

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2014-15 STAFF BUDGET BRIEFING
COMPENSATION COMMON POLICIES**

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

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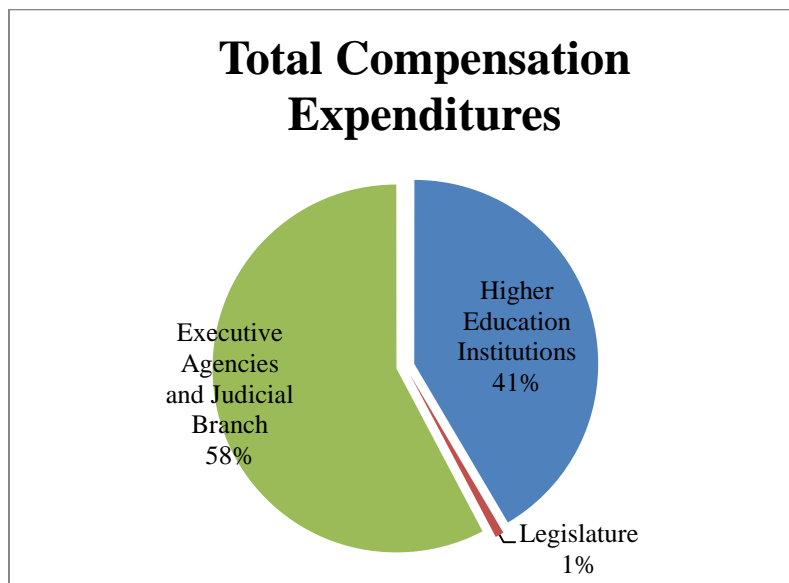
COMPENSATION COMMON POLICIES

Overview

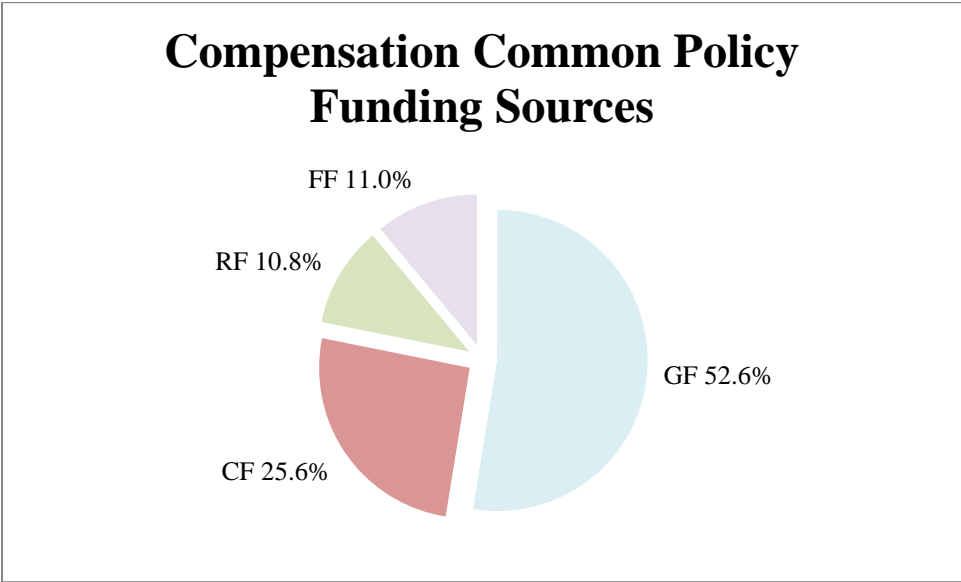
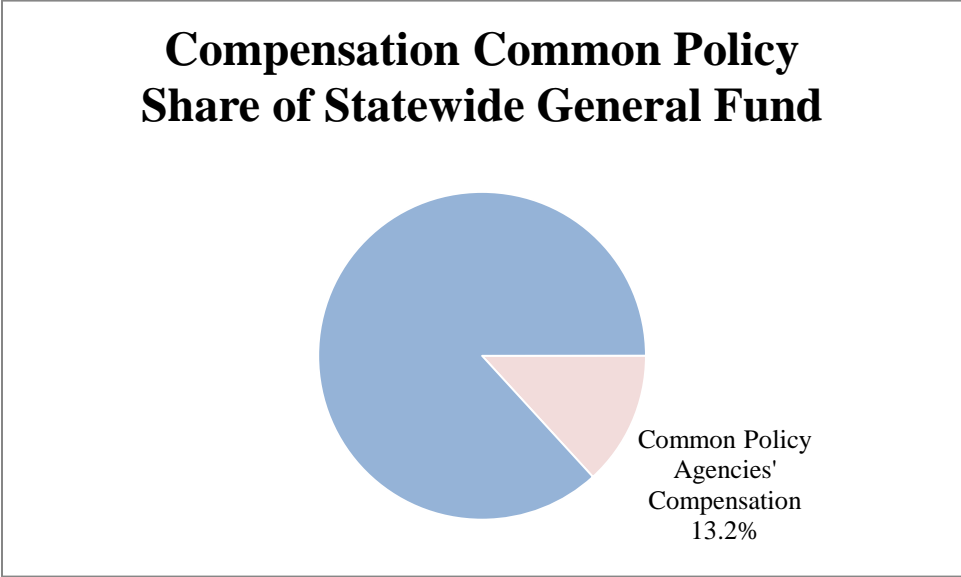
The General Assembly establishes common policies each fiscal year to budget for compensation consistently across departments. Compensation common policies accomplish the following objectives:

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.

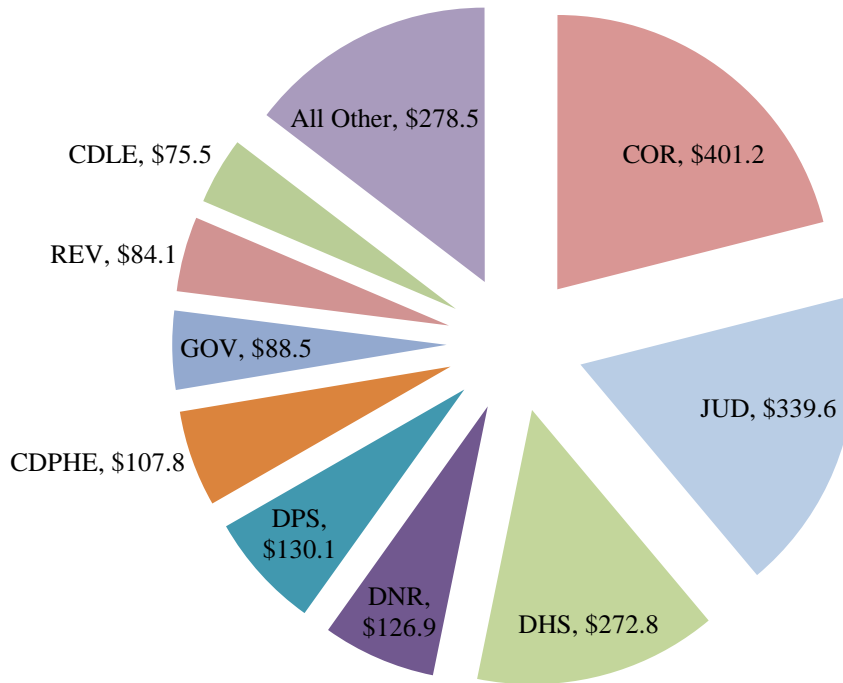
This briefing packet focuses on compensation common policies for executive agencies, but does not include higher education institutions or the legislative branch. These are excluded due to the unique budgeting processes of these agencies. In addition, a large portion of positions at the higher education institutions and the Legislature are exempt from the constitutionally created State Personnel System, and are not bound by the same job classes and pay ranges. Many of the exempt positions use the same retirement and insurance benefits as the personnel system. Compensation policies are not usually developed to apply to the higher education institutions or the Legislature, but it is important to consider that compensation common policy decisions will impact their expenditures. Estimated expenditures for compensation by executive and judicial agencies impacted by the common policies represent 58.0 percent of state-wide estimated compensation expenditures.



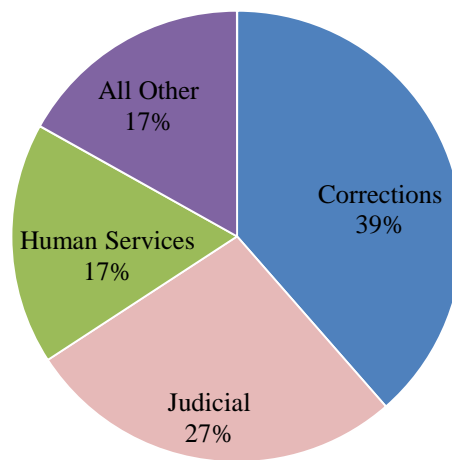
Department Budget: Graphic Overview



Total Compensation by Agency



General Fund Compensation by Agency

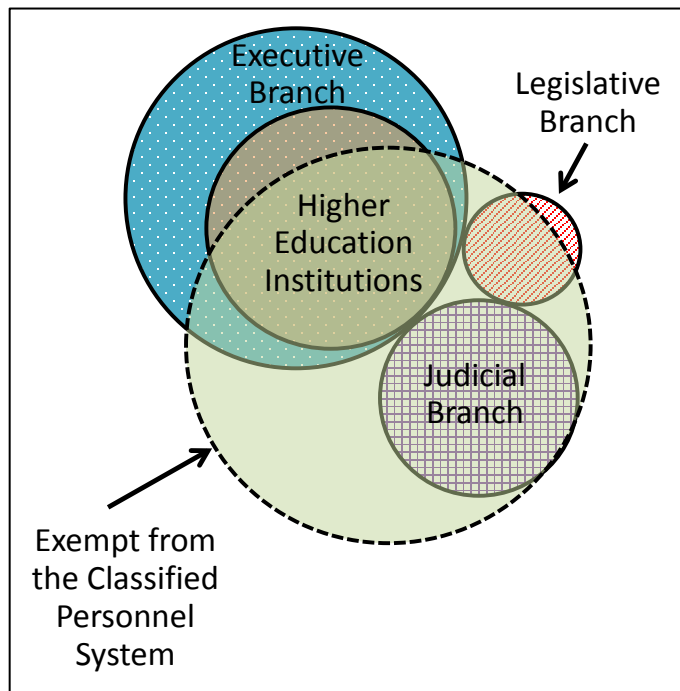


General Factors Driving the Budget

STATE PERSONNEL SYSTEM (CLASSIFIED SYSTEM)

To ensure a State workforce based on merit and fitness, the Colorado Constitution established a State Personnel System, commonly referred to as the classified system. Statute dictates standardization in the classified system of the way people with like duties are treated with regard to grading performance and determining compensation. The Department of Personnel manages the classified system under the policy direction of the State Personnel Board.

