JOINT
BUDGET
COMMITTEE

STAFF BUDGET BRIEFING
FY 2017-18

DEPARTMENT OF PERSONNEL
and
STATEWIDE COMPENSATION COMMON POLICIES

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

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DEPARTMENT OF PERSONNEL

DEPARTMENT OVERVIEW

The Department generally provides centralized human resources and administrative support functions and centralized business services for state agencies.

The **Executive Director's Office** includes the Office of the State Architect, the Colorado State Archives, and the Colorado State Employee Assistance Program (C-SEAP).

The **State Personnel Board**, located in the Department but constitutionally independent, oversees the State Personnel System pursuant to Article XII, Sections 13, 14, and 15 of the Colorado Constitution.

The **Division of Human Resources** establishes statewide human resource programs and systems to meet constitutional and statutory requirements and provides support services to state agency human resource offices.

Risk Management in the Division of Human Resources administers the state's coverage for workers' compensation, property, and liability insurance.

The **Division of Central Services'** purpose is to realize efficiencies for the state through consolidated common business services including Integrated Document Solutions, Fleet Management, and Capitol Complex – Facilities Maintenance.

Integrated Document Solutions provides document- and data-related support services, including print and design, mail operations, digital imaging, data entry, and manual forms and document processing.

Fleet Management provides oversight for all vehicles in the state fleet including managing vehicle purchasing and reassignment; fuel, maintenance, repair, and collision management; auction and salvage; and operation of the State Motor Pool.

The **Office of the State Controller** in the Division of Accounts and Control oversees state fiscal rules and maintains the state's financial records through the Colorado Operations Resource Engine (CORE), the state's accounting system, administered through **CORE Operations**.

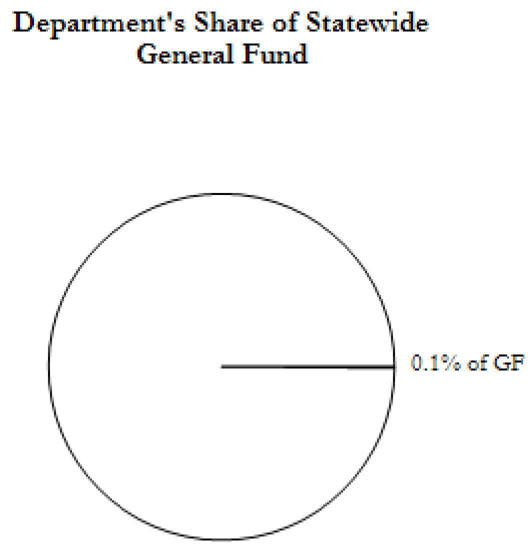
The **Office of Administrative Courts** provides a centralized, independent administrative law adjudication system, including hearing cases for workers' compensation, public benefits, professional licensing, and Fair Campaign Practices Act complaints filed with the Secretary of State.

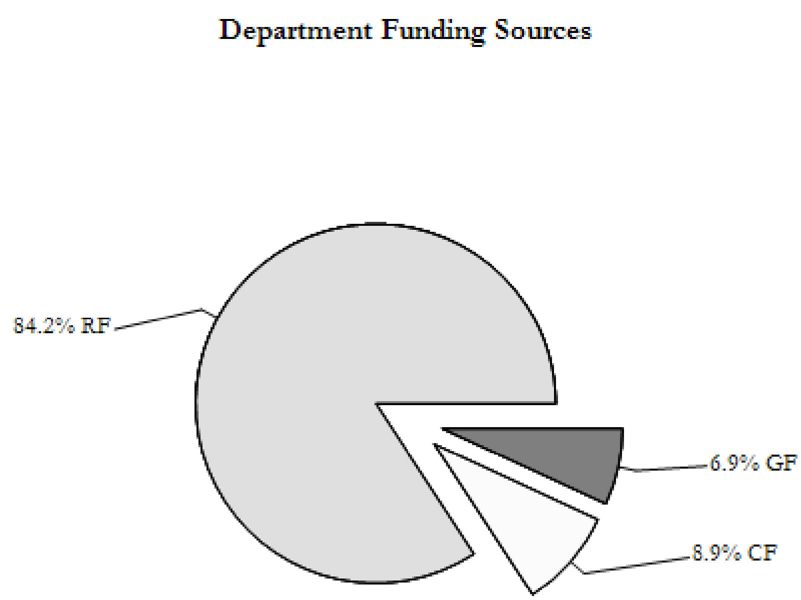
DEPARTMENT BUDGET: RECENT APPROPRIATIONS

Funding Source	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18 *
General Fund	$7,130,338	$11,817,618	$13,145,504	$11,065,029
Cash Funds	14,873,826	14,293,652	16,928,150	13,090,439
Reappropriated Funds	153,203,279	163,651,651	160,138,857	169,626,398
Federal Funds	0	0	0	0
TOTAL FUNDS	**$175,207,443**	**$189,762,921**	**$190,212,511**	**$193,781,866**
Full Time Equiv. Staff	393.1	410.1	421.5	422.3

*Requested appropriation.

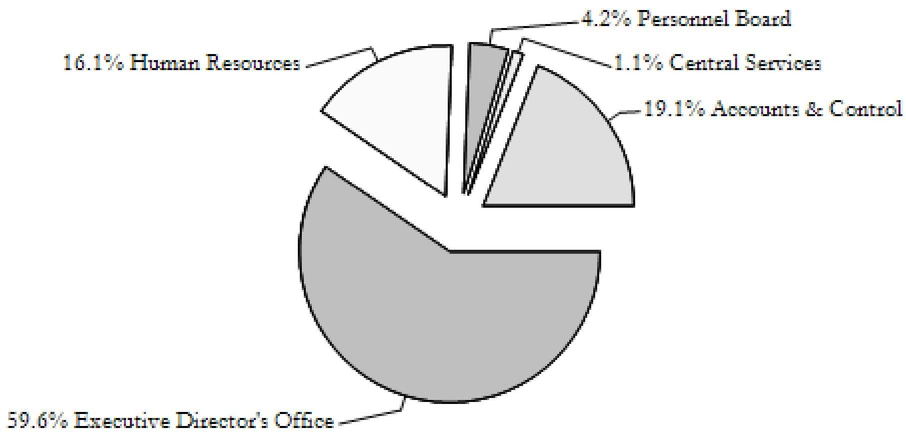
DEPARTMENT BUDGET: GRAPHIC OVERVIEW



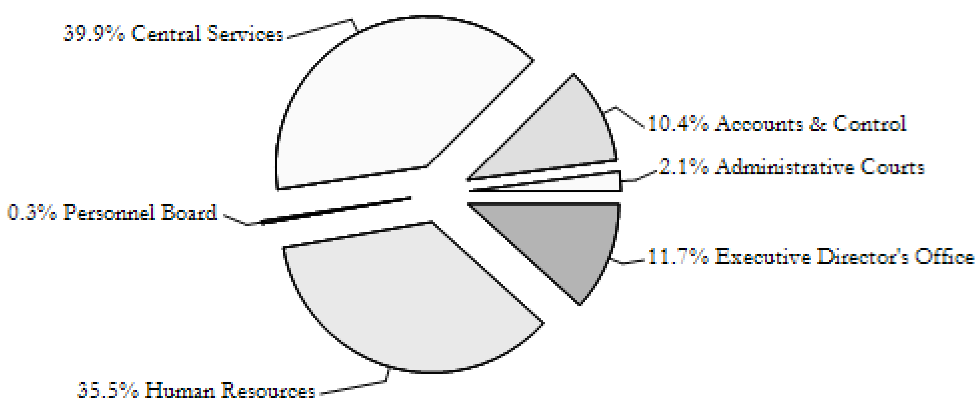


All charts are based on the FY 2016-17 appropriation.

Distribution of General Fund by Division



Distribution of Total Funds by Division



All charts are based on the FY 2016-17 appropriation.

GENERAL FACTORS DRIVING THE BUDGET

The Department's FY 2017-18 budget request consists of 5.7 percent General Fund, 6.8 percent cash funds, and 87.5 percent reappropriated funds. The primary source of reappropriated funds is user fees transferred from other agencies for the provision of statewide services. Some of the major factors driving the Department's budget are discussed below.

NUMBER OF STATE EMPLOYEES

The Department administers the state's programs related to employee compensation and benefits. Statewide expenditures for these programs are driven by the number of employees, the percentage of employees who choose to participate in optional benefit plans, and the Department's contracts with the benefit providers. The following table shows the number of FTE appropriated statewide, excluding employees in the Department of Higher Education.

State Employees[1] - FTE Reflected in Appropriations										
	FY07-08	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17
Total FTE	30,211.0	31,142.5	31,070.5	31,466.9	30,657.3	30,559.8	30,787.2	31,480.9	31,878.2	32,174.8
Percent Change		3.1%	(0.2%)	1.3%	(2.6%)	(0.3%)	0.7%	2.3%	1.3%	1.3%
Average FTE Percentage Change										0.76%
Colorado Population Average Growth - 2006-2015 (10 years)[2]										1.56%

[1] Excludes Department of Higher Education
[2] Data from the State Demography Office

The Department's Executive Director serves as the State Personnel Director, and pursuant to Section 24-50-104 (4) (c), C.R.S., submits to the Governor and the Joint Budget Committee, annual recommendations and estimated costs for salaries and group benefit plans for state employees.

RISK MANAGEMENT

The state's Risk Management Program provides insurance coverage to departments and state agencies for workers' compensation and property and liability insurance. The state is self-insured for workers' compensation and liability and purchases property insurance from a commercial insurer. Appropriations and allocations to state agencies for risk management coverage are calculated using actuarially-determined prospective claims losses. The larger higher education institutions administer their own risk management programs, and for those programs, funds are not included in the following table.

Statewide Risk Management Services - Premiums and Administrative Expenses					
	FY12-13 Actual	FY13-14 Actual	FY14-15 Actual	FY15-16 Actual	FY16-17 Approp.
Workers' Comp. Claims and Excess Policy	$40,447,902	$32,783,361	$32,874,194	$31,187,469	$36,100,175
Property Policies and Deductibles and Payouts	7,668,912	7,618,195	15,306,364	10,675,326	7,779,922
Liability Claims and Excess Policy	5,404,465	4,040,406	6,877,063	4,571,238	7,362,548
SUBTOTAL Claims, Premiums, and Deductibles	**$53,521,279**	**$44,441,962**	**$55,057,621**	**$46,434,033**	**$51,242,645**
Claims, Premiums, and Deductibles percentage	94.6%	83.9%	85.2%	83.2%	83.1%
Workers' Comp. Legal Services	n/a	$2,231,183	$2,235,456	2,269,200	$2,452,571
Liability Legal Services	2,276,115	3,105,358	3,426,764	3,370,249	3,985,654

Statewide Risk Management Services - Premiums and Administrative Expenses	FY12-13 Actual	FY13-14 Actual	FY14-15 Actual	FY15-16 Actual	FY16-17 Approp.
SUBTOTAL Legal Services	**$2,276,115**	**$5,336,541**	**$5,662,220**	**5,639,449**	**$6,438,225**
Legal Services percentage	4.0%	10.1%	8.8%	10.1%	10.4%
Risk Management Admin. Expense and TPA Fees[1]	$777,763	$3,216,405	$3,887,040	3,725,048	$4,019,021
Administrative Expense Percentage	1.4%	6.7%	6.6%	7.4%	6.5%
TOTAL Risk Management	**$56,575,157**	**$52,994,908**	**$64,606,881**	**$55,798,530**	**$61,699,891**
Change in Risk Management Expenses	14.5%	(6.3%)	21.9%	(13.6%)	n/a
FY12-13 - FY15-16 Appropriations	$59,928,651	$58,473,182	$60,348,176	59,185,915	n/a
Reversion/(Overexpenditure)	$3,353,494	$5,478,274	($4,258,705)	$3,387,385	n/a

[1] Third party administrator or TPA Fees are fees paid to Broadspire, the State's third party administrator for the workers' compensation program.

STATE FLEET PROGRAM

Pursuant to Section 24-30-1104 (2) (a), C.R.S., the Division of Central Services administers the state's fleet management program, which purchases vehicles, manages maintenance and repairs, manages the fleet, auctions older vehicles, and manages the state motor pool.

Fleet Management Program	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Total Fleet Program Appropriation	$42,101,025	$43,602,451	$42,834,398	$44,845,691	$46,180,744	$44,263,947	$39,564,702
Total Fleet Program Actual Expenditure	36,669,122	39,194,682	38,778,051	40,427,656	38,200,135	36,555,881	n/a
Fleet Vehicles	5,903	5,912	5,918	5,938	5,956	5,975	6,003
Change in Number of Vehicles	1.5%	0.2%	0.1%	0.3%	0.3%	0.3%	0.5%
Replacement Vehicles Approved	175	285	585	635	695	634	573
Replacement Percentage of Total Vehicles	3.0%	4.8%	9.9%	10.7%	11.7%	10.6%	9.6%
Annual Cost per Vehicle	$6,212	$6,630	$6,553	$6,808	$6,414	$6,118	n/a
Monthly Cost per Vehicle	$518	$552	$546	$567	$534	$510	n/a
Change in Cost per Vehicle	12.8%	6.7%	(1.2%)	3.9%	(5.8%)	(4.6%)	n/a

Vehicle costs include variable and fixed expenses. Variable costs are billed at a rate per mile based on department and vehicle type and are typically paid from operating expenses line items. Variable costs include insurance, fuel, maintenance, and repairs. Fixed costs include the vehicle lease payments and the Department's vehicle management fee and are included in each department's *Vehicle Lease Payments* line item. The Department acquires lease-purchase financing for replacement vehicles and additional vehicles approved in budget requests. Leases vary between 72 and 120 months, with the exception of State Patrol vehicles which are leased for 48 months.

SUMMARY: FY 2016-17 APPROPRIATION & FY 2017-18 REQUEST

DEPARTMENT OF PERSONNEL	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FTE
FY 2016-17 APPROPRIATION:					
HB 16-1405 (Long Bill)	189,285,533	13,145,504	16,006,122	160,133,907	421.0
Other Legislation	926,978	0	922,028	4,950	0.5
TOTAL	**$190,212,511**	**$13,145,504**	**$16,928,150**	**$160,138,857**	**421.5**
FY 2017-18 APPROPRIATION:					
FY 2016-17 Appropriation	$190,212,511	13,145,504	$16,928,150	$160,138,857	421.5
R1 Administrative Courts Electronic Case Management System	54,429	0	0	54,429	0.0
R2 Annual Fleet Vehicle Request	2,859,694	0	0	2,859,694	0.0
NP1 Resources for Administrative Courts	109	0	109	0	0.0
NP2 Annual Fleet Vehicle Request	164,407	0	0	164,407	0.0
NP3 Secure Colorado	43,260	11,550	4,110	27,600	0.0
NP4 Deskside Staffing	17,300	4,620	1,644	11,036	0.0
NP5-8 New Vehicle NP Requests	40,679	0	0	40,679	0.0
Statewide Indirect Cost Assessment Adjustment	1,795,729	0	228,590	1,567,139	0.0
CORE Operations Base Adjustments	6,720	0	(2,898,884)	2,905,604	0.0
Other	259	0	0	259	0.0
Fund Source Adjustment	0	(2,137,784)	(15,651)	2,153,435	0.0
Annualize Prior Year Legislation	(701,079)	69,371	(799,076)	28,626	0.8
Centrally Appropriated Line Items	(307,669)	56,768	(358,553)	(5,884)	0.0
Capitol Complex Base Adjustments	(235,694)	0	0	(235,694)	0.0
Risk Management Base Adjustments	(126,482)	0	0	(126,482)	0.0
Annualize Prior Year Budget Actions	(42,307)	(85,000)	0	42,693	0.0
TOTAL	**$193,781,866**	**$11,065,029**	**$13,090,439**	**$169,626,398**	**422.3**
INCREASE/(DECREASE)	$3,569,355	($2,080,475)	($3,837,711)	$9,487,541	0.8
Percentage Change	1.9%	(15.8%)	(22.7%)	5.9%	0.2%

R1 ADMINISTRATIVE COURTS ELECTRONIC CASE MANAGEMENT SYSTEM: The request includes a $54,429 increase in reappropriated funds in FY 2017-18, annualizing to $16,429 after that. The request pays only for licensing costs of an online, electronic case management system (E-CAM) already developed by OIT for the Colorado Civil Rights Division. The additional development and implementation of the E-CAM system for Administrative Courts will be absorbed by OIT. As a statewide central service provided to state agencies, total state agency appropriations for Administrative Law Judge Services would increase by like amounts, equivalent to a 1.0 percent increase in FY 2017-18 and a 0.3 percent increase in out years. The General Fund impact in FY 2017-18 will total $6,434 and $1,942 in out years based on current state agency utilization.

R2 ANNUAL FLEET VEHICLE REQUEST: The request includes a $2.9 million increase in reappropriated funds for the Vehicle Replacement Lease/Purchase line item for the Fleet Management Program. The request is to replace 824 fleet vehicles statewide, including 408 designated as potential compressed natural gas (CNG) vehicles. The request includes a $1.3 million increase in state agency appropriations for Vehicle Lease Payments line items, that includes a

$136,712 decrease in General Fund. The anticipated 2018 lease-purchase contract totals $1.1 million in FY 2017-18, annualizing to $5.5 million in FY 2018-19 and remaining out years for the contract. Excluding decrease adjustments in prior year lease-purchase contracts for vehicles taken out of service, state agency Vehicle Lease Payments will increase by the difference ($4.5 million) in FY 2018-19 for the planned vehicle replacement purchases in this request; the request does not identify the General Fund impact in out years related to that annualization. However, the Department projects $2.4 million in maintenance and fuel savings related to the request.

NP1 Resources for Administrative Courts: The request includes the Department's share of the adjustment for the Administrative Courts request.

NP2 Annual Fleet Vehicle Request: The request includes the Department's share of annual fleet vehicle replacement adjustments.

NP3 Secure Colorado: The request seeks an increase of $43,260 total funds, including $11,550 General Fund, to cover the Department's share of the OIT request.

NP4 Deskside Staffing: The request seeks an increase of $17,300 total funds, including $4,620 General Fund, to cover the Department's share of the OIT request.

NP5-8 New Vehicle NP Requests: The requests include a $40,679 increase in reappropriated funds spending authority for the Vehicle Replacement Lease/Purchase line item for 22 vehicles in FY 2017-18 and an additional four vehicles in FY 2018-19, for new vehicle requests from the Office of the State Public Defender in Judicial (4), the Department of Revenue (3), the Department of Public Safety (11 in FY 2017-18 plus 4 in FY 2018-19), and the Department of Law (4).

Statewide Indirect Cost Assessment Adjustment: The request includes a net increase of $1.8 million cash and reappropriated funds for adjustments to departmental indirect cost assessments included in the Statewide Indirect Cost Plan.

CORE Operations Base Adjustments: The request includes a $6,720 increase in reappropriated funds for CORE Operations base adjustments for the Payments for CORE and Support Modules line item. This adjustment includes a $2.9 million refinance of fund source from the Supplier Database Cash Fund (cash funds) to state agency user fees (reappropriated funds).

Other: The request includes a base adjustment for a leased space contract escalator for Administrative Courts of $259 reappropriated funds.

Fund Source Adjustment: The request includes a decrease of $2.1 million General Fund and $16,000 cash funds offset by an increase in reappropriated funds related to increased funding available from statewide indirect cost recoveries and other cash funds refinancing.

Annualize Prior Year Legislation: The request includes a net decrease of $701,079 total funds, including an increase of $69,371 General Fund, for adjustments related to prior year legislation as outlined in the following table.

