

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2012-13 STAFF BUDGET BRIEFING
COMPENSATION-RELATED COMMON POLICIES**

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

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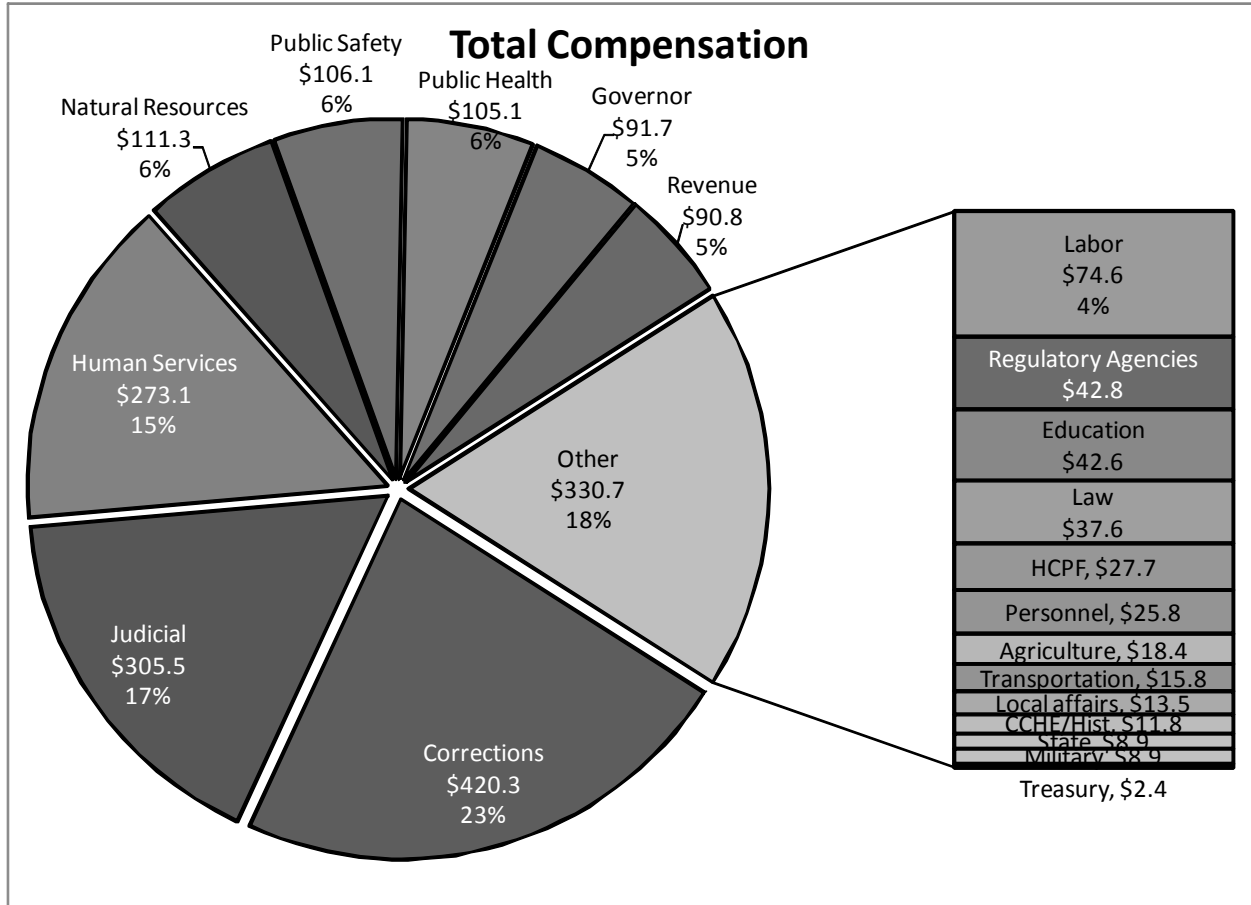
**FY 2012-13 BUDGET BRIEFING
STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE
COMPENSATION-RELATED COMMON POLICIES**

Table of Contents

Graphic Overview	1
Decision Items	5
Issues:	
Measuring the size of the state workforce	7
Budgeting for prevailing total compensation	20
Appendices:	
A - Legislative Legal Services Memo: General Assembly's Control over FTEs	39
B - Update on Long Bill Footnotes and Requests for Information	33