The Constitution specifically exempts some positions from the rules of the classified system, referred to as exempt positions. Exempt positions include education faculty and certain administrators, the Judicial Branch, the Legislative Branch (excluding the State Auditor's Office), assistant attorneys general, certain employees of the Governor's Office, department heads, and most boards and commissions. Approved in 2013, Referendum S allowed select management and support positions to be classified as exempt. Generally, exempt employees use the same insurance and retirement benefits as employees of the classified system. Most higher education institutions offer separate benefit plans. The Judicial Branch is exempt from the state personnel system, yet has developed a version of a classified system for employees who are not judges. This system is similar to the state personnel system with regard to salaries and hiring and termination procedures. The following diagram represents the relationship between the classified system, and various government agencies:

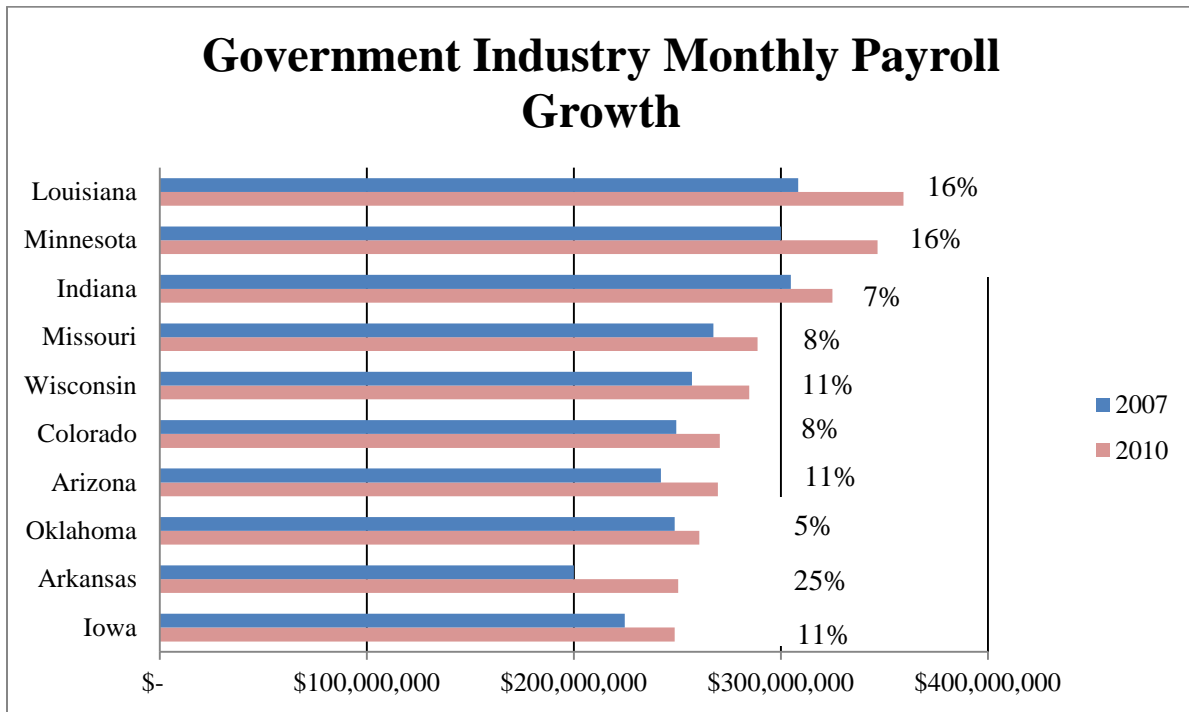


PREVAILING COMPENSATION

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.

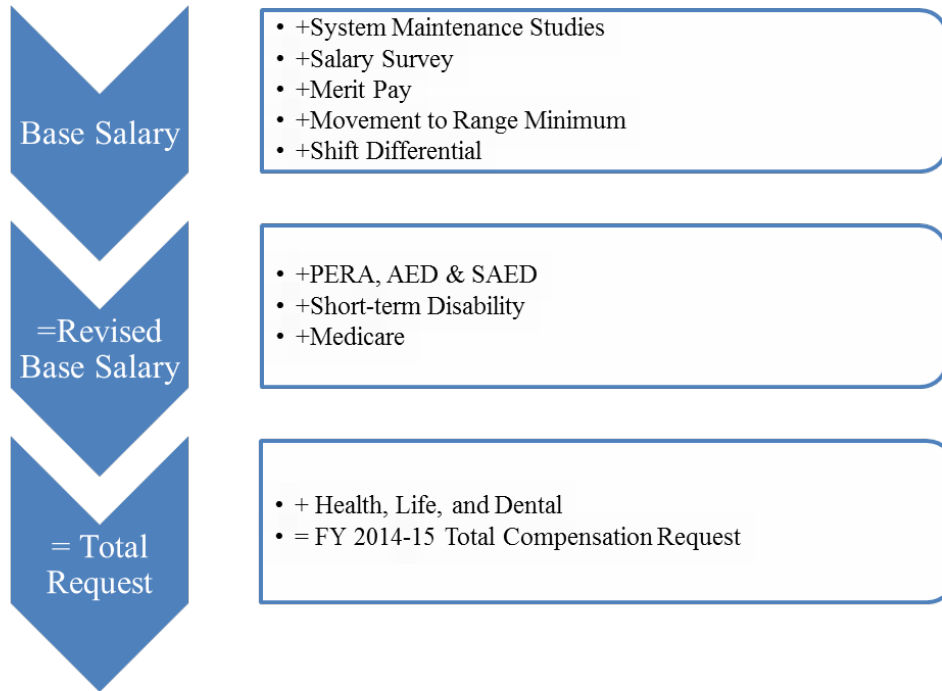
Average wages in Colorado have grown at a rate lower than nine reference states that have an annual payroll for Government Sector Public Employees that is similar to Colorado, according to the US Census Bureau Data. The chart below shows the average growth, by state, from 2007 through 2011. Colorado lags below the average by about 3.0 percent:



The Department of Personnel produces an Annual Compensation Survey Report by August first to compare the State’s compensation to prevailing market rates. In FY 2014-15 the Department argues that state salaries lag market salaries by 3.8 percent. The General Assembly is not required to follow the recommendations of the Annual Compensation Survey Report, but the report expresses the professional opinion of the Department regarding how compensation should be annually adjusted.

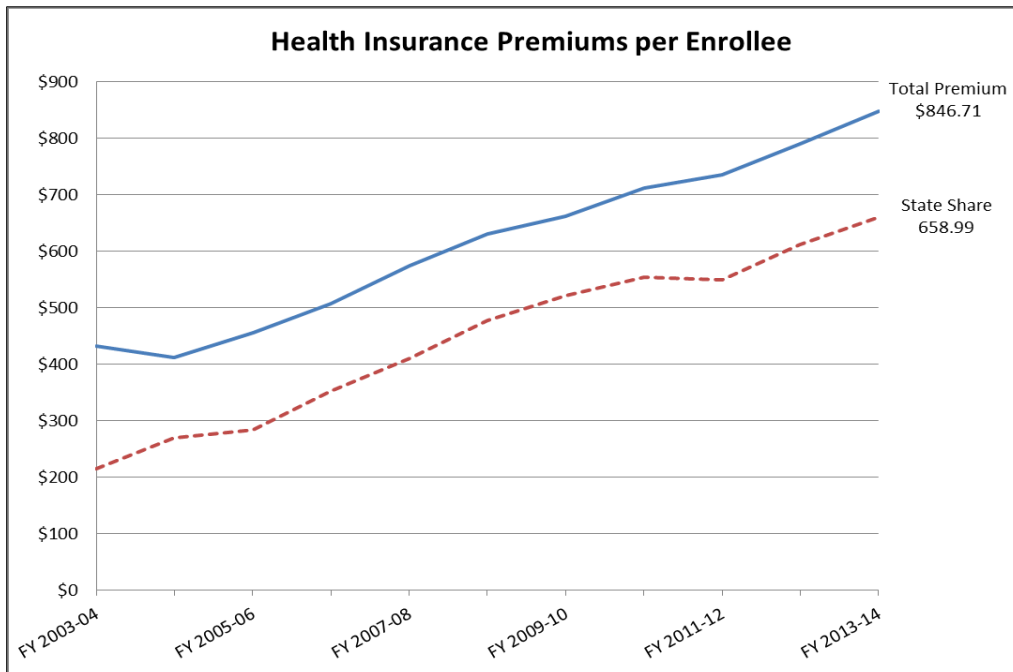
The total compensation request involves many components. A base salary is estimated by taking a one-month payroll snapshot, then allowing revisions to be made. Most revisions include legislative changes, eliminating vacant positions, and adding new positions. Once a base salary is finalized, adjustments are requested for salaries and benefits. These adjustments are outlined in the graphic below:

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COST OF HEALTH CARE

Health insurance premiums have been consistently rising for state employees. This follows the trends of premium contributions by the state. For FY 2014-15 the Health, Life, and Dental request represents a new cost allocation. The State will now pay 80.0 percent of the cost of insurance premiums, an increase from 75.0 percent for FY 2013-14. If approved, this transition will result in an increase of 5.7 percent and \$10.3 million total funds. The graphic below shows the trend in expenditures for health insurance premiums per enrollee.



RETIREMENT BENEFITS

Actuarial analysis of the Public Employee's Retirement Association (PERA) led the General Assembly to pass bills increasing contributions to the pension plan in addition to the base employer and employee contribution rates. These additional contributions are called the Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED). Both AED and SAED are paid by the employer.

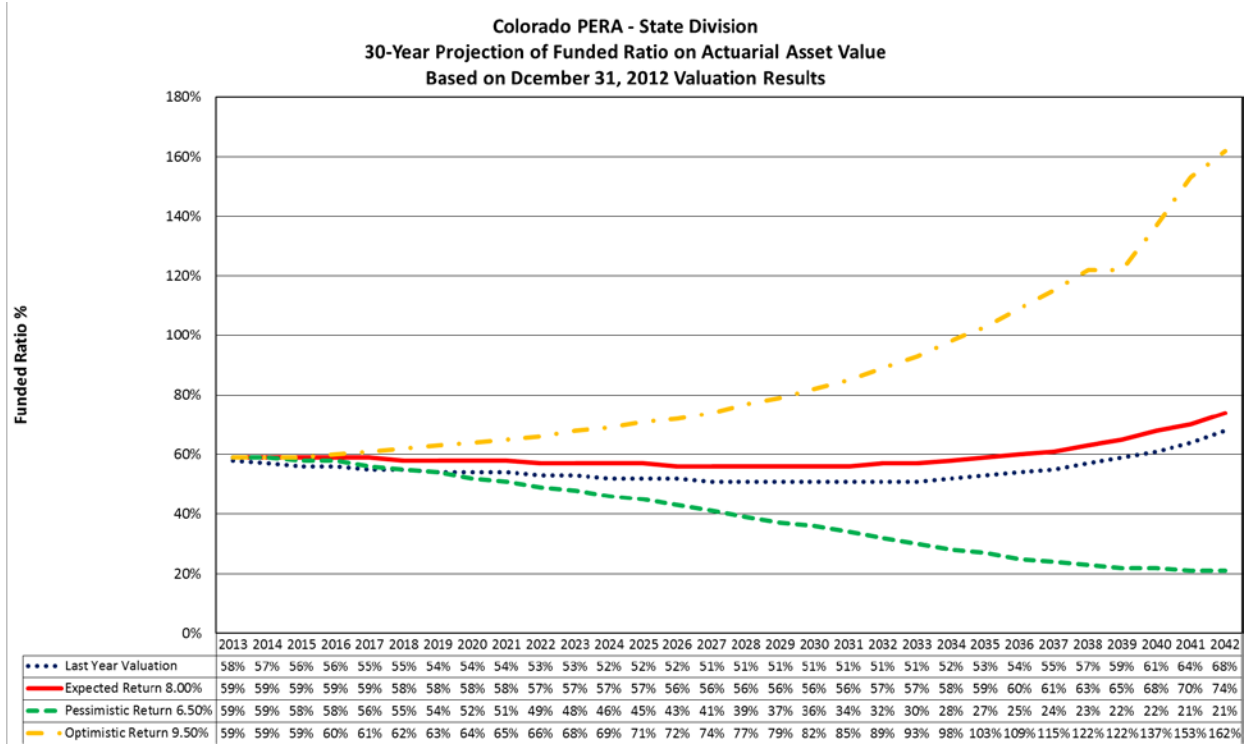
The table below summarizes the statutory contribution rates to PERA for the majority of classified employees. Contribution rates vary for state troopers and for judges and justices in the Judicial Branch. All figures represent a percentage of employee's base salary.

