range, compress differences in pay, and decrease average compensation.

To deal with the variability in employment patterns, departments need some flexibility with personal services appropriations. There are several ways the General Assembly has traditionally provided departments with this necessary flexibility. Providing flexibility for agencies to move personal services funds to where they are needed reduces the General Assembly's control and creates risk for abuse, but not providing flexibility also creates risk for abuse. If a department can't move personal services money to where it is needed, then a program with vacancy savings may spend the excess money on something inappropriate, for which the money was not intended. The Committee must weigh the cost of providing flexibility against the potential cost of not providing it.

One of the ways the legislature has historically provided flexibility is through centralized appropriations in the executive director's office for each department. These centralized appropriations are often referred to as "POTS." Although the term is typically spelled with all capital letters, it is not an acronym. It refers to metaphorical containers that hold money until it is distributed to other line items where it is expended. Departments are statutorily authorized to transfer centralized appropriations, or POTS, from the executive director's office to line items throughout the department. However, the transfer authority is limited by the headnote definition of each POT contained in Section 24-75-112, C.R.S. For example, the Health, Life, and Dental POT is supposed to be used only for the state contribution to health, life, and dental premiums. The state contribution to health, life, and dental premiums is only one aspect of total compensation that could fluctuate if actual vacancy savings are different than the projection. In years with salary survey and performance-based pay awards departments had significantly more flexibility in POTS appropriations than in recent years that have not included these centralized appropriations.

Another way the legislature has provided flexibility is through program line items. In some divisions appropriations are divided into personal services and operating expenses, but in other divisions the personal services and operating expenses are combined into a single program appropriation. These program appropriations sometimes also include money for making grants. Program appropriations give departments the flexibility to use money intended for operating expenses or grants to support personal services expenses, and vice versa. There are no specific criteria that the JBC uses to determine when to break out personal services and operating appropriations and when to combine them in a program appropriation. Factors that influence the decision may include the size of the program, the degree of specificity in statute about the purpose of the program, the availability of quantifiable data to measure the performance of the program, and the Committee's history and level of trust with the program. The Committee has historically decided whether to separate appropriations or to combine them into a program line item on a case by case basis.

Another form of flexibility is the inclusion of contract services in line items that also pay for personal services. This form of flexibility is sometimes created by the legislature and sometimes created by departments. If the General Assembly applies a base personal services reduction, but a manager is worried that a lack of vacancy savings will result in an overexpenditure, then the manager may hire less than the appropriated FTE and try to accomplish some of the work through contract services that the manager can increase or decrease based on the actual vacancy savings.

It should be noted, too, that departments have some control over the level of vacancy savings. While departments do not directly determine when employees leave, they can often determine when replacements are hired. If actual turnover is trending below expectations, a department could increase the length of time positions are vacant to increase the savings achieved per turnover.

While the General Assembly's appropriation practices provide significant flexibility for departments with good leadership to respond to the variability in employment patterns and personal services expenditures, there are still barriers in the rigidity of the personnel system that can prevent departments from effectively recycling vacancy savings. Specifically, the personnel system currently limits the ability of departments to use vacancy savings to move people in the pay range within a classification.

Limitations of the State Personnel System and classification creep

In the Governor's request for FY 2013-14, departments would be allowed to move employees within a job class using funds appropriated for an across-the-board increase and a merit-based increase, but a department could not easily provide subsequent increases to employees in the same job class using recycled vacancy savings. A department might be able to provide such increases using appeal or audit procedures, but these are cumbersome and bureaucratic. The most practical options available for departments to recycle vacancy savings are to hire above the pay minimum or to reclassify employees into a higher job class. Hiring above the pay minimum gives recycled vacancy savings to new employees, which may be unfair to existing employees. Reclassifying employees results in classification creep.

Classification creep can be problematic because it inflates the projected need for employee pay raises. To understand how this works a few modifications are required to the previous Scenario 1 discussed in detail above. In the modified Scenario 2 positions A, B, C, and D start out in a job classification called "Table Explainer I". In year 2 position A turns over and the department hires a replacement at the bottom of the pay range, generating $3 in vacancy savings. Ideally, the department would recycle the vacancy savings into pay raises for positions B, C, and D, but due to the rigidity of the State Personnel System the department is unable to provide additional pay increases to employees within the same job classification. To partially get around this impediment, the department promotes position B from a Table Explainer I to a Table Explainer II. The department is unable to justify promotions for positions C and D, though, since the employees are not far enough into their careers, and so the department reverts some of the vacancy savings. In this scenario 2 the General Assembly doesn't apply any base personal services reduction to remove money from the system, but the average state salary for Table Explainer I drops, due in part to the promotion of position B out of the pay range and in part to the reversion of a portion of the vacancy savings. If market pay is stable, the Annual Compensation Survey Report will indicate that state salaries for the Table Explainer I job classification have lost ground relative to the market.

Scenario 2: Recycling Vacancy Savings

	Table Explainer I					Table Explainer II	
Position:	**A**	**B**	**C**	**D**	Average	**B**	Average
Year	**Salary**	**Salary**	**Salary**	**Salary**	Salary	**Salary**	Salary
1	103	102	101	100	101.50		
2	100		101	100	100.33	103	103.00

At the same time, the Annual Compensation Survey Report will likely show that the state has lost ground relative to the market for the Table Explainer II job classification. In year 1 there were no Table Explainer IIs in this department, but in year 2 there is a Table Explainer II and that employee is at or near the bottom of the Table Explainer II pay range. Assuming that the average Table Explainer II in the market is near the middle of the pay range, the Annual Compensation Survey Report will show that state salaries lag the market for this classification.

In some programs the standard pay progression might be for a Table Explainer I to move to a Table Explainer II, and this may not result in classification creep, because a departing Table Explainer II is replaced by a Table Explainer I and the proportion of Table Explainer Is to IIs does not change over time. Classification creep is more likely to cause problems if what the department really needs is Table Explainer Is, but the Personnel System leaves the department limited options for recycling vacancy savings other than promoting employees to Table Explainer IIs.

When classification creep occurs it puts the General Assembly in the uncomfortable position of either taking the vacancy savings and actually losing ground relative to the market, or not taking the vacancy savings and appearing to lose ground relative to the market. On balance, staff believes it is better not to apply the base personal services reduction and to try to monitor and limit classification creep in other ways.

Personnel rules do not allow state agencies to reclassify positions willy nilly. Departments must present justification and get approval from the Department of Personnel. Also, the Department of Personnel periodically conducts desk audits to ensure that actual employee duties match their job classification. While these are valuable checks and balances against classification creep, staff believes they would be more effective if departments had options for recycling vacancy savings other than reclassifying employees. To minimize classification creep, staff believes the executive branch should attempt to redesign the State Personnel System, within the limits of the Constitution, to allow recycling of vacancy savings into pay raises that maintain the average compensation per employee in each job class.

The General Assembly can provide enough money for state salaries to match the market, but only the executive branch can administer the appropriation in a way that allows departments to recycle their vacancy savings to maintain the position of employee salaries relative to the market. If the executive branch cannot design a pay system that provides options for departments to recycle vacancy savings, then classification creep may create a legislative branch problem, where the legislature cannot trust the Annual Compensation Survey Report to accurately reflect the need for state employee raises. In this environment, a base personal services reduction is one way to provide less than an artificially high Annual Compensation Survey Report, but staff would rather see the problem addressed at the root, by eliminating rigidity in the State Personnel System that leads to classification creep, or by finding a better way to measure the need for employee salary raises that doesn't get inflated by classification creep. If the General Assembly budgets to the Annual Compensation Survey Report, and the Report is correct, then a base personal services reduction will prevent departments from having sufficient funds to pay prevailing compensation, and therefore staff believes that a base personal services reduction should be avoided.