**FY 2012-13 Joint Budget Committee Staff Budget Briefing
 Compensation-related Common Policies**

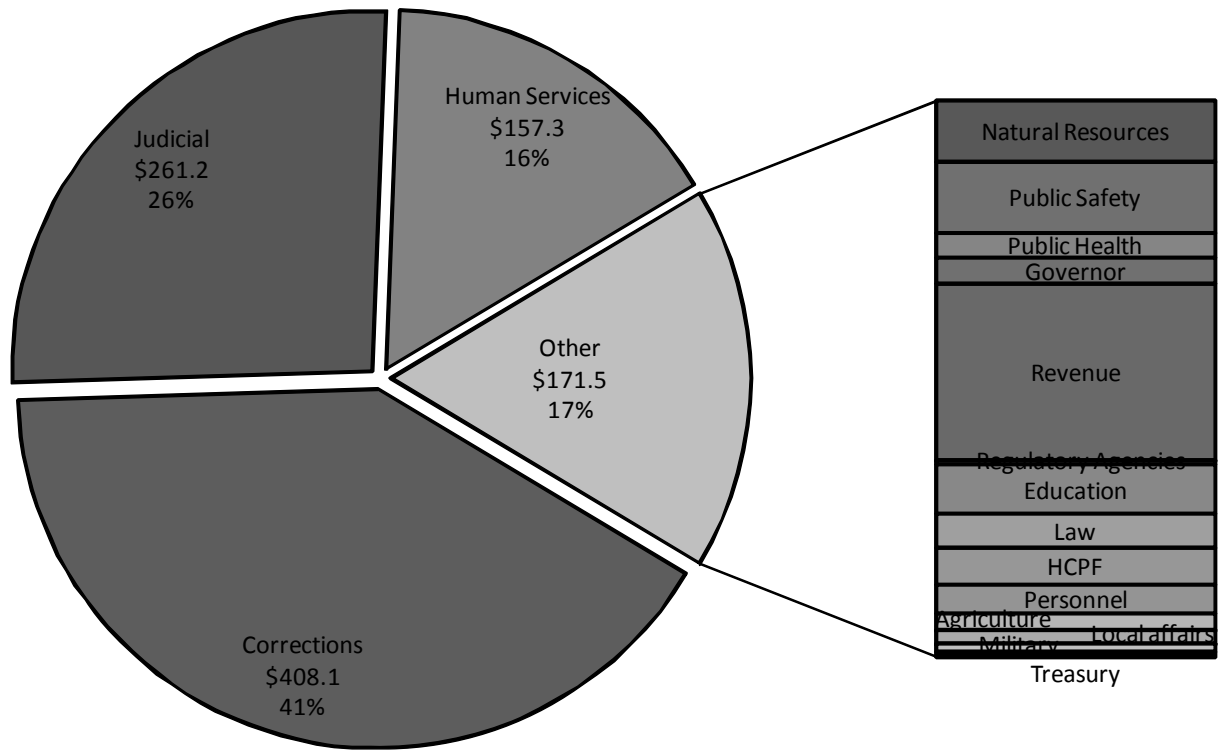
GRAPHIC OVERVIEW



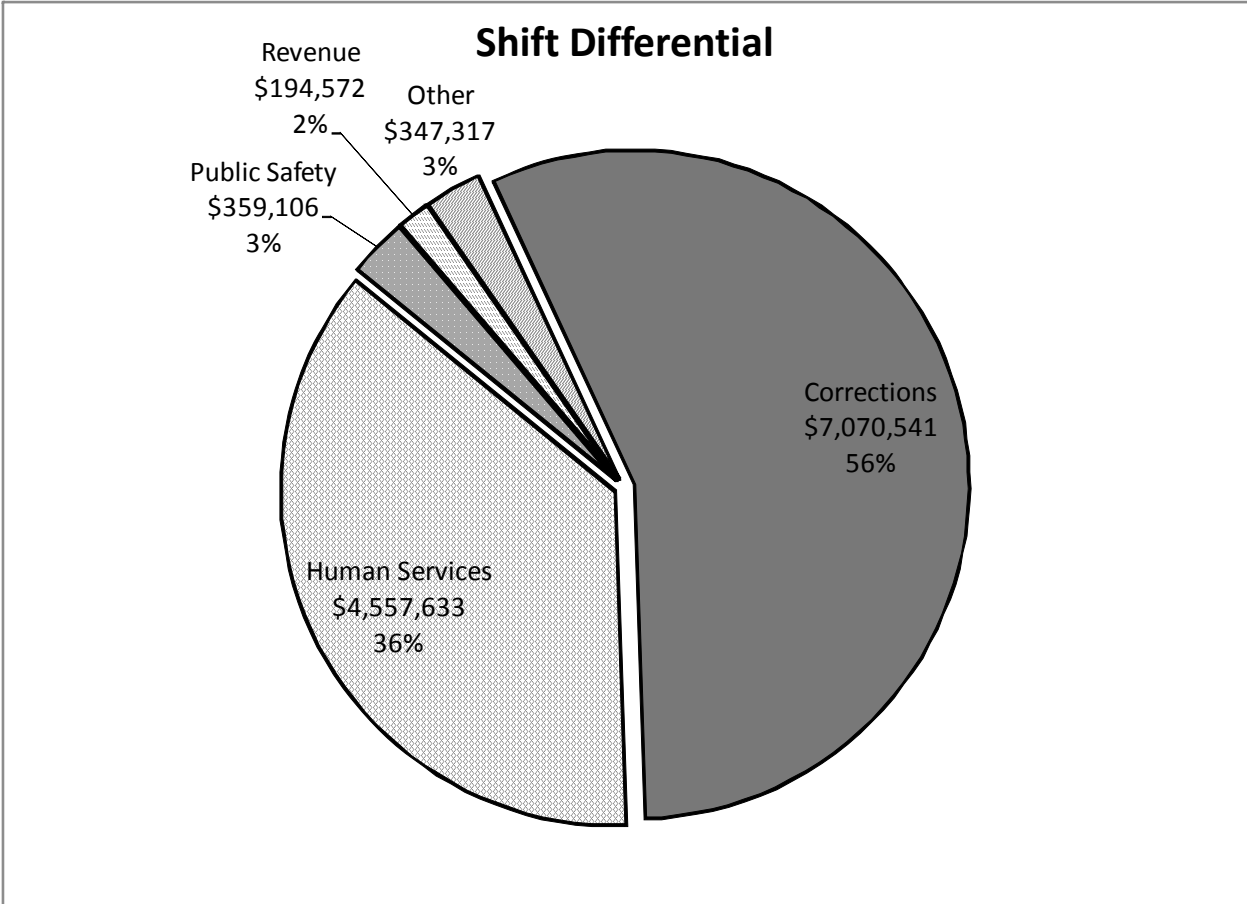
The graph summarizes the assumptions in the request for the continuation base total compensation expenditures by department, excluding higher education institutions. Total compensation expenditures include the state contribution to:

- Salaries -- including regular pay and shift differential
- Federal Taxes -- for Medicare
- Retirement Benefits -- including PERA, AED, and SAED
- Insurance Benefits -- including health, life, dental, and short-term disability

General Fund Compensation



The graph summarizes the assumptions in the request for the continuation base General Fund compensation expenditures by department, excluding higher education institutions.



The graph summarizes the assumptions in the request for the continuation base shift differential expenditures by department, excluding higher education institutions. This document summarizes shift differential expenditures separately from other forms of compensation because the distribution by department significantly varies from the distribution of total compensation expenditures by department.

The table below summarizes the assumptions in the request for continuation base compensation in aggregate.

	Rate	TOTAL	General Fund	Cash Funds	Rappropriated	Federal Funds
FY 2012-13 Total Compensation						
Base Assumptions		1,855,556,787	1,009,450,900	418,812,851	215,738,695	211,554,342
Base Salaries		<u>1,444,373,455</u>	<u>780,347,012</u>	<u>329,248,563</u>	<u>168,848,592</u>	<u>165,929,288</u>
Regular Pay		1,431,844,286	770,086,502	328,753,159	167,134,944	165,869,681
Shift Differential		12,529,169	10,260,510	495,404	1,713,648	59,607
Retirement Contributions	<u>16.1%</u>	<u>232,544,126</u>	<u>125,635,869</u>	<u>53,009,019</u>	<u>27,184,623</u>	<u>26,714,615</u>
PERA	10.15%	146,603,906	79,205,222	33,418,729	17,138,132	16,841,823
AED	3.2%	46,219,951	24,971,104	10,535,954	5,403,155	5,309,737
SAED	2.75%	39,720,270	21,459,543	9,054,335	4,643,336	4,563,055
Insurance Benefits	<u>12.4%</u>	<u>178,639,206</u>	<u>103,468,018</u>	<u>36,555,269</u>	<u>19,705,479</u>	<u>18,910,439</u>
Health, Life, Dental	10.7%	155,139,249	90,771,773	31,198,395	16,958,313	16,210,769
Medicare	1.5%	20,943,415	11,315,032	4,774,104	2,448,305	2,405,975
Short-term Disability	0.177%	2,556,541	1,381,214	582,770	298,862	293,695