Annualize Prior Year Legislation					
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	FTE
Annualize SB13-276 Disability Investigational and Pilot Support Procurement	$82,000	$0	$82,000	$0	0.0
Annualize HB13-1286 Suspend Recovery Audits	58,777	58,777	0	0	0.8
Annualize HB16-1467 First-time Home Buyer	21,276	0	0	21,276	0.0
Annualize SB15-270 Create the Office of the State Architect	6,193	6,193	0	0	0.0
Annualize SB16-040 MJ Owner Changes	4,950	0	0	4,950	0.0
Annualize SB16-120 Review by Medicaid Client	4,401	4,401	0	0	0.0
Annualize HB16-1194 Income Tax Deduct	2,400	0	0	2,400	0.0
Annualize HB16-1408 Cash Fund Allocations	(879,745)	0	(879,745)	0	0.0
Annualize HB16-1362 License Plate Auction Transfer	(1,331)	0	(1,331)	0	0.0
TOTAL	**($701,079)**	**69,371**	**($799,076)**	**$28,626**	**0.8**

Centrally Appropriated Line Items: The request includes adjustments to centrally appropriated line items for the following: state contributions for health, life, and dental benefits; merit pay; salary survey; short-term disability; supplemental state contributions to the Public Employees' Retirement Association (PERA) pension fund; shift differential; workers' compensation; legal services; administrative law judges; payment to risk management and property funds; Capitol complex leased space; and payments to OIT.

Capitol Complex Base Adjustments: The request includes a $235,694 decrease in reappropriated funds spending authority for a Capitol Complex base adjustment for utilities.

Risk Management Base Adjustments: The request includes a net decrease of $126,482 reappropriated funds for risk management base adjustments. In order of dollar amount by increase and then decrease, adjustments determined by the State's actuary include:

- a 14.3 percent increase of $571,000 for liability legal services;
- a 1.2 percent increase of $433,000 for workers' compensation claims;
- a 5.2 percent increase of $270,000 for property policies;
- a 4.1 percent increase of $14,000 for liability excess policy;
- a 21.7 percent decrease of $1.5 million for liability claims;
- a 2.9 percent decrease of $72,000 for workers' compensation legal services; and
- an 8.4 percent decrease of $69,000 for workers' compensation excess policy.

Annualize Prior Year Budget Actions: The request includes a net decrease of $42,307 total funds, including a decrease of $85,000 General Fund, for adjustments related to prior year budget actions as outlined in the following table.

Annualize Prior Year Budget Actions				
	Total Funds	General Fund	Reappropriated Funds	FTE
Annualize FY13-14 CP2 Employee Engagement Survey	$215,000	$215,000	$0	0.0

Annualize Prior Year Budget Actions				
	Total Funds	General Fund	Reappropriated Funds	FTE
Annualize FY16-17 BANP5 CBMS 1095-B Client	59,844	0	59,844	0.0
Annualize FY16-17 NP3 West Slope Asset Mgt	3,864	0	3,864	0.0
Annualize FY16-17 R1 OAC Resources	2,175	0	2,175	0.0
Annualize FY16-17 BANP3 Income Tax Refund	325	0	325	0.0
Annualize FY14-15 R1 Total Comp Vendor	(300,000)	(300,000)	0	0.0
Annualize FY16-17 R1 OAC Resources	(23,515)	0	(23,515)	0.0
TOTAL	**($42,307)**	**(85,000)**	**$42,693**	**0.0**

ISSUE 1: TOTAL COMPENSATION REQUEST OVERVIEW

The FY 2017-18 total compensation request includes a 2.5 percent across-the-board (ATB) increase and no merit pay increase for state employees. The Governor's Office of State Planning and Budgeting (OSPB) estimates the ATB will total $48.8 million total funds, including $26.2 million General Fund. The executive request also includes a request for legislation to transfer the balance of the State Employee Reserve Fund (SERF), created to fund state employee merit pay, and estimated at $46.9 million at the end of FY 2015-16, to the General Fund for general balancing needs.

SUMMARY:

- The FY 2017-18 total compensation request, including base salary, is estimated at $2.34 billion total funds, an increase of $105.9 million over the FY 2016-17 appropriation, which represents a 4.7 percent increase in total compensation.

- Base salary is estimated at $1.67 billion total funds, an increase of $25.5 million or 1.6 percent over the FY 2016-17 total. The base salary increase represents 24.1 percent of the total increase.

- Statutory amortization payments for PERA's unfunded liabilities, AED and SAED, increase by $13.5 million total funds, representing an 8.7 percent increase over FY 2016-17. The AED and SAED increases represent 12.8 percent of the total increase.

- All Salary Survey adjustments submitted in budget requests total $52.8 million, representing a 2.8 percent increase relative to the FY 2017-18 salary base on which it is calculated. The increase in Salary Survey over the FY 2016-17 appropriation represents 41.7 percent of the total increase.

- The Health, Life, and Dental request increases $21.4 million or 9.9 percent over the FY 2016-17 appropriation. The increase includes a projected increase of 7.5 percent for health premiums and 3.0 percent for dental premiums. The Health, Life, and Dental increase represents 20.3 percent of the total increase.

- The total compensation report from the State Personnel Director reports that state employee pay is 2.4 percent below the market, including salaries at 5.7 percent below and benefits at 7.4 percent above.

- The report projects predominantly merit-based salary increases of three percent in the market over the next year and suggests that the State should consider merit pay adjustments accordingly.

DISCUSSION:

Prevailing Compensation Policy

Section 24-50-104 (1) (a) (I), C.R.S., provides the statutory intent of total compensation philosophy:

> *(1)* ***Total compensation philosophy.*** *(a) (I) 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, merit pay, incentives, premium pay practices, and leave. ...*

Sections 24-50-104 (4) (a) and (b) (I), C.R.S., specify the annual compensation process as follows:

> *(4)* ***Annual compensation process.*** *(a) The purpose of the annual compensation process is to determine any necessary adjustments to state employee salaries, state contributions for group benefit plans, and merit pay. ...*
>
> *(b) (I) The state personnel director shall prepare an annual compensation report based on the analysis of surveys conducted pursuant to paragraph (a) of this subsection (4). The purpose of the annual compensation report shall be to reflect all adjustments necessary to maintain the salary structure, state contributions for group benefit plans, and merit pay for the upcoming fiscal year. ...*

In the budget, total compensation refers to employee salary and benefit costs, specific to the employees in each department. Total compensation common policies are funded through a group of centrally appropriated line items generally found in a department's Executive Director's Office (EDO)

The annual budget request for total compensation is driven by employee salaries, benefit elections, requested policy changes, and statutory contributions for amortization payments to catch up PERA's unfunded liability. The centrally appropriated line items that make up the total compensation common policies include: Salary Survey, Merit Pay, Shift Differential, Amortization Equalization Disbursement (AED), Supplemental Amortization Equalization Disbursement (SAED), Short-term Disability (STD), and Health, Life, and Dental (HLD).

Compensation line items are known as POTS, although the term is not an acronym. Final, budgeted POTS appropriations are generated through the total compensation templates built on the prior July's actual payroll data plus known and anticipated adjustments, and as based on Committee decisions for each compensation policy. However, because POTS are centrally appropriated, allocations from these line items are distributed to department divisions and programs as determined by the EDO. This approach simplifies the appropriations process and provides flexibility to departments to make adjustments as necessary to accommodate actual POTS needs across a department. However, JBC staff are unable to determine through current budget schedules whether POTS appropriations are distributed and spent at the division and program level as guided by the total compensation templates. While staff is not ready to propose a change to this process, and has not identified a definite problem, the lack of transparency for POTS appropriations in current budget schedules is a concern.

The Total Compensation Report from the State Personnel Director

The FY 2017-18 Annual Compensation Report from the Executive Director of the Department of Personnel identifies that base pay accounts for 76 percent and benefits account for 24 percent of the total compensation package, with the State at 2.4 percent below the prevailing market overall. Overall, base salary for state employees is 5.7 percent below market and the value of benefits is 7.4 percent above market. Individual employee pay is projected to increase by three percent in the market over the next year and to maintain alignment with the market, the State should consider merit pay adjustments. The letter recommends that range minimums and maximums for all occupational groups be increased by 2.2 percent. The letter identifies a projected increase of 7.3 percent in medical costs and 3.0 percent in dental costs that would require an increase in the State's contribution in order to maintain the prevailing contribution level.

The Governor's Request

The more discretionary aspects of the Governor's total compensation request include:

- A salary range adjustment of 2.2 percent for all occupational groups as recommended in the annual compensation report;

- A 2.5 percent across the board (ATB) salary survey increase for all state employees, including base building up to the range maximum; and

- A 7.0 percent salary increase for the State Patrol Trooper class and a 3.5 percent salary increase for the State Patrol Admin II class, based on the statutory requirement in Section 24-50-104, C.R.S.

Although not directly tied to the total compensation request, the Governor's request also includes a request for legislation to transfer the balance of the State Employee Reserve Fund (SERF), created to fund state employee merit pay, and estimated at $46.9 million at the end of FY 2015-16, to the General Fund for general balancing needs.

SUMMARY: FY 2016-17 APPROPRIATION & FY 2017-18 REQUEST

All Compensation Common Policies and Payroll Components					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2016-17 Appropriation					
Base Salary Estimate	$1,640,368,139	$910,926,894	$388,386,566	$182,763,788	$158,290,891
PERA	172,165,888	96,692,643	40,701,146	18,645,217	16,126,883
Medicare (FICA)	23,785,337	13,208,442	5,631,604	2,650,075	2,295,216
Shift Differential	14,862,373	12,026,641	752,552	2,036,643	46,537
Salary Survey	8,635,009	2,621,111	5,180,943	453,513	379,442
Merit Pay	0	0	0	0	0
Health, Life, Dental	217,602,840	126,086,426	49,085,624	23,180,161	19,250,629
Short-term Disability	2,983,473	1,629,261	714,531	345,070	294,610
AED	78,283,043	42,898,987	18,888,371	8,879,531	7,616,154
SAED	77,012,394	41,998,496	18,690,041	8,787,036	7,536,820
TOTAL	**$2,235,698,496**	**$1,248,088,903**	**$528,031,378**	**$247,741,033**	**$211,837,182**
FY 2017-18 Request					
Base Salary Estimate	$1,665,913,733	$922,187,911	$393,733,707	$186,819,001	$163,173,115
PERA	173,088,035	96,045,650	41,322,536	19,085,756	16,634,093
Medicare (FICA)	24,155,748	13,371,723	5,709,139	2,708,874	2,366,012
Shift Differential	14,602,611	11,929,213	668,875	1,948,155	56,368
Salary Survey	52,783,471	30,272,814	12,518,718	5,425,968	4,565,971
Merit Pay	0	0	0	0	0
Health, Life, Dental	239,085,699	138,589,017	54,128,678	25,077,466	21,290,539
Short-term Disability	3,085,218	1,679,014	737,245	360,142	308,817
AED	84,629,154	46,463,717	20,128,795	9,671,028	8,365,614
SAED	84,210,127	46,047,177	20,126,308	9,671,028	8,365,614
TOTAL	**$2,341,553,797**	**$1,306,586,236**	**$549,074,000**	**$260,767,418**	**$225,126,143**
Increase/(Decrease)	105,855,301	58,497,333	21,042,622	13,026,385	13,288,961
Percent Change	4.7%	4.7%	4.0%	5.3%	6.3%

<u>The FY 2017-18 Total Compensation Request</u>

The FY 2017-18 request is estimated at $2.34 billion total funds, an increase of $105.9 million over the FY 2016-17 appropriation, which represents a 4.7 percent increase in total compensation-related appropriations. The FY 2016-17 total compensation request includes the following elements:

- **Salary Survey:** The Salary Survey request includes:
  - A 2.5 percent ATB salary increase for all occupational groups;
  - A 7.0 percent increase for State Troopers and a 3.5 percent increase for the State Patrol Admin II class; and
  - A 2.2 percent salary range adjustment for all occupational groups.

  The Governor's request for Salary Survey totals $48.8 million total funds, including $26.2 million General Fund. JBC staff identifies a total salary survey request from all departments of $52.8 million total funds, including $30.3 million General Fund.

- **Merit Pay:** A Merit Pay increase is not requested.

- **Shift Differential:** Shift differential is requested at 100 percent of prior year actual expenditures. In FY 2017-18 shift differential decreases by $260,000; a 1.7 percent decrease from FY 2016-17.

- **AED:** Amortization Equalization Disbursement is set at a statutory rate of 5.0 percent in 2017 and future years. The AED increase is estimated to be $6.3 million total funds, including $3.6 million General Fund.

- **SAED:** Supplemental Amortization Equalization Disbursement is set at a statutory rate of 5.0 percent in 2017 and future years. The SAED increase is estimated to be $7.2 million total funds, including $4.0 million General Fund.

- **STD:** Short Term Disability is requested at 0.19 percent of revised base salaries. The STD adjustment is estimated to increase by $102,000 total funds, including $50,000 General Fund.

- **HLD:** Request amounts submitted for Health, Life, and Dental are based on employee health and dental election as of July 2016 and include a projected increase of 7.5 percent for health premiums and 3.0 percent for dental premiums. Final adjustments may be included in a budget amendment based on actuarial recommendations received in December. The base adjustment request reflects an increase of $21.5 million total funds, including $12.5 million General Fund.

Amortization Payments for PERA's Unfunded Liability

AED and SAED are calculated on total salary and located in compensation common policies. However, these payments were added to statute primarily for the purpose of making amortization payments to catch up PERA's unfunded liability. In certain instances, such as when an employee leaves state employment and withdraws the employee's PERA balance, payments made for SAED are credited to the employee rather than PERA generally, and are treated as individual income under federal tax and retirement plan rules. However, as a general rule, these payments might more accurately be described as legacy costs – the State's payments for past employee pension obligations that are not reflective of current employee compensation.

The July 2015, PERA retirement plan comparison study identified that employees hired after January 1, 2011, experience a "normal cost" of 8.82 percent. Normal cost is the annual cost for providing retirement benefits for a PERA member earned in the year. The employee contribution is set at 8.0 percent, suggesting that only 0.82 percent of the statutory 10.15 percent state contribution is provided for these employees' PERA benefits. An additional 1.02 percent is paid for the Health Care Trust Fund and 1.0 percent is credited to the Annual Increase Reserve (AIR) for funding future cost of living adjustments. The balance – 7.31 percent – of the state contribution is used to pay down the unfunded liability in addition to the 5.0 percent AED and 5.0 percent SAED payments calculated on these employees' base salary.

PERA's S.B. 10-001 report similarly identifies an estimated ultimate normal cost for members in the State Division of 9.77 percent. The report states: "PERA Tier 2 members *(membership dates on or after January 1, 2007)* have a less valuable benefit structure and are accruing benefits at a lower annual cost to the plan than the members under earlier membership tiers."

The concept of a group pension in which all members are considered to be in the pension "together" and therefore all members "share" in catching up the liability from legacy costs which preceded their participation in the pension is a particular approach to framing responsibility for addressing the liability. More importantly, the plan is required to operate within pension plan structure and agreements under federal rules, and state amortization payments were structured as tied to employee pay and not treated simply as debt payments for legacy costs at the time they were created.

As suggested in the December 2015, S.B. 10-001 Report from PERA, in 2016, less than 15 percent of total state contributions for PERA go to pay for the normal cost of retirement benefits for current state employees. AED and SAED payments represent just under half of total state contributions for PERA. Tier 2 members who join PERA after 2007, 2011, and 2017 will receive increasingly reduced benefits as compared to pre-Tier 2 members who preceded them, and therefore will not "share" in the benefits of the pension to the same extent as pre-Tier 2 members. For this reason, it is necessary and appropriate in the budget process for compensation, to separate and isolate the AED and SAED payments apart from total compensation, in order to more transparently identify changes in actual direct compensation components for current employees.

The following tables reflect direct compensation components and PERA amortization payments.

State Employee Direct Compensation

	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2016-17 Appropriation					
Salary, PERA, and Medicare	$1,836,319,365	$1,020,827,979	$434,719,316	$204,059,080	$176,712,990
Shift Differential	14,862,373	12,026,641	752,552	2,036,643	46,537
Salary Survey	8,635,009	2,621,111	5,180,943	453,513	379,442
Merit Pay	0	0	0	0	0
Health, Life, Dental	217,602,840	126,086,426	49,085,624	23,180,161	19,250,629
Short-term Disability	2,983,473	1,629,261	714,531	345,070	294,610
TOTAL	**$2,080,403,060**	**$1,163,191,420**	**$490,452,966**	**$230,074,466**	**$196,684,208**
FY 2017-18 Request					
Salary, PERA, and Medicare	$1,863,157,517	$1,031,605,284	$440,765,382	$208,613,631	$182,173,220
Shift Differential	14,602,611	11,929,213	668,875	1,948,155	56,368
Salary Survey	52,783,471	30,272,814	12,518,718	5,425,968	4,565,971
Merit Pay	0	0	0	0	0
Health, Life, Dental	239,085,699	138,589,017	54,128,678	25,077,466	21,290,539
Short-term Disability	3,085,218	1,679,014	737,245	360,142	308,817
TOTAL	**$2,172,714,517**	**$1,214,075,342**	**$508,818,898**	**$241,425,362**	**$208,394,915**
Increase/(Decrease)	92,311,457	50,883,923	18,365,931	11,350,896	11,710,707
Percent Change	4.4%	4.4%	3.7%	4.9%	6.0%

State employee direct compensation components are estimated at $2.17 billion total funds, an increase of $92.3 million over FY 2016-17, which represents a 4.4 percent increase.

PERA Amortization Payments

	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2016-17 Appropriation					
AED	$78,283,043	$42,898,987	$18,888,371	$8,879,531	$7,616,154
SAED	77,012,394	41,998,496	18,690,041	8,787,036	7,536,820

PERA Amortization Payments					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
TOTAL	**$155,295,436**	**$84,897,483**	**$37,578,412**	**$17,666,567**	**$15,152,974**
FY 2017-18 Request					
AED	$84,629,154	$46,463,717	$20,128,795	$9,671,028	$8,365,614
SAED	84,210,127	46,047,177	20,126,308	9,671,028	8,365,614
TOTAL	**$168,839,280**	**$92,510,894**	**$40,255,103**	**$19,342,056**	**$16,731,228**
Increase/(Decrease)	13,543,844	7,613,411	2,676,691	1,675,489	1,578,254
Percent Change	8.7%	9.0%	7.1%	9.5%	10.4%

Amortization payments for PERA's unfunded liability are estimated at $168.8 million total funds, an increase of $13.5 million over FY 2016-17, which represents an 8.7 percent increase.

Base Salary

The following table reflects the estimated increase in base salary.

Base Salary					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2016-17 Appropriation					
Base Salary	$1,640,368,139	$910,926,894	$388,386,566	$182,763,788	$158,290,891
FY 2017-18 Request					
Base Salary	$1,665,913,733	$922,187,911	$393,733,707	$186,819,001	$163,173,115
Increase/(Decrease)	25,545,594	11,261,017	5,347,141	4,055,213	4,882,224
Percent Change	1.6%	1.2%	1.4%	2.2%	3.1%

Base salary is estimated to have increased by $25.5 million or 1.6 percent over FY 2016-17.

Salary and Benefits

The following tables reflect the salary and benefit components in state employee compensation.

Salary					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2016-17 Appropriation					
Salary and Medicare	$1,664,153,476	$924,135,336	$394,018,170	$185,413,863	$160,586,107
Shift Differential	14,862,373	12,026,641	752,552	2,036,643	46,537
Salary Survey	8,635,009	2,621,111	5,180,943	453,513	379,442
Merit Pay	0	0	0	0	0
SUBTOTAL - Salary	**$1,687,650,859**	**$938,783,089**	**$399,951,665**	**$187,904,019**	**$161,012,086**
FY 2017-18 Request					
Salary and Medicare	$1,690,069,481	$935,559,634	$399,442,846	$189,527,875	$165,539,127
Shift Differential	14,602,611	11,929,213	668,875	1,948,155	56,368
Salary Survey	52,783,471	30,272,814	12,518,718	5,425,968	4,565,971
Merit Pay	0	0	0	0	0
SUBTOTAL - Salary	**$1,757,455,563**	**$977,761,661**	**$412,630,439**	**$196,901,998**	**$170,161,465**
Increase/(Decrease)	69,804,705	38,978,572	12,678,774	8,997,979	9,149,379
Percent Change	4.1%	4.2%	3.2%	4.8%	5.7%

Salary components are estimated at $1.76 billion total funds, an increase of $69.8 million over FY 2016-17, which represents a 4.1 percent increase.