Issue: Annual Compensation Survey Report

This issue discusses the highlights of the Annual Compensation Survey Report and the Governor's request for compensation for FY 2013-14.

SUMMARY:

- The Governor, the Judicial Department, and the other elected officials propose salary increases totaling $62.1 million, including $31.5 million net General Fund.

- The Governor requests increases in health, life, and dental appropriations to keep pace with projected changes in the market, with a total cost of $18.1 million, including $8.7 million net General Fund.

- An overview of the process used to develop the Annual Compensation Survey Report is provided.

- The Annual Compensation Survey Report finds that state salaries lag the market by an average of 9.2 percent, but taking into account the differences in cost of matching the market for high-paid positions versus low-paid positions, the JBC staff estimates that appropriations for salaries would need to increase approximately 3.4 percent to match the market salaries for benchmark positions identified by the Annual Compensation Survey Report.

- This year's Annual Compensation Survey Report includes a section on retirement benefits that finds 15 percent of market employers offer defined benefit plans. The average market employer contribution to retirement benefits is 12.1 percent compared to 15.2 percent of the state.

RECOMMENDATION:

Staff recommends that the Committee sponsor legislation to require periodic analysis of how state retirement benefits compare to prevailing retirement benefits.

DISCUSSION:

Highlights of the Request

The Governor's request for salaries for employees in the State Personnel System includes three components:

- A 1.5 percent across-the-board increase
- Realignment of the range minimum and maximum for several job classes, and
- Merit pay

If the across-the-board and merit increases leave an employee's salary below the realigned range minimum for the employee's job class, additional funding is requested to bring the employee's salary to the range minimum.

The table below summarizes the merit pay grid proposed by the Governor for employees in the State Personnel System. An employee with the highest performance rating of 3 whose income falls in the first quartile of his or her job classification would earn a merit increase of 2.4 percent. According to the Department of Personnel, the system is designed to afford lower paid, yet high-performing employees greater opportunity to work toward the midpoint of the range. Merit pay for employees in the fourth quartile would be non-base building. The Department of Personnel estimates that the weighted average of the percent increases for state employees would be 1.6 percent.

Merit Pay Grid

Performance	**Quartile of class range**			
Rating	**Q1**	**Q2**	**Q3**	**Q4**
3	2.4%	2.1%	2.1%	2.1%
2	1.8%	1.6%	1.1%	0.6%
1	0.0%	0.0%	0.0%	0.0%

For employees who are exempt from the classified system the Governor proposes a 1.5 percent base increase and a 1.6 percent merit increase, with flexibility for departments to determine how the merit increase is allocated. The Judicial Branch and other elected officials submitted requests consistent with the Governor's proposal for their exempt employees.

The combined cost of the across-the-board increase and the adjustments to reach the revised range minimums is $30.7 million total funds before benefits, or a 2.1 percent increase on the Base Salary Estimate. The Base Salary Estimate is a snap shot of actual salaries in filled positions in June of 2012, with limited modifications to account for anomalies such as seasonal employees and annualizations of staffing changes authorized in legislation. When fully loaded with benefits the cost of the across-the-board increase and the adjustments to reach the revised range minimums is $36.8 million, including $17.5 million net General Fund.

The Department of Personnel estimates that the average of the percentage increases awarded through the merit pay formula will be 1.6 percent, but the dollar change of $21.1 million before benefits is a 1.5 percent increase on the Base Salary Estimate. When fully loaded with benefits the cost is $25.3 million, including $14.0 million net General Fund.

The Governor also requests an increase in health and dental appropriations to keep pace with prevailing market contribution rates. The total cost to keep pace with projected market changes is $18.1 million, including $8.7 million net General Fund. The Governor proposes continuing the practice of providing departments with funding for shift differential at 80.0 percent of the prior year actual expenditures. The Governor's requests for all other benefits are calculated on statutory formulas that determine the state contribution as a percentage of salaries.

Compensation Survey Process

The Governor's request is based on the findings of the Annual Compensation Survey Report, but mitigated by OSPB's projection of available revenues and other competing demands in the budget. The Annual Compensation Survey Report is produced by the Department of Personnel and Administration pursuant to Section 24-50-104 (4), C.R.S., "to determine any necessary adjustments to state employee salaries, state contributions for group benefit plans, and performance awards."

The Department of Personnel and Administration does not have the information, time, or resources to analyze the pay for every position in the classified system compared to the market. Instead, the Department selects several benchmark positions and then estimates the pay for other positions relative to those benchmarks.

As an illustration of how the survey process works, the Department provided more detailed and specific information on how salaries were determined for the Corrections Officer I and Corrections Officer III Supervisor job classes. The sample size and comparisons will vary by job class, but the survey process for these job classes is typical, and the job classes are among the most frequently occurring in the state.

For these two job classes the Department used data from the *Mountain States Employers Council (MSEC), 2012 Public Employers Compensation Survey,* which includes data from employers across the state, and from the *Central States Compensation Association (CSCA), 2010 Salary Survey*, which includes data from state governments in the western and central regions. For the CSCA data the ERI Geographic Assessor report was used to normalize regional differences in income. The data was then aged to July 1, 2013 using the *Employment Cost Index (ECI) – Wages and Salary for all Civilian Workers,* which is produced by the U.S. Department of Labor, Bureau of Labor Statistics, and reflects the change in employment costs for civilian workers.

Once range midpoints are known for benchmark positions, the Department then uses salary structure modeling tools (in this case, a tool designed by AON Hewitt) to determine the appropriate magnitude of the pay range and the range midpoint for job classes above or below the benchmark job class, such as a Corrections Officer II. The market data for each job class typically includes information on salary midpoints, averages, range minimums, and range maximums, although every data point is not available in every survey. The Department will also mine data on non-benchmark positions, which may not be as robust as the data for the benchmark job classes, but may provide trend data to inform the relative position of non-benchmark job classes to the benchmark job classes.

The data set for these two job classes included the following:

- *MSEC 2012 Public Employers Compensation Survey,* participating employers included:
  - 17 Counties – Adams, Alamosa, Arapahoe, Archuleta, Boulder, Clear Creek, El Paso, Larimer, Mesa, Moffat, Montrose, Pueblo, Rio Blanco, Routt, Summit, Teller, Weld
  - 2 Cities – Aurora and City/County of Broomfield
  - Ranging in population from 6,666 to 582,000
  - Reported data on 9 to 149 employees in positions matching Correctional Officer I

- *CSCA 2010 Salary Survey,* participating employers included:
  - 24 State Governments – Alaska, Arkansas, Arizona, Iowa, Idaho, Illinois, Indiana, Kansas, Louisiana, Michigan, Minnesota, Missouri, Montana, North Dakota, Nebraska, New Mexico, Nevada, Oklahoma, South Dakota, Texas, Utah, Washington, Wisconsin, and Wyoming
  - Ranging in size from 5,033 to 48,861 classified employees
  - Reported data on 176 to 7,978 employees in positions matching Correctional Officer I
  - Reported data on 8 to 1,883 employees in positions matching Correctional Officer III, Supervisor

Note that in this sample there is no data from private sector employers. This is a frequent criticism of the Annual Compensation Survey Report. For many state jobs the Department does have data from private sector employers, but there are also many state positions where there are few, if any, comparable private sector positions. When there are comparable private sector positions, the Department sometimes has trouble identifying robust sources for compensation data, as participation in high quality compensation surveys is time consuming and requires the sharing of information that may be viewed as proprietary, and thus many employers in both the public and private sectors elect not to provide data. In this case, staff is not sure whether the Department lacked data from private prisons, or viewed positions in private prisons as not comparable, or some combination of both.