Notes:

- ▶ The Regular Pay assumption is based on June 2011 salaries, with some modifications.
- ▶ The Shift Differential assumption is based on FY 2010-11 actual shift expenditures.
- ▶ The request assumes a PERA rate of 10.15 percent for all employees, which somewhat underestimates the cost for troopers and judges.
- ▶ For AED and SAED the request is based on a blended rate that assumes half of the state contributions are made at the calendar year 2012 rates and half of the state contributions are made at the calendar year 2013 rates, but this somewhat overestimates the cost for General Fund employees because of the pay date shift.
- ▶ The Health, Life, Dental base assumptions are based on enrollment in July 2011, with some modifications, and then the JBC staff compared this to the base salary assumptions to calculate the percentage that appears in the rate column. Health, Life, and Dental contributions are not calculated as a percentage of base salaries.

**FY 2012-13 Joint Budget Committee Staff Budget Briefing
Compensation-related Common Policies**

DECISION ITEM LIST

(Items were numbered for reference purposes by the JBC staff. OSPB did not assign a priority order to the common policy requests)

Updated 11/10/11 to include elected officials, and to reflect the sum of the requests submitted by each department rather than the OSPB summary documents.

Decision Item	GF	CF	RF	FF	Total	FTE
C-1	0	0	0	0	0	0.0
<p>Salary Increases</p> <p>The Governor did not request any increases for the Salary Survey or the Performance-based Pay line items, "due to budget constraints." Based on the Annual Compensation Survey Report for FY 2012-13, the Department of Personnel estimates the additional cost to increase appropriated state salaries to match the prevailing market as \$57.7 million, with an estimated General Fund share of \$31.1 million, excluding higher education institutions.</p> <p>The request does not include any vacancy savings adjustment to base personal services.</p> <p><i>Statutory authority: Section 24-50-104, C.R.S.</i></p>						
C-2	2,269,204	106,119	279,230	14,867	2,669,420	
<p>Shift Differential</p> <p>The Governor requested an increase in appropriations for shift differential, which is a form of premium pay for people who work evening and weekend shifts. The Governor is not proposing an increase in shift differential rates, but the request is for more money, because the FY 2011-12 appropriation didn't fully fund projected shift differential costs. The request was calculated based on 80.0 percent of FY 2010-11 actual expenditures.</p> <p><i>Statutory authority: Section 24-50-104, C.R.S.</i></p>						
C-3	31,368,631	11,590,615	6,281,344	6,768,820	56,009,410	0.0
<p>Retirement Contributions</p> <p>The Governor's request reflects a net 3.4 percent increase in the state contribution to retirement benefits as required by statute. This includes:</p> <ul style="list-style-type: none"> ▶ \$37.1 million total funds (\$19.8 million General Fund) to annualize S.B. 11-76, which temporarily lowered the state contribution to PERA by 2.5 percent; ▶ \$6.8 million total funds (\$3.6 million General Fund) for a 0.4 percent increase in the Amortization Equalization Disbursement; and, ▶ \$12.1 million total funds (\$7.7 million General Fund) for a 0.5 percent increase in the Supplemental Amortization Equalization Disbursement. <p><i>Statutory authority: Sections 24-51-401 and 411, C.R.S.</i></p>						

Decision Item	GF	CF	RF	FF	Total	FTE
C-4	6,553,342	(1,717,956)	(650,868)	284,147	4,468,665	0.0
<p>Insurance Benefits</p> <p>The request reflects updated estimates of enrollment in health, life, dental, and short-term disability benefits. The Governor is not requesting any increases in the state contribution rates. Based on the Annual Compensation Survey Report for FY 2012-13, the Department of Personnel estimates the additional cost to increase state contributions to health and dental insurance for appropriated positions to match the prevailing market as \$35.5 million, with an estimated General Fund share of \$19.8 million, excluding higher education institutions.</p> <p><i>Statutory authority: Section 24-50-604 C.R.S.</i></p>						
C-5	Not	Estimated	Not	Estimated	0	
<p>CHP+ Eligibility for Children of State Employees</p> <p>The Governor proposes allowing state employees to enroll their eligible children in the Children's Basic Health Plan (CHP+). This will result in an increase in expenditures for the CHP+ program and a decrease in expenditures for state employee health benefits. The request describes the net impact as a savings, but the General Fund expenditures are not quantified. The CHP+ program receives a 65.0 percent federal match on expenditures, and the per capita costs for CHP+ are projected to be lower than the annualized state contribution to premiums for employee's dependents. The change would also benefit state employees as the cost-sharing in CHP+ is lower than the employee contribution toward the current state health plans.</p> <p><i>Statutory authority: Statutory change required to Section 25.5-8-109 (1), C.R.S. to modify a three-month waiting period for enrollment in CHP+ that applies to people who previously received at least 50 percent assistance with health premiums through their employer and did not lose coverage because of a change in, or loss of, employment. This waiting period would be a disincentive for state employees to enroll in CHP+.</i></p>						
C-6	1,618,572	0	0	0	1,618,572	0.0
<p>Pay Date Shift</p> <p>The Governor proposes reversing the pay date shift for state employees paid on a bi-weekly basis. This would require legislation to undo a portion of S.B. 03-197 that shifted the date for June paychecks to July for employees paid from the General Fund. The Governor's budget letter estimated the cost of this change at \$1.6 million, including benefits.</p> <p><i>Statutory authority: Statutory change required to Section 24-50-104 (8) (a.6) C.R.S.</i></p>						
Total Compensation Common Policies	41,809,749	9,978,778	5,909,706	7,067,834	64,766,067	0.0

**FY 2012-13 Joint Budget Committee Staff Budget Briefing
Compensation-related Common Policies**

BRIEFING ISSUE

ISSUE: Measuring the size of the state workforce

SUMMARY:

- The FTE associated with a department and the headcount of employees are measures of the workforce that the legislature can choose to use to express legislative intent, measure the activity of departments, and review compliance
- There is a statutory definition of FTE, a centralized database to track FTE for all state agencies except the higher education institutions, and an established methodology to calculate FTE
- Similarly, there is an established method for calculating the headcount of state employees, and monthly reports on the headcount
- Despite these resources, the department is perceived as unable to measure the size of the state workforce
- Staff believes the Department needs to do more to make the data consistent, accessible, and complete
- The briefing includes several recommendations for changes in the Department's procedures and two recommendations for changes to statutes related to FTE.