Benefits					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2016-17 Appropriation					
PERA	$172,165,888	$96,692,643	$40,701,146	$18,645,217	$16,126,883
Health, Life, Dental	217,602,840	126,086,426	49,085,624	23,180,161	19,250,629
Short-term Disability	2,983,473	1,629,261	714,531	345,070	294,610
SUBTOTAL - Benefits	**$392,752,201**	**$224,408,331**	**$90,501,301**	**$42,170,448**	**$35,672,122**
FY 2017-18 Request					
PERA	$173,088,035	$96,045,650	$41,322,536	$19,085,756	$16,634,093
Health, Life, Dental	239,085,699	138,589,017	54,128,678	25,077,466	21,290,539
Short-term Disability	3,085,218	1,679,014	737,245	360,142	308,817
SUBTOTAL - Benefits	**$415,258,953**	**$236,313,681**	**$96,188,459**	**$44,523,364**	**$38,233,449**
Increase/(Decrease)	22,506,752	11,905,350	5,687,158	2,352,916	2,561,327
Percent Change	5.7%	5.3%	6.3%	5.6%	7.2%

State employee benefits are estimated at $415.3 million total funds, an increase of $22.5 million over FY 2016-17, which represents a 5.7 percent increase. The following table outlines Health, Life, and Dental, which represents a 9.9 percent increase over FY 2016-17.

Health, Life, and Dental					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2016-17 Appropriation					
Health, Life, Dental	$217,602,840	$126,086,426	$49,085,624	$23,180,161	$19,250,629
FY 2017-18 Request					
Health, Life, Dental	$239,085,699	$138,589,017	$54,128,678	$25,077,466	$21,290,539
Increase/(Decrease)	21,482,859	12,502,590	5,043,053	1,897,305	2,039,911
Percent Change	9.9%	9.9%	10.3%	8.2%	10.6%

Salary Survey

The Governor's request for Salary Survey totals $48.8 million total funds, including $26.2 million General Fund; however the request specifies that the information presented for non-executive branch agencies, including elected officials, contains only estimates. JBC staff identifies a total salary survey request from all departments of $52.8 million total funds, including $30.3 million General Fund.

The largest variance is for the Judicial Branch, which is estimated at $8.7 million total funds, including $8.2 million General Fund in the Governor's request, while Judicial's budget submission for Salary Survey totals $12.7 million, including $12.2 million General Fund. The $4.0 million variance accounts for the difference between the Governor's request and staff's figures. The JBC staff analyst for Judicial reports that $8.0 million of the total Salary Survey request represents the 2.5 percent ATB salary increase, while the balance includes other adjustments as submitted by Judicial.

The following tables outline the Salary Survey increase over the FY 2017-18 salary base on which it is calculated. The first table provides the statewide total, while the second isolates the Judicial request, and the third reflects all departments except Judicial.

Salary Survey percentage increase on FY 2017-18 Revised Base Salary – Statewide					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2017-18 Request					
Revised Base Salary	$1,877,760,128	$1,043,534,497	$441,434,257	$210,561,786	$182,229,588
Salary Survey	52,783,471	30,272,814	12,518,718	5,425,968	4,565,971
Percent Increase on Salary Base	2.8%	2.9%	2.8%	2.6%	2.5%

Salary Survey percentage increase on FY 2017-18 Base Salary - Judicial					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2017-18 Request					
Revised Base Salary	$332,587,191	$312,280,451	$20,306,740	$0	$0
Salary Survey	12,737,619	12,222,792	514,827	0	0
Percent Change	3.8%	3.9%	2.5%	n/a	n/a

Salary Survey percentage increase on FY 2017-18 Base Salary - Statewide excludng Judicial					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2017-18 Request					
Revised Base Salary	$1,545,172,937	$731,254,047	$421,127,517	$210,561,786	$182,229,588
Salary Survey	40,045,852	18,050,022	12,003,891	5,425,968	4,565,971
Percent Change	2.6%	2.5%	2.9%	2.6%	2.5%

As reflected in the tables, for all departments except Judicial, the salary survey is an increase of 2.6 percent total funds including 2.5 percent General Fund. In addition to the variance identified for Judicial, the 7.0 percent increase for State Patrol is reflected in the higher percent change in cash funds related to HUTF funding for those increases, which contributes to the 2.6 percent total funds increase.

<u>Total Compensation by Agency</u>

The following tables outline the FY 2017-18 total compensation request and percentage change by agency.

FY 2017-18 Total Compensation by Agency					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
Agriculture	$21,936,666	$6,454,445	$15,278,004	$0	$204,218
Corrections	465,355,787	452,722,697	12,633,089	0	0
Education	60,910,176	21,964,869	8,137,549	6,503,698	24,304,060
Governor	113,033,685	8,410,769	5,087,825	98,296,739	1,238,352
Health Care Policy and Financing	42,978,943	15,930,293	3,600,307	1,028,290	22,420,053
Higher Education - Admin & HistCO	16,849,230	448,381	9,524,200	3,265,393	3,611,256
Human Services	309,531,533	209,009,328	10,129,089	57,448,747	32,944,368
Judicial	413,353,056	388,235,611	25,117,445	0	0
Labor and Employment	106,355,549	6,049,230	38,086,173	783,260	61,436,886
Law	54,865,592	14,429,169	6,447,483	32,781,849	1,207,092
Legislature	33,762,373	33,762,373	0	0	0
Local affairs	16,508,067	3,580,547	2,189,294	7,251,129	3,487,097

FY 2017-18 Total Compensation by Agency					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
Military and Veterans Affairs	11,494,760	4,013,083	105,939	0	7,375,738
Natural Resources	146,160,159	24,138,842	114,047,650	3,963,668	4,009,999
Personnel	34,111,235	11,871,480	2,307,743	19,932,012	0
Public Health and Environment	133,880,662	16,134,698	46,428,680	14,937,525	56,379,760
Public Safety	177,642,791	41,550,593	118,790,321	11,008,151	6,293,726
Regulatory Agencies	49,915,713	1,864,871	44,915,872	2,921,433	213,538
Revenue	104,371,815	44,304,739	59,934,415	132,661	0
State	11,281,645	0	11,281,645	0	0
Transportation	14,460,749	0	13,947,885	512,864	0
Treasury	2,793,611	1,710,218	1,083,393	0	0
TOTAL	**$2,341,553,797**	**$1,306,586,236**	**$549,074,000**	**$260,767,418**	**$225,126,143**

FY 2017-18 Percent Change in Total Compensation by Agency					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
Agriculture	(4.7%)	(27.7%)	13.7%	n/a	(68.3%)
Corrections	2.5%	2.8%	(4.4%)	n/a	n/a
Education	7.3%	16.4%	(1.6%)	10.9%	2.3%
Governor	1.6%	3.9%	(17.5%)	3.1%	(22.7%)
Health Care Policy and Financing	8.3%	7.8%	7.1%	0.7%	9.1%
Higher Education - Admin & HistCO	(1.4%)	81.6%	(8.9%)	21.4%	(2.2%)
Human Services	4.4%	4.7%	38.9%	0.9%	0.5%
Judicial	6.1%	5.0%	25.4%	n/a	n/a
Labor and Employment	6.7%	28.3%	(2.5%)	11.4%	11.3%
Law	5.9%	3.6%	10.1%	6.7%	(6.7%)
Legislature	11.8%	11.8%	n/a	n/a	n/a
Local affairs	5.8%	22.4%	(11.6%)	7.1%	1.6%
Military and Veterans Affairs	7.0%	10.2%	(37.9%)	n/a	6.3%
Natural Resources	1.9%	5.5%	1.2%	(0.8%)	5.5%
Personnel	7.7%	15.6%	(26.3%)	9.1%	n/a
Public Health and Environment	6.3%	14.4%	1.4%	10.1%	7.5%
Public Safety	7.4%	4.7%	6.0%	32.8%	17.8%
Regulatory Agencies	4.2%	33.3%	3.5%	6.3%	(41.5%)
Revenue	6.8%	5.2%	8.1%	7.7%	n/a
State	(4.6%)	n/a	(4.6%)	n/a	n/a
Transportation	7.2%	n/a	9.1%	(27.5%)	n/a
Treasury	6.2%	6.8%	5.4%	n/a	n/a
TOTAL	**4.7%**	**4.7%**	**4.0%**	**5.3%**	**6.3%**

Base Salary by Agency

Base salary is the largest element in total compensation and drives the calculations for other elements. The following table outlines the percentage change in base salary estimate by agency.

Percentage Change in Base Salary Estimate by Agency					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
Agriculture	(8.6%)	(29.0%)	8.0%	n/a	(70.2%)
Corrections	(0.8%)	(0.6%)	(8.5%)	n/a	n/a
Education	4.3%	13.4%	(4.2%)	8.1%	(0.8%)
Governor	(1.5%)	(0.6%)	(21.1%)	0.1%	(28.8%)
Health Care Policy and Financing	5.5%	5.1%	4.8%	(2.0%)	6.4%
Higher Education - Admin & HistCO	(5.1%)	70.2%	(12.0%)	15.3%	(6.3%)
Human Services	1.5%	1.9%	34.2%	(2.0%)	(2.6%)
Judicial	2.1%	0.9%	26.4%	n/a	n/a

Percentage Change in Base Salary Estimate by Agency					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
Labor and Employment	3.3%	22.6%	(5.6%)	11.0%	8.0%
Law	2.3%	(0.3%)	6.5%	3.3%	(11.1%)
Legislature	8.4%	8.4%	n/a	n/a	n/a
Local affairs	2.1%	18.2%	(15.4%)	3.9%	(2.7%)
Military and Veterans Affairs	4.3%	7.6%	(35.3%)	n/a	3.6%
Natural Resources	(1.5%)	2.1%	(2.3%)	(4.0%)	3.2%
Personnel	4.3%	12.9%	(30.1%)	5.4%	n/a
Public Health and Environment	3.1%	10.9%	(1.4%)	6.7%	4.0%
Public Safety	6.7%	1.7%	6.2%	31.0%	18.5%
Regulatory Agencies	0.8%	25.9%	0.2%	3.8%	(39.6%)
Revenue	3.6%	2.4%	4.6%	1.9%	n/a
State	(7.6%)	n/a	(7.6%)	n/a	n/a
Transportation	4.1%	n/a	5.9%	(30.1%)	n/a
Treasury	2.2%	3.7%	(0.2%)	n/a	n/a
TOTAL	**1.6%**	**1.2%**	**1.4%**	**2.2%**	**3.1%**

ISSUE 2: FUNDING MERIT PAY

The current merit pay system evolved to provide a performance-based, incentive-oriented increase system to replace the automatic step increase system. Step increases provided a system for salary growth within a pay range classification. However, performance pay and merit pay systems have not been regularly or consistently funded. The unfunded incentive system will inevitably lead to a diminished outcome as the incentives built into the system create the reverse in which higher performing employees leave the workforce and lower performing employees remain.

SUMMARY:

- The step-based increase system was in place from 1971 through 2002 and automatically provided six, 5-percent increases over a ten-year period for employees within a job classification.

- The step system had the effect of moving employees to the midpoint of a range in about three years and anecdotal information suggests the step system cost 2.2 percent of salary base annually.

- A performance-based increase system was passed in legislation in 1996 and officially replaced the step system in 2002, but two versions of the system were funded in only four of 11 years.

- The current merit pay system was added in H.B. 12-1321 for FY 2013-14 and was funded at 1.5 percent, 1.0 percent, and 1.0 percent, over its first three years. It was not requested or funded for FY 2016-17 and was not requested for funding for FY 2017-18.

- Currently, 55.4 percent of state employees in predominantly classified state agencies earn a salary in the lowest quartile of the pay range.

- A general human resource concept is that an employee should reach a level of knowledge and competency in a position within five years, at which time the employee should similarly reach a median level of pay for a position.

- A Department of Personnel snapshot survey of the classified workforce identifies 43 percent with at least five years of service in their position. Of those, 39.2 percent have a salary in the lowest quartile and an additional 24.9 percent have a salary in the second lowest quartile.

- Historically, at times, the JBC has included personal services base reductions for the purpose of reducing base salary appropriations in anticipation of vacancy savings and turnover savings.

- Over the last years of the step system, the JBC was in the practice of taking 1.0 to 1.5 percent base reductions for vacancy and turnover savings, despite the fact that these were generally "good" revenue years for the budget.

- The State Employee Reserve Fund (SERF) was created in H.B. 12-1321 to transfer unexpended General Fund appropriations at the end of each year into a cash fund for the purpose of funding merit pay. The SERF has never been accessed for merit pay funding, but the Governor has requested a transfer of the existing balance of $46.9 million to the General Fund for balancing purposes for FY 2017-18.

RECOMMENDATION:

Staff recommends:

1a. Policy – That the Committee establish a policy to regularly fund merit pay at 2 percent per year, in FY 2017-18 and in years after that in which the market is projected to increase compensation.

1b. Merit Pay Matrix – That the Committee establish a relatively steeper matrix that will provide larger increases for the lower quartiles such as the following:

Recommended 2% Average Merit Pay Matrix					
Performance	**Quartile of class range**				
Rating	**Q1**	**Q2**	**Q3**	**Q4**	**>Q4**
3	3.5%	3.0%	1.5%	1.0%	1.0%
2	2.5%	2.0%	1.0%	0.5%	0.5%
1	0.0%	0.0%	0.0%	0.0%	0.0%

2a. Funding – To fund merit pay of 2 percent, staff recommends that 1 percent be funded with new or additional funding and that a matching 1 percent be funded through a personal services base reduction in anticipation of turnover savings.

2b. Alternate funding concept – Alternately, in order to limit budget calculation complexity and provide additional flexibility to state agencies, staff recommends that the 1 percent equivalent base reduction be assumed, implied, or imputed rather than explicitly calculated, removed from personal services line items, and then added back in to the merit pay line item. For this option, staff recommends that a footnote be added to all merit pay line items which states that the average 2 percent merit pay increase is intended to be funded at 1 percent using appropriations identified in the merit pay line item and matched by departments at 1 percent through anticipated turnover savings in department base salary.

2c. Funding from the SERF – Additionally, to provide assurance to state agencies to ensure revenue sufficient to cover the 1 percent assumed/implied/imputed personal services base reduction for merit pay, that the State Employee Reserve Fund be used and identified as a fund source in appropriations for Merit Pay. Staff recommends that the SERF's current provision for continuous spending authority be amended to require annual spending authority and that a phrase be added to the fund source letter note for Merit Pay that would read as follows: "This amount shall be from ... or the state employee reserve fund, created in Section 24-50-104 (1) (j) (II) (A), C.R.S."

DISCUSSION:

The Anniversary "Step" System

The State Personnel System was created in 1971 and included a step-based increase system that rewarded an employee's longevity and years of service based on a uniform expectation of achieving competency over time rather than based on individual performance.

The State's step-based increase system provided that a state employee would receive a 5 percent increase in pay each year for five years, and then, a final, additional 5 percent increase five years after that. This system was built within a 34 percent total salary range from the range minimum to the range maximum and movement through the range was achieved in six, 5 percent increases. The following table illustrates the step system based on a $30,000 range minimum.

Step System Example							
Anniversary Year	0	1	2	3	4	5	10
Step Increases		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Annual Salary	$30,000	$31,500	$33,075	$34,729	$36,465	$38,288	$40,203
Percent above Minimum		5.0%	10.3%	15.8%	21.6%	27.6%	34.0%
Pay Range Midpoint	$35,101						

In this system, the employee moved to 27.6 percent above the minimum on the fifth anniversary. If the employee remained in the position for an additional five years, on the tenth anniversary the employee would max out at 34 percent above minimum. A state employee was just below midpoint at the third anniversary at 15.8 percent above minimum.

Of course, as a state employee moved to a new classification through promotion, the step-based system would begin again within the pay range for the new classification. Additionally, step increases were provided separate and apart from across-the-board, cost-of-living type increases that might be provided for all state employees in a given budget year in response to changes in the job market and economy generally. And step increases as well as cost-of-living increases occurred in addition to salary range adjustments that have the effect of moving the range minimum and maximum higher in response to the same changes in the job market and economy.

These two types of increases – within-class-range increases and across-the-board increases – and statewide and classification-specific pay range adjustments provide the spectrum of broad compensation changes that are still addressed through the annual total compensation report and budget process. However, while the step system was replaced by performance pay, achievement pay, and then merit pay for within-class-range increases, the replacement systems have not been funded regularly or consistently through the budget process.

The step system was in place for more than 30 years until June 30, 2002. Although staff has not been able to identify and analyze data that may be available in the historical record, historical documents cite a cost figure of 2.2 percent of payroll to fund the step increase system. This percentage increase on the salary base was likely identified as a base increase in the budget that was known and anticipated within the budget process based on statutes guiding state employee compensation.

Performance Pay History

In 1981, an Executive Committee on Personnel Management in State Government issued a report to the Governor that proposed the State implement a performance-based compensation system.

In July 1996, a performance-based compensation system (Colorado Peak Performance or CPP) was created in H.B. 96-1262 and was to be phased in over three years beginning July 1, 1998. The State Personnel Director formed a design team to make recommendations for implementing performance-based pay. This team developed a performance plan recommendation which incorporated the ideas and recommendations of stakeholders such as state managers, human resource managers, budget experts, more than 5,000 state employees, as well as the private sector.

Following public hearings that were held in the spring of 1998, the rules and procedures to support CPP were adopted and became effective July 2, 1998, with a three-year implementation timeframe for all agencies to implement CPP by July 1, 2001. In the summer of 1999, Governor Owens endorsed the concepts of performance management and performance-based pay. However, several concerns had surfaced, that included:

- The JBC's concern about cost neutrality.
- The perception that CPP was too complicated.
- Employee concerns about fairness and equity.
- The belief that departments and institutions of higher education had been given too much latitude to adapt CPP to their own situations.

Based on these concerns, JBC staff recommended repeal of CPP and reestablishment of a modified anniversary-step system. However, the Department of Personnel suggested an alternate approach, which was adopted and subsequently became S.B. 00-211, signed by Governor Owens on May 26, 2000. It repealed CPP and reinstated the pre-1996 statutory provisions and step increase system and directed the Department of Personnel to prepare a performance plan by September 1, 2000, that met certain criteria. As a result, the step increase system was eventually abolished on June 30, 2002, and replaced with a performance pay system.

For FY 2002-03, performance increases were funded and determined by individual departments. Performance pay was not funded in FY 2003-04, but was funded in FY 2004-05 as determined by the State Personnel Director. Again, in FY 2005-06 and FY 2006-07, performance pay was not funded.

In April 2007, the Department of Personnel proposed a new "achievement pay" plan to replace the performance pay plan. The achievement pay plan would provide successful and exceptional performers with a base achievement increase that included both a market adjustment and a fixed statewide performance amount. Achievement pay was funded in both FY 2007-08 and FY 2008-09, but not in FY 2009-10 through FY 2012-13. By that point, some form of post-step system performance pay had been funded in only four of 11 years.

Beginning in FY 2013-14, the State moved to the current merit-based approach, as authorized by H.B. 12-1321. The goal was to provide lower-paid, yet higher-performing employees the opportunity to achieve increases that would move them toward the midpoint of the range. As with the step system, merit pay was intended as a mechanism for salary growth within pay ranges and was intended to do that distinctly and apart from salary survey or across-the-board, cost-of-living increases.

Merit Pay Methodology

In FY 2013-14, merit pay was funded at an average of 1.5 percent; additionally, an across-the-board increase of 2.0 percent was funded. The following table illustrates the concept and outlines the merit pay matrix approved for that budget year as recommended by the State Personnel Director and requested by the Governor.

