DEPARTMENT OF PERSONNEL AND ADMINISTRATION
FY 2011-12 JOINT BUDGET COMMITTEE HEARING AGENDA

Wednesday, January 5, 2011
9:00 am – 11:00 am

9:00-9:10 INTRODUCTIONS AND OPENING COMMENTS

9:10-9:25 GENERAL OVERVIEW AND QUESTIONS COMMON TO ALL DEPARTMENTS

1. Please identify your department's three most effective programs and your department's three least effective programs, and explain why you identified them as such. How do your most effective programs further the department's goals? What recommendations would you make to increase the effectiveness of the three least effective programs?

   Response: The Department has provided specific areas (not necessarily single programs) that are worth mentioning as three of its most effective. To that end, the Department has identified the following:

   First, the Department identified its Central Services programs as some of the most effective because of the statewide cost savings that are generated through the programs. As one of the State's centralized administrative agencies, the Central Services programs with the Department further its goals by providing superior products and services to its customer agencies in a timely, cost effective manner. In general, the Central Services program is set up to take advantage of the economies of scale that can be generated by consolidating common services and functions into one agency. Statutorily, Central Services programs are only allowed to recover their costs through the rates and fees charged. This eliminates any profit or mark-up on overhead expenses that would be assessed if this work were out-sourced to private companies or institutions.

   Second, the Department has identified its oversight programs as the second area of effectiveness, specifically within the Office of the State Controller and the State Purchasing Office. The Office of the State Controller ensures that the State's financial dealings are recorded and reported accurately and in accordance with State and federal law, as well as generally accepted accounting principles. The State Purchasing Office provides oversight functions that ensure that State agencies are maximizing the use of price agreements. Both of these oversight programs further the Department's goals by providing the information and assistance necessary for State agencies to more efficiently manage their purchasing and financial transactions.

Third, the Department has identified its Common Policy oversight and management as one of its effective programs. One of the many responsibilities that the Department is tasked with is the coordination and provision of statewide common policies and the annual allocation of the costs associated therewith. The common policy program within the Department, which includes Central Services, Risk Management, the Office of Administrative Courts, as well as individuals from the accounting and budgeting offices, has become an effective unit when it comes to identifying statewide needs, developing accurate allocation methodologies, and communicating the pertinent changes with other State agencies.

The Department has identified three of the least effective areas or programs, and they are as follows:

First, within its Division of Human Resources, the Department believes that the human resources oversight programs are not as effective as possible. These programs perform the following for the State:

1. Establish human resources programs statewide to ensure compliance with State and federal law;
2. Maintains the statewide classified workforce and benefits dataset;
3. Ensures the integrity of the State Personnel System by providing training and technical advice to the human resource community and reviewing director's appeals. The section is comprised of two Units: Consulting Services and the Professional Development Center. The Consulting Services Unit is responsible for training and advising the human resource community to mitigate the State's employee liability risk. The Professional Development Center (Training Unit) offers state agencies and employees flexible and interactive training opportunities that include career development, leadership training, and supervisory certificate programs.

Currently, this unit is unable to maximize its effectiveness due to a number of factors. The first factor is a lack of resources, both in funding and in FTE. In addition, the decentralized nature of human resource management within the State has allowed for inconsistencies in transactions and application of policies and rules that could be detrimental to the overall workforce and compliance with law. Furthermore, the lack of a comprehensive personnel management system within the State generates inefficiencies where data is needed to analyze legislative requests and hinders management's ability to make sound business and personnel decisions.

The Professional Development Center is supposed to provide training and workshops to State employees for the development of job-focused skills. The reason why the Department believes that this program is not as effective as it could be is due to the fact that the amount of training it is able to provide in a given year is limited by its appropriation, and not demand. In fact, the Department has made the case that the Professional Development Center should be granted contingency and/or continuous spending authority to accommodate the demand for its services. In any given year, the Professional Development Center grants waivers to agencies seeking training that it could provide at a cost substantially lower than the private industry. The Department believes that the Professional Development Center could provide a vastly expanded array of trainings and workshops more in line with the total needs of the State if it were only granted the resources necessary to do so.

The second area that the Department has identified as one of the least effective is the Colorado Financial Reporting System, or COFRS. The State Controller's Office, within the Department of Personnel and Administration, is responsible for ensuring the timely and accurate reporting of the State's financial transactions and statements. To that end, it is imperative that they have a financial reporting system that is reliable, adaptable, and rather robust. The current financial reporting system, COFRS, is a centralized mainframe batch system that precludes real or near-real time processing of transactions that would improve efficiency of state accounting offices. Since its original implementation in 1991, COFRS has been modified from the original code provided by the system vendor to an extreme extent in order to support the Colorado state government organizational structure, business processes, and interdependent subsidiary systems. Because of these modifications the system can no longer accept updates from the vendor for its core processing functionality. The system comprises hundreds of thousands of lines of complex coding that are written in a programming language that is outmoded and for which competent programmers are becoming scarce. Much of the state staff that currently operates the system is nearing retirement and will take with them the historical knowledge of state business practices and problem solutions. The Department believes that a conversion to a replacement system is inevitable and will only become more difficult over time. The cost to replace the system could range between $50 and $100 million.

Finally, the Department believes that the statewide commuter program could benefit from an administrative restructuring to align it with current practices in other governmental institutions. The Department believes that the current state of the commuter program is such that there is a potential for abuse, possibly negating some of the potential benefit the State may realize through the proper application of the program. To that end, the Department has been working with a number of stakeholders in other State agencies to identify their needs in a commuter program while at the same time balancing the financial and programmatic needs of the State. Stakeholders in the commuting program firmly believe that the benefits gained by the commuter program far outweigh the costs.

2. For the three most effective and the three least effective programs identified above, please provide the following information:

   a. A statement listing any other state, federal, or local agencies that administer similar or cooperating programs, and outline the interaction among such agencies for each program;

      Response:

      1. Central Services: Various state agencies have work units that duplicate the services offered by Central Services. For example, the Department of Revenue operates a mail room and the Department of Transportation operates its own print shop. The Department is not necessarily advocating for the elimination of the services at any of these agencies, but is suggesting that potential efficiencies in processes be vetted through appropriate channels.
      2. State Controller's Office and State Purchasing Office: These functions are likely duplicated at nearly every level of government to some extent. Therefore, outlining the interaction in a comprehensive way may not provide an appropriate perspective for the State as its needs may be different from other levels of government.
      3. Common Policies – the Governor's Office of Information Technology shares the same types of responsibilities as the Department, though they preside over different common policies. The interaction that they have with other State agencies is almost exactly like the Department's due to executive and legislative oversight.
      4. Human Resources Oversight – All departments perform human resource activities and oversight to some extent. The level of assistance provided by the program varies depending upon the nature and ability of the human resource department of the particular agency.
      5. COFRS – the Department of Transportation has an ERP solution that provides similar functionality to COFRS. In addition, a number of other

homegrown applications have been in an attempt to streamline the data that is provided by the Colorado Financial Reporting System.

6. Commuter Program – no overlap.

b. A statement of the statutory authority for these programs and a description of the need for these programs;

Response:

1. Central Services: 24-30-1101 thru 1117 C.R.S, 24-1-136.5; 24-82-101 through 103; 24-30-1303; 18-9-117 C.R.S. The Central Services programs use volume to generate discounts for all of its customer agencies – the greater the volume, the greater the savings generated for the State. To that end, any change that increases the amount work processed though Central Services will generate savings somewhere in the State.
2. State Controller's Office and State Purchasing Office: 24-30-201 C.R.S., and 24-101-101 C.R.S., respectively. The State Controller's Office is able to perform as effectively as it does due to the knowledge, ability, and dedication held by its current staff. However, as accounting requirements and the State's financial systems become more complex and additional work is required of the State Controller's Office, additional resources may be required to maintain the current level of effectiveness. In addition, the State should consider succession planning for those positions within the State Controller's Office that are vital to the financial strength of the State.
3. Common Policies – 24-50-601 thru 618 C.R.S. (employee benefits), 24-30-1504 C.R.S. (Risk Management), 24-30-1101 thru 1117 C.R.S, 24-1-136.5; 24-82-101 through 103; 24-30-1303; 18-9-117 C.R.S (Central Services), 24-30-1001 through 1003 C.R.S. (Office of Administrative Courts). The Department has a number of individuals who are, in whole or in part, dedicated to the development of statewide common policies. Due to the complicated nature of common policies, this program depends on depth of knowledge and succession planning to ensure the ongoing effectiveness of the program.
4. Human Resource Oversight – 24-50-101 C.R.S. This program would benefit from additional FTE and spending authority to more effectively perform outreach and training on human resource issues.
5. COFRS – 24-30-201, et seq. C.R.S. The State needs to begin the process of replacing the current financial reporting system. This process will take years and millions of dollars. It is not possible to get a firm estimate of the

cost of replacing the financial system without specifications and bids from potential contractors. However, the Department assumes that a ballpark estimate of the cost is somewhere between $50 and $100 million.

6. Commuter Program – 24-30-1113 C.R.S. This program needs to be examined for potential efficiencies in oversight and administration. No additional resources are needed at this time.

c. A description of the activities which are intended to accomplish each objective of the programs, as well as, quantified measures of effectiveness and efficiency of performance of such activities; and

d. A ranking of the activities necessary to achieve the objectives of each program by priority of the activities; and

Response: The success of Central Services is gauged on the satisfactory performance of an innumerable amount of tasks and procedures which are performed on a daily basis. Central Services gauges its success on the satisfaction of its customer agencies and the amount of work that is processed through its programs on an annual basis. To that end, the Department's customers' feedback and the growth of services provided are the primary quantifiable measures of success. In the current fiscal year, it is worth noting that the City of Denver sought out the services of the Integrated Document Solutions program to handle much of its printing, copying, and mail work. This generated savings for both the City of Denver and the State of Colorado. This is just one of the many successes of the Central Services programs.

Much like the Central Services programs, there aren't any specific over-arching tasks or activities that define the State Controller's Office or the State Purchasing Office. Ultimately success at the State Controller's Office is measured through the successful completion of the State's Comprehensive Annual Financial Report and unqualified audit opinion on the State's financial statements. For the thirteenth consecutive year the State of Colorado was awarded a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. For

the State Purchasing Office, success is measured by the utilization of the State's purchasing agreements. Much like Central Services, greater use of the State's price agreements means more money saved by the State through cost avoidance.
The Statewide common policy program within the Department provides services to individual State agencies through its assessment and allocation of a number of common policies. Success with the common policy program is defined by the ability of the allocations and assessments to withstand the scrutiny of federal cognizant agencies. In addition, the Department gauges its success through the clarity of presentation of each policy to state agencies. Part of this process is working with each agency to ensure that their allocations are understood and justifiable.

The Department's human resources oversight program performs a number of duties and tasks that are specifically designed to avoid the pitfalls of employee liability and risk. In addition, the program is charged with maintaining informational databases regarding the State's classified system. Ideally, this program would also include the technology and processes that are required to implement a comprehensive personnel management system. Success is defined in the human resources oversight programs by a number of measures. First, the infrequency of litigation and settlements experienced through-out a given fiscal year is a good indication that this program is performing effective outreach and training where employee liability issues may arise. Second, the ability of the Department to accurately and rapidly respond to any request regarding the State's classified system is a good measure of the health of the division's statewide databases. Finally, as the State does not have a centralized human resources function or the personnel management system that would be required to operate effectively, there aren't any performance measures that can be summarized for that function.

For the COFRS replacement, the Department has been working with OIT for the past few years to identify the appropriate alternatives and the associated resources necessary to maintain the current system and support levels. This effort has been a challenge given the recent and pending retirement of all staff supporting COFRS.

For the commuter program, the Department must take the appropriate steps to work with each stakeholder to ensure that an adequate alternative to the commuter car program is developed. Success in this area will be defined by a solution that balances the State's programmatic and financial needs, provides the services that are needed by each agency, and satisfies the Department's responsibility to manage the administration of the commuter program.

e. The level of effort required to accomplish each activity associated with these programs in terms of funds and personnel.

Response: Central Services: $84,200,192 in Funds, 192.8 FTE
State Controller's Office: $2,835,967 in Funds, 37.2 FTE
State Purchasing Office: $828,047 in Funds, 13.0 FTE
Common Policies: 1.0 dedicated FTE and various allocated FTE from program, accounting, and administration. $250,000 estimated total funds.
Human Resources Oversight: $1,428,077 in Funds, 14.7 FTE
COFRS: Estimated between $50 and $100 million, unknown FTE
Commuter Program: $3,339,586 Statewide, per FY 2008-09 estimates

3. Detail what could be accomplished by your Department if funding for the department is maintained at the fiscal year 2009-10 level.

Response: In its capacity as a statewide service provider and oversight entity, the Department is able to impact the efficiency and effectiveness of the State's business operations. If held to the FY 2009-10 appropriation levels, the Department would be limited in its ability to achieve economies of scale through consolidated services. Additionally, financial and human resources related oversight, which provides guidance to State agencies to mitigate financial losses or risk of litigation, would be diminished.

Centralized Services

The Department provides services to other state agencies and is only able to do so up to the funding levels of the program, even if the demand for the services is greater than funding allows. The Department provides consolidated services because it is able to do so at a lower cost, or in a more efficient manner than if each agency were to undertake the service. Because the Department provides cost effective services, limiting the Department's funding levels to FY 2009-10 without reducing the need for the services statewide would be detrimental to Department and statewide business operations.

Oversight

A large component of the Department provides oversight and guidance for statewide business activities. Maintaining Department appropriations at the FY 2009-10 levels would effectively limit the Department's ability to provide oversight on both financial and human resources related issues. The Department believes that limiting oversight would be detrimental to state business, especially during an economic downturn.

4. How much does the department spend, both in terms of personnel time and/or money, dealing with Colorado WINs or any other employee partnership group? Has the level of resources dedicated to this effort changed in the past five years?

Response: The Department has estimated the number of hours spent on activities that involved the employee partnership organizations over the past three fiscal years at 1,733 hours. The associated cost of these hours is $5,039 in FY 2007-08, $19,030 in FY 2008-09 and $17,670 in FY 2009-10. As described below, a portion of these hours would have been spent whether the employee partnership existed or not.

