MEMORANDUM

JOINT BUDGET COMMITTEE

TO	Executive Committee Members
FROM	Craig Harper, JBC Staff Director (303-866-3481)
DATE	February 6, 2024
SUBJECT	JBC Common Policies for State Employee Compensation for FY 2024-25

STATEWIDE COMPENSATION POLICIES FOR STATE EMPLOYEES

In late January, the Joint Budget Committee (JBC) annually votes on common policies related to state employee compensation for the next fiscal year. JBC staff then apply these common policies to all related line item appropriations for the next fiscal year for all Executive and Judicial agencies. This allows the JBC to understand the full fiscal impact of these policies prior to finalizing its budget proposal. The JBC may choose to modify these policies if warranted based on the General Fund revenue projections selected for budget balancing (to be released on March 15, 2024, for FY 2024-25).

Typically, legislative agencies also apply the JBC's compensation common policies when proposing their budgets to their oversight committees and ultimately to the Executive Committee. Thus, this memo seeks to inform a similar common policy decision for the Executive Committee.

JBC COMPENSATION COMMON POLICIES FOR FY 2024-25

On January 29, 2024, the JBC adopted most of the common policies for state employee compensation (all of the compensation policies other than salary adjustments) for FY 2024-25. On February 1, the Committee approved the common policy for salary adjustments for state employees. The following sections discuss the policies approved by the JBC for FY 2024-25.

SALARIES

The implementation of the new step system for classified employees as a result of the Partnership Agreement negotiated with COWINS complicates the common policy discussion for FY 2024-25. The request from the Executive Branch (approved by the JBC) includes three major components that are relevant to the Executive Committee's discussion for legislative employees:[1]

- *Across-the-Board Increase:* A 3.0 percent across-the-board increase (and salary range adjustment) for *all* employees, including those covered by the Partnership Agreement as well as those who are not covered.
- *Step Plan:* Implementation of the step plan for employees *covered* by the Partnership Agreement (classified employees in the Executive Branch), which provides both targeted salary range increases for specific occupational groups[2] and moves employees' salaries within their salary range based on time in job series. As requested by the Governor and recommended by the JBC, the steps will provide increases for eligible employees above the 3.0 percent across-the-board increase. As the Legislative Department has *no* covered employees, this component is not directly relevant to the

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[1] The request and recommendation also include an increase of the minimum wage for state employees from $15.75 per hour in FY 2023-24 to $16.22 per hour in FY 2024-25.

[2] See Appendix A of this JBC Staff document: https://leg.colorado.gov/sites/default/files/fy2024-25_comfig1.pdf.

common policy for legislative employees. However, the presence of the step plan for covered employees drove the "step-like" increases for non-covered employees discussed below.

- *Step-like Increase:* A 3.7 percent "step-like" increase (in addition to the 3.0 percent across-the-board increase) for salary funding associated with *non-covered* employees. It is staff's understanding that the Department of Personnel calculated the additional 3.7 percent increase as the average additional increase across all covered employees according to the step plan. For the Legislative Department, staff assumes that the allocation of this additional funding would be discretionary for agency directors and managers rather than another across-the-board increase that would apply to all employees. This component of the request, including the impact on the Legislative Department, drove much of the JBC's common policy discussion.

The combination of the across-the-board increase and the step-like increase results in a 6.8 percent increase in salary funding associated with non-covered employees. Similar to the step system, legislative staff assume that the allocation among employees would vary based on the amounts necessary to place employees appropriately within benchmarked salary ranges, although the allocation would be discretionary rather than automatic.

The JBC approved the Governor's proposal as requested, including the across-the-board increase, the step plan implementation, and the step-like increase. Traditionally, the Executive Committee has adopted the same common policy for the Legislative Branch as the JBC adopted for the Executive Branch. Given that the Legislative Branch has no covered employees, the components that would apply to the Legislative Department would be the across-the-board increase and the step-like increase. **The request estimates that these changes will require $4,149,118 General Fund for the Legislative Department.**

If a legislative agency has benchmarked legislative employee salary ranges to the classified system, the step-like increase in funding will be necessary to ensure legislative employees' salaries remain competitive with the Executive Branch.