DISCUSSION:

Purpose of FTE

A full-time equivalent (FTE) is a unit for measuring the workforce. It converts employees who work part-time, or who allocate a portion of their time to a program, into a fraction of a full-time employee, allowing apples to apples comparisons of the workforce associated with different programs. An FTE report measures hours devoted to a program, rather than providing a headcount of employees.

The FTE associated with a program does not measure the amount of work that can be achieved, but it does give an indication of work output. The relationship between FTE and the work achieved is analogous to the relationship between the wattage of a lightbulb and the light output. Somebody familiar with a 60-watt incandescent lightbulb can estimate the light output, but wattage is not a measure of light output. In a similar way FTE provides an indication of work output, but is not a measure of work output.

FTE can be used to help calculate a required level of funding, or to explain an authorized level of funding. After calculating the number of hours needed to accomplish a task, then the hours can be converted to FTE, and the FTE can be multiplied by expected salaries and benefits to determine an

appropriate level of funding. In the other direction, once a level of funding is provided, the FTE associated with that funding can indicate assumptions about the hours expected to accomplish the purpose of the funding, and about expected average salaries and benefits.

In appropriations the FTE indicated do not represent a binding limit on departments (see the attached memo from Legislative Legal Services in Appendix A for a discussion of legislative authority over FTE), but that does not necessarily mean that the FTE appropriations are meaningless. Appropriations of FTE can help communicate legislative intent regarding the workforce that should be devoted to a task. Also, comparing actual FTE to appropriated FTE may indicate how closely the implementation of a program matches the assumptions used by the legislature, and may suggest needed changes for the future. And, the General Assembly can choose to adjust appropriations in the future for agencies that don't comply with the appropriated FTE. Appropriated FTE are a tool the General Assembly can choose to use, like footnotes, to express legislative intent, measure the activity of departments, and review compliance.

Definition of FTE

The heart of the statutory definition of FTE is contained in Section 24-75-112 (1) (d) (I), C.R.S., but there are some exceptions and special cases that are discussed later in this briefing:

"full-time equivalent" or "FTE" means the budgetary equivalent of one permanent position continuously filled full time for an entire fiscal year by elected state officials or by state employees who are paid for at least two thousand eighty hours per fiscal year

Calculating FTE

To calculate the actual FTE the Department translates the statutory definition into the following formula:

$$\text{FTE} = \text{hours paid} / \text{full-time hours}$$

Generally, the full-time hours will be 2,080 hours in a year, but the hours can vary. To calculate the full-time hours the Department multiplies the possible workdays during the time period by eight hours per day. Workdays are defined as Monday through Friday, including paid holidays. The number of workdays in a year can vary by plus or minus one, depending on where the weekends fall at the beginning and end of the year. Also, in a leap year there may be an extra workday. Thus, the number of workdays in a year can vary between 259 and 262 days, and the full-time hours in a year can vary between 2,072 and 2,096. If the Department has to estimate FTE for a period of time that is less than a year, then it uses the possible workdays to date. The formula for full-time hours can be summarized as:

$$\text{full-time hours} = \text{possible workdays} * 8 \text{ hours}$$

The Department's calculation of the full-time hours is consistent with industry standards, but it technically varies slightly from the statutory definition of FTE. The statutes define FTE as paid for "at least" 2,080 hours per year, ignoring the possibility that there could be fewer than 2,080 work hours in a year. If the Department adhered strictly to the statutory definition of FTE in years where there are fewer than 2080 work hours, then it would change the estimated FTE in the state by several hundred.

Staff recommends that the JBC sponsor a bill, or an amendment to a bill, to make a technical change to the FTE definition to remove the reference to 2,080 hours. A change like the following would correct the technical problem with the definition: "who are paid for ~~at least two thousand eighty hours per~~ EIGHT HOURS PER WORKDAY IN THE fiscal year."

After calculating the full-time hours the Department compares them to the hours paid to estimate the FTE. This is relatively straightforward for employees paid by the hour, but for the vast majority of the state workforce that is compensated on a salary basis the Department uses a formula to estimate the hours paid. To calculate the hours paid to salaried employees the Department counts the workdays during the time the person was employed and multiplies those workdays by eight hours, and then by the percentage of a full-time salary earned by that employee. Note that the workdays include time when the employee may be on a holiday or paid leave. This is consistent with the statutory definition of FTE and with industry standards for calculating FTE. The formula can be summarized:

$$\text{hours paid} = \text{workdays} * 8 \text{ hours} * \text{percent of full-time salary}$$

The Department's methods for calculating both full-time hours and hours paid can produce small overestimates or underestimates of FTE when an employee works weekends or irregular shifts. For example, for a period of employment ending on a Wednesday the Department would estimate the full-time hours paid for that week as 24, but if the normal schedule for the position is four shifts of 10 hours each from Sunday through Wednesday, then the actual hours paid for the week would be 40. The 16 hour difference between the Department's estimate of the hours paid and the actual hours paid translates to a difference of 0.1 FTE after rounding, in a year with 2,080 full-time hours. Similar small variances can occur when calculating hours paid at the beginning of a period of employment, or in calculating the expected full-time hours for a year.

Sources of data for FTE and potential for data entry errors

The data for the Department's FTE calculations comes from the Central Personnel and Payroll System (CPPS) and can be influenced by data entry errors. However, the primary purpose of the CPPS is to generate paychecks and errors in paychecks are not likely to go unnoticed by managers or employees. Staff believes the likelihood of significant data entry errors is small.

There are some small ways data could be entered in CPPS that would result in an incorrect FTE calculation but a correct paycheck. For example, the same paycheck can be produced whether the percent of full-time salary is entered as 50 percent and the full-time salary as \$4,000, or if the percent

of full-time salary is entered as 100 percent and the full-time salary as \$2,000. However, if the employee works a whole year the former will appear as 0.5 FTE and the later will appear as 1.0 FTE. This is exclusively an issue that applies to part-time employees. The Department of Personnel trains human resources staff in the departments on the proper way to fill out the CPPS, and periodic audits of CPPS data may identify this type of problem, but errors can still occur, and it is unknown how frequently they might occur.

	Percent of full-time salary	Full-time monthly salary	Monthly Paycheck	FTE
Correct data entry for a half-time position	50.0%	\$4,000	\$2,000	0.5
Incorrect data entry of a half-time position	100.0%	\$2,000	\$2,000	1.0

According to the Department, all state agencies use the CPPS to generate paychecks except the higher education institutions. The Department of Transportation enters payroll data in a different software product, made by SAP, but feeds the data to CPPS through an interface and some manual entry to generate paychecks¹. Thus, the Department of Personnel has the data to calculate FTE for all state agencies except the higher education institutions.