The Department spent time on the employee partnership groups in three primary areas:

Total Compensation - the Department consulted with representatives from Colorado WINS and ACSPP on the total compensation process. This effort essentially replaced the former Total Compensation Advisory Counsel. While this effort took more resources than historically spent with TCAC in any given year, there was likely more input provided and resulting changes this year than in the past.

Workplace issues - the Department worked with Colorado WINS and ACSPP on various workplace issues which primarily focused on rule making changes related to selection. This process allowed for significant input from all stakeholder groups, including employees and H R Directors into the rule making process.

Medical and Dental RFP - the Department worked with Colorado WINS, ACSPP, and selected programmatic experts within state agencies on the RFP and selection of providers of medical and dental benefits for state employees.

In each of the above topic areas, the Department would need to outreach to employees in order to fulfill its statutory obligations. The employee partnership groups provided a vehicle to do so. While a standard practice, this input may have required more resources internal to DPA than has been devoted to this effort historically. It is difficult to determine how much of the resources were directed to ongoing activities vs. activities exclusive to the partnerships.

9:25 – 9:40 RISK MANAGEMENT

5. Are there situations under which the State could better insure a specific type of liability with private insurance rather than self-insurance?

Response: Generally, the answer to this question is no. The most fiscally advantageous approach for an organization as large as the State is to self-insure to avoid the overhead and profit built into typical insurance premiums. However, as indicated below, there are some instances where excess insurance is prudent to limit liability.

a. Has the Department considered cost cap insurance?

Response: Yes, the Department has purchased excess insurance to limit the liabilities in the following areas:

1. Automobile Liability (outside of Colorado) - $5 million limit per occurrence with a $250,000 per occurrence self-insured retention.
2. Workers' Compensation - $50 million limit per occurrence with a $10 million per occurrence self-insured retention.
3. Crime Insurance (employee dishonesty) - $10 million limit per occurrence with a $250,000 per occurrence self-insured retention.
4. Property Insurance – purchased on a replacement cost basis to cover all state property.

The Department is currently working with an insurance broker to receive bids for excess liability claims that are governed by the Colorado Governmental Immunity Act. In the past, this type of excess insurance has not proved to be fiscally advantageous, but the Department believes it is prudent to recheck the insurance market and reanalyze this position.

b. How does the State book liabilities in the Controller's Office?

Response: The State does not record liabilities in the State Controller's Office. Rather each program or budgeted activity throughout the State is responsible for recording all accounting transactions related to its program. The only exceptions are certain transfers between the General Fund and the Capital Construction Fund that are not appropriated by department or agency. There are no liabilities related to these transactions.

6. Do the risk management claims include higher education? Do universities need to be more universally concerned with ADA building requirements than other State entities?

Response: Yes, with the exception of University of Colorado, Colorado State University (Ft. Collins), University of Northern Colorado. As of July 1, 2010 Mesa State University and Ft. Lewis University no longer participate in the Workers' Compensation Fund and as of July 1, 2011 they will no longer participate in the Liability Fund. It should be noted that the ability of individual institutions of higher education to opt out of the risk management program, or any program where economies of scale can be applied, may cost the State more money than is absolutely necessary. This is the case for both the rates that are charged and the resources that must be duplicated to execute the program.

In general, it is the Department's position that all State agencies need to be universally concerned with ADA building requirements. Though the need for compliance may be more apparent at individual universities and institutions of higher education due to the volume of individuals that utilize those facilities, it is the Department's belief that all State agencies and institutions should be equally concerned about providing adequate access to all citizens.

7. For Workers' Compensation insurance, please provide a list of the last 10 years of claims, by department (including higher education)?

   Response: Please see Appendix 1.

8. Please describe how the Department of Personnel and Administration decides the amount to bill other departments for liability and property premiums, and workers' compensation insurance.

   Response: ***Workers' Compensation -*** The Department contracts with an actuary to estimate two critical components of the overall workers' allocations for each department. First, the actuary estimates the total current liability the State is facing based upon a three year look-back of actual losses and/or claims by department. Second, using the same loss/claim data, the actuary estimates the allocation for each agency as a percent of the total. The estimated allocations include the percent allocations for each of the entities within Higher Ed. The Department uses the first set of data (total liability) as an input to the total cost to be allocated statewide, and uses the second set (the allocations) as given information that determines the final allocations.

   The Department adjusts the actuary's estimate of total cost by adding two figures. The first is an adjustment that accounts for revised total comp and operating common policy adjustments set independently of the Risk calculation. This process accounts for a very small amount of variation in the overall allocations, as the typical adjustment is comprised of the changes in the Amortization Equalization Disbursement, Supplemental Amortization Equalization Disbursement, Purchase of Services from the Computer Center, Multi-use Network Payments, and other common policies.

   The second figure that the Department adjusts is the estimated increase or decrease that will bring the fund balance for each of the premiums into conformity with what has been generally approved by the Joint Budget Committee. During the FY 2009-10 figure setting, the Committee increased the fund balance reserve to equal 16.5% of total expenditures. Therefore, the Department adjusts the overall amount to be allocated to individual departments by increasing or decreasing the fund balance adjustment.

   Finally, the Department adjusts the costs of the different types of insurance premiums that are included in each of the property and liability allocations. For FY 2011-12, the Department included some adjustments for these premiums as the cost of the coverage either increased or decreased for the same levels of insurance.

Property and Liability – Though property and liability coverage are appropriated in a single appropriation at individual agencies (Payment to Risk Management and Property Funds), the department determines agency-specific allocations for each coverage type. For the liability coverage, the allocation method is the same as the workers' compensation methodology detailed above.

For property coverage allocations, the Department uses internal information to on the total value of buildings and assets held by agency and institute of higher education. From this information, the Department determines the total allocable percentage for each agency and institution as a percent of the State's total holdings.

The total cost that is allocated to departments includes the cost of the insurance policies held by the State, a proportional allocation of risk management's overhead costs (personal services and operating common policies), and any adjustment for the reserve fund balance. Once this total cost has been developed, the Department applies the percentage allocation by agency and institution to determine the final property allocation.

It should be noted that the Department has taken an incentive-based position regarding property claims by individual state agencies. Recently, the legislature passed a bill at the Department's request that increased each agency's deductible from $1,000 to $5,000 per property incident. By increasing the deductible, this change was meant to increase individual department's awareness of potential property claims and incentivize them to take active steps to avoid or mitigate these types of claims.

9. Please describe the Department's efforts for reducing the number of workers' compensation claims.

    Response: The following points illustrate some of the actions taken by the Department aimed at reducing workers' compensation claims:

    1. A pilot program was established to institute functional capacity exams for new hires in physically demanding positions. This will help ensure that a new employee is safely able to perform the essential functions of the position before they are hired.
    2. The Department recently initiated a state-wide defensive driving class to reduce injuries to state employees and reduce liability claims.
    3. Live safety training covering over 45 safety topics are offered at no charge to all state agencies.

4. The Department is currently working to provide on-line safety training to service employees in particularly remote areas or ones that have non-traditional work schedules.
5. The Department's ergonomics program aims to reduce repetitive motion injuries.
6. Risk Management offers an incident investigation training to assist agencies in the investigation of incidents to determine the root cause and prevent similar injuries.
7. Building walkthroughs and inspections to identify unsafe conditions are completed on an as needed basis or as issues arise. These inspections are followed up with a report that outlines a plan of action to address the conditions.
8. Risk Management is working with agencies to develop policies and procedures that use OSHA standards as a guideline.

a. Is the "It's a New Day" program continuing to reduce workers' compensation claims?

Response: Yes. The Department estimates that the "It's a New Day" program has reduced the claims count by 8% in its second year and 4% in its third year in agencies where the program was implemented.

b. If so, can the Department implement the "It's a New Day" program statewide?

Response: Yes. The program was launched statewide to all departments and participating institutions of higher education in October 2009.

c. Are there other options for reducing the number of workers' compensation claims?

Response: The Department believes that there are other options that may result in reductions to workers' compensation claims. They include:

1. Incorporate safety into the job descriptions of supervisors and managers to hold them accountable for creating a safe work environment.
2. Statewide requirements for defensive driving and other specific safety topics.

9:40 – 9:50 TOTAL COMPENSATION

10. Please update the Committee on whether the Department has changed the total compensation survey process for FY 2011-12, and if so, how.

Response: The Department made changes to the annual compensation survey for FY 2011-12; including two primary changes related to salary data comparisons and one to benefits data comparisons. The Department worked with the State's human resources community to identify a core group of state jobs to benchmark against the market in order to confirm appropriate pay comparisons. Based on the 2009 audit recommendations related to data reliability and consistent application of market data, the Department has identified core benchmark jobs that are more common in the market, have a minimum number of data points readily available, and are consistent year-to-year.

Another change for salary data comparisons was to narrow the labor market. Historically, other state governments have been identified as a comparable labor market for the purpose of comparing salary data. For the past two years, all data for matched benchmark jobs collected from other states was included. In the survey for FY 2011-12, data from other state governments was only used for benchmark jobs where sufficient data was not available from survey sources of public and private sector employers within Colorado, primarily those jobs that are unique to state government.

For benefits data comparisons, the FY 2011-12 survey included a comparison of the percentage of employer/employee share of medical and dental plan premiums in addition to the actual dollar amount of the market employer contributions to premiums.

a. How is the Department addressing the concerns in the 2009 audit findings? Has it undertaken any actions in response to those findings, and if so, what are they?

   Response: The Department has implemented either fully or partially all six recommendations from the 2009 audit as outlined below.

   Audit Recommendation #1: Include a comparison of state actual salaries and midpoints with market actual salaries and midpoints in the annual compensation survey analysis and recommendations for salary increases.

   This recommendation was implemented beginning with the FY 2010-11 survey process.

   Audit Recommendation #2: Ensure the reliability of the data used for the annual compensation survey by: (a) purchasing additional salary surveys, to the extent possible, from reputable national firms that have a larger number of participating organizations than surveys currently used; (b) collecting data for only those jobs that are more common in the market and for which data are consistently available on a year-to-year basis.

The selection criteria for third-party survey sources was reviewed and updated for the FY 2011-12 survey. The incorporation of new survey sources to collect valid and qualifying data on core benchmark jobs is ongoing. As noted above, the Department worked with the human resources community to identify core benchmark jobs to survey and will make refinements to the selected benchmarks for future survey cycles. Finally, as part of the process to further refine the selection of core benchmarks, specific jobs have been identified as requiring additional survey data and new survey sources will be incorporated appropriately to address those data needs for in the future.

<u>Audit Recommendation #3</u>: Ensure that market data are applied consistently during the annual compensation survey process by: (a) collecting data for only those 'bellwether' benchmark jobs that are common in the market and have a minimum number of data points readily available on a year-to-year basis; (b) using a benchmark weighting methodology to ensure that all benchmark jobs are given appropriate weighting in any salary analysis completed during the survey process.

As noted above in Audit Recommendation #2, the process for the selection of core benchmark jobs was implemented in the annual survey for FY 2011-12. Benchmark jobs with insufficient market date responses (minimum of five data points) were eliminated from final comparisons.

<u>Audit Recommendation #4</u>: Ensure that market data are applied consistently when conducting the annual compensation survey by: (a) developing and implementing formal guidelines for the application of primary and secondary market data and the relative weighting of public and private sector data for specific job levels and/or occupational groups; (b) using surveys, when possible, that sufficiently break out salary data consistent with the Department's primary and secondary market definitions and by public and private sectors.

Effective with the survey for FY 2011-12, primary emphasis was given to market data from both public and private sector employers within Colorado (primary market). The use of out-of-state data was narrowed to jobs unique to state government (secondary market) where sufficient Colorado market data was not available. As the need for additional data for core benchmark jobs is identified, new survey sources relative to these labor market definitions will be incorporated. Effective with the FY 2010-11 survey, the Department implemented part (b) of the recommendation and continues to examine appropriate data selections for future surveys.

Audit Recommendation #5: Include variable compensation data in the comparison of state actual salaries as discussed in Recommendation #1. Also ensure that, to the extent possible, salary surveys used to conduct the annual compensation survey include sufficient variable compensation data, and that the data are broken out by occupational groups and specific types of jobs.

This recommendation was implemented beginning with the FY 2010-11 survey. Although data were not considered sufficient to draw conclusions in terms of actual pay comparisons, the analysis points to the trend of increasing variable pay budgets, which reflects a shift in emphasis to the use of variable pay in light of current economic conditions and a significant decrease in the percentage of base pay adjustments from a decade ago (page 8 of the *Annual Compensation Survey Report for FY 2011-2012*). The Department will continue collecting data and monitoring these trends.

Audit Recommendation #6: Ensure that the annual compensation survey process complies with federal guidelines and the Sherman Anti-Trust Act by: (a) ensuring that the surveys and data used during the process are consistent with federal guidelines and the Act; (b) evaluating statutory requirements related to the survey process for state troopers to determine if changes are needed to ensure the State's compliance with federal guidelines and the Act, pursuing statutory changes as necessary.

The Department has completed work on this recommendation. While the Sherman Anti-Trust Act may apply to government, its principles have been adopted by the compensation profession and applied as industry standard. The Department determined that a revision to the statutes related to the process for state troopers was unnecessary.

11. The Governor's veto message for H.B. 10-1409 directed the Department of Personnel and Administration to work with the Office of State Planning and Budgeting and other agencies to develop a plan to address the pay progression issue. What is the status of the report?

    a. Please provide a timeline for when the Department will produce the report.

Response: The Department of Personnel and Administration submitted a report to the Office of State Planning and Budgeting in advance of the deadline required by HB 10-1409. The Department must defer to the Office of State Planning and Budgeting as to when that report will be released.

b. Does the Department have any plans for addressing the pay progression issue?

Response: The Department is committed to streamlining the processes and methodologies employed to gauge the appropriate amount of total compensation for all State employees. On an ongoing basis and as appropriate, the Department will work with the new administration and the General Assembly to modify pay progression practices through the annual total compensation submission and other budget actions.