Merit Pay Matrix – FY 2013-14				
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%

Quartiles 1 through 4 represent employees paid at each quartile of their classification salary ranges. Employees whose salaries are at the range minimum and up to 25 percent of the range are in quartile 1. Similarly, the range midpoint represents the demarcation point between quartiles 2 and 3. Employees receiving a performance rating of 1 would not receive a merit pay award, while those receiving a 2 or 3 rating would receive an award. By this system, the highest award would go to the highest performing employees in the lowest quartile; and that can be seen in the table with a 2.4 percent increase for a quartile 1 employee with a performance rating of 3.

Keep in mind that in addition to moving to an individual performance-incentive increase system, the merit pay system replaced the step system as the primary means of providing salary growth within a class pay range. As previously discussed, the step system was structured to move employees through the pay range and achieved salary growth to the midpoint by around three years through 5 percent increases that cost the State about 2.2 percent per year as identified in historical documents.

Clustering at the Bottom of the Range

In addition to the annual challenge of funding salary increases generally, the larger problem identified in recent years in the state personnel system is the clustering of employees at the bottom of pay ranges. The failure to more regularly fund a within-class-range pay increase system since the elimination of the step system in 2002 has led to a thinning or hollowing out at the midpoint or median of pay ranges.

The tables on the following pages represent quartile analysis based on July 2016 payroll data derived from department total compensation templates. Departments are grouped based on the predominance of classified or non-classified employees, because departments with predominantly non-classified workforces address compensation independent from and outside of the more rigid, classified system. The first page of tables includes 16 departments with a predominance of classified state employees which represent 69.0 percent of statewide salary. The second page includes six departments with a predominance of non-classified employees, which represent 31.0 percent of statewide salary. The second page is only included for the purpose of more completely illustrating the entire state agency workforce by compensation data.

Pay Range Quartile Analysis - Predominantly Classified State Agencies - Table 1

	Number of Employees						
	Q1	Q2	Q3	Q4	Q5	n/a	total
Agriculture	163	49	26	23	0	42	303
Corrections	4,083	795	651	621	5	18	6,173
Health Care Policy and Financing	297	109	40	10	0	53	509
Human Services	2,914	642	477	224	27	62	4,346
Labor and Employment	921	202	126	81	4	28	1,362
Local affairs	80	41	30	7	0	24	182
Military and Veterans Affairs	100	30	8	5	0	23	166
Natural Resources	571	408	333	135	0	484	1,931
Personnel	232	91	55	12	1	20	411
Public Health and Environment	365	440	388	155	5	61	1,414
Public Safety	433	701	402	203	1	42	1,782
Regulatory Agencies	292	116	86	30	5	16	545
Revenue	999	210	117	49	13	12	1,400
State	16	43	36	16	0	5	116
Transportation	50	50	30	8	0	13	151
Treasury	17	3	9	1	0	3	33
Total	**11,533**	**3,930**	**2,814**	**1,580**	**61**	**906**	**20,824**
Percent of Total	**55.4%**	**18.9%**	**13.5%**	**7.6%**	**0.3%**	**4.4%**	

Pay Range Quartile Analysis - Predominantly Classified State Agencies - Table 2

	Total Monthly Salary						
	Q1	Q2	Q3	Q4	Q5	n/a	total
Agriculture	$654,678	$248,354	$150,827	$111,274	n/a	$137,519	$1,302,653
Corrections	15,678,720	3,990,105	3,540,789	3,529,764	33,720	185,593	26,958,691
Health Care Policy and Financing	1,399,843	670,472	277,038	76,189	n/a	244,546	2,668,088
Human Services	11,301,504	3,186,308	2,651,594	1,194,578	152,203	368,959	18,855,146
Labor and Employment	3,913,030	1,098,332	794,736	503,564	33,338	189,094	6,532,094
Local affairs	364,626	248,173	187,212	53,851	n/a	152,204	1,006,066
Military and Veterans Affairs	417,759	148,717	49,868	23,887	n/a	58,028	698,259
Natural Resources	2,474,772	2,263,770	2,222,066	878,108	n/a	1,133,190	8,971,905
Personnel	915,173	530,152	392,475	83,068	4,964	155,191	2,081,023
Public Health and Environment	1,748,026	2,562,912	2,646,191	1,064,182	33,286	379,379	8,433,977
Public Safety	1,992,571	4,063,685	2,766,828	1,515,358	4,654	230,265	10,573,361
Regulatory Agencies	1,394,788	699,999	602,738	207,884	31,046	145,264	3,081,719
Revenue	3,819,807	1,145,741	737,761	314,597	96,401	131,835	6,246,142
State	79,136	238,971	215,427	114,764	n/a	36,764	685,062
Transportation	252,187	253,149	183,148	61,404	n/a	143,381	893,269
Treasury	61,361	14,795	62,353	7,905	n/a	22,360	168,774
Total	**$46,467,981**	**$21,363,636**	**$17,481,051**	**$9,740,377**	**$389,612**	**$3,713,573**	**$99,156,229**
Percent of Total	**46.9%**	**21.5%**	**17.6%**	**9.8%**	**0.4%**	**3.7%**	
Percent of Statewide Payroll							**69.0%**

Pay Range Quartile Analysis - Predominantly Classified State Agencies - Table 3

	Average Monthly Salary						
	Q1	Q2	Q3	Q4	Q5	n/a	average
Agriculture	$4,016	$5,068	$5,801	$4,838	n/a	$3,274	$4,299
Corrections	3,840	5,019	5,439	5,684	6,744	10,311	4,367
Health Care Policy and Financing	4,713	6,151	6,926	7,619	n/a	4,614	5,242
Human Services	3,878	4,963	5,559	5,333	5,637	5,951	4,339
Labor and Employment	4,249	5,437	6,307	6,217	8,335	6,753	4,796
Local affairs	4,558	6,053	6,240	7,693	n/a	6,342	5,528
Military and Veterans Affairs	4,178	4,957	6,234	4,777	n/a	2,523	4,206
Natural Resources	4,334	5,548	6,673	6,505	n/a	2,341	4,646
Personnel	3,945	5,826	7,136	6,922	4,964	7,760	5,063
Public Health and Environment	4,789	5,825	6,820	6,866	6,657	6,219	5,965
Public Safety	4,602	5,797	6,883	7,465	4,654	5,482	5,933
Regulatory Agencies	4,777	6,034	7,009	6,929	6,209	9,079	5,655
Revenue	3,824	5,456	6,306	6,420	7,415	10,986	4,462
State	4,946	5,557	5,984	7,173	n/a	7,353	5,906
Transportation	5,044	5,063	6,105	7,676	n/a	11,029	5,916
Treasury	3,609	4,932	6,928	7,905	n/a	7,453	5,114
Total	**$4,029**	**$5,436**	**$6,212**	**$6,165**	**$6,387**	**$4,099**	**$4,762**

Pay Range Quartile Analysis - Predominantly Non-classified State Agencies - Table 4

	Number of Employees						
	Q1	Q2	Q3	Q4	Q5	n/a	total
Education	68	23	20	5	0	737	853
Governor - non-OIT	0	0	0	0	0	177	177
Governor - OIT	167	210	136	19	1	383	916
Higher Education - Admin & Hist	3	2	2	0	0	242	249
Judicial	0	0	0	0	0	4,526	4,526
Law	56	74	39	9	0	307	485
Legislature	19	36	10	2	1	381	449
Total	**313**	**345**	**207**	**35**	**2**	**6,753**	**7,655**
Percent of Total	**4.1%**	**4.5%**	**2.7%**	**0.5%**	**0.0%**	**88.2%**	

Pay Range Quartile Analysis - Predominantly Non-classified State Agencies - Table 5

	Total Monthly Salary						
	Q1	Q2	Q3	Q4	Q5	n/a	total
Education	$223,755	$107,470	$110,115	$20,694	n/a	$4,329,485	$4,791,519
Governor - non-OIT	n/a	n/a	n/a	n/a	n/a	1,082,236	1,082,236
Governor - OIT	854,085	1,300,683	975,995	120,686	4,325	2,693,709	5,949,483
Higher Education - Admin & Hist	5,031	7,329	10,234	n/a	n/a	1,060,411	1,083,005
Judicial	n/a	n/a	n/a	n/a	n/a	26,070,552	26,070,552
Law	281,629	385,416	217,467	59,744	n/a	2,514,152	3,458,408
Legislature	75,996	215,326	81,961	22,134	7,838	1,662,060	2,065,314
Total	**$1,440,496**	**$2,016,224**	**$1,395,771**	**$223,258**	**$12,163**	**$39,412,605**	**$44,500,517**
Percent of Total	**3.2%**	**4.5%**	**3.1%**	**0.5%**	**0.0%**	**88.6%**	
Percent of Statewide Payroll							**31.0%**

Pay Range Quartile Analysis - Predominantly Non-classified State Agencies - Table 6

	Average Monthly Salary						
	Q1	Q2	Q3	Q4	Q5	n/a	average
Education	$3,291	$4,673	$5,506	$4,139	n/a	$5,874	$5,617
Governor - non-OIT	n/a	n/a	n/a	n/a	n/a	6,114	6,114
Governor - OIT	5,114	6,194	7,176	6,352	4,325	7,033	6,495
Higher Education - Admin & Hist	1,677	3,665	5,117	n/a	n/a	4,382	4,349
Judicial	n/a	n/a	n/a	n/a	n/a	5,760	5,760
Law	5,029	5,208	5,576	6,638	n/a	8,189	7,131
Legislature	4,000	5,981	8,196	11,067	7,838	4,362	4,600
Total	**$4,602**	**$5,844**	**$6,743**	**$6,379**	**$6,082**	**$5,836**	**$5,813**

As can be seen in the table for the predominantly classified departments, 55.4 percent of employees are in quartile 1 and represent 46.9 percent of the salary base among the predominantly classified departments. An additional 18.9 percent of employees are in quartile 2, while 21.4 percent are above the midpoint and represent 27.8 percent of the salary base. Employees in quartiles 2 and 3, in the middle quartiles of the pay range, represent just under a third – 32.4 percent – of employees in these departments. Additionally, employees falling outside of classified employee status make up 4.4 percent of the total and represent 3.7 percent of the salary base. The salary among quartile 1 employees averages $4,029 per month. Quartile 2 employees average $5,436 per month. And quartile 3, 4, and 5 employees average just over $6,000 per month.

Matrix "Slope"

In the merit pay matrix in FY 2013-14, an employee in quartile 4, received only 0.3 percent less of a merit pay increase as compared to the quartile 1 employee and received the exact same percentage as employees in quartile 2 who are below the midpoint. This descriptively "flat" matrix is structured to provide more generous merit pay increases for all employees with a performance rating of 3, rather than to provide more generous merit pay increases for quartile 1 or 2 employees relative to quartile 3 and 4 employees. Another way to look at the matrix is to compare the performance rating 2 increases that range from 1.8 percent to 0.6 percent – a 1.2 percent total decline over quartiles as compared to the 0.3 percent decline over quartiles for performance rating 3 employees. In performance rating 2, increases gradually decline by quartile rather than settling at a single increase rate over quartiles 2 through 4 as occurred in performance rating 3.

In addition to the merit pay increase, an across-the-board salary survey increase of 2.0 percent was also funded that year. With a performance rating of 3, the quartile 1 employee's increase totaled 4.4 percent, while the quartile 4 employee's increase totaled 4.1 percent. For a quartile 1 employee earning $30,000 per year, a 4.4 percent increase cost the State an additional $1,300. For a quartile 4 employee earning $60,000, the 4.1 percent total increase cost the State an additional $2,500.

While both quartile 1 and quartile 4 employees may be found at a variety of salary levels and classification pay ranges, it is more likely that higher paying professional and managerial positions are hired at pay levels that are higher than the minimum. It is also more likely that lower paying, entry level, clerical and frontline service positions are hired at or near the minimum. And while it can be argued that higher performance should be rewarded in either case, resource limits necessitate prioritization. The priority for applying a relatively steeper merit pay matrix better helps the State address the problem of a heavier distribution of employees at the low end of salary ranges and lighter distribution at the midpoint. A steeper merit pay matrix provides more impact on a dollar-for-dollar basis and is structurally and descriptively more distinct as an increase system when compared to an across-the-board increase.

In FY 2013-14 the use of the merit pay matrix was new and accepted as recommended and requested. Since that time, merit pay was funded again in FY 2014-15, at an average 1.2 percent, and FY 2015-16, at an average 1.0 percent, but was not funded in FY 2016-17. As time has elapsed and the State has gained some experience with the matrix, **staff recommends that, in the future, the Committee consider approving matrices that are steeper rather than flatter and that necessarily provide greater increases for quartile 1 and 2 employees as compared to quartile 3 and 4 employees, regardless of a 2 or 3 performance rating.**

Last year, for FY 2016-17, although the Governor's request included no across-the-board and no merit pay increase, due to the widening gap from market salaries identified in the annual compensation report, and due to the heavy distribution of employees at the bottom of pay range, staff recommended that the Committee consider funding a 1.5 percent average merit pay increase within a steeper matrix. The following tables outline the staff recommended and the Department recommended matrix for a 1.5 percent average merit pay increase.

Staff Recommended 1.5% Merit Pay Matrix - FY 2016-17					
Performance	Quartile of class range				
Rating	**Q1**	**Q2**	**Q3**	**Q4**	**>Q4**
3	3.0%	2.5%	2.0%	1.5%	1.0%
2	1.5%	1.25%	1.0%	0.75%	0.5%
1	0.0%	0.0%	0.0%	0.0%	0.0%

Department Recommended 1.5% Merit Pay Matrix - FY 2016-17					
Performance	Quartile of class range				
Rating	**Q1**	**Q2**	**Q3**	**Q4**	**>Q4**
3	2.2%	2.1%	2.0%	1.9%	1.5%
2	1.5%	1.4%	1.2%	1.0%	0.8%
1	0.0%	0.0%	0.0%	0.0%	0.0%

Staff's recommended matrix in this case would have provided quartile 1 employees with a performance rating of 3, with a 3.0 percent merit pay increase within a statewide average 1.5 percent merit pay increase. Likewise, it would have provided quartile 1 employees with performance rating of 2 as well as quartile 4 employees with a performance rating of 3, with an equivalent 1.5 percent merit pay increase. The following table outlines the example as previously illustrated of a $30,000 quartile 1 employee and a $60,000 quartile 4 employee.

Steep-Flat Merit Pay Matrix Comparison Example							
				Steep Matrix		Flat Matrix	
	Quartile	Perf. Rating	Salary	% Increase	$ Increase	% Increase	$ Increase
Employee 1	Q1	3	$30,000	3.0%	$900	2.2%	$660
Employee 2	Q4	3	$60,000	1.5%	$900	1.9%	$1,140
Subtotal					**$1,800**		**$1,800**

In this illustration, each matrix generates a total cost to the State of $1,800. However, the steeper matrix provides a greater increase for the quartile 1 employee. It is possible to reflect different salary levels for each employee and therefore illustrate different dollar amounts by employee and overall. However, for any total dollar amount provided for statewide merit pay, the steeper the matrix, the greater the increase that can be provided at the lower end of pay ranges with the given dollar amount.

<u>Five-year Movement</u>

The Department reports that it looked at a snapshot of the classified workforce and 43 percent have at least five years of service in a particular class. Of those classified employees with five years or more in a job class, 39.2 percent have a salary in quartile 1 and an additional 24.9 percent have a salary in quartile 2. Approximately two-thirds of classified employees with at least five years in a particular class have not yet reached midpoint of the range and just under 40 percent have not reached quartile 2 – 25 percent above minimum – by five years.

Current range maximums are set at 40 to 50 percent above minimum as compared to 34 percent above minimum under the step increase system. Therefore, midpoint is at 20 to 25 percent above minimum and quartile 2 is at 10 to 12.5 percent above minimum. Based on the Department's snapshot data, it is clear that the almost 40 percent of employees identified in quartile 1 have not achieved an increase of at least 10 to 12.5 percent over five years. Increases of 2.0 percent per year would generate a 10.4 percent increase over five years while increases of 2.3 percent per year would generate a 12.0 percent increase over five years.

Over the last five fiscal years the State has provided the following increases:

- FY 2012-13 – no across-the-board; no achievement pay;
- FY 2013-14 – 2.0 percent across-the-board; 1.5 percent merit pay;
- FY 2014-15 – 2.5 percent across-the-board; 1.0 percent merit pay;
- FY 2015-16 – 1.0 percent across-the-board; 1.0 percent merit pay; and
- FY 2016-17 – no across-the-board; no merit pay.

Assuming the merit pay average, the total increase provided over five years provides a 9.3 percent increase over the original salary.

The Department stated that a general human resource concept is that an employee should reach a level of knowledge and competency in a position within five years, at which time the employee should similarly reach a median level of pay for a position. A high-performing quartile 1 employee who receives a 3.5 percent merit pay increase in an average 2.0 percent matrix, would reach 10.9 percent above minimum or starting salary in three years. Assuming this employee moves into quartile 2 after year 3, and continues to receive the highest performance rating and receives 3.0 percent merit pay increases in the same average 2.0 percent matrix, the employee would reach 17.6 percent above minimum in five years and 21.2 percent above minimum – approaching midpoint – at six years.

This scenario only takes into account the merit pay component were it to be regularly funded at an average 2.0 percent per year in a matrix more heavily weighted toward quartile 1 and 2 employees. Any additional increases received through across-the-board increases would enhance movement toward the midpoint. However, while this system would resolve the State's problem of employee clustering at the bottom of pay ranges by moving higher performing quartile 1 and 2 employees to the midpoint or median, it would do so at a slower pace than the five-year HR concept of competency and compensation and the State's historical step increase system. Nevertheless, this approach with a slightly slower range movement to midpoint may be somewhat of a "sweet spot" for approaching compensation policy. The goal is not to perfectly match or mirror the market, but to remain competitive. Such a compensation system would provide movement towards the median for higher-performing employees, but at a pace slightly slower than the market.

Across-the-board or Merit

In response to a question about the executive request for an across-the-board increase instead of a merit pay increase, the Department stated that because no increases were provided in FY 2016-17, an across-the-board increase – essentially a cost-of-living increase for all employees – was the best way to resolve the issue of the widening gap between state employee compensation and the market. This was a case of the need for a wholesale adjustment to keep pace with the market. And it would necessarily be the case that an across-the-board – in this case, 2.5 percent – increase will keep state employee pay, measured at the median, in relation to the market by at least 2.5 percent.

However, a 2.5 percent average merit pay increase, particularly if it is delivered with the use of a steeper matrix, will provide larger increases at the lower end of pay ranges. So while the median will increase regardless of the type of increase, a lower-quartile-weighted merit pay increase may not move median pay to the extent that an across-the-board increase would. The following table outlines the comparison between a 2.5 percent across-the-board increase and a 2.5 percent merit pay increase, based on the July 2016 salary base. The merit pay matrix used for this illustration follows.

Increase Comparison - 2.5% Across-the-board (ATB) and 2.5% Merit Pay							
	Q1	Q2	Q3	Q4	Q5	n/a	total
Statewide Total (July 2016 Payroll Base)	$574,901,718	$280,558,311	$226,521,868	$119,563,617	$4,821,304	$517,514,128	$1,723,880,946
Percent of total	33.3%	16.3%	13.1%	6.9%	0.3%	30.0%	
FY 2017-18 Salary Base w/ 2.5% ATB	$589,274,261	$287,572,269	$232,184,915	$122,552,708	$4,941,837	$530,451,981	$1,766,977,970
Percent of total	33.3%	16.3%	13.1%	6.9%	0.3%	30.0%	
Percent Increase on Base							2.50%
FY 2017-18 Salary Base w/ 2.5% Merit Pay	$593,852,044	$287,825,810	$229,247,167	$120,407,619	$4,850,307	$530,451,981	$1,766,634,929
Percent of total	33.6%	16.3%	13.0%	6.8%	0.3%	30.0%	
Percent Increase on Base							2.48%
Difference (Merit Pay from ATB)	**$4,577,783**	**$253,541**	**($2,937,748)**	**($2,145,088)**	**($91,530)**	**$0**	**($343,041)**

2.5% Average Merit Pay Matrix for Comparison					
Performance	Quartile of class range				
Rating	Q1	Q2	Q3	Q4	>Q4
3	4.5%	3.0%	2.0%	1.5%	1.0%
2	3.0%	2.5%	1.0%	0.5%	0.5%
1	0.0%	0.0%	0.0%	0.0%	0.0%

In the table, quartiles 1 through 4 reflect standard pay range quartiles, while quartile 5 represents employees receiving pay above the range maximum. The "n/a" column represents employees that fall outside of the classified system, including non-classified, temporary, and contract employees. As can be seen, non-classified and other "n/a" employees represent 30.0 percent of statewide payroll, and would be funded at an equivalent 2.5 percent using either type of increase.

