

JOINT BUDGET COMMITTEE



STAFF BUDGET BRIEFING FY 2021-22

STATEWIDE COMPENSATION AND PERA

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

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NOVEMBER 12, 2020

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STATEWIDE COMPENSATION

STATEWIDE COMPENSATION OVERVIEW

Compensation common policies pay for any salary or benefits for current state employees. The General Assembly typically establishes common policies to budget for compensation consistently across all departments. The compensation common policies address three issues:

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

In the budget, statewide or total compensation refers to employee salary and benefit costs, specific to the actual and anticipated employees in each department. 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, and requested policy changes for compensation components.

DEFINING COMPENSATION-RELATED COMPONENTS

The centrally appropriated line items that make up the total compensation common policies discussed in this document include:

- Salary Survey;
- Merit Pay;
- Shift Differential;
- Short-term Disability (STD);
- Health, Life, and Dental (HLD);
- Amortization Equalization Disbursement (AED);
- Supplemental Amortization Equalization Disbursement (SAED); and
- PERA Direct Distribution.

DEFINING POTS

Compensation common policy line items are also known and referred to as POTS, although the term is not an acronym. Final, budgeted POTS appropriations:

- are generated through department total compensation templates;
- are calculated on the prior July's actual payroll data with adjustments for known and anticipated staffing increases or decreases; and
- are based on Committee statewide funding decisions for each compensation policy or component.

Because POTS are centrally appropriated in the EDO or other central administration division, allocations from these line items are distributed to department divisions and programs as determined by each department's EDO. This approach simplifies the appropriations process by limiting each POTS appropriation to a single line item in each department and provides flexibility to departments to make adjustments as necessary to accommodate actual POTS needs across a department.

Additionally, for expenditure purposes, POTS allocations are, in practice, added to or "rolled into" personal services appropriations in each division or program. This practice allows these appropriations to be spent on any personal services expenditure. This flexibility has the effect of allowing departments to independently and internally subsidize programs and divisions which may be under-appropriated. In this way, this flexibility has the effect of causing state agencies to manage their personal services appropriations through annual POTS allocation adjustments to each division or program rather than through requests for structural adjustments to those divisions and programs as might otherwise be necessary.

POTS line items include the following:

- Salary Survey;
- Merit Pay;
- Shift Differential;
- Short-term Disability (STD);
- Health, Life, and Dental (HLD);
- Amortization Equalization Disbursement (AED); and
- Supplemental Amortization Equalization Disbursement (SAED).

Therefore, POTS include all compensation-related line items, except PERA Direct Distribution.

DEFINING EMPLOYEE BENEFITS

Within POTS appropriations, only the following line items include current employee benefits:

- Salary Survey;
- Merit Pay;
- Shift Differential;
- Short-term Disability (STD); and
- Health, Life, and Dental (HLD).

DEFINING PERA PAYMENTS FOR THE UNFUNDED LIABILITY

Although included as request items, AED and SAED are statutorily-required contributions for *amortization payments* to improve PERA's funded status, calculated on current payroll. The term amortization refers to payments for an existing debt or liability. AED and SAED are payments made to PERA for the legacy cost of the unfunded liability and do not help fund current employee PERA retirement benefits. Similarly, the PERA Direct Distribution is a payment to PERA for the legacy cost of the unfunded liability.

In 2018, the Joint Budget Committee set aside \$225.0 million General Fund for FY 2018-19, intended as base funding for an ongoing payment. This action was intended as a "State" payment for addressing the funding policy deficiencies made by State policymakers for previous generations of PERA members that created the unfunded liability. Senate Bill 18-200, *PERA Unfunded Liability*, included a provision that allows OSPB to submit a budget request to allocate payments across fund sources in order to reduce the impact on General Fund. In FY 2019-20, the PERA Direct Distribution was added as a statewide common policy allocation to collect this payment from other fund sources besides General Fund.

The PERA Direct Distribution does not pay for an employee benefit, and is not calculated on current payroll, but its billing methodology is allocated to state agencies as charges to General Fund, cash

funds, reappropriated funds, and federal funds in the same proportion as the AED and SAED components. In a similar manner, the PERA Direct Distribution does not "purchase a service" from the Department of Personnel through their "operating common policies". Therefore, the PERA Direct Distribution is neither a compensation common policy nor an operating common policy, but is simply a debt payment located in compensation-related common policies due to its nexus with AED and SAED.

House Bill 20-1379, *Suspend PERA Direct Distribution for FY 2020-21*, suspended the PERA Direct Distribution payment for one year, which also eliminated the common policy allocation for FY 2020-21.

PREVAILING COMPENSATION

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

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

A statutory policy statement is not binding, but it provides direction about the General Assembly's intent that helps guide the budget setting process. Even with a clear goal, though, it can be difficult to determine the funding necessary to provide prevailing compensation. There are a wide range of compensation practices in the market and many state jobs are either uncommon or not found outside of government. Additionally, while most market employers engage in a single or well-defined type of business operation, regardless of size or scale, the business operations of the State reflect the widest variety of types of business operations with the widest variety of staffing types and needs.

ANNUAL COMPENSATION REPORT

To assist in the process, the Department of Personnel produces an annual total compensation report by September 15th, to compare the State's compensation to prevailing market rates. The General Assembly is not required to follow the recommendations of the report, but the report expresses the professional opinion of the Department regarding how compensation should be adjusted annually. Following issuance of the report, the Department of Personnel works with the Office of State Planning and Budgeting (OSPB) to build the total compensation request for the following year, and directs executive agencies to apply consistent policies in their budget requests.

THE STATE PERSONNEL SYSTEM ACT AND DIVISION OF AUTHORITY

Article 50 of Title 24, C.R.S., sets forth the State Personnel System Act. Section 24-50-101, C.R.S., sets forth two broad areas of authority and responsibility for the administration of the state personnel system (emphasis added):

(3)(c) It is the duty of the state personnel director to establish the general criteria for adherence to the merit principles and for fair treatment of individuals within the state personnel system. It is the responsibility of the state personnel director to provide leadership in the areas of policy and operation of the state personnel system...

(3)(d) The heads of principal departments and presidents of colleges and universities shall be responsible and accountable for the actual operation and management of the state personnel system for their respective departments, colleges, or universities.

While this provides a reasonable and functional split of responsibility and authority, this bifurcation also has the effect of creating some ambiguity regarding responsibility over statewide, classified system, and department-specific recruitment and retention policies and practices. As started last year for the FY 2020-21 budget, to the extent practicable, JBC staff will continue to consolidate and address all compensation-related requests, whether requested through the statewide compensation request or through individual state agency requests to provide a single point for JBC consideration and decision making on compensation adjustment requests.

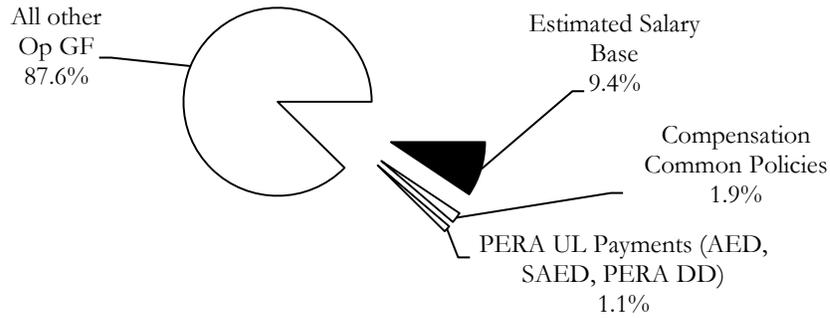
STATE PERSONNEL SYSTEM (CLASSIFIED SYSTEM)

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

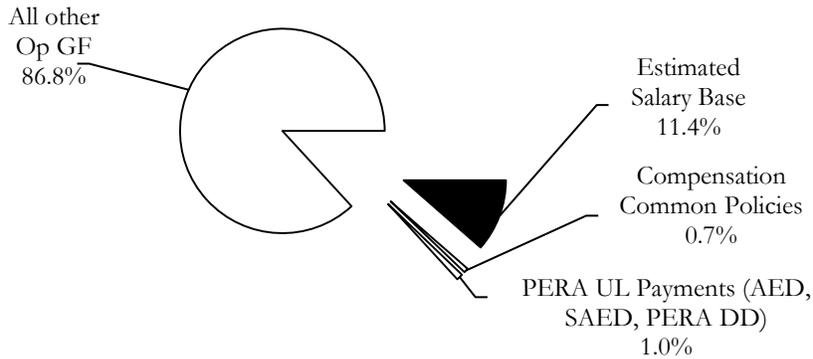
The Constitution specifically exempts some positions from the classified system, allowing potentially different pay ranges, benefits, and hiring and termination procedures. Exempt positions include education faculty and certain education administrators, the judicial branch, the legislative branch other than the State Auditor's Office, assistant attorneys general, certain employees of the Governor's office, the heads of departments, and most boards and commissions. With the exception of higher education institutions, exempt employees use the same insurance and retirement benefits as employees of the classified system. While the judicial branch is exempt from the state personnel system, the courts have developed their own version of a classified system for employees who are not judges, which largely mirrors the state personnel system with regard to salaries and hiring and termination procedures. Judges and elected officials salaries are set in statute.

COMPENSATION POLICIES: GRAPHIC OVERVIEW

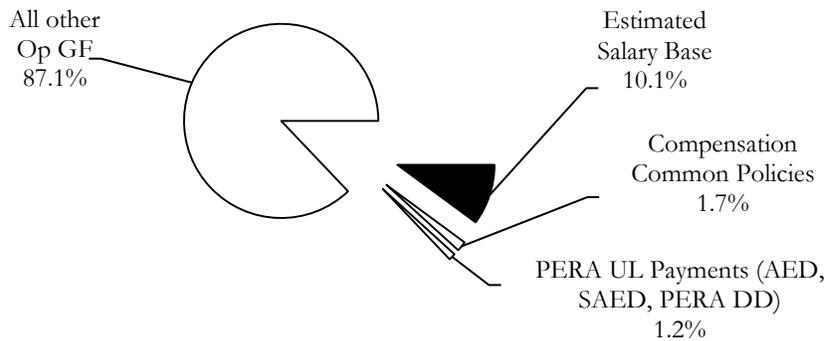
**FY 2019-20 SALARY BASE, COMPENSATION COMMON POLICIES, AND PERA PAYMENTS
SHARE OF STATE OPERATING GENERAL FUND**



**FY 2020-21 SALARY BASE, COMPENSATION COMMON POLICIES, AND PERA PAYMENTS
SHARE OF STATE OPERATING GENERAL FUND**



**FY 2021-22 REQUESTED SALARY BASE, COMPENSATION COMMON POLICIES, AND PERA PAYMENTS
SHARE OF STATE OPERATING GENERAL FUND**



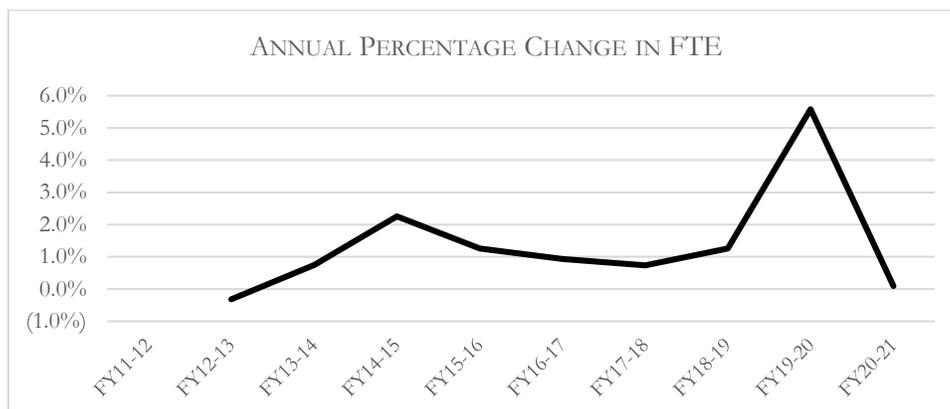
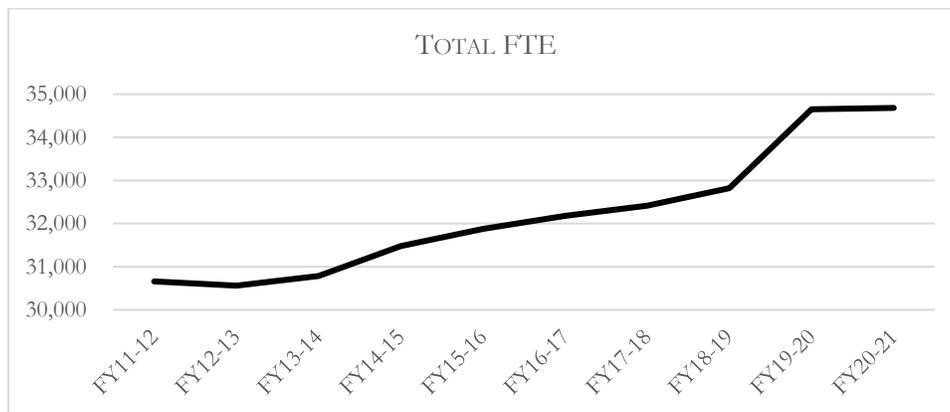
GENERAL FACTORS DRIVING THE BUDGET

NUMBER OF STATE EMPLOYEES

Statewide expenditures for compensation are driven by the number of employees, the percentage of employees who choose to participate in optional benefit plans, and 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										
	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
Total FTE	30,657.3	30,559.8	30,787.2	31,480.9	31,878.2	32,174.8	32,412.7	32,819.4	34,650.4	34,681.6
Percent Change		(0.3%)	0.7%	2.3%	1.3%	0.9%	0.7%	1.3%	5.6%	0.1%
	10-year FTE compound average annual growth rate									1.24%
	10-year Colorado Population compound average annual growth rate - 2010-2019 ²									1.33%
¹ Source: FY 2020-21 Appropriations Report excluding Department of Higher Education										
² From population estimates, State Demography Office: https://demography.dola.colorado.gov/population/population-totals-colorado-substate/#population-totals-for-colorado-and-sub-state-regions										

As outlined in the table, FTE growth has averaged 1.24 percent over 10 years, just lower than state population growth at 1.33 percent. However, the one-year percentage change in FY 2019-20 reflects a one-year increase in FTE of 5.6 percent. The following charts similarly reflect the significant percentage change in FTE in FY 2019-20.



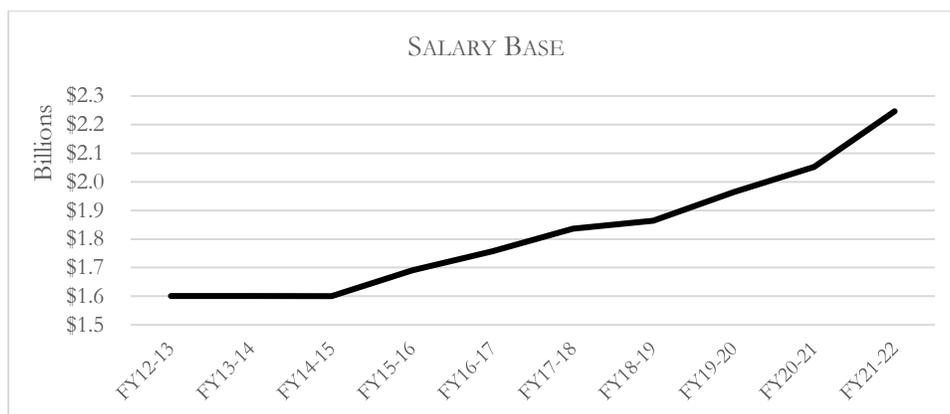
SALARY BASE

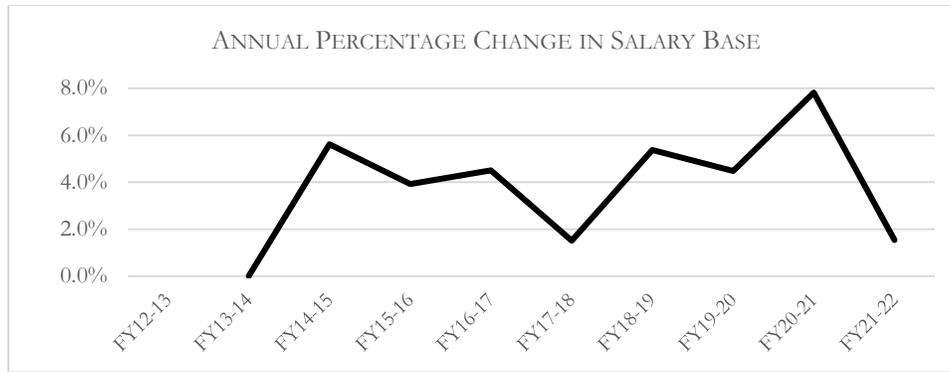
Tied to the number of state employees, changes in the salary base reflect the actual increase in salary compensation over time. The salary base increases due to funding for additional FTE, salary survey and merit pay increases, and other approved salary increases by agency or occupational class. The following table outlines a seven-year history of the estimated salary base included in department compensation templates.

STATEWIDE SALARY BASE 10-YEAR ESTIMATED APPROPRIATIONS (IN MILLIONS)										
	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Salary Base	\$1,600.8	\$1,600.9	\$1,690.9	\$1,757.2	\$1,836.3	\$1,864.1	\$1,964.2	\$2,052.2	\$2,212.6	\$2,246.6
Change		0.1	90.0	66.3	79.1	27.8	100.1	88.0	160.4	34.0
Percentage Change		0.0%	5.6%	3.9%	4.5%	1.5%	5.4%	4.5%	7.8%	1.5%
10-year Statewide Salary Base compound average annual growth rate										3.4%

Annual changes in the salary base reflect increases provided in the prior fiscal year. The 0.0 percent change in the salary base in FY 2013-14 reflects no increases provided in FY 2012-13. As outlined in the table, the salary base has experienced a compound average annual growth rate of 3.4 percent over the last 10 years. However, similar to the change in FTE, in FY 2020-21 the salary base increased 7.8 percent. The following charts reflect the change in salary base and percentage change by year.

Annual changes in the salary base reflect salary increases from the prior year that are built into the base in the following year, as well as increases in FTE appropriated through budget decisions and bills. The 10.1 percent increase from FY 2019-20 to FY 2020-21 includes a 3.0 percent salary increase provided in FY 2019-20. Therefore, the balance – approximately 4.8 percent – reflects FTE added through budget decisions and bills. Although there were some balancing decisions made in the 2020 session to delay increases in the base for FY 2021-22, the FY 2020-21 base was essentially determined in actions taken in the 2019 session.





The following table outlines a 10-year General Fund share history of salary base plus compensation policies relative to total operating General Fund.

SALARY BASE AND COMPENSATION COMMON POLICIES SHARE OF OPERATING GENERAL FUND 10-YEAR APPROPRIATIONS HISTORY (IN MILLIONS)										
	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
Total Operating General Fund	\$7,059.3	\$7,596.0	\$8,378.5	\$9,020.2	\$9,491.1	\$9,956.1	\$10,635.2	\$11,432.8	\$12,023.5	\$10,861.1
Salary Base	869.2	828.7	828.8	912.8	953.0	1,020.8	1,032.5	1,078.2	1,128.0	1,242.3
Comp. Common Policies	<u>137.6</u>	<u>147.4</u>	<u>195.4</u>	<u>220.0</u>	<u>234.0</u>	<u>227.3</u>	<u>271.4</u>	<u>298.8</u>	<u>225.2</u>	<u>136.5</u>
Total State Employee Comp.	\$1,006.8	\$976.1	\$1,024.2	\$1,132.8	\$1,187.0	\$1,248.1	\$1,303.9	\$1,377.0	\$1,353.2	\$1,378.8
Percent of Op. General Fund	14.3%	12.9%	12.2%	12.6%	12.5%	12.5%	12.3%	12.0%	11.3%	12.7%

As reflected in the table, in FY 2020-21 total salary base and compensation policies represented 12.7 percent of all General Fund in the operating budget. This reflects a reversal in the trend showing a general decline in the percentage over this period.

The following table outlines the changes over the three-year period included in the graphic overview section on page 5. The FY 2021-22 figures represent the requested amounts.

COMPENSATION COMPONENTS SHARE OF STATE OPERATING GENERAL FUND			
	FY 2019-20	FY 2020-21	FY 2021-22*
Operating General Fund	\$12,023,509,078	\$10,861,089,752	\$12,544,059,157
Estimated Salary Base	1,128,035,581	1,242,307,712	1,266,902,793
percent change		10.1%	2.0%
Compensation Common Policies	225,156,237	136,504,147	208,136,384
percent change		(39.4%)	52.5%
Total State Employee Compensation	1,353,191,818	1,378,811,858	1,475,039,176
percent change		1.9%	7.0%
PERA UL Payments	136,210,793	140,862,011	144,735,547
percent change		3.4%	2.7%
Percentage of Operating General Fund			
Estimated Salary Base	9.4%	11.4%	10.1%
Compensation Common Policies	<u>1.9%</u>	<u>1.3%</u>	<u>1.7%</u>
State Employee Compensation	11.3%	12.7%	11.8%
PERA UL Payments	1.1%	1.3%	1.2%
* Requested			

The compensation components share of state operating General Fund is determined by total operating General Fund as well as annual changes in components. As reflected in the table, the increase from

9.4 to 11.4 percent as a percentage of operating General Fund is predominantly a reflection of a \$1.1 billion decrease in operating General Fund in FY 2020-21.

The estimated salary base is comprised of the previously established state employee footprint in the budget. As regards budget balancing actions, salary base is one of the less flexible items in the budget for reduction in any year.

As previously discussed, the salary base includes salary increases from the prior year that are built into the base in the following year, as well as increases in FTE appropriated through budget decisions and bills. The 10.1 percent increase from FY 2019-20 to FY 2020-21 includes a 3.0 percent salary increase provided in FY 2019-20. Therefore, the balance – approximately 7.1 percent – reflects FTE added through budget decisions and bills. As it relates to slight differences from discussion above, keep in mind that this discussion is entirely related to General Fund whereas the 10-year history includes total funds. Although there were some balancing decisions made for FY 2021-22 to delay increases in the base for FY 2021-22, the FY 2020-21 base was essentially determined in actions taken in the 2019 session.

The 39.4 percent decrease in compensation common policies predominantly reflects the 5.0 percent General Fund estimated salary base reduction taken in the Health, Life, and Dental appropriation. So while the \$57.8 million decrease is reflected in Health, Life, and Dental and in the compensation common policies subtotal, in principle it could be reflected as a decrease in salary base. This General Fund balancing decision and budget mechanism was intended to be a one-time reduction and not a permanent decrease in the salary base and was provided in a POTS appropriation in order to maximize departments' flexibility to implement the decrease.

COST OF HEALTH INSURANCE

Health insurance is traditionally the compensation component experiencing the greatest increases. The following table outlines the 10-year history of appropriations for Health, Life, and Dental (HLD).

HEALTH, LIFE, AND DENTAL 10-YEAR APPROPRIATIONS HISTORY (IN MILLIONS)										
	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21*
HLD Total Approp.	\$158.1	\$170.2	\$176.8	\$184.5	\$217.3	\$217.6	\$237.8	\$261.3	\$287.2	\$309.8
Change		12.1	6.6	7.7	32.8	0.3	20.2	23.5	25.9	22.6
Percentage Change		7.7%	3.9%	4.4%	17.8%	0.1%	9.3%	9.9%	9.9%	7.9%
10-year HLD Appropriations compound average annual growth rate										7.0%
* The FY 2020-21 appropriation for HLD included a General Fund balancing action decrease totaling \$57.8 million. That decrease is not included in this total to more accurately reflect the actual annual change in cost of Health, Life, and Dental in this table.										

The FY 2021-22 request amount for HLD totals \$333.0 million; a \$23.2 million or 7.5 percent increase over the full appropriation amount identified for the prior fiscal year (excluding the HLD decrease balancing action). This amount includes \$190.4 million General Fund; this is a \$12.1 million or 6.8 percent increase over the prior fiscal year. This change amount does not include or reflect the annualization of the \$57.8 million General Fund decrease in the Health, Life, and Dental appropriation for FY 2020-21.

PERA PAYMENTS FOR THE UNFUNDED LIABILITY

Actuarial analysis of the Public Employee's Retirement Association (PERA) led the legislature to pass bills in 2004 and 2006 increasing contributions to the pension plan above the base employer and employee contribution rates. These additional contributions are called the Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED).

Pursuant to Section 24-51-411, C.R.S., the State contributes additional funds to assist in the amortization of PERA's unfunded liability. By statute, the AED rate increased 0.4 percent each calendar year until reaching the maximum contribution rate of 5.0 percent for calendar year 2017. The SAED line item increases contributions to PERA to amortize the unfunded liability. By statute the SAED rate increased 0.5 percent each calendar year until reaching the maximum contribution rate of 5.0 percent for calendar year 2017. AED and SAED rates for judges remained constant at 2.2 percent and 1.5 percent, respectively, until H.B. 17-1265 (*PERA Judicial Division Total Employer Contribution*) enacted increases for both to 3.4, 3.8, 4.2, 4.6 and 5.0 percent in each succeeding year beginning in calendar year 2019.

Both the AED and SAED are paid by the employer. Although the SAED payment is made by the State, statute specifies that funding is to come from money that would have otherwise gone to state employees as part of salary increases, pursuant to Section 24-51-411 (10), C.R.S., and if paid as salary increases would appear in the salary base. The State's contribution to PERA is often cited as more than 20 percent, including the 10.9 percent standard employer contribution (FY 2020-21) plus 5 percent each for AED and SAED. However, it is also reasonable to cite contribution figures of 15.9 percent from the State and 15 percent from the employee, including the 10 percent employee contribution (FY 2020-21) plus the 5 percent of base salary foregone as SAED.

Normal cost is the actuarially calculated cost for retirement benefits earned in the year by an employee and is stated as a percentage of salary. The normal cost for employees in the State Division identified in the 2019 Comprehensive Annual Financial Report (CAFR) was 11.66 percent. Stated another way, the normal cost rate reflects the percentage of salary required to fully fund a current employee's PERA benefits. The normal cost is less than half of the total annual contributions and payments made to PERA. The amount above the normal cost pays for the unfunded liability.

The employee contribution rate increased from 8.0 to 8.75 percent in FY 2019-20; increased to 10.0 percent in FY 2020-21; and will increase to 10.5 percent in FY 2021-22. The increase in FY 2019-20 included a 0.75 percent increase in the standard contribution rate and a 0.5 percent automatic increase adjustment as included in S.B. 18-200 (*PERA Unfunded Liability*). Similarly, the employer contribution increased from 10.4 percent to 10.9 percent due to a 0.5 percent automatic increase adjustment. Additional increases to the employer contribution have been made to the FY 2021-22 budget request to include: (1) the *defined contribution (DC) supplement*, equal to 0.05 percent; and (2) an unknown percentage related to new employees with an incrementally increased contribution due to payment made on gross pay before cafeteria plan deductions.

At a standard employee contribution rate of 10.5 percent, employees are almost fully funding their own PERA benefits. Including the SAED, which would otherwise be employee salary, current employees could be considered to be contributing 15.5 percent of salary to cover their retirement benefit cost of 11.66 percent. Counting SAED as an employee contribution, current employees may be paying a tax of 3.84 percent of salary for "participating" in the unfunded liability. This represents, in essence, an inter-generational transfer of income.

AED and SAED are commonly considered to be part of the total compensation package because payment amounts are calculated on total salary. However, these payments are entirely amortization payments for PERA's unfunded liability. While AED and SAED represent a cost to the State and are paid by state agencies on total payroll, they are neither technically nor actually paid to state employees as compensation. Therefore, it is reasonable to exclude AED and SAED when estimating the increase in total compensation funding to be paid to state employees.

In FY 2019-20, a common policy allocation to state agencies was added for the State's \$225.0 million statutory PERA Direct Distribution payment. This allocation was added to common policies to charge cash and federal funds sources for what would otherwise be a General Fund payment. The allocation is not created in statute as a calculation on payroll but instead has been structured exclusively as a budget process construct. The methodology agreed upon in FY 2019-20 is that the allocation to fund sources by state agency should match the proportions determined for the AED and SAED appropriations. The executive branch has submitted this common policy as an operating common policy. However, JBC staff will continue to reflect this item as a compensation common policy for PERA payments for the unfunded liability and due to its connection to AED and SAED policy. Further, operating common policies are services provided to state agencies by a centralized service provider. There is no service provided for the PERA Direct Distribution common policy payment. This is simply a payment to PERA that reduces the State's General Fund obligation.

The following table outlines the 10-year history of AED, SAED, and PERA Direct Distribution appropriations.

PERA UNFUNDED LIABILITY (UL) PAYMENTS (AED/SAED/PERA DD) 10-YEAR APPROPRIATIONS HISTORY (IN MILLIONS)										
	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21*
AED Total Approp.	\$40.3	\$44.6	\$52.5	\$62.1	\$70.1	\$78.3	\$84.8	\$89.8	\$96.8	\$98.4
SAED Total Approp.	32.8	38.0	47.1	58.0	67.3	77.0	84.4	89.6	96.6	98.4
PERA Direct Distribution	<u>0.0</u>	<u>56.5</u>	<u>0.0</u>							
PERA UL Payments	\$73.1	\$82.6	\$99.6	\$120.1	\$137.4	\$155.3	\$169.2	\$179.4	\$249.9	\$196.8
Change		9.5	17.0	20.5	17.3	17.9	13.9	10.2	70.5	(53.1)
Percentage Change		13.0%	20.6%	20.6%	14.4%	13.0%	9.0%	6.0%	39.3%	(21.2%)
										PERA Amortization Payments compound average annual growth rate 10.4%
* House Bill 20-1379, Suspend PERA Direct Distribution for FY 2020-21, suspended this payment for the fiscal year. The amount appropriated in the Long Bill totaled \$54.1 million.										

SUMMARY: FY 2020-21 APPROPRIATION & FY 2021-22 REQUEST

SALARY BASE, COMPENSATION COMMON POLICIES, AND PERA UNFUNDED LIABILITY PAYMENTS					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2020-21 Appropriation					
Base Salary Estimate	\$1,965,448,931	\$1,103,345,802	\$451,969,583	\$241,323,807	\$168,809,739
PERA	218,682,913	122,963,397	50,766,284	26,495,154	18,458,078
Medicare (FICA)	28,499,006	15,998,513	6,553,558	3,499,195	2,447,740
Shift Differential	18,106,359	14,177,714	721,901	2,204,984	1,001,760
Salary Survey	0	0	0	0	0
Merit Pay	0	0	0	0	0
Health, Life, Dental	309,794,012	178,372,572	70,221,943	35,911,351	25,288,146
FY20-21 Balancing Action - HLD Decrease	(57,795,854)	(57,795,854)	0	0	0
Short-term Disability	3,182,073	1,749,715	741,814	407,597	282,947
AED	98,426,520	55,146,685	22,630,369	12,164,117	8,485,349
SAED	98,426,520	55,146,685	22,630,369	12,164,117	8,485,349
PERA Direct Distribution	54,050,596	30,568,641	16,312,047	6,029,710	1,140,198
H.B. 20-1379 Suspend PERA DD	(54,050,596)	(30,568,641)	(16,312,047)	(6,029,710)	(1,140,198)
TOTAL	\$2,682,770,479	\$1,489,105,228	\$626,235,821	\$334,170,322	\$233,259,108
FY 2021-22 Request					
Base Salary Estimate	\$1,995,668,714	\$1,125,169,833	\$448,502,662	\$219,551,726	\$202,444,494
PERA	222,029,092	125,417,999	50,365,033	24,137,561	22,108,499
Medicare (FICA)	28,937,194	16,314,961	6,503,290	3,183,499	2,935,444
Shift Differential	19,993,498	15,908,039	770,360	2,238,323	1,076,776
Salary Survey	0	0	0	0	0
Merit Pay	0	0	0	0	0
Health, Life, Dental	332,969,976	190,445,011	74,456,584	35,450,370	32,618,011
Short-term Disability	3,140,195	1,783,334	691,063	347,832	317,966
AED	100,348,366	56,641,889	22,459,155	11,077,175	10,170,147
SAED	100,348,366	56,641,889	22,459,155	11,077,175	10,170,147
PERA Direct Distribution	57,559,623	31,451,770	16,625,625	6,210,053	3,272,175
TOTAL	\$2,860,995,023	\$1,619,774,724	\$642,832,927	\$313,273,714	\$285,113,659
Increase/(Decrease)	\$178,224,544	\$130,669,496	\$16,597,106	(\$20,896,608)	\$51,854,551
Percent Change	6.6%	8.8%	2.7%	(6.3%)	22.2%
Increase/(Decrease) excl. balancing actions	\$66,378,094	\$42,305,001	\$285,059	(\$26,926,318)	\$50,714,353
Percent Change	2.5%	2.8%	0.0%	(8.1%)	21.7%

THE FY 2021-22 TOTAL COMPENSATION REQUEST

The FY 2021-22 total compensation request – including salary base, discretionary employee compensation and benefits, and PERA amortization payments – is estimated to be \$2.86 billion total funds, an increase of:

- \$178.2 million over the prior year appropriation, which represents a 6.1 percent increase in total compensation-related appropriations; or
- \$66.4 million over the prior year – excluding balancing actions, which represents a 2.5 percent increase.

The FY 2021-22 total compensation request for discretionary employee compensation and benefits and PERA unfunded liability payments totals \$614.4 million total funds, an increase of \$144.2 million over the prior year.

The Governor's request includes the following items:

SALARY SURVEY: No salary survey increase.

MERIT PAY: No merit pay increase.

SHIFT DIFFERENTIAL: Shift Differential funds increase adjustments for employee hours worked outside of normal work hours. Shift Differential is requested at 100 percent of prior year actual expenditures. For FY 2021-22, the Shift Differential request is \$20.0 million total funds, including \$15.9 million General Fund. Shift Differential increases by \$1.9 million total funds, including \$1.7 million General Fund; a 10.4 percent increase in total funds and a 12.2 percent increase in General Fund.

AED: Amortization Equalization Disbursement is set at a statutory rate of 5.0 percent, except for judges set at 4.2 percent in 2021 and 4.6 percent in 2022. AED is estimated to be \$100.3 million total funds, including \$56.6 million General Fund. The AED increase is estimated to be \$1.9 million total funds, including \$1.5 million General Fund; a 2.0 percent increase in total funds and a 2.7 percent increase in General Fund.

SAED: Supplemental Amortization Equalization Disbursement is set at a statutory rate of 5.0 percent, except for judges set at 4.2 percent in 2021 and 4.6 percent in 2022. SAED is estimated to be \$100.3 million total funds, including \$56.6 million General Fund. The SAED increase is estimated to be \$1.9 million total funds, including \$1.5 million General Fund; a 2.0 percent increase in total funds and a 2.7 percent increase in General Fund.

STD: Short Term Disability is requested at a rate of 0.16 percent of revised base salaries, representing a decrease from 0.17 percent in the prior year. STD is estimated at \$3.1 million total funds, including \$1.8 million General Fund. The STD adjustment is estimated to decrease by \$42,000 total funds, including an increase of \$34,000 General Fund; a 1.3 percent decrease in total funds and a 1.9 percent increase in General Fund.

HLD: Request amounts submitted for Health, Life, and Dental are based on employee health and dental elections as of July of the current year. Health premiums are projected to increase 7.5 percent and dental premiums are projected to increase 3.0 percent. Additional adjustments may be included in a budget amendment based on new actuarial recommendations received in December. The HLD request is \$333.0 million total funds, including \$190.4 million General Fund. The base adjustment request reflects an increase of \$23.2 million total funds, including \$12.1 million General Fund; a 7.5 percent increase in total funds and a 6.8 percent increase in General Fund.

In addition to the annual incremental or base adjustment, the HLD General Fund decrease of \$57.8 million General Fund, taken as a one-time balancing action for FY 2020-21, will be annualized back in to the HLD appropriation, and is reflected in the FY 2021-22 request amount.

PERA DIRECT DISTRIBUTION: In FY 2019-20, a common policy allocation to state agencies was added for the State's \$225.0 million statutory PERA Direct Distribution payment. This allocation was added to common policies to charge cash and federal funds sources for what would otherwise be a General Fund payment. The PERA Direct Distribution totals \$57.6 million in FY 2020-21. This reflects an increase of \$3.5 million from the FY 2019-20 allocation. The request includes the annualization of \$54.1 million from the balancing action taken in H.B. 20-1379, *Suspend PERA Direct Distribution for FY 2020-21*. The total PERA Direct Distribution is allocated to the public schools divisions and the state employee divisions of PERA based on total payroll. This increase indicates that total payroll for public schools decreased relative to total payroll for state employees.

SALARY BASE, COMPENSATION COMMON POLICIES, AND PERA PAYMENTS TABLES

The following table isolates the estimated salary base within total compensation.

SALARY BASE					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2020-21 Appropriation					
Base Salary Estimate	\$1,965,448,931	\$1,103,345,802	\$451,969,583	\$241,323,807	\$168,809,739
PERA	218,682,913	122,963,397	50,766,284	26,495,154	18,458,078
Medicare (FICA)	28,499,006	15,998,513	6,553,558	3,499,195	2,447,740
TOTAL	\$2,212,630,850	\$1,242,307,712	\$509,289,425	\$271,318,156	\$189,715,557
FY 2021-22 Request					
Base Salary Estimate	\$1,995,668,714	\$1,125,169,833	\$448,502,662	\$219,551,726	\$202,444,494
PERA	222,029,092	125,417,999	50,365,033	24,137,561	22,108,499
Medicare (FICA)	28,937,194	16,314,961	6,503,290	3,183,499	2,935,444
TOTAL	\$2,246,635,000	\$1,266,902,793	\$505,370,985	\$246,872,786	\$227,488,437
Increase/(Decrease)	\$34,004,151	\$24,595,081	(\$3,918,440)	(\$24,445,370)	\$37,772,880
Percent Change	1.5%	2.0%	(0.8%)	(9.0%)	19.9%
Percent of Total Comp.	78.5%	78.2%	78.6%	78.8%	79.8%

The estimated salary base includes adjustments approved in prior year policy decisions related to salary and staffing increases. Salary base is estimated at \$2.25 billion total funds including \$1.27 billion General Fund; an increase of \$34.0 million total funds or 1.5 percent and an increase of \$24.6 million General Fund or 2.0 percent. The salary base (previously approved policy decisions) represents 78.5 percent of total compensation.

The following table outlines the FY 2021-22 request for employee compensation common policies representing the discretionary compensation items in total compensation.

EMPLOYEE COMPENSATION COMMON POLICIES (DISCRETIONARY ITEMS; INCL. HLD GF DECREASE)					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2020-21 Appropriation					
Shift Differential	18,106,359	14,177,714	721,901	2,204,984	1,001,760
Salary Survey	0	0	0	0	0
Merit Pay	0	0	0	0	0
Health, Life, Dental	251,998,158	120,576,718	70,221,943	35,911,351	25,288,146
Short-term Disability	3,182,073	1,749,715	741,814	407,597	282,947

EMPLOYEE COMPENSATION COMMON POLICIES (DISCRETIONARY ITEMS; INCL. HLD GF DECREASE)

	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
TOTAL	\$273,286,590	\$136,504,147	\$71,685,658	\$38,523,932	\$26,572,853
FY 2021-22 Request					
Shift Differential	19,993,498	15,908,039	770,360	2,238,323	1,076,776
Salary Survey	0	0	0	0	0
Merit Pay	0	0	0	0	0
Health, Life, Dental	332,969,976	190,445,011	74,456,584	35,450,370	32,618,011
Short-term Disability	3,140,195	1,783,334	691,063	347,832	317,966
TOTAL	\$356,103,669	\$208,136,384	\$75,918,007	\$38,036,525	\$34,012,753
Increase/(Decrease)	\$82,817,079	\$71,632,237	\$4,232,349	(\$487,407)	\$7,439,900
Percent Change	30.3%	52.5%	5.9%	(1.3%)	28.0%
Percent of Total Comp.	12.4%	12.8%	11.8%	12.1%	11.9%

EMPLOYEE COMPENSATION COMMON POLICIES (DISCRETIONARY ITEMS; EXCL. HLD GF DECREASE)

	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2020-21 Appropriation					
Shift Differential	18,106,359	14,177,714	721,901	2,204,984	1,001,760
Salary Survey	0	0	0	0	0
Merit Pay	0	0	0	0	0
Health, Life, Dental	309,794,012	178,372,572	70,221,943	35,911,351	25,288,146
Short-term Disability	3,182,073	1,749,715	741,814	407,597	282,947
TOTAL	\$331,082,444	\$194,300,001	\$71,685,658	\$38,523,932	\$26,572,853
FY 2021-22 Request					
Shift Differential	19,993,498	15,908,039	770,360	2,238,323	1,076,776
Salary Survey	0	0	0	0	0
Merit Pay	0	0	0	0	0
Health, Life, Dental	332,969,976	190,445,011	74,456,584	35,450,370	32,618,011
Short-term Disability	3,140,195	1,783,334	691,063	347,832	317,966
TOTAL	\$356,103,669	\$208,136,384	\$75,918,007	\$38,036,525	\$34,012,753
Increase/(Decrease)	\$25,021,225	\$13,836,383	\$4,232,349	(\$487,407)	\$7,439,900
Percent Change	7.6%	7.1%	5.9%	(1.3%)	28.0%
Percent of Total Comp.	12.4%	12.8%	11.8%	12.1%	11.9%

Discretionary compensation items total \$356.1 million including \$208.1 million General Fund. For comparing the requested FY 2021-22 change to the FY 2020-21 appropriation, there are two comparisons to consider: the first includes the HLD decrease balancing action, which will reflect the actual year-to-year budget change; the second excludes the HLD decrease to better reflect the actual year-to-year incremental increase in discretionary employee compensation common policies.

Including the HLD decrease balancing action totaling \$57.8 million General Fund, the request reflects an increase of \$82.8 million total funds or 30.3 percent and an increase of \$71.6 million General Fund or 52.5 percent compared to the discretionary item appropriations in the prior fiscal year. Excluding the HLD decrease, the request reflects an increase of \$25.0 million total funds or 7.6 percent and an increase of \$13.8 million General Fund or 7.1 percent compared to the prior year. Discretionary compensation items represent 12.4 percent of total compensation for FY 2021-22.

The following table outlines PERA payments for the unfunded liability. AED and SAED are calculated as a percentage on payroll as set in statute. The PERA Direct Distribution is allocated to state agencies by fund source in the same proportion as included for AED and SAED.

PERA Payments for Unfunded Liability (non-benefit components)					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2020-21 Appropriation					
AED	\$98,426,520	\$55,146,685	\$22,630,369	\$12,164,117	\$8,485,349
SAED	98,426,520	55,146,685	22,630,369	12,164,117	8,485,349
PERA Direct Distribution	0	0	0	0	0
TOTAL	\$196,853,040	\$110,293,370	\$45,260,738	\$24,328,234	\$16,970,698
FY 2021-22 Request					
AED	\$100,348,366	\$56,641,889	\$22,459,155	\$11,077,175	\$10,170,147
SAED	100,348,366	56,641,889	22,459,155	11,077,175	10,170,147
PERA Direct Distribution	57,559,623	31,451,770	16,625,625	6,210,053	3,272,175
TOTAL	\$258,256,354	\$144,735,547	\$61,543,935	\$28,364,403	\$23,612,469
Increase/(Decrease)	\$61,403,314	\$34,442,177	\$16,283,197	\$4,036,169	\$6,641,771
Percent Change	31.2%	31.2%	36.0%	16.6%	39.1%
Percent of Total Comp.	9.0%	8.9%	9.6%	9.1%	8.3%

PERA payments for the unfunded liability are estimated at \$258.3 million total funds, including \$144.7 million General Fund; an increase of \$61.4 million total funds or 31.2 percent and an increase of \$34.4 million General Fund or 31.2 percent. These figures include the budget balancing action in H.B. 20-1379, *Suspend PERA Direct Distribution for FY 2020-21*, which eliminated the \$54.1 million total funds and \$30.6 million General Fund appropriations in FY 2020-21. PERA payments for the unfunded liability represent 9.0 percent of total compensation.

The following table outlines all PERA payments included in total compensation.

ALL PERA PAYMENTS					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2020-21 Appropriation					
PERA – std. employer contrib.	218,682,913	122,963,397	50,766,284	26,495,154	18,458,078
AED	98,426,520	55,146,685	22,630,369	12,164,117	8,485,349
SAED	98,426,520	55,146,685	22,630,369	12,164,117	8,485,349
PERA Direct Distribution	0	0	0	0	0
TOTAL	415,535,953	233,256,767	96,027,022	50,823,388	35,428,776
FY 2021-22 Request					
PERA - standard employer contrib.	222,029,092	125,417,999	50,365,033	24,137,561	22,108,499
AED	100,348,366	56,641,889	22,459,155	11,077,175	10,170,147
SAED	100,348,366	56,641,889	22,459,155	11,077,175	10,170,147
PERA Direct Distribution	57,559,623	31,451,770	16,625,625	6,210,053	3,272,175
TOTAL	\$480,285,446	\$270,153,546	\$111,908,968	\$52,501,964	45,720,968
Increase/(Decrease)	\$64,749,493	\$36,896,779	\$15,881,946	\$1,678,576	\$10,292,192
Percent Change	15.6%	15.8%	16.5%	3.3%	29.1%

POINTS TO CONSIDER

The State Personnel Director's Annual Compensation Report included the following (emphasis added):

Overall, when compared to the market, average base salaries of employees are 11.6% below market median. This is a significant change compared to last year when the State was 4.8% below market in this category.

The State's market position compared to last year has significantly reduced. The State now lags in employee salaries for all occupational categories whereas last year the State was highly competitive or within a competitive range for all groups. The occupational groups with the greatest lag in employee salaries are often the ones with the highest turnover and greatest market competition such as Labor, Trades and Crafts. This is likely attributed to state employee pay remaining stagnant while the market continues to move forward at an average of 3% each year. This could also be attributed to large numbers of employees being hired at the minimum of the range by the state, especially if employees that were higher in the range last year turned over and the lack of the custom salary survey data that is not collected in a maintenance year.

Proposed Increases to Base Salaries

According to the WorldatWork 2020-2021 Salary Budget Survey, the base salary increase projection for the market in FY 2021-22 is 3% (median).

In May of this year the Employers Council conducted a Coronavirus (COVID-19): Salary Budget Update Survey There were 400 participating organizations across Arizona, Colorado, Utah, Wyoming and Other States. Of the 400 participating organizations, 295 of them were from Colorado. Based on the information collected, the 2020 pay increase projection was at 1.1% and the 2021 pay increase projection was 1.7%.

Base Salary Recommendations

To continue to move employees toward a prevailing wage and stay aligned with base salaries in the market, the State should consider a 3% across-the-board base salary adjustment. The Department will work with the Office of State Planning and Budgeting to develop the final pay recommendations for consideration in the Governor's November 1 budget request for FY 2021-22.

The following table outlines the cost of a 3.0 percent across-the-board salary increase.

SALARY INCREASE - REQUEST VS. ANNUAL COMPENSATION REPORT RECOMMENDATION					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
FY 2021-22 Request					
Salary Survey	\$0	\$0	\$0	\$0	\$0
Merit Pay	0	0	0	0	0
SUBTOTAL - Salary Increase	\$0	\$0	\$0	\$0	\$0
FY 2021-22 Comp Report Recommendation - 3% across-the-board salary adjustment (3% atb increase)					
Salary Survey	\$67,398,967	\$38,006,957	\$15,161,066	\$7,406,249	\$6,824,695
Merit Pay	0	0	0	0	0
AED + SAED	5,791,420	3,179,914	1,345,506	658,662	607,338
Short-term Disability	94,202	53,496	20,732	10,436	9,538
SUBTOTAL - Salary Increase	\$73,284,589	\$41,240,367	\$16,527,304	\$8,075,347	\$7,441,571
Estimated cost per 1% atb increase	\$24,428,196	\$13,746,789	\$5,509,101	\$2,691,782	\$2,480,524

ISSUE 1: 2020 SESSION BUDGET BALANCING ACTIONS

In response to the budget challenges in the 2020 Session, the Joint Budget Committee and the General Assembly took two actions that reduced the FY 2020-21 statewide compensation appropriations by \$111.8 million total funds, including \$88.4 million General Fund. In addition, the statewide compensation action to suspend the PERA Direct Distribution for FY 2020-21 (H.B. 20-1379) saved an additional \$170.9 million General Fund in the Department of Treasury budget representing the amount of the PERA Direct Distribution made for the public school divisions of PERA. These two balancing actions generated a total General Fund decrease of \$259.3 million.

SUMMARY

FY 2020-21 Budget

- For FY 2020-21, the General Assembly's actions included H.B. 20-1379, *Suspend PERA Direct Distribution for FY 2020-21*, which suspended the \$225.0 million statutory payment for one year. This suspension reduced statewide compensation appropriations by \$54.1 million total funds, including \$30.6 million General Fund, and eliminated the Department of Treasury appropriation of \$170.9 million General Fund.
- The FY 2020-21 balancing actions also included a statewide decrease of \$57.8 million General Fund, located in the Health, Life, and Dental, POTS appropriation. This decrease represents one-time savings equal to 5.0 percent of General Fund included in the estimated salary base. Placing this decrease in a POTS appropriation provided maximum flexibility for departments to achieve savings across divisions and programs as best determined at the department level and better positioned the decrease as a one-time rather than a permanent base reduction.

DISCUSSION

Confronting the budget challenges of the 2020 legislative session, the Committee and the General Assembly took two budget balancing actions in statewide compensation for FY 2020-21.

H.B. 20-1379 SUSPEND PERA DIRECT DISTRIBUTION FOR FY 2020-21

House Bill 20-1379 suspended the \$225.0 million PERA Direct Distribution payment for one year. This suspension decreased state agency common policy appropriations by \$54.1 million, including \$30.6 million General Fund, \$16.3 million cash funds, \$6.0 million reappropriated funds, and \$1.1 million federal funds. The suspension also eliminated the \$225.0 million total funds informational appropriation included in the Department of Treasury budget, including \$170.9 million General Fund and \$54.1 million reappropriated funds from the common policy allocation. General Fund savings totaled \$201.5 million. The General Fund amount in the Treasury's appropriation represents the amount of the PERA Direct Distribution made for the public school divisions of PERA.

For FY 2021-22, the PERA Direct Distribution includes statewide common policy allocations totaling \$57.6 million, including \$31.5 million General Fund, \$16.6 million cash funds, \$6.2 million reappropriated funds, and \$3.3 million federal funds. Therefore, the \$225.0 million total funds

appropriation for the Department of Treasury will reflect \$167.4 million General Fund and \$57.6 million reappropriated funds. The PERA Direct Distribution in the Treasury and in common policy appropriations totals \$198.9 million General Fund.

REDUCTION IN HEALTH, LIFE, AND DENTAL IN LIEU OF A 5.0 PERCENT GENERAL FUND PERSONAL SERVICES BASE REDUCTION

The Health, Life, and Dental appropriations for FY 2020-21 include a "reduction in Health, Life, and Dental in lieu of a 5.0 percent General Fund personal services base reduction". This reduction is intended to provide maximum flexibility to departments to absorb the General Fund reduction across divisions and programs. Additionally, while a personal services base reduction generates a permanent or ongoing reduction in the salary base, this dollar-equivalent reduction generates a one-time reduction for FY 2020-21 and preserves the existing salary base.

The statewide reduction totaled \$57.8 million General Fund, including reductions by agency as follows:

REDUCTION IN HLD IN LIEU OF A 5.0 PERCENT GENERAL FUND PERSONAL SERVICES BASE REDUCTION FOR FY 2020-21	
	GENERAL FUND
Agriculture	(\$345,284)
Corrections	(19,465,170)
Education	(863,216)
Governor's Office	(474,944)
Health Care Policy and Financing	(891,256)
Higher Education - Admin & History Colorado	(54,884)
Human Services	(10,956,710)
Judicial	(15,286,410)
Labor and Employment	(276,218)
Law	(714,506)
Legislature	(1,132,470)
Local affairs	(235,018)
Military and Veterans Affairs	(200,106)
Natural Resources	(1,035,518)
Personnel	(587,350)
Public Health and Environment	(1,027,334)
Public Safety	(2,064,868)
Regulatory Agencies	(74,526)
Revenue	(2,032,254)
State	0
Transportation	0
Treasury	(77,812)
TOTAL	(\$57,795,854)

As specified in Long Bill footnotes for each department, it is the intent of the General Assembly that Health, Life, and Dental costs for employees be fully paid within personal services appropriations augmented by allocations from central benefits appropriations. Each staff briefing document and figure setting document that includes such a footnote will include a standard comment statement referring to statewide compensation. Based on Committee decisions for the 2021 Long Bill, the statewide compensation analyst will make a single recommendation regarding the continuation, discontinuation, or modification of all related department footnotes for the 2021 Long Bill.

POINTS TO CONSIDER

Looking toward the FY 2021-22 budget, staff offers the following points to consider regarding statewide compensation.

- The suspension of the PERA Direct Distribution was provided as an option for the Committee to consider under the particularly challenging revenue projection at the time. While staff would recommend such a suspension as a first step in any PERA payment adjustments in a reduced revenue situation, staff would not recommend suspension under current revenue projections.
- The one-time HLD decrease, equivalent to a 5.0 percent estimated salary base reduction, appears to be a good model for any future salary base reduction-equivalent balancing action. However, under current revenue projections, there appears to be no need for such a balancing action for FY 2021-22.
- Staff would suggest that the Governor's announced furlough policy for FY 2020-21, as a result of the HLD decrease, is a political choice to secure funding for other budget priorities. Under current revenue projections, there appears to be revenue available for FY 2020-21 to unwind this decrease in its entirety, if such a policy action were prioritized with available revenue. It was – and still is – staff's opinion at the time of recommendation, that the HLD decrease would place a genuine funding strain on about five to ten percent of compensation appropriations across state agencies; and staff anticipated that such unusual, potential deficit situations could be addressed through the supplemental process for that smaller contingent of needs. Theoretically, a five to ten percent provision of the HLD decrease would cost \$2.9 to \$5.8 million.
- At the Committee's quarterly meeting in September, the Department of Personnel presented its annual compensation survey. At that time, the Committee asked the Department if it had collected information on how departments were implementing the HLD decrease. The Department had not collected such information at that time.
- Therefore, staff recommends that the Committee include a common question in hearing questions that should also be discussed with the Committee in department hearings regarding how the departments have addressed the HLD decrease. Staff recommends the following: "Please describe the Department's actions to implement the Health, Life, and Dental decrease in lieu of a 5.0 percent General Fund salary base reduction. Please include dollar and percentage share data on planned "allocations" of the decrease to all divisions and programs within the Department. Please describe the use of vacancy savings, delayed hiring, and the implementation of one-time or ongoing operating savings. Please describe the urgency of the Department's need to engage in a furlough in FY 2020-21 due to the inability to achieve savings in other ways."
- Staff further recommends that the Committee include a similar question for the Department of Personnel regarding statewide data and practices for absorbing the HLD decrease.

ISSUE 2: PERA UPDATE

This issue provides an informational PERA update based on PERA's 2019 Comprehensive Annual Financial Report (CAFR) and related documents. PERA experienced an investment return in 2019 of 20.3 percent, contributing to an increase in the aggregate funded ratio to 61.9 percent and a decrease in the aggregate unfunded liability to \$29.8 billion.

SUMMARY

- PERA experienced an investment return of 20.3 percent in 2019, up from -3.5 percent in 2018.
- The healthy investment return contributed to an improved aggregate funded ratio of 61.9 percent, up from 59.8 percent a year earlier, and a decreased aggregate unfunded liability of \$29.8 billion, a decrease of \$1.2 billion from \$31.0 billion in the prior year.
- The state employee contribution rate of 10.0 percent for FY 2020-21, is scheduled to increase to 10.5 percent for FY 2021-22, pursuant to S.B. 18-200. This compares to the normal cost rate of 11.66 percent identified in the 2019 CAFR. The normal cost reflects the percentage of salary required to fully fund a current employee's PERA benefits.
- The state employer contribution rate of 10.9 percent for FY 2020-21, will increase incrementally for FY 2021-22, related to increases for the Defined Contribution Supplement (0.05 percent) and for the calculation of salary for new hires on gross salary before cafeteria deductions (unknown percentage) pursuant to S.B. 18-200, *PERA Unfunded Liability*. The additional cost is estimated to be \$2.2 million total funds, including \$1.6 million General Fund.

DISCUSSION

S.B. 18-200 UPDATE

The state employee contribution rate of 10.0 percent for FY 2020-21 will increase 0.5 percent, pursuant to S.B. 18-200, to 10.5 percent for FY 2021-22.

The state's employer contribution rate of 10.9 percent for FY 2020-21 will increase incrementally for FY 2021-22, related to increases for the Defined Contribution Supplement (0.05 percent) and for the calculation of salary for new hires on gross salary before cafeteria deductions (unknown percentage) pursuant to S.B. 18-200, *PERA Unfunded Liability*. The additional cost is estimated to be \$2.2 million total funds, including \$1.6 million General Fund.

PERA 2019 CAFR UPDATE

The aggregate funded status for all division trust funds includes:

- an unfunded liability of \$29.8 billion at the end of 2019, compared to an unfunded liability of \$31.0 billion at the end of 2018; and

- a funded ratio of 61.9 percent at the end of 2019, compared to a funded ratio of 59.8 percent at the end of 2018.

Despite the changes made in S.B. 18-200 that substantially increase contributions to PERA to address the unfunded liability, most of the one-year improvement in funded status and unfunded liability is attributable to the 2019 investment return of 20.3 percent. This investment return compares to PERA's fund policy benchmark return of 19.8 percent and an S&P 500 equity market return of 28.9 percent.

PERIOD TO FULL FUNDING

The following table outlines the amortization period for each division.

AMORTIZATION PERIOD - YEARS TO FULL FUNDING						
	2014	2015	2016	2017	2018	2019
Year ended	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
State	45	65	58	33	35	27
Judicial	Infinite	Infinite	54	24	23	16
School	48	128	78	38	37	28
DPS	Infinite	Infinite	56	Infinite	Infinite	25
Local Government	28	42	55	22	37	22

FUNDED RATIO

The following table outlines the funded ratio for each division and aggregate.

FUNDED RATIO (ACTUARIAL VALUE FROM CAFR)						
	2014	2015	2016	2017	2018	2019
Year ended	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
State	57.8%	57.6%	54.6%	57.5%	56.1%	58.0%
Judicial	73.0%	71.4%	66.6%	72.4%	70.6%	74.0%
School	60.9%	60.7%	56.3%	59.4%	57.9%	59.9%
DPS	82.6%	82.1%	75.9%	79.7%	76.8%	80.0%
Local Government	78.7%	79.0%	74.4%	79.5%	77.7%	80.7%
PERA aggregate	62.3%	62.1%	58.1%	61.3%	59.8%	61.9%

UNFUNDED ACTUARIAL ACCRUED LIABILITY

The following table outlines the unfunded actuarial accrued liability for each division and aggregate.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (IN MILLIONS)										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Year ended	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
State	\$7,564.2	\$8,816.5	\$8,652.8	\$9,714.3	\$9,884.8	\$10,202.9	\$11,643.6	\$10,525.7	\$11,206.1	\$10,795.6
Judicial	76.0	97.9	88.1	94.8	100.4	115.1	149.2	118.0	131.8	120.0
School	11,018.0	12,720.1	12,352.5	14,067.9	14,243.2	14,805.5	18,089.6	16,266.2	17,504.0	17,013.0
DPS	371.1	637.8	558.9	710.0	664.6	697.9	1,025.5	830.8	987.3	853.1
Local Gov.	<u>1,079.5</u>	<u>1,277.3</u>	<u>1,058.9</u>	<u>1,211.0</u>	<u>981.6</u>	<u>1,003.5</u>	<u>1,333.9</u>	<u>1,036.5</u>	<u>1,170.2</u>	<u>1,028.1</u>
PERA agg.	\$20,108.8	\$23,549.6	\$22,711.2	\$25,798.0	\$25,874.6	\$26,824.9	\$32,241.8	\$28,777.2	\$30,999.4	\$29,809.8
Agg. change		3,440.8	(838.4)	3,086.8	76.6	950.3	5,416.9	(3,464.6)	2,222.2	(1,189.6)

INVESTMENT RETURN

For 2019, PERA experienced an investment return of 20.3 percent. PERA's annualized rate of return over extended periods include the following:

- 11.1 percent over three years;
- 8.4 percent over five years;
- 9.1 percent over 10 years; and
- 8.6 percent over 30 years.

PERA's investment returns can be expected to move with the market generally, although in recent years PERA has earned returns slightly higher than benchmarks and peer averages.

LONG-TERM RATE OF RETURN

PERA's current long-term rate of return (LTROR) assumption is set at 7.25 percent. This assumption was decreased from 7.5 percent by the PERA Board in November 2016. This nominal figure includes a 4.85 percent real LTROR and a 2.4 percent inflation assumption. The following table outlines PERA's investment return and real and nominal long-term rates of return since 2008.

PERA INVESTMENT RETURN AND LONG TERM RATE OF RETURN				
CALENDAR YEAR	INVESTMENT RETURN	REAL LONG TERM RATE OF RETURN (LTROR)	INFLATION	NOMINAL LTROR
2019	20.3%	4.85%	2.40%	7.25%
2018	(3.5%)	4.85%	2.40%	7.25%
2017	18.1%	4.85%	2.40%	7.25%
2016	7.3%	4.85%	2.40%	7.25%
2015	1.5%	4.70%	2.80%	7.50%
2014	5.7%	4.70%	2.80%	7.50%
2013	15.6%	4.70%	2.80%	7.50%
2012	12.9%	4.50%	3.50%	8.00%
2011	1.9%	4.25%	3.75%	8.00%
2010	14.0%	4.25%	3.75%	8.00%
2009	17.4%	4.25%	3.75%	8.00%
2008	(26.0%)	4.75%	3.75%	8.50%

SIGNAL LIGHT INDICATORS

PERA's signal light indicators are green for the State and School Divisions, and dark green for the Local Government, Judicial, and DPS Divisions.

Dark green represents 100-percent funded by 2041 (30 years from 2011) and green represents 100-percent funded by 2048 (30 years from 2018). PERA's other indicators include: light green representing full funding by 2058 (40 years from 2018); yellow, representing full funding by 2068 (50 years from 2018); orange, representing solvent but longer than 50 years for full funding; red, representing insolvent in more than 20 years; and dark red, representing insolvent within 20 years.