INSURANCE

- *Health, Life and Dental Insurance Benefits.* **The JBC approved the Governor's proposal to increase the employer share of premiums for health, life, and dental benefits.** This will require an estimated $5,526,885 General Fund for the Legislative Department.

  Background: The state contribution for health insurance and dental insurance has four coverage options (employee, employee + spouse, employee + children, and family). Employees may choose from four different health benefit packages and two different dental benefit packages. The health plans range from high deductible plans to co-pay plans from Cigna and Kaiser. The state paid life insurance provides a benefit equal to the employee's annual salary up to a maximum of $150,000. Health insurance premiums are projected to increase from 5.0 percent to 10.6 percent for FY 2024-25, depending on the insurance carrier. State employee premiums were held constant for FY 2020-21 through FY 2022-23 but began to adjust again in FY 2023-24. The request for FY 2024-25 again adjusts both employer and employee premiums and meets the Colorado Workers for Innovative and New Solutions (COWINS) partnership agreement requirement for the State to absorb the first $20 million increase in premiums. Total premiums for health, vision, and dental benefits are estimated to increase by $40.7 million for FY 2024-25, so both employer and employee rates will increase.

- *Short-term Disability Insurance.* **The JBC approved the request to continue funding short-term disability insurance at a rate of 0.15 percent of base salaries.** This will require an estimated $64,227 General Fund for the Legislative Department.

- *Paid Family and Medical Leave Insurance.* **The JBC approved the Governor's request to cover the employer contribution for the required paid family and medical leave insurance (FAMLI) premium for FY 2024-25.** This will require an estimated $192,682 for the Legislative Department.

  Background: In November 2020 voters approved Proposition 118, which establishes a new insurance program that requires Colorado employers and employees to pay a payroll premium to finance paid family and medical leave insurance benefits beginning January 1, 2023. Premium revenues from 0.90 percent of payroll will finance up to 12 weeks of paid leave for eligible employees. Employers are required to cover at least half of the premium (0.45 percent of payroll), with the remainder paid by employees. The Governor proposed appropriations for FY 2022-23 to cover the minimum employer premium of 0.45 percent of payroll. Subsequently, H.B. 22-1133 (Family and Medical Leave Insurance Fund) transferred $57.0 million from the Revenue Loss Restoration Cash Fund to the Family and Medical Leave Insurance Fund Cash Fund (FAMLI Fund) to prepay the State's employer premiums for several fiscal years. In this bill, all appropriations for employer premiums were eliminated.

  The Governor elected to use the transferred funds to cover the full 0.90 percent premium in FY 2022-23, eliminating the need for an employee premium for that year but spending down the balance faster than would have been necessary. For FY 2023-24, the State covered the required 0.45 percent premium, reinstating an employee premium. However, the State continued to use the "pre-paid" funds in FY 2023-24, so the Long Bill did not require appropriations for each department. Senate Bill 23-234 (State Employee Insurance Premiums) transfers at least $35 million from the FAMLI Fund back to the Revenue Loss Restoration Fund at the end of FY 2023-24. Beginning in FY 2024-25, FAMLI will require annual appropriations for each department in the Long Bill. The FY 2024-25 request proposes to maintain the minimum 0.45 percent employer premium, resulting in the estimated cost of $192,682 General Fund for the Legislative Department.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

- *PERA AED and SAED.* **The JBC approved the Governor's request for continued annual appropriations equivalent to 10.0 percent of salaries to reduce the PERA unfunded liability.** Pursuant to S.B. 04-257 and S.B. 06-235, the State contributes 5.0 percent of salaries for amortization equalization disbursement (AED) and 5.0 percent of salaries for supplemental amortization equalization disbursement (SAED). The JBC approved a staff recommendation to consolidate the funding for AED and SAED into a single line item for FY 2024-25. The consolidated line item will require an estimated $2,140,911 General Fund for the Legislative Department.

- *PERA Direct Distribution (SB 18-200).* **The JBC approved the Governor's request for the annual $225 million appropriation for a direct distribution payment to PERA for FY 2023-24.** Each state agency pays a share of the payment for the state employee division of PERA. The Legislative Department's share of the FY 2024-25 payment is $813,975 General Fund. This amount will be appropriated through a single line item in the 2023 Long Bill, so legislative agencies will not need to include any related amounts in their office budgets.