The special case of higher education

The higher education institutions have delegated payroll authority and do not report the same data to the Department of Personnel as other state agencies. Higher Education institutions could use the Department of Personnel's CPPS to manage their payroll, but all of them have elected to use other software options that are more integrated with their accounting systems and customizable to the specifications of the institution. In theory, each higher education institution has the data to duplicate the calculation of FTE performed by the Department of Personnel, but the Department of Personnel cannot guarantee that higher education institutions report FTE in the same way, because the Department of Personnel does not audit the data, verify the data queries, or check the formulas of the higher education institutions.

Another thing that distinguishes higher education institutions from other state agencies is that the term FTE has a different meaning for some categories of higher education personnel. Pursuant to Section 24-75-112 (1) (d) (IV), C.R.S.:

For purposes of higher education professional personnel and assistants in resident instruction and professional personnel in organized research and activities relating to instruction, "full-time equivalent" or "FTE" means the equivalent of one permanent position continuously filled for a nine-month or ten-month academic year.

¹ The Department of Transportation believes that the way the SAP product integrates payroll data with other expenditures, such as expenditures for materials and fuel, helps the Department to comply with federal reporting requirements, and provides useful management tools, such as easy calculation of costs per mile of construction.

Higher education instructors are generally compensated based on the academic year, rather than the calendar year, and so the expected full-time hours per FTE are less. For most state agencies an employee who works full-time for 9 months represents 0.7 FTE, but a professor who works for 9 months during an academic year at a higher education institution would represent 1.0 FTE, according to the statutory definition of FTE.

Unlike other categories of state employees, a single professor can represent more than 1.0 FTE. If a professor teaches summer courses for a 12-month teaching load, the professor is considered 1.2 FTE. The statutory definition of FTE specifically excludes overtime and seasonal work. Higher education institutions treat summer appointments like a second job for the employee, rather than as overtime or seasonal work, for purposes of FTE calculations.

For professors designated as "part-time," such as an adjunct professor or teaching assistant, the institutions divide the credit hours taught by 30 to determine the FTE. Generally, "part-time" professors are hired to teach and are not expected to conduct research or perform administrative functions. This can lead to some surprising results. Consider the following scenario. At a research institution a "full-time" professor may be expected to teach two courses per semester, or approximately 12 credit hours per year, and professors who do this for a 9-month appointment would be considered 1.0 FTE. Meanwhile, a professor hired "part-time" to teach 15 credit hours in a year at the same institution would count as 0.5 FTE, even though the part-time professor teaches more credit hours than the full-time professor. The expectations for the portion of each day that "full-time" professors spend teaching credit hours, versus doing research or service or administrative work, can vary dramatically between institutions, between academic departments, and even between individual appointments. There is no universal standard for the number of credit hours taught per instructional FTE, but rather significant variation based on the job description for each individual employee and whether the appointment is designated as "full-time" or "part-time."

Currently, higher education institutions routinely report the FTE in their Education and General budget to the legislature, but FTE associated with self-supporting Auxiliary programs are not regularly reported in a standardized format. In order to report just Education and General FTE higher education institutions sometimes have to make allocations of employee time between Education and General programs and Auxiliary programs, which can be a challenging and subjective process. This is primarily an issue when professors split time between teaching and grant-funded work for a research auxiliary. While professors are typically expected to do some research as part of their job description, when a professor receives grant funding the research hours may appear in an Auxiliary research program budget, rather than the Education and General budget. At the University of Colorado professors self-certify each semester the percentage of their time spent on research grants versus teaching and public service. This time allocation is audited by the University and grantors. The time allocation is used to determine the Education and General FTE that are reported to the General Assembly. Other examples of programs with FTE that may not be reported to the legislature because the programs are designated as auxiliaries include book stores, food service, housing, parking, and child care.

Other exceptions to the FTE definition

The statutes specifically exempt from the definition of FTE any permanent seasonal, contractual, or temporary positions. An argument could be made that all three are part of the state's workforce and should be included in the count of FTE. On the other hand, these may not represent regular, on-going, predictable, annual workforce needs, and including fluctuating positions in an FTE count might diminish the value of the FTE as a budgeting tool for determining the overall appropriation, or expressing legislative intent regarding the baseline staffing level.

The Department has data in CPPS that could be used to calculate the permanent seasonal and temporary FTE, but not contractual FTE. To report data on contractual positions the Department would need to survey other departments and rely on the subjective analysis of the human resources staff at those departments to convert contracts to FTE. If the JBC wants to change the statutory definition of FTE and appropriate permanent seasonal and temporary positions, or if the JBC just wants reporting on permanent seasonal and temporary positions, then the Department can provide that data. However, the JBC staff recommends not expanding the definition of FTE, or requiring statutory reports to include contractual positions, due to a lack of standardized data, or even a standardized interpretation of how to convert contracts to FTE.

The statutory definition of FTE specifically excludes shift differential and overtime. Shift differential is a way of compensating people for working irregular hours, but it has no bearing on the total number of hours paid or the expected full-time hours, and so it should not be part of an FTE calculation. Overtime represents additional hours worked, but these are not normal or expected hours. Instead, overtime represents limited-duration, fill-gap hours similar to temporaries. If the JBC wants to change the definition of FTE to include temporaries, then it may want to include overtime as well. The Department has data in CPPS that it could use to convert overtime to FTE.

Headcount versus FTE

In addition to tracking FTE, the Department of Personnel reports monthly the employee headcount by tabulating the number of paychecks to unique social security numbers. If a person receives multiple paychecks from the same department or higher education institution during the month, then that person will appear as one on the paycheck report, but if they receive paychecks from multiple departments or higher education institutions they will show up multiple times on the report, because the data is aggregated by department and institution. As with the FTE, the Department of Personnel does not maintain the data for the higher education institutions and must survey the institutions to prepare the report. For the paycheck report higher education institutions include employees paid from all budgets, rather than just the Education and General budget. The paycheck report includes temporary and seasonal employees and work study students, but does not include contract services. If a person leaves state employment and a replacement is hired and paid in the same month, then the paycheck report would show two for that position. The paycheck report describes how many people work for the state, but because some of the people included in the paycheck report work part-time it does not provide a clear picture of the staff power of the state. The FTEs provide a better indication of the staff power of the state, although the FTEs still do not directly measure work output.