Public Employee Retirement Association Contribution Rates - State Division					
Year	Employer	AED	Employee	SAED	TOTAL
2012	10.15%	3.00%	8.00%	2.50%	23.70%
2013	10.15%	3.40%	8.00%	3.00%	24.60%
2014	10.15%	3.80%	8.00%	3.50%	25.50%
2015	10.15%	4.20%	8.00%	4.00%	26.40%
2016	10.15%	4.60%	8.00%	4.50%	27.30%
2017	10.15%	5.00%	8.00%	5.00%	28.20%

A report released by Morningstar Inc. (2012), indicated in order to be fiscally sound, a pension plan should not fall below a 70.0 percent funded ratio, or the ratio of a plan's assets to its liabilities. A ratio of 100.0 percent would allow a pension plan to pay all of its liabilities with its current amount of assets. At the release of the report, 21 states fell below the 70.0 percent threshold. PERA reports a funded ratio of 64.4 percent as of December 2012 and a \$22.0 billion gap between assets and liabilities.

PERA projects a 36-year amortization period based on December 2012 valuation results for the State Trust Fund. Employer contributions would need to be raised to 20.45 percent to project a 30-year amortization period. These estimates may be increased in future years, as the PERA board decreased the expected rate of return from 8.0 percent to 7.5 percent in December. An associated decrease in inflationary assumptions will offset some of the reduced return expectation. According to the National Association of State Retirement Administrators the average assumption rate is 8.0 percent. The graph below shows projected assets as a percentage of liabilities as of December 2012:

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In addition to increasing PERA contributions to address the fund balance shortfall, the General Assembly reduced benefits via S.B. 10-001 to decrease the long-term liabilities of the pension plan. Some of the key provisions of S.B. 10-001 include:

- Eliminating the cost of living adjustment (COLA) for 2010 and limiting future COLAs to a maximum of 2.0 percent;
- Increasing the combined years of service and age required to receive the maximum benefit (employees hired after January 1, 2017 follow a rule of 90 with a minimum retirement age of 60);
- Extending AED and SAED payment increases through FY 2016-17; and
- Reducing the percent of salary paid as a benefit to employees who retire early.

Certain benefit reductions contained in S.B. 10-001 are currently the subject of a lawsuit. Loss of the case would significantly increase the amortization projection and likely result in a need for greater contributions to PERA, either from employers or employees or both. A final ruling is projected for early 2014.

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

- If projections show that a pension plan has insufficient resources to make projected benefit payments, then the pension plans must use different assumptions about the expected return on investments. The new index is based on the yield on 20-year municipal bonds, which is currently a lower rate than PERA's expected return of 7.5 percent. PERA is evaluating if they will need to lower rate of return assumptions under this rule.

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- Employers who participate in pension plans are required to show their proportionate share of the PERA net pension liability on financial statements.

The requirement that employers include their share of the net pension liability on statements of net position will dramatically alter the financial reporting for some entities, but it is important to remember that this is a reporting change and not an actual change in financial position. PERA has created an implementation team for these new standards and is developing web-based training materials for PERA affiliated employers to use as an implementation resource. In addition PERA is collaborating with the State Auditor’s Office, the Public Pension Financial Forum, and the CSCPA Governmental Issues Committee.

PERA RFI Response

The Joint Budget Committee received a response to a Request for Information regarding a comparison of the PERA benefit to private sector retirement plans. The entire response is provided in Appendix C. The evaluation concluded that both employee and employer contributions to retirement are higher than market rates as demonstrated in the following table:

	Market		State	
	Employer	Employee	Employer	Employee
Social Security	6.2%	6.20%	N/A	N/A
Medicare	1.45%	1.45%	1.45%	1.45%
DB/DC	N/A	N/A	10.15%	8.00%
AED	N/A	N/A	3.6%	N/A
SAED	N/A	N/A	N/A	3.25%
Average Retirement Contribution	4.45%	6.0%	N/A	N/A
Total	12.10%	13.65%	15.20%	12.70%
Subtract AED/SAED	12.10%	13.65%	11.60%	9.45%

The Vanguard Group manages over \$2.0 trillion in assets and reports that the average participant’s contribution rate is 6.0 percent of annual payroll. This estimate has been added to the information provided by the Department for comparison purposes. According to the most recent audit of PERA the average contribution was 5.8 percent of payroll. If this contribution rate is coupled with the 4.45 percent average employer match, the private sector retirement benefit is much more comparable to PERA. The table also compares the private sector with PERA benefit before AED and SAED were added as contributions. One could argue that these components represent a benefit to the system, rather than a benefit to an individual employee. PERA members do not have legal claim to these funds thus they are not available for transfer is a member leaves the PERA eligible employment. Until a study can translate AED and SAED to a comparable factor for the market and equitably account for the unfunded liability of Social Security, these comparisons provide little more than arbitrary value.

Staff recommends that the Committee sponsor legislation to require periodic analysis of how state retirement benefits compare to prevailing retirement benefits through a comprehensive study of the benefit. Currently, the annual compensation survey report is

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subject to audit from a private firm every four years. Staff believes a comprehensive evaluation for PERA should be completed at a less aggressive pace, every six years since policy changes require a statutory change. An audit for PERA has not been performed since 2001. Legislation has been introduced to request a PERA evaluation in recent legislative sessions, but has not been enacted. The most recent cost estimate included in introduced legislation was \$177,000 General Fund. The Governor's request for FY 2014-15 has set aside \$500,000 for this purpose. The evaluation should, at minimum, address the following across public and private sector retirement plans: evaluation of PERA and its performance and portfolio allocation, costs to members and the state, member benefits, portability of benefits, alternatives to the current PERA structure, costs of alternative retirement administrators, consequences of opting out of social security and social security offsets.

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Summary: FY 2013-14 Appropriation & FY 2014-15 Request

Compensation Common Policies						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2013-14 Appropriation						
Base Salary Estimate	\$1,430,709,734	\$740,331,351	\$363,818,252	\$161,484,290	\$165,075,841	\$756,836,869
Health, Life, and Dental	181,354,836	102,516,051	40,411,565	19,963,777	18,463,443	105,837,790
PERA	149,309,949	77,574,852	38,299,344	16,624,811	16,810,942	77,574,852
AED	53,201,614	27,214,225	13,659,966	6,156,483	6,170,940	27,859,175
SAED	47,754,817	24,351,444	12,309,980	5,522,403	5,570,990	24,931,641
Salary Survey	40,713,709	18,136,037	13,374,221	4,761,733	4,441,718	18,691,170
Merit Pay	22,546,492	11,551,632	5,570,090	2,841,445	2,583,325	11,884,643
Medicare (FICA)	20,927,474	10,883,589	5,283,118	2,366,471	2,394,296	11,134,200
Shift Differential	12,564,464	10,260,909	534,891	1,720,758	47,906	11,038,909
Short-term Disability	<u>2,703,481</u>	<u>1,380,683</u>	<u>688,086</u>	<u>317,981</u>	<u>316,731</u>	<u>1,414,538</u>
TOTAL	\$1,961,786,570	\$1,024,200,773	\$493,949,513	\$221,760,152	\$221,876,132	\$1,047,203,787
FY 2014-15 Requested Appropriation						
Base Salary Estimate	\$1,512,055,673	\$778,933,115	\$396,899,193	\$164,953,806	\$171,269,558	\$798,510,892
Health, Life, and Dental	191,672,399	107,963,208	44,232,845	20,115,806	19,360,540	111,239,840
PERA	160,878,975	83,777,468	42,866,158	16,800,603	17,434,746	85,764,615
AED	63,110,564	34,291,912	14,911,861	6,863,261	7,043,530	35,128,783
SAED	59,165,852	32,148,363	13,979,871	6,434,307	6,603,311	32,183,640
Salary Survey	34,761,674	20,414,542	8,871,648	2,763,467	2,712,017	20,735,181
Merit Pay	23,797,374	12,867,724	5,646,177	2,665,260	2,618,213	13,188,388
Medicare (FICA)	21,924,807	11,294,530	5,755,038	2,391,830	2,483,409	11,578,408
Shift Differential	13,546,456	10,877,978	646,225	1,972,009	50,244	11,736,581
Short-term Disability	<u>3,377,641</u>	<u>1,848,795</u>	<u>786,864</u>	<u>369,299</u>	<u>372,683</u>	<u>1,903,214</u>
TOTAL	\$2,084,291,414	\$1,094,417,635	\$534,595,879	\$225,329,648	\$229,948,252	\$1,121,969,542
Increase/(Decrease)	\$122,504,844	\$70,216,862	\$40,646,366	\$3,569,496	\$8,072,120	\$74,765,755
Percent Change	6.2%	6.9%	8.2%	1.6%	3.6%	7.1%

The FY 2014-15 Base Salary Estimate is included in the requests submitted by OSPB and the elected officials. PERA and Medicare are calculated from the salary base estimate. All other figures are from the FY 2013-14 appropriations.

Base Salary Estimate

This common policy establishes a standard method for JBC staff to calculate the continuation personal services costs for each applicable line item. This is summarized by the table below:

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Prior year Long Bill
+ Any other legislative appropriations
+ Supplemental appropriations
= Current year appropriation
+ Annualizations or prior year legislation
+ Annualizations of prior year budget decisions
+ The line item's share of prior year centralized appropriations
+ Technical adjustments, fund source adjustments
+ Base personal services reduction
= Continuation funding
+ Staff recommendations
= FY 2014-15 Recommendation

Base salaries have been subject to vacancy savings reductions in the past, as a way to realize budget savings. Vacancy savings exist when there is a difference between a Department's appropriation and actual expenditures for personal services costs. The difference between the appropriation and expenditures can be explained in two instances:

- Employee turnover which leaves a position vacant for a period of time so expenditures are not required; and
- Employee turnover which results in a senior employee with a higher job class and salary being replaced with an employee at an entry level job class and salary.

A one-month snapshot of salaries is used to determine a base salary estimate. This method tends to capture most vacancy savings, based on the current balance of the Employee Reserve Fund. House Bill 12-1321 created an Employee Reserve Fund to capture reversions of General Fund appropriations from personal services and operating expenses each fiscal year, and created a sub account for each department. These moneys are continuously appropriated to each Department, at the discretion of the Office of State Planning and Budgeting (OSPB). At the end of FY 2012-13 the sum of all Department reversions was \$2.5 million, which represents 0.33 percent of statewide General Fund appropriations for salaries in FY 2013-14. Staff was not able to differentiate the amount of reversion that originated as personal services or operating expenses. Detailed account information is included in Appendix D. OSPB has confirmed that there is no current plan to allocate these budget savings for FY 2014-15 and does not plan to allocate these savings until an equitable allocation method is determined.

The State Personnel Director is required by Section 24-50-104, C.R.S (1)(V)., to submit a report on January first of each fiscal year, to include the following:

- Supervisor compliance with annual performance review requirements, including number of supervisors who were suspended or demoted for not complying with the performance review requirement, and the percentage of all supervisors who complied with the requirements;
- The total amount of dollars that were awarded to employees for merit pay;
- The total amount of those dollars awarded for each priority group, salary range and performance category;
- Reversion amounts that were transferred for the prior state fiscal year to the employee reserve fund, and the line item appropriation related to each reversion amount; and
The balance in the department's account within the state employee reserve fund.

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Staff recommends this report be presented to the Joint Budget Committee during the hearing with the Department scheduled for January 7, 2013.

