COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2014-15 STAFF FIGURE SETTING

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 Department of Personnel produces an Annual Compensation Survey Report by August first to compare the State's compensation to prevailing market rates. 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. In FY 2014-15, the Department argues that state salaries lag market salaries by 3.8 percent.

Once the Annual Compensation Survey Report is finalized, the Department of Personnel works with the Office of State Planning and Budgeting to build the total compensation request for the following year, and directs executive agencies to apply consistent policies in their budget requests. During the annual budget process, the Joint Budget Committee and the General Assembly finalize compensation common policies, which accomplish the following objectives:

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

This figure setting packet focuses on compensation common policies for executive agencies which represent 58.0 percent of estimated state-wide compensation expenditures. Higher education institutions and the legislative branch 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, thus are not bound by the same rules. It is important to consider that compensation common policy decisions will impact their expenditures.

All of the staff recommendations in this document are based on the objective of providing state employees with prevailing compensation, based on the statutory guidance in Section 24-50-104 (1), 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. For purposes of this section, "total compensation" includes, but is not limited to, salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.*

Summary: FY 2014-15 Request and Recommendation

Compensation Common Policies	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2013-14 Appropriation						
Salaries, PERA, Medicare	$1,600,947,157	$828,789,792	$407,400,714	$180,475,572	$184,281,079	$845,545,921
Health, Life, and Dental	181,354,836	102,516,051	40,411,565	19,963,777	18,463,443	105,837,790
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
Shift Differential	12,564,464	10,260,909	534,891	1,720,758	47,906	11,038,909
Short-term Disability	2,703,481	1,380,683	688,086	317,981	316,731	1,414,538
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 Recommended Appropriation						
Salaries, PERA, Medicare	$1,694,859,455	$874,005,113	$445,520,389	$184,146,239	$191,187,713	$895,853,915
Health, Life, and Dental	184,389,449	102,653,125	42,303,381	20,914,446	18,518,497	105,814,788
AED	63,393,135	34,150,482	14,968,385	7,199,425	7,074,842	34,991,204
SAED	59,431,065	32,016,076	14,032,862	6,749,462	6,632,665	32,804,253
Salary Survey	42,602,984	24,659,256	10,463,131	3,891,936	3,588,662	25,086,501
Merit Pay	23,972,413	12,836,316	5,660,398	2,850,889	2,624,810	13,157,825
Shift Differential	13,482,395	10,873,461	635,243	1,923,447	50,244	10,873,461
Short-term Disability	3,391,378	1,841,020	789,747	386,331	374,281	1,896,205
TOTAL	**$2,085,522,274**	**$1,093,034,849**	**$534,373,536**	**$228,062,175**	**$230,051,714**	**$1,120,478,152**
Increase/(Decrease)	$123,735,704	$68,834,076	$40,424,023	$6,302,023	$8,175,582	$73,274,365
Percent Change	6.3%	6.7%	8.2%	2.8%	3.7%	7.0%
FY 2014-15 Request:	**$2,084,291,414**	**$1,094,417,635**	**$534,595,879**	**$225,329,648**	**$229,948,252**	**$1,121,969,542**
Recommendation Above/(Below) Request	0.1%	(0.1%)	0.0%	1.2%	0.0%	(0.1%)

Base Salary Estimate

Base Salary Estimate	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
TOTAL	**$1,430,709,734**	**$740,331,351**	**$363,818,252**	**$161,484,290**	**$165,075,841**	**$756,836,869**
FY 2014-15 Recommended Appropriation:						
Base Salary Estimate	$1,512,055,673	$778,933,115	$396,899,193	$164,953,806	$171,269,558	$798,510,892
TOTAL	**$1,512,055,673**	**$778,933,115**	**$396,899,193**	**$164,953,806**	**$171,269,558**	**$798,510,892**
Increase/(Decrease)	$81,345,939	$38,601,764	$33,080,941	$3,469,516	$6,193,717	$41,674,023
Percentage Change	5.4%	5.0%	8.3%	2.1%	3.6%	5.2%
FY 2014-15 Request:	**$1,512,055,673**	**$778,933,115**	**$396,899,193**	**$164,953,806**	**$171,269,558**	**$798,510,892**
Recommendation Above/(Below) Request	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

This common policy establishes a standard method for JBC staff to calculate the base salary need for the following fiscal year, also known as the base salary estimate. The JBC has generally followed the same calculation method, with minor variations, since FY 1995-96. This is summarized by the table below:

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 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 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 the 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 $2.3 million, which represents 0.33 percent of state-wide General Fund appropriations for base salaries in FY 2013-14. The following table details salary reversions to this account:

Employee Reserve Sub-Accounts		
	Balance	**% of GF Salary Appropriation**
Agriculture	$148	
Corrections	12	
Education	198,535	1.6%
Health Care Policy and Financing	14,583	0.2%
Human Services	539,664	0.4%
Law	90	
Local Affairs	1	
Military and Veterans Affairs	20,847	0.9%
Natural Resources	1,022	1.0%
Personnel	12,225	0.2%
Public Health and Environment	4	
Public Safety	211,506	1.1%
Regulatory Agencies	7,249	0.6%
Revenue	1,311,240	4.8%
Treasury	28,914	2.5%
TOTAL	**$2.346,040**	**0.3%**

Request

The base salary estimate for FY 2014-15 is $1.5 billion total funds, approximately 5.4 percent higher than the FY 2013-14 appropriation. JBC Staff reviewed all OSPB initiated adjustments to the salary snapshot and did not find any issues.

Recommendation: **Staff recommends the Committee use the established calculation of base salaries, described above, and continue the policy of not applying a vacancy savings reduction.** This allows vacancy savings to be recycled into employee pay raises through the Employee Reserve Fund.

Retirement benefits

Retirement Benefits – Statutory Increases	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2013-14 Appropriation:						
AED, SAED	$100,956,431	$51,565,669	$25,969,946	$11,678,886	$11,741,930	$52,790,816
TOTAL	**$100,956,431**	**$51,565,669**	**$25,969,946**	**$11,678,886**	**$11,741,930**	**$52,790,816**
FY 2014-15 Recommended Appropriation:						
AED	$63,393,135	$34,150,482	$14,968,385	$7,199,425	$7,074,842	$34,991,204
SAED	59,431,065	32,016,076	14,032,862	6,749,462	6,632,665	32,804,253
TOTAL	**$122,824,200**	**$66,166,558**	**$29,001,247**	**$13,948,887**	**$13,707,507**	**$67,795,457**
Increase/(Decrease)	$21,867,769	$14,600,889	$3,031,301	$2,270,001	$1,965,577	$15,004,641
Percentage Change	21.7%	28.3%	11.7%	19.4%	16.7%	28.4%
FY 2014-15 Request:	**122,276,415**	**66,440,275**	**28,891,732**	**13,297,568**	**13,646,841**	**67,312,423**
Recommendation Above/(Below) Request	0.4%	(0.4%)	0.4%	4.9%	0.4%	0.7%

Contributions to PERA provide retirement benefits to state employees, and replace social security payments. Regular employer contributions are funded through personal services line items, or line items that fund FTE. Additional payments, to improve the ratio of assets to liabilities, are made through the Amortization Equalization Disbursement and Supplemental Amortization Equalization Disbursement line items. These payments are required until the funded ratio (assets to liabilities) reaches 103 percent. At that time the contribution rates for the associated trust fund could be modified. Based on the 2012 Comprehensive Annual Financial Report, these payments will be required at the statutorily defined rates for at least 36 years.

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%

AED (Amortization Equalization Disbursement)

Pursuant to Section 24-51-411, C.R.S., the State contributes additional funds to assist in the amortization of the Public Employees' Retirement Association's (PERA) unfunded liability. During the 2005 legislative session the General Assembly created a separate line item to provide funding for this purpose. The AED rate increases 0.4 percent each calendar year until it reaches the maximum contribution rate of 5.0 percent for the calendar year 2017.

Request

The FY 2014-15 request for $63.4 million total funds reflects a statutory 0.4 percent scheduled increase in the Amortization Equalization Distribution obligation, and a contribution rate of 4.0 percent of base salaries.

Staff recommends the request, at a slightly higher amount due to a higher recommendation for salary survey. The budget request for AED and SAED line items has consistently reflected a blended rate of 6 months for each year. Staff calculated the difference between the request amount, and a blended rate which reflects the pay date shift (seven months of the 2014 rate and five months of the 2015 rate). The total General Fund difference was minimal, approximately $500,000 or 0.90 percent of requested General Fund appropriations. Since this request reflects an appropriation based on a salary estimate, staff reasons the request amount is appropriate and consistent with the policy of both OSPB and Office of Legislative Council fiscal note assumptions.

SAED (Supplemental Amortization Equalization Disbursement)

The FY 2014-15 request for $59.4 million total reflects a statutory 0.5 percent increase in the Supplemental Amortization Equalization Distribution obligation, and a contribution rate of 3.75 percent of base salaries. Pursuant to statute, the SAED contribution is from money that would otherwise go to state employees for salary increases. **Staff recommends the request, at a slightly higher amount due to a higher recommendation for salary survey.**

Salary Adjustments

Salary Adjustments	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2013-14 Appropriation:						
Salary Adjustments	$78,528,146	$41,329,261	$20,167,288	$9,641,917	$7,389,680	$43,029,260
TOTAL	**$78,528,146**	**$41,329,261**	**$20,167,288**	**$9,641,917**	**$7,389,680**	**$43,029,260**
FY 2014-15 Recommended Appropriation:						
Salary Survey	$42,602,984	$24,659,256	$10,463,131	$3,891,936	$3,588,662	$25,086,501
Merit Pay	23,972,413	12,836,316	5,660,398	2,850,889	2,624,810	13,157,825
Shift Differential	13,482,395	10,873,461	635,243	1,923,447	50,244	10,873,461
Short-term Disability	3,391,378	1,841,020	789,747	386,331	374,281	1,896,205
TOTAL	**$83,449,170**	**$50,210,053**	**$17,548,519**	**$9,052,603**	**$6,637,997**	**$51,013,992**
Increase/(Decrease)	$4,921,024	$8,880,792	($2,618,769)	($589,314)	($751,683)	$7,984,732
Percentage Change	6.3%	21.5%	(13.0%)	(6.1%)	(10.2%)	18.6%
FY 2014-15 Request:	**$75,483,145**	**$46,009,039**	**$15,950,913**	**$7,770,035**	**$5,753,158**	**$47,563,364**
Recommendation Above/(Below) Request	10.6%	9.1%	10.0%	16.5%	15.4%	7.3%

SALARY SURVEY AND MERIT PAY

Request

The Governor's request includes $34.7 million total funds for a 1.5 percent across-the-board salary survey increase, up to the range maximum, and some pay range adjustments. The merit pay request includes $23.8 million total funds for merit pay awards ranging from 0.0 percent to 2.4 percent. The following matrix is used to determine individual employee merit pay increases, based on performance ratings:

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 above the third quartile of the salary range are not base building, and are awarded as a lump sum payment. The Department of Personnel estimates an average increase of 1.5 percent will be awarded through the merit pay matrix for FY 2014-15. For employees who are exempt from the classified system, the Governor proposes the same 1.5 percent increase.

Recommendation

Staff recommends an average increase of 3.5 percent, including a salary survey increase of 2.0 percent, applied up to the range maximum, and the requested average 1.5 percent Merit Pay increase. When reviewing salary survey estimates for increases and economic indicators, staff calculated a salary increase need from 3.2 percent to 4.0 percent. The recommendation calculation is reviewed in the following table:

Salary Survey and Merit Pay Recommendation	
Measure/Agency	**Increase Estimate**
CPI*	4.6%
ECI	2.8%
World at Work	3.1%
Average	**3.5%**
*blended minimum wage and annual CPI values	

Analysis

While reviewing the request for salary adjustments, staff focused on two components: an analysis of human resources trends in raises for 2014, and an analysis of economic indicators related to wages their relative value from year to year.

Salary Survey Review

The FY 2014-15 request to increase salaries by an average 3.0 percent is similar to salary survey results produced by World at Work, a non-profit human resources association. World at Work publishes the largest salary survey report of its kind, as is frequently referenced by compensation consulting firms. The report analyzes national trends in compensation costs, and salary adjustments and asserts that salaries will increase by 3.1 percent in 2014.

Another human resources firm, Mercer, indicates the average salary increase for 2014 will be between 0.2 and 4.6 percent, depending on employee performance. Based on this data the weighted average of raises is 2.8 percent, 0.3 percent lower than World at Work's estimate. The following table outlines Mercer's estimates compared to the FY 2014-15 request:

Average Base Pay Increases by Performance Level
(based on U.S. companies with a five-point rating scale)

	Mercer		*Colorado*	
	Percent of Workforce	**Average Pay Increase**	**Percent of Workforce**	**Average Pay Increase**
Highest-rated	7%	4.6%		
Next highest-rated (3)	30%	3.5%	23.2%	4.2%
Middle-rated (2)	54%	2.6%	75.8%	3.3%
Low-rated (1)	7%	0.9%	1.0%	2.0%
Lowest-rated	2%	0.2%		
Weighted Average	2.8%			3.5%

Source: *Mercer, 2013/2014 US Compensation Planning Survey.*

Based on this information, a combination of the requested 1.5 percent salary survey increase and merit pay ranges allow for a maximum increase of 3.9 percent for the highest performers, 0.7 percent lower than the industry maximum. An across the board increase of 2.0 percent will bring the total increase range to 2.0 percent through 4.4 percent.

Although the Annual Compensation Survey Report has been subject to intense criticism, it does represent the best tool that the General Assembly has to determine the compensation needs of State employees. The FY 2014-15 Annual Compensation Survey Report (Report) was completed by Segal, a third party firm. Segal benchmarked 43.7 percent more positions representing 79.0 percent of the workforce, included a comparison for health and leave benefits, and implemented the majority of recommendations from the 2013 Audit of the Annual Compensation Survey Report. The Report indicates state salaries lag the market by 3.8 percent.

Included in the FY 2013-14 audit of the Annual Compensation Survey Report was a recommendation for the Department to include an analysis of variable pay, or bonuses. The audit reports the national average for variable pay is 18.8 percent of annual base salaries, and the average for the public sector is 4.6 percent of annual base salaries. Currently, there is no dedicated funding source for this purpose.

The following table compares the salary survey estimates for salary increase in 2014:

Salary Increase Estimates	
Agency	**Estimate**
World at Work	3.1%
Mercer	2.8%
Annual Compensation Survey	3.8%
Average	3.2%
Median	3.3%

Economic Factors Review

The Consumer Price Index(CPI) is often cited as a standard way to measure the cost of goods and services, and how they increase or decrease over time. In prior years, the Annual Compensation Survey Report's recommendation for salary survey increases was related to this measure, specific to the Denver/Boulder/Greeley region. The Office of Legislative Council December 2013 Revenue Forecast estimates the CPI will increase by 2.9 percent in 2014 for the region. From FY 2009-10 through FY 2012-13, State employees did not receive any salary increases, over this same period CPI increased by 7.7 percent. While the FY 2013-14 salary increases will help to decrease the gap between salary and CPI estimated value of salary, an average increase of 3.5 percent would bring employee salaries within 0.6 percent of the CPI estimated value of FY 2009-10 salaries.

In Colorado, the minimum wage is indexed to the annual change in the Consumer Price Index for Denver/Boulder/Greely in the first quarter of the previous fiscal year. From FY 2009-10 through FY 2013-14 the minimum wage increased by 8.7 percent, over that same time period wages for state employees have increased by an average of 3.6 percent. Allowing for an average salary increase of 3.5 percent in 2014-15 will reduce the 5.1 percent discrepancy between state employee increases, and minimum wage employee's increases, as mandated by the State, over the last five fiscal years.

The Employment Cost Index (ECI) is another economic measure that estimates the cost of labor for businesses. This index is used by the federal government when setting interest rates, and determining compensation levels for civil service employee pay grades. From 2009 through 2013, the ECI increased by 6.4 percent. The following table reviews the discussed economic indicators and the estimated required salary increase to align state salaries with FY 2009-10 value:

Economic Indicator Estimate	
Measure	**Increase Estimate**
CPI	4.1%
Minimum Wage	5.1%
ECI	2.8%
Average	4.0%
Median	4.0%

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. This request represents a 7.8 percent increase from the FY 2013-14 appropriation. 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. The majority 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. **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 base salaries. This increase is consistent with increases in recent years. **Staff recommends the request.**

Health, Life, and Dental

Health, Life, and Dental	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Net General Fund
FY 2013-14 Appropriation:						
HLD	$181,354,836	$102,516,051	$40,411,565	$19,963,777	$18,463,443	$105,837,790
TOTAL	**$181,354,836**	**$102,516,051**	**$40,411,565**	**$19,963,777**	**$18,463,443**	**$105,837,790**
FY 2014-15 Recommended Appropriation:						
HLD	184,389,449	102,653,125	42,303,381	20,914,446	18,518,497	105,814,788
TOTAL	**$184,389,449**	**$102,653,125**	**$42,303,381**	**$20,914,446**	**$18,518,497**	**$105,814,788**
Increase/(Decrease)	$3,034,613	$137,074	$1,891,816	$950,669	$55,054	($23,002)
Percentage Change	1.7%	0.1%	4.7%	4.8%	0.3%	0.0%
FY 2014-15 Request:	**$191,672,399**	**$107,963,208**	**$44,232,845**	**$20,115,806**	**$19,360,540**	**$111,239,840**
Recommendation Above/(Below) Request	(3.8%)	(4.9%)	(4.4%)	4.0%	(4.3%)	(4.9%)

This line item pays for the state contribution to health insurance, life insurance, and dental insurance. Employees may choose from four different health benefit packages and two different dental benefit packages. Life insurance coverage of $50,000 is paid for by the State. The vast majority of the appropriations are related to health insurance.

Request: For FY 2014-15 the Health, Life, and Dental request represents a new cost allocation to more appropriately match prevailing market rates. The State will now pay 80.0 percent of the cost of insurance premiums, an increase from 75.0 percent for FY 2013-14. The Department has received new information since the November request about projected total premiums and will be submitting a budget amendment by the January 15, 2014 deadline. The following table outlines the contribution rates approved for FY 2013-14:

FY 2013-14 Health Premiums	Employer	Employee Share – Estimated			
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

Recommendation: **Staff recommends the committee apply the FY 2013-14 HLD rates for the recommendation and the requested FY 2014-15 fund splits.** Based on information provided in the Department's Hearing with the JBC, the cost shift request will be accomplished by investing the excess reserve of the Group Benefits Reserve Fund to offset premium rate increases. However, staff does not have official information, so there may be technical errors that need to be corrected by staff during figure setting. In lieu of a material change contained in the budget amendment submission, JBC staff will continue to apply the approved policy for HLD rates for figure setting in FY 2014-15.

Compensation Assumptions for New FTE

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 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 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.

Long Bill Footnotes and Requests for Information

REQUESTS FOR INFORMATION

In response to this request for information, the Department submitted a letter outlining options for a comprehensive study of PERA, and the Governor's request set-aside $500,000 General Fund for this purpose. The following report options were included in the RFI report:

1) A Comprehensive Retirement Benefits Analysis
2) Analysis of the Cost to Convert to a Defined Contribution Retirement Benefit
3) Analysis to Understand the Impacts of Unmet Actuarial Assumptions

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 and/or performance audit of the benefit conducted by a private firm selected by the Office of the State Auditor. Currently, the annual compensation survey report is 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 eight years since policy changes require a statutory change. A study of PERA has not been performed since 2001. The Governor's request for FY 2014-15 has set aside $500,000 for this purpose. The evaluation should accomplish the goals set forth by the RFI in report option two and three, and include a comparison of PERA benefits, cost, and portability with other defined benefit and defined contribution retirement plans for public and private sector employees in Colorado and other states, including social security, and a review of the effectiveness of retirement plan designs for attracting and retaining qualified state and school employees.

The RFI indicated that option one will be addressed in a pending decision item. The decision item, and associated funding needs, will be presented during Figure Setting for the Department of Personnel.