DEPARTMENT OF PERSONNEL and PERA
FY 2016-17 JOINT BUDGET COMMITTEE HEARING AGENDA

Thursday, December 17, 2015
9:00 am – 12:00 pm

9:00-9:15 INTRODUCTIONS AND OPENING COMMENTS

9:15-9:30 DEPARTMENT OVERVIEW

1. Please explain the division of responsibility for purchasing and maintaining State Patrol Vehicles and CDOT vehicles. Which department does what for its own vehicles?

   Response: The Department of Personnel & Administration State Fleet Management (SFM) is responsible for the procurement of all vehicles within the Department of Public Safety (DPS) and light duty fleet vehicles within the Colorado Department of Transportation (CDOT). The Department's SFM tracks all vehicle acquisition, operating and disposal costs for these vehicles in the fleet. For vehicle replacement, SFM generates proposed vehicle replacement lists for DPS and CDOT based upon a number of metrics, such as mileage, maintenance expense and resale value. Beyond this quantitative analysis, State Fleet Management works with individual departments to ensure that the vehicles on the replacement list are good candidates for replacement.

   CDOT and DPS operate their own repair facilities which serve as primary maintenance facilities for their vehicles. DPA funnels all other State fleet vehicles to these facilities to leverage internal resources. If maintenance or repair is required outside of the serviceable area of the CDOT and DPS service facilities, the vehicle is directed to a garage that is contracted to work with the State's fleet. Repairs at internal or external repair shops are communicated to State Fleet for tracking each vehicle's maintenance record.

2. Please provide an update on CNG vehicles, following the issue that was presented last year regarding fuel usage by department for those vehicles. Please provide an update on this year's request for vehicle replacements regarding CNG vehicles. Does the Department's analysis show that CNG vehicles meet the statutory requirement for life-cycle costs that would allow purchase of CNG vehicles this year?

   Response: Use of CNG within the State fleet has not rebounded as quickly as was anticipated last year. This is due, primarily, to the inversion of CNG prices that occurred earlier in calendar year 2015, and is happening now. During these times, the cost of CNG actually exceeds the price of gasoline. Some departments have made considerable progress in CNG utilization over the course of the past year. For example, CDOT's utilization was 19% in February and spiked at 69.8% in October. The OIT also increased utilization during the same time period from 4.6% to over 60%.

Some agencies are still struggling with CNG utilization due to the lack of availability of CNG fueling sites in their area. The Department will continue to work with agencies to increase utilization as 15 new fueling sites come online in 2016, in cities such as Durango, Gunnison, Trinidad, Glenwood Springs and Pueblo. We continue to work with these departments to move CNG vehicles to locales that have CNG fueling sites readily available for their use.

Given the current price differential between gasoline and CNG, the Department does not believe that vehicles meet the "lifetime cost of a vehicle plus 10 percent" requirement to purchase a CNG vehicle. However, the Department is pursuing some alternative sources for funding that will provide cost offsets that may make purchasing CNG vehicles possible. The Department's vehicle request for FY 2016-17 requests CNG vehicles where the potential exists for the vehicle to qualify for purchase under the statutory requirements. However, if pricing and incentives are not sufficient to bring the cost of a CNG vehicle within the "lifetime cost of a vehicle plus 10 percent" threshold, a non-CNG unit will be purchased in its place.

Please see the attached updated document on CNG utilization for additional information.

3. Please explain the impact on CNG filling station infrastructure and the State's effort to build-out CNG filling station infrastructure if the State does not purchase CNG vehicles.

   Response: The Colorado Energy Office has been working diligently to incentivize investment in new fueling sites. Current projections indicate that 15 new sites will be coming online by the end of 2016. The Department believes this is the result of CEO's work on incentivizing these sites and the State's overall emphasis on purchasing CNG vehicles for use in the State's Fleet.

   The Department cannot quantify the direct impact of a policy that shifts away from purchasing CNG vehicles. This is because the State of Colorado is one of many fleets that use CNG for their vehicles and long-term demand for CNG is a function of price expectations for gasoline and other alternative fuel vehicles. That said, it is clear that a policy that shifts away from CNG would have a negative impact in the overall demand for additional fueling stations within the State.

9:30-9:50 ISSUE 1: LEGISLATIVE APPROPRIATIONS AUTHORITY AND THE R2 FLEET RE-ALIGNMENT REQUEST, IDS POSTAGE TRANSFERS, AND RISK MANAGEMENT OVEREXPENDITURES

4. Please discuss the Department's position on the appropriations transfer issues addressed in the briefing issue.

   Response: The Department uses transfer spending authority to address what it believes to be one-time issues that can be addressed within the authority granted under 24-75-108 C.R.S. The Department makes every effort to be transparent in the information it provides the General Assembly – all expenditures have been reflected in the Department's schedules. If there is any confusion regarding DPA's schedules, the Department will provide clarification regarding those issues. The Department uses its transfer authority to transfer between line items of like purpose, as outlined in 24-75-108 C.R.S., and, in doing so, does not believe it has violated its statutory or constitutional authority.

   This is the first year that it has been brought to the Department's attention that transfers between line items, and specifically those that have been broken into component pieces, are of concern to the Joint Budget Committee's staff. Many of the transfers that have been required in the recent past stem from appropriations that have been broken out into component parts. JBC staff has always worked well with the Department to determine the appropriate breakouts, but the process isn't perfect because the Department cannot forecast expenditures with absolute accuracy and clarifications on accounting procedures can cause shifts in where expenses are reflected. In cases where the projected breakouts aren't accurate, the Department has requested transfer authority between lines that were at one time appropriated in the same line item with the understanding that line items that were at one time appropriated together can be considered as like in purpose, especially when they continue to support the same function.

   The Department has submitted or will be submitting change requests to address areas where transfers would be necessary on an ongoing basis in order to avert over-expenditures. As JBC staff noted in its write-up, the Department submitted a change request to address the Fleet fuel/automotive and operating issue with its November budget submission. The Department may also submit a supplemental request to address the IDS third party printing issue noted by staff. Both of these requests were formulated well in advance of the Department becoming aware of JBC staff's issue around transfers between line items of like purpose.

9:50-10:10 ISSUE 2: TOTAL COMP REVERSIONS AND THE STATE EMPLOYEE RESERVE FUND

5. Is the reversion issue identified in the briefing issue a CORE problem?

   Response: Partially. The primary driver of the high reversions in the POTS line items was a considerably higher number of vacant positions in FY 2014-15, due to a change in duties and responsibilities of many positions to accommodate the more technical aspects of the CORE system during implementation, as well as an increase in turnover rates. Also, because the State was experiencing delays in payroll report availability, DPA was fiscally conservative in its hiring practices as the Department wanted to be certain that it didn't over-expend its personal services line items.

6. Is there a sunset on the State Employee Reserve Fund (SERF)? How has the SERF been used? Are these dollars available for other purposes? Is there a reporting requirement related to the SERF?

   Response: There is no sunset provision in statute for the State Employee Reserve Fund (SERF). Per 24-50-104 (1) (j) (II) (A), funds in the State Employee Reserve Fund are only available for the purpose of providing merit pay to certified employees. To date, the moneys within the SERF have not been used, except that the General Assembly passed a bill to remove approximately $6.35 million in reversions from the Department of Public Safety's SERF account to fund sexual assault kits. The Department is required to report on the SERF, per 24-50-104 (1) (c.5) (V) C.R.S. (2015) in an annual report submitted to the General Assembly. The report is due by January 1 of each fiscal year.

7. Please provide an explanation for why the reversions in the identified compensation line items were high. Please provide an explanation for how those items were funded? Which line items or other continuously appropriated funds paid for those items to cause reversions in the line items?

   Response: The Department reverted relatively high amounts from its POTS line items in FY 2014-15 because of a relatively high number of vacancies in programs, some of which are undergoing considerable change and adaptation of duties and responsibilities during the implementation of CORE. To demonstrate this issue, the Department counted the number of whole months a position was vacant by program. The Office of the State Controller, for example, had 24 full months of vacancies in FY 2013-14, which increased to 97 full months of vacancies in FY 2014-15. In total, DPA had 270 full months of vacancies in FY 2013-14 and 422 full months of vacancies in FY 2014-15, an increase of over 56 percent. The Department hopes that this will be one time in nature, but turnover is likely to continue until the work within some of the divisions stabilizes.

As discussed in its response to question eight, the Department makes a conscious decision to allocate POTS to personal services line items only to the extent that the line requires the funding to cover its expenses. With this methodology, the Department uses any under-expenditures in its personal services line items to cover HLD, AED, SAED, STD expenses first, and then transfers POTS as necessary to ensure the line does not over-expend its appropriation.

Funding for the Department's POTS line items is set through the total compensation template process for every fiscal year and is based on a snap-shot of filled positions as of July 1 of the preceding fiscal year. Because the Department does not have continuous spending authority for administrative expenses out of any of its funds, no funds from continuously appropriated line items were used to generate these reversions.

8. Is this a long-term or ongoing trend in the Department, or is this a one-year issue? Were there management decisions made that led to these reversions? Are they the result of the change in management? How will management address this issue going forward?

   Response: The Department of Personnel & Administration allocates POTS to line items based upon a process that includes a conscious decision to fund Personal Services line items as close to their exact need as possible while matching fund source types to appropriations. To the extent that a Personal Services line item does not require a full allocation of its POTS appropriation to be fully expended, the Department reverts those appropriations through its POTS line items instead of allocating POTS to Personal Services line items and under-expending the same Personal Services line items. The net effect of this decision is the same – the Department will revert the same amount of spending authority overall, it's just reflected in the POTS line items instead of spread across all of the Department's personal services line items.

   The Department has used this methodology in previous fiscal years, and it has carried across its transition in management. Therefore, the reversion is not due to changes in the management of the Department.

10:10-10:30 CORE OPERATIONS UPDATE

9. Please explain the division of responsibility over hardware between CORE Operations in the Department and OIT. Please explain the reason for the base adjustment increase in CORE Operations.

   Response: OIT maintains one primary file transfer protocol (FTP) server which hosts the CORE system's interface to CGI. OIT is responsible for the maintenance of this server. CORE Operations (including all CORE software maintenance) is DPA's responsibility.

The $387,792 base adjustment in the Department's CORE Operations group is due to the additional 501 electronic content management (ECM) licenses the State requires for the CORE system ($391,382) plus a true-up to actuals of prior expenses ($3,589). Due to rounding, this amount is off by $1.

10. How was training managed during the implementation of CORE? Is it working effectively now? Is everyone fully trained on CORE?

Response: The Department trained 4,000 seats on 12-15 subjects in two and a half months (April 2014-mid June 2014) prior to launch. The Department utilized the Train the Trainer method to reach as many additional CORE users after the launch of CORE on July 1, 2015. Additionally, the Department provided weekly calls for user groups leading up to the launch and implemented the help desk to provide user support after the launch.

Overall training on a new system after having the previous system in place for more than 20 years is difficult and will encounter complications along the way. Furthermore, there was a vast amount of complex and detailed training to be accomplished, with a large group of people, in an extremely limited amount of time.

Finally, as new modules are implemented in CORE there is additional training provided. These training sessions have been extremely successful as they are provided to small, specific user groups and are highly focused.

11. Have CORE reports been verified as accurate?

Response: After the launch of CORE, the Department implemented a Reporting Committee, made up of "super users" from various user groups. This group identified and prioritized reports and began quality reviews of these reports. Furthermore, a full FTE was devoted to reviewing report structures (checking for formula accuracy, correct information included/excluded), removing duplicate reports, and improving the file structures to make reports easier to find. At an aggregate level, all CORE reporting is accurate and has been verified.

10:30-11:00 TOTAL COMPENSATION REQUEST OVERVIEW

12. Please explain why the base salary estimate is increasing over last year. Please explain why some departments show much higher rates of increases in their base salary estimate.

    Response: The biggest drivers of base salary changes would be salary survey adjustments, merit pay adjustments, reallocations, new hires, terminations, and the appropriation of additional FTE.

    With respect to explaining differences in other departments, the Department received the following responses from those agencies specifically called out in JBC staff's briefing document:

    Agriculture: The Department has previously excluded all base salary amounts for temporary and seasonal employees. The increase in base salaries from FY 2015-16 to FY 2016-17 can be wholly attributed to this change. The Department will work with its assigned JBC Analyst to determine if adjustments to the template are required.

    Education: The base salary figure was overstated by temporary employees who should have been excluded from the calculation. The Department of Education did not adjust the data for temporary employees to reduce the total for staff not included in POTS calculations.

    Labor & Employment: The increase is due to an additional 230 FTE due to legislation the Joint Budget Committee ran in 2015 (S.B. 15-239 "Transfer Vocational Rehab from DHS to CDLE").

    Local Affairs: The $1.7 million increase (17.1 percent) reported in the JBC staff's briefing document is not correct. The Department's base salary increase between FY 2015-16 and FY 2016-17 as confirmed in the total compensation templates for both years is $736,531, an increase of 6.7 percent. This is largely attributable to salary survey and merit pay adjustments, as well as other salary adjustments approved by the department through promotions. There is also the addition of 1.9 FTE relating to legislation adopted during the 2015 session.

13. How are FTE changing by department as a way of comparing the change in base salary estimate for departments experiencing higher rates of increase?

    Response: Please see the attachment that shows base salary, FTE, Salary / FTE, and the percent change in salary per FTE for FY 2014-15 and FY 2015-16. The Department pulled this information from the total compensation templates for each department that were submitted with the November budget request. These numbers include temp FTE, so the numbers may not tie exactly with FTE appropriations in the

Long Bill. Please note the Department of Agriculture's response to question 12 that sheds some light on the changes noted in the attached table.