9:50 – 10:05 EXTENSION OF S.B. 10-146 – PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (PERA) CONTRIBUTION SWAP

12. Does the department have an analysis that supports why the PERA contribution swap is a viable budget balancing option? (decreases the State's contribution rate by 2.5 percent and increases the employee's contribution by 2.5 percent)

Response: The Department does not have an analysis that supports whether the PERA contribution swap is a viable budget balancing option. The Office of State Planning and Budgeting within the Governor's Office initiated the PERA contribution swap and the Department defers to that agency for questions regarding the rationale or effectiveness of the action.

a. Is the contribution swap Constitutional?

Response: The Department must defer to the Office of State Planning and Budgeting and the Attorney General's Office for an answer to this question.

b. How do employees feel about this action?

Response: The Department has not received enough feedback from employees to adequately summarize the impact the PERA swap has had on employee morale. It is possible that PERA would have additional information to provide a comprehensive answer to this question.

c. How does the Office of State Planning and Budgeting intend to backfill this amount in FY 2012-13?

Response: The Department must defer to the Office of State Planning and Budgeting for an answer to this question.

13. Has the Governor's Office analyzed the contribution swap's impact on PERA?

Response: The Office of State Planning and Budgeting within the Governor's Office worked with individual state agencies and PERA to determine the statewide impact of the PERA swap. However, since the Department was not involved in these discussions, it cannot answer to the extent to which the impact on PERA was discussed or estimated.

14. How does the action impact AED and SAED contribution amounts?

Response: The PERA swap does not impact the amount of funding required for Amortization Equalization Disbursement or Supplemental Amortization Equalization Disbursement payments. The amount of funding required for these appropriations is a function of total salary and the applicable Amortization Equalization Disbursement or Supplemental Amortization Equalization Disbursement percentage as defined in statute.

10:05 – 10:20 WORKFORCE AND STATE EMPLOYEES

15. Have there been any changes in turnover rates during the time that the State hasn't funded salary survey and performance-based pay increases, as well as the PERA swap that decreases take-home pay?

Response: There have been some changes in the State turnover rates, though not primarily due to salary increases, or lack thereof. The Department used historical turnover rates and salary survey increases to examine if there was a cause-effect relationship from annual compensation survey increases and turnover rates for both overall turnover and voluntary turnover. While there may be a loose correlation between the salary and turnover in any given year, the Department believes that the major driver for employee turnover has been, and continues to be, the overall state of the economy. During times of relative economic strength, the overall turnover rate generally increases due to the availability of jobs in the private and other public sectors. The best example of this would be the relatively high turnover rates beginning in FY 2004-05 and ending in FY 2007-08. Conversely, the State experiences relatively low turnover during times of economic weakness. The best example of this would be the fact that turnover rates hit a 10 year low in FY 2008-09 when the national economy entered the worst recession on record. Turnover rates remained low, though increased marginally, through FY 2009-10 and into FY 2010-11 year-to-date.

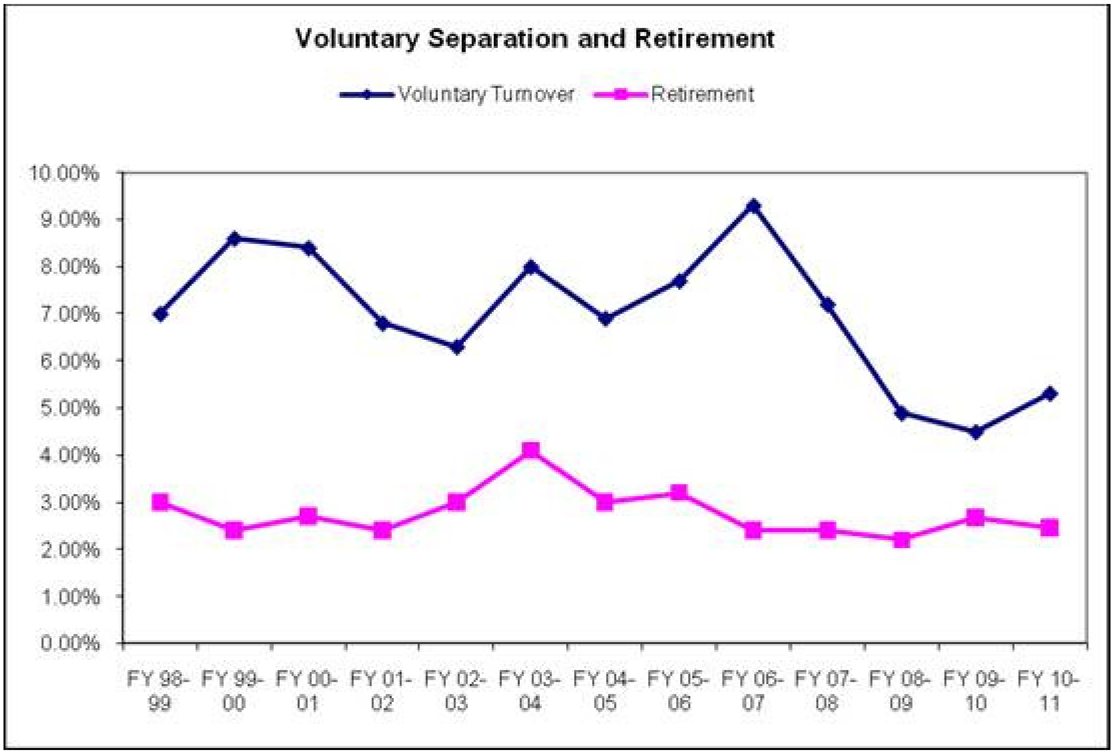
Table 1 – Salary Increases and Turnover Rates

	Total Actual Average Salary Survey Adjustment	Overall Turnover	Voluntary Turnover	Retirement
FY 1998-99	4.02%	9.90%	7.00%	3.00%
FY 1999-00	3.39%	11.10%	8.60%	2.40%
FY 2000-01	3.83%	12.50%	8.40%	2.70%
FY 2001-02	5.20%	12.70%	6.80%	2.40%
FY 2002-03	5.50%	10.50%	6.30%	3.00%
FY 2003-04	0.00%	11.40%	8.00%	4.10%
FY 2004-05	3.00%	12.40%	6.90%	3.00%
FY 2005-06	3.00%	12.30%	7.70%	3.20%
FY 2006-07	3.00%	13.10%	9.30%	2.40%
FY 2007-08	5.07%	11.10%	7.20%	2.40%
FY 2008-09	4.68%	8.40%	4.90%	2.20%
FY 2009-10	0.00%	8.90%	4.50%	2.68%
FY 2010-11	0.00%	8.96%	5.32%	2.46%

a. Does the Department anticipate higher turnover rates in the future, and if so, for what reason?

Response: Yes, the Department anticipates higher turnover rates in the future if the global economic condition shows a positive growth path and the State continues to lag the market in its total compensation package. The following chart and table demonstrate a consistent pattern of higher voluntary separation rates than retirement rates in the past 10 years. Economic theory indicates that employees, in this State workers, will migrate toward institutions (public or private) with better total compensation practices, all else being equal.

Chart 1 – Voluntary Turnover and Retirement



Percent of Retirement Among Eligible Employees

Fiscal Year	Retirement Rate
FY 2006-07	19%
FY 2007-08	20%
FY 2008-09	15%
FY 2009-10	19%
FY 2010-11	15%

16. Does the department have any reports on what the aging state workforce means in terms of the number of state employees? Please provide the Committee with copies of the most recent workforce reports, including those that relate to turnover.

    a. How has the State's workforce changed during the prior ten years?

    Response:

    Workforce Size

    The State responded to adverse economic situations by decreasing its workforce in tight budget years. The following table tracks historical burned full-time-equivalent (FTE) count for both permanent and temporary workforce within general government.

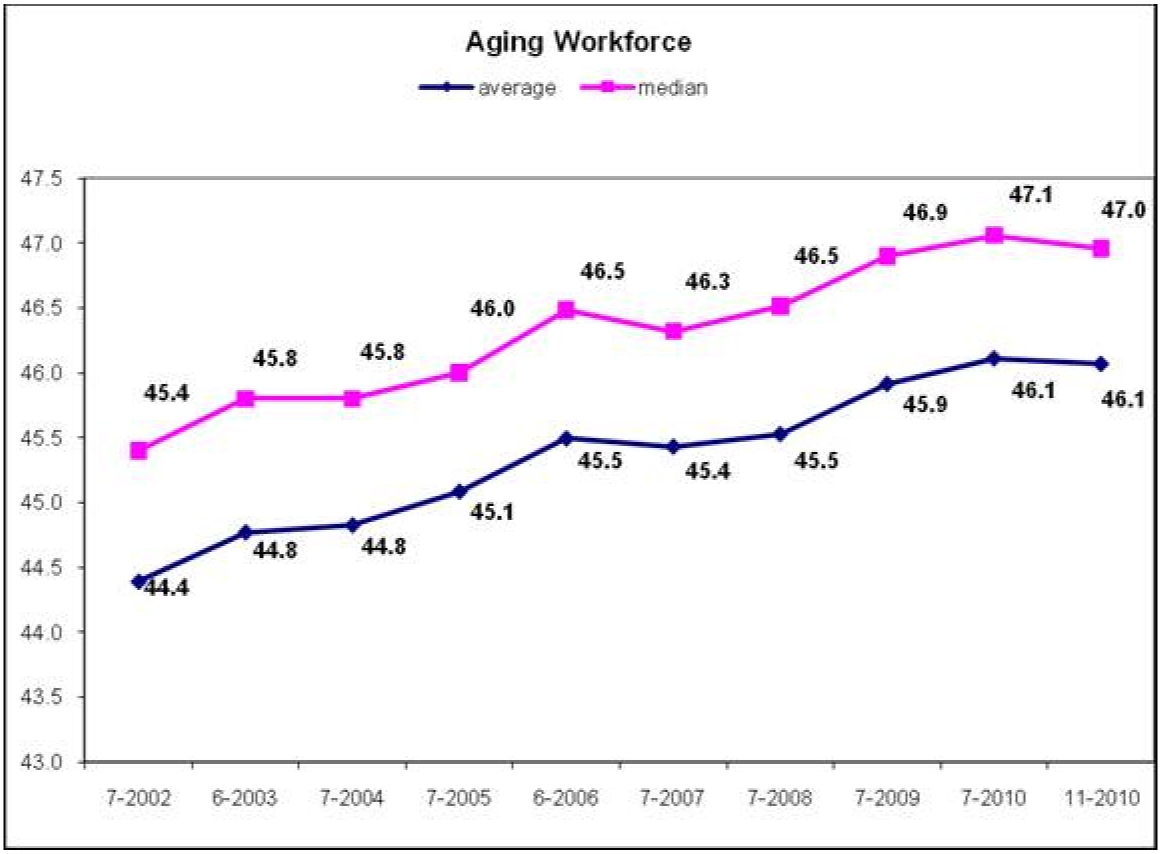
Table 2 – Salary Increases and Workforce Size

	Total FTE	Salary Increases	% Change in FTE
FY 1999-00	26,395	3.39%	
FY 2000-01	26,661	3.83%	1.01%
FY 2001-02	27,350	5.20%	2.58%
FY 2002-03	27,237	5.50%	-0.41%
FY 2003-04	26,686	0.00%	-2.02%
FY 2004-05	26,812	3.00%	0.47%
FY 2005-06	27,064	3.00%	0.94%
FY 2006-07	27,465	3.00%	1.48%
FY 2007-08	28,587	5.07%	4.08%
FY 2008-09	29,269	4.68%	2.39%
FY 2009-10	28,822	0.00%	-1.53%
FY 2010-11	28,755	0.00%	-0.23%

Workforce Demographics

Based on the permanent classified workforce within general government agencies (no higher education classified staff), the Department tracked average and median ages for the past ten years. Like the market, the State workforce has aged probably due to delaying retirement and hiring relatively older new hires. One potential impact from the aging workforce is higher health care cost for the entire organization.

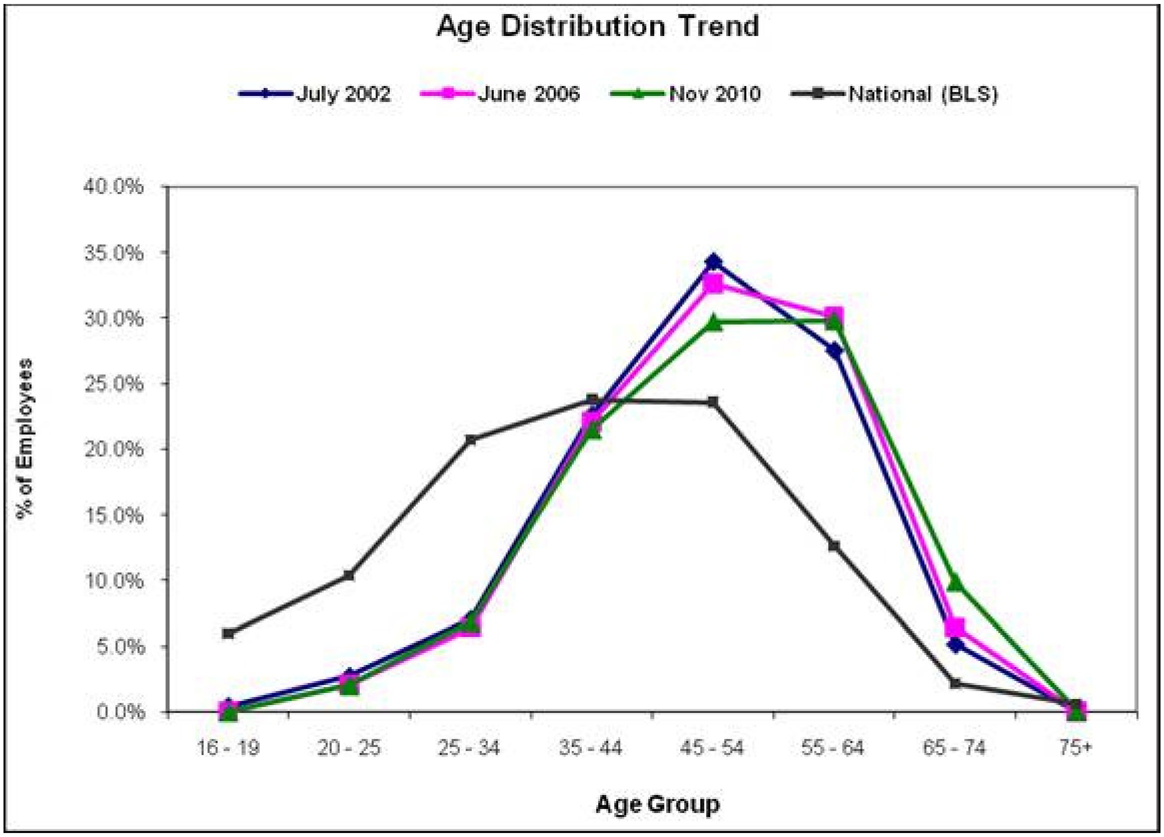
Chart 2 – Aging Workforce



Age Distribution

Chart 3 below further supports the demographic characteristic that the State's workforce on the average is older than the 2006 national statistics as reported by the Bureau of Labor Statistics.

Chart 3 – Employee Distribution by Age Group – State vs. National Trend



b. What is the Department's strategy to address the issue of retiring baby boomers?

Response: As a result of budget cuts last year, the Department cut the staff coordinating statewide workforce planning, including succession planning. Any workforce planning is now occurring at the individual department level. The quality and outcomes of their efforts varies widely depending on the resources available to the agencies.

Optimally, the State's strategies may include the following elements:

1. Identify critical state operations and key roles, and then identify key competencies needed to perform these key roles.
2. Identify potential loss of key competencies due to the retirement of employees or any loss of key high performing talent to other employers.
3. Develop statewide employee development program based on filling recognized 'gaps' in key competencies.
4. Development agency recruitment plans based on filling recognized 'gaps' in key competencies.
5. Analyze fiscal and operational impacts due to loss of personnel and institutional knowledge.
6. Analyze fiscal impact of payouts for retirement (even with incentives), the

operational impact of maintaining vacancies to cover the cost of the payouts, and the cost of hiring new personnel.

7. Develop a paid mentor program that allows for ease of transition and better succession planning where a job's responsibilities are more technical in nature or where institutional knowledge is a primary requirement to the successful completion of the job or responsibilities in question.

The state could also explore the possibility of using phased retirements. This will allow retirement eligible employees to work a reduced work schedule and departments to hire new employees who would be trained by the senior employees. This is not a cost neutral solution, but it will ensure continuity of service during the transition of skills to the new generation of workers.

17. What are the Department's projections for future turnover rates as a result of the aging workforce and an anticipated increase in retirements over the next 5 – 10 years?

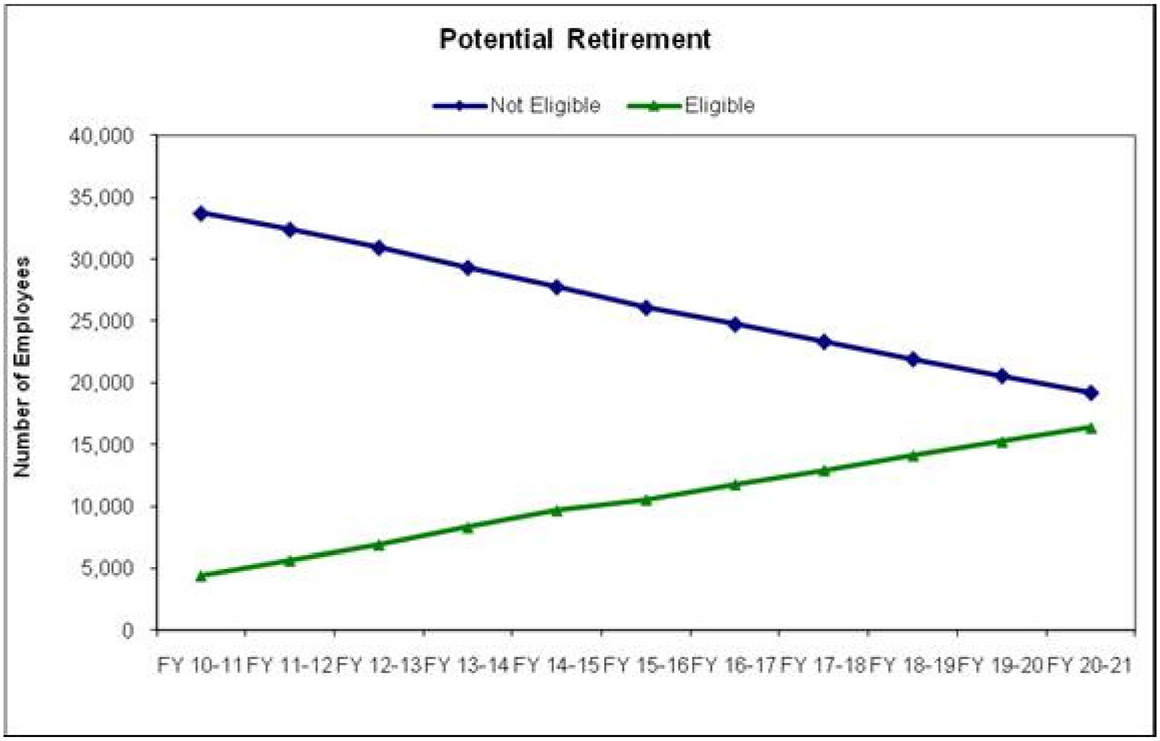
Response: As reported in 15-a, the Department anticipates possible higher turnover rates in the future. Table 3 shows the percents of retirement-eligible employees actually retiring from the State personnel system during the past five years.

Table 3 – Percent of Retirement Among Eligible Employees

Fiscal Year	Retirement Rate
FY 2006-07	19%
FY 2007-08	20%
FY 2008-09	15%
FY 2009-10	19%
FY 2010-11	15%

The Department would like to note the inherent difficulty in projecting retirement rates. This decision is entirely up to the employee and can be subject to a number of economic and personal decisions that cannot be forecasted. However, as a reference for the potential impact of retirements, the Department has prepared Chart 4 using these basic assumptions: 1) continuing 15% of retirement rate for the next four years; and 2) by increasing the rate to 20% for another six years, the State still shows a large portion of the workforce eligible to retire.

Chart 4 – Projected Potential Retirement



18. How do bumping rights work? How many occurrences of bumping have there been in recent years, and why were these necessary?

Response: The term "bumping rights" is an unofficial term used to describe the retention rights of certified and trial service employees (probationary employees do not have retention rights) within the State personnel system who are laid off or demoted as a result of a layoff or the upward or downward allocation of their position. Such employees, based on seniority, performance, and other factors as determined by the department or agency, may "bump" into vacant or occupied positions in order to retain their state classified employment. The State Constitution, state statute and Chapter 7 of the state personnel rules govern how departments and institutions determine an employee's retention rights. The priority order of retention rights is identified in Board Rule 7-18. It is possible for a certified employee to have no retention rights.

Calculation and exercising of retention rights during the layoff process is as follows:

1. The bumping process occurs only 1) after an appointing authority has made business decisions and posted a layoff plan; and 2) when one or more positions are eliminated (Board Rules 7-7 and 7-8).

2. Employees within a class in which positions will be eliminated are placed in three year time bands based on their seniority (Board Rules 7-9 and 7-10).
3. After being placed in time bands, employees are ranked within the separate time bands based on a department's matrix (Board Rules 7-9 and 7-11).
4. Each department must establish a matrix for that department, within the following parameters:
    a. The matrix must give at least 51% of an employee's total value to performance ratings for the past three years.
    b. Employees, within a time band, with lower matrix ratings must be displaced before those with higher matrix ratings within the same time band.
    c. Ties are broken by start date and then application of the affirmative action program under 24-50-101 (3) (e), C.R.S.
    d. Employees within the most junior time bands must be displaced before those in more senior time bands.
5. Once it is determined that a person's position will be eliminated or that person will be displaced by another employee ("bumped"), positions are offered based on the priorities set out in Board Rule 7-18.
6. From start to finish, the minimum amount of time that is required for this process to be executed is 75 days under optimal conditions.

The Department of Personnel and Administration does not have the ability to track all of the "bumps" that have occurred throughout the state in the last year or years. However, it can respond with the number of times "bumping" has occurred within its own Department. In FY 2009-10, the only time a layoff process was implemented at the Department in the last five years, the Department experienced three instances in which "bumping" rights were exercised.

19. How many FTE were transferred out of DPA and to the new Office of Information Technology during the statewide OIT consolidation?

Response: Senate Bill 08-155 "Centralize IT Management in OIT" removed 177.8 FTE from DPA in FY 2008-09.

a. Please explain why the FTE decreased between FY 2008-09 and FY 2009-10, and then increased for FY 2010-11 (page 1 of the staff budget briefing document).

Response: The chart on page one of the staff budget briefing document provided actual FTE usage for FY 2008-09 and FY 2009-10, appropriated FTE for FY 2010-11, and requested FTE for FY 2011-12. The Department was held to levels far below the appropriated amounts of FTE in both FY 2008-09 and FY 2009-10 due to ongoing directives from OSPB to implement and continue strict hiring practices.

As illustrated in the chart below, the Department experienced relatively little fluctuation between appropriated FTE across the years in question.

	FY 2008-09 Appropriated	FY 2009-10 Appropriated	Percent Variance	FY 2010-11 Appropriated	Percent Variance
Department of Personnel & Administration FTE	393.4	393.6	0.1%	391.3	-0.6%

Please see the Department's response to question #2 of the Addendum, page 26, for greater detail on the cause of the abnormally low staffing levels in the Department during FY 2008-09 and FY 2009-10.

10:20 – 10:35 Division of Central Services – Mail Services, Capitol Complex Facilities, Fleet Vehicles

20. What type of mail does the Department of Personnel and Administration process, and which department has the most mailings? Please provide a list of the number of pieces of mail processed, by department.

Response: The Department operates a full service mail operation which, depending upon the size of the job and other requirements, can include inserting, bar coding, address list cleansing, postage metering, and delivery to the United States Postal Services, the State's interoffice mail system, or an express mail delivery services. Some of the types of mailings that the Department supports for agencies include: Colorado Benefits Management System client communication, LEAP (low income energy assistance program), client communication and statewide mailings from various departments.

The following tables show the total expenditures by agency for postage, and total expenditures by major agency for metering and delivery. The Department has provided the total expenditures as this is the best indication of overall workload given the different types of mail processed through the Division of Central Services, Mail Services program on an annual basis.

Summary of Postage Charges by Agency		
Agency	**Total $**	**% of Total**
Human Services	$2,789,461	39.12%
Labor & Employment	$2,375,165	33.31%
Natural Resources	$488,527	6.85%
Higher Education	$287,349	4.03%
Regulatory Agencies	$219,975	3.08%

Summary of Postage Charges by Agency		
Agency	**Total $**	**% of Total**
Personnel and Administration	$213,616	3.00%
Education	$173,285	2.43%
Agriculture	$77,985	1.09%
Public Safety	$76,833	1.08%
Governor's Office	$75,609	1.06%
Judicial	$71,013	1.00%
Secretary of State	$46,847	0.66%
Law	$39,882	0.56%
Local Affairs	$39,226	0.55%
Health Care Policy and Financing	$35,376	0.50%
Corrections	$30,634	0.43%
Treasury	$29,637	0.42%
Public Health	$29,011	0.41%
Transportation	$12,262	0.17%
Legislature	$11,285	0.16%
Military and Veterans Affairs	$7,162	0.10%
Revenue	$868	0.01%
Total	**$7,131,008**	**100.00%**

Mail Delivery by Major Agency		
Department	**Total $**	**% of Total**
Governor's Office	$238,320	20.74%
Personnel and Administration	$218,693	19.03%
Labor & Employment	$153,540	13.36%
Human Services	$113,574	9.88%
Higher Education	$110,880	9.65%
All Other Agencies	$314,108	27.33%
Total	**$1,149,114**	**100.00%**

Metering Summary by Major Agency		
Department	**Total $**	**% of Total**
Human Services	$804,610	46.38%
Labor & Employment	$316,771	18.26%
Higher Education	$74,015	4.27%
Natural Resources	$72,862	4.20%
Non-Agency	$48,534	2.80%
All Other Agencies	$418,108	24.10%
Total	**$1,734,900**	**100.00%**

21. For the Capitol Complex Facilities, what is at the North Denver complex and the Grand Junction complex?

    Response: North Campus – Three buildings located at 1001 E. 62nd Ave. in Denver; Grand Junction – single multi-function state services building located at 222 6th Street.

    a. Who uses these facilities, and why is the Department of Personnel and Administration responsible for these buildings?

       Response: North Campus tenants include: Department of Personnel and Administration, Department of Revenue, Department of Labor and Employment, Community College of Denver, and the Governor's Office of Information Technology.

       Grand Junction tenants include: Department of Transportation, Department of Local Affairs, Department of Personnel and Administration, Department of Public Health and Environment, Department of Regulatory Agencies, Department of Revenue, Department of Human Services, Department of Labor and Employment, Colorado State University's Forest Service, and the Governor's Office of Information Technology.

       The North Campus and the building in Grand Junction are four of the seventeen facilities owned by DPA. Capitol Complex is responsible for the routine maintenance of all DPA-owned buildings pursuant to State Statute, which can be found in sections: 24-1-136.5; 24-82-101; 24-82-102; 24-82-103; 24-30-1303; 18-9-117 CRS (combined with 24-82-101). Capitol Complex Facilities provides full service property management through the Property Maintenance program and is responsible for providing building maintenance including HVAC, plumbing, electrical, elevators, and programmatic related services.

22. Please describe the Department's process for analyzing which vehicles should be replaced.

    Response: Please see Appendix 2: State Fleet Replacement Process for the methodology used by the Department to determine which vehicles should be replaced.

    a. What is the average mileage on vehicles that are replaced?

       Response: For the past few years the average mileage at replacement has been approximately 140,000 miles, with many vehicles exceeding 200,000 miles. The average mileage at replacement for Colorado State Patrol vehicles has been approximately 110,000.

b. When was the last time that the mileage criterion was assessed?

Response: Because the replacement decision should be based on a much more extensive evaluation than just mileage, the reference to replacing vehicles at a certain mileage was removed from statute in 2004 and replaced with the following: "The department of personnel shall ensure that state-owned vehicles are not routinely replaced until they meet the replacement criteria relating to mileage, cost, safety, and other relevant factors established by the department." See the attached description of the replacement process now used by the department for more information on that process.

c. Are vehicles automatically replaced at a certain mileage?

Response: Vehicles are not automatically replaced at a certain mileage. Non-Colorado State Patrol vehicles are not even evaluated for replacement until they are projected to exceed 100,000 miles and then a complex process (see attached) is used to evaluate and identify only those vehicles that are most in need of replacement with sound economic justification.

d. Has the average mileage for vehicle replacements increased in recent years, and if so, what is the current number?

Response: As indicated above, the average mileage at replacement is now around 140,000 miles. This has increased considerably over the past two decades due to the increased quality and reliability of domestic manufactured vehicles over that time frame and the replacements that have been authorized. In the early '90s vehicles were not generally expected to last much beyond 100,000 miles without significant expense. Now many warranties on many of the primary components are set at 100,000 miles and the expectation is that vehicles that are well maintained and with normal use should last beyond the 100,000 mile range. This same trend has been identified in most public and private fleets.

23. Has there been any analysis of the life cycle costs of hybrids as compared to non-hybrid vehicles?

    a. If so, how do these costs compare?

Response: The Department performs an analysis each year based on changes in purchasing price, estimated mile per gallon, estimated resale and estimated cost per gallon and compares hybrids that have won the state bid for the current year with the most comparable traditional gas vehicle in that class. In some cases the purchase of a hybrid is very cost effective and in other cases the gas alternative is the best choice for the State. In the attached Appendices 3 & 4, the Department has included two such evaluations for the FY 2010-11 purchasing cycle, one of which indicates the hybrid as the preferred choice and the other where the gas alternative is more economical. It should also be noted that due to the very small number of replacements in FY 2010-11, no reasonable opportunities for the purchase of hybrids were available. The same may hold true for FY 2011-12.

b. If the Department has not analyzed this information, is it possible to do so?

Response: Please see the Departments response to 23a.

c. Are the replacement criteria different for traditional, natural gas, and hybrid vehicles? If so, how?

Response: The basic criteria are the same. Regardless of the type of vehicle that is being evaluated there are three major factors that are evaluated, they include: the upfront cost, the cost to operate over the life of the vehicle, and the estimated resale at the end of its life. There are some additional criteria that have been either put in place through statute or by executive order that mandate the purchase of hybrids, flex fuel or natural gas vehicles where it is economical to do so. These have been major drivers behind the purchase of hundreds of flex fuel and hybrid vehicles over the past few years. Natural gas vehicles have yet to prove economical for state use, but have great potential should upfront cost and infrastructure availability improve.

24. The Department of Revenue submitted a Capital Development request that would most likely move services out of the Pueblo data entry center. Please respond to the following:

a. Would this action impact the Pueblo Data Entry center, and if so, how?

Response: The Department is unaware of any formal request from the Office of State Planning and Budgeting at this time that would impact the Integrated Document Solutions program in Pueblo. However, the final phases of the CITA project have for many years included plans that would have a very significant effect on the Integrated Document Solutions program in Pueblo when and if they are implemented. The implementation was initially projected for next year or the year after. In July, 2010 we were asked by the Department of Revenue to provide an assessment of the potential impact on FTE in Pueblo if the project is implemented as currently envisioned, whenever that implementation occurs. That assessment indicates that implementation will lead to a reduction of approximately 31 full time state FTE assigned to the Integrated Document Solutions program in Pueblo, as well as approximately 20 temporary employees who would normally be hired for five months during tax season.

b. Why did the Department of Personnel and Administration grant the waiver for the Department of Revenue to move these services? Does Personnel also provide these services?

Response: The Department was asked by the Department of Revenue in August 2010 for a waiver to purchase scanners and also to purchase specially equipped work stations and software designed specifically to support remittance processing and to move all processing of these documents to Revenue's facilities in Denver. At the time the waiver was requested and approved, the waiver was tied to a decision item that was to be submitted during the normal budget process. However, since that decision item did not go forward, the Department believes that the waiver no longer applies.

The Department is a strong supporter of the CITA project and its goals. The Department's only concern is where and exactly how the documents are processed. There are alternatives to the one proposed in the current project plan that would still accomplish the goals of the CITA project. An alternative plan would provide the State the opportunity to leverage the investment in equipment, software, and training in such a way that it could benefit other agencies in addition to the Department of Revenue, and reduce the overall cost to the State.

The Department currently does the scanning of all of the paper tax documents and manually inputs the data from the paper returns into the CITA system. The addition of remittance processing to the scanning process for those documents that include payments is the only part of the process that is not currently done at the Integrated Document Solutions site in Pueblo. The Department does not see this as restrictively difficult to incorporate into the current processing, but a thorough assessment would be required to make a final recommendation.

c. Is the Department aware of any reasons why these services could not be provided in Pueblo?

Response: Not at this time. The Department believes it is possible to achieve statewide benefits if the current and new services are performed at the Integrated Document Solutions program in Pueblo.

d. If these services moved, would it impact other services at the Pueblo Data entry center? Would it impact other state agencies?

Response: The Department is required by statute to set its rates for services based on a full recovery of its costs. The rates are impacted by the volume of business demanded. For services such as scanning the investment in fixed costs such as equipment, software and allocated overheads represents a significant portion of the total cost to be covered by the rates. Large increases in volume in such services allow for great reductions in the rate charged to all agencies for that service. On the other hand, a large reduction in volume means that the remaining fixed costs must be recovered over a smaller base and the rate may increase dramatically to all agencies. An initial analysis of the impact of the implementation as currently proposed by the Department of Revenue would increase costs to other agencies by approximately $659,000.

10:35 – 10:45 FOOTNOTES AND REQUESTS FOR INFORMATION

25. Please provide an update on the status of footnote 7a, which requests the Office of State Planning and Budgeting (OSPB) to study the effectiveness of consolidating the Executive Branch's human resource services within a single Executive Branch agency.

Response: The Department must defer to the Office of State Planning and Budgeting for a response to this question.

a. Has the Executive Branch examined this issue, and if so, does it intend to submit the report?

Response: The Department must defer to the Office of State Planning and Budgeting for a response to this question.

26. What is the status of the Department's implementation of H.B. 10-1176, which requires the Office of the State Controller to conduct audits of state agencies to determine whether overpayments occurred as a result of fiscal errors, and if so, what amounts can be recovered?

Response: The Department is aware of an issue with the implementation of HB 10-1176. The State Controller's Office was not granted the spending authority necessary to enter into an expenditure contract in order to pay the vendor. The Department is considering legislation to create a cash fund and make this authorization, among other changes. The existing statute currently limits recoveries to taxes, and the proposed legislation would authorize recovery from other sources of improper payments. In order to meet the statutory deadlines of HB 10-1176, the legislative will need to be passed and signed as early as possible. Under the assumption that proposed legislation passes, the timeline for implementation of this bill has been included in Appendix 5.

10:45 – 11:00 CONTINGENCY SPENDING AUTHORITY

Background: The Joint Budget Committee appropriated 20.0 percent contingency spending authority to the Department for certain statewide services such as print, copying, data entry, and mail. The Department states that it needs the additional spending authority to respond to unanticipated or one-time requests for services from other agencies.

The Department's budget request states that it didn't submit a request to increase its base appropriation because it will "absorb" the recurring expenditure within its contingency spending authority. The assumption is that the contingency spending authority for FY 2011-12 will then be calculated on the new base appropriation. This increases the Department's base appropriation without the Committee's approval and circumvents the General Assembly's power of appropriation. Joint Budget Committee staff requested that the Committee speak to the Department and clarify the Committee's intent for how the contingency spending authority should be used, and whether the Department can increase its base appropriation without legislative authority.

27. What is the Department's understanding for how it can use contingency funds?

Response: The Department agrees with the Joint Budget Committee's staff analysis of the intent and use of contingency spending authority, however the Department is subject to other entities' interpretations of the use of contingency funds and the appropriate methods of adjusting them. To that end, the Department has submitted a budget action to the Office of State Planning and Budgeting to accurately reflect the base and contingency spending authority necessary to operate programs that have been granted this flexibility.

28. A request for information asked the Department to recalculate its contingency spending authority for FY 2011-12, and incorporate any changes to the request from last year. Why didn't the Department do this? If the Department was unsure what to do, could it have asked for clarification?

Response: The Department noted in its response to the Request for Information that it would re-calculate the contingency spending authority in a subsequent budget action. The Department has submitted a supplemental and budget amendment to accomplish this goal.

29. How much did the 20.0 percent contingency spending authority increase the Department's appropriation for FY 2010-11? Please indicate the amount for each impacted line item.

Response:

Summary of Contingency Funds Appropriated in FY 2010-11 for Integrated Document Solutions			
Description	**Personal Services**	**Operating Expenses**	**Total**
Reprographics	$326,503	$879,318	**$1,205,821**
Document Solutions Group	$741,931	$199,270	**$941,201**
Mail Services	$535,273	$2,419,937	**$2,955,210**
Total	**$1,603,707**	**$3,498,525**	**$5,102,232**

In addition to the contingency funding appropriated for the Integrated Document Solutions program, the Department was also appropriated $4,455,128 in contingency spending authority for its (4) Central Services, (C) Fleet Management Program and Motor Pool Services, Operating Expenses line item. This additional contingency spending authority was granted to the Department so that it may accommodate a one dollar per gallon increase in the cost of fuel for State fleet vehicles.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Please provide a table comparing the actual number of department FTEs in FY 2000-01 and the requested number of department FTEs in FY 2011-12, by division or program.

Response:

Comparison of FY 2000-01 to FY 2011-12 FTE			
Division	**FY 2000-01 – “Burned FTE”**	**FY 2011-12 - Requested**	**Increase / (Decrease)**
Executive Director's Office	16.4	42.5	26.1
Division of Human Resources	63.2	39.2	(24.0)
State Personnel Board	4.6	4.8	0.2
Central Services	182.0	192.8	10.8
State Controller's Office	56.9	74.2	17.3
Office of Information Technology	235.0	0.0	(235.0)
Office of Administrative Courts	32.0	40.0	8.0
Total	**590.1**	**393.5**	**(196.6)**

Please note that the FTE associated with the Department’s Executive Director’s Office in the FY 2011-12 request is more than double the FY 2000-01 actual usage. This is due to the fact that three programs and 23.0 FTE (as requested in the FY 2011-12 request) were moved into the Executive Director’s Office with the Department’s FY 2009-10 Long Bill realignment decision item. The programs and the divisions to which they were assigned in FY 2000-01 are as follows: Colorado State Employee’s Assistance Program (C-SEAP), Division of Human Resources; Colorado State Archives, Office of Information Technology; and the Colorado State Architect’s Office, Division of Finance and Procurement. The large decrease in the number of FTE appropriated to the Department was due to the transfer of the Office of Information Technology to the Governor’s Office. Please see the response to question 19 for more information on that transfer.

2. Please provide a table comparing the actual number of FTEs in FY 2008-09 and FY 2009-10 to the appropriated level of FTE for each of those fiscal years, by division or program. If there is a discrepancy of 5.0 percent or more between your FY 2009-10 FTE appropriation and actual usage for that year, please describe the impact of adjusting the FY 2011-12 FTE appropriation to align with actual usage from FY 2009-10.

Response:

Department of Personnel and Administration FTE Count, Appropriated vs. Actual

	FY 2008-09				FY 2009-10			
Division	**Appropriated**	**Actual**	**Variance**	**Percent Variance**	**Appropriated**	**Actual***	**Variance**	**Percent Variance**
Executive Director's Office	22.5	21.2	1.3	-6%	45.2	41.3	3.9	-9%
Division of Human Resources	59.2	42.5	16.7	-28%	43.0	37.7	5.3	-12%
State Personnel Board** (Formerly Constitutionally Independent Entities)	4.8	4.8	0.0	0%	6.8	6.4	0.4	-6%
Division of Central Services	193.1	198.6	-5.5	3%	193.1	184.3	8.8	-5%
Division of Finance and Procurement (Formerly Division of Accounts and Control - Controller)	64.5	66.3	-1.8	3%	65.5	54.2	12.3	-17%
Division of Information Technology***	8.5	7.8	0.7	-8%	0.0	0.0	0.0	0%
Office of Administrative Courts	40.8	40.0	0.8	-2%	40.0	36.9	3.1	-8%
Department of Personnel Total	**393.4**	**381.2**	**12.2**	**-3%**	**393.6**	**360.8**	**33.8**	**-8%**

* FY 2009-10 Actuals do not include the impact of furloughs
** The Independent Ethics Commission was part of the State Personnel Board until FY 2009-10
*** Eliminated with Long Bill Realignment starting in FY2007-08, and then finalized in FY 2008-09

Explanation of Variance

The Department of Personnel and Administration has been held to low levels of FTE in both FY 2008-09 and FY 2009-10 due to ongoing directives from OSPB to implement and continue strict hiring practices. Beginning in October 2008, the Office of State Planning and Budgeting implemented a mandatory statewide hiring freeze that ended at the close of FY 2008-09, but was followed by guidance to continue strict hiring practices into FY 2009-10. Additionally, during this time frame, the Department created and implemented a plan to reduce general fund expenditures in an effort to realize budget reduction targets. The Department made every effort to achieve budget savings without implementing lay-offs. These alternatives included a Voluntary Separation Incentive Program (which ultimately, did not align with the budget reduction plan and was canceled), mandatory furloughs, and holding positions vacant. The Department's overall plan to achieve budget savings was in process as early as January 2009. Alternative plans, such as the Voluntary Separation Incentive Plan, were being considered starting in July 2009. Although every effort was made to meet the budget reduction targets without resorting to lay-offs, the Department was ultimately required to implement the elimination of certain positions through a business plan pursuant to State Personnel Board Rule 7-2. Lay off notifications were issued starting in early November 2009. During this extended time frame, the Department did not hire or reallocate employees, which kept FTE at abnormally low levels for FY 2009-10.

Because the Department provides statewide services, in addition to oversight, adjusting the Department's FY 2011-12 FTE appropriation to align with the actual usage of FTE from FY 2009-10 would be detrimental to Department and statewide business operations. A large part of the Department provides oversight and guidance for statewide business activities. Reducing FTE levels would effectively limit the Department's ability to provide oversight on both financial and human resources related issues. The Department believes that limiting oversight would be detrimental to state business, especially during an economic downturn. Additionally, many divisions within the Department provide services to state agencies. The Department offers these consolidated services because it is able to do so at a lower cost or in a more efficient manner. Reducing staffing levels for these customer service oriented programs within the Department, without reducing the demand for these services, would increase costs and decrease efficiencies statewide.

End of Hearing - Department Requested Discussion: Referendum C Update
Presented by David McDermott, State Controller

Please refer to the handout titled Referendum C Discussion that was included in the Department's handout.

Referendum C Discussion

David McDermott, State Controller, Presenting

Madame Chair and members of the Committee, next year when we prepare the Fiscal Year 2010-11 TABOR Schedule of Computation, the State Controller will face a very significant decision of which I would like you to be aware. You may want to sponsor legislation to address this issue in the 2011 legislative session. I previously presented this issue to the Legislative Audit Committee. The LAC members felt the issue was important, but it was beyond the LAC purview. They suggested I raise the issue with the JBC.

As background, the Excess State Revenue Cap (or ESRC) is a provision of Referendum C that I believe was intended to remove the effect of the TABOR ratchet down provision. As you likely know the TABOR ratchet-down provision operates whenever one year's actual nonexempt revenue is less than the prior year's nonexempt revenue or limit adjusted for population, inflation, and enterprise or debt service changes. The ESRC removes the ratchet-down effect by allowing the State to retain and spend revenues greater than the TABOR Fiscal Year Spending Limit but less than the ESRC.

I have provided you three handouts to assist in the discussion.

The first handout provides the text defining the Excess State Revenue Cap approved by voters in the passage of Referendum C in 2005. The shaded text relates to Referendum D which did not pass, and the unshaded text is where I would like to direct your attention. The unshaded text describes how the ESRC will be set for Fiscal Year 2010-11 based on the TABOR Nonexempt Revenues of FY06 through FY10. Other State offices have interpreted this language in preparing TABOR projections to require identifying the fiscal year with the largest absolute amount of unadjusted revenue in the FY06 to FY10 period and, starting with that fiscal year, increasing the ESRC for population and inflation. I want to make it clear that I am not lobbying for any specific interpretation, but rather I am asking for direction on a very significant decision where I believe the statutes are unclear and the interpretation should not be left to the bureaucracy.

The second handout shows the actual TABOR Nonexempt Revenue in the heavy blue line. The light blue line represents the FY 08 revenues adjusted for population and inflation to FY11. The light brown line represents the FY07 revenues adjusted for population and inflation to FY11. Note that FY08 revenues are greater than FY07 revenues but they are $210.6 million less than the FY07 Revenues adjusted for population and inflation. I believe that using the FY08 revenues is essentially continuing to apply the ratchet down concept. When the FY07 and FY08 revenues are adjusted for population and inflation to FY11, the difference between the two is years is $234.5 million. Using FY07's revenues rather than FY08's revenues results in an ESRC that is permanently higher than the ESRC based on FY08 revenues. Using the September State Treasury's investment rate of 2.4%, the $234.5 million difference in the ESRC has a present value of $9.77 billion if the State returns to consistent Revenues in excess of the ESRC.

The third handout simply shows how strange the result could have been under the current interpretation, if FY10 revenues had rebounded to $1 more than FY08's revenues. In this instance, the ESRC would have started out in FY11 at $1.04 billion less than it is under the current interpretation.

The current interpretation of the ESRC fits within the plain meaning of the Referendum C text; however, the anomalies I have just pointed out lead me to believe that text as written may not have considered all of the potential revenue scenarios. Therefore, I would ask the Committee to consider sponsoring legislation to clarify the intended result.

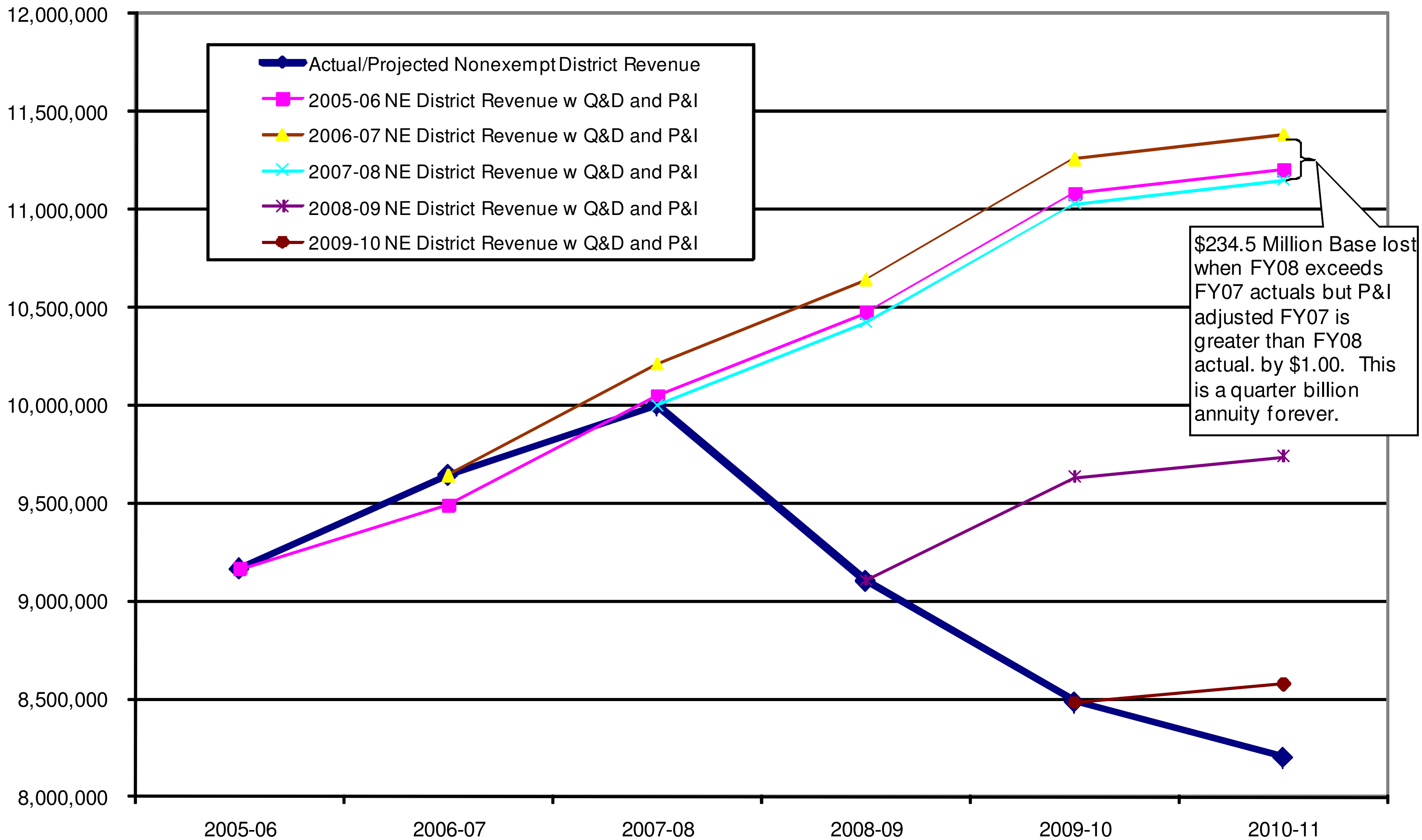
CRS 24-77-103.6(6)(b)(I)(B)

(b) (I) "Excess state revenues cap" for a given fiscal year means either of the following**:**

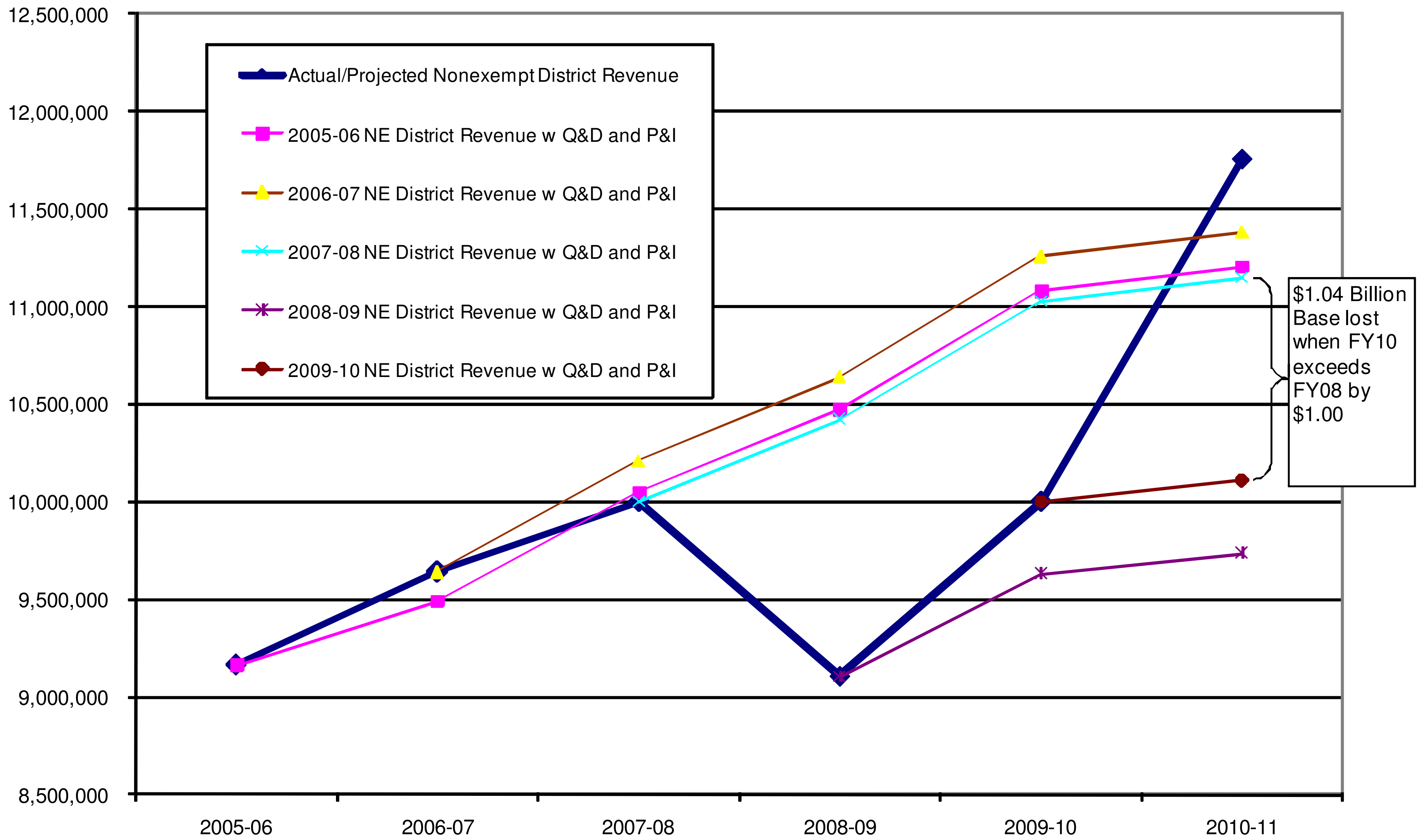
(A) If the voters of the state approve a ballot issue to authorize the state to incur multiple-fiscal year obligations at the November 2005 statewide election, an amount that is equal to the highest total state revenues for a fiscal year from the period of the 2005-06 fiscal year through the 2009-10 fiscal year, adjusted each subsequent fiscal year for inflation and the percentage change in state population, plus one hundred million dollars, and adjusting such sum for the qualification or disqualification of enterprises and debt service changes; or

(B) If the voters of the state do not approve a ballot issue to authorize the state to incur multiple-fiscal year obligations at the November 2005 statewide election, **an amount that is equal to the highest total state revenues for a fiscal year from the period of the 2005-06 fiscal year through the 2009-10 fiscal year, adjusted each subsequent fiscal year for inflation, the percentage change in state population, the qualification or disqualification of enterprises, and debt service changes.**

CONSISTENTLY DECLINING REVENUE



DECLINING THEN INCREASING REVENUE



Appendix 1: 10 Year Summary of Workers' Compensation Claims

The following tables show the number of and the total incurred for the State of Colorado, July 1, 2000 through June 30, 2010, broken down both by department and by fiscal year or policy period. The Department of Higher Education is further broken down by institution or division. The claims are valued as of December 21, 2010, after the Department received the request from Joint Budget Committee Staff. The data were requested from and provided by the State's Third Party Administrator, Pinnacol Assurance.

	Number of Claims by Fiscal Year									
Department	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Agriculture	22	34	26	24	25	30	14	18	27	23
Colorado State Public Defender	0	0	2	1	5	1	3	0	7	4
Corrections	1,108	985	909	790	869	794	931	1,015	897	795
Education	53	68	65	66	51	67	54	57	69	64
Health Care Policy and Financing	9	8	13	13	13	7	20	14	18	16
Higher Education	1,317	1,167	1,178	1,020	558	513	538	501	490	516
Human Services	888	711	739	747	759	729	771	879	984	993
Judicial Branch	224	398	314	296	313	286	323	341	212	192
Labor and Employment	95	137	141	161	150	148	87	96	82	107
Law	9	69	20	30	23	23	28	17	8	10
Legislative Branch	14	10	9	6	4	3	6	5	5	4
Local Affairs	5	11	7	8	1	2	5	3	5	5
Military Affairs	13	18	12	12	7	8	23	8	15	10
Natural Resources	188	201	182	227	182	182	199	189	171	156
Office of the Governor	1	3		1	2	2	2	3	9	6
Personnel and Administration	46	69	31	45	40	51	35	66	24	29
Public Health and Environment	55	40	58	51	43	49	49	50	48	54
Public Safety	254	248	278	305	320	275	267	300	285	258
Regulatory Agencies	20	21	16	23	19	22	23	7	13	12
Revenue	142	81	147	97	96	87	88	87	87	73
Secretary Of State	5	3	6	4	5	5	1	2	1	2
Transportation	545	512	550	527	433	460	460	457	356	364

	Number of Claims by Fiscal Year									
Department	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Treasury	0	0	3	0	0	1	0	0	2	0
Total	**5,013**	**4,794**	**4,706**	**4,454**	**3,918**	**3,745**	**3,927**	**4,115**	**3,815**	**3,693**

	Number of Claims by Fiscal Year by Institute of Higher Education									
Higher Education Institution/Division	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Adams State College	28	25	12	24	29	26	28	33	24	27
Arapahoe Community College	36	26	23	15	20	12	20	13	13	13
Arts & Humanities	1	0	0	0	0	0	0	0	0	0
Auraria Higher Education Center	49	52	50	73	84	79	82	63	58	56
College Assist	13	7	19	6	4	5	0	0	1	0
College Invest	1	0	0	1	2	1	0	2	0	0
Northwest Community College	0	1	0	1	1	4	3	1	3	1
Colorado School Of Mines	28	24	25	30	31	43	44	48	47	48
Colorado State University	693	625	568	474	2	0	1	0	0	0
Commission On Higher Education	1	2	2	5	1	2		1	3	1
Community College Of Aurora	17	12	9	3	12	8	11	15	13	16
Community College Of Denver	16	18	26	21	20	29	21	16	20	24
Community Colleges Division	1	1	1	3	19	8	11	11	6	0
Colorado State University - Pueblo	31	30	31	37	36	23	24	30	24	25
Colorado State University - Global Campus	0	0	0	0	0	0	0	0	1	1
Front Range Community College - Larimer	44	83	39	52	45	30	47	21	19	19
Front Range Community College - Westminster	0	0	0	0	0	0	2	32	28	36
Historical Society	12	7	11	10	18	8	17	19	17	19

	Number of Claims by Fiscal Year by Institute of Higher Education									
Higher Education Institution/Division	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Lamar Community College	7	4	2	8	6	3	5	10	5	9
Metropolitan State College	28	33	82	45	30	32	37	34	28	25
Morgan Community College	11	8	8	10	6	12	5	11	14	7
Northeastern Junior College	39	22	10	22	19	11	11	8	7	8
Northwest Community College	7	13	16	10	5	2	2	6	3	7
Occupational Education Division	25	7	8	3	1	0	0	2	3	8
Otero Junior College	27	22	29	18	19	14	6	12	6	12
Pikes Peak Community College	50	46	95	62	46	55	42	23	37	30
Private Vocational Schools	1	0	0	0	0	0	0	0	0	0
Pueblo Community College	86	35	29	33	44	30	38	25	30	41
Red Rocks Community College	30	26	28	21	26	39	36	31	38	41
Trinidad State Junior College	19	14	28	11	13	15	15	10	20	18
Western State College	16	24	27	22	19	22	30	24	22	24
Total	**1,317**	**1,167**	**1,178**	**1,020**	**558**	**513**	**538**	**501**	**490**	**516**

	Total Incurred by Department and Fiscal Year									
Department	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Agriculture	$116,878	$157,028	$41,229	$355,082	$220,337	$71,740	$31,271	$41,568	$69,009	$382,578
Colorado State Public Defender	$0	$0	$991	$0	$11,680	$3	$2,341	$0	$20,020	$11,542
Corrections	$3,326,000	$3,648,046	$4,534,125	$4,698,929	$5,772,677	$4,480,488	$4,082,593	$7,044,162	$5,990,469	$5,160,850
Education	$129,599	$802,223	$227,896	$137,062	$248,342	$83,209	$186,835	$212,537	$824,631	$393,330
Health Care Policy and Financing	$5,384	$31,538	$20,549	$33,417	$18,776	$7,351	$21,208	$11,551	$19,002	$34,930
Higher Education	$3,025,224	$3,322,096	$4,394,101	$4,244,449	$2,125,857	$2,272,652	$3,264,814	$3,619,438	$1,594,994	$3,018,614
Human Services	$4,909,526	$3,460,520	$5,282,983	$7,305,947	$8,071,731	$7,425,557	$10,029,683	$8,804,100	$6,178,976	$6,435,324
Judicial Branch	$1,116,676	$488,987	$1,418,546	$977,908	$2,330,320	$1,488,934	$1,627,599	$954,144	$808,999	$490,829

	Total Incurred by Department and Fiscal Year									
Department	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Labor and Employment	$827,652	$198,065	$493,293	$380,085	$652,033	$550,635	$401,787	$337,656	$289,966	$443,531
Law	$41,950	$53,106	$50,936	$74,859	$75,833	$54,164	$19,077	$57,830	$19,668	$81,661
Legislative Branch	$18,278	$5,042	$89,326	$4,585	$27,910	$17,578	$9,541	$9,932	$11,736	$26,541
Local Affairs	$54,222	$20,525	$2,558	$108,118	$0	$3,008	$79,462	$7,261	$55,077	$77,279
Military Affairs	$39,137	$198,750	$11,366	$106,828	$27,929	$30,489	$92,438	$3,477	$46,169	$35,189
Natural Resources	$1,076,034	$2,341,936	$2,488,716	$1,719,823	$762,494	$712,868	$2,020,836	$992,209	$1,046,690	$1,263,695
Office of the Governor	$4,902	$2,964	$0	$363	$66,292	$674,378	$10,258	$94,708	$31,548	$4,627
Personnel and Administration	$143,249	$71,109	$115,585	$312,219	$137,800	$363,105	$131,203	$263,151	$262,698	$78,228
Public Health and Environment	$314,621	$77,048	$384,884	$443,410	$72,093	$480,508	$137,565	$110,203	$685,552	$255,383
Public Safety	$1,658,485	$896,773	$1,159,858	$1,811,826	$1,781,587	$1,391,328	$1,830,623	$3,307,959	$1,583,803	$1,690,755
Regulatory Agencies	$59,772	$29,459	$15,782	$175,754	$82,924	$49,198	$70,407	$7,255	$7,159	$182,986
Revenue	$1,250,478	$229,007	$529,854	$876,803	$920,987	$222,968	$572,029	$378,046	$698,463	$596,739
Secretary Of State	$6,774	$1,993	$6,892	$2,450	$4,895	$6,113	$2,548	$6,018	$151	$5,960
Transportation	$2,686,025	$3,876,266	$5,841,117	$6,265,093	$4,808,211	$4,608,921	$8,397,104	$4,579,538	$5,332,685	$4,127,524
Treasury	$0	$0	$2,321	$0	$0	$141	$0	$0	$1,608	$0
Total	**$20,810,866**	**$19,912,481**	**$27,112,908**	**$30,035,010**	**$28,220,708**	**$24,995,336**	**$33,021,222**	**$30,842,743**	**$25,579,073**	**$24,798,095**

	Total Incurred by Institute of Higher Education and Fiscal Year									
Higher Education Institution/Division	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Adams State College	$20,459	$311,980	$234,682	$32,429	$82,184	$77,228	$111,755	$157,181	$38,370	$189,353
Arapahoe Community College	$13,362	$25,147	$253,359	$82,933	$166,168	$176,151	$90,652	$28,332	$31,607	$60,085
Arts & Humanities	$140	$0	$0	$0	$0	$0	$0	$0	$0	$0
Auraria Higher Education	$234,053	$80,933	$187,619	$283,969	$361,339	$173,373	$699,292	$265,407	$244,033	$247,009

	Total Incurred by Institute of Higher Education and Fiscal Year									
Higher Education Institution/Division	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
College Assist	$16,110	$9,362	$67,073	$8,063	$23,100	$55,926	$0	$0	$508	$0
College Invest	$12,395	$0	$0	$902	$1,550	$74,607	$0	$3,399	$0	$0
Northwest Community College	$0	$110	$0	$5,376	$278	$255	$344	$59,699	$468	$60,463
Colorado School Of Mines	$259,541	$168,404	$24,471	$68,407	$129,021	$82,164	$345,499	$225,684	$239,332	$351,270
Colorado State University	$1,713,121	$1,410,719	$1,703,448	$1,845,486	$10,264	$0	$1,736	$0	$0	$0
Commission On Higher Education	$0	$1,333	$3,312	$153,876	$9,142	$1,886	$0	$198	$1,420	$3,423
Community College Of Aurora	$24,681	$4,151	$36,138	$761	$68,230	$11,972	$11,131	$73,062	$6,091	$22,865
Community College Of Denver	$17,623	$104,206	$165,384	$16,644	$43,427	$78,637	$22,771	$35,017	$52,732	$73,842
Community Colleges Division	$118	$272	$258	$453	$17,251	$4,650	$71,365	$19,487	$1,463	
Colorado State - Pueblo	$44,055	$258,932	$201,490	$266,876	$191,504	$58,938	$105,250	$394,224	$56,833	$81,608
Colorado State - Global Campus	$0	$0	$0	$0	$0	$0	$0	$0	$6,186	$886
Front Range - Larimer	$82,099	$114,491	$56,528	$128,976	$53,747	$314,407	$167,496	$34,918	$32,513	$135,363
Front Range - Westminster	$0	$0	$0	$0	$0	$0	$1,102	$106,900	$65,509	$255,930
Historical Society	$2,910	$4,146	$8,047	$7,278	$11,294	$11,426	$16,173	$707,963	$43,698	$28,443
Lamar Community College	$2,889	$1,502	$7,521	$11,403	$2,205	$484	$7,845	$333,578	$18,532	$128,167
Metropolitan State College	$17,109	$51,359	$96,272	$52,729	$73,729	$80,028	$103,645	$282,928	$88,084	$151,486
Morgan Community College	$36,683	$3,117	$443,864	$12,546	$2,258	$14,271	$30,191	$22,293	$1,240	$22,715
Northeastern Junior College	$22,151	$128,824	$37,845	$597,318	$13,982	$6,487	$17,989	$9,216	$54,077	$5,248
Northwest	$3,315	$89,480	$5,858	$2,140	$3,305	$3,100	$0	$725	$19,543	$6,332

	Total Incurred by Institute of Higher Education and Fiscal Year									
Higher Education Institution/Division	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Community College										
Occupational Education Division	$73,654	$49,971	$11,338	$10,783	$0	$0	$0	$92,461	$2,553	$243,551
Otero Junior College	$98,965	$94,634	$67,988	$13,671	$10,970	$347,723	$14,689	$8,877	$6,620	$99,265
Pikes Peak Community College	$60,367	$71,518	$308,722	$298,172	$509,806	$421,825	$351,943	$264,744	$169,958	$228,475
Private Vocational Schools	$142	$0	$0	$0	$0	$0	$0	$0	$0	$0
Pueblo Community College	$87,024	$57,082	$41,757	$87,771	$163,187	$107,770	$920,405	$58,446	$19,137	$146,711
Red Rocks Community College	$77,860	$162,514	$55,642	$35,093	$11,252	$45,775	$42,622	$67,403	$240,515	$88,067
Trinidad State Junior College	$80,036	$108,593	$181,283	$100,120	$111,791	$70,071	$7,905	$19,540	$105,833	$99,944
Western State College	$24,362	$9,316	$194,202	$120,274	$54,873	$53,498	$123,014	$347,756	$48,139	$288,113
Total	**$3,025,224**	**$3,322,096**	**$4,394,101**	**$4,244,449**	**$2,125,857**	**$2,272,652**	**$3,264,814**	**$3,619,438**	**$1,594,994**	**$3,018,614**

Appendix 2: STATE FLEET REPLACEMENT PROCESS

STRATEGY: REPLACE THE HIGHEST COST VEHICLES IN EACH VEHICLE CLASS
(Worst of the Worst)

METHODOLOGY

Methodology Overview: The current methodology uses the following basic criteria in a series of logical steps to arrive at the final proposed replacement list:

- **Both very high total mileage and very low annual mileage** are used as criteria for either selecting vehicles for replacement, or for retaining vehicles in the fleet.
- Anticipated cost of maintenance compared to like vehicles is calculated and ranked, **ordered from most costly to least costly.**
- **Vehicle age is considered and very old, high usage vehicles are selected for replacement.** This is also consistent with Executive Order D0012 07 "Greening of State Government" which mandates that priority be given to replacing vehicles older than 1996. Very old, low usage vehicles are selected for future rotation. These low annual usage vehicles are not part of the proposal for replacement funding, but as vehicles are turned in for replacement over the next two years, a formal effort will be made to swap out very old, low use vehicles with somewhat newer vehicles that have exhausted their normal life cycle.
- **Vehicle placement and usage is considered**, with extra consideration given to State Patrol vehicles due to performance and safety issues. Low usage "campus crawler" type vehicles are held longer than other vehicles and may become candidates for rotation as described above.
- **Manual adjustments** are made based on agency input and vehicle-by-vehicle SFM analysis.
- **A financial analysis is performed to insure that there is solid economic justification** for the proposed level of replacements.
- **Finally, budgetary constraints and impacts of known fleet initiatives and legislative actions are considered** in developing the final proposal. This year particular emphasis has been placed replacing those vehicles that will have the greatest impact on reducing petroleum consumption.