Request: The base salary estimate for FY 2014-15 is \$1.5 billion total funds. The base salary request is significant because it serves as the foundation for the compensation common policy request. The FY 2014-15 base salary request is approximately 5.9 percent higher than FY 2013-14. This increase is the result of last year’s budget actions which provided an average 3.6 percent base building increase, and the realignment of many salary ranges. JBC Staff reviewed all OSPB initiated adjustments to the salary snapshot and did not find any issues. **Staff recommends using the request as the base salary, and continue the policy of not applying a vacancy saving reduction.**

Health, Life, and Dental – The request includes \$191.7 million total funds for increases in health, life, and dental appropriations to match the average percentage of total premiums paid by employers in the market. The request includes an increase for the State’s portion of the total premium from 75.0 percent to 80.0 percent. The current represents an increase of 5.7 percent from FY 2013-14. The Department of Personnel will submit an updated request through the budget amendment process after receiving an evaluation of the insurance pool and premium rates. **Staff is not making a recommendation on this component of compensation until the Department provides an updated request of rates for FY 2014-15.**

PERA – Contributions to PERA provide retirement benefits to state employees, and replace social security payments. **Staff recommends the request.** This packet includes the following employer contribution rates:

PERA Employer Contribution Rates	
State Division	10.15%
State Troopers	12.85%
Judicial Division	13.66%

AED (Amortization Equalization Disbursement) – The FY 2014-15 request for \$63.1 million total funds reflects a statutory 0.4 percent scheduled increase in the Amortization Equalization Distribution obligation. This payment is intended to improve the amortization period of the pension funds. Payments are calculated as a percentage of salaries. The request included a rate that applied six months of each calendar year. The rates for FY 2014-15 for AED and SAED are as follows:

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Public Employee Retirement Association Contribution Rates - State Division					
Year	Employer	AED	Employee	SAED	Total
2012	10.15%	3.00%	8.00%	2.50%	23.70%
2013	10.15%	3.40%	8.00%	3.00%	24.60%
2014	10.15%	3.80%	8.00%	3.50%	25.50%
2015	10.15%	4.20%	8.00%	4.00%	26.40%
2016	10.15%	4.60%	8.00%	4.50%	27.30%
2017	10.15%	5.00%	8.00%	5.00%	28.20%

Staff recommends the application of the policy, yet the recommendation is slightly higher due to a higher salary survey recommendation.

SAED (Supplemental Amortization Equalization Disbursement) – The FY 2014-15 request for \$59.2 million total reflects a statutory 0.5 percent scheduled increase in the Supplemental Amortization Equalization Distribution. This payment is intended to improve the amortization period of the pension funds. Obligations are calculated as a percentage of salaries. Pursuant to statute, the SAED contribution is from money that would otherwise go to state employees for salary increases. **Staff recommends the application of the policy, yet the recommendation is slightly higher due to a higher salary survey recommendation.**

Salary Survey

A recent audit of the Annual Compensation Survey Report raised concerns about the method used to calculate the difference between state and market salaries. The current method compares state salary midpoints to market salary midpoints. A consequence of the state’s method may be and overestimation of the gap between state salaries and market salaries by as much as 2.7 percent. Industry standards suggest the Department should compare the average of state salaries to the midpoint of market salaries. The following table is from the audit report:

Current Occupational Group	DPA Published % Diff Median Salaries	Buck % Diff Average Salaries
<i>Enforcement & Protective Services (Excludes Trooper Subgroup)</i>	4.7%	0.2%
<i>Trooper Subgroup</i>		
State Patrol Trooper	30.3%	30.3%
State Patrol Supervisor	7.7%	7.7%
State Patrol Administrator I	9.4%	9.4%
State Patrol Administrator II	13.0%	13.0%
<i>Health Care Services</i>	9.1%	7.3%
<i>Labor, Trades & Crafts</i>	10.7%	7.4%
<i>Administrative Support & Related</i>	20.4%	16.6%
<i>Professional Services</i>	6.4%	5.0%
<i>Physical Sciences & Engineering</i>	-3.8%	-2.9%
Overall Average % Difference	9.2%	6.5%

Source: Buck Consultants' analysis of Department data

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Staff shared the same concern about the possible overestimation of the gap between state and market salaries. The table below shows the comparison between the two calculation methods using data from the Department request for FY 2014-15:

Annual Compensation Survey Report Methodology Comparison					
	State Median Salary 3/31/13	Market Median Salary 3/31/13	% Diff	State Average Salary	% Diff
COR Case Manager I	\$5,145	\$4,080	21%	\$5,038	19%
COR Youth Clinical Security Officer I	3,292	3,260	1%	3,524	8%
COR Youth Clinical Supervisor III	4,925	4,206	15%	4,969	15%
COR or Youth Security Officer IV	6,007	5,092	15%	6,017	15%
Criminal Investigator II	6,260	4,649	26%	6,204	25%
Community Parole Officer	3,941	3,821	3%	4,558	16%
Community Parole Supervisor	6,918	4,917	29%	7,030	30%
Nurse I	4,955	5,288	-7%	5,142	-3%
State Teacher I	4,409	4,461	-1%	4,773	7%
Client Care Aide I	1,809	2,240	-24%	1,913	-17%
Client Care Aide II	2,210	2,479	-12%	2,301	-8%
Health Care Tech I	2,583	2,620	-1%	2,884	9%
Total			10%		13%

This is a sample from of approximately 5,000 classified positions which represents about 15.0 percent of the entire classified system. An evaluation of all benchmark positions may yield different results. This analysis shows that a comparison of average state salaries to market midpoints could underinflate the difference between state salaries and market salaries by 3.0 percent.

The significant difference in these two calculation methodologies should be considered much like the Joint Budget Committee reviews multiple revenue forecasts. **Staff recommends these two methods be used together and reported during the next Annual Compensation Survey Report to provide a more comprehensive picture of salaries and their position compared to the market.**

Request: The Governor's request includes \$34.7 million total funds for a 1.5 percent across-the-board increase in salaries and realignment of the pay ranges. This increase would be applied in an amount up to the range maximum, or if the employee's salary is greater than the range maximum they will not receive an increase. In FY 2013-14, the policy allowed employees with a performance rating of three a non-base building payment when their salary was above the range maximum. This request is 14.2 percent lower than the FY 2013-14 appropriation due to a reduced number of salary range adjustment requests. **Staff recommends the JBC award a 2.0 percent salary survey adjustment up to the range maximum.**

Merit Pay – The request includes \$23.8 million total funds for merit pay increases ranging from 0.7 percent to 2.5 percent. The following matrix is used to determine individual employee raises:

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Merit Pay Matrix				
Performance	Income quartile of class range			
Rating	Q1	Q2	Q3	Q4
3	2.4%	2.1%	2.1%	2.1%
2	1.8%	1.6%	1.1%	0.6%
1	0.0%	0.0%	0.0%	0.0%

Pursuant Section 24-50-104 (1.7), C.R.S., merit pay increases for employees in the fourth quartile of the salary range are not base building, and are awarded as a lump sum payment. The Department of Personnel estimates that the average increases awarded through the merit pay matrix will be 1.5 percent for FY 2014-15. For employees who are exempt from the classified system, the Governor proposes the same 1.5 percent increase with flexibility for each department to determine how to allocate the funds. The Judicial Branch and other elected officials submitted similar proposals. This request represents a 5.3 percent increase from the FY 2013-14 appropriation. **Staff recommends the request.**

Medicare – Medicare tax contributions are required both by both the employer and employee at a rate of 1.45 percent. This is applied to the base salary estimate to determine the annual cost to the State. **Staff recommends the request.**

Shift Differential – The request includes \$13.5 million total funds to allow for shift differential appropriations at 100.0 percent of the FY 2012-13 expenditures. Shift differential is premium pay for employees who work weekends and holidays or hours outside the normal day-time hours. Departments only pay shift differential when it is the prevailing market practice for a job classification. Ninety-three percent of shift differential payments occur in the Department of Corrections and the Department of Human Services, mostly for employees providing direct supervision or care in institutional settings. This request represents a 7.8 percent increase from the FY 2013-14 appropriation. **Staff recommends the request.**

Short-term Disability – The FY 2014-15 request includes \$3.4 million total funds for short-term disability, and a rate increase of .003 percent. Short-term disability payments are calculated as 0.22 percent of salaries. **Staff recommends the request.**

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Summary: FY 2014-15 Request and Recommendation

Compensation Common Policies						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2014-15 Requested Appropriation						
Agriculture	\$4,020,277	\$1,511,978	\$2,358,520	\$0	\$149,778	\$1,511,978
Corrections	89,697,773	86,883,747	2,814,026	0	0	86,883,747
Education	9,083,002	3,037,001	1,174,089	967,486	3,904,426	3,037,001
Governor's Office	16,222,159	1,135,411	719,280	14,167,317	200,151	1,135,411
Health Care Policy/Financing	6,004,696	2,082,763	433,190	237,408	3,251,336	2,082,763
Higher Education	2,959,223	0	1,807,110	478,177	673,936	0
Human Services	60,642,867	38,552,208	1,059,946	13,229,907	7,800,806	44,022,591
Judicial	69,738,426	64,632,688	5,105,738	0	0	64,632,688
Labor and Employment	14,673,000	17,276	6,221,482	0	8,434,242	17,276
Law	6,938,371	1,865,022	792,744	4,057,031	223,574	1,865,022
Local affairs	2,326,893	449,599	450,145	950,442	476,707	449,599
Military and Veterans Affairs	1,756,547	560,951	27,900	0	1,167,696	560,951
Natural Resources	23,563,156	3,195,008	16,136,993	1,422,737	2,808,417	3,195,008
Personnel	4,986,018	1,588,300	463,301	2,934,417	0	1,588,300
Public Health and Environment	19,135,081	1,464,379	7,033,688	1,844,513	8,792,501	1,697,102
Public Safety	28,578,912	5,505,656	21,224,479	1,031,995	816,782	5,505,656
Regulatory Agencies	7,844,675	222,868	7,087,710	473,909	60,189	222,868
Revenue	16,665,831	6,710,199	9,955,632	0	0	6,710,199
State	1,875,159	0	1,818,959	56,200	0	0
Transportation	2,262,378	0	2,159,346	103,032	0	0
Treasury	<u>457,516</u>	<u>226,302</u>	<u>231,214</u>	<u>0</u>	<u>0</u>	<u>226,302</u>
TOTAL	\$389,431,959	\$219,641,358	\$89,075,490	\$41,954,571	\$38,760,539	\$225,344,463
FY 2014-15 Recommendation						
Agriculture	\$4,099,772	\$1,542,641	\$2,402,320	\$0	\$154,810	\$1,542,641
Corrections	91,290,691	88,429,482	2,861,209	0	0	88,429,482
Education	9,318,344	3,103,805	1,204,115	993,869	4,016,555	3,103,805
Governor's Office	16,644,399	1,165,152	738,744	14,534,677	205,827	1,165,152
Health Care Policy/Financing	6,168,067	2,135,556	446,028	242,475	3,344,009	2,135,556
Higher Education	2,986,409	0	1,812,903	488,335	685,171	0
Human Services	61,613,009	39,190,889	1,079,192	13,390,010	7,952,918	45,484,511
Judicial	71,853,816	66,614,614	5,239,203	0	0	66,614,614
Labor and Employment	14,961,746	17,663	6,346,018	0	8,598,065	17,663
Law	7,483,668	2,012,446	843,477	4,389,294	238,451	2,012,446
Local affairs	2,375,770	458,016	458,154	973,426	486,174	458,016
Military and Veterans Affairs	1,789,827	572,320	28,084	0	1,189,423	572,320

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Compensation Common Policies						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
Natural Resources	24,031,376	3,275,891	16,457,734	1,437,059	2,860,692	3,275,891
Personnel	4,991,857	1,593,314	463,302	2,935,242	0	1,593,314
Public Health and Environment	19,491,364	1,498,209	7,172,602	1,870,125	8,950,428	1,732,127
Public Safety	28,789,050	5,598,056	21,322,689	1,040,080	828,226	5,598,056
Regulatory Agencies	8,011,935	229,137	7,235,714	485,439	61,646	229,137
Revenue	16,963,850	6,841,828	10,122,022	0	0	6,841,828
State	1,918,172	0	1,861,972	56,200	0	0
Transportation	2,305,779	0	2,201,843	103,936	0	0
Treasury	<u>464,074</u>	<u>231,763</u>	<u>232,311</u>	<u>0</u>	<u>0</u>	<u>231,763</u>
TOTAL	\$397,552,975	\$224,510,784	\$90,529,632	\$42,940,166	\$39,572,394	\$231,038,323
Increase/(Decrease)	\$8,121,016	\$4,869,426	\$1,454,143	\$985,595	\$811,855	\$5,693,860
Percent Change	2.1%	2.2%	1.6%	2.3%	2.1%	2.5%

Issue: Payday Shift for General Fund Employees

This issue brief discusses the fiscal implications of the proposed legislation to reverse the payday shift, included in the Governor's FY 2014-15 Budget Request, at a cost of \$94.0 million General Fund.