The larger point in this comparison is that quartile 1 employees receive $4.6 million more through the merit pay increase when compared to the across-the-board increase. While a single year of merit pay increase such as this may barely move the quartile dynamics, the comparison suggests that there is already a percentage adjustment taking place in compensation provided by quartile. Several years would have the effect of moving quartile 1 employees into quartile 2 and employees in both lower quartiles toward the midpoint of class ranges. Regularly funding merit pay would have the eventual effect of rebuilding the distribution around the midpoint of ranges, while building a state workforce of higher performers that was intended by the merit pay system.

To conclude on the philosophy, methodology, and application differences, an across-the-board increase benefits quartile 3 and 4 employees more than a merit pay increase would. So if the policy discussion is about spending priorities for limited dollars, quartile 3 and 4 employees benefit to a greater extent in an across-the-board increase than in a merit pay increase. While quartile 1 and 2 employees benefit to a greater extent with a merit pay increase, and to an extent related to the relative steepness of the matrix. The State gets a "two-for-one" through a merit pay increase with a steeper matrix as it also begins to resolve the issue of concentration at the bottom of the pay range while likely only slightly reducing movement at the median in comparison with the market.

The Need to Fund Merit Pay Annually

If the merit pay system is not consistently funded from year to year, the incentives built into the system for rewarding performance tend to work in the opposite direction. As merit pay is not provided for higher-performing, entry level employees, these employees will leave for other opportunities in the market, knowing that their skills and performance will generally be well received and compensated accordingly. Lower performing employees who know their skills and abilities may not be as well received in the market, will remain in their positions where their pay remains undifferentiated from their higher-performing peers.

Essentially, when the merit pay system goes unfunded, particularly in years in which the market is providing increases, the State will tend to lose its highest potential, entry level employees, while retaining the lowest-performing employees. The outcome is a system which devolves and delivers lower performance generally for state services.

Additionally, a small but consistent 2.0 percent increase over five years delivers a 10.4 percent increase and over ten years a 21.9 percent increase. A more typical, "feast-or-famine" annual budgeting approach of 5.0 percent increase in any two of those five years delivers a 10.25 percent increase and in any four of ten years a 21.6 percent increase. Similarly, from a budgeting perspective, for a funding item that is structured to deliver a gradual but steady outcome over time, the small but consistent increase allows for longer range projection accuracy and is not dependent on the need for one-time-revenue bonus years in the budget.

Base Reductions, Vacancy Savings, and Turnover Savings

Base reductions are criticized as arbitrary and blunt instruments for achieving budget savings. Nevertheless, base reductions provide the budget development process a tool or method for generally applying across-the-board budget savings policy in years in which budget balancing is difficult. Historically, the JBC and General Assembly have occasionally used base reductions for the purpose of addressing budget balancing challenges related to broad or sector-specific economic downturns.

More often, base reductions were used to capture what has traditionally been termed "vacancy savings". Vacancy savings are generated when turnover leads a state agency to spend less than the appropriation while a position is vacant. Capturing anticipated vacancy savings up front in the budget process, saves available revenue for other budget priorities.

There are generally two forms of vacancy savings. The first form, which can properly be called "vacancy savings" occurs during the time a position is empty and waiting to be filled, when a department is not paying anybody. These savings are essentially unanticipated and are one-time savings captured within a single fiscal year.

The second form of related savings is more precisely termed "turnover savings" which occur when a department hires an employee to fill a position at a lower pay level than the employee who left that position. Turnover savings, differences in outgoing and incoming compensation levels, create a perpetual under-expenditure relative to the salary base. Turnover savings might justify an annual base personal services reduction, to the extent that departments experience a regular pattern of this type of savings every year.

However, in a 2012 briefing issue, JBC staff identified several problems of applying salary base reductions in anticipation of vacancy and turnover savings. First, base reductions might have the effect of generating additional vacancy savings when managers delay recruiting for otherwise longer periods or choose not to fill positions to ensure that personal services expenditures accommodate the policy. Additionally, staff identified the appearance of inconsistency or unfairness, in addition to complexity, of applying base reductions to personal services line items, when policies may include exemptions for particular departments or specified categories of personal services appropriations.

Rather than continue to apply salary base reductions in anticipation of vacancy and turnover savings, in that issue brief staff recommended that the Committee forego these base reductions with the idea that state agencies might channel vacancy savings back into pay increases generally. However, in order to achieve this outcome, staff identified the need to add flexibility to state personnel rules to provide for pay increases for state employees within a class range. This recommendation identified the problem of "classification creep" in which employees are limited to receiving increases only through upgrades to a higher job class due to the limitations of state personnel rules.

It appears that the staff recommendation may have guided Committee actions as base reductions were not taken in FY 2013-14 or in years after that. Since that time, flexibility has not yet been added to provide for pay increases for state employees within a class range. However, the Department has informed staff that it is in the process of rule-making to provide for competency-based increases within class range that are expected to be in place by Spring of 2017.

Anecdotally, it appears that vacancy and turnover savings since that time have been used to provide increases for state employees through existing rules in the state personnel system. Such increases are provided through classification upgrades to existing positions and through promotions and possibly even lateral movements due to flexibility provided to state agencies to hire positions at higher-than-minimum pay levels. Although it is difficult to measure objectively, staff's concern in 2012 about classification creep may be occurring for the purpose of generating increases for state employees due to the lack of flexibility for providing increases within the class range.

Additionally, increases provided to state employees who have the opportunity to move laterally or for promotion, likely tend to accrue to more professional or managerial positions rather than to entry level and frontline positions. The incentive to move to another position in order to secure an increase that is not otherwise available to the state employee also tends to generate more turnover throughout the personnel system than if employees were afforded performance-based increases within their existing positions.

In this system, the lowest paid, entry-level, front-line employees are not necessarily in a career position to offer specialized services to the highest bidder among state agencies, and so generally end up without increases. These employees will only receive an increase if it is generated as a result of an across-the-board salary survey increase or a merit pay increase through the budget appropriations process.

Departments were afforded flexibility to channel vacancy savings back into increases, but it is likely that such increases have gone to employees with specialized professional and managerial skills who move from agency to agency in order to generate salary increases. It is also likely that increases have also gone to non-classified employees; again, predominantly higher-paid, professional, managerial, and executive level positions.

While the Department states that it will be adding flexibility to personnel rules through competency-based increases beginning in 2017, due to the delay in providing flexibility in rules and given the current and foreseeable state budget limitations, it may be appropriate to revisit the policy of applying vacancy and turnover savings within the budget process to some extent. The following table outlines the history of personal services base reductions since FY 1999-00.

Personal Services Base Reductions - FY 1999-00 through FY 2016-17						
	Base PS	Exceptions noted in Appropriations Report				
	Reduction	<20.0 FTE	DOC	DHS	DPS	JUD
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%					
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%	0.5%
FY 13-14	0.0%					
FY 14-15	0.0%					
FY 15-16	0.0%					
FY 16-17	0.0%					

Over the 12 years in which a base reduction was taken, the average reduction was 1.04 percent and the median reduction, 1.0 percent. No reduction was taken in only two years through FY 2012-13. In fact, in the first few years in the table, base reductions were taken during non-recession, "good" revenue years. However, keep in mind that the last year of the step increase system was FY 2001-02, after which, the performance-based increase systems that followed were sporadically funded. Again, keep in mind that a cost of 2.2 percent of salary base was identified as the amount necessary to fund the step increase system. It appears likely that while the salary base was increasing at 2.2 percent for the step system, that at least 1.0 percent was taken as a base reduction on a regular basis.

The step increase system would have assured that the state employee distribution through pay ranges would likely have been concentrated at the midpoint like a standard distribution curve. As the years have passed and turnover of step-increase-system employees clustered around the midpoint were replaced by new employees who have remained closer to the bottom of the range, it is likely that available turnover savings have dwindled relative to those available at the beginning of the performance-based increase transition around 2002. Nevertheless, this historical practice provides insight for how the State might easier fund merit pay on a regular basis in the future.

The State Employee Reserve Fund (SERF)

The State Employee Reserve Fund (SERF) is created in Section 24-50-104 (1) (j) (II) (A), C.R.S. The fund was added to statute in H.B. 12-1321, Modernization of the State Personnel System Act, which created the merit pay system in statute.

The provisions related to the fund instruct the State Controller and the State Treasurer to transfer unexpended General Fund (and statutorily specified cash funds – at this time there are no specified cash funds) from state agency operating budgets at the end of each fiscal year. Without this transfer, unexpended General Fund appropriations would revert to the General Fund. The transfer is credited to each Department's subaccount within the SERF for the purpose of funding merit pay increase for state employees. The moneys in the SERF and in the subaccounts are continuously appropriated to each department. The intent of the legislation appears to have been to encourage General Fund savings by departments while providing an additional source for departments to pay for merit pay increases.

JBC Staff Concerns with the SERF

In 2012, 2014, and particularly in 2015, JBC staff identified potential problems with the SERF as a reversion and cash fund mechanism for funding merit pay. The issue identified last year relates to the use of personal services and compensation POTS line items to make it appear as if the personal services appropriations were fully expended. Compensation POTS appropriations are generated based on actual staffing, payroll, and benefits patterns captured in department total compensation templates. For most departments in most years, POTS appropriations are fully expended – or at least fully allocated to divisions and programs.

However, in last year's budget schedules, the Department of Personnel chose to use unexpended personal services appropriations to pay for compensation POTS line items, while appropriated amounts in the POTS line items were reverted. This has the effect, regardless of intention, of making it appear as if the personal services appropriations are fully expended. Because POTS are appropriated at the department level, with flexibility provided to departments to allocate those POTS as necessary, it is not possible to identify which divisions or programs under-expended their share of personal services and POTS allocations. Regardless of intention, transparency for better budgeting is not served. Nevertheless, since last year's briefing, the Department has resolved this issue, and, in this year's and future years' budget schedules, the Department will expend POTS appropriations for their intended purpose first, before resorting to the need to transfer personal services appropriations.

While the reversion of POTS appropriations as an issue is not directly a SERF issue, staff was concerned that it was possible for departments to manipulate resource needs in fiscal notes as well as budget line items, that might have the effect of "padding" appropriations, knowing that reversions would ultimately accrue to the departments' benefit. The scale of reversions from POTS appropriations, which obscured actual reversions from personal services, suggested that there may be additional manipulations through the budget reporting process which might not otherwise be engaged except for securing the budget savings that accrue to the departments with the SERF reversion mechanism. Rather than reasonably cut personal services line items that may be over-appropriated, obscuring the source of reversions ensures a greater opportunity to build the balance in the SERF.

However, the larger problem with the SERF is its continuous spending authority. There is a natural resistance to continuous spending authority from the legislative perspective because it takes away what would otherwise be legislative authority. And likewise, there is a natural inclination to seek continuous spending authority from the executive perspective as it sidesteps legislative authority over appropriations. However, in this case, the SERF was created to fund only merit pay. However, as a compensation line item, when it has been funded, merit pay is fully appropriated in the budget. And the SERF has never been accessed for merit pay funding. Based on the legislature's budget authority over merit pay policy, it follows that any fund source or fund mechanism is dependent on that primary level of budget authority over the policy. In this case, regardless of legislative or executive branch interest over appropriation authority, as long as merit pay policy requires legislative budget authority it does no good for the fund source to have continuous spending authority.

Last year, staff recommended that the SERF be repealed, or, at a minimum, that continuous spending authority be repealed. The Committee chose not to take action on staff's recommendations. Based on the Committee's response last year, staff was not intending to bring up the SERF or similar recommendations this year. However, all JBC staff were informed by OSPB, just prior to November 1, that reversion transfers to the SERF would be reflected, not as transfers, but as actual expenditures in budget schedules in the November 1st budget submission. OSPB communicated that this was a State Controller policy decision. While the notice from OSPB was appreciated, the policy itself does not appear to serve the interests of the budget process.

Statute specifies that transfers to the SERF are made on the day that the State's Comprehensive Annual Financial Report (CAFR) is released by the State Controller. It is only at that point, that all adjustments have been made to accounting records and audits of those records have been completed that ensure a correct reversion amount is transferred. However, by placing "preliminary", estimated transfers in actual expenditure schedules, once again, regardless of intention, makes it appear as if affected line items were fully expended. In this case, not only is transparency hindered in the budget schedule reporting process, but the "expenditure" itself is not technically, and not legally, an expenditure; and yet, it is being reported as such within the budget process.

Reporting SERF transfers as expenditures in the State's accounting records would not appear to be legal as the transfer is not a statutorily authorized expenditure for those line items. Staff requested additional information from the State Controller, regarding the policy. It appears that SERF transfers are not reported as expenditures on State's accounting records. However, the State Controller or OSPB have established this policy to report such transfers as expenditures in budget schedules, which are not the State's legal accounting record but function as the executive branch report to the legislature regarding expenditures from appropriations. Actual expenditures reported in budget schedules should reflect the allowable, legal expenditures from those line items exclusively. SERF reversion transfers are reported in merit and reversions reports and otherwise serve no informational purpose in budget schedules.

Staff is concerned that this policy hinders transparency and otherwise serves no reasonable informational purpose in the budget reporting process. **Staff recommends that the Committee request that OSPB and the State Controller change this policy so that preliminary SERF**

reversion transfer amounts are not included in actual expenditure amounts in budget schedules, and as such would be reflected in budget schedules no differently than in the State's legal accounting records.

<u>The SERF as a Solution</u>

As described in this year's iteration of SERF-related activities in the executive branch, despite an intention to "move on" regarding SERF, staff continues to experience ongoing challenges with the executive branch treatment of the SERF. However, the SERF does capture actual budget savings – from vacancy, turnover, and other operations savings – which can then be used to channel funds into merit pay in a future budget cycle. While personal services base reductions anticipate savings in the budget setting process, the SERF delivers actual savings at the end point of a fiscal year. And while the SERF may lead to various manipulations including "padding" appropriations through the fiscal note and budget processes, budget savings through leaner operations are encouraged through this mechanism.

The merit pay system provides a compensation incentive system to get employees between the range minimum and midpoint up to a median pay level based on performance. The SERF provides a mechanism to identify and channel vacancy and other operations savings back into the merit pay system. These are both reasonable tools for delivering a more effective workforce and efficient public services. The following table outlines reversions to the SERF by department since its establishment.

State Employee Reserve Fund Analysis - Table 1					
Transfer of General Fund Reversions to the SERF					
	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
Agriculture	$3	$148	$4,854	$17,957	$7,347
Corrections	2,515	13,338	321,575	8,140,416	13,711,486
Education	276,162	334,070	30,716	310,740	352,237
Health Care Policy and Financing	45,399	14,583	369,246	411,639	427,795
Human Services	694,682	559,874	38,529	511,739	1,928,017
Labor and Employment	0	0	0	0	14,826
Law	25,137	124	78,198	1	62,638
Local affairs	4	1	0	0	959
Military and Veterans Affairs	192,252	40,571	131,950	539,549	451,432
Natural Resources	150,765	1,431	0	22,742	9,261
Personnel	281,750	80,165	519,112	868,574	590,919
Public Health and Environment	14,472	3,688	263,549	23,109	958
Public Safety	99,560	398,864	227,411	1,116,385	292,608
Regulatory Agencies	7,249	11	70,162	3,370	8,810
Revenue	533,395	1,490,949	2,202,162	4,175,687	2,650,176
Treasury	134,045	69,660	71,771	16,797	93,737
Subtotal	**$2,457,390**	**$3,007,477**	**$4,329,235**	**$16,158,705**	**$20,603,206**
Total SERF Balance					**$46,556,013**

The data in the table was retrieved from SERF reports from the State Controller and OSPB over the years included. It is possible that adjustments may have been made to the figures reported and interest earned in the fund. However, the SERF fund balance generated from these reports appears to generally match up with the $46.9 million identified in the Governor's request.

The following table outlines the General Fund portion of base salary by department over the last four fiscal years and calculates the SERF reversion percentage of that base salary.

State Employee Reserve Fund Analysis - Table 2								
	Base Salary from General Fund				SERF Reversions % of Base Salary GF			
	FY12-13	FY13-14	FY14-15	FY15-16	FY12-13	FY13-14	FY14-15	FY15-16
Agriculture	$4,903,483	$5,230,998	$7,198,670	$6,905,288	0.0%	0.1%	0.2%	0.1%
Corrections	341,384,715	334,253,223	336,044,383	349,914,237	0.0%	0.1%	2.4%	3.9%
Education	13,240,234	14,007,247	13,959,220	14,036,605	2.5%	0.2%	2.2%	2.5%
Health Care Policy and Financing	10,096,327	8,588,630	11,112,284	11,515,845	0.1%	4.3%	3.7%	3.7%
Human Services	135,287,486	142,000,344	151,026,968	157,134,699	0.4%	0.0%	0.3%	1.2%
Labor and Employment	7,406	72,685	71,249	699,279	0.0%	0.0%	0.0%	2.1%
Law	9,658,288	9,062,567	10,364,417	11,309,194	0.0%	0.9%	0.0%	0.6%
Local affairs	3,321,506	2,688,213	2,120,640	2,485,734	0.0%	0.0%	0.0%	0.0%
Military and Veterans Affairs	2,616,064	2,684,642	2,991,491	2,878,880	1.6%	4.9%	18.0%	15.7%
Natural Resources	16,840,078	17,459,468	18,193,839	18,458,005	0.0%	0.0%	0.1%	0.1%
Personnel	8,067,643	7,568,454	8,445,084	8,739,585	1.0%	6.9%	10.3%	6.8%
Public Health and Environment	6,838,226	7,548,896	8,155,325	11,150,665	0.1%	3.5%	0.3%	0.0%
Public Safety	20,565,641	21,840,667	26,327,489	28,032,699	1.9%	1.0%	4.2%	1.0%
Regulatory Agencies	1,243,660	1,313,343	1,230,005	1,506,768	0.0%	5.3%	0.3%	0.6%
Revenue	45,831,118	30,630,165	31,521,913	33,290,181	3.3%	7.2%	13.2%	8.0%
Treasury	1,292,268	1,280,868	1,292,268	1,280,868	5.4%	5.6%	1.3%	7.3%
Total	**$621,194,143**	**$606,230,410**	**$630,055,245**	**$659,338,532**	**0.5%**	**0.7%**	**2.6%**	**3.1%**

While both tables identify increasing reversions into the SERF each year, the percentage measure suggests that in FY 2015-16, SERF transfers represented 3.1 percent of base salary from General Fund for these departments. Departments are experiencing a variety of reversions relative to salary base, but statewide it does appear that reversions have represented two to three percent of base salary over the last two years. Keep in mind as well that SERF reversions capture other operating savings in addition to personal services savings. However, this analysis suggests that there is some percentage of those budget savings that might be applied in anticipation of reversions at this level.

Applying Turnover Savings Systematically without the Complexities of a Base Reduction

Additionally, it may be reasonable to apply an assumed or implied percentage of base reduction that is intended for funding merit pay. Such an assumed or imputed base reduction would not require an explicit budget exercise of reducing base salary in the budget from personal services line items. Rather, it starts by assuming that there is some percentage of budget savings generally, and turnover savings particularly, that is to be expected. Any additional savings in the form of actual reversions will eventually be captured as well in the SERF at the end of the fiscal year. Budget guidance would be necessary regarding treatment of this assumed funding through a footnote.