14. What drives range adjustments? Please explain the process for making range adjustments through the recommendation, request, and budget process.

Response: Range adjustments are driven and influenced by structure adjustment trend data from published salary budget surveys and the State's compensation philosophy to provide prevailing total compensation to state employees. State ranges are formal salary ranges that cover all state personnel system jobs. Each salary range has an established minimum and maximum as well as a mid-point (control point). The midpoint serves as the point of external (market) reference. The midpoint of state salary ranges is the point that is used as a point of reference to establish and maintain parity to market based on the State's statutorily established prevailing compensation philosophy.

The process for making range adjustments is as follows:

1) DPA develops information on salary range adjustments using market data and a consultant, as necessary.
2) DPA estimates the fiscal impact of providing range adjustments for employees and makes its recommendation to the Governor's Office of State Planning and Budgeting.
3) DPA and OSPB work together to determine an appropriate adjustment to salary ranges given any financial constraints the State may be facing.
4) The salary range adjustment is incorporated into the total compensation template for all departments – this template forms the basis for the request amounts included in each department's schedules.
5) All departments submit budgets to the General Assembly on November 1 that request funding for salary range adjustments (requested in Salary Survey line items) for the request year.
6) The General Assembly appropriates funding for salary adjustments. If the request is not funded, or not funded in its entirety, the Executive Branch must decide to what degree it will adjust salary ranges.

15. How many state employees will receive an increase from the range adjustment on the lower end? Will range adjustments also impact lower range employees in Higher Education?

Response: All classified employees' ranges will be impacted by changes in pay ranges. Based on the executive request, 2,578 employees will receive a pay increase related to the pay range adjustments for FY 2016-17. If any across the board (ATB) salary survey pay-rate increases are appropriated for FY 2016-17, this number would decrease to the extent that an ATB pay increase eliminates the need for employees to receive adjustments in order to be at the pay range minimum.

Classified Higher Education employees are treated the same as the rest of the classified system.

16. How much would it cost for a 1.0 percent and for a 1.5 percent merit pay increase?

Response: The Department estimates that a 1.0 percent adjustment would cost $19,623,926 total funds, and a 1.5 percent increase would cost $29,435,889 in total funds. This estimate includes the salary expense, as well as PERA, FICA, AED, SAED and STD. This estimate is based on JBC staff's estimate of total base salary.

17. When we have relatively flat inflation as we currently do, how does the State look at salary survey and merit pay adjustments?

Response: The Department trends inflation and utilizes salary survey data to determine the potential impact of inflation, or lack of it, to the State's total compensation. For example, if limited growth (as is the current case) in the market is putting little to no pressure on wages, but the market data indicates a strong move towards other areas of compensation such as nonfinancial rewards (indirect compensation) the Department will explore placing a higher emphasis on nonfinancial rewards in its compensation structure. In addition, the Department may consider recommending new programs to strengthen or maintain the State's competitiveness in recruitment and retention to preserve the State's prevailing compensation philosophy.

18. How do the provider rates and state employee compensation correlate?

Response: DPA does not compare total compensation to provider rate compensation, therefore there is no correlation.

19. How do turnover rates compare between the State and the market? Is this something that is measured and compared in the annual compensation report? If not, is it something that can be included in future reports?

Response: The table below provides the turnover rates for the top 25 job classes with the most positions. The information provided shows the type of separation and the salary quartile of the separated employee.

Statewide: Job Class Turnover Rate by Number of Separations								
Class & Separations		Separation Type			Employees in Quartile of Class Salary Range			
Class Title	Turnover Rate	Voluntary	Involuntary	Retire	1st	2nd	3rd	4th
CORR/YTH/CLIN SEC OFF I	16.0%	372	119	33	488	9	9	18
CUSTODIAN I	15.3%	130	34	27	158	12	10	11
GENERAL PROFESSIONAL III	12.9%	106	15	46	47	40	33	47
NURSE I	28.4%	124	16	20	106	48	6	0
ADMIN ASSISTANT III	9.3%	86	19	47	96	30	25	1
CLIENT CARE AIDE II	30.7%	116	28	7	91	34	10	16
ADMIN ASSISTANT II	12.5%	95	16	29	98	17	20	5
TRANSPORTATION MTC I	14.2%	80	21	26	20	5	27	75
GENERAL PROFESSIONAL IV	10.5%	57	3	41	25	23	22	31
HEALTH CARE TECH I	17.5%	61	20	8	56	3	19	11
CORR/YTH/CLIN SEC OFF II	7.8%	37	8	24	34	6	5	24
GENERAL PROFESSIONAL V	12.0%	37	3	28	20	22	19	7
PROGRAM ASSISTANT I	8.0%	28	5	28	30	10	19	2
CORR SUPP TRADES SUPV I	9.0%	22	18	11	40	3	1	7
TECHNICIAN III	9.0%	32	5	11	34	5	4	5
DINING SERVICES III	18.9%	32	7	6	36	3	3	3
PROGRAM ASSISTANT II	10.6%	16	7	22	15	9	15	6
ACCOUNTING TECHNICIAN III	9.8%	13	7	21	20	9	8	4
IT PROFESSIONAL	5.2%	17	8	13	12	14	11	1
GENERAL PROFESSIONAL II	10.3%	22	9	5	12	12	6	6
DINING SERVICES II	15.2%	20	9	5	27	1	2	4
TECHNICIAN IV	7.3%	15	2	15	10	6	6	10
LABOR/EMPLOYMENT SPEC I	17.9%	28	3	1	32	0	0	0
GENERAL PROFESSIONAL VI	9.1%	12	1	17	6	6	8	10
MANAGEMENT	12.9%	9	2	19	1	3	6	20
Top Classes Total	***13.0%***	***1,567***	***385***	***510***	***1,514***	***330***	***294***	***324***
Statewide Total*	**11.7%**	**2,526**	**585**	**1,078**	**2,211**	**715**	**603**	**660**

The Bureau of Labor Statistics reports in its 2014 Job Openings and Labor Turnover Survey (JOLTS) from March 10, 2015 publication (see the link below) that the annual separation rate in the private industry for non-farm employment in 2014 was 39.9 percent. In the State and local subsection of the overall Government industry, 2014 data indicates that the average turnover rate was 16.4 percent.

The Department does not compare turnover rates in its annual compensation report. The Department does provide turnover data in its annual workforce report, the 2015 version of which will be published by January 2016. Information on turnover can be provided in future annual workforce reports.

The Department believes that its methodology for calculating turnover is similar to the Bureau of Labor Statistic's methodology. Any differences between the two methodologies would likely impact the estimate of turnover in either direction. Here is the link to the BLS report:

http://www.bls.gov/news.release/archives/jolts_03102015.htm

11:00-11:15 OTHER ITEMS

LDPAC

20. Please provide an update on the digitization of legislative audio tapes in State Archives.

Response: The Department has completed initial design and build, and is currently migrating multi-track monaural legislative audio recordings (1973–2001) at 4TB per week with greater than 3% of the collection completed.

21. What does the Department think about extending or allowing to sunset the Legislative Digital Policy Advisory Committee (LDPAC)?

Response: The LDPAC should not be extended officially. The Department will continue to meet and encourage other stakeholders to meet on an ad hoc basis as needed. The Department, through its archival and records management programs, plans on the eventual creation of a State Records Board to address the standardization and administration of records statewide.

Leasing Approval Process

22. Please explain the process used to oversee state leasing. Please explain the standard language that is expected to be included in contracts/leasing agreements. Do all state agencies comply with the leasing policies set by State Buildings and Real Estate Programs in the Office of the State Architect? Does the Office monitor compliance in any way to ensure that state agencies are in compliance with policies?

Response: Any department or institution (agency) requiring the lease of new space, expansion or renewal of existing lease agreements must complete a space request form (SRF). The form is required to be submitted to Real Estate Programs (REP) for all leases. If it is a new lease, the agency contacts REP immediately; if it is a renewal, departments are required to notify REP 6 months in advance.

Space request forms are submitted to REP prior to engaging the state's contracted real estate brokers. If the requirement is outside of the scope of the broker contract, the SRF will be submitted to REP prior to any agency action with landlords/lessors. If the anticipated annual lease cost is greater than $75,000, the agency will provide specific economic details of at least three comparable location alternatives, as well as anticipated costs of tenant improvement to be completed by the Lessor and amortized over the term of the lease.

REP assists with this process to ensure that the proposed lease transaction is completed at a price and terms that are in line with comparable lease terms in the local market. The state utilizes a standard lease template that has been approved by both the Attorney General's Office and the Office of the State Controller.

The language included in all lease agreements stipulates that the "lease is dependent upon the continuing availability of funds beyond the term of the State's current fiscal period ending upon the next succeeding June 30, as financial obligations of the State of Colorado payable after the current fiscal year are contingent upon funds for that purpose being appropriated, budgeted, and otherwise made available. If funds are not appropriated, this Lease shall terminate at the end of the then current fiscal year, with no penalty or additional cost to Tenant. Tenant shall notify Landlord of such non-allocation of funds by sending written notice thereof to Landlord forty-five (45) days prior to the effective date of termination."

This policy describes the process by which Executive Departments and Institutions of Higher Education will acquire space. All departments are required to follow this process, and do, unless specifically exempted by REP. The office monitors compliance from the beginning to the end of each transaction. Each department is responsible for ensuring funds are available before entering into the lease acquisition process. Any additional leased space need is expected to be addressed by the agency entering into the lease.

23. Please explain how leasing policies might be adjusted to work with appropriations approval processes?

Response: It would be difficult to modify the current lease practice to comport with the appropriations approval process. Currently, Executive Branch agencies pay for leased space through a specific appropriation, called Leased Space, in their respective sections of the Long Bill. The standard appropriations process through a decision item for the Executive Branch begins nearly 13 months before the appropriation would be made in the Long Bill. It would be extremely difficult to determine which properties will be available with 13 months advance notice. In addition, the State may not be able to obtain accurate pricing information with a 13 month lead time. Finally, there are other entities that are looking for leased space and the State competes with them for best price and availability. The ability to secure space when it becomes available and within the appropriations outlined in the Long Bill allows the State the ability to negotiate effectively in the leasing market. If that flexibility is removed, the State would be at a disadvantage in its negotiations or would have to pay a premium for the risk associated with such a long negotiation process.

11:15-11:30 BREAK

11:30-11:40 PERA INTRODUCTION AND OPENING COMMENTS

11:40-12:00 PERA UPDATE – 2015 PERA STUDIES

24. Please demonstrate that a new retirement plan would necessarily be more expensive, if PERA agrees with the findings in the cost-benefit value study. It is not clear that a new retirement plan would necessarily eliminate the current cash flow intended to fully fund PERA. For example, the normal cost of the existing plan could be directed into a new plan, while still maintaining the same payment scheme to cover the unfunded liabilities. Please explain why a system like this could not work.

25. If more conservative assumptions were used as identified in the sensitivity analysis, would that have changed the opinion in the cost-benefit study on whether the defined benefit system was better than a defined contribution system?

26. Please explain the tax liability implications of AED and SAED? What would be the difference in tax liability if AED and SAED were merged as a single line item in department budgets? Is it possible to maintain separate statutes for AED and SAED as provided in current law, and calculate them distinctly, but pay for them from a single line item?

27. Please explain why AED and SAED are not treated simply as payments from the State to catch up the unfunded liability. Please explain why AED and SAED are treated as compensation elements, although the annual normal cost of benefits for state employees hired after January 1, 2011, was identified as 8.82 percent in the cost-benefit study, and therefore appears to be much lower than the employee contribution plus the statutory State contribution, AED, and SAED.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Provide a list of any legislation that the Department has: (a) not implemented or (b) partially implemented. Explain why the Department has not implemented or has only partially implemented the legislation on this list.

Response: There is no legislation that the Department has not yet implemented or has only partially implemented.

2. Please provide a detailed description of all program hotlines administered by the Department, including:
   a. The purpose of the hotline;
   b. Number of FTE allocated to the hotline;
   c. The line item through which the hotline is funded; and
   d. All outcome data used to determine the effectiveness of the hotline.

Response: The Department does not administer any hotlines.

3. Describe the Department's experience with the implementation of the new CORE accounting system.
   a. How has the implementation improved business processes in the Department?
   b. What challenges has the Department experienced since implementation and how have they been resolved (i.e. training, processes, reports, payroll)?
   c. What impact have these challenges had on the Department's access to funding streams?
   d. How has the implementation of CORE affected staff workload?
   e. Do you anticipate that CORE implementation will result in the need for a permanent increase in staff? If so, indicate whether the Department is requesting additional funding for FY 2016-17 to address it.

Response: There have been many improvements associated with the implementation of CORE. For example, the State is now on a relatively paperless system, which increases efficiency overall. In addition, the Department has found that providing information to the auditors has become relatively easy as the auditors have access to most of the documents in CORE, which sometimes includes supporting documentation.

The Department of Personnel & Administration had to adjust the performance requirements for positions within its accounting group to accommodate the more technical aspects of the CORE system. Another challenge was training program staff within the Department on the new procurement aspects of the system. These issues were resolved through numerous internal trainings held by accounting and procurement staff within the Department, as well as one-on-one training.

The area of greatest difficulty has been the LDC/CPPS/CORE interface. The Department has been working with its vendor, CGI, since implementation to address the issues associated with these interfaces. As yet, the State has not been able to reach an equilibrium in this area and continues to work through the problem.

None of the challenges above has led to a restriction or denial of access to funding streams.