Another frequent criticism of the Annual Compensation Survey is that the comparisons are circular. The employers who are being surveyed are also looking at the State of Colorado to determine their compensation. This is perhaps not so different from what happens in the private sector, but the formal survey process used by government employers makes it more apparent than the less formal comparisons by some employers in the private sector.

There are numerous ways the survey could be wrong. For example, it relies primarily on self-reported data from employers, who put varying levels of effort into providing accurate and consistent data. Differences in interpretation about job duties and descriptions could skew the results for a job class. For some categories of state employees there are few analogous private sector jobs. Some employers sampled in the survey also compare themselves to the state, potentially creating a spiraling effect on compensation. There is a delay between when data is collected and when the survey is produced, and so if prevailing compensation is changing rapidly the report may lag the trends. These are just a few examples of how the report could fall short of accurately describing prevailing practices.

However, the Report is the main tool available to the General Assembly to set pay for state employees. Also, pursuant to statute, the State Auditor examines the report every four years (the last audit was in May 2009) to ensure that the methods are sound and the data is reasonable, and to suggest improvements in the process.

Survey Findings - Salaries

One of the prominent statements in this year's Annual Compensation Survey Report is that state salaries lag the market by 9.2 percent. The Department arrived at this figure by calculating the percent difference between the midpoint for each of the benchmark classes in the market with the state midpoint and then calculating a weighted average of the percent differences using the number of state employees in each class. This is not without descriptive power, but from a budgeting perspective, staff believes it is more useful to look at the dollar change required for each job class to match the market and then weight that by the number of employees. The Department's method accounts for differences in the number of employees in each position, but not for differences in the level of compensation between job classes. If the state lags the market by a wide margin in low-paying jobs it will cost less to match the market than if it lags the market in high-paying jobs.

Another modification staff would make to the Department's method is to compare the state and market average for each benchmark class rather than the midpoint. The midpoint may be more useful for designing pay ranges, and the Department indicates that using the midpoint for this purpose is the market practice. However, for budgeting purposes staff believes the average is more representative of the funds available per employee in a job class in the market versus the state.

The staff analysis indicates that state appropriations for salaries lag the market by 6.7 percent, based on the weighted average salaries in the benchmark classes. The 9.2 percent reported by the Department is not wrong, but it does not answer the question that staff suspects the JBC wants to know, which is how much money is required to match the market.

Before concluding that state salaries need to be increased 6.7 percent, though, it is important to remember that the statutory objective is to match prevailing total compensation, rather than prevailing salaries. The easiest way to match prevailing total compensation is for each component of compensation to match, but in this case that is not possible. Section 24-51-411 (10), C.R.S. requires that the Supplemental Amortization Equalization Disbursement (SAED) come from money that would otherwise go to employee pay raises. The SAED is a payment to the Public Employee's Retirement Association (PERA) to reduce long-term liabilities and improve the amortization period. Rather than giving state employees pay raises and then increasing the required employee contribution to PERA, the legislature decided to pay the SAED on behalf of employees and take the money from funds the legislature would have spent on pay raises. When comparing state salaries to the market, the SAED payment to PERA on behalf of employees should arguably be considered part of employee salaries. The FY 2013-14 blended rate of the 2013 and 2014 calendar year SAED rates is 3.25 percent. If 3.25 percent is added to state salaries to account for the SAED, then the remaining difference from the market is 3.4 percent. The Governor's request for Salary Survey and Merit Pay combined would result in a 3.6 percent increase over the Base Salary Estimate. The Governor's request is very close to what staff estimates is required to match prevailing salaries, when the SAED is treated as part of employee salaries.

Survey Findings – Retirement Benefits

If treating SAED as part of employee salaries results in the Governor's request for salaries comparing favorably to the market, then the next logical question is whether state employee retirement benefits compare favorably with the market when SAED is treated as an employee contribution. The instructions to the Department of Personnel in Section 24-50-104 (4), C.R.S. for how to perform the Annual Compensation Survey Report do not require an analysis of retirement benefits, even though retirement benefits are a component of the statutory definition of total compensation.

Staff recommends that the Committee sponsor legislation to require periodic analysis of how state retirement benefits compare to prevailing retirement benefits. Staff pointed out this deficiency of the Annual Compensation Survey Report last year, but did not go so far as to recommend a legislative change. Senator Lambert and Representative Swalm carried S.B. 12-136 to address this issue, but the bill died in Senate Finance. One of the concerns about the bill raised by the executive branch included whether the Department of Personnel and Administration or the Public Employee's Retirement Association is better positioned to do the analysis. Another concern had to do with what level of analysis was appropriate. A comparison of contribution rates is fairly simple and not very expensive to produce, but an analysis of benefits could be more complex and require actuary services. Staff does not have strong feelings about who should perform the analysis, or at what level of detail. Because retirement benefits at the state level do not change frequently, it may be sufficient to analyze the state's position relative to the market less frequently than annually. However, staff does believe that the executive branch should be required to consider and present information on retirement benefits when submitting requests for funding for compensation.

Although S.B. 12-136 failed, the Department of Personnel and Administration included a short section in this year's Annual Compensation Survey Report on retirement benefits. The Department found that 15 percent of the market offers employees a defined benefit plan, either through PERA or some other provider. For employers offering tax deferred matching, which is the most common practice in the market, the average employer contribution to retirement benefits, including social security, is 12.1 percent, compared to 15.2 percent for the state. The 15.2 percent for the state does not include the SAED, because the SAED is treated as if it were an employee contribution. Employees who participate in PERA's defined benefit plan are required to contribute 8.0 percent of their salaries, plus forego pay raises of 3.25 percent for the SAED, for a total contribution of 11.25 percent. No information was provided on whether tax deferred matching plans in the market have similar requirements about the percentage of employee salaries that must be contributed to the retirement plan.

Retirement Plans Offered		
Type of Plan	**Market**	**State**
No plan	1%	
401k	66%	
403b	15%	
457b	26%	
401a plan/money purchase	19%	
Defined Benefit	10%	
PERA	5%	Yes
Other	15%	

Typical Employer Contribution		
Components of Plan	**Market**	**State**
Social Security	6.20%	na
Medicare (FICA)	1.45%	1.45%
DB/DC Contribution	na	10.15%
AED for PERA	na	3.60%
Average Tax Deferred Matching	4.45%	Na
Total Employer Contribution	12.10%	15.20%

The analysis is of employer contribution rates only and does not include any consideration of benefits, such as an actuarial projection of income replacement at retirement. Nor does the analysis take into consideration differences in plan characteristics such as portability, vesting, early withdrawal costs, the ability to borrow against the funds, risk, early retirement costs, etc.

Survey Findings – Insurance Benefits

The Annual Compensation Survey Report found that state health, life, and short-term disability are comparable with the market. Employer contributions to dental insurance are slightly lower than the market and need increasing. The state lacks a market-standard long-term disability benefit for employees who are not yet vested in PERA, and the Survey indicated that this may be a benefit that the Department pursues in a request in a future year.