It is also possible that such a policy might be set into place perpetually that assumes that a given percentage of turnover savings within departments is expected to be available for merit pay. The state might provide a given percentage of new dollars for merit pay, have that matched with existing base salary dollars from turnover savings, and set the total of the two percentages as the average merit pay increase matrix to be used by state agencies for rewarding state employees.

For example, if 1 percent is funded with new or additional dollars and 1 percent is assumed or imputed from turnover savings, the merit pay increase would use an average 2 percent merit pay matrix. The addition of a footnote to all merit pay line items that identifies the average 2 percent merit pay increase is intended to be funded at 1 percent through appropriations in the line item and matched by departments at 1 percent through anticipated turnover savings in department base salary. Additional department need – which is always going to be variable based on the department and programs or divisions within departments – to meet a 2 percent merit pay funding total or for the purpose of funding an additional half to one percent for merit pay can be made up by drawing on the funds in the SERF.

Were the State to take a more aggressive approach to merit pay, and fund a 3 percent average merit pay increase to match the market's 3 percent salary increase based on merit, it might involve 1 percent from new or additional dollars, 1 percent assumed or imputed from departments base salary from turnover savings, and 1 percent funded from the SERF. Alternately, the Committee might wish to consider a 2 percent merit pay increase funded 1 percent through turnover savings available in the base salary and 1 percent from the SERF, and a 1 percent across-the-board increase funded with new dollars.

A Reordering of Turnover Savings

It is possible that departments that might struggle with funding such a policy are the departments that are maximizing their payments to higher paid staff with available personal services dollars from turnover savings. And it is reasonable that state agencies and the executive branch be provided with the flexibility to determine the appropriate mix for channeling available turnover savings to less-career-mobile frontline staff and more-career-mobile professional and managerial staff. This funding policy at the budget level would remain "neutral" in this respect and allow departments to address these policies internally. This policy would simply give departments the flexibility to provide in-class increases to entry level staff, and all staff, that they do not currently have through a mix of new dollars and base salary turnover savings.

Governor's Requested Transfer of the SERF Balance to the General Fund

The Governor has requested that the balance in the SERF, projected to be $46.9 million as of the end of FY 2015-16, be transferred to the General Fund for budget balancing purposes for FY 2017-18. In discussions with the Department and OSPB regarding the efficacy of retaining or repealing the SERF, both believe the SERF should remain although they recognize that the SERF has never been used for its purpose and is now being depleted for general balancing needs.

Staff is concerned that the incentives built into the SERF reversion mechanism will be diminished to some extent due to this transfer of funds for general budget balancing purposes and further limit the effectiveness of the SERF. While staff has been critical of the SERF in the past, and continues to believe the continuous spending authority provision needs to be replaced with annual spending authority, the SERF can serve an integral part of funding merit pay on a regular basis.

As to the Governor's request, staff does not take a position of support or opposition. Staff recognizes that the Committee needs to have the flexibility to access funds as necessary for budget balancing. However, the SERF mechanism for channeling reversions into a system that regularly funds merit pay should be considered. Staff believes that the identified balance may not be necessary for ongoing merit pay funding. However, staff is recommending that the Committee consider merit pay funding as an ongoing "base" or structural budget issue. Preserving the option for funding merit pay from this source should carefully be considered before taking a budget action that is about resolving one-time budget needs from a source that can more effectively be integrated into funding needs on an ongoing basis.

Recommendations
Staff recommends:

1a. Policy – That the Committee establish a policy to regularly fund merit pay at 2 percent per year, in FY 2017-18 and in years after that in which the market is projected to increase compensation.

Staff predominantly bases this recommendation on the anecdotal funding level cited for the step increase system of 2.2 percent. Staff recommends that this policy be understood as a fundamental budget principle and structured to move with the market. In years of economic recession or when compensation in the labor market is not increasing, this policy may be restricted or postponed over such a period.

1b. Merit Pay Matrix – That the Committee establish a relatively steeper matrix that will provide larger increases for the lower quartiles such as the following:

Recommended 2% Average Merit Pay Matrix					
Performance	**Quartile of class range**				
Rating	**Q1**	**Q2**	**Q3**	**Q4**	**>Q4**
3	3.5%	3.0%	1.5%	1.0%	1.0%
2	2.5%	2.0%	1.0%	0.5%	0.5%
1	0.0%	0.0%	0.0%	0.0%	0.0%

2a. Funding – To fund merit pay of 2 percent, staff recommends that 1 percent be funded with new or additional funding and that a matching 1 percent be funded through a personal services base reduction in anticipation of turnover savings.

Reversions to the SERF suggest that up to three percent of base salary funded by General Fund may be available on a statewide basis among the departments depositing General Fund reversions to the SERF. Historically, the JBC used base reductions in anticipation of vacancy and turnover savings, even in good revenue years and not simply for balancing purposes. JBC staff's 2012 recommendation to allow departments to keep their vacancy and turnover savings for the purpose of channeling savings back into employee increases is served and strengthened through this policy recommendation.

2b. Alternate funding concept – Alternately, in order to limit budget calculation complexity and provide additional flexibility to state agencies, staff recommends that the 1 percent equivalent base reduction be assumed, implied, or imputed rather than explicitly calculated, removed from personal services line items, and then added back in to the merit pay line item. For this option, staff recommends that a footnote be added to all merit pay line items which states that the average 2 percent merit pay increase is intended to be funded at 1 percent using appropriations identified in the merit pay line item and matched by departments at 1 percent through anticipated turnover savings in department base salary.

This approach would provide departments with flexibility to identify turnover savings in varying amounts across division and program personal services line items in order to achieve the funding need. This eliminates the arbitrary nature of standard percentage reductions to every qualifying personal services line item in budget calculations and eliminates requests for exemptions from the policy. Additionally, the extra budget calculation can lead to simple calculation errors as well as errors in the application of policy exemptions.

Staff believes that it may be possible to perpetually self-fund a 2 percent merit pay increase annually, entirely through the use of assumed turnover savings from base salary and the SERF. However, it is reasonable to first "reinvest" with additional dollars for the purpose of moving a greater concentration of employees to salary range midpoints in order to confidently generate such savings consistently from year to year.

2c. Funding from the SERF – Additionally, to provide assurance to state agencies to ensure revenue sufficient to cover the 1 percent assumed/implied/imputed personal services base reduction for merit pay, that the State Employee Reserve Fund be used and identified as a fund source in appropriations for Merit Pay. Staff recommends that the SERF's current provision for continuous spending authority be amended to require annual spending authority and that a phrase be added to the fund source letter note for Merit Pay that would read as follows: "This amount shall be from ... or the state employee reserve fund, created in Section 24-50-104 (1) (j) (II) (A), C.R.S."

ISSUE 3: PERA UPDATE AND S.B. 10-001 REPORT

PERA's, Senate Bill 10-001 Report was issued in December 2015. Provisions in S.B. 10-001 require reports every five years and this is the first. This informational issue describes PERA's financial position at of the end of calendar year 2015 and findings in the S.B. 10-001 report.

SUMMARY:

- In 2015, PERA generated an investment return of 1.5 percent and reported an aggregate funded status for all divisions of 62.1 percent.

- Reforms included in S.B. 10-001 have predominantly achieved the results projected at the time of its implementation.

- Adjustments to PERA's long-term rate of return from 8.0 percent to 7.5 percent and any future decreases will lower the funded status and extend the projected 100-percent funding period.

- The report's current projections identify 100 percent funding for the State and School Divisions in 37 to 38 years, while the 2015 Comprehensive Annual Financial Report (CAFR) identifies 100 percent funding in 44 to 46 years.

- Due to service retirement eligibility adjustments, PERA employers and taxpayers are saving money by providing a more affordable benefit. PERA "Tier 2" members – members joining after January 1, 2007 – self-fund approximately 80 percent of the cost of their retirement benefits with their 8 percent employee contribution.

- Of the State's total 20.15 percent contributions for PERA, in 2016, just under 15 percent is going to pay the normal cost of retirement benefits for current state employees. The additional 85 percent of State contributions for PERA is going to pay for the unfunded liability.

DISCUSSION:

<u>2015 Update</u>

PERA generated an investment return of 1.5 percent in calendar year 2015. While this return is below PERA's assumed 7.5 percent rate of return, since 2010, PERA has averaged 8.6 percent over that six-year period and 7.5 percent over the last five years. PERA reports that its three-year investment return was 7.4 percent, five-year-return 7.3 percent, 10-year-return 6.0 percent, and 35-year-return 9.5 percent.

PERA's investment returns can be expected to move with the market generally, although in comparison to its peers, PERA tends to earn returns slightly higher than benchmarks and averages.

The aggregate funded status for all divisions is 62.1 percent by actuarial value of assets. The actuarial value of assets spreads market gains and losses above or below the assumed rate of return over four years. The State Division reports a 57.6 percent funded status by actuarial value of assets and a complete amortization of unfunded liabilities period of 44 years using a 7.5 percent discount rate; although the S.B. 10-001 report projects a 100-percent-funded status by 2053 – 38 years.

The following table outlines PERA's long-term rate of return (LTROR) and reported investment return, aggregate funded status, and State Division funded ratio and amortization period since 2010.

PERA Reported - CY 2010-15					
		Investment	Aggregate	State Division	
CY	LTROR	Return	Funded Ratio	Funded Ratio	Years to Full Funded
2015	7.5%	1.5%	62.1%	57.6%	44
2014	7.5%	5.7%	62.3%	57.8%	45
2013	7.5%	15.6%	60.4%	57.5%	44
2012	8.0%	12.9%	61.9%	59.2%	36
2011	8.0%	1.9%	59.9%	57.7%	35
2010	8.0%	14.0%	64.7%	62.8%	28

Senate Bill 10-001 Report

At the December 2015 PERA hearing with the JBC, PERA presented its S.B. 10-001 Report, which was released that month. The following summarizes the findings in the report.

Senate Bill 10-001 included a package of changes for PERA in response to the 2008 financial crisis. At the time PERA was projected to run out of money within 20 to 25 years. At the time, projections related to the reforms in S.B. 10-001 projected full funding in 30 to 36 years.

Changes included:

- Reductions to cost of living adjustments;
- Adjustments to AED and SAED; and
- A variety of adjustments for members not eligible to retire as of January 1, 2011, and for new hires after January 1, 2011 and January 1, 2017.

Service retirement eligibility adjustments included:

- A modified rule of 85 for members with less than five years of service credit as of January 1, 2011;
- A modified rule of 88 with a minimum age of 58 for new hires after January 1, 2011; and
- A modified rule of 90 with a minimum age of 60 for new hires after January 1, 2017. These employees will be required to have at least 30 years of service and be at least age 60 to retire with an unreduced benefit.

Despite adjustments to the annual increase provisions, PERA benefit recipients kept up with inflation over the last five-year period.

The following table outlines S.B. 10-001 projected and actual funding levels as of the end of 2014 for the State and School divisions.

Comparison - S.B. 10-001 Projected and Actual Year-end 2014				
	S.B. 10-001 Projected		Actual	
Division	Funded Ratio	Years to Full Fund	Funded Ratio	Years to Full Fund
State	57.6%	36	57.8%	37
School	60.7%	33	60.9%	38

Assuming all future assumptions are met, the funded ratios are projected to:

- In the State and School Divisions, continue to slightly decline or hold steady over the next 17 to 20 years, then gradually increase and reach 100 percent funded in 37 to 38 years;
- In the Local Government Division, continue increasing and reach 100 percent funded in 25 years;
- In the Judicial Division, continue to slightly decline or hold steady over the next 30 years, then gradually increase and reach 100 percent funded in 47 years; and
- In the DPS Division, continue to slightly decline or hold steady over the next 25 years, then gradually increase and reach 100 percent funded in 32 years.

Notable Adjustments to Original Projections

PERA experienced a 9.9 percent annualized investment return from 2010 to 2014, which contributed an additional $4.2 billion in asset value relative to the original 8.0 percent long-term rate of return. The adjustment to a 7.5 percent long-term rate of return cost $816 million in asset value. And a lower-than-anticipated membership growth rate cost $145 million. Active members were projected to grow at an aggregated average 1.5 percent per year but averaged 0.04 percent. Freezing AED and SAED contributions for the Local Government and Judicial Divisions cost $55 million.

Biggest Takeaway

Due to service retirement eligibility adjustments, PERA employers and taxpayers are saving money by providing a more affordable benefit. PERA "Tier 2" members – members joining after January 1, 2007 – self-fund approximately 80 percent of the cost of their retirement benefits through the 8 percent employee contribution. The report states: "PERA Tier 2 members *(membership dates on or after January 1, 2007)* have a less valuable benefit structure and are accruing benefits at a lower annual cost to the plan than the members under earlier membership tiers. The annual cost of the benefits being accrued is commonly referred to as normal cost."

PERA reports that the estimated ultimate normal cost rate for the State Division members is 9.77 percent, generating an employer normal cost rate of 1.72 percent after the 8.05 percent employee contribution. The 2016 estimated normal cost rate for the current mix of 51-percent Tier 2 and 49-percent pre-Tier 2 members is 11.01 percent. The employer normal cost rate is just under 3 percent with the current mix of PERA members on the state payroll. The remainder of the 10.15 employer contribution – just over 7 percent – is paying for the unfunded liability from PERA legacy costs. The additional 5 percent AED and 5 percent SAED likewise pay in their entirety for the unfunded liability. Of the State's total 20.15 percent contributions for PERA, in 2016, just under 15 percent is going to pay the normal cost of retirement benefits for current state employees. The additional 85 percent of State contributions for PERA is going to pay for the unfunded liability.

In Conclusion

Reforms included in S.B. 10-001 have predominantly achieved the results projected at the time of its implementation. The report's current projections identify 100 percent funding for the State and School Divisions in 37 to 38 years, while the Comprehensive Annual Financial Report (CAFR) for 2015 identifies 100 percent funding in 44 to 46 years.

If investment market returns remain lower in the future than historical averages, PERA will eventually be forced to "mark to market" and adjust its long-term rate of return downward, which will further extend the 100 percent funding period. Additionally, other adjustments to true-up PERA assumptions related to membership growth, salary growth, and mortality, as were addressed in staff's 2015 briefing, will similarly extend these timelines. However, while 37 or 38 years may be optimistic, staff is confident that these divisions should reach fully funded status within about a 50-year window. The changes made in S.B. 10-001 will eventually lead to full funding, simply a bit later than originally projected.

The Committee and General Assembly should also keep in mind that the S.B. 10-001 reforms projected a slight decrease in PERA's funded status over a 15- to 20-year period, after which the funded status would noticeably improve. The provisions and components that contribute to the payoff of the unfunded liability were constructed to be more affordable in the early years and more costly in the later years, through a negative amortization, similar to a graduated payment mortgage which increases over time. Over the negative amortization period, the liability increases until payments begin to exceed the interest. The negative amortization is partially built into the increasing AED and SAED rates which will now level off at 5 percent each. It is also incorporated in the increasing state payroll – which is dependent on employee growth and salary growth. And it is included in the decreasing normal cost as lower cost new employees replace higher cost older employees.

ISSUE 4: CASH FUNDS EXCESS RESERVES FOLLOW-UP

House Bill 15-1261, Maximum Reserve for Cash Funds with Fee Revenue, amended Section 24-75-402, C.R.S. This JBC bill amended statutes related to cash funds excess reserves to improve compliance and JBC and General Assembly oversight of cash-funded program revenue management. In addition to other amendments, repeal dates were added to provide a periodic review and reconsideration about whether cash funds should remain exempt beyond a limited period of time. Current exemptions will repeal on July 1, 2017.

SUMMARY:

- In 2015, staff recommended and the Committee pursued legislation to amend statutes related to cash funds excess reserves intended to improve compliance and JBC and General Assembly oversight of cash-funded program revenue management while providing additional flexibility for state agency management of cash funds.

- House Bill 15-1261, Maximum Reserve for Cash Funds with Fee Revenue, amended Section 24-75-402, C.R.S., including the addition of repeal dates for exemptions of cash funds from the provision.

- Repeal dates were added to provide a periodic review and reconsideration about whether funds should remain exempt. Current exemptions will repeal on July 1, 2017.

- The executive branch has not yet requested legislation for this purpose, but staff expects that requests may eventually arrive from OSPB or individual departments for this purpose.

RECOMMENDATION:

At this time, staff simply recommends that the Committee be aware of this issue. Upon request from the executive branch, the Committee may wish to pursue a single bill for the purpose of extending repeal dates for cash funds which are determined should remain exempt from cash funds excess reserve limits. At the necessary time, staff will confer with JBC analysts for those departments seeking extensions and provide the Committee with additional information and recommendations for extending repeal dates.

Appendix A: Number Pages

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation

DEPARTMENT OF PERSONNEL
June Taylor, Executive Director

(1) EXECUTIVE DIRECTOR'S OFFICE

The primary source of cash funds and reappropriated funds are indirect cost recoveries and user fees from other State agencies.

(A) Department Administration

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Personal Services	1,592,346	1,652,315	1,740,849	1,744,355	
FTE	17.0	15.8	18.3	18.3	
General Fund	0	0	242,923	243,057	
Cash Funds	0	0	52,753	56,125	
Reappropriated Funds	1,592,346	1,652,315	1,445,173	1,445,173	
Health, Life, and Dental	2,482,052 #	3,080,546 #	3,107,311	3,565,498	
General Fund	714,917	839,730	872,532	1,004,991	
Cash Funds	250,164	321,718	269,934	252,170	
Reappropriated Funds	1,516,971	1,919,098	1,964,845	2,308,337	
Short-term Disability	46,929 #	50,200 #	44,651	46,326	
General Fund	17,117	17,610	14,695	16,506	
Cash Funds	3,962	5,050	4,492	3,122	
Reappropriated Funds	25,850	27,540	25,464	26,698	
S.B. 04-257 Amortization Equalization Disbursement	863,323 #	1,054,638 #	1,129,974	1,254,088	
General Fund	313,795	368,794	371,611	446,134	
Cash Funds	72,844	106,394	113,171	84,394	
Reappropriated Funds	476,684	579,450	645,192	723,560	

#Figures represent the final appropriation for this line item, not actual expenditures.

	FY 2014-15 Actual		FY 2015-16 Actual		FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
S.B. 06-235 Supplemental Amortization Equalization							
Disbursement	809,365	#	1,018,684	#	1,118,203	1,254,088	
General Fund	294,183		356,221		367,740	446,134	
Cash Funds	68,291		102,767		111,992	84,394	
Reappropriated Funds	446,891		559,696		638,471	723,560	
Salary Survey	684,268	#	240,120	#	81,876	681,647	
General Fund	246,080		74,993		35,647	242,891	
Cash Funds	58,281		26,766		1,045	45,945	
Reappropriated Funds	379,907		138,361		45,184	392,811	
Shift Differential	49,698	#	45,747	#	45,051	43,735	
Reappropriated Funds	49,698		45,747		45,051	43,735	
Workers' Compensation	239,093		184,433		228,134	241,905	
General Fund	63,331		50,321		62,118	65,795	
Cash Funds	21,796		19,874		24,087	25,396	
Reappropriated Funds	153,966		114,238		141,929	150,714	
Operating Expenses	450,463		99,478		104,709	100,006	
General Fund	351,378		0		99,531	99,531	
Cash Funds	0		0		5,178	475	
Reappropriated Funds	99,085		99,478		0	0	
Legal Services	238,586		219,797		243,613	254,403	
General Fund	181,449		177,061		172,695	166,046	
Cash Funds	15,845		11,267		42,721	48,297	
Reappropriated Funds	41,292		31,469		28,197	40,060	

#Figures represent the final appropriation for this line item, not actual expenditures.