With the CORE implementation, the Department anticipated a good amount of front-loaded work. The actual amount of work required to stand up the CORE system was greater than we had anticipated. The Department believes that the work associated with the CORE system will reach equilibrium in the near-term and believes that it will be able to handle the workload within its current staffing. If this should change, the Department will pursue additional resources through the budget process.

4. If the Department receives federal funds of any type, please provide a detailed description of any federal sanctions for state activities of which the Department is already aware. In addition, please provide a detailed description of any sanctions that MAY be issued against the Department by the federal government during FFY 2015-16.

Response: The Department has not been sanctioned by the federal government. The Department does not anticipate being sanctioned by the federal government.

5. Does the Department have any outstanding high priority recommendations as identified in the "Annual Report of Audit Recommendations Not Fully Implemented" that was published by the State Auditor's Office and dated October 2015 (link below)? What is the department doing to resolve the outstanding high priority recommendations?

http://www.leg.state.co.us/OSA/coauditor1.nsf/All/4735187E6B48EDF087257ED0007FE8CA/$FILE/1542S%20Annual%20Report.%20Status%20of%20Outstanding%20Audit%20Recommendations,%20As%20of%20June%2030,%202015.%20Informational%20Report.%20October%202015.pdf

Response:

Recommendations 2014-019: A) DPA has been granted a waiver from OIT for this requirement due to the implementation of the Human Resource Information System (HRIS). At this time, and in the context of the HRIS implementation, making these changes is not cost effective.

D) The Department has encrypted its transmissions to the extent possible. For all other transmissions, the Department has been granted a waiver by the OIT.

E, F and G) The Office of Information Technology, as the technical owner of the CPPS, is responsible for implementing these audit recommendations.

Recommendation 1C: The Department has implemented this recommendation.

Recommendation 2: This recommendation is documented as phase 4 of the DPA and DOR Pipeline Lean project. To date the agencies have evaluated the cost benefit calculations and business requirements. The evaluation continues with rates, timing, and resource considerations being discussed and scheduled to be completed by January 31, 2016. After evaluation, if the direction is to move forward, implementation would be October 31, 2016

Recommendation 3A: The Office of Administrative Courts (the Office) has completed an outline and scripts for the video tutorials aimed towards unrepresented individuals. These videos will educate unrepresented individuals and should allow them to more easily navigate the administrative court process. At this point, the Office has not been able to find a method of filming and producing these videos in a cost-effective manner. The Office continues to look for free or low cost options to develop these videos and will continue to investigate other partnerships that may provide a solution. If a low-cost option that fits within the Office's budget becomes available, the Office will dedicate funds towards this project.

6. Is the department spending money on public awareness campaigns related to marijuana? How is the department working with other state departments to coordinate the campaigns?

Response: No, the Department is not spending money on public awareness campaigns related to marijuana.

7. Based on the Department's most recent available record, what is the FTE vacancy rate by department and by division? What is the date of the report?

Response: The vacancy rate used by the Department is equal to the number of vacant positions on October 31, 2015 divided by the total appropriated FTE.

DPA Vacancy Rate as of October 31, 2015			
Unit/Division	**FY 2015-16 Long Bill FTE**	**Vacant Positions 10/31/15**	**Division Vacancy Rate**
Executive Director's Office	17.8	1.0	
CSEAP	11.0	1.0	
Colorado Archival Services	12.0	2.0	
Office of the State Architect	5.9	1.0	
Executive Director's Office	**46.7**	**5.0**	**10.71%**
State Agency Services	19.2	5.0	

DPA Vacancy Rate as of October 31, 2015			
Unit/Division	**FY 2015-16 Long Bill FTE**	**Vacant Positions 10/31/15**	**Division Vacancy Rate**
Employee Benefits	12.0	0.0	
Statewide Training and Development	4.0	2.0	
Risk Management - Liability	4.0	0.0	
Risk Management - Property	1.6	0.0	
Risk Management - Workers' Comp	5.9	0.0	
Division of Human Resources	**46.7**	**7.0**	**14.99%**
State Personnel Board	**4.8**	**1.0**	**20.83%**
DCS - Administration	8.0	0.0	
DCS - IDS	99.1	8.0	
DCS - Fleet Management	14.0	0.0	
DCS - Facilities Maintenance	55.2	1.0	
Division of Central Services	**176.3**	**9.0**	**5.10%**
Address Confidentiality Program	**3.4**	**0.0**	**0.00%**
Financial Ops and Reporting	29.5	2.0	
Collections	20.0	1.0	
Procurement and Contracts	17.7	2.0	
CORE Operations	21.3	1.0	
Division of Accounts & Control	**88.5**	**6.0**	**6.78%**
Administrative Hearings	**40.0**	**0.0**	**0.00%**
Department Total	**406.4**	**28.0**	**6.89%**

8. For FY 2014-15, do any line items in your Department have reversions? If so, which line items, which programs within each line item, and for what amounts (by fund source)? What are the reasons for each reversion? Do you anticipate any reversions in FY 2015-16? If yes, in which programs and line items do you anticipate this reversions occurring? How much and in which fund sources do you anticipate the reversion being?

Response: Please refer to the schedules the Department has provided in its November base request for FY 2016-17 for this information.

9. Are you expecting an increase in federal funding with the passage of the FFY 2015-16 federal budget? If yes, in which programs and what is the match requirement for each of the programs?

Response: DPA doesn't anticipate any federal funding.

10. For FY 2014-15, did your department exercise a transfer between lines that is allowable under state statute? If yes, between which line items and programs did this transfer occur? What is the amount of each transfer by fund source between programs and/or line items? Do you anticipate transfers between line items and programs for FY 2015-16? If yes, between which line items/programs and for how much (by fund source)?

Response: The Department executed two transfers in FY 2014-15. The first transfer was for $342K in reappropriated funds and came from the Fuel & Automotive Supplies and went to the Operating Expenses line item, both within the Fleet program. In FY 2015-16, the Department may need to submit a transfer request between these two line items to avoid an over-expenditure. The Department has submitted a request to true up the appropriations between these two line items for FY 2016-17.

The second transfer was for $481K in reappropriated funds between the Postage line item and the Operating Expenses line item in the Integrated Document Solutions program. DPA may submit a budget action to address this need in the near future.

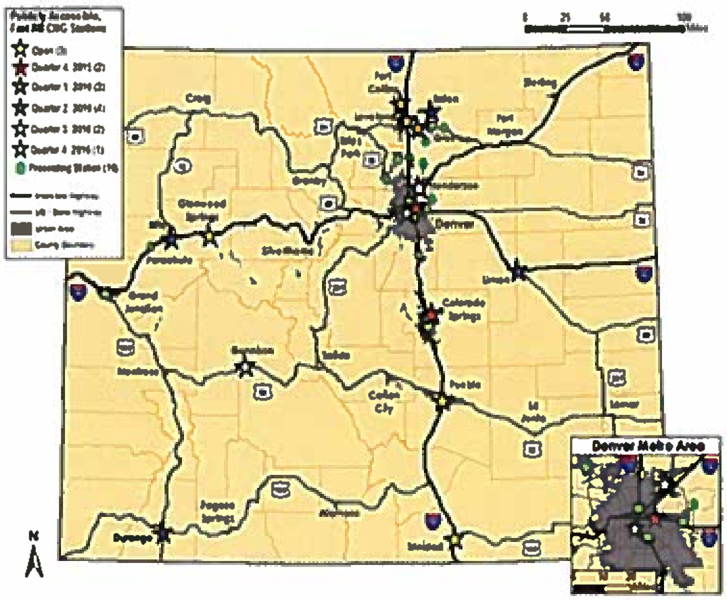
Plan to Increase CNG Usage in State Vehicles

Nov 2015 Total = 266
- # Vehicles with Access to CNG = 146 (55%)
- % CNG Fuel Usage = 35%
- # CNG Fuel Sites = 19

June 2016 Total = 300
- # Vehicles with Access to CNG = 225 (75%)
- % CNG Fuel Usage = 70%
- # CNG Fuel Sites = 28

Dec 2016 Total = 320
- # Vehicles with Access to CNG = 260 (81%)
- % CNG Fuel Usage = 75%
- # CNG Fuel Sites = 31

CNG FUEL SITES (INCLUDES PROPOSED)



CNG PURCHASES BY YEAR					
	FY13	FY14	FY15	FY16	TOTAL
CDPS	2	0	0	16	18
DOAg	0	0	0	2	2
DOC	18	8	6	53	85
CDPHE	0	0	0	1	1
DOHE	1	0	0	31	32
DHS	12	6	4	12	34
DOL	0	0	0	2	2
DOLA	0	0	0	1	1
DOLE	1	0	0	3	4
DOMA	0	0	2	0	2
DNR	30	84	15	36	165
DOR	7	8	0	10	25
CDOT	5	44	5	47	101
OIT	1	2	0	1	4
DPA	4	1	2	3	10
JUD	0	0	0	3	3
TOTAL	81	153	34	221	489

FY16 are JBC approved, but not purchased.

PLAN DETAILS:

1. Relocate vehicles to improve access to fuel sites.
- Identify location of current CNG vehicles and distance to nearest CNG fuel site. **(DONE)**
- Identify vehicles near CNG fuel sites as candidates for possible swaps. **(ONGOING)**
- Target specific vehicles for relocation from no access locations to near access locations. **(ONGOING)**
- ED's schedule and implement moves/swaps to align vehicles with fuel access. **(ONGOING)**

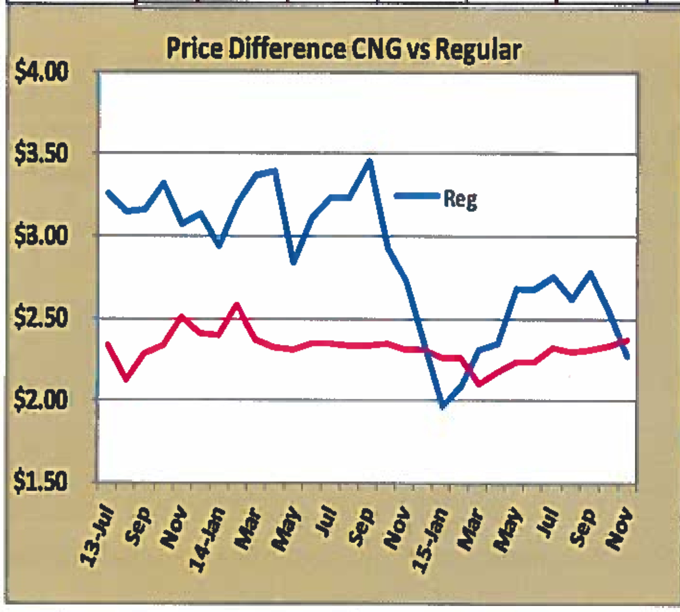
2. Provide up to date utilization information to departments so they can monitor and adjust.
- Provide detailed vehicle level usage reports to identify specific problems and correct. **(DONE)**
- Provide monthly summary level usage reports for executive level tracking of progress. **(DONE)**
- Provide easy access to CNG fuel site locations for drivers. **(AVAILABLE NOW)**
- Explore use of targeted telematics to improve vehicle monitoring and placement. **(ONGOING)**
- Develop partnership with NREL to identify monthly missed fueling opportunities. **(4th Q 15)**

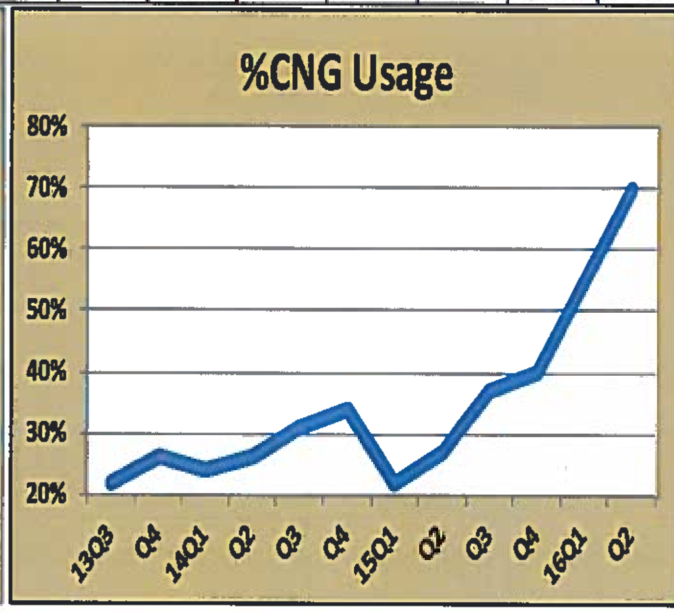
3. CEO continues work with private sector companies and fuel providers to place new CNG fuel sites advantageous to the State fleet.
- 8 new sites funded to be on-line by end of 2015, with 6 more funded for 2016 **(ONGOING)**
- Total of 20-30 new CNG stations by the end of 2018 **(ONGOING)**

4. Develop incentives to encourage greater CNG usage.
- State Fleet to develop rebate incentives (similar to current greening rebates) to departments based on meeting CNG usage goals. **(DONE)**
- Agencies to develop driver incentives (monetary, recognition, team goals, etc.) **(ONGOING)**
- State Fleet will meet with departments to develop both incentives. **(ONGOING)**