Step by Step Methodology Description:

Step 1. Initial Screen: The initial candidate list is generated from the Colorado Automotive Reporting System (CARS) using a minimum threshold for further replacement consideration. An extraction is done that lists all vehicles projected to meet the following requirements by the time it is proposed that the new vehicles would be delivered by the final quarter of FY 2010-11. In order to be considered for analysis a vehicle must meet one of the following criteria:

- **Non Colorado State Patrol (CSP) vehicles must be projected to have greater than 100,000 miles,**
- **CSP vehicles must have greater than 80,000 miles for patrol vehicles and greater than 40,000 for motorcycles, and**
- **A vehicle that will be 14 years old or older at the time that the proposed replacement would occur.** This is consistent with one of the elements of Executive Order 0012 07, which specifies that a priority be placed on the replacement of vehicles model year 1996 and older as a means of improving fuel efficiency. For FY 2010-11 this initial screen produced 1,732 potential candidates.

Rationale: This initial screen limits the replacement candidates based upon a logical minimum standard. Mileage is projected through June of the budget request year to include all vehicles that will meet the criteria within the request year. This is only the entry point into the process, and vehicles must meet these minimum criteria for further consideration as replacement candidates.

Step 2. Manual Adjustments: Decisions on vehicle replacement should not be made on the basis of the mileage criterion or vehicle age alone. The ideal process would involve a detailed mechanical evaluation of each replacement candidate by a qualified technician, and the decision would be based on the projected costs involved to maintain the vehicle over the next one to two years. This level of analysis is not practical for the State and is not feasible for all but the smallest fleets due to the labor intensive nature of such analysis, along with resource limitations. However, SFM can use additional information and resources that are readily available to further refine the candidate list to make sure the right vehicles are ultimately replaced.

- **Agency retention requests**

Rationale: State Fleet Management confers with agencies concerning proposed replacements, taking into consideration factors such as internal rotations, cascading vehicle assignments for additional use, and other extensions to a vehicle's life. No one knows the individual vehicles better than agency Vehicle Coordinators and the users of the vehicles. SFM uses agency input to eliminate vehicles from the replacement analysis that, in an agency's opinion, are in good condition considering mileage and age. SFM also uses agency input to keep vehicles on the replacement list that are in exceptionally poor condition, create an unacceptable safety risk, or are not meeting the functional requirements of the agency, even in some cases when the vehicle does not meet typical replacement criteria.

- **Vehicles with major recent repairs (New engine, transmission, etc.)**

Rationale: The most recent 12 months of repairs are analyzed to identify any individual repairs that required significant expenditures (typically in excess of $3,000 for an individual repair). If the State has recently made a significant investment, replacing a major component of a vehicle, we should expect that the cost to operate the vehicle over the short-term should be reduced, and we should not replace such vehicles until we have had the opportunity to benefit from that investment.

- **Vehicles in the low cost, low mile work functions**

Rationale: Vehicles in this category are typically maintenance and support vehicles used in campus type environments. They are typically low mileage (approximately 1,000 miles per year), are often very old, and may have a high cost per mile even though the total annual operating cost is very low. Ideally, these vehicles should be replaced with used, but safe and operable vehicles from vehicle turn-ins as part of the natural rotation of the fleet. Vehicles that are no longer suitable for high usage functions can often be used in these maintenance type roles without incurring significant repairs, and it is often not economically justifiable to purchase brand new vehicles into these very low use assignments. Therefore, only the very worst of these vehicles are included in the final submission for replacement.

- **Very high mileage vehicles (>140,000)**

Rationale: Vehicles with this mileage projection are at least 40 percent over the State's minimum mileage replacement criterion. At this point, it is reasonable to expect vehicles to deteriorate rapidly, with costly major component breakdowns, and to expect reliability and safety concerns to rapidly increase. Cost effective operation of such vehicles is highly unlikely after this mileage threshold is reached. In fact, in a less restrictive fiscal environment, SFM would typically recommend lower thresholds.

Step 3. Rank Highest Priority to Lowest Priority:

Rationale: All of the vehicles based on the initial screening criteria meet the basic requirements for replacement. These vehicles are nearly all high-mileage, high-cost and are primarily older vehicles. While all of these vehicles meet the basic criteria for the replacement cycle, the challenge is to make sure that the worst of these vehicles are identified, so that only the worst of the worst will be replaced given any level of funding. By comparing these vehicles to the average vehicle of similar age and type, we are able to identify the vehicles that display the greatest operational cost variance from the average. Those that have much higher than average costs, will rank out higher than those with lower than average costs. This way we can identify the worst vehicles (from a cost standpoint) and make sure these are identified with the highest priority.

- **All State Patrol vehicles meeting the minimum criteria will be submitted.**

State Patrol vehicles are not included in this ranking. State Patrol vehicles have unique utilization, performance, and safety, needs that require replacement on a 4-year cycle.

Step 4. Further Considerations to Determine Final List: The fleet does not operate in a static environment. Changes in the budgetary environment, evolving agency needs, historical funding patterns for the fleet, regulatory changes, legislative actions, and the impact of recent internal fleet initiatives can, and should be taken into consideration in developing the final request for any given year.

- **State funding capabilities**

Rationale: In any given year, it is often not practical or feasible to replace all the vehicles necessary to maintain an optimal fleet, from a total cost of fleet perspective. When funds are scarce, it is especially important that the very worst of the worst are replaced so that the funds that are spent on the fleet can provide the optimal financial benefit to the State.

- **Impact of Fleet or Agency reduction initiatives**

Rationale: Initiatives undertaken by SFM and individual agencies to reduce the total number of vehicles in the fleet can affect the replacement process in two ways. First, by reducing the overall size of the fleet, the percentage of optimal replacements necessary to maintain the fleet each year produces a smaller number of candidates. Second, and most importantly, a large number of vehicles leaving the fleet inevitably include the worst vehicles in the fleet. These are also the same vehicles that should be the highest priority for replacement, and since they no longer need to be replaced, the number of requested replacements in that year, might be reduced.

- **Prior year funding and replacement levels**

Rationale: Under-funding of replacements in previous years has put additional pressure on the fleet, and created an imperative for reasonable levels of replacements in subsequent years. With a mileage criterion of 100,000 miles and average annual miles per vehicle of 14,000, (8 X 14,000 = 112,000) the State should be replacing approximately 1/8 of the non-CSP fleet or 600+ non-CSP vehicles each year. Only 243 non-CSP vehicles were replaced on FY 2002-03 and none were replaced in FY 2003-04. Also, no general-funded vehicles were replaced in FY 2002-03, FY 2003-04, or FY 2004-05 exacerbating the cost and safety pressures placed on that component of the fleet. In recent years the replacement program was back to a more reasonable level (averaging 566 non-CSP vehicles per year) and included all funding sources. Although more reasonable, even these levels are somewhat below the desirable level of 600+ per year. This year's proposal is similar to the past few year's approved levels, but has been reduced somewhat to reflect the current budget environment. Special emphasis has been made to increase the opportunities to remove old vehicles that were fuel inefficient and bring higher numbers of flex fuel, hybrids, and other newer, better fuel efficient vehicles into the fleet. These initiatives are needed to satisfy the requirements of both Executive Order 0012 07, and HB 07-1228 mandating the purchase of flexible fuel vehicles.

Appendix 3: HYBRID BREAK-EVEN ANALYSIS

FORD ESCAPE HYBRID VS. JEEP LIBERTY
Based on 2011 State Acquisition Prices

ASSUMPTIONS:

Annual miles driven =	15,000	miles			
Mile per gallon basic model =	17	mpg			
Mile per gallon hybrid =	29	mpg			
Fuel cost per gallon (State cost) =	$2.58	$/gal.	=	**$3.00**	pump price
Life of Vehicle =	8	years			
Finance Rate =	3.47%				
Battery Pack Replacement Cost =	$2,500				

Annual gallons used per year (annual miles / estimated miles per gallon):

Basic Model =	882	gallons
Hybrid =	517	gallons
Difference =	365	gallons

Annual savings per year = annual gallons difference * fuel cost per gallon = **$942**

Incremental Cost Differences:

Ford Escape Hybrid	$	28,741	(Net of credits or passthroughs)
Jeep Liberty	$	18,003	
Hybrid premium	$	10,738	
Plus Additional finance charges	$	1,743	(over life of vehicle)
Cost of Battery Pack	$	-	
Less additional resale value	$	3,000	estimated (may be negative)
Total Hybrid premium	**$**	**9,481**	
Less Total Fuel Savings	**$**	**7,536**	
Net Cost or (Savings)	**$**	**1,945**	

Hybrid Premium	**Payback (Years)**	
$ 9,481	**10.1**	**years**

Break-Even Fuel Price/Gal. =	**$3.67**	(Regular pump price)
Break-Even Annual Miles =	**18,872**	

Appendix 4: HYBRID BREAK-EVEN ANALYSIS

Appe

Based on 2011 State Acquisition Prices

ASSUMPTIONS:

Annual miles driven =	15,000	miles		
Mile per gallon basic model =	27	mpg		
Mile per gallon hybrid =	48	mpg	(EPA=48Hwy, 51Cty)	
Fuel cost per gallon (State cost) =	$2.58	$/gal.	= **$3.00**	pump price
Life of Vehicle =	8	years		
Finance Rate =	3.47%			

Annual gallons used per year (annual miles / estimated miles per gallon):

Basic Model =	556	gallons
Hybrid =	313	gallons
Difference =	243	gallons

Annual savings per year = annual gallons difference * fuel cost per gallon = **$627**

Incremental Cost Differences:

Toyota Prius Hybrid		$	21,205	(Net of credits or passthroughs)
Ford Fusion		$	14,810	
	Hybrid premium	**$**	**6,395**	
	Plus Additional finance charges	$	1,038	(over life of vehicle)
	Less additional resale value	$	5,000	estimated premium over non-hybrid
	Total Hybrid premium	**$**	**2,433**	
	Less Total Fuel Savings	**$**	**5,017**	
	Net Cost or (Savings)	**$**	**(2,583)**	

Hybrid Premium	Payback (Years)	
$ 2,433	**3.9**	**years**

Break-Even Fuel Price/Gal. =	**$1.67**	(Regular pump price)
Break-Even Annual Miles =	**7,276**	

Assumes:

Negligable difference in lifetime maintenance expense.
Assumes approximately $7,500 resale for Prius.

Appendix 5: HB 10-1176 Implementation Timeline

TO DATE

July 15, 2010	Staff Director of the joint budget committee files written notice with the revisor of statutes that the funding is available for implementation of HB 10-1176.
July 16, 2010	Office of the State Controller (OSC) begins detailed review of requirements of HB 10-1176 and to draft a position description questionnaire (PDQ).
July 28, 2010	After review of HB 10-1176 appropriation with DPA Budget Office, the Office of the State Controller (OSC) proceeds with a plan to hire one FTE at a GP IV level, rather than 1.8 FTE.
July 30, 2010	PDQ sent to DPA Human Resources for review of classification.
August 10, 2010	DPA Human Resources completes its review of the PDQ and announces the position of Recovery Audit Administrator.
August 20, 2010	Position announcement closes. DPA Human Resources begins its review of the applicants to determine which ones meet the minimum qualifications of the position.
August 30, 2010	DPA Human Resources completes its review of the applications, and determines that four applicants are qualified, so testing will be required to determine the top three candidates.
August 30, 2010	OSC prepares written exam, to be distributed to the candidates by DPA Human Resources.
September 20, 2010	Graders complete their review of the answers, and send their answers to DPA Human Resources.
September 20, 2010	DPA Human Resources compiles the scores from the written exams from the graders and identifies the top three candidates and sends list to OSC. OSC schedules interviews with top three candidates.
September 27, 2010	OSC interviews one of the candidates
September 28, 2010	OSC interviews the other two candidates
October 4, 2010	OSC receives approval from DPA Executive Office and DPA Budget on salary offer to top candidate, Maria Pruett
October 4 – 8, 2010	Maria Pruett is outside of country and is not reachable
October 12, 2010	Offer position by phone call to Maria Pruett, and send her written offer letter
October 18, 2010	First day for Maria Pruett, the Recovery Audit Administrator. She reviews the provisions of HB 10-1176, identifies further changes to the bill, and researches recovery audit experience at other states and at federal agencies.

October 27, 2010	OSC begins procurement process by completing purchase requisition form (PRF)
November 18, 2010	PRF approved
November 19, 2010	OSC initial meeting with State Purchasing Office to discuss Request for Proposal (RFP) for recovery audit services
November 19, 2010	OSC provided Clark Bolser, legislative liaison, with proposed wording for changes to HB 10-1176
November 23, 2010	Bids Upcoming Opportunity Notice
December 10, 2010	Preliminary Personal Services Review Approval
December 14, 2010	RFP SOW completed
December 15, 2010	Filed proposed rules

PLANS

January 14, 2010	Hold hearing on rules
February 1, 2010	Issue RFP
February 14, 2010	Adopt rules
By March 1, 2010	OSC to provide the State Auditor and Legislative Audit and Joint Budget Committees with a report that details any exemptions from recovery audits
March 1, 2010	Legislature passes proposed changes to HB 10-1176 and Governor signs into law
March 15, 2010	Receipt of Proposals
April 4, 2010	Selection and award
May 10, 2010	Enter into contract with selected recovery audit consultant – meet statutory deadline

Request for Proposal and Contracting Timeline.

Begin preparation of RFP **Obtain Personal Services Approval**			November 22, 2010	Time dependant on Legislative and Rules process.
Post Rules			December 13, 2010	
Rules Hearing			January 31, 2011	
Advertise & Issue Solicitation	30 days	30 days	February 1, 2011	Pre Proposal Conference canceled. Oral Presentations canceled.
Receipt of Proposals **And Proposal Review**	20 days	10 days	March 15, 2011	Can possibly be shortened by number of proposals received.
Contract Award, Negotiations **Contractor review and sign**	30 days	20 days	April 4, 2011	Can possibly be shortened by 10 days depending on vendor agreement to State terms.
Submit Contract for Internal Review	30 days	30 days	May 4, 2011	
Personnel Approval	12 days	0 days	May 4, 2011	Approval received in RFP prep time.
Route to Attorney General **and Controller**	12 days	5 days	May 9, 2011	
Performance Begins (Effective Date)	134 days	95 days	MAY 10, 2011	