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Administrative Law Judge Services	14,585	11,383	12,814	11,668	*
Cash Funds	13,043	10,323	12,814	11,668	
Reappropriated Funds	1,542	1,060	0	0	
Payment to Risk Management and Property Funds	607,909	571,070	631,502	662,024	
General Fund	158,082	155,865	171,561	179,710	
Cash Funds	63,356	62,203	66,915	69,815	
Reappropriated Funds	386,471	353,002	393,026	412,499	
Vehicle Lease Payments	53,520	54,433	61,450	225,857	*
Cash Funds	2,042	2,010	2,128	2,128	
Reappropriated Funds	51,478	52,423	59,322	223,729	
Leased Space	316,949	316,949	338,179	340,613	
Cash Funds	0	0	2,795	0	
Reappropriated Funds	316,949	316,949	335,384	340,613	
Capitol Complex Leased Space	1,684,254	2,388,386	2,431,358	2,777,954	
General Fund	958,689	1,320,282	1,245,212	0	
Cash Funds	228,422	231,042	225,970	133,944	
Reappropriated Funds	497,143	837,062	960,176	2,644,010	
Payments to OIT	1,695,279	3,768,561	5,583,222	3,555,270	*
General Fund	316,349	1,035,742	1,525,117	194,163	
Cash Funds	53,014	508,639	580,960	337,793	
Reappropriated Funds	1,325,916	2,224,180	3,477,145	3,023,314	

Line item includes a decision item.

	FY 2014-15 Actual		FY 2015-16 Actual		FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
CORE Operations	219,444		401,287		303,032	281,870	
General Fund	57,063		110,289		82,244	76,594	
Cash Funds	22,870		54,159		31,192	29,182	
Reappropriated Funds	139,511		236,839		189,596	176,094	
Merit Pay	199,727	#	224,307	#	0	0	
General Fund	63,712		73,405		0	0	
Cash Funds	19,468		27,728		0	0	
Reappropriated Funds	116,547		123,174		0	0	
SUBTOTAL - (A) Department Administration	12,247,790		15,382,334		17,205,928	17,041,307	(1.0%)
FTE	17.0		15.8		18.3	18.3	0.0%
General Fund	3,736,145		4,580,313		5,263,626	3,181,552	(39.6%)
Cash Funds	893,398		1,489,940		1,548,147	1,184,848	(23.5%)
Reappropriated Funds	7,618,247		9,312,081		10,394,155	12,674,907	21.9%

(B) Statewide Special Purpose

(I) Colorado State Employees Assistance Program

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Personal Services	779,776	804,848	817,704	819,485	
FTE	10.4	9.9	11.0	11.0	
Cash Funds	0	0	12,856	0	
Reappropriated Funds	779,776	804,848	804,848	819,485	
Operating Expenses	52,589	52,777	53,794	53,794	
Reappropriated Funds	52,589	52,777	53,794	53,794	
Indirect Cost Assessment	78,310	172,259	29,796	164,614	
Reappropriated Funds	78,310	172,259	29,796	164,614	

#Figures represent the final appropriation for this line item, not actual expenditures.

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL -	910,675	1,029,884	901,294	1,037,893	15.2%
FTE	10.4	9.9	11.0	11.0	0.0%
Cash Funds	0	0	12,856	0	(100.0%)
Reappropriated Funds	910,675	1,029,884	888,438	1,037,893	16.8%
(II) Office of the State Architect					
Office of the State Architect	467,001	615,108	809,473	815,666	
FTE	4.8	6.0	8.0	8.0	
General Fund	467,001	615,108	809,473	815,666	
Statewide Planning Services	0	2,396	1,000,000	1,000,000	
General Fund	0	2,396	1,000,000	1,000,000	
SUBTOTAL -	467,001	617,504	1,809,473	1,815,666	0.3%
FTE	4.8	6.0	8.0	8.0	(0.0%)
General Fund	467,001	617,504	1,809,473	1,815,666	0.3%
(III) Colorado State Archives					
Personal Services	682,799	432,209	742,315	744,083	
FTE	8.4	7.9	12.0	12.0	
General Fund	532,794	431,753	533,556	535,324	
Cash Funds	126,082	456	179,688	179,688	
Reappropriated Funds	23,923	0	29,071	29,071	
Operating Expenses	128,436	81,572	93,836	93,836	
General Fund	128,436	81,572	93,836	93,836	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL -	811,235	513,781	836,151	837,919	0.2%
FTE	8.4	7.9	12.0	12.0	0.0%
General Fund	661,230	513,325	627,392	629,160	0.3%
Cash Funds	126,082	456	179,688	179,688	0.0%
Reappropriated Funds	23,923	0	29,071	29,071	0.0%
(V) Other Statewide Special Purpose					
Test Facility Lease	119,842	119,842	119,842	119,842	
General Fund	0	119,842	119,842	119,842	
Reappropriated Funds	119,842	0	0	0	
Employment Security Contract Payment	14,900	15,350	20,000	20,000	
General Fund	6,164	8,953	11,264	11,264	
Reappropriated Funds	8,736	6,397	8,736	8,736	
Disability Investigational and Pilot Support Procurement	401,763	348,864	1,419,976	1,501,976	
Cash Funds	401,763	348,864	1,419,976	1,501,976	
SUBTOTAL -	536,505	484,056	1,559,818	1,641,818	5.3%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	6,164	128,795	131,106	131,106	0.0%
Cash Funds	401,763	348,864	1,419,976	1,501,976	5.8%
Reappropriated Funds	128,578	6,397	8,736	8,736	0.0%
SUBTOTAL - (B) Statewide Special Purpose	2,725,416	2,645,225	5,106,736	5,333,296	4.4%
FTE	23.6	23.8	31.0	31.0	0.0%
General Fund	1,134,395	1,259,624	2,567,971	2,575,932	0.3%
Cash Funds	527,845	349,320	1,612,520	1,681,664	4.3%
Reappropriated Funds	1,063,176	1,036,281	926,245	1,075,700	16.1%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
TOTAL - (1) Executive Director's Office	14,973,206	18,027,559	22,312,664	22,374,603	0.3%
FTE	40.6	39.6	49.3	49.3	(0.0%)
General Fund	4,870,540	5,839,937	7,831,597	5,757,484	(26.5%)
Cash Funds	1,421,243	1,839,260	3,160,667	2,866,512	(9.3%)
Reappropriated Funds	8,681,423	10,348,362	11,320,400	13,750,607	21.5%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(2) DIVISION OF HUMAN RESOURCES					
rance policies.					
(A) Human Resource Services					
(I) State Agency Services					
Personal Services	1,284,613	1,402,113	1,726,578	1,728,063	
FTE	11.9	15.4	19.2	19.2	
General Fund	0	1,402,113	1,726,578	1,728,063	
Reappropriated Funds	1,284,613	0	0	0	
Operating Expenses	88,496	82,524	88,496	88,496	
General Fund	0	82,524	88,496	88,496	
Reappropriated Funds	88,496	0	0	0	
Total Compensation and Employee Engagement Surveys	424,000	203,512	300,000	215,000	
General Fund	424,000	203,512	300,000	215,000	
SUBTOTAL -	1,797,109	1,688,149	2,115,074	2,031,559	(3.9%)
FTE	11.9	15.4	19.2	19.2	0.0%
General Fund	424,000	1,688,149	2,115,074	2,031,559	(3.9%)
Reappropriated Funds	1,373,109	0	0	0	0.0%
(II) Training Services					
Training Services	0	687,079	691,221	692,541	
FTE	0.0	3.0	4.0	4.0	
Cash Funds	0	40,303	40,305	40,305	
Reappropriated Funds	0	646,776	650,916	652,236	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Indirect Cost Assessment	27,605	32,482	62,425	101,199	
Cash Funds	9,938	3,842	0	0	
Reappropriated Funds	17,667	28,640	62,425	101,199	
Personal Services	600,245	0	0	0	
FTE	3.0	0.0	0.0	0.0	
Cash Funds	33,417	0	0	0	
Reappropriated Funds	566,828	0	0	0	
Operating Expenses	80,542	0	0	0	
Cash Funds	6,888	0	0	0	
Reappropriated Funds	73,654	0	0	0	
SUBTOTAL -	708,392	719,561	753,646	793,740	5.3%
FTE	3.0	3.0	4.0	4.0	0.0%
Cash Funds	50,243	44,145	40,305	40,305	0.0%
Reappropriated Funds	658,149	675,416	713,341	753,435	5.6%
SUBTOTAL - (A) Human Resource Services	2,505,501	2,407,710	2,868,720	2,825,299	(1.5%)
FTE	14.9	18.4	23.2	23.2	0.0%
General Fund	424,000	1,688,149	2,115,074	2,031,559	(3.9%)
Cash Funds	50,243	44,145	40,305	40,305	0.0%
Reappropriated Funds	2,031,258	675,416	713,341	753,435	5.6%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(B) Employee Benefits Services					
Personal Services	801,491	704,881	836,869	837,446	
FTE	10.2	9.1	12.0	12.0	
General Fund	0	0	0	0	
Cash Funds	801,491	704,881	836,869	837,446	
Operating Expenses	56,542	45,360	58,324	58,324	
Cash Funds	56,542	45,360	58,324	58,324	
Utilization Review	40,000	12,888	40,000	40,000	
Cash Funds	40,000	12,888	40,000	40,000	
H.B. 07-1335 Supplemental State Contribution Fund	1,300,672	1,145,379	2,014,192	1,134,447	
Cash Funds	1,300,672	1,145,379	2,014,192	1,134,447	
Indirect Cost Assessment	247,138	172,277	73,154	208,758	
Cash Funds	247,138	172,277	73,154	208,758	
SUBTOTAL - (B) Employee Benefits Services	2,445,843	2,080,785	3,022,539	2,278,975	(24.6%)
FTE	10.2	9.1	12.0	12.0	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	2,445,843	2,080,785	3,022,539	2,278,975	(24.6%)
(C) Risk Management Services					
Personal Services	813,646	724,758	847,621	847,867	
FTE	9.9	9.7	11.5	11.5	
Reappropriated Funds	813,646	724,758	847,621	847,867	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Operating Expenses	58,669	58,439	68,427	68,427	
Reappropriated Funds	58,669	58,439	68,427	68,427	
Actuarial and Broker Services	272,000	161,730	272,073	257,000	
Reappropriated Funds	272,000	161,730	272,073	257,000	
Risk Management Information System	137,448	152,418	191,050	193,302	
Reappropriated Funds	137,448	152,418	191,050	193,302	
Indirect Cost Assessment	95,199	163,715	189,850	214,251	
Reappropriated Funds	95,199	163,715	189,850	214,251	
Liability Claims	6,560,299	4,262,694	7,013,148	5,492,182	
Reappropriated Funds	6,560,299	4,262,694	7,013,148	5,492,182	
Liability Excess Policy	316,764	308,544	349,400	363,825	
Reappropriated Funds	316,764	308,544	349,400	363,825	
Liability Legal Services	3,426,764	3,370,249	3,985,654	4,556,435	
Reappropriated Funds	3,426,764	3,370,249	3,985,654	4,556,435	
Property Policies	4,881,240	4,837,309	5,179,922	5,449,696	
Reappropriated Funds	4,881,240	4,837,309	5,179,922	5,449,696	
Property Deductibles and Payouts	10,425,124	5,838,017	2,600,000	2,860,000	
Reappropriated Funds	10,425,124	5,838,017	2,600,000	2,860,000	
Workers' Compensation Claims	32,114,888	30,487,596	35,279,285	35,712,576	
Reappropriated Funds	32,114,888	30,487,596	35,279,285	35,712,576	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Workers' Compensation TPA Fees and Loss Control	2,471,367	2,300,094	2,450,000	2,450,000	
Reappropriated Funds	2,471,367	2,300,094	2,450,000	2,450,000	
Workers' Compensation Excess Policy	759,306	699,873	820,890	751,657	
Reappropriated Funds	759,306	699,873	820,890	751,657	
Workers' Compensation Legal Services	2,235,456	2,269,200	2,452,571	2,380,838	
Reappropriated Funds	2,235,456	2,269,200	2,452,571	2,380,838	
SUBTOTAL - (C) Risk Management Services	64,568,170	55,634,636	61,699,891	61,598,056	(0.2%)
FTE	9.9	9.7	11.5	11.5	0.0%
Reappropriated Funds	64,568,170	55,634,636	61,699,891	61,598,056	(0.2%)
TOTAL - (2) Division of Human Resources	69,519,514	60,123,131	67,591,150	66,702,330	(1.3%)
FTE	35.0	37.2	46.7	46.7	0.0%
General Fund	424,000	1,688,149	2,115,074	2,031,559	(3.9%)
Cash Funds	2,496,086	2,124,930	3,062,844	2,319,280	(24.3%)
Reappropriated Funds	66,599,428	56,310,052	62,413,232	62,351,491	(0.1%)

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(3) CONSTITUTIONALLY INDEPENDENT ENTITIES					
l departments and agencies for classified employees in the State personnel system.					
(A) Personnel Board					
Personal Services	472,550	423,443	495,608	495,608	
FTE	4.6	4.3	4.8	4.8	
General Fund	472,425	423,443	494,430	494,430	
Cash Funds	125	0	1,178	1,178	
Operating Expenses	20,443	17,234	20,505	20,505	
General Fund	20,443	17,234	20,505	20,505	
Legal Services	32,673	31,353	31,367	32,756	
General Fund	32,673	31,353	31,367	32,756	
TOTAL - (3) Constitutionally Independent Entities	525,666	472,030	547,480	548,869	0.3%
FTE	4.6	4.3	4.8	4.8	0.0%
General Fund	525,541	472,030	546,302	547,691	0.3%
Cash Funds	125	0	1,178	1,178	0.0%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(4) CENTRAL SERVICES					
or state agencies. The Facilities Maintenance section manages the buildings and grounds of the Capitol Complex, the Grand Junction State Services Building, and Camp George West.					
(A) Administration					
Personal Services	668,785	611,555	689,236	689,236	
FTE	7.3	7.2	8.0	8.0	
Cash Funds	0	0	0	0	
Reappropriated Funds	668,785	611,555	689,236	689,236	
Operating Expenses	43,616	33,854	44,000	44,000	
Reappropriated Funds	43,616	33,854	44,000	44,000	
Indirect Cost Assessment	57,138	68,172	21,207	80,464	
Reappropriated Funds	57,138	68,172	21,207	80,464	
SUBTOTAL - (A) Administration	769,539	713,581	754,443	813,700	7.9%
FTE	7.3	7.2	8.0	8.0	0.0%
Cash Funds	0	0	0	0	0.0%
Reappropriated Funds	769,539	713,581	754,443	813,700	7.9%
(B) Integrated Document Solutions					
Personal Services	5,929,282	5,959,852	6,378,093	6,399,762	
FTE	101.2	96.5	99.1	99.1	
Cash Funds	125,328	90,292	141,615	141,615	
Reappropriated Funds	5,803,954	5,869,560	6,236,478	6,258,147	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Operating Expenses	6,147,519	5,163,430	6,386,575	6,444,487	
Cash Funds	240,313	0	240,313	240,313	
Reappropriated Funds	5,907,206	5,163,430	6,146,262	6,204,174	
Commercial Print Payments	0	1,366,521	2,100,000	2,100,000	
FTE	0.0	0.0	0.0	0.0	
Reappropriated Funds	0	1,366,521	2,100,000	2,100,000	
IDS Postage	7,367,224	7,448,462	8,495,928	8,521,861	
Cash Funds	740,298	0	740,298	740,298	
Reappropriated Funds	6,626,926	7,448,462	7,755,630	7,781,563	
Utilities	69,000	68,982	69,000	69,000	
Reappropriated Funds	69,000	68,982	69,000	69,000	
Address Confidentiality Program	195,306	194,622	254,488	269,962	
FTE	2.5	3.0	3.4	3.4	
General Fund	60,303	107,800	143,543	159,017	
Cash Funds	135,003	86,822	110,945	110,945	
Indirect Cost Assessment	699,536	322,284	198,180	291,646	
Reappropriated Funds	699,536	322,284	198,180	291,646	
Mail Equipment Purchase	181,860	210,892	0	0	
General Fund	2,118	46,129	0	0	
Cash Funds	2,118	46,129	0	0	
Reappropriated Funds	177,624	118,634	0	0	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL - (B) Integrated Document Solutions	20,589,727	20,735,045	23,882,264	24,096,718	0.9%
FTE	103.7	99.5	102.5	102.5	0.0%
General Fund	62,421	153,929	143,543	159,017	10.8%
Cash Funds	1,243,060	223,243	1,233,171	1,233,171	0.0%
Reappropriated Funds	19,284,246	20,357,873	22,505,550	22,704,530	0.9%
(C) Fleet Management Program and Motor Pool Services					
Personal Services	768,753	786,842	802,688	802,688	
FTE	12.8	13.0	14.0	14.0	
Reappropriated Funds	768,753	786,842	802,688	802,688	
Operating Expenses	532,391	594,283	357,020	357,020	
Reappropriated Funds	532,391	594,283	357,020	357,020	
Motor Pool Vehicle Lease and Operating Expenses	0	0	200,000	200,000	
Reappropriated Funds	0	0	200,000	200,000	
Fuel and Automotive Supplies	20,100,019	17,503,906	21,000,000	21,000,000	
Reappropriated Funds	20,100,019	17,503,906	21,000,000	21,000,000	
Vehicle Replacement Lease/Purchase	16,070,129	17,187,982	17,056,210	19,965,397 *	
Reappropriated Funds	16,070,129	17,187,982	17,056,210	19,965,397	
Indirect Cost Assessment	609,903	293,264	148,784	371,178	
Reappropriated Funds	609,903	293,264	148,784	371,178	

Line item includes a decision item.

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL - (C) Fleet Management Program and Motor Pool Services	38,081,195	36,366,277	39,564,702	42,696,283	7.9%
FTE	12.8	13.0	14.0	14.0	0.0%
Reappropriated Funds	38,081,195	36,366,277	39,564,702	42,696,283	7.9%
(D) Facilities Maintenance - Capitol Complex					
Personal Services	3,042,729	3,025,361	3,174,718	3,206,979	
FTE	60.5	54.5	55.2	55.2	
Reappropriated Funds	3,042,729	3,025,361	3,174,718	3,206,979	
Operating Expenses	2,768,302	2,683,874	2,709,468	2,709,468	
General Fund	85,872	0	0	0	
Cash Funds	85,872	0	0	0	
Reappropriated Funds	2,596,558	2,683,874	2,709,468	2,709,468	
Capitol Complex Repairs	52,632	55,689	56,520	56,520	
Reappropriated Funds	52,632	55,689	56,520	56,520	
Capitol Complex Security	405,243	405,243	405,243	405,243	
Reappropriated Funds	405,243	405,243	405,243	405,243	
Utilities	4,769,540	4,497,004	5,104,661	4,868,967	
Cash Funds	1,588,452	313,139	320,424	320,424	
Reappropriated Funds	3,181,088	4,183,865	4,784,237	4,548,543	
Indirect Cost Assessment	1,399,867	1,009,358	313,715	1,041,130	
Reappropriated Funds	1,399,867	1,009,358	313,715	1,041,130	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL - (D) Facilities Maintenance - Capitol Complex	12,438,313	11,676,529	11,764,325	12,288,307	4.5%
FTE	60.5	54.5	55.2	55.2	0.0%
General Fund	85,872	0	0	0	0.0%
Cash Funds	1,674,324	313,139	320,424	320,424	0.0%
Reappropriated Funds	10,678,117	11,363,390	11,443,901	11,967,883	4.6%
TOTAL - (4) Central Services	71,878,774	69,491,432	75,965,734	79,895,008	5.2%
FTE	184.3	174.2	179.7	179.7	0.0%
General Fund	148,293	153,929	143,543	159,017	10.8%
Cash Funds	2,917,384	536,382	1,553,595	1,553,595	0.0%
Reappropriated Funds	68,813,097	68,801,121	74,268,596	78,182,396	5.3%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation

(5) DIVISION OF ACCOUNTS AND CONTROL

ping the statewide indirect cost allocation plan. The Division receives cash funds from the Supplier Database Cash Fund (Section 24-102-202.5, C.R.S.) and rebates associated with the Procurement Card Program.

(A) Financial Operations and Reporting

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(1) Financial Operations and Reporting					
Personal Services	0	2,550,086	2,730,354	2,789,931	
FTE	0.0	28.4	29.5	30.3	
General Fund	0	2,197,814	2,508,988	2,568,565	
Cash Funds	0	352,272	221,366	221,366	
Operating Expenses	0	137,013	139,334	140,047	
General Fund	0	0	0	713	
Cash Funds	0	137,013	139,334	139,334	
Recovery Audit Program Disbursements	0	0	1,000	1,000	
Cash Funds	0	0	1,000	1,000	
SUBTOTAL -	0	2,687,099	2,870,688	2,930,978	2.1%
FTE	0.0	28.4	29.5	30.3	2.7%
General Fund	0	2,197,814	2,508,988	2,569,278	2.4%
Cash Funds	0	489,285	361,700	361,700	0.0%
(2) Collections Services					
Personal Services	0	911,717	1,313,185	1,319,091	
FTE	0.0	17.0	28.0	28.0	
General Fund	0	0	0	0	
Cash Funds	0	911,717	1,313,185	1,319,091	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Operating Expenses	0	372,857	553,401	553,401	
Cash Funds	0	372,857	553,401	553,401	
Private Collection Agency Fees	0	639,048	900,000	900,000	
Cash Funds	0	639,048	900,000	900,000	
Indirect Cost Assessment	0	312,526	152,625	245,611	
Cash Funds	0	312,526	152,625	245,611	
SUBTOTAL -	0	2,236,148	2,919,211	3,018,103	3.4%
FTE	0.0	17.0	28.0	28.0	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	0	2,236,148	2,919,211	3,018,103	3.4%
SUBTOTAL - (A) Financial Operations and Reporting	0	4,923,247	5,789,899	5,949,081	2.7%
FTE	0.0	45.4	57.5	58.3	1.4%
General Fund	0	2,197,814	2,508,988	2,569,278	2.4%
Cash Funds	0	2,725,433	3,280,911	3,379,803	3.0%
(B) Procurement and Contracts					
Personal Services	0	1,410,852	1,560,828	1,560,828	
FTE	0.0	15.4	17.7	17.7	
General Fund	0	0	0	0	
Cash Funds	0	1,410,852	1,560,828	1,560,828	
Operating Expenses	0	36,334	38,284	38,284	
Cash Funds	0	36,334	38,284	38,284	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL - (B) Procurement and Contracts	0	1,447,186	1,599,112	1,599,112	0.0%
FTE	0.0	15.4	17.7	17.7	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	0	1,447,186	1,599,112	1,599,112	0.0%
(c) CORE Operations					
Personal Services	0	1,630,383	1,793,977	1,796,120	
FTE	0.0	17.1	21.3	21.3	
General Fund	0	0	0	0	
Cash Funds	0	406,672	406,672	406,672	
Reappropriated Funds	0	1,223,711	1,387,305	1,389,448	
Operating Expenses	0	1,369,408	1,369,408	1,369,408	
Cash Funds	0	1,369,408	1,369,408	221,760	
Reappropriated Funds	0	0	0	1,147,648	
Payments for CORE and Support Modules	0	5,273,022	5,276,152	5,282,872	
Cash Funds	0	428,467	2,387,847	0	
Reappropriated Funds	0	4,844,555	2,888,305	5,282,872	
CORE Lease Purchase Payments	0	3,950,659	3,936,611	3,936,611	
Cash Funds	0	0	0	636,611	
Reappropriated Funds	0	3,950,659	3,936,611	3,300,000	
Indirect Cost Assessment	0	0	0	143,641	
Reappropriated Funds	0	0	0	143,641	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL - (c) CORE Operations	0	12,223,472	12,376,148	12,528,652	1.2%
FTE	0.0	17.1	21.3	21.3	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	0	2,204,547	4,163,927	1,265,043	(69.6%)
Reappropriated Funds	0	10,018,925	8,212,221	11,263,609	37.2%
(C) Supplier Database and e-Procurement					
Personal Services	624,172				
FTE	11.0				
Cash Funds	624,172				
Operating Expenses	1,311,755				
Cash Funds	1,311,755				
SUBTOTAL - (C) Supplier Database and e-Procurement	1,935,927	0.0%			
FTE	11.0	0.0%			
Cash Funds	1,935,927	0.0%			
(D) Office of the State Controller					
Personal Services	2,362,654	0			
FTE	27.5	0.0			
General Fund	974,131	0			
Cash Funds	730,084	0			
Reappropriated Funds	658,439	0			
Operating Expenses	131,117	0			
General Fund	131,117	0			

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL - (D) Office of the State Controller	2,493,771	0	0.0%		
FTE	27.5	0.0	0.0%		
General Fund	1,105,248	0	0.0%		
Cash Funds	730,084	0	0.0%		
Reappropriated Funds	658,439	0	0.0%		
€ State Purchasing Office					
Personal Services	814,682	0			
FTE	8.3	0.0			
General Fund	0	0			
Cash Funds	814,682	0			
Operating Expenses	26,987	0			
Cash Funds	26,987	0			
Statewide Travel Management Program	104,477	0			
FTE	1.0	0.0			
General Fund	0	0			
Cash Funds	104,477	0			
DIPS Procurement	401,763	0			
Cash Funds	401,763	0			
SUBTOTAL - € State Purchasing Office	1,347,909	0	0.0%		
FTE	9.3	0.0	0.0%		
General Fund	0	0	0.0%		
Cash Funds	1,347,909	0	0.0%		

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(G) Collections Services					
Personal Services	1,102,268	0			
FTE	19.9	0.0			
General Fund	0	0			
Cash Funds	1,102,268	0			
Operating Expenses	424,297	0			
Cash Funds	424,297	0			
Private Collection Agency Fees	795,333	0			
Cash Funds	795,333	0			
Indirect Cost Assessment	307,044	0			
Cash Funds	307,044	0			
SUBTOTAL - (G) Collections Services	2,628,942	0	0.0%		
FTE	19.9	0.0	0.0%		
General Fund	0	0	0.0%		
Cash Funds	2,628,942	0	0.0%		
TOTAL - (5) Division of Accounts and Control	8,406,549	18,593,905	19,765,159	20,076,845	1.6%
FTE	67.7	77.9	96.5	97.3	0.8%
General Fund	1,105,248	2,197,814	2,508,988	2,569,278	2.4%
Cash Funds	6,642,862	6,377,166	9,043,950	6,243,958	(31.0%)
Reappropriated Funds	658,439	10,018,925	8,212,221	11,263,609	37.2%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(6) ADMINISTRATIVE COURTS					
ispute resolution options, including evidentiary hearings, settlement conferences, and mediation.					
Personal Services	3,374,818	3,455,895	3,787,494	3,787,494	
FTE	38.0	37.9	44.5	44.5	
Cash Funds	105,916	105,916	105,916	105,916	
Reappropriated Funds	3,268,902	3,349,979	3,681,578	3,681,578	
Operating Expenses	143,251	149,096	171,525	202,439 *	
Reappropriated Funds	143,251	149,096	171,525	202,439	
Indirect Cost Assessment	230,033	138,384	71,305	194,278	
Cash Funds	8,587	0	0	0	
Reappropriated Funds	221,446	138,384	71,305	194,278	
TOTAL - (6) Administrative Courts	3,748,102	3,743,375	4,030,324	4,184,211	3.8%
FTE	38.0	37.9	44.5	44.5	0.0%
Cash Funds	114,503	105,916	105,916	105,916	0.0%
Reappropriated Funds	3,633,599	3,637,459	3,924,408	4,078,295	3.9%
TOTAL - Department of Personnel	169,051,811	170,451,432	190,212,511	193,781,866	1.9%
FTE	370.2	371.1	421.5	422.3	0.2%
General Fund	7,073,622	10,351,859	13,145,504	11,065,029	(15.8%)
Cash Funds	13,592,203	10,983,654	16,928,150	13,090,439	(22.7%)
Reappropriated Funds	148,385,986	149,115,919	160,138,857	169,626,398	5.9%

Line item includes a decision item.

APPENDIX B
RECENT LEGISLATION AFFECTING DEPARTMENT BUDGET

2015 SESSION BILLS

S.B. 15-234 (LONG BILL): General appropriations act for FY 2015-16.

S.B. 15-270 (CREATE THE OFFICE OF THE STATE ARCHITECT): Codifies the existing Office of the State Architect in statute and adds authority over and responsibility for statewide planning for capital construction. Appropriates $105,531 General Fund and 1.0 FTE for the Office of the State Architect program line item for FY 2015-16 and reduces the FY 2015-16 General Fund appropriation to the Statewide Planning Services line item in the Office of the State Architect by an equal amount.

H.B. 15-1219 (EZ INVESTMENT TAX CREDIT FOR RENEWABLE ENERGY): Modifies renewable energy tax credits in enterprise zones. Appropriates $1,200 reappropriated funds to Integrated Document Solutions for document management services purchased by the Department of Revenue for FY 2015-16.

H.B. 15-1392 (PAYROLL SYSTEM TO PAY STATE EMPLOYEES TWICE A MONTH): Effective July 1, 2017, implements a twice-monthly pay system for all state employees paid through the state's payroll system, replacing the current monthly or biweekly pay system. The bill delays payment to state employees by half a month beginning on July 31, 2017, compared to the current pay system. For work performed from the first day of the month through the 15th day of the month, employees will be paid on the last day of the same month, and for work performed from the 16th day of the month through the last day of the month, employees will be paid on the 15th day of the next month, except that, for work performed from the first day of June through the 15th day of June, employees will be paid on July 1 – maintaining the existing *paydate shift* for monthly-paid employees and moving biweekly-paid employees into the *paydate shift* accounting mechanism.

To assist employees with the half-month delay in pay, the bill provides for a one-time loan in July 2017 equal to no more than an employee's net pay for a half-month pay period. The bill specifies two repayment options to be paid over three years. The Legislative Council Staff Revised Fiscal Note identifies a cost of $30.0 million General Fund to fund employee loans based on an estimated access rate of the loan program by state employees of 40 to 50 percent. The loan program to state employees will necessitate a General Fund appropriation to cover all payroll fund sources, including cash-funded, reappropriated-funded, and federal-funded payroll expenditures. As identified in the Revised Fiscal Note, up to $65 million in state employee payroll could be loaned out in July 2017. It is estimated that the appropriation necessary for the loan program will require between $30 million and $65 million General Fund in FY 2017-18.

2016 SESSION BILLS

S.B. 16-040 (MARIJUANA OWNER CHANGES): For FY 2016-17, provides $4,950 reappropriated funds to the Department of Personnel for vehicle replacement lease/purchase for the Department of Revenue (DOR). For additional information see the "Recent Legislation" section at the end of Part III for the DOR.

H.B. 16-1246 (SUPPLEMENTAL BILL): Supplemental appropriations bill for the Department of Personnel for FY 2015-16. Includes supplemental appropriations to the Department of Personnel for FY 2014-15.

H.B. 16-1362 (LICENSE PLATE AUCTION TRANSFER DISABILITY BENEFIT): Transfers the functions of the License Plate Auction Group, currently housed in the Governor's Office, to the Disability-Benefit Support Contract Committee, housed in the Department of Personnel, and renames the new entity the Colorado Disability Funding Committee. Provides that the committee will contract with an entity, that it will retain oversight of, to sell and auction registration numbers, for which it will also determine a reasonable commission. When adequate funding is available through registration number sales, requires the committee to contract with a nonprofit entity that will aid people with disabilities in accessing disability benefits. Once this contract is in place, allows the committee to make grants or loans to pilot projects or programs that aim to improve quality of life or increase independence for people with disabilities. Allows the committee to obtain the services of professional advisors or contract employees to provide administrative assistance and the Department of Personnel to hire employees to provide administrative support. Repeals the License Plate Auction Group and its Registration Number Fund within 60 days after the bill's effective date. Renames the Disability Investigational and Pilot Support (DIPS) Fund as the Disability Support Fund. Transfers the Registration Number Fund balance and all future proceeds from the sales of registration numbers to the Disability Support Fund. Repeals the Disability-Benefit Support Fund. Transfers any money used to implement additional license plate options to the Division of Correctional Industries in the Department of Corrections. Appropriates $42,283 cash funds and 0.5 FTE from the Disability Support Fund to the Department of Personnel for administrative support of the Colorado Disability Funding Committee.

H.B. 16-1405 (LONG BILL): General appropriations act for FY 2016-17.

H.B. 16-1408 (CASH FUND ALLOCATIONS FOR HEALTH-RELATED PROGRAMS): Establishes a new formula for the allocation of the annual payment received by the state as part of the Tobacco Master Settlement Agreement. For FY 2016-17, provides $879,745 cash funds from the Supplemental State Contribution Fund to the Department of Personnel for the H.B. 07-1335 Supplemental State Contribution Fund. For additional information see the "Recent Legislation" section at the end of Part III for the Department of Public Health.

APPENDIX C
FOOTNOTES AND INFORMATION REQUESTS

UPDATE ON LONG BILL FOOTNOTES

78 Department of Personnel, Executive Director's Office, Statewide Special Purpose, Office of the State Architect, Statewide Planning Services -- This appropriation remains available through June 30, 2018.

79 Department of Personnel, Central Services, Fleet Management Program and Motor Pool Services, Vehicle Replacement Lease/Purchase -- Pursuant to Section 24-82-801 (1) (b) and (1) (c), C.R.S., the Department of Personnel is authorized to enter into a lease-purchase agreement for the approved FY 2016-17 vehicle replacements and additions. The lease-purchase agreement shall be for a period of up to ten years and shall not exceed the amount of $30,000,000.

COMMENT: Footnotes in the Long Bill provide roll-forward authority for the statewide planning appropriation and lease-purchase guidance for Fleet Management.

UPDATE ON REQUESTS FOR INFORMATION

1. Department of **Health Care Policy and Financing**, Medical Services Premiums; Indigent Care Program, Children's Basic Health Plan Medical and Dental Costs; Department of **Higher Education**, Colorado Commission on Higher Education, Special Purpose, University of Colorado, Lease Purchase of Academic Facilities at Fitzsimons; Governing Boards, Regents of the University of Colorado; Department of **Human Services**, Division of Child Welfare, Tony Grampsas Youth Services Program; Office of Early Childhood, Division of Community and Family Support, Nurse Home Visitor Program; Department of **Military and Veterans Affairs**, Division of Veterans Affairs, Colorado State Veterans Trust Fund Expenditures; Department of **Personnel**, Division of Human Resources, Employee Benefits Services, H.B. 07-1335 Supplemental State Contribution Fund; Department of **Public Health and Environment**, Disease Control and Environmental Epidemiology Division, Administration, General Disease Control, and Surveillance, Immunization Operating Expenses; Special Purpose Disease Control Programs, Sexually Transmitted Infections, HIV and AIDS Operating Expenses, and Ryan White Act Operating Expenses; Prevention Services Division, Chronic Disease Prevention Programs, Oral Health Programs; Primary Care Office -- Each Department is requested to provide the following information to the Joint Budget Committee by November 1, 2016, for each program funded with Tobacco Master Settlement moneys: the name of the program; the amount of Tobacco Master Settlement moneys received for the program for the preceding fiscal year; a description of the program including the actual number of persons served and the services provided through the program; information evaluating the operation of the program, including the effectiveness of the program in achieving its stated goals; and a

recommendation regarding the amount of Tobacco Master Settlement funds the program requires for FY 2017-18 and why.

RESPONSE: Pursuant to Section 24+50 609,C.R.S. (2016), the General Assembly established the Supplemental State Contribution Program for eligible state employees with the intent to provide access to affordable and adequate health insurance offered by the state to as many children of lower-income state employees as possible, and to encourage lower-income employees with dependent children lo enroll in health insurance plans by supplementing the plan premiums.

The program is managed and administered by the Department of Personnel & Administration. A slate employee must apply and meet eligibility requirements for the supplement based on criteria established within the statute. Eligibility criteria includes an employee as defined in Section 24-50-603(5) C.R.S. (2016) who is eligible by virtue of employment to enroll in a group benefit plan, has an annual household income of less than 300 percent of the Federal Poverty Level (FPL) and has al least one dependent other than a legal spouse.

The Department must first use funds to provide each eligible state employee who has an annual household income of less than 200 percent FPL (Level I) with a supplement in the amount needed to reduce the employee contribution to all qualifying group benefit plans lo zero. Next, remaining funds shall be used to provide an eligible state employee who has an annual income of 200-249 percent FPL (Level 2) a supplement. Finally. remaining funds shall be used for an eligible state employee who has an annual income of 250-299 percent FPL (Level 3). Supplements are provided to eligible employees at each Level in priority order if funds arc available. All supplement contributions arc paid from the supplemental state contribution fund created in Section 24-50-609 (5), C.R.S. (2016).

For FY 2015-16,the amount available in the supplemental state contribution fund to supplement the medical premiums of eligible state employees was $1,263,185.The Department received 536 applications for the supplement program . Of these applications, a total of 39 were denied because the applicant did not meet the requirements of the program or the applications remained incomplete when the application period closed. Of the remaining 497 applications processed by the Department, a total of 306 were approved for Level I and 142 were approved for Level 2. Because of the limited funds available to the program, the additional 49 applications were rejected because of the unavailability of funds for Level 3. Pursuant to Section 24-60-609.5, C.R.S. (2016), supplement contributions are contingent upon sufficient funds.

Three applicants in Level I and one applicant in Level 2 were terminated from the program afler being approved as a result of not adding dependent children during special open enrollment and five applicants terminated employment with the stat. When all terminations and adjustments were made, a total of 299 Level Iemployees and 140 Level 2 employees received the supplement when the program began making contributions for FY 2015-16. The program was able to provide a maximum supplement of $553.10 per month (or the total amount of their medical premium, if less) to each approved applicant for Level 1 employees and a maximum supplement of $155.50 (or the total amount of their medical premium, if Jess) to each approved applicant for Level 2 employees.

The following table reflects the participation level in the supplemental state health and dental contribution program for FY 2015-16:

Number of eligible state employees receiving	Total amount of supplements paid	Average monthly amount of the individual	Average yearly amount of the	Number of dependent children	Amount of increased non-supplement
439	$1,263,185	$239.78	$2,877	1,208	$56,581

The program permitted lower-income state employees and their families to have access to health care meeting the affordability and minimum value standards required under the federal Affordable Care Act. Several of these employees could not have enrolled in medical coverage for themselves, their children or entire family if the supplement program were not available to them.

Based on House Bill 16-1408, the Supplemental State Contribution fund shall receive 2.3% of settlement money which equates to $2, 123,388 for FY 2017-18. The Department believes this will be sufficient to fund all three levels for FY 2017-18, making it the first year that all three levels of applicants will be funded since the original year of the program in FY 2008-09.

Please let me know if you have any questions or need additional information.

Sincerely,
June Taylor
Executive Director
Department of Personnel & Administration

APPENDIX D
DEPARTMENT ANNUAL PERFORMANCE REPORT

Pursuant to Section 2-7-205 (1) (a) (I), C.R.S., the Office of State Planning and Budgeting is required to publish an Annual Performance Report for the Department of Personnel by November 1 of each year. This report is to include a summary of the Department's performance plan and most recent performance evaluation. For consideration by the Joint Budget Committee in prioritizing the Department's budget request, the FY 2015-16 report dated October 2016 can be found at the following link:

https://drive.google.com/file/d/0B8ztIiGduUWbMkxpeFB5a2xLYms/view

Pursuant to Section 2-7-204 (3) (a) (I), C.R.S., the Department of Personnel is required to develop a performance plan and submit that plan to the Joint Budget Committee and appropriate Joint Committee of Reference by July 1 of each year. For consideration by the Joint Budget Committee in prioritizing the Department's budget request, the FY 2016-17 plan dated June 25, 2016 can be found at the following link:

https://drive.google.com/file/d/0B-yDiMcBmTmhVEVLc3EzOW5fQnc/view