CNG Usage by Department

	#	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV
DOHE	1	32.2%	10.6%	43.3%	0%	0%	0%	0%	23%	16%	0%	0%	0%	0%
CDLE	1	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
DORA	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100%	100%	100%	100%	100%
CDPHE	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
CDPS	3	100%	87.0%	100%	92.2%	100%	100%	85.5%	80.4%	100%	89.4%	91.0%	90.3%	91.4%
GOV-OIT	3	5.5%	6.6%	19.4%	11.4%	6.6%	4.6%	37.6%	52.7%	60.4%	62.8%	48.4%	66.6%	60.1%
DPA	5	74.0%	75.6%	77.8%	75.0%	75.5%	75.8%	61.4%	68.9%	78.4%	81.3%	83.5%	84.0%	80.7%
DOR	15	82.1%	83.2%	82.6%	63.2%	57.9%	55.6%	60.6%	62.4%	68.9%	69.2%	66.3%	66.4%	53.0%
CDHS	20	88.9%	47.5%	56.0%	55.2%	75.2%	72.3%	74.2%	64.1%	60.6%	68.3%	67.6%	71.4%	71.4%
DOC	32	20.6%	20.2%	19.5%	10.6%	18.5%	19.3%	21.2%	26.1%	19.8%	18.1%	28.9%	13.0%	17.1%
DOT	54	52.0%	61.2%	44.0%	19.1%	20.1%	30.6%	35.6%	51.7%	50.1%	52.9%	67.3%	69.8%	63.5%
DONR	129	22.4%	21.2%	17.3%	12.2%	16.1%	20.9%	26.5%	22.7%	28.2%	27.4%	23.9%	22.7%	25.7%
OVERALL	266	33.8%	34.2%	30.3%	19.9%	23.5%	27.2%	31.5%	31.7%	37.1%	36.3%	35.0%	33.2%	35.4%





Location	Address	Anticipated Opening
Colorado Springs	7790 Durant Drive	Quarter 4, 2015
Commerce City	7120 E 49th Avenue	Quarter 4, 2015
Denver	1300 Colfax Avenue	Quarter 4, 2016
Durango	1220 Carbon Junction	Quarter 2, 2016
Eaton	250 E. Collins Street	Quarter 2, 2016
Fort Collins	500 E Vine Drive	Quarter 1, 2016
Glenwood Springs	23 Mel Rey Road	Open
Greeley	2323 117th Avenue	Quarter 1, 2016
Gunnison	201 East Tomichi Avenue	Quarter 3, 2016
Henderson	Highways 85 & 76	Quarter 3, 2016
Limon	U Avenue & 6th Street	Quarter 2, 2016
Loveland	6385 Byrd Drive	Quarter 1, 2016
Pueblo	620 W. 4th Street	Open
Rifle	23899 Highway 6	Quarter 2, 2016
Trinidad	806 E Goddard Avenue	Open

STATUTE: As a result of Senate Bill 13-170, CRS 24-30-104 (2) (C) (II) was amended to read: "the executive director shall purchase motor vehicles that operate on compressed natural gas…if either the increased base cost of such vehicle or the increased life-cycle cost of such vehicle is not more than ten percent over the cost of a comparable dedicated petroleum fuel vehicle.

Comparison of Base Salary per FTE: FY 2014-15 to FY 2015-16							
	FY 2014-15			FY 2015-16			% Change in
Department	Base Salary	Total FTE	Salary/FTE	Base Salary	Total FTE	Salary/FTE	Salary/FTE
Department of Personnel and Administration	$22,239,427	372.5	59,703.2	$23,427,387	380.7	61,537.7	3.1%
Department of Agriculture	$15,817,127	271.3	58,301.2	$19,642,568	448.6	43,786.4	-24.9%
Department of Corrections	$322,643,980	6,089.7	52,981.9	$324,772,744	6,111.7	53,139.5	0.3%
Department of Education	$41,970,164	634.4	66,157.3	$56,387,875	839.0	67,208.4	1.6%
Office of the Governor	$79,145,745	1,047.9	75,528.0	$83,929,925	1,091.1	76,922.3	1.8%
Department of Public Health & Environment	$92,662,327	1,310.0	70,734.6	$94,893,039	1,329.9	71,353.5	0.9%
Department of Higher Education	$11,925,839	209.4	56,952.4	$12,583,832	220.0	57,199.2	0.4%
Department of Transportation	$10,693,001	154.0	69,435.1	$10,079,469	144.0	69,996.3	0.8%
Department of Human Services	$218,398,854	4,183.9	52,199.8	$211,642,451	4,016.9	52,688.0	0.9%
Department of Labor and Employment	$65,242,983	1,137.3	57,366.6	$74,032,886	1,269.7	58,307.4	1.6%
Department of Local Affairs	$10,938,378	164.9	66,333.4	$11,674,909	174.8	66,790.1	0.7%
Department of Military Affairs	$7,787,196	158.0	49,286.1	$7,954,519	155.5	51,154.5	3.8%
Department of Natural Resources	$103,300,424	1,852.2	55,771.7	$107,337,959	1,900.0	56,493.7	1.3%
Department of Public Safety	$112,015,733	1,657.4	67,585.2	$117,770,126	1,703.8	69,122.0	2.3%
Department of Regulatory Agencies	$36,668,959	562.0	65,247.3	$35,993,503	533.8	67,428.8	3.3%
Department of Revenue	$70,933,301	1,317.5	53,839.3	$71,389,277	1,311.3	54,441.6	1.1%
Department of Health Care Policy & Finance	$28,554,512	454.0	62,895.4	$29,834,209	471.8	63,234.9	0.5%
Total	**$1,250,937,950**	**21,576.4**	**57,977.1**	**$1,293,346,678**	**22,102.6**	**58,515.6**	**0.9%**

Joint Budget Committee
Colorado PERA Question Responses

Hearing December 17, 2015

1. Please demonstrate that a new retirement plan would necessarily be more expensive, if PERA agrees with the findings in the cost-benefit value study. It is not clear that a new retirement plan would necessarily eliminate the current cash flow intended to fully fund PERA. For example, the normal cost of the existing plan could be directed into a new plan, while still maintaining the same payment scheme to cover the unfunded liabilities. Please explain why a system like this could not work.

Response:

PERA agrees with the findings of the plan design study. The plan design study measured the effectiveness of the PERA Hybrid Defined Benefit Plan compared to alternative retirement plans by looking at the question from two perspectives. The first perspective held the benefits, provided by all the plan designs considered, equal to the benefits provided by the PERA plan. Under this approach, the plan design study concluded in order to provide the same level of benefits as those currently provided by PERA, all other plan designs would require additional contributions ranging from 60 percent to 142 percent above the PERA normal cost rate. The conclusion of the study is that it is more expensive to provide the same level of retirement benefits as the PERA plan via any alternative plan design in use. The second perspective held the contribution cost (the current PERA normal cost rate) consistent among the plan designs. The study then measured and compared the level of benefits each of these plan designs generate given the same level of contributions. For example when compared to a self-directed DC plan, the PERA Hybrid plan provides a benefit three times greater for the same contribution cost. The conclusion of the study was none of the alternative plan designs are as cost effective or efficient at providing retirement benefits as the current PERA Hybrid Plan.

Given the scenario posed in Question 1, and as addressed in the plan design study, the General Assembly could structure payments:

1. similar to what currently is being paid toward the unfunded liabilities, and
2. direct the current normal cost rate toward a new plan design,

but the results would be as projected in the plan design study. The benefits generated by the normal cost equivalent contribution would be significantly less than the benefits currently generated by the PERA Hybrid Plan, while realizing no value or cost-savings for the members or taxpayers.

2. If more conservative assumptions were used as identified in the sensitivity analysis, would that have changed the opinion in the cost-benefit study on whether the defined benefit system was better than a defined contribution system?

Response:

No, the sensitivity analysis discusses the appropriateness of the actuarial assumptions as they relate to the measurement of liabilities and the effect of the volatility of those assumptions on the length of time it will take to retire the current unfunded liabilities. The plan design study considered the cost effectiveness and efficiency of alternative retirement plan designs when measured against the PERA Hybrid Plan. These two studies are analyzing and/or comparing significantly different metrics and elements of a defined benefit plan.

3. Please explain the tax liability implications of AED and SAED? What would be the difference in tax liability if AED and SAED were merged as a single line item in department budgets? Is it possible to maintain separate statutes for AED and SAED as provided in current law, and calculate them distinctly, but pay for them from a single line item?

Response:

PERA is a Qualified Plan under § 401(a) I.R.C. PERA has received an IRS Determination Letter indicating that the current contribution structure, which includes the AED and SAED, meets the standard to maintain this qualification status. The AED and the SAED are not subject to income tax reporting/withholding because they are explicitly paid to PERA by employers in the same form as all other employer contributions.

In addition, the PERA statutes specify that the funding of the SAED comes from employees in the form of forgone compensation increases prior to award as salary or compensation. See C.R.S. 24-51-411. Although the funding of the SAED comes from forgone compensation increases, the contributions are remitted to PERA directly from the employer and are not deducted from the employee's gross income like the 8 percent member contribution.

As long as the current statute is maintained and the AED and SAED are accounted for separately, a change in how an employer presents its budget should not cause a tax issue.

4. Please explain why AED and SAED are not treated simply as payments from the State to catch up the unfunded liability. Please explain why AED and SAED are treated as compensation elements, although the annual normal cost of benefits for state employees hired after January 1, 2011, was identified as 8.82 percent in the cost-benefit study, and therefore appears to be much lower than the employee contribution plus the statutory State contribution, AED, and SAED.

Response:

As noted above, the AED and SAED are statutorily unique and the rates differ among PERA's various Divisions. The intent of the AED and SAED is to eliminate the unfunded actuarial accrued liability. The contribution rates will decline automatically upon each Division achieving 103 percent funded status as described in statute. Also, any reductions in the SAED are intended to return to employee compensation based upon the source of funds used to fund the SAED. AED and SAED are elements of compensation based upon the fact that all trust fund assets must be used for benefits, member refunds, or administration costs of PERA according to law.

JOINT BUDGET COMMITTEE

GREGORY W. SMITH, EXECUTIVE DIRECTOR

DECEMBER 17, 2015

COLORADO PERA®

PERA Annual Update

- KPMG performed the State Auditor's Office 2014 annual audit of PERA
  - No findings or recommendations for best practices or improvements
  - No material weaknesses in internal controls or accounting policies and practices
- Audited financial statements showed a 5.7 percent investment return for 2014
- Total Pension Fund Market Value of Assets Funded Ratio
  - 2014 = 64.2 percent
  - 2013 = 65.2 percent
- 2014 *CAFR* reflects full implementation of GASB 67, *Financial Reporting for Pension Plans*
  - Assisted PERA employers regarding implementation of GASB 68, *Accounting and Financial Reporting for Pensions*
  - PERA Board updated Pension Funding Policy in March of 2015

COLORADO PERA

PERA Annual Update
(continued)

- PERA Board performed asset/liability study in 2014 and 2015
  - Objective was to determine optimal strategic asset allocation that align investment market risks with the need to meet distributions
  - Resulted in minor reductions in Global Equity and Fixed Income and increases in Private Equity and Real Estate
- PERA Board hired independent actuarial firm to perform actuarial audit
  - Audit confirmed that the retained actuary’s assumptions and December 31, 2013, actuarial valuation results are reasonable
- SB 14-214 Legislated Studies were performed during 2015
  - Total Compensation Study
  - Plan Design Study
  - Sensitivity Study
- C.R.S. § 24-51-220—Report on Progress of SB 10-001 Reforms
  - Conducted by PERA and delivered to the General Assembly and Governor on December 11, 2015

What is Colorado PERA?

As of December 2014

» Instrumentality of the State, founded on August 1, 1931

» Hybrid defined benefit retirement plan qualified under IRC 401(a)

» Substitute for Social Security

- Members contribute 8.0 percent or more

» Administers:

- Defined benefit plan, including disability and survivor benefit programs
- One of the country's largest public 401(k), 457, and DC Choice Plans (combined assets of $3.5 billion)
- Health care, dental, and vision plans for largest coverage group in the state (over 155,000 lives)
- Life insurance plan

» Largest pension fund in Colorado

- 22nd largest public plan in United States

COLORADO PERA®

PERA is Transparent

- All board meetings are public and include time for public comment
- PERA reports annually to the Governor and to the General Assembly through the
  - Legislative Audit Committee (July)
  - Joint Finance Committee (December SMART Hearing)
  - Joint Budget Committee (December)
- PERA is audited annually by a firm selected by the State Auditor whose findings are reported to the Legislative Audit Committee
- PERA's *Comprehensive Annual Financial Report (CAFR)* is used as a model for other public pension plans, winning the GFOA financial reporting excellence award for 30 consecutive years
- PERA's website is an excellent resource for plan and financial information