Improving reporting procedures for FTE

There are several reports on the state's workforce produced, or requested to be produced, every year. There are two statutes that require reporting on FTE, departments submit information about FTE with the annual budget request, and the State Controller includes an estimate of FTE by department in the Comprehensive Annual Financial Report. In addition, there are some outside groups, like the U.S. Census Bureau, who produce estimates of state government FTE. Also, the Department produces monthly reports on paychecks to unique individuals, which are not the same as FTE, but are frequently misinterpreted that way. And, the Department responds to numerous questions each year about the state's workforce from the executive branch, the legislature, and the media. Often these ad hoc reports deal with specific subsets of the total state workforce that are relevant to the question, such as classified employees or employees eligible for health benefits, and they use different methods to estimate the workforce.

The multiple reports with different results contribute to perceptions of the Department as so bungling that it cannot answer the simple-sounding question of how many FTE work in state government. However, this criticism is not entirely fair, since many of the reports measure different things on different scales. Criticizing the Department for getting different values would be like saying that a scientist cannot describe how big an object is because the scientist measures it in centimeters and grams and the numbers don't match each other. Then another scientist comes along and compounds the confusion by measuring just the radius using a scale of inches and doesn't get a number that matches either the centimeters or the grams. Staff believes the Department is viewed as having less data, and less reliable data, than is actually the case.

While staff believes the Department is overly criticized for a lack of good workforce statistics, the Department ought to do more to make the data consistent, accessible, and complete. For example, the FTE estimate produced by the State Controller for the Comprehensive Annual Financial Report (CAFR) uses a different methodology than all other reports produced by the Department. To estimate state FTE for the CAFR, the State Controller looks at positions designated as full-time and then adds to this the part-time salaries divided by the average salary for full-time employees for each department. The State Controller's methodology is consistent with itself over time and serves its purpose of providing trend data, but why have two divisions of the Department produce two different estimates of FTE using different methodologies, especially when there is a statutory definition of FTE that is supposed to be guiding how FTE are calculated?

As another example, the Department could funnel all workforce-related reports through a single program group to ensure consistent methodologies. The estimate of FTE in the CAFR is not the only example of reports produced by the Department that use different methods to measure the workforce. When staff looked at "Workforce Data" on the Department's web site and compared the "Total CPPS Workforce Counts" for September 2011 to the State Controller's monthly paycheck report for September, the employee headcounts did not reconcile. Staff assumes there is a reasonable explanation for the variances in the reports, based on factors such as different points in time or differences in the populations being measured, but there is no explanation of why these two prominent studies produced different results. Similarly, JBC staff have noted over the years that FTE

reported by the Department of Personnel do not match FTE reported in the budget requests submitted by each department. A single program group in the Department responsible for FTE reporting could help reconcile the FTE reported in the budget requests to the data in CPPS, and ensure that departments are not miscalculating the FTE. Estimates of state FTE produced by the U.S. Census Bureau do not appear to correlate to the Department's estimates, though the Census Bureau indicates that the data was provided by state governments from central payroll records. The Department has not yet been able to identify which program responded to the Annual Survey of Public Employment and Payroll, or why the Census Bureau estimates are so different. Though a single reporting group wouldn't be able to control how people interpret the data, at least it could ensure that workforce reports sent out by the Department contain the same information and use consistent methods.

The Department could add indicators to CPPS to identify positions as appropriated or non-appropriated. CPPS contains information about all employees who receive state paychecks, excluding employees of the higher education institutions. But, there are some employees who are funded from sources that are not appropriated in the Long Bill. For example, there were 147.2 FTE at the Department of Labor and Employment in FY 2011-12 who were funded from the federal American Recovery and Reinvestment Act to assist with unemployment insurance and workforce programs. The executive branch argues that including these FTE would skew the results of a comparison between actual FTE and appropriated FTE. Adding indicators to CPPS would allow the Department of Personnel to filter appropriated and non-appropriated FTE without needing to conduct a time-intensive survey of every department each time a question is asked.

As another example, when replying to questions about specific subsets of total state FTE the Department could also provide information about the total state FTE. This would emphasize to the reader that the data is for a subset of the total, discouraging potentially erroneous assumptions by the reader, and anticipating potential questions by the reader about the total workforce.

Similarly, when providing information about the headcount of state employees, the Department could also provide information about the FTE. This would emphasize the difference between the FTE and the headcount, so that the two get confused less often. Also, it would provide context for the headcount information, which might otherwise overstate the staff power of the state due to part-time positions. The FTE information doesn't necessarily need to be updated as frequently as the headcount information. It may make sense to track headcount monthly, because the headcount is a point-in-time calculation that could vary seasonally, while it may be sufficient to calculate FTE quarterly or annually, since the FTE measure positions filled for a full year. If the Department is going to measure the size of the state workforce two different ways using headcount and FTE, then it should show both measures in reports.

As another example, the Department could develop a routine and periodic survey of the higher education institutions, so that the Department is prepared to provide comprehensive FTE information for the state. In responding to questions about state FTE the Department frequently reports incomplete information that excludes the higher education institutions, because the Department does not control the data for the higher education institutions and would need to conduct a survey to

collect the information. Currently, the higher education institutions voluntarily provide information about the number of paychecks to unique individuals to the State Controller on a monthly basis. Also, the higher education institutions provide information about FTE to the General Assembly on an annual basis as part of the budget request. Periodically sharing FTE information with the Department of Personnel would not be particularly more time consuming or cumbersome than existing procedures for the higher education institutions.

While the Department and the executive branch voluntarily provide FTE data in several different formats, they do not respond to the two reporting requirements that are actually in the statutes. Also, the legislature has a long-standing request for information regarding additional federal and cash funds and FTE that generates only sporadic reporting from departments. This makes the Department and the executive branch appear unwilling to cooperate with the legislature. If the executive branch objects to the statutory reporting requirements, based on concerns about the separation of powers or other criteria, then the executive branch could explain the objections, referencing the statutes, and periodically provide whatever the executive branch is willing to report regarding FTE in lieu of responding to the statutes. This would give the legislature the courtesy of responding to the statutory reporting requests, even if the responses do not provide everything the legislature requests.

By modifying internal procedures for handling FTE reporting, the Department and the executive branch could provide better information to policy makers and, as a side effect, diminish negative perceptions of the Department as too incompetent to describe the size of the state workforce. Toward this end, the Department and the Office of State Planning and Budgeting (OSPB) have committed to making some changes.