Health benefits are comparable to the market based on the types of plans offered, the services covered and the percentage of total premiums paid by the employer. Deductibles in the state plans tend to be higher than the market, but out-of-pocket maximums are lower. Co-pays for prescriptions are generally lower than the market. The total premiums for the state plans exceed the market and the Survey indicates that this is due to an older workforce, with a median age for state employees of 47.1 compared to 35.8 in statewide. For FY 2013-14 the Survey projects some small adjustments to the employer contribution by tier, i.e. the percentage of costs covered for an employee versus an employee plus spouse versus a family, etc. The Survey also projects a 10 percent increase in total health premiums. To continue to match the market's employer contribution as a percentage of total premiums, the Survey recommends the contribution rates shown in the table below. Note that the employee share is just a projection that will most likely change as the Department enters negotiations with providers.

FY 2013-14 Health	Employer Contribution	Employee Share - Projected UHC - HDHP	Kaiser - HDHP	UHC - CoPay	Kaiser - HMO
Employee Only	470.20	14.53	2.16	72.17	92.32
Employee + Children	726.48	190.48	166.98	299.97	338.28
Employee + Spouse	810.76	202.25	176.27	323.27	365.58
Employee + Family	1,032.98	412.27	375.15	585.14	645.60

Change from FY 2012-13	Employer Contribution	Employee Share UHC - HDHP	Kaiser - HDHP	UHC - CoPay	Kaiser - HMO
Employee Only	36.30	(19.41)	(22.54)	(3.17)	(0.34)
Employee + Children	45.54	129.08	93.94	118.03	119.52
Employee + Spouse	109.82	14.57	12.21	25.57	29.42
Employee + Family	111.22	127.13	120.75	139.84	145.34

FY 2012-13 Health	Employer Contribution	Employee Share UHC - HDHP	Kaiser - HDHP	UHC - CoPay	Kaiser - HMO
Employee Only	404.72	33.94	24.70	75.34	92.66
Employee + Children	705.20	61.40	73.04	181.94	218.76
Employee + Spouse	733.24	187.68	164.06	297.70	336.16
Employee + Family	1,025.72	285.14	254.40	445.30	500.26

Dental benefits are comparable with the market in terms of services covered and coinsurance requirements, but the employer contribution is slightly below the market. To keep pace with projected inflation and match the prevailing market the Survey recommends the contribution rates shown in the table below. Note that the employee share is just a projection that will most likely change as the Department enters negotiations with providers.

FY 2013-14 Dental Rates	State Contribution	Employee Share - Projected Basic	Basic-Plus
Employee Only	25.92	4.28	18.37
Employee + Children	46.44	15.76	43.92
Employee + Spouse	42.62	14.75	44.32
Employee + Family	62.22	27.14	70.79

	State	Employee Share - Projected	
Change from FY 2012-13	Contribution	Basic	Basic-Plus
Employee Only	2.18	(0.74)	(0.07)
Employee + Children	7.10	(3.18)	(3.18)
Employee + Spouse	4.32	(2.55)	0.22
Employee + Family	11.04	(6.79)	(4.71)

	State	Employee Share - Projected	
FY 2012-13 Dental Rates	Contribution	Basic	Basic-Plus
Employee Only	23.74	5.02	18.44
Employee + Children	39.34	18.94	47.10
Employee + Spouse	38.30	17.30	44.10
Employee + Family	51.18	33.92	75.50

Recent Legislation Affecting Department Budget

2012 Session Bills

H.B. 12-1321 and Referendum S: Highlights of the changes made to the State Personnel System by the bill and the referred measure, include:

1) The requirement that positions be filled based on competitive tests of competence is replaced with a broader requirement for comparative analysis of candidates based on objective criteria, which may include tests, but may also include non-numerical criteria that meets professionally accepted standards.
   a) The number of candidates eligible for appointment is increased from 3 to 6.
   b) Authority to set the rules for evaluating and hiring candidates is transferred from the State Personnel Board to the state personnel director.
2) With approval of the state personnel director, certain top management and support positions may be exempted from the State Personnel System, up to a limit of 1.0 percent of total employees in the State Personnel System, or an estimated 325 employees currently.
3) Veterans continue to receive preference for positions after initial hire by the state.
4) The time limit on the use of temporary employees is increased from six months in a year to nine months.
5) The state personnel director is provided the same authority as the State Personnel Board to waive residency requirements for positions that require special education or qualifications and cannot be readily filed by a Colorado Resident. Also, residency requirements for positions within 30 miles of the state boarder are waived.
6) Procedures for appointing members of the State Personnel Board are modified.
7) The performance-based pay system is replaced by a merit pay system.
8) Rules governing separations are modified, including limiting bumping rights to employees within 5 years of retirement eligibility, and allowing post-employment compensation for health benefits, education, or severance pay, if these are part of a layoff plan approved by the state personnel director
9) Unused General Fund appropriations from personal services-related line items and operating expenses line items are deposited in a department-specific account of a newly created State Employee Reserve Fund. Moneys in these accounts are continuously appropriated to departments for merit pay, but the Office of State Planning and Budgeting must approve expenditures. Cash fund appropriations may also revert to the State Employee Reserve Fund if specifically authorized in statute.

The Governor's budget transmittal letter includes a statement that:

> *We believe a conforming amendment to the statutory merit pay plan is necessary to handle new appropriations from cash-funded sources. We will provide more information prior to the legislative session.*

No further details regarding the specifics of the Governor's request were provided in time for this briefing.

Appendix A: Request by Department

Many of the components of compensation are calculated as a percentage of base salaries. To create a Base Salary Estimate, the Department of Personnel and Administration took a snap shot of salary expenditures for filled positions in June of 2012. This method assumes that vacancies in June are representative of vacancies for the entire year. To correct for anomalies, such as seasonal employment or annualizations of changes in staffing authorized in legislation, Departments could request approval from OSPB to modify the data in the snap shot. All adjustments to the snap shot were documented by OSPB and shared with the JBC staff. Once the Base Salary Estimate was finalized, departments then added fund source detail on a position-by-position basis.

To provide a more complete picture of compensation statewide, the JBC staff added estimates for the legislature and the higher education institutions. The estimates for the legislature are based on work papers prepared by Legislative Council Staff for last year's FY 2012-13 budget request. The estimates for the higher education institutions are based on FY 2011-12 actual expenditures summarized and reported by the institutions.

Base Salary Estimate

FY 2013-14 Base Regular Pay	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	16,840,983	4,513,244	10,975,881	0	1,351,858	4,513,244
Corrections	307,105,868	297,087,153	10,018,715	0	0	297,087,153
Education	38,151,578	12,536,761	4,161,040	4,336,690	17,117,087	12,536,761
Governor's Office	72,477,114	3,950,220	3,133,331	61,985,327	3,408,236	3,950,220
Health Care Policy and Financing	21,725,580	7,391,643	1,523,049	432,339	12,378,549	7,391,643
Higher Education - Admin & Hist	9,760,245	0	6,626,930	1,773,870	1,359,445	0
Human Services	203,315,723	125,299,821	4,744,982	41,407,280	31,863,640	140,783,940
Judicial	243,325,241	199,496,865	43,828,376	0	0	199,496,865
Labor and Employment	53,930,757	0	25,146,887	0	28,783,870	0
Law	31,148,049	7,887,060	3,217,095	18,780,965	1,262,929	7,887,060
Local affairs	9,314,948	2,429,839	1,485,174	3,588,170	1,811,765	2,429,839
Military and Vetean Affairs	6,916,337	2,385,403	72,947	0	4,457,987	2,385,403
Natural Resources	101,532,664	15,540,894	69,040,384	2,937,543	14,013,843	15,540,894
Personnel and Administration	19,504,935	6,660,038	1,460,725	11,384,172	0	6,660,038
Public Health and Environment	83,020,223	6,389,824	28,186,805	8,073,476	40,370,118	7,411,223
Public Safety	94,206,801	19,288,635	63,882,604	4,443,165	6,592,397	19,288,635
Regulatory Agencies	34,453,028	1,156,726	31,061,472	1,930,713	304,117	1,156,726
Revenue	63,867,810	27,169,494	36,698,316	0	0	27,169,494
State	8,026,841	0	8,026,841	0	0	0
Transportation	10,258,342	0	9,847,762	410,580	0	0
Treasury	1,826,667	1,147,731	678,936	0	0	1,147,731
SUBTOTAL	**1,430,709,734**	**740,331,351**	**363,818,252**	**161,484,290**	**165,075,841**	**756,836,869**
Legislature	20,785,563	20,785,563	0	0	0	20,785,563
Higher Education - Institutions	1,067,069,854	252,952,810	804,919,865	9,197,179	0	252,952,810
GRANDTOTAL	2,518,565,151	1,014,069,724	1,168,738,117	170,681,469	165,075,841	1,030,575,242

Salary Survey

FY 2013-14 Salary Survey	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	470,251	155,694	284,891	0	29,666	155,694
Corrections	5,320,930	5,143,873	177,057	0	0	5,143,873
Education	779,003	244,648	101,340	83,711	349,304	244,648
Governor's Office	1,283,586	66,127	52,454	1,107,941	57,064	66,127
Health Care Policy and Financing	568,180	176,323	45,753	8,388	337,716	176,323
Higher Education - Admin & Hist	160,731	0	108,278	29,694	22,759	0
Human Services	5,136,272	3,142,889	132,157	1,099,151	762,075	3,638,227
Judicial	5,971,598	5,149,127	822,471	0	0	5,149,127
Labor and Employment	1,021,709	0	500,281	0	521,428	0
Law	828,111	206,775	71,467	524,637	25,232	206,775
Local affairs	212,596	53,729	29,046	84,970	44,851	53,729
Military and Vetean Affairs	276,480	94,863	3,242	0	178,375	94,863
Natural Resources	1,854,937	249,484	1,503,267	50,839	51,347	249,484
Personnel and Administration	568,493	111,765	75,560	381,168	0	111,765
Public Health and Environment	1,476,276	113,624	501,222	143,563	717,867	165,518
Public Safety	6,069,631	487,713	5,131,726	243,417	206,775	487,713
Regulatory Agencies	920,860	32,528	838,884	34,624	14,824	32,528
Revenue	1,277,363	495,342	782,021	0	0	495,342
State	138,267	0	138,267	0	0	0
Transportation	268,388	0	261,517	6,871	0	0
Treasury	50,595	31,597	18,998	0	0	31,597
SUBTOTAL	**34,654,257**	**15,956,101**	**11,579,899**	**3,798,974**	**3,319,283**	**16,503,333**

Merit Pay

FY 2013-14 Merit Pay	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	233,410	74,200	143,141	0	16,069	74,200
Corrections	4,950,801	4,803,175	147,626	0	0	4,803,175
Education	612,156	207,734	71,084	66,915	266,423	207,734
Governor's Office	1,241,443	71,319	51,593	1,061,720	56,811	71,319
Health Care Policy and Financing	384,021	130,300	28,429	9,888	215,404	130,300
Higher Education - Admin & Hist	174,978	0	119,654	31,161	24,163	0
Human Services	3,516,831	2,122,174	83,797	753,373	557,487	2,470,891
Judicial	4,576,140	3,960,810	615,329	0	0	3,960,810
Labor and Employment	773,319	0	336,691	0	436,628	0
Law	533,185	146,114	37,471	332,638	16,962	146,114
Local affairs	161,094	45,105	22,235	61,246	32,508	45,105
Military and Vetean Affairs	123,648	41,660	1,487	0	80,501	41,660
Natural Resources	1,572,342	277,904	1,193,807	54,728	45,903	277,904
Personnel and Administration	307,703	93,873	22,253	191,577	0	93,873
Public Health and Environment	1,183,989	91,128	401,985	115,140	575,736	132,748
Public Safety	1,636,265	293,104	1,180,821	79,026	83,314	293,104
Regulatory Agencies	516,729	20,087	455,779	35,392	5,471	20,087
Revenue	947,529	405,015	542,514	0	0	405,015
State	114,632	0	114,632	0	0	0
Transportation	178,679	0	171,247	7,432	0	0
Treasury	36,012	21,771	14,241	0	0	21,771
SUBTOTAL	**23,774,906**	**12,805,473**	**5,755,817**	**2,800,236**	**2,413,380**	**13,195,810**

Shift Differential

FY 2013-14 Shift Differential Pay	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	0	0	0	0	0	0
Corrections	6,321,726	6,297,277	24,449	0	0	6,297,277
Education	77,703	77,703	0	0	0	77,703
Governor's Office	72,915	0	0	72,915	0	0
Health Care Policy and Financing	0	0	0	0	0	0
Higher Education - Admin & Hist	0	0	0	0	0	0
Human Services	4,107,732	2,718,535	0	1,389,197	0	3,413,134
Judicial	0	0	0	0	0	0
Labor and Employment	9,852	0	0	0	9,852	0
Law	0	0	0	0	0	0
Local affairs	0	0	0	0	0	0
Military and Vetean Affairs	20,922	0	0	0	20,922	0
Natural Resources	25,546	0	25,546	0	0	0
Personnel and Administration	42,040	0	0	42,040	0	0
Public Health and Environment	16,434	328	4,109	0	11,997	328
Public Safety	461,114	63,752	365,443	31,919	0	63,752
Regulatory Agencies	0	0	0	0	0	0
Revenue	31,864	3,341	28,523	0	0	3,341
State	0	0	0	0	0	0
Transportation	29,703	0	29,482	221	0	0
Treasury	0	0	0	0	0	0
SUBTOTAL	**11,217,551**	**9,160,936**	**477,552**	**1,536,292**	**42,771**	**9,855,535**

Increase from FY 2012-13	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	0	0	0	0	0	0
Corrections	264,066	252,802	11,264	0	0	252,802
Education	(6,282)	(6,282)	0	0	0	(6,282)
Governor's Office	(3,066)	0	0	(3,066)	0	0
Health Care Policy and Financing	0	0	0	0	0	0
Higher Education - Admin & Hist	0	0	0	0	0	0
Human Services	18,005	(5,695)	(6,158)	35,833	(5,975)	78,211
Judicial	0	0	0	0	0	0
Labor and Employment	(4,608)	0	0	0	(4,608)	0
Law	0	0	0	0	0	0
Local affairs	0	0	0	0	0	0
Military and Vetean Affairs	(1,134)	0	0	0	(1,134)	0
Natural Resources	(5,696)	0	(5,696)	0	0	0
Personnel and Administration	2,458	0	0	2,458	0	0
Public Health and Environment	11,866	279	(410)	0	11,997	279
Public Safety	8,932	(4,211)	11,997	1,146	0	(4,211)
Regulatory Agencies	0	0	0	0	0	0
Revenue	(8,646)	(193)	(8,453)	0	0	(193)
State	0	0	0	0	0	0
Transportation	5,250	0	5,296	(46)	0	0
Treasury	0	0	0	0	0	0
SUBTOTAL	**281,145**	**236,700**	**7,840**	**36,325**	**280**	**320,606**

Amortization Equalization Disbursement (AED)

FY 2013-14 AED	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	629,727	170,132	409,401	0	50,194	170,132
Corrections	11,591,085	11,219,149	371,936	0	0	11,219,149
Education	1,420,839	468,423	155,359	160,980	636,077	468,423
Governor's Office	2,692,981	146,642	116,156	2,303,813	126,370	146,642
Health Care Policy and Financing	812,837	275,990	57,223	16,154	463,470	275,990
Higher Education - Admin & Hist	362,198	0	245,922	65,822	50,454	0
Human Services	7,731,007	4,768,329	177,786	1,595,234	1,189,658	5,375,391
Judicial	7,028,531	5,450,709	1,577,822	0	0	5,450,709
Labor and Employment	2,004,794	0	937,352	0	1,067,442	0
Law	1,165,243	295,318	119,329	703,769	46,827	295,318
Local affairs	347,393	90,662	55,121	133,891	67,719	90,662
Military and Vetean Affairs	262,570	90,278	2,779	0	169,513	90,278
Natural Resources	3,766,558	576,485	2,561,300	109,157	519,616	576,485
Personnel and Administration	731,798	246,395	55,741	429,662	0	246,395
Public Health and Environment	3,075,072	236,649	1,043,993	298,990	1,495,440	274,475
Public Safety	3,649,963	721,150	2,511,132	171,180	246,501	721,150
Regulatory Agencies	1,286,682	43,339	1,159,976	71,764	11,603	43,339
Revenue	2,372,039	1,007,253	1,364,786	0	0	1,007,253
State	297,124	0	297,124	0	0	0
Transportation	384,680	0	369,431	15,249	0	0
Treasury	68,554	43,040	25,514	0	0	43,040
SUBTOTAL	**51,681,675**	**25,849,943**	**13,615,183**	**6,075,665**	**6,140,884**	**26,494,831**

Increase from FY 2012-13	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	172,518	38,550	114,582	0	19,386	38,550
Corrections	1,846,072	1,772,718	73,354	0	0	1,772,718
Education	338,647	92,112	50,754	32,248	163,533	92,112
Governor's Office	298,284	(103,948)	23,113	344,626	34,493	(103,948)
Health Care Policy and Financing	82,204	(7,151)	3,755	(21,420)	107,020	(7,151)
Higher Education - Admin & Hist	69,284	0	56,757	5,776	6,751	0
Human Services	921,128	936,499	(155,694)	7,245	133,078	846,744
Judicial	126,994	(317,274)	444,268	0	0	(317,274)
Labor and Employment	120,806	0	172,215	0	(51,409)	0
Law	199,733	23,587	25,732	144,101	6,313	23,587
Local affairs	64,934	(7,539)	9,621	46,415	16,437	(7,539)
Military and Vetean Affairs	43,644	18,742	491	0	24,411	18,742
Natural Resources	580,982	103,101	403,334	6,212	68,335	103,101
Personnel and Administration	96,480	23,270	7,550	65,660	0	23,270
Public Health and Environment	1,706,563	46,947	146,470	17,706	1,495,440	49,323
Public Safety	690,757	200,182	446,554	(52,411)	96,432	200,182
Regulatory Agencies	213,437	8,712	195,672	9,723	(670)	8,712
Revenue	282,306	106,687	175,619	0	0	106,687
State	52,171	0	52,171	0	0	0
Transportation	(20,377)	0	(19,108)	(1,269)	0	0
Treasury	9,345	6,303	3,042	0	0	6,303
SUBTOTAL	**7,895,912**	**2,941,498**	**2,230,252**	**604,612**	**2,119,550**	**2,854,119**

Supplemental Amortization Equalization Disbursement (SAED)

FY 2013-14 SAED	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	568,504	153,592	369,598	0	45,314	153,592
Corrections	10,464,174	10,128,398	335,776	0	0	10,128,398
Education	1,282,702	422,882	140,255	145,329	574,236	422,882
Governor's Office	2,431,163	132,385	104,863	2,079,831	114,084	132,385
Health Care Policy and Financing	733,811	249,158	51,659	14,583	418,411	249,158
Higher Education - Admin & Hist	326,984	0	222,013	59,423	45,548	0
Human Services	6,979,380	4,304,741	160,501	1,440,142	1,073,996	4,852,783
Judicial	7,364,487	5,940,065	1,424,422	0	0	5,940,065
Labor and Employment	1,805,311	0	841,648	0	963,663	0
Law	1,051,954	266,606	107,727	635,347	42,274	266,606
Local affairs	313,619	81,848	49,762	120,874	61,135	81,848
Military and Vetean Affairs	237,043	81,501	2,509	0	153,033	81,501
Natural Resources	3,400,364	520,438	2,312,284	98,544	469,098	520,438
Personnel and Administration	660,651	222,440	50,322	387,889	0	222,440
Public Health and Environment	2,776,108	213,642	942,494	269,922	1,350,050	247,791
Public Safety	3,295,107	651,039	2,266,995	154,537	222,536	651,039
Regulatory Agencies	1,161,589	39,126	1,047,201	64,787	10,475	39,126
Revenue	2,141,425	909,326	1,232,099	0	0	909,326
State	268,237	0	268,237	0	0	0
Transportation	347,281	0	333,514	13,767	0	0
Treasury	61,888	38,855	23,033	0	0	38,855
SUBTOTAL	**47,671,782**	**24,356,042**	**12,286,912**	**5,484,975**	**5,543,853**	**24,938,233**

Increase from FY 2012-13	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	68,873	9,696	48,477	0	10,700	9,696
Corrections	192,711	173,037	19,674	0	0	173,037
Education	117,841	20,049	24,534	8,630	64,628	20,049
Governor's Office	(63,370)	(290,760)	6,206	206,415	14,769	(290,760)
Health Care Policy and Financing	(33,340)	(41,970)	(4,065)	(21,391)	34,086	(41,970)
Higher Education - Admin & Hist	16,684	0	19,677	(2,821)	(172)	0
Human Services	(176,636)	180,601	(146,468)	(179,739)	(31,030)	25,071
Judicial	397,630	195,303	202,327	0	0	195,303
Labor and Employment	(135,653)	0	33,999	0	(169,652)	0
Law	24,668	(18,794)	8,035	35,513	(86)	(18,794)
Local affairs	16,274	(18,180)	1,741	24,423	8,290	(18,180)
Military and Vetean Affairs	2,005	3,423	40	0	(1,458)	3,423
Natural Resources	50,800	16,031	44,894	(7,687)	(2,438)	16,031
Personnel and Administration	(10,153)	(10,454)	(1,244)	1,545	0	(10,454)
Public Health and Environment	1,105,619	10,823	3,955	(19,707)	1,110,548	8,167
Public Safety	52,256	77,854	(10,414)	(65,031)	49,847	77,854
Regulatory Agencies	24,799	1,713	25,491	(221)	(2,184)	1,713
Revenue	(44,944)	(32,435)	(12,509)	0	0	(32,435)
State	10,231	0	10,231	0	0	0
Transportation	(65,076)	0	(62,179)	(2,897)	0	0
Treasury	(977)	(336)	(641)	0	0	(336)
SUBTOTAL	**1,550,242**	**275,601**	**211,761**	**(22,968)**	**1,085,848**	**117,415**

Health, Life, and Dental (HLD)

FY 2013-14 HLD	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	2,071,445	519,908	1,454,540	0	96,996	519,908
Corrections	44,955,339	43,443,852	1,511,487	0	0	43,443,852
Education	4,166,353	1,656,199	424,131	470,274	1,615,748	1,656,199
Governor's Office	7,656,076	422,033	318,016	6,519,819	396,208	422,033
Health Care Policy and Financing	2,232,628	761,094	167,467	71,040	1,233,027	761,094
Higher Education - Admin & Hist	1,269,013	0	914,344	190,527	164,143	0
Human Services	29,313,389	17,802,355	619,709	6,928,114	3,963,212	21,026,028
Judicial	29,932,281	27,879,541	2,052,740	0	0	27,879,541
Labor and Employment	6,806,678	0	3,065,062	0	3,741,616	0
Law	2,875,285	745,725	293,081	1,708,446	128,034	745,725
Local affairs	1,093,002	307,610	179,945	385,854	219,593	307,610
Military and Vetean Affairs	1,554,851	463,339	30,898	0	1,060,614	463,339
Natural Resources	11,107,783	1,922,112	7,266,502	334,097	1,585,072	1,922,112
Personnel and Administration	2,494,554	653,484	162,319	1,678,751	0	653,484
Public Health and Environment	8,798,344	693,051	3,014,251	790,472	4,300,571	794,791
Public Safety	11,830,995	2,124,901	8,395,354	571,484	739,256	2,124,901
Regulatory Agencies	3,757,213	138,470	3,395,435	177,342	45,967	138,470
Revenue	8,807,887	3,451,987	5,355,900	0	0	3,451,987
State	890,374	0	890,374	0	0	0
Transportation	1,141,200	0	1,082,620	58,580	0	0
Treasury	210,528	97,973	112,555	0	0	97,973
TOTAL	**182,965,216**	**103,083,633**	**40,706,728**	**19,884,799**	**19,290,056**	**106,409,046**
Increase from FY 2012-13	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	195,505	91,538	86,290	0	17,676	91,538
Corrections	2,667,434	2,426,788	240,646	0	0	2,426,788
Education	759,962	213,787	92,057	143,856	310,261	213,787
Governor's Office	528,877	(81,354)	95,642	441,545	73,044	(81,354)
Health Care Policy and Financing	15,835	(35,385)	(7,185)	(40,781)	99,186	(35,385)
Higher Education - Admin & Hist	145,847	0	146,225	(6,656)	6,279	0
Human Services	2,429,099	1,737,311	121,028	97,408	473,353	2,027,864
Judicial	2,168,458	1,975,523	192,935	0	0	1,975,523
Labor and Employment	56,911	0	309,211	0	(252,300)	0
Law	254,922	33,367	(14,165)	210,553	25,168	33,367
Local affairs	62,811	(114,200)	2,501	194,169	(19,659)	(114,200)
Military and Vetean Affairs	747,608	266,699	12,608	0	468,301	266,699
Natural Resources	1,100,574	958,535	1,051,173	(735,081)	(174,053)	958,535
Personnel and Administration	171,394	9,401	(7,211)	169,204	0	9,401
Public Health and Environment	4,552,839	97,391	154,769	109	4,300,571	99,346
Public Safety	980,336	460,914	454,788	(108,621)	173,255	460,914
Regulatory Agencies	499,665	23,460	464,504	15,672	(3,970)	23,460
Revenue	789,370	331,335	458,035	0	0	331,335
State	26,905	0	26,905	0	0	0
Transportation	(66,364)	0	(66,287)	(77)	0	0
Treasury	22,058	(95)	22,153	0	0	(95)
SUBTOTAL	**18,110,044**	**8,395,014**	**3,836,620**	**381,299**	**5,497,111**	**8,687,522**

Short-term Disability (STD)

FY 2013-14 STD	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	29,027	7,779	18,918	0	2,330	7,779
Corrections	600,711	581,114	19,597	0	0	581,114
Education	67,931	22,322	7,409	7,722	30,478	22,322
Governor's Office	140,886	7,679	6,091	120,491	6,625	7,679
Health Care Policy and Financing	40,120	13,650	2,813	798	22,859	13,650
Higher Education - Admin & Hist	18,880	0	12,934	3,340	2,606	0
Human Services	399,699	246,327	9,328	81,403	62,641	276,767
Judicial	371,666	301,799	69,867	0	0	301,799
Labor and Employment	105,529	0	49,206	0	56,323	0
Law	57,762	14,626	5,966	34,828	2,342	14,626
Local affairs	18,334	4,783	2,923	7,062	3,566	4,783
Military and Vetean Affairs	13,181	4,546	139	0	8,496	4,546
Natural Resources	176,734	30,041	116,019	5,731	24,943	30,041
Personnel and Administration	38,094	13,007	2,853	22,234	0	13,007
Public Health and Environment	158,496	12,199	53,812	15,413	77,072	14,117
Public Safety	202,850	41,533	137,555	9,567	14,195	41,533
Regulatory Agencies	67,420	2,264	60,783	3,778	595	2,264
Revenue	124,153	52,815	71,338	0	0	52,815
State	15,275	0	15,275	0	0	0
Transportation	20,253	0	19,442	811	0	0
Treasury	3,618	2,273	1,345	0	0	2,273
SUBTOTAL	**2,670,619**	**1,358,757**	**683,613**	**313,178**	**315,071**	**1,391,115**

Increase from FY 2012-13	TOTAL	General Fund	Cash Funds	Reappropriated	Federal Funds	Net GF
Agriculture	5,631	2,392	2,611	0	628	2,392
Corrections	64,851	60,755	4,096	0	0	60,755
Education	16,877	2,609	1,623	2,485	10,160	2,609
Governor's Office	21,745	(2,309)	1,916	20,595	1,543	(2,309)
Health Care Policy and Financing	6,623	1,316	310	(511)	5,508	1,316
Higher Education - Admin & Hist	4,760	0	3,124	833	803	0
Human Services	37,791	28,458	2,726	21	6,586	20,220
Judicial	(51,230)	(59,532)	8,302	0	0	(59,532)
Labor and Employment	2,199	0	6,884	0	(4,685)	0
Law	8,566	1,618	1,509	4,701	738	1,618
Local affairs	5,434	1,099	406	2,130	1,799	1,099
Military and Vetean Affairs	1,757	548	13	0	1,196	548
Natural Resources	21,241	3,900	13,976	237	3,128	3,900
Personnel and Administration	4,509	777	534	3,198	0	777
Public Health and Environment	87,814	1,596	8,201	945	77,072	1,596
Public Safety	39,643	12,413	23,426	(2,747)	6,551	12,413
Regulatory Agencies	12,784	347	11,892	346	199	347
Revenue	7,573	2,737	4,836	0	0	2,737
State	1,475	0	1,475	0	0	0
Transportation	137	0	148	(11)	0	0
Treasury	393	275	118	0	0	275
SUBTOTAL	**300,573**	**58,999**	**98,126**	**32,222**	**111,226**	**50,761**

Appendix B: FTE Report by the Department of Personnel and Administration

Actual Calculated State FTE for FY 2011-12 as of June 30, 2012

	Calculation to Identify Defined State FTE								Categories for Total Defined State FTE						Includes Permanent and Temporary Staff as of June 30, 2012			From June, 2012
	CPPS		Non-FTE Defined Codes					Total State FTE	Total State FTE				Total State FTE					
	Hours in FY 12:	2088																
	Final CPPS Burned Hours	Total FTE @ no. hours/yr.	State Temps	Payouts	Overtime	Other	Sub-total Non-FTE Defined Codes	Total Defined State FTE	Actual FTE Associated with JBC Non-Appropriated Funding	Actual FTE Associated with JBC Appropriated Funding	Long Bill + Special Bills FTE Allocation	Difference (Positive = Under Allocation)	Classified	Non Classified	Head Count	Full Time Head Count	Part time Head Count	Paychecks
Governor's Authority																		
Agriculture	**691,272.1**	331.1	56.7	0.2	7.5	3.7	**68.0**	**263.0**	7.5	255.5	284.1	28.6	262.0	1.0	501	265	236	449
Corrections	**13,291,377.3**	6,365.6	2.7	17.1	25.3	0.8	**45.9**	**6,319.7**	0.0	6,319.7	6,220.6	(99.1)	6,318.7	1.0	6,107	6,070	37	6,211
Education	**1,249,703.7**	598.5	40.2	4.3	0.2	0.0	**44.7**	**553.8**	33.7	520.1	545.9	25.8	194.9	358.9	775	585	190	779
Governor's Office	**2,113,980.3**	1,012.4	7.4	9.1	0.1	0.0	**16.6**	**995.9**	54.1	941.8	951.5	9.7	792.1	203.8	1,026	992	34	1,042
Health Care Policy and Financing	**699,947.0**	335.2	15.3	0.9	0.0	0.0	**16.1**	**319.1**	25.7	293.4	312.5	19.1	318.1	1.0	363	357	6	365
Higher Education	**411,256.4**	197.0	1.2	1.9	0.1	0.1	**3.3**	**193.6**	44.0	149.6	166.1	16.5	122.3	69.0	235	209	26	212
Human Services	**10,288,922.0**	4,927.6	59.0	28.9	58.4	15.5	**161.9**	**4,765.7**	22.1	4,743.6	4,849.6	106.0	4,764.7	1.0	4,308	4,000	308	5,014
Labor and Employment	**2,252,487.1**	1,078.8	14.1	7.7	8.6	(0.2)	**30.2**	**1,048.6**	0.0	1,048.6	1,046.8	(1.8)	1,047.6	1.0	985	821	164	1,130
Local Affairs	**358,190.6**	171.5	0.0	0.9	0.0	0.0	**0.9**	**170.6**	1.3	169.4	191.1	21.7	159.6	11.0	152	151	1	183
Military and Veterans Affairs	**310,031.0**	148.5	1.3	0.2	0.3	4.2	**6.0**	**142.5**	2.0	140.5	145.8	5.3	141.5	1.0	153	148	5	383
Natural Resources	**3,994,606.3**	1,913.1	494.3	6.4	4.6	10.2	**515.5**	**1,397.6**	12.2	1,385.4	1,466.1	80.7	1,388.6	9.0	2,488	1,416	1,072	2,493
Personnel and Administration	**798,189.8**	382.3	1.7	2.7	3.5	22.2	**30.2**	**352.1**	0.0	352.1	394.3	42.2	351.1	1.0	366	348	18	366
Public Health and Environment	**2,661,110.5**	1,274.5	24.2	6.2	2.9	8.7	**41.9**	**1,232.5**	27.3	1,205.2	1,284.9	79.7	1,231.5	1.0	1,330	1,217	113	1,332
Public Safety	**2,927,473.2**	1,402.0	2.8	8.0	45.3	16.3	**72.4**	**1,329.6**	45.1	1,284.5	1,363.2	78.7	1,328.6	1.0	1,368	1,325	43	1,365
Regulatory Agencies	**1,146,496.3**	549.1	2.7	2.5	0.2	0.0	**5.4**	**543.7**	8.3	535.4	593.4	58.0	538.7	5.0	555	550	5	562
Revenue	**2,976,443.6**	1,425.5	30.0	10.0	5.5	57.0	**102.5**	**1,323.0**	0.0	1,323.0	1,370.3	47.3	1,322.0	1.0	1,260	1,209	51	1,382
Transportation	**7,451,792.2**	3,568.9	93.4	9.1	130.7	383.0	**616.2**	**2,952.7**	2,794.0	158.7	178.3	19.6	2,951.7	1.0	3,084	2,950	134	3,084
TOTAL	**53,623,279.3**	25,681.6	847.0	116.0	293.2	521.6	**1,777.8**	**23,903.8**	3,077.2	20,826.5	21,364.5	538.0	23,233.7	667.7	25,056	22,613	2,443	26,352
Non-Governor's Authority Agencies																		
Judicial	**8,464,544.9**	4,051.5	9.6	23.8	3.8	0.0	**37.2**	**4,014.3**	7.5	4,006.8	4,178.5	171.7	0.0	4,014.3	4,689	4,027	662	4,356
Law	**867,139.5**	415.3	11.4	1.9	0.3	0.0	**13.6**	**401.7**	2.5	399.2	419.0	19.8	161.4	240.3	432	413	19	445
Legislature							**0.0**	**0.0**			271.0							
State	**248,923.2**	119.2	1.0	0.9	0.0	0.1	**2.1**	**117.1**	0.0	117.1	129.0	11.9	117.1	0.0	129	124	5	119
Treasury	**52,809.6**	25.3	1.0	0.1	0.0	0.0	**1.2**	**24.1**	0.0	24.1	31.5	7.4	22.1	2.0	29	26	3	29
TOTAL	**9,633,417.3**	4,611.3	23.1	26.7	4.1	0.1	**54.0**	**4,557.3**	10.0	4,547.2	5,029.0	210.8	300.6	4,256.6	5,279	4,590	689	4,949
Grand Total, Executive and Non	**63,256,696.6**	30,292.9	870.1	142.7	297.3	521.8	**1,831.9**	**28,461.1**	3,087.2	25,373.7	26,393.5	748.8	23,534.3	4,924.3	30,335	27,203	3,132	31,301
Institutions of Higher Education*																		
Adams State University							**0.0**	**434.0**			294.7				544	379	165	860
Colorado Mesa University							**0.0**	**618.4**			534.5				825	515	310	871
Colorado School of Mines							**0.0**	**847.4**			766.6				968	787	181	1,723
Fort Lewis College							**0.0**	**514.0**			417.8				618	462	156	688
Metro State University							**0.0**	**1,228.8**			1,299.0				1,824	931	893	1,677
University of Northern Colorado							**0.0**	**1,392.7**			1,003.1				1,568	1,305	263	2,196
Western State Colorado University							**0.0**	**285.3**			231.9				320	268	52	519
Colorado State University System							**0.0**	**6,746.9**			4,037.8				8,987	5,626	3,361	12,984
Universty of Colorado System							**0.0**	**14,669.2**			6,797.7				16,860	13,573	3,287	24,282
Colorado Community College System							**0.0**	**4,578.3**			5,736.6				7,259	3,237	4,022	9,107
TOTAL**							**0.0**	**31,315.1**			**21,119.7**				**39,773**	**27,083**	**12,690**	**54,907**
Grand Total, All								**59,776.2**			**47,513.2**				**70,108**	**54,286**	**15,822**	**86,208**

*The numbers reported for Institutions of Higher Education cover FY 2010-11, all other Departments are reporting information for FY 2011-12

** The Total Defined State FTE for Institutions of Higher Education is calculated by multiplying the Part Time Head Count by approximately 0.33 and adding the result to the full Time Head Count