COLORADO PERA

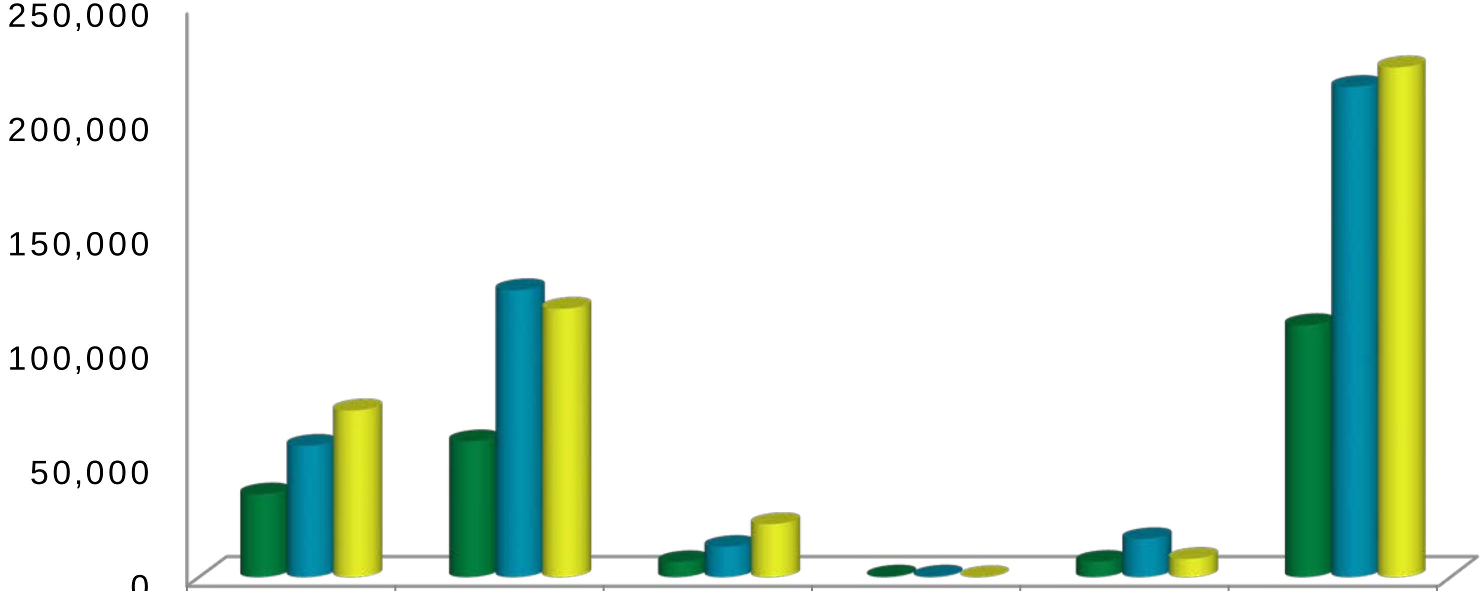
PERA Board Authority

- Limited to implementing statutes adopted by the General Assembly
- PERA Board oversight includes
  - Investment of assets
  - Administration of benefits
  - Collection of contributions
  - Selection and monitoring of actuarial assumptions
  - Rulemaking
- Benefit provisions and contribution structures are
  - Set by General Assembly
  - Not subject to change via collective bargaining arrangements or employer and labor union negotiations
  - Consistently applied to all employers within a PERA Division

PERA Membership

October 31, 2015

Total: 547,357



	State	School	Local Gov't	Judicial	DPS	Total
Benefit Recipients	36,776	59,883	6,714	345	6,833	110,551
Active Members	57,949	125,484	13,470	332	16,921	214,156
Inactive Members	73,339	117,684	23,520	15	8,092	222,650

COLORADO PERA

PERA Financial Recap

$44,122,457 net assets as of December 31, 2013

December 2014

(in thousands of dollars; does not include defined contribution plans)

Contributions	$2,313,846
Employer – Pension – Regular	$694,261
Employer – Pension – AED	$277,878
Employer – Pension – SAED	$252,823
Employer – Health Care	$81,634
Member	$640,531
Purchased Service	$53,040
Retiree Health Care Premiums	$109,901
Employer Disaffiliation	$190,000
Other Additions	$13,778

Investments	$2,474,349
Net Change in Fair Value	$1,563,843
Interest	$312,640
Dividends	$541,692
Real Estate/Opportunity Fund/ Alternative Investments	$205,078
Securities Lending	$11,019
Investment Expense	($159,923)

Benefits Paid	($4,337,188)
Pension Benefits	($3,883,781)
Health Care Benefits	($211,059)
Disability/Life Insurance	($7,143)
Refunds	($170,882)
Other	($12,275)
Administrative Expense	($52,048)

$44,573,464 net assets as of December 31, 2014

COLORADO PERA

25-Year History of Assets and Distributions

In billions

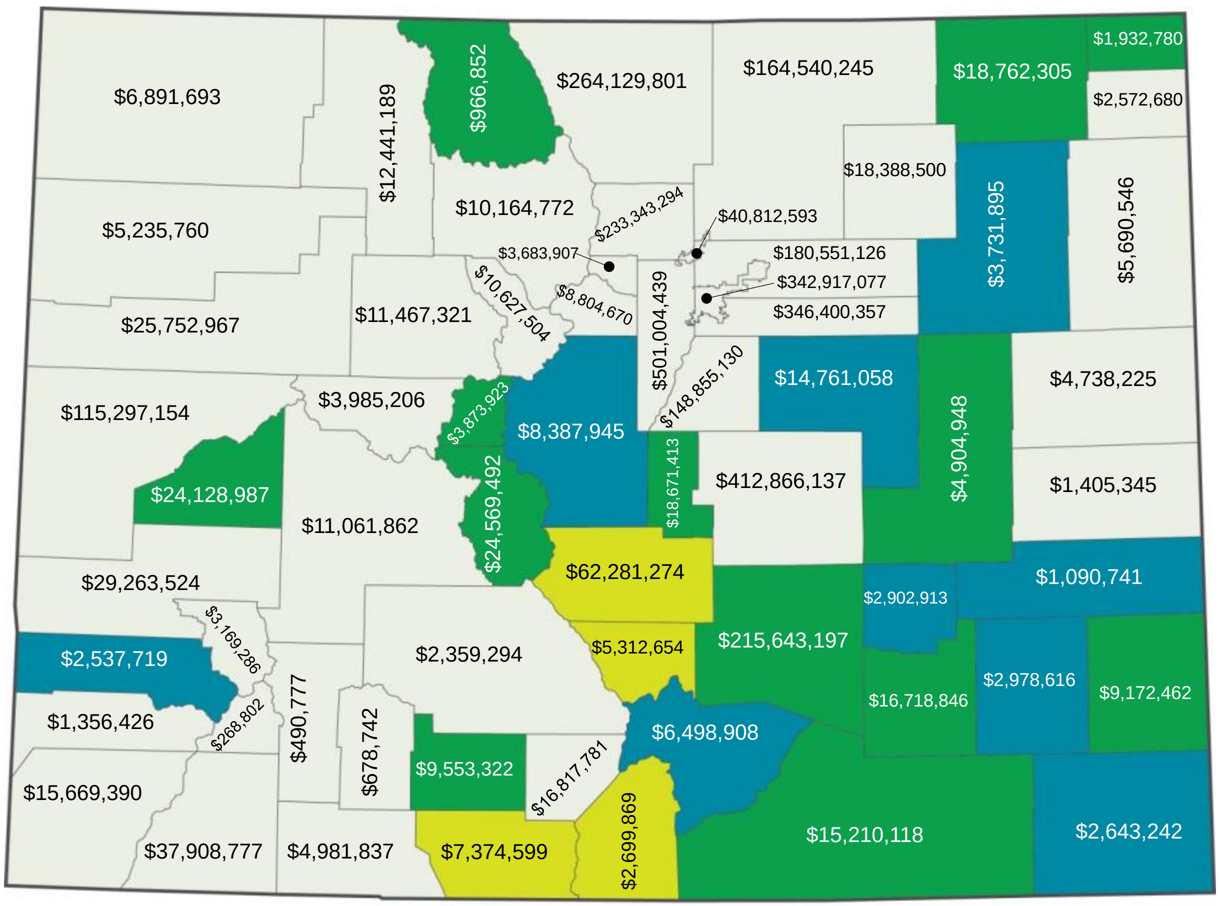
Beginning Balance January 1, 1990	**$9.4**
Employer Contributions	14.7
Member and Other Contributions	13.4
Investment Income	50.2
Denver Public Schools' Plan Transfer	2.8
Benefit and Refund Payments	(45.8)
Administrative Expenses	(0.5)
Ending Balance December 31, 2014	**$44.2**

COLORADO PERA

PERA Benefit Distributions and Distributions Relative to Payroll by County

Total Distributions = $3,506,760,242

- **$5.2 billion economic output**
- **29,000 jobs statewide**
- **$267 million state and local tax revenue**



Over 25 percent of Payroll

15-25 percent of Payroll

10-15 percent of Payroll

Less than 10 percent of Payroll

Percentage of payroll data from 2014 County Business Patterns and U.S. Census Bureau, calculation from Pacey & McNulty

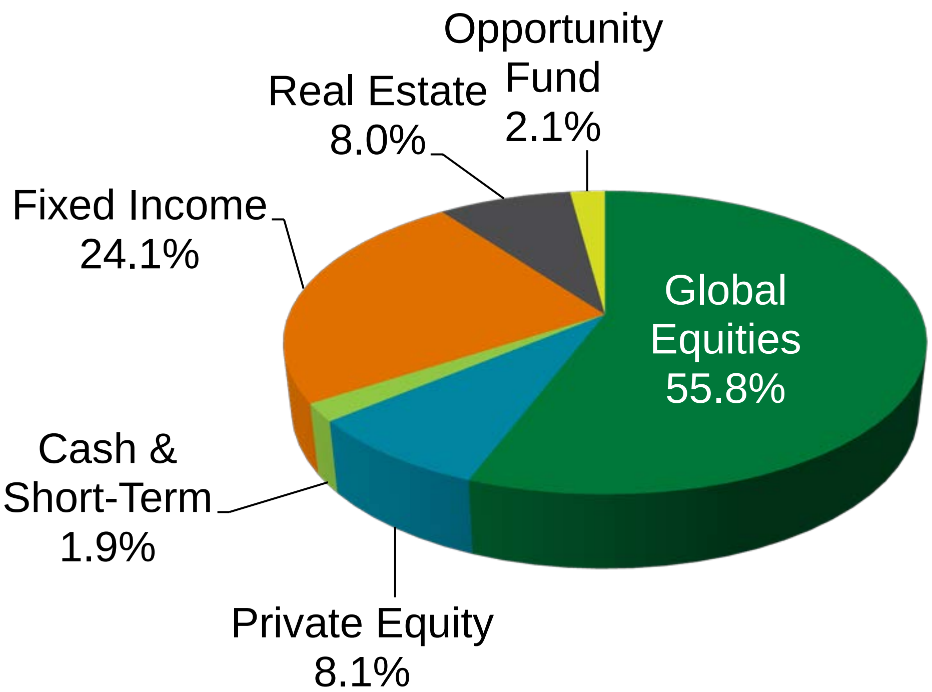
Annual benefit payments as of December 31, 2014 (unaudited)

COLORADO PERA

Investment Asset Allocation

October 31, 2015

$43.6 Billion Market Value

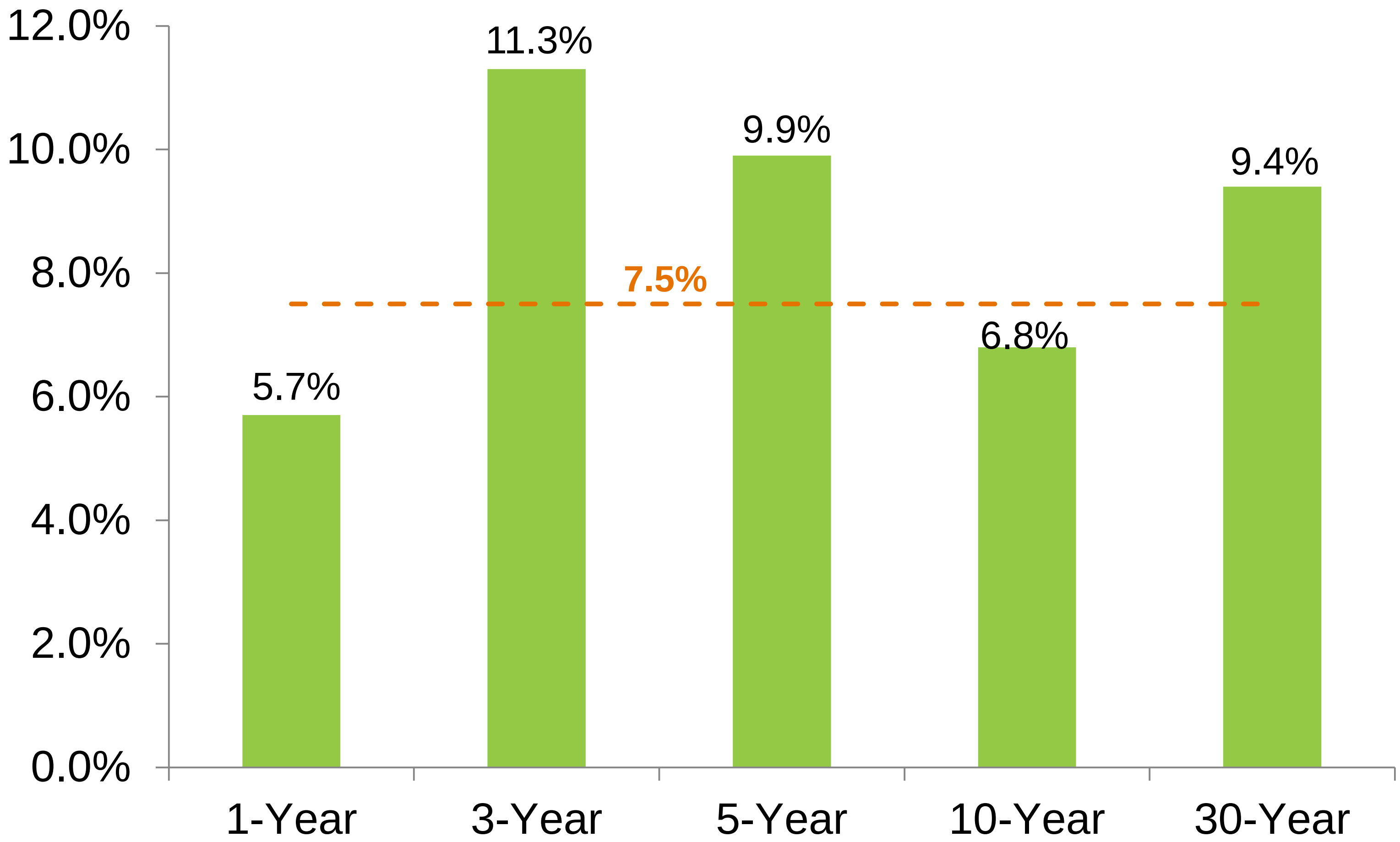


- Over $585 million invested in companies and properties domiciled in the State
- More than 55 percent of assets managed directly by PERA staff
- An additional $50 million is allocated to the Colorado Mile High Fund for private equity investments in the state

COLORADO PERA

Investing for Long Term

Annualized investment returns for periods ending December 31, 2014



COLORADO PERA

JBC Questions for PERA

Question	Response
Demonstrate that a new retirement plan would be more expensive. (e.g., Normal Cost equivalent funneled into new plan; while other contributions continue to pay off UAAL of PERA)	As supported by the plan design study, for the same level of contributions (normal cost rate), all other plan designs in use would provide a lesser benefit under every career path. End result when considering the same cost: perhaps same payoff date for UAAL, but lower benefits for members. No advantage to member or taxpayer.
If more conservative assumptions were used, would that have changed the opinion in the cost-benefit study? (i.e., DB still better than DC?)	No. The Sensitivity Analysis discusses the appropriateness of the actuarial assumptions as they relate to (1) liability measurement, and (2) the effect of their potential volatility on the funding period. The plan design study considered the cost effectiveness of alternative plan designs vs. PERA Hybrid design.

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JBC Questions for PERA

Question	Response
Please explain the tax liability implications of AED and SAED. What if merged into single line-item—possible to maintain current separate statutes and calculate them distinctly, but pay for them from single line item?	PERA—Qualified plan (IRC § 401[a]); Determination Letter says that current contribution structure meets qualification status. AED and SAED are not subject to income tax reporting/withholding since paid to PERA by employers in same form as all other employer contributions. As long as current statute is maintained and AED and SAED are accounted for separately, a change in how an employer presents its budget should not cause a tax issue.
Explain why AED and SAED are treated as compensation and not simply as payments from the State to catch up the UAAL? (i.e., Normal cost rate less than total contribution rate)	AED and SAED are statutorily unique; rates differ amongst PERA's divisions. Purpose is to eliminate the UAAL. Rates will automatically decline upon reaching target funded ratios. Any reductions in SAED are intended to return to employee compensation based upon source of the funds. AED/SAED are elements of compensation based on fact that all trust fund assets must be used for benefits, member refunds, or administrative costs.

PERA's Assumptions

- PERA governance practices—includes periodic Experience Analyses
  - Historically every four to five years analyzing at least four years of plan/member experience data
    - November 2012 (2008–2011 Experience)—Cav/Mac
    - November 2009 (2005–2008 Experience)—Cav/Mac
    - July 2005 (2001–2004 Experience)—Buck Consultants
    - July 2001 (1996–2000 Experience)—Watson Wyatt
    - June 1996 (1991–1995 Experience)—Towers Perrin
    - September 1991 (1986–1990 Experience)—GRS
    - October 1986 (1982–1985 Experience)—GRS
  - Next scheduled Experience Study—Fall 2016
    - Will incorporate 2012–2015 Experience
  - Actuarial assumptions developed through this process are used for:
    - Annual funding valuation and funding period projections
    - Accounting and financial reporting

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PERA's Assumptions

» Experience Analysis
  - All assumptions reviewed, including mortality
  - Proposed changes appropriately calibrated to parallel plan experience

» During each annual actuarial valuation, variance analysis is performed and provided for each:
  - Economic actuarial assumption
    - » Annual asset/investment return
    - » Salary growth
    - » Inflation
  - Demographic actuarial assumption
    - » Mortality
    - » Retirement
    - » Termination
    - » Disability

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Colorado General Assembly
Senate Bill 14-214 Studies

Study	Contracted By	Conducted By
Total Compensation Study	Department of Personnel and Administration	Milliman, Inc.
Plan Design Study	Office of the State Auditor	Gabriel, Roeder, Smith and Company (GRS)
Sensitivity Study	Office of the State Auditor	Pension Trustee Advisors (PTA)

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Review of SB 14-214 Studies
Total Compensation Study

- The 2015 analysis included a comparison of the value of benefits for Colorado State employees to the value of benefits offered to employees in similar workforce structures
- Milliman's analysis included employee compensation and employer-provided retirement and retiree health benefits
- The benefits, valued separately, resulted in a value above the prevailing market
- Based on the findings of Milliman Inc.:
  - "When the total compensation package is valued, the State is just slightly below the prevailing market (0.2%)."
  - "In order for the State to continue to align its total compensation package with the prevailing market, adjustments to individual employee compensation and the overall salary structure should be considered."
  - "Changes to benefits are not recommended at this time."

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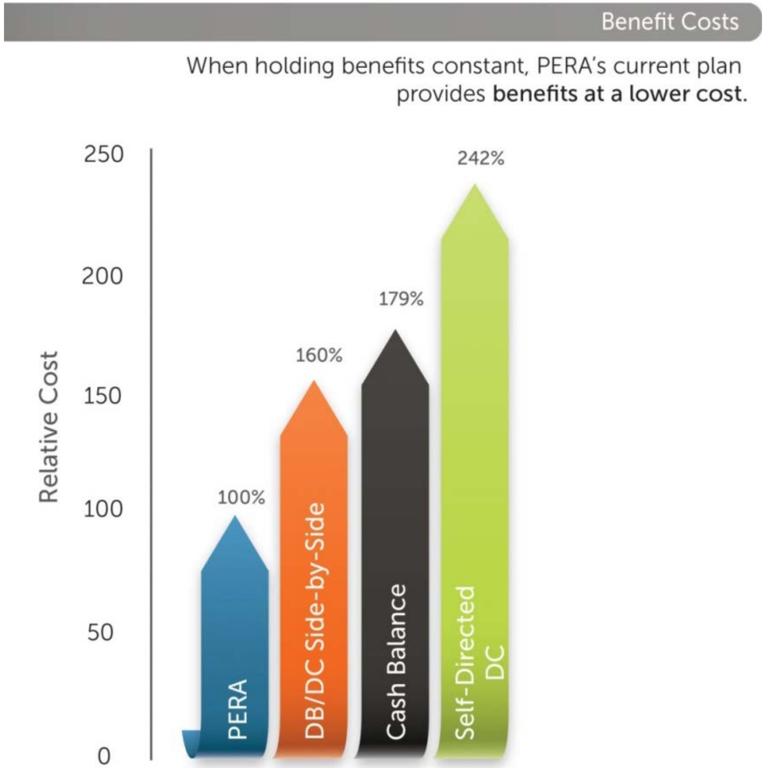
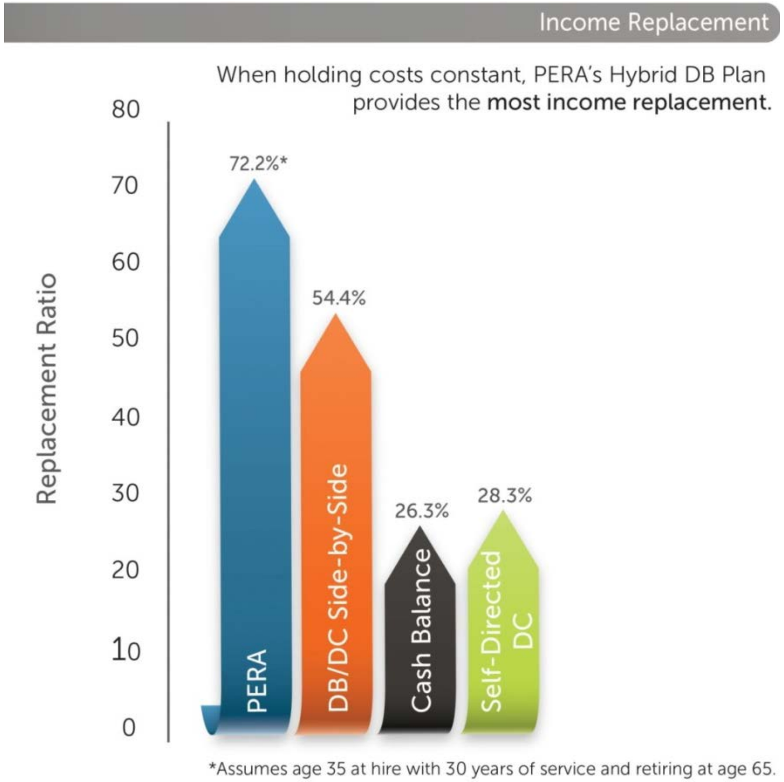
Review of SB 14-214 Studies Plan Design Study

- Study compares cost and effectiveness of the design of the Colorado PERA Hybrid Defined Benefit Plan to alternative plan designs in the public and private sector
- The results show the reforms to the benefit provisions of Colorado PERA, contained in SB 1, created a plan design that "*is more efficient and uses dollars more effectively than the other types of plans in use today.*"[1]
- The next most efficient retirement plan structure was **60 percent more costly**

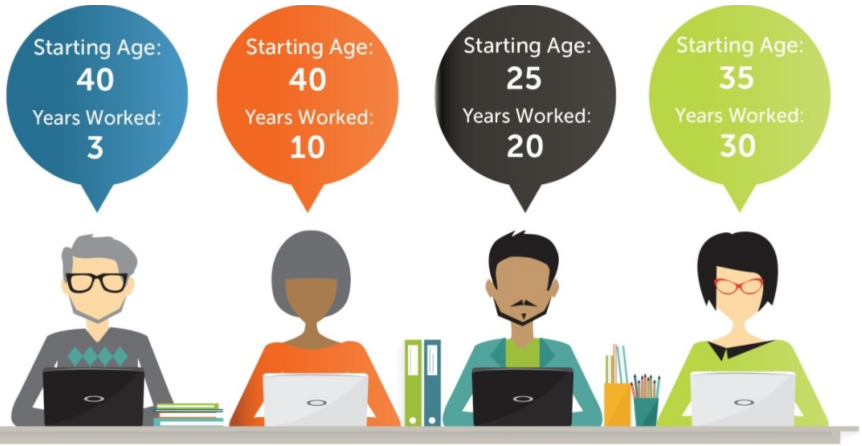
[1] *GRS Plan Design Study Report*, June 2015, page 2.





Review of SB 14-214 Studies
Plan Design Study

WHAT PERCENT OF INCOME WILL I GET AT RETIREMENT?



	Starting Age: 40 / Years Worked: 3	Starting Age: 40 / Years Worked: 10	Starting Age: 25 / Years Worked: 20	Starting Age: 35 / Years Worked: 30
PERA	4.4%	13.0%	20.6%	72.2%
DB/DC Side-by-Side	0.8%	11.7%	20.1%	54.4%
Cash Balance	2.7%	9.1%	17.1%	26.3%
Self-Directed DC	3.0%	10.0%	19.7%	28.3%

PERA Hybrid Defined Benefit Plan
This type of plan blends the defined benefit structure (uses a formula which creates the promised benefit at retirement) and defined contribution features (employer match on a member's account balance, payable at termination or retirement).

Defined Benefit (DB) and Defined Contribution (DC) Side-by-Side Plan
This type of plan provides a smaller defined benefit and defined contribution benefit with the goal that both benefits combined will provide adequate retirement resources.

Cash Balance Plan
This type of plan functions like a defined contribution plan, building a member's account balance year- by-year through the addition of mandated employer and employee contributions as well as the addition of a guaranteed rate of return.

Self-Directed Defined Contribution (DC) Plan
This type of plan builds a member's account balance year-by-year through the addition of employee contributions with an employer match and grows with actual investment returns.

» PERA provides better income replacement considering:
- All other plan designs in use
- All starting ages and career lengths

Source: A Comprehensive Study Comparing the Cost and Effectiveness to Alternative Plan Designs Authorized by Senate Bill 14-214.

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Review of SB 14-214 Studies
Plan Design Study

- "*The study finds that the existing PERA Hybrid Plan provides a higher level of benefits at the current cost than all alternative plans.*"[2]
- "*…the retirement benefits provided by the PERA Hybrid Plan are neither too generous nor too low when compared to other similarly situated public sector employers.*"[3]
- "*When comparing the PERA Hybrid Plan to the private sector, those private sector plans that combine Social Security with a defined contribution plan do not replace as much income as PERA.*"[4]
- "*The State cannot eliminate the unfunded liability by moving new hires to an alternative plan,…*"[5]
- SB 1 reforms reduced the cost of providing benefits for employees hired on or after January 1, 2011—where the majority of the cost of the accruing benefit is funded by the member, while maintaining the highest retirement replacement income of any plan design in use.

[2] *GRS Plan Design Study Report*, June 2015, page 59.
[3] *GRS Plan Design Study Report*, June 2015, page 65.
[4] *GRS Plan Design Study Report*, June 2015, page 65.
[5] *GRS Plan Design Study Report*, June 2015, page 83.