OSPB initiatives to improve FTE reporting

As part of the budget process this year OSPB required departments to reconcile the FTE in the budget requests to the FTE data in CPPS to reduce errors. CPPS includes fund source codes that tie employee salaries to specific line items, but sometimes departments subsequently change the fund source and reallocate a portion of an employee's salary to a different line item through an accounting entry in the Colorado Financial Reporting System (COFRS), and then don't update CPPS. This might happen if the fund source for an employee varies through the year, or if an employee gets paid from line items in multiple divisions or departments. To compare actual FTE to appropriated FTE by line item requires analysis of the CPPS data in conjunction with COFRS data, and this is most easily performed by staff for each department who are familiar with the programs. However, not all the staff in the departments who are familiar with the programs are familiar with the Department of Personnel's methodology for calculating FTE. For example, several departments assumed 2,080 hours per FTE in FY 2010-11 when there were actually 2,088 hours per FTE in CPPS for that fiscal year. By requiring departments to reconcile FTE to CPPS, OSPB is trying to ensure more consistent FTE counts. Unfortunately, the reconciliation this year occurred after the budgets were submitted, and so errors were not corrected.

In addition, OSPB sent a letter to the JBC promising new quarterly reports of FTE beginning November 15. These quarterly reports will be aggregated at the department level because, as

described above, getting to a line item level of detail requires significant time comparing data in CPPS to data in COFRS. In addition, these reports will include information about the higher education institutions. However, OSPB and the Department of Personnel are still developing a method for collecting the information from the higher education institutions, and so OSPB predicts that the information about the higher education institutions will not be included until the February quarterly report.

Improving statutory FTE reporting requirements

Staff believes one of the two statutory reporting requirements regarding FTE should be changed. Pursuant to Section 24-50-110 (1) (d), C.R.S., for all departments except the Department of Higher Education:

Each principal department shall monthly reconcile the number of positions it has authorized with the number of payroll warrants issued and the number of appropriated full-time equivalent employees. Copies of such reconciliations shall be submitted monthly to the department of personnel, the office of state planning and budgeting, and the joint budget committee.

Departments are not currently submitting such reconciliations, and staff does not know if they have ever submitted reconciliations. This reporting requirement was added in 1981. Fiscal staff people for the Department of Personnel were not familiar with the history of the legislation, or why departments are not currently complying. The Department of Personnel does submit a monthly report of the number of paychecks to unique individuals, which might be viewed as satisfying the portion of the statutory reporting requirement regarding payroll warrants, but the Department admits that this is not the purpose of the paycheck report, and there is no reconciliation in the paycheck report of the authorized positions with the payroll warrants or with appropriated FTE.

This statutory reporting requirement is problematic, because it is not clear how departments would perform the requested reconciliation, or to what benefit. First, the number of authorized positions is an ambiguous concept. What is an authorized position and who authorized it? Second, these authorized positions are supposed to be reconciled with both the number of payroll warrants issued and appropriated FTE, but payroll warrants and FTE do not correlate to each other. There could be multiple payroll warrants for 1.0 FTE, because 1.0 FTE can be composed of many people, and each person can receive multiple payroll warrants. For an individual case the payroll warrants and FTE could be described and confirmed, but the relationship between the payroll warrants and FTE could not be generalized to other situations. The statute asks departments to perform a potentially time-consuming monthly reconciliation between an undefined "number of positions it has authorized" and two uncorrelated measures in payroll warrants and FTE.

Staff recommends that the JBC sponsor legislation to make the reporting requirement more reasonable, clear, and meaningful. Specifically, staff recommends:

- Changing the frequency of the report from monthly to quarterly, or possibly annually;

- Making the Department of Personnel responsible for a consolidated report to OSPB and the JBC, rather than requiring individual reports from each department;
- Extending the report to include actual FTE at the higher education institutions; and,
- Limiting the scope of the "reconciliation" to a comparison between actual FTE and appropriated FTE, for appropriated positions.

Staff recommends that the JBC work with the Department and OSPB on the specific language to identify and minimize any potential conflicts over the separation of powers between the legislative and executive branches.

Since the definition of FTE refers to a position that is filled "for an entire fiscal year" it may make sense to report actual FTE annually, but if the JBC would like more frequent reporting, then staff would recommend quarterly reports. This would give the JBC time to identify and respond to new patterns of FTE utilization before the end of the fiscal year, but would reduce the administrative burden on the executive branch.

The FTE reports currently prepared by the Department generally don't include higher education institutions, and this is a major flaw, because higher education institutions are among the state agencies that are the largest employers. The higher education institutions have considerable autonomy, but they are still state agencies, and any FTE account that excludes them significantly understates the size of the state workforce.

Information comparing appropriated FTE to actual FTE is already in each department's annual budget request, but there is currently no consolidated report of variances that is available to policy makers or other interested parties who don't want to wade through volumes of detailed budget schedules. Also, as noted, there have been errors in the FTE reported in the budget requests in the past. Presumably if the Department of Personnel has to be involved in the comparison of actual FTE with appropriated FTE, then the Department of Personnel will make sure that the actual FTE jibe with the data in CPPS.

The second statutory reporting requirement regarding FTE is contained in Section 24-75-112 (1) (d) (V), C.R.S.:

No department shall make a material change in the number of FTE specified in a particular item of appropriation prior to notifying the joint budget committee in writing of such change.

The term "material change" is open to interpretation. The Office of State Planning and Budget appears to establish a 10 percent threshold in the OSPB budget instructions:

If a department determines that the projected number of FTE to be used over the course of the fiscal year exceeds the FTE amount in the Long Bill plus special bills by more than 10 percent, the Department must notify the Governor's Office of State

Planning and Budgeting prior to hiring the FTE. This calculation is to apply to each individual line item in the Long Bill. . . OSPB intends to provide the Joint Budget Committee and the General Assembly with periodic updates on FTE which includes areas within state government that have exceeded the 10 percent threshold.

The Joint Budget Committee received two of these periodic updates with the November request, related to Department of Education and the Department of Public Safety. Both of the notifications came after the change in FTE, rather than prior to the change in FTE. Staff is not aware of the Joint Budget Committee receiving any other notifications of a "material change" in the number of FTE since the reporting requirement was added in 2008.

The budget requests report numerous cases of FTE exceeding the appropriation in FY 2009-10 and FY 2010-11. Staff began to compile a list of these cases, but it was too time consuming to complete before this presentation. Most of the variances staff identified were small, and many might not appear as variances if departments corrected the hours per FTE to 2,088 hours instead of 2,080. Also, a large portion of the variances involved federal funds or continuously appropriated cash funds. Departments may not consider the additional FTE a "material change" from the appropriated FTE that requires prior notification to the JBC.