SUMMARY:

- Senate Bill 03-197 shifted June 2003 payroll costs from FY 2002-03 to FY 2003-04 which provided a one-time savings of \$89.4 million General Fund, this is commonly referred to as the payday shift;
- The on-going impact of S.B. 03-197 include pro-rated FTE requests each budget cycle and manual payroll adjustments each June; and
- Legislation is required to reverse the payday shift, along with a one-time appropriation of \$94.0 million General Fund.

RECOMMENDATION:

Staff recommends the Committee sponsor legislation to reverse the payday shift for monthly employees with General Fund salaries. This action will result in an increase of approximately \$94.0 million General Fund.

DISCUSSION:

History

Senate Bill 03-197 shifted the payday for state employees from the last day of June 2003 to the first day of July 2003. This action resulted in a one-time savings of \$89.4 million General Fund in FY 2002-03. Since this time, state agencies have made manual adjustments to their accounting records at the end of June each year to record the expenditures in the following fiscal year. This method of moving expenditures from one year to another is contrary to most recognized accounting standards, including the Government Accounting Standards Board.

Accounting and fiscal assumption consequences due to the payday shift are evident in the annual budget process, fiscal note procedures, and appropriation clauses. New FTE with salaries from General Fund are budgeted at a rate of .92 to account for the eleven months of salary in the first year of employment. New FTE are requested 0.9 instead of 1.0 for the same reason.

House Bill 12-1246 reversed the payday shift for bi-weekly state employees and made an appropriation of approximately \$2.1 million across all affected state agencies. Below is the cost estimate to reverse the payday shift by moving the payday for June to the last day of June:

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FY 2014-15 Estimate to Reverse S.B. 03-197	
Department	Estimated GF Appropriation
Agriculture	\$526,806
Corrections	35,531,677
Education	970,584
Governor	539,806
Health Care Policy and Financing	1,866,098
Human Services	21,567,952
Judicial	22,838,988
Law	563,038
Legislature	2,018,128
Military Affairs	277,828
Natural Resources	1,772,196
Personnel	217,950
Public Health and Environment	847,642
Public Safety	1,711,260
Regulatory Agencies	115,522
Revenue	2,599,450
Treasury	<u>55,640</u>
TOTAL General Fund	\$94,020,566
S.B. 03-197 Payroll	\$89,404,244
Percent Change	5.2%

Repayment of payday shift savings can be accomplished with an increase 5.2 percent higher than the original budget savings. The Department of Personnel calculated this figure by increasing the appropriated salary base from FY 2013-14 by 3.0 percent, which is the average increase of state salaries contained in the FY 2014-15 request. Salary increases greater than the request will change the total cost estimate accordingly. For example, an average salary increase of 3.5 percent would result in a total need of \$94.5 million General Fund in FY 2014-15. Similarly, if the payday shift were to occur in FY 2013-14 with excess General Fund revenues, it could be accomplished with approximately \$91.3 million General Fund.

Recommendation

Staff recommends the JBC sponsor legislation to reverse the payday shift for monthly employees. This action will result in an increase of approximately \$94.0 million General Fund. Additionally, staff recommends that the JBC consult with OSPB to offset the cost of the legislation by the amount available in the Employee Reserve Fund, this would reduce the General Fund required by approximately \$2.5 million.

Issue: Health Insurance Premiums

This issue brief discusses health insurance premiums, the structure of the self-insured health insurance plan, and the Employee Wellness Program.

SUMMARY:

- Group health, life, and dental rates are set on an annual basis to be competitive with prevailing market compensation;
- The Group Benefits Reserve Fund has built up a fund balance through the normal course of business, but is currently at a level that far exceeds industry standards; and
- The Employee Wellness Program should be structured in a way which the State pays for the costs related to the administration of the program.

RECOMMENDATION:

Staff recommends that the Committee request the Department submit the following during its hearing on January 7, 2013:

- An analysis of the total cost of stop-loss coverage and the net cost or benefit to the state based on the amount of premiums paid and the amount of funds that are recovered.
- A report on the amount of Group Benefit Plans Reserve Fund balance that will be invested back in to premium reductions for employees in both the HMO and PPO plans, by tier.
- A description of how the Group Benefit Plans Reserve Fund balance is being used to accomplish any objective related to the Affordable Care Act.

Staff recommends that the JBC set health premium rates without any funding for the cost of administering the Wellness Program for FY 2014-15.

DISCUSSION:

Health Insurance Premiums

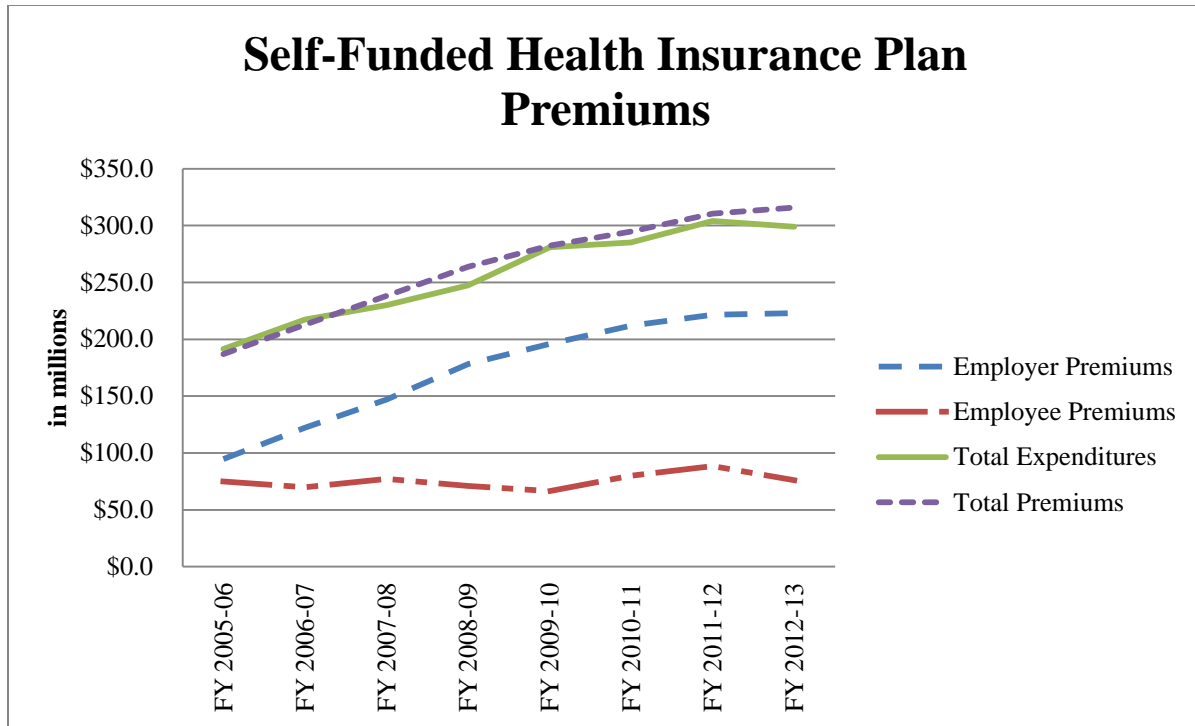
Health benefits are comparable to the market based on the types of plans offered, the services covered and the percentage of total premiums paid by the employer. For the FY 2014-15 request an estimated increase of 8.5 percent was built in to the health premium rate estimates. The state matches the market by offering both an HMO (Kaiser Permanente) and PPO (United Healthcare) health insurance plan. Each plan is then split into four tiers for coverage options. The rates for coverage in FY 2013-14 are outlined below:

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FY 2013-14 Health Premiums					
	Employer	Employee Share - Projected			
FY 2013-14 Health	Contribution	UHC - HDHP	Kaiser - HDHP	UHC - CoPay	Kaiser - HMO
Employee Only	434.10	28.96	19.28	72.04	92.18
Employee + Children	795.66	56.30	55.12	165.26	207.14
Employee + Spouse	762.60	176.76	161.94	289.12	335.54
Employee + Family	1,080.90	262.50	250.52	435.74	495.74
	Employer	Employee Share			
Change from FY 2012-13	Contribution	UHC - HDHP	Kaiser - HDHP	UHC - CoPay	Kaiser - HMO
Employee Only	36.30	(4.98)	(5.42)	(3.30)	(0.48)
Employee + Children	45.54	(5.10)	(17.92)	(16.68)	(11.62)
Employee + Spouse	109.82	(10.92)	(2.12)	(8.58)	(0.62)
Employee + Family	111.22	(22.64)	(3.88)	(9.56)	(4.52)

Deductibles for state plans tend to be higher than the market, but out-of-pocket maximums are lower. Co-pays for prescriptions are generally lower than the market. The most recent Annual Salary Survey report indicated market contribution rates for health insurance are generally higher than the state benefit. This finding was incorporated in the FY 2014-15 request to increase the employer portion of total premiums from 75.0 percent to 80.0 percent.

In addition to growing health premiums, the fund balance of Group Benefit Plans Reserve Fund for the self-insured healthcare plan has been growing. About half of all plan participants are enrolled in the self-funded insurance plan administered through United Healthcare. The plan functions like any other insurance plan which enrollees pay premiums and the state pays claims from the balance of the Group Benefit Plans Reserve Fund, and assumes the risk of the insurance pool. The industry standard for a reserve balance is 10-12 percent of claims in any fiscal year. The current balance of \$39.7 million represents a fund balance increase of 66.1 percent from FY 2010-11, and a fund balance reserve of 30.9 percent of FY 2013-13 claims. The Department indicates the final Health, Life, and Dental premium should invest excess reserves to offset costs for employees in FY 2014-15. The graphic below show the relationship between premiums and expenditures for the self-funded plan:



When employees enroll in the self-funded insurance plan their insurance premiums are used to pay for a variety of things including administration and the level of insurance coverage. The majority of the funds are deposited in the Group Benefit Plans Reserve Fund, which is used to pay claims for enrollees. Another portion of the premium is directed to stop-loss insurance. This mechanism ‘turns on’ if an enrollee’s claims in an insurance year exceed a certain amount, known as the attachment point. The balance of the Group Benefit Plans Reserve Fund and the attachment point of stop-loss insurance are recommended through an annual actuarial evaluation of the plan which determines the amount of risk that the state is willing to take on in any given year.

The last performance audit of the benefits program was completed in 2010. At that time, the state had been offering a self-insured plan for three years. The audit pointed out some significant concerns with the level of stop-loss insurance that the State was purchasing.

According to the audit findings, the level of stop-loss insurance was inappropriate from 2007 through 2011. The amount paid for the stop-loss insurance coverage exceeded the amount that was recovered through claims, and resulted in a net loss of \$6.9 million. The fund balance and the level of stop-loss insurance should generally have a direct relationship; when the fund balance grows, the attachment point should grow. A higher attachment point translates to lower premiums and a higher level at which the coverage would ‘turn on’. The table below outlines the changes in coverage levels:

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Stop Loss Insurance Coverage						
	Attachment Point	Cost per Enrollee	Percent change	Fund Balance (millions)	Percent Change	
FY 2010-11	\$200,000	39.49	n/a	23.9	n/a	
FY 2012-13	\$350,000	29.29	-26%	39.7	66%	
FY 2013-14	\$350,000	37.11	27%	n/a	n/a	

Staff contacted a variety of consulting firms to determine if an industry standard to determine the appropriate relationship between the Group Benefit Plans Reserve Fund and the amount of stop-loss coverage that should be elected. Anecdotal information indicates that a fund balance of at the level of ground benefits fund is excessive and the amount of stop-loss coverage in relationship to the fund balance may also be too high. In practice, the amount of risk an insurance pool should take on would be offset by either, an excessive fund balance or a high level of stop-loss insurance, but not both. Only an in-depth actuarial assessment could determine if the structure of the State’s plan is appropriate.

Staff recommends that the Committee request the Department submit the following during its hearing on January 7, 2013:

- An analysis of the total cost of stop-loss coverage and the net cost or benefit to the state based on the amount of premiums paid and the amount of funds that are recovered.
- A report on the level of the fund balance that will be invested back in to premium reductions for employees in both the HMO and PPO plans, by tier; and
- A description of how the fund balance is being used to accomplish any objective related to the Affordable Care Act.

State Wellness Program

The State Wellness Program was introduced in 2013 to continue the State’s charge to match prevailing market trends in benefits and compensation for employees. During final rate setting for insurance premiums for FY 2013-14, the Department added a \$5 fee to each monthly premium to fund administration of the State Wellness Program. The current participation rate for the wellness program is 26.0 percent of the 38,000 benefit eligible staff, and the Department estimates a total of \$920,000 will be paid in incentives for FY 2014-15.

The Wellness Program consists of two main components: a website and an incentive program. The first year of website costs were paid by the health insurance providers for the State. The Department is currently evaluating proposals to determine the cost of a vendor for this service going forward. Fees were used to provide incentives for program participants, up to \$20 per month. An estimated \$200,000 in incentive payments had been made as of September 2013. Approximately \$105,000 for 1.0 FTE in the Division of Human services was paid from the state share of insurance premiums in FY 2013-14. The Department used an existing vacancy to add this position, as it was not requested via the annual budget cycle.

Currently, only insurance participants are paying for the Wellness Program, yet all state employees are able to access the website, and take advantage of its resources. Only employees that are insured through the state are eligible to receive participation incentives of up to \$20 per month. This equates to an employee insured with the State contributing \$60 per year to the

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program, and potentially being reimbursed \$120 to \$240 per year through a premium rate decrease. With the current rate of participation, a pool of approximately 25,000 employees would contribute \$1.50 million in fees, and be reimbursed between \$780,000 and \$1.56 million.

In FY 2013-14 the website was provided at no cost to state insured employees. It is unclear whether the Department plans to shift the cost of the website to state insured employees, or request other appropriations. Staff does not believe that insurance participants should be subsidizing operation of this program for the entire state workforce. **Staff recommends that the JBC set health premium rates without any funding for the cost of administering the Wellness Program for FY 2014-15, and request a breakdown of all components of the final requested health premiums.**

Issue: Compensation Assumptions for New FTE

This issue brief outlines compensation assumptions for funding new employees for FY 2014-15. These assumptions provide guidance for appropriation clauses in 2014 legislative session.

SUMMARY:

- Compensation assumptions for funding new FTE are issued for each budget cycle by OSPB, and each legislative session by Legislative Council Fiscal Note Staff; and
- Certain compensation common policy items are exempt from these cost assumptions, and are addressed by the Joint Budget Committee.

RECOMMENDATION:

Staff recommends JBC Staff use the LCS Fiscal Note assumptions when estimating compensation for new FTE in the Long Bill, and apply the FY 2014-15 compensation policy related to Health, Life, and Dental cost estimates.

DISCUSSION:

When estimating funding required for new FTE, JBC staff generally use the same assumptions as Legislative Council Staff Fiscal Notes Staff. The Legislative Council Staff Fiscal Note assumptions point to the JBC policy to omit certain costs, unless the legislation adds more than 20.0 new FTE. The key components of the Legislative Council Staff Fiscal Note assumptions for compensation for new FTE include:

- Salaries at the minimum of the current year (FY 2013-14) range for the job class unless sufficient evidence is provided to deviate from this policy;
- First-year impacts are prorated to reflect the effective date of the bill, and reflect the payday shift for General Fund employees;
- FTE assumptions are based on a work year of 2080 hours;
- Certain benefits and operating expenses are estimated, but excluded from the total cost identified in fiscal notes, excluded items include:
 - Health, life, and dental insurance;
 - Short-term disability;
 - Amortization equalization disbursement;
 - Supplemental amortization equalization disbursement;
 - Leased space;
 - Indirect costs; and
- An exception is provided for large increases ("at least 20.0 new FTE") in staff.

Request: The Governor's request generally estimates salaries for new FTE at the minimum of the current year range for the job class, exceptions to this policy include accompanying explanations and justifications. This part of the request is consistent with the LCS Fiscal Note

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assumptions. However, the Governor's request includes compensation common policy benefits and operating expenses that are excluded from the LCS Fiscal Notes.

Recommendation: Staff recommends using the LCS Fiscal Note assumptions to estimate compensation for new FTE, but apply FY 2014-15 Health, Life, and Dental rates. In prior years, LCS Fiscal Note assumptions provide guidance related to Health, Life, and Dental costs that is one to two years old. OSPB then uses the LCS Fiscal Note assumption to provide instructions to executive agencies for new FTE request budget templates. Staff has discussed this process with both offices; both agree small changes should be made to ensure consistency.

The 2014 LCS Fiscal Note assumptions will be modified when the JBC sets a policy to fund Health, Life, and Dental. This assumption will then likely be built into the FY 2015-16 budget instructions, at the discretion of OSPB. This change will help to provide consistency among the different offices, and the most current policy will be reflected to more accurately provide cost assumptions for legislation that requires new FTE.

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Appendix A: Request by Department

	Base Salary Estimate					Net General Fund
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	
FY 2014-15 Requested Appropriation						
Agriculture	\$16,685,129	\$6,450,421	\$9,354,868	\$0	\$879,840	\$6,450,421
Corrections	311,531,687	301,115,002	10,416,685	0	0	301,115,002
Education	41,768,273	12,508,261	5,322,197	4,666,101	19,271,714	12,508,261
Governor's Office	72,274,993	4,900,750	3,265,890	63,172,392	935,961	4,900,750
Health Care Policy/Financing	30,252,303	9,957,243	2,356,806	889,418	17,048,836	9,957,243
Higher Education	10,473,836	0	6,422,395	1,653,862	2,397,579	0
Human Services	212,132,739	135,328,808	4,308,840	40,440,561	32,054,530	153,990,549
Judicial	266,573,792	209,775,927	56,797,864	0	0	209,775,927
Labor and Employment	60,860,564	63,843	26,832,205	0	33,964,516	63,843
Law	35,224,087	9,287,112	4,006,564	20,864,882	1,065,529	9,287,112
Local Affairs	9,810,659	1,900,215	1,658,363	4,444,969	1,807,112	1,900,215
Military and Veterans Affairs	7,419,623	2,680,547	107,844	0	4,631,232	2,680,547
Natural Resources	103,344,658	16,302,723	71,316,598	2,945,323	12,780,014	16,302,723
Personnel	20,746,422	7,567,278	1,751,434	11,427,710	0	7,567,278
Public Health and Environment	88,642,972	7,307,638	32,047,803	8,263,741	41,023,790	8,223,674
Public Safety	101,504,635	23,252,986	71,552,749	3,562,407	3,136,493	23,252,986
Regulatory Agencies	35,632,670	1,102,155	32,047,878	2,210,225	272,412	1,102,155
Revenue	67,431,663	28,245,438	39,186,225	0	0	28,245,438
State	7,773,569	0	7,773,569	0	0	0
Transportation	10,076,381	0	9,664,166	412,215	0	0
Treasury	<u>1,895,018</u>	<u>1,186,768</u>	<u>708,250</u>	<u>0</u>	<u>0</u>	<u>1,186,768</u>
TOTAL	\$1,512,055,673	\$778,933,115	\$396,899,193	\$164,953,806	\$171,269,558	\$798,510,892
Increase/(Decrease)	\$85,136,448	\$26,370,386	\$57,437,680	(\$2,294,167.00)	\$3,622,548	\$23,587,307
Percent Change	5.6%	3.4%	14.5%	(1.4%)	2.1%	3.0%

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Health, Life, and Dental						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2014-15 Requested Appropriation						
Agriculture	\$2,120,698	\$764,913	\$1,304,296	\$0	\$51,488	\$764,913
Corrections	46,290,809	44,686,811	1,603,998	0	0	44,686,811
Education	4,253,369	1,514,834	563,657	440,986	1,733,892	1,514,834
Governor's Office	7,831,068	567,149	342,757	6,828,696	92,466	567,149
Health Care Policy/Financing	2,620,695	957,604	171,775	135,487	1,355,830	957,604
Higher Education	1,749,744	0	1,065,134	289,250	395,360	0
Human Services	30,867,916	\$19,462,853.41	566,177	6,735,105	4,103,781	22,609,227
Judicial	31,384,523	28,896,472	2,488,052	0	0	28,896,472
Labor and Employment	7,822,304	10,347	3,229,700	0	4,582,257	10,347
Law	2,945,041	808,633	351,412	1,682,932	102,064	808,633
Local Affairs	1,197,253	228,229	254,872	445,935	268,217	228,229
Military and Veterans Affairs	867,179	255,858	16,066	0	595,255	255,858
Natural Resources	11,980,939	2,118,042	8,144,301	320,639	1,397,956	2,118,042
Personnel	2,601,342	757,542	261,056	1,582,744	0	757,542
Public Health and Environment	9,297,823	660,502	3,477,062	919,424	4,240,835	790,761
Public Safety	12,724,477	2,529,466	9,320,937	461,839	412,235	2,529,466
Regulatory Agencies	3,871,728	99,832	3,521,918	221,074	28,905	99,832
Revenue	9,022,082	3,559,543	5,462,539	0	0	3,559,543
State	924,392	0	924,392	0	0	0
Transportation	1,080,861	0	1,029,166	51,695	0	0
Treasury	<u>218,157</u>	<u>84,576</u>	<u>133,581</u>	<u>0</u>	<u>0</u>	<u>84,576</u>
SUBTOTAL	\$191,672,399	\$107,963,208	\$44,232,845	\$20,115,806	\$19,360,540	\$111,239,840
Increase/(Decrease)	\$10,317,563	\$5,447,157	\$3,821,280	\$152,029	\$897,097	\$5,402,050
Percent Change	5.7%	5.3%	9.5%	0.8%	4.9%	5.1%

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Amortization Equalization Disbursement						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2014-15 Requested Appropriation						
Agriculture	\$686,580	\$265,855	\$384,583	\$0	\$36,142	\$265,855
Corrections	13,083,309	12,653,932	429,377	0	0	12,653,932
Education	1,721,293	518,014	219,164	191,856	792,259	518,014
Governor's Office	2,979,029	201,975	134,525	2,603,983	38,546	201,975
Health Care Policy/Financing	1,242,759	409,422	96,743	36,619	699,975	409,422
Higher Education	431,496	0	264,598	68,066	98,832	0
Human Services	8,916,218	5,691,219	177,385	1,727,204	1,320,410	6,490,461
Judicial	11,280,689	10,476,237	804,452	0	0	10,476,237
Labor and Employment	2,501,336	2,615	1,101,832	0	1,396,889	2,615
Law	1,448,638	382,063	164,344	858,386	43,845	382,063
Local Affairs	404,069	78,350	68,447	182,829	74,443	78,350
Military and Veterans Affairs	306,787	110,292	4,423	0	192,072	110,292
Natural Resources	4,246,685	670,623	2,930,573	121,059	524,430	670,623
Personnel	854,336	310,311	72,155	471,870	0	310,311
Public Health and Environment	3,638,663	299,730	1,315,518	339,483	1,683,932	337,359
Public Safety	4,315,682	967,042	3,066,165	151,937	130,538	967,042
Regulatory Agencies	1,463,263	45,265	1,315,803	90,978	11,217	45,265
Revenue	2,773,226	1,159,922	1,613,304	0	0	1,159,922
State	322,038	0	320,154	1,884	0	0
Transportation	415,717	0	398,610	17,107	0	0
Treasury	<u>78,751</u>	<u>49,045</u>	<u>29,706</u>	<u>0</u>	<u>0</u>	<u>49,045</u>
TOTAL	\$63,110,564	\$34,291,912	\$14,911,861	\$6,863,261	\$7,043,530	\$35,128,783
Increase/(Decrease)	\$13,419,879	\$10,816,569	\$1,392,825	\$337,895	\$872,590	\$11,008,490
Percent Change	27.0%	46.1%	10.3%	5.2%	14.1%	45.6%

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Supplemental Amortization Equalization Disbursement						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2014-15 Requested Appropriation						
Agriculture	\$643,668	\$249,239	\$360,546	\$0	\$33,883	\$249,239
Corrections	12,265,602	11,863,061	402,541	0	0	11,863,061
Education	1,613,712	485,638	205,466	179,865	742,743	485,638
Governor's Office	2,792,839	189,352	126,117	2,441,234	36,136	189,352
Health Care Policy/Financing	1,165,085	383,833	90,696	34,330	656,226	383,833
Higher Education	404,528	0	248,061	63,812	92,655	0
Human Services	8,358,956	5,335,518	166,299	1,619,254	1,237,885	5,335,518
Judicial	10,575,341	9,821,167	754,174	0	0	9,821,167
Labor and Employment	2,345,004	2,452	1,032,968	0	1,309,584	2,452
Law	1,358,099	358,184	154,073	804,737	41,105	358,184
Local Affairs	378,815	73,453	64,170	171,402	69,790	73,453
Military and Veterans Affairs	287,613	103,399	4,146	0	180,068	103,399
Natural Resources	3,981,267	628,709	2,747,412	113,493	491,653	628,709
Personnel	800,939	290,916	67,645	442,378	0	290,916
Public Health and Environment	3,411,247	280,997	1,233,298	318,265	1,578,687	316,274
Public Safety	4,045,953	906,602	2,874,530	142,441	122,380	906,602
Regulatory Agencies	1,371,809	42,436	1,233,565	85,292	10,516	42,436
Revenue	2,599,900	1,087,427	1,512,473	0	0	1,087,427
State	301,910	0	300,144	1,766	0	0
Transportation	389,735	0	373,697	16,038	0	0
Treasury	<u>73,830</u>	<u>45,980</u>	<u>27,850</u>	<u>0</u>	<u>0</u>	<u>45,980</u>
SUBTOTAL	\$59,165,852	\$32,148,363	\$13,979,871	\$6,434,307	\$6,603,311	\$32,183,640
Increase/(Decrease)	\$14,714,567	\$11,186,896	\$1,916,465	\$578,885	\$1,032,321	\$10,641,976
Percent Change	33.1%	53.4%	15.9%	9.9%	18.5%	49.4%

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Salary Survey						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2014-15 Requested Appropriation						
Agriculture	\$256,987	\$102,655	\$140,263	\$0	\$14,069	\$102,655
Corrections	4,877,956	4,730,346	147,610	0	0	4,730,346
Education	694,819	206,694	88,762	77,160	322,203	206,694
Governor's Office	1,185,409	82,038	53,710	1,033,993	15,668	82,038
Health Care Policy/Financing	498,753	163,365	38,938	14,888	281,562	163,365
Higher Education	176,446	0	108,600	26,406	41,440	0
Human Services	3,441,819	2,208,670	70,050	663,935	499,164	2,514,995
Judicial	11,755,699	\$11,123,123	632,575	0	0	11,123,123
Labor and Employment	934,309	1,068	406,146	0	527,095	1,068
Law	537,406	139,102	64,199	317,031	17,074	139,102
Local Affairs	160,150	32,619	26,839	70,915	29,777	32,619
Military and Veterans Affairs	122,074	43,347	1,805	0	76,922	43,347
Natural Resources	1,586,459	254,341	1,102,139	45,458	184,521	254,341
Personnel	335,921	119,668	29,319	186,934	0	119,668
Public Health and Environment	1,327,109	111,596	476,908	129,526	609,079	125,910
Public Safety	4,913,447	630,660	4,040,527	153,377	88,883	630,660
Regulatory Agencies	565,282	17,333	506,446	36,943	4,560	17,333
Revenue	1,055,695	426,884	628,811	0	0	426,884
State	131,154	0	131,154	0	0	0
Transportation	159,987	0	153,086	6,901	0	0
Treasury	<u>44,793</u>	<u>21,033</u>	<u>23,760</u>	<u>0</u>	<u>0</u>	<u>21,033</u>
TOTAL	\$34,761,674	\$20,414,542	\$8,871,648	\$2,763,467	\$2,712,017	\$20,735,181
Increase/(Decrease)	(\$5,563,945)	\$2,779,465	(\$4,580,964)	(\$2,052,004)	(\$1,710,442)	\$2,544,971
Percent Change	(13.8%)	15.8%	(34.1%)	(42.6%)	(38.7%)	14.0%

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	Merit Pay					Net General Fund
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	
FY 2014-15 Requested Appropriation						
Agriculture	\$266,467	\$115,501	\$138,582	\$0	\$12,384	\$115,501
Corrections	5,086,246	4,917,172	169,074	0	0	4,917,172
Education	609,817	180,629	86,345	68,242	274,601	180,629
Governor's Office	1,181,294	83,829	54,795	1,027,449	15,221	83,829
Health Care Policy/Financing	412,619	147,216	29,991	14,179	221,233	147,216
Higher Education	173,743	0	106,451	26,969	40,323	0
Human Services	3,465,270	2,183,133	61,852	664,526	555,759	2,490,560
Judicial	4,122,400	\$3,740,160	382,241	0	0	3,740,160
Labor and Employment	920,827	650	390,237	0	529,940	650
Law	569,512	156,027	49,677	346,735	17,073	156,027
Local affairs	164,694	32,704	32,113	69,433	30,444	32,704
Military and Veterans Affairs	130,167	42,303	1,229	0	86,635	42,303
Natural Resources	1,534,255	262,212	1,042,362	45,100	184,581	262,212
Personnel	297,340	92,923	29,205	175,212	0	92,923
Public Health and Environment	1,260,930	95,489	455,643	119,710	590,088	108,726
Public Safety	1,841,777	370,223	1,351,421	64,590	55,543	370,223
Regulatory Agencies	493,706	15,562	439,027	34,729	4,388	15,562
Revenue	940,136	409,037	531,099	0	0	409,037
State	125,831	0	125,831	0	0	0
Transportation	162,691	0	154,305	8,386	0	0
Treasury	<u>37,651</u>	<u>22,954</u>	<u>14,697</u>	<u>0</u>	<u>0</u>	<u>22,954</u>
TOTAL	\$23,797,374	\$12,867,724	\$5,646,177	\$2,665,260	\$2,618,213	\$13,188,388
Increase/(Decrease)	\$1,250,882	\$1,316,092	\$76,087	(\$176,185)	\$34,888	\$1,303,745
Percent Change	5.5%	11.4%	1.4%	(6.2%)	1.4%	11.0%

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	Shift Differential					
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2014-15 Requested Appropriation						
Agriculture	\$11,511	\$529	\$10,982	\$0	\$0	\$529
Corrections	7,390,750	7,352,834	37,916	0	0	7,352,834
Education	106,056	106,056	0	0	0	106,056
Governor's Office	89,289	0	0	89,289	0	0
Human Services	5,115,275	3,366,252	8,486	1,728,870	11,667	4,224,855
Labor and Employment	11,771	0	0	0	11,771	0
Military and Veterans Affairs	26,806	0	0	0	26,806	0
Natural Resources	29,155	0	29,155	0	0	0
Personnel	49,698	0	0	49,698	0	0
Public Health and Environment	5,099	55	5,044	0	0	55
Public Safety	504,475	48,264	406,581	49,630	0	48,264
Revenue	123,439	3,988	119,451	0	0	3,988
State	52,550	0	0	52,550	0	0
Transportation	30,582	0	28,610	1,972	0	0
Treasury	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	\$13,546,456	\$10,877,978	\$646,225	\$1,972,009	\$50,244	\$11,736,581
Increase/(Decrease)	\$981,992	\$617,069	\$111,334	\$251,251	\$2,338	\$697,672
Percent Change	7.8%	6.0%	20.8%	14.6%	4.9%	6.3%

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	Short-term Disability					
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2014-15 Requested Appropriation						
Agriculture	\$34,366	\$13,286	\$19,268	\$0	\$1,812	\$13,286
Corrections	703,101	679,591	23,510	0	0	679,591
Education	83,936	25,136	10,695	9,377	38,728	25,136
Governor's Office	163,231	11,068	7,376	142,673	2,114	11,068
Health Care Policy/Financing	64,785	21,323	5,047	1,905	36,510	21,323
Higher Education	23,266	0	14,266	3,674	5,326	0
Human Services	477,413	304,563	9,697	91,013	72,140	356,975
Judicial	619,774	575,529	44,245	0	0	575,529
Labor and Employment	137,449	144	60,599	0	76,706	144
Law	79,675	21,013	9,039	47,211	2,411	21,013
Local affairs	21,912	4,244	3,704	9,928	4,036	4,244
Military and Veterans Affairs	15,921	5,752	231	0	9,938	5,752
Natural Resources	204,396	32,244	141,051	5,825	25,276	32,244
Personnel	46,442	16,940	3,921	25,581	0	16,940
Public Health and Environment	194,210	16,010	70,215	18,105	89,880	18,017
Public Safety	233,101	53,399	164,318	8,181	7,203	53,399
Regulatory Agencies	78,887	2,440	70,951	4,893	603	2,440
Revenue	151,353	63,398	87,955	0	0	63,398
State	17,284	0	17,284	0	0	0
Transportation	22,805	0	21,872	933	0	0
Treasury	<u>4,334</u>	<u>2,714</u>	<u>1,620</u>	<u>0</u>	<u>0</u>	<u>2,714</u>
SUBTOTAL	\$3,377,641	\$1,848,795	\$786,864	\$369,299	\$372,683	\$1,903,214
Increase/(Decrease)	\$674,160	\$468,112	\$98,778	\$51,318	\$55,952	\$488,676
Percent Change	24.9%	33.9%	14.4%	16.1%	17.7%	34.5%

Appendix B: Recent Legislation Affecting Department Budget

2012 Session Bills

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

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

Appendix C: Update on Long Bill Footnotes & Requests for Information

Department of Personnel and Administration - The Department is requested to work with the Public Employee's Retirement Association to provide information within existing resources on how the state's retirement benefits compare to prevailing practice by November 1, 2013. In addition, the Department is requested to provide recommendations regarding: (1) the level of detail and analysis and the costs required to perform a reliable comparison of the state's retirement benefits to prevailing practice; and (2) how frequently the state would need to analyze retirement benefits to ensure that state compensation matches prevailing compensation, given that retirement benefits may change less frequently than other components of compensation.

Comment: The Department provided the response on November 1, 2013.



Colorado

Department of Personnel & Administration

John W. Hickenlooper
Governor

Kathy Nesbitt
Executive Director

Kara Veitch
Deputy Executive Director

November 1, 2013

Senator Steadman, Chair
Joint Budget Committee
200 East 14th Avenue, 3rd Floor
Denver, CO 80203

Henry Sobanet, Director
Governor's Office of State Planning and Budgeting
200 East Colfax, Room 111
Denver, CO 80203

Dear Senator Steadman and Mr. Sobanet:

The following text provides the response to the Department of Personnel & Administration's RFI #1, which reads as follows:

Department of Personnel and Administration – The Department is requested to work with the Public Employee's Retirement Association to provide information within existing resources on how the state's retirement benefits compare to prevailing practice by November 1, 2013. In addition, the Department is requested to provide recommendations regarding: (1) the level of detail and analysis and the costs required to perform a reliable comparison of the state's retirement benefits to prevailing practice; and (2) how frequently the state would need to analyze retirement benefits to ensure that state compensation matches prevailing compensation, given that retirement benefits may change less frequently than other components of compensation.

Introduction

The response to this request for information is in two distinct parts. Section 1 contains an analysis of current contribution rates to retirement plans between the State of Colorado and the prevailing marketplace. The Department of Personnel & Administration and the Public Employees' Retirement Association worked cooperatively to produce this section within existing resources. *Section 1 represents the full extent to which DPA and PERA can assess the comparative value of the State's retirement benefits without additional appropriations.*

Section 2 contains an assessment of the costs associated with performing a thorough comparison of the State's retirement benefits to prevailing practice.

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Section 1

Comparison of Contribution Levels

In its Annual Compensation Report for FY 2014-15, DPA has published a comparison of the cost of the State's contributions for retirement benefits, including PERA, to the prevailing market. The analysis presented in that report includes the following components: Social Security, Medicare, Contributions to the Defined Benefit or Defined Contribution plans, Amortization Equalization Disbursement (AED), and tax deferred matching.

When we compare these factors in isolation between the market and the State sector, the market lags. However, when we attempt to make a comprehensive direct comparison of the market and State retirement costs, we find it is not possible without additional analysis. The data we do have provides an incomplete picture for three reasons:

- First, the current compensation survey indicates that actual salaries of State workers lag the market by an average 6.3 percent.
- Second, it should be noted that the inclusion of something comparable to the State's Amortization Equalization Disbursement payment is wholly excluded from the market calculation. The AED payment is intended to stabilize the various segments of the PERA population and ensure that the plan is addressing any unfunded liabilities. To the extent that a comprehensive comparison of the State's retirement benefit to the market would include similar components in each, an adjustment factor that would fund Social Security's unfunded liabilities would reduce the gap between the employer contributions shown below.¹
- Third, the analysis presented in the Annual Compensation Report does not take into account a comparison of the current or future value of retirement benefits. This component would likely be included in a comprehensive analysis of the State's contributions to retirement versus the market.

Components of Pension Benefits	Market	State
Social Security	6.20%	NA
Medicare	1.45%	1.45%
DB/DC Contribution	NA	10.15%
AED for PERA	NA	3.60%
Average Tax Deferred Matching	4.45%	NA
Total Contribution from Employer	12.10%	15.20%

¹ Source: Annual Compensation Survey Report for FY 2014-15

For comparative purposes, the Department has also prepared a table comparing employees' contribution levels for retirement benefits. This analysis includes Social Security, Medicare, Contributions to the Defined Benefit or Defined Contribution plans, and the Supplemental Amortization Equalization Disbursement (SAED). This analysis focuses on required employee contributions, and excludes voluntary contributions made by both State employees and their counterparts in the marketplace to 401 (k) and 457 retirement plans. This table demonstrates that State employees are also required to pay substantially more for retirement benefits than their counterparts.

It is important to note that State statute contemplates the SAED as employee contributions to PERA, rather than as *employer* contributions. C.R.S. 24-51-411 (1) directs the State to reduce employees' appropriated salary growth by 0.5% each year in order to fund SAED payments. In the absence of SAED, it is assumed that State employees' salaries would currently be 3.25% higher.

Table 2 – FY 2013-14 Total Percent Employee Contribution*		
Component of Pension Contributions	Market	State
Social Security	6.20%	NA
Medicare	1.45%	1.45%
DB/DC Contribution	NA	8.00%
SAED for PERA	NA	3.25%
Total Contribution from Employee	7.65%	12.70%

* These figures represent contribution rates for PERA's State division, excluding State Troopers.

Section 2

Resources Necessary for a Thorough Analysis:

The Department and PERA have worked together to estimate the cost of a study to provide a comprehensive picture of PERA's relationship to the total compensation of State employees compared with practices in the prevailing marketplace. Separately, two additional studies will be useful in the discussion of the PERA retirement benefit and the solvency of the fund. As part of its FY 2014-15 budget package, OSPB has set aside \$500,000 to pay for the studies detailed below:

1) A Comprehensive Retirement Benefits Analysis

DPA and PERA worked together to identify an estimate of the resources necessary to perform a comprehensive retirement benefits analysis that could be and should be incorporated into the overall total compensation analysis. It is assumed that additional FTE would not be necessary within DPA to oversee such a study with appropriate contract management, data provision, quality control, and reporting efforts. DPA also believes that, with approval of its FY 2014-15 decision item concerning the annual total compensation study, it can successfully incorporate such an analysis into a comprehensive assessment of total compensation.

Based on informal discussions between PERA and a number of potential vendors, it is estimated that the costs for a comprehensive retirement benefit analysts would range between \$76,000 and \$112,000. Funding for such a study would ideally need to be appropriated in the Department of Personnel & Administration's Division of Human Resources, Employee Benefits Services program line items.

DPA recommends that, given the changing landscape in retirement systems for large employers, this type of analysis should occur at least every five years. Ideally, a biennial study would ensure that policymakers are well-informed of changes in the prevailing marketplace.

2) Analysis of the Cost to Convert Colorado to a Defined Contribution Retirement Benefit

In recent years, much public discussion has centered on the concept of replacing PERA's Defined Benefit plan with a Defined Contribution (or related concept) plan more akin to what exists in the prevailing marketplace. Such a policy change should be accompanied with rigorous analyses that show the impact of the change on prevailing compensation, incremental impacts on the ability to meet unfunded liabilities, and the impact on retirement security. DPA, OSPB, and PERA have determined that a study is needed to allow policymakers and the public to understand more fully the full range of impacts to State employees, retirees, and Colorado taxpayers of moving from the current system to a different one.

3) Analysis to Understand the Impacts of Unmet Actuarial Assumptions

DPA and OSPB also recommend a third study. As with item 2, the discourse surrounding PERA's existing unfunded liability frequently centers on the actuarial assumptions behind the unfunded liability calculation. While much attention has been paid to the assumed 8.0% rate of return on investment, the actuarial modeling of the pension plan is complicated and intricate, with many important assumptions. As the PERA board chooses actuarial assumptions, it performs its due diligence in good faith and with fiduciary duties in mind. Understanding that these are informed estimations, the actual full performance of the assumptions is only known later. As such, the debate on the appropriateness of any particular variable lacks the ability to reach a certain conclusion. Thus, we believe the more appropriate concern is to have the best knowledge of when the failure to meet key assumptions poses serious risk. We believe the State would benefit from an analysis that provides insight into understanding the risks of not meeting key assumptions and the implications thereof. These "trigger" points could prove valuable to managing and understanding the financial solvency of the PERA Trust Fund.

OSPB's \$500,000 FY 2014-15 set-aside assumes that any funds not expended on the "Comprehensive Retirement Benefits Analysis" would be used for the "DB-DC Conversion" and "Actuarial Assumption Trigger" studies.

Additional Points of Consideration

There are a number of areas of concern that will need to be understood and addressed for these analyses to be included in the next year's Annual Compensation Report:

1. DPA, PERA, OSPB and the vendor would have to establish confidentiality agreements with regard to all data involved in this analysis.
2. Contractual relationships between a prospective vendor, DPA, and PERA would need to ensure that PERA remains in compliance with State and federal laws governing trusts. Most likely, any contract would have to be established in DPA, which will require the full Request for Proposal (RFP) process. This process can be time consuming. Under the best case scenario, the Department would take approximately three to four months to get the vendor in place.
3. Some data that would be considered crucial for an accurate and complete analysis may not be easily obtained. This could drive unforeseen costs in the proposed studies, or limit their ultimate usefulness.
4. To the extent that the State's data is relatively easy to incorporate into the vendor's models and the analysis necessary to establish commonalities and areas of comparison is not extremely complicated, the State would not require additional FTE to process the information going to and coming from the vendor. However, due to the relatively unknown set of knowledge, skills, and abilities required to facilitate this type of analysis, the Department may require additional temporary resources to adequately address the needs of the vendor and provide a comprehensive analysis.

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

Sincerely,



Kathy Nesbitt
Executive Director
Department of Personnel & Administration

Cc:

Senator Mary Hodge, Joint Budget Committee
Senator Kent Lambert, Joint Budget Committee
Representative Crisanta Duran, Vice-Chair, Joint Budget Committee
Representative Jenise May, Joint Budget Committee
Representative Cheri Gerou, Joint Budget Committee
John Ziegler, Joint Budget Committee, Staff Director
Alfredo Kemm, Joint Budget Committee, Staff
Joy Huse, Joint Budget Committee, Staff
Erick Scheminske, Office of State Planning and Budgeting, Deputy Director
Cassie Rutter, Office of State Planning and Budgeting, Staff

Appendix D: Employee Reserve Account Balances

Employee Reserve Sub-Accounts		
	Balance	% of GF Salary Appropriation
Agriculture	\$3	0.0%
Corrections	2,515	0.0%
Education	276,162	2.2%
Governor's Office	n/a	n/a
Health Care Policy/Financing	45,399	0.6%
Higher Education	n/a	n/a
Human Services	694,682	0.6%
Judicial	n/a	n/a
Labor and Employment	n/a	n/a
Law	25,137	0.3%
Local affairs	4	0.0%
Military and Veterans Affairs	192,252	8.1%
Natural Resources	150,765	1.0%
Personnel	281,750	4.2%
Public Health and Environment	14,472	0.2%
Public Safety	99,560	0.5%
Regulatory Agencies	7,249	0.6%
Revenue	533,395	2.0%
State	n/a	n/a
Transportation	n/a	n/a
Treasury	<u>134,045</u>	<u>11.7%</u>
TOTAL	\$7,457,390	.33%