COLORADO PERA

Review of SB 14-214 Studies Sensitivity Study

- Principal objective is **to develop an early warning mechanism** to identify and communicate whether model actuarial assumptions used by PERA are meeting targets and achieving sustainability
- PTA confirmed
  - "*The PERA Hybrid Defined Benefit Plan* ***is currently on track to be fully funded****…Prior to the changes in Senate Bill 10-001, the PERA Plan was projected to become insolvent.*"[1] [emphasis added]
  - The reasonableness of PERA's actuarial assumptions including the 7.5 percent long-term rate of return
  - The assumed long-term investment rate is by far the most significant variable in determining when PERA will achieve full-funded status
- PTA's **report encompassed three recommendations** related to enhanced disclosure and use of the proposed mechanism, each of **which PERA agreed to implement**

[1] *Sensitivity Analysis of Colorado PERA Hybrid Defined Benefit Plan Actuarial Assumptions*, October 2015, page 98.

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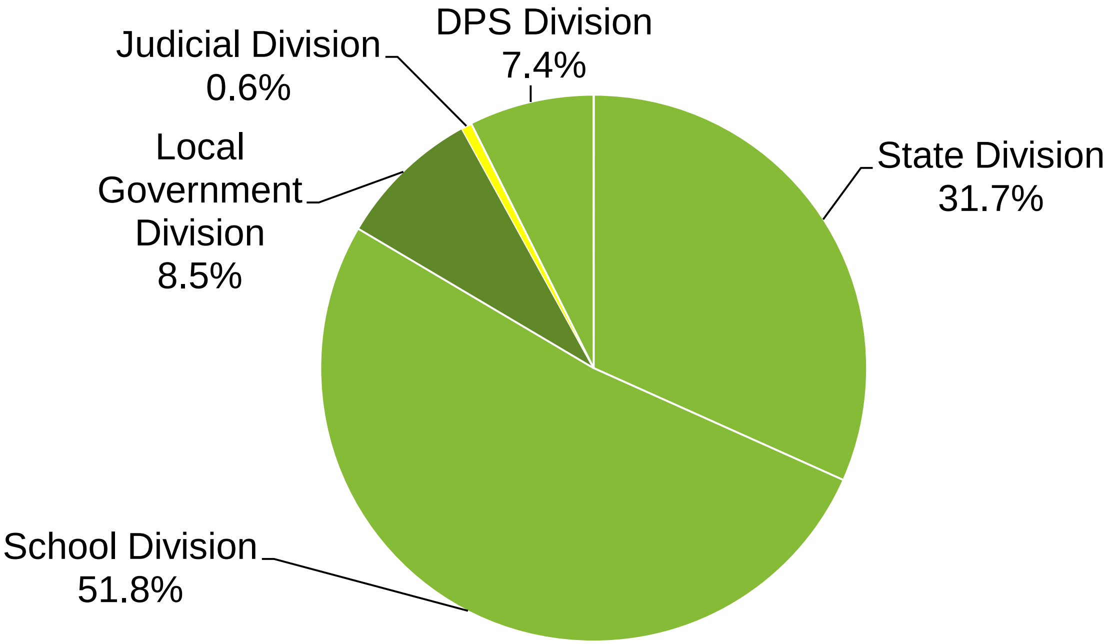
Review of SB 14-214 Studies Sensitivity Study

Signal Light Indicator

Weighted by Market Value of Assets as of December 31, 2014



- As of December 31, 2014, for each PERA division, reflecting the SB 1 reforms and applying PERA's current set of actuarial assumptions, all result in positive (green) indicators with the exception of the Judicial Division which shows a warning (yellow) indicator

Colorado PERA

Senate Bill 10-001 (SB 1) Report

SB 1 Study Report Objectives

- Main objectives [C.R.S. § 24-51-220]
  - To report to the General Assembly regarding:
    - The economic impact of the 2010 legislative changes to the annual increase provisions on retirees and benefit recipients as compared to the actual rate of inflation, and
    - The progress made toward eliminating the unfunded liabilities of each division of the association
  - Timing requirement
    - To be performed every five years
    - First report due to the General Assembly by January 1, 2016

COLORADO PERA

SB 1 Study Report
Key Findings

Item	Message
1	PERA is sustainable into the foreseeable future
2	As of 2014, SB 1 reforms significantly reversed PERA’s predicted course from running out of money to projections of full funding in approximately 38 years
3	SB 1 reforms reduced benefits for all active and retired members; consequently PERA employers and taxpayers are saving money by providing a more affordable benefit
4	Over the past five years, SB 1 reforms saved PERA approximately $15 billion in unfunded actuarial accrued liability (UAAL)
5	Over the last five years, the reduction in the Annual Increase (AI) provisions had the most significant impact on the UAAL—accounting for 90 percent of the $15 billion in savings
6	Even recognizing the AI reforms, PERA retirees retained their purchasing power over the last five-year period.

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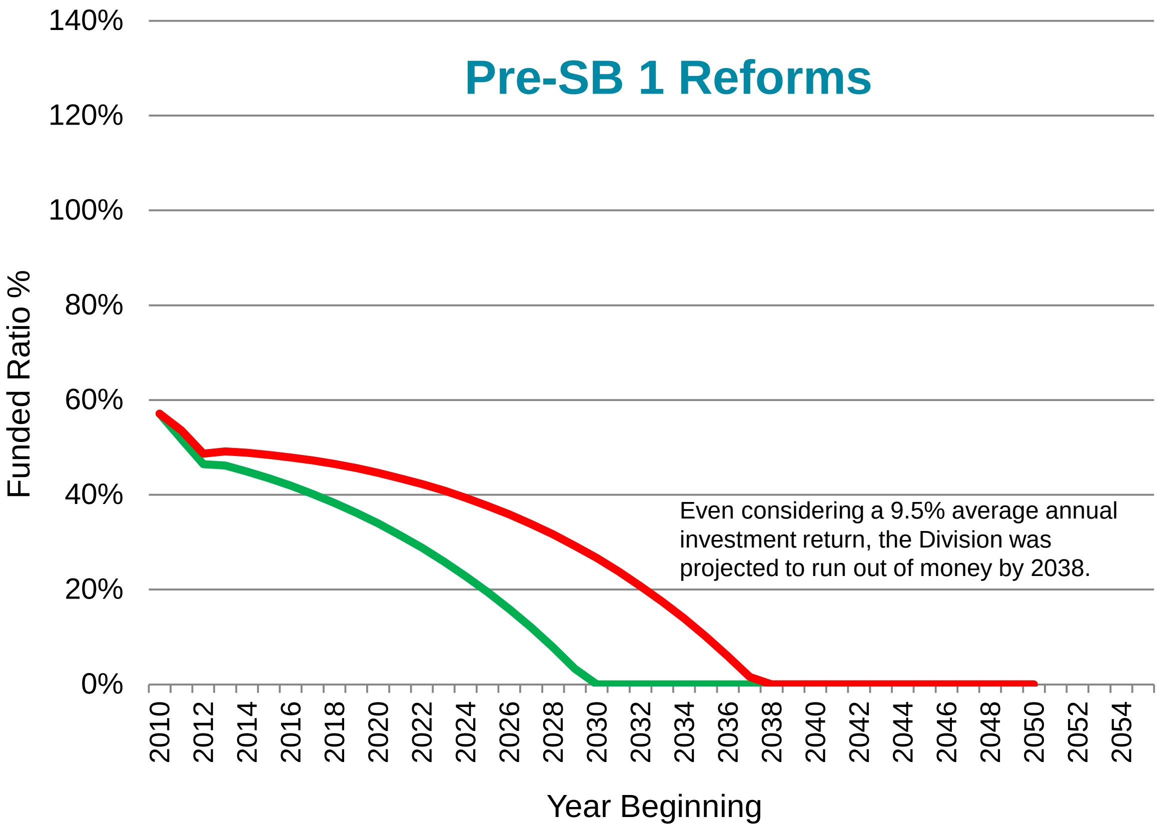
SB 1 Study Report
Key Findings

State Division



— A1 [Pre-SB 1, Projections as performed in 2010 at an 8.0% discount rate and assumed LTROR, Run at 12/31/2009]

— A2 [Pre-SB 1, Projections as performed in 2010 at an 8.0% discount rate and 9.5% assumed LTROR, Run at 12/31/2009]

» Funded ratio projection graphs originally illustrated that PERA was not going to solve sustainability issues by simply relying on investment performance—evident, particularly for the two largest divisions—the State and the School Divisions, which represent approximately 84 percent of PERA's pension asset base

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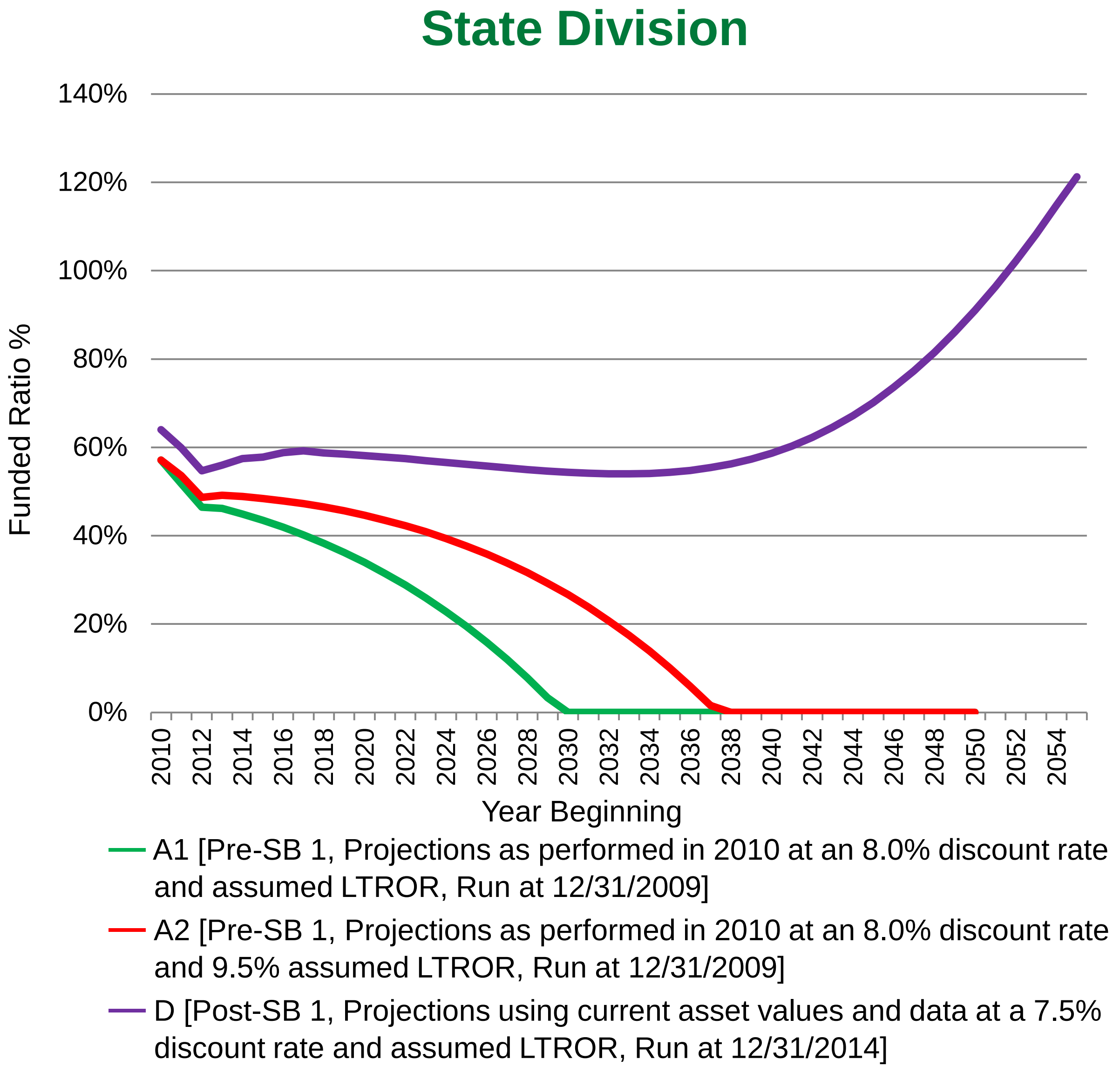
SB 1 Study Report
Key Findings



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SB 1 Study Report
Key Findings

	As of December 31, 2014	
Division	**Estimated Funding Period at the Board's 7.5% Assumed Rate of Return**	**Estimated Funding Period at an 8.0% Assumed Rate of Return**
State	37 years	30 years
School	38 years	29 years
Local Government	25 years	15 years
Judicial	48 years	30 years
DPS*	33 years	26 years

* SB 09-282: Set provisions that the DPS Division Funded Ratio equal the School Division Funded Ratio in 2040

COLORADO PERA

SB 1 Study Report
Key Findings

» Current Funded Ratios are slightly ahead of predictions from five years ago

Division	Post-SB 1 Projected Funded Ratio as of December 31, 2014 (AVA* Basis)	Actual Funded Ratio as of December 31, 2014 (AVA* Basis)
State	57.6%	57.8%
School	60.7%	60.9%
Local Government	73.1%	78.7%
Judicial	67.7%	73.0%
DPS*	76.6%	82.6%

* Funded ratios are typically presented with regard to the Actuarial Value of Assets (AVA) or “smoothed” asset values, as is shown here, unless otherwise indicated.

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SB 1 Study Report
Key Findings

» Even recognizing the AI reforms, PERA retirees retained their purchasing power over the last five-year period

Summary of Annual Increase (AI) Provision Increases Compared to National Inflation

	Increase for 2010		Increase for 2011		Increase for 2012		Increase for 2013		Increase for 2014	
	PERA	CPI-W*	PERA	CPI-W	PERA	CPI-W	PERA	CPI-W	PERA	CPI-W
Applicable Annual Increase	0.0%	-0.7%	2.0%	2.1%	2.0%	3.6%	2.0%	2.1%	2.0%	1.4%
Cumulative Increase	0.0%	-0.7%	2.0%	1.4%	4.0%	5.0%	6.1%	7.2%	8.2%	8.7%
Average Increase	0.0%	-0.7%	1.0%	0.7%	1.3%	1.7%	1.5%	1.8%	1.6%	1.7%

* For purposes of determining purchasing power, CPI-W was allowed to reflect a negative value in these calculations even though PERA would never apply a reduction to benefits if/when in an indexing scenario

COLORADO PERA

SB 1 Study Report
Key Findings

- The PERA membership embraced considerable sacrifice through benefit provision changes to ensure the plan's sustainability, representing approximately 90 percent of the burden
  - A typical retiree receiving a $3,000 monthly benefit as of January 1, 2010, will sacrifice the equivalent of about seven years of retirement payments over a 25-year retirement
  - A typical new hire with a membership date on or after January 1, 2011, generally will work longer, pay more, and receive less over a shorter period of time in retirement than an individual with a prior membership date

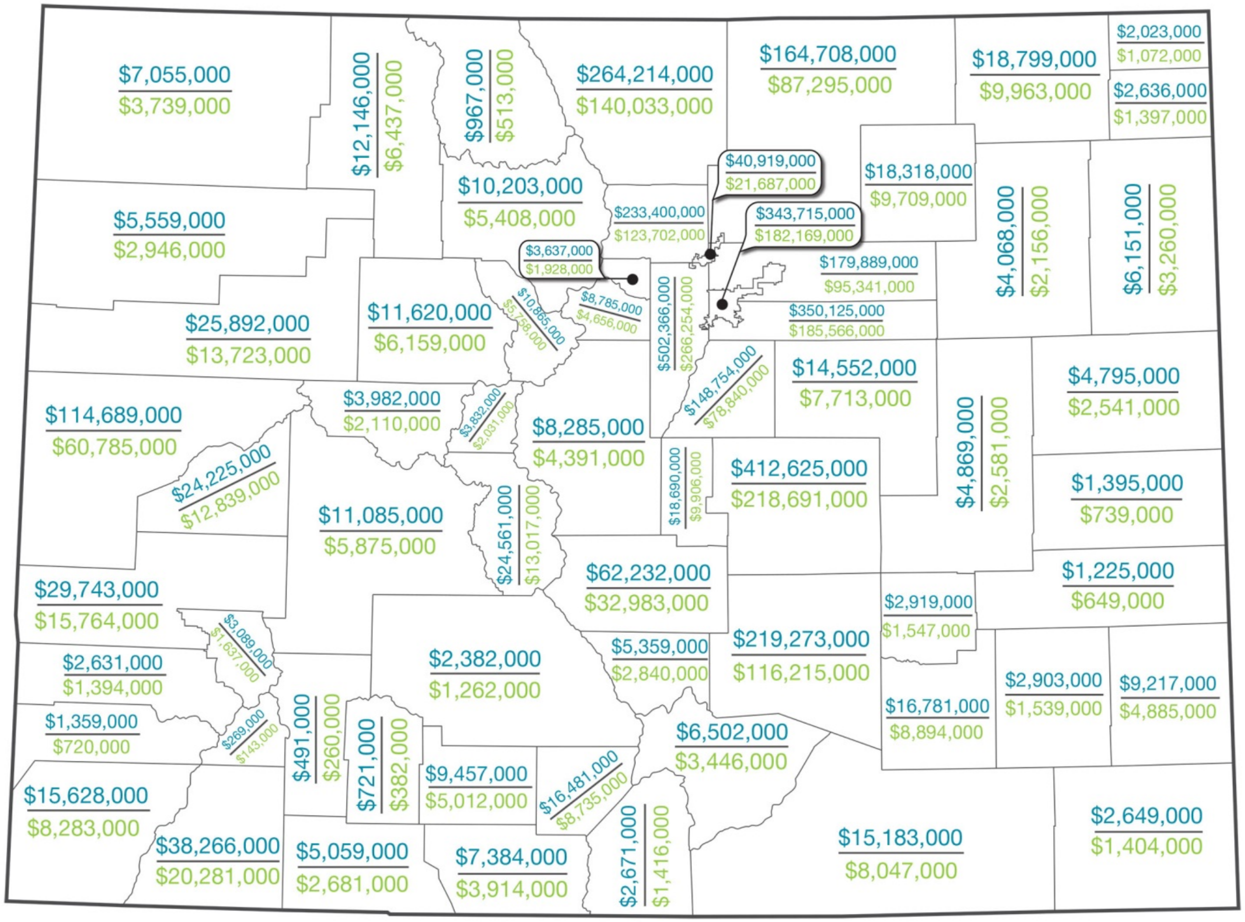
COLORADO PERA

SB 1 Study Report
Key Findings

PERA Benefit Distributions by County

PERA Hybrid DB Plan Distributions*

Self-Directed DC Plan Distributions† (had it been implemented in 1984)



» Historical simulation if, in 1984, PERA had been converted to a self-directed DC plan

» PERA distributions by county vs. distributions under a self-directed DC plan

* *Colorado PERA Economic and Fiscal Impacts,* Pacey Economics, Inc., April 2015. Reflects PERA distributions as of September 2014.

† Information provided by Pacey Economics, Inc., using scaling factor of 53.0%.

COLORADO PERA

Contact Us

- » Web address
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  - PERA on the Issues, www.peraontheissues.com
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  - Twitter, @ColoradoPERA and @thedimeCO
  - Facebook, www.facebook.com/thedimecolorado
- » Office locations
  - 1301 Pennsylvania Street, Denver
  - 1120 West 122nd Avenue, Westminster
- » Phone number
  - 1-800-759-PERA (7372)

COLORADO PERA

DEPARTMENT OF PERSONNEL and PERA
FY 2016-17 JOINT BUDGET COMMITTEE HEARING AGENDA

Thursday, December 17, 2015
9:00 am – 12:00 pm

9:00-9:15 INTRODUCTIONS AND OPENING COMMENTS

9:15-9:30 DEPARTMENT OVERVIEW

1. Please explain the division of responsibility for purchasing and maintaining State Patrol Vehicles and CDOT vehicles. Which department does what for its own vehicles?

2. Please provide an update on CNG vehicles, following the issue that was presented last year regarding fuel usage by department for those vehicles. Please provide an update on this year's request for vehicle replacements regarding CNG vehicles. Does the Department's analysis show that CNG vehicles meet the statutory requirement for life-cycle costs that would allow purchase of CNG vehicles this year?

3. Please explain the impact on CNG filling station infrastructure and the State's effort to build-out CNG filling station infrastructure if the State does not purchase CNG vehicles.

9:30-9:50 ISSUE 1: LEGISLATIVE APPROPRIATIONS AUTHORITY AND THE R2 FLEET RE-ALIGNMENT REQUEST, IDS POSTAGE TRANSFERS, AND RISK MANAGEMENT OVEREXPENDITURES

4. Please discuss the Department's position on the appropriations transfer issues addressed in the briefing issue.

9:50-10:10 ISSUE 2: TOTAL COMP REVERSIONS AND THE STATE EMPLOYEE RESERVE FUND

5. Is the reversion issue identified in the briefing issue a CORE problem?

6. Is there a sunset on the State Employee Reserve Fund (SERF)? How has the SERF been used? Are these dollars available for other purposes? Is there a reporting requirement related to the SERF?

7. Please provide an explanation for why the reversions in the identified compensation line items were high. Please provide an explanation for how those items were funded? Which line items or other continuously appropriated funds paid for those items to cause reversions in the line items?

8. Is this a long-term or ongoing trend in the Department, or is this a one-year issue? Were there management decisions made that led to these reversions? Are they the result of the change in management? How will management address this issue going forward?

10:10-10:30 CORE OPERATIONS UPDATE

9. Please explain the division of responsibility over hardware between CORE Operations in the Department and OIT. Please explain the reason for the base adjustment increase in CORE Operations.

10. How was training managed during the implementation of CORE? Is it working effectively now? Is everyone fully trained on CORE?

11. Have CORE reports been verified as accurate?

10:30-10:50 TOTAL COMPENSATION REQUEST OVERVIEW

12. Please explain why the base salary estimate is increasing over last year. Please explain why some departments show much higher rates of increases in their base salary estimate.

13. How are FTE changing by department as a way of comparing the change in base salary estimate for departments experiencing higher rates of increase?

14. What drives range adjustments? Please explain the process for making range adjustments through the recommendation, request, and budget process.

15. How many state employees will receive an increase from the range adjustment on the lower end? Will range adjustments also impact lower range employees in Higher Education?

16. How much would it cost for a 1.0 percent and for a 1.5 percent merit pay increase?

17. When we have relatively flat inflation as we currently do, how does the State look at salary survey and merit pay adjustments?

18. How do the provider rates and state employee compensation correlate?

19. How do turnover rates compare between the State and the market? Is this something that is measured and compared in the annual compensation report? If not, is it something that can be included in future reports?

10:50-11:00 OTHER ITEMS

LDPAC

20. Please provide an update on the digitization of legislative audio tapes in State Archives.

21. What does the Department think about extending or allowing to sunset the Legislative Digital Policy Advisory Committee (LDPAC)?

Leasing Approval Process

22. Please explain the process used to oversee state leasing. Please explain the standard language that is expected to be included in contracts/leasing agreements. Do all state agencies comply with the leasing policies set by State Buildings and Real Estate Programs in the Office of the State Architect? Does the Office monitor compliance in any way to ensure that state agencies are in compliance with policies?

23. Please explain how leasing policies might be adjusted to work with appropriations approval processes?

11:00-11:15 BREAK

11:15-11:30 PERA INTRODUCTION AND OPENING COMMENTS

11:30-12:00 PERA UPDATE – 2015 PERA STUDIES

24. Please demonstrate that a new retirement plan would necessarily be more expensive, if PERA agrees with the findings in the cost-benefit value study. It is not clear that a new retirement plan would necessarily eliminate the current cash flow intended to fully fund PERA. For example, the normal cost of the existing plan could be directed into a new plan, while still maintaining the same payment scheme to cover the unfunded liabilities. Please explain why a system like this could not work.

25. If more conservative assumptions were used as identified in the sensitivity analysis, would that have changed the opinion in the cost-benefit study on whether the defined benefit system was better than a defined contribution system?

26. Please explain the tax liability implications of AED and SAED? What would be the difference in tax liability if AED and SAED were merged as a single line item in department budgets? Is it possible to maintain separate statutes for AED and SAED as provided in current law, and calculate them distinctly, but pay for them from a single line item?

27. Please explain why AED and SAED are not treated simply as payments from the State to catch up the unfunded liability. Please explain why AED and SAED are treated as compensation elements, although the annual normal cost of benefits for state employees hired after January 1, 2011, was identified as 8.82 percent in the cost-benefit study, and therefore appears to be much lower than the employee contribution plus the statutory State contribution, AED, and SAED.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Provide a list of any legislation that the Department has: (a) not implemented or (b) partially implemented. Explain why the Department has not implemented or has only partially implemented the legislation on this list.

2. Please provide a detailed description of all program hotlines administered by the Department, including:
   a. The purpose of the hotline;
   b. Number of FTE allocated to the hotline;
   c. The line item through which the hotline is funded; and
   d. All outcome data used to determine the effectiveness of the hotline.

3. Describe the Department's experience with the implementation of the new CORE accounting system.
   a. How has the implementation improved business processes in the Department?
   b. What challenges has the Department experienced since implementation and how have they been resolved (i.e. training, processes, reports, payroll)?
   c. What impact have these challenges had on the Department's access to funding streams?
   d. How has the implementation of CORE affected staff workload?
   e. Do you anticipate that CORE implementation will result in the need for a permanent increase in staff? If so, indicate whether the Department is requesting additional funding for FY 2016-17 to address it.

4. If the Department receives federal funds of any type, please provide a detailed description of any federal sanctions for state activities of which the Department is already aware. In addition, please provide a detailed description of any sanctions that MAY be issued against the Department by the federal government during FFY 2015-16.

5. Does the Department have any outstanding high priority recommendations as identified in the "Annual Report of Audit Recommendations Not Fully Implemented" that was published by the State Auditor's Office and dated October 2015 (link below)? What is the department doing to resolve the outstanding high priority recommendations?

   http://www.leg.state.co.us/OSA/coauditor1.nsf/All/4735187E6B48EDF087257ED0007FE8CA/$FILE/1542S%20Annual%20Report.%20Status%20of%20Outstanding%20Audit%20Recommendations,%20As%20of%20June%2030,%202015.%20Informational%20Report.%20October%202015.pdf

6. Is the department spending money on public awareness campaigns related to marijuana? How is the department working with other state departments to coordinate the campaigns?

7. Based on the Department's most recent available record, what is the FTE vacancy rate by department and by division? What is the date of the report?

8. For FY 2014-15, do any line items in your Department have reversions? If so, which line items, which programs within each line item, and for what amounts (by fund source)? What are the reasons for each reversion? Do you anticipate any reversions in FY 2015-16? If yes, in which programs and line items do you anticipate this reversions occurring? How much and in which fund sources do you anticipate the reversion being?

9. Are you expecting an increase in federal funding with the passage of the FFY 2015-16 federal budget? If yes, in which programs and what is the match requirement for each of the programs?

10. For FY 2014-15, did your department exercise a transfer between lines that is allowable under state statute? If yes, between which line items and programs did this transfer occur? What is the amount of each transfer by fund source between programs and/or line items? Do you anticipate transfers between line items and programs for FY 2015-16? If yes, between which line items/programs and for how much (by fund source)?