Departments may also be reacting to the Governor's veto message:

With this letter, I am also registering objection to the General Assembly's inclusion of full-time equivalent positions (FTE) within the general appropriations act. The Colorado Supreme Court's opinion in Anderson v. Lamm, 195 Colo. 437, 579 P.2d 620 (1978) clearly states that "specific staffing and resource allocation decisions" in a general appropriations bill are unconstitutional. The Supreme Court affirmed this finding in Colorado General Assembly v. Owens, 136 P.3d 262 (Colo. 2006). The General Assembly's attempt within Senate Bill 11-209 to appropriate the number of FTE positions within Colorado government constitutes interference with the inherent prerogative of the Executive Branch to administer its appropriations. More importantly, any predetermined prescription of FTE authorization limits the ability of State agencies to make the most resource-effective use of appropriations to accomplish critical performance objectives.

Therefore, with the clear purpose of encouraging efficiency and effectiveness in State government operations, I am directing Executive Branch agencies to disregard the FTE authorizations within Senate Bill 11-209. I have informed the members of the cabinet instead to manage their operations within the scope of the dollars appropriated in Senate Bill 11-209. By removing perceived limitations on the operational flexibility of the Executive Branch, State agencies will be empowered to make smarter business decisions in the management of their appropriations for personnel. This represents an important first step in reshaping the operations of State government to encourage creativity and efficiency.

With this direction, Executive Branch agencies will continue to monitor the use of FTE throughout FY 2011-12, and will provide the customary details of actual FTE usage in the budget submissions for FY 2012-13 and FY 2013-14.

While it is not clear whether the JBC will receive any prior notifications of increases in FTE pursuant to Section 24-75-112 (1) (d) (V), C.R.S., staff does not have any recommendations for changing this second statutory FTE reporting requirement at this time. The JBC may want to discuss with OSPB the criteria for what constitutes a "material change" from the appropriated FTE.

**FY 2012-13 Joint Budget Committee Staff Budget Briefing
Common Policies
(Compensation-related Common Policies)**

BRIEFING ISSUE

ISSUE: Budgeting for prevailing total compensation

SUMMARY:

- ❑ To achieve the statutory goal of providing prevailing total compensation, the Department conducts an Annual Compensation Survey Report
- ❑ This year's survey estimates \$93.2 million total funds, including \$50.9 million General Fund, would be required to pay prevailing compensation for salaries, health, and dental premiums
- ❑ The issue brief explores the relationship between vacancy savings and the total funds required by each department to pay prevailing compensation

DISCUSSION:

The state's compensation philosophy is expressed in Section 24-50-104, C.R.S.:

It is the policy of the state to provide prevailing total compensation to officers and employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent work force. For purposes of this section, "total compensation" includes, but is not limited to, salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.

One of the tools the Committee uses to estimate the funds necessary to provide prevailing compensation is the Annual Compensation Survey Report, delivered by August 1 every year. The report is often referred to as the Salary Survey, but it actually deals with all aspects of compensation, rather than just salaries. The purpose of the report, described in Section 24-50-104 (4), C.R.S., is, "to determine any necessary adjustments to state employee salaries, state contributions for group benefit plans, and performance awards."

Note that Section 24-50-104 (4), C.R.S. does not specifically mention retirement benefits, perhaps because these are assumed to remain relatively constant from one year to the next. Nor does paragraph (4) mention incentives, premium pay, or leave. However, Section 24-50-104 (1), C.R.S. defines these things as part of total compensation and requires the Department to conduct periodic surveys of total compensation, which includes retirement benefits, incentives, premium pay, and leave. The Department does not have the resources to look at all aspects of compensation in the same level of depth every year, but it does consider aspects of compensation beyond salaries and

health benefits, and reports on these on a rotating basis when there are significant changes in or variances between the state's practices and prevailing practices.

The easiest way to make state compensation fit prevailing compensation is to make each compensation component -- i.e. salaries, health insurance, retirement benefits, etc. -- match the prevailing practice. However, total state compensation can meet prevailing compensation with some components above and some components below prevailing standards. Analyzing such a system requires valuation and comparison of unlike things, like retirement benefits and health insurance. If state employees have above-average retirement benefits but below-average health insurance, then when do those balance out to provide total compensation that meets the prevailing standard? The Annual Compensation Survey Report primarily focuses on how each component of state compensation compares to prevailing standards, but the Committee must consider the total compensation picture in interpreting the results.

It is important to understand that the Annual Compensation Survey Report makes estimates and in all estimates there are margins for error. There are numerous ways the survey could be wrong. For example, it relies primarily on self-reported data from employers, who put varying levels of effort into providing accurate and consistent data. Differences in interpretation about job duties and descriptions could skew the results for a job class. For some categories of state employees there are few analogous private sector jobs. Some employers sampled in the survey also compare themselves to the state, potentially creating a spiraling effect on compensation. There is a delay between when data is collected and when the survey is produced, and so if prevailing compensation is changing rapidly the report may lag the trends. These are just a few examples of how the report could fall short of accurately describing prevailing practices.

As prone to error as the survey may be, it is the primary tool available to the Committee for determining if compensation meets prevailing practice. The survey is to compensation what the Legislative Council Staff and Office of State Planning and Budgeting forecasts are to revenues. The Committee shouldn't be blamed if the projection is wrong, but the Committee might be criticized if it fails to head the projection and budget accordingly. The Committee may hear from departments that exceptions to compensation-related common policies need to be made because appropriate staff cannot be hired otherwise. The Committee will need to evaluate if departments are complaining about the accuracy of the survey, or if there are problems in the Committee's common policies that apply the results of the survey to the budget. There could be problems with the survey, but that doesn't mean the Committee should make exceptions to the common policies. The survey is conducted annually, and hopefully any errors or anomalies in the survey will be corrected the next year. It would be difficult to establish a budget to pay prevailing compensation without assuming that the survey is accurate.

Highlights from this year's Annual Compensation Survey Report include:

- \$57.7 million additional funds (\$31.1 million General Fund) would be required to match prevailing market salaries (including benefits calculated as a percentage of salary);

- Weighted average state salaries lag the market median by 5.2 percent and the market weighted average by 7.1 percent
- "While the overall findings are within the target threshold as defined by the State (plus or minus 7.5 percent of the market) and by common compensation industry standards (within 5 to 10 percent of the market), adjustments are needed for the State to be prevailing.";
- The Department plans to redesign the pay structures for several "outlier" job classes;
- \$35.5 million additional funds (\$19.8 million General Fund) would be required to increase state contributions to health, life, and dental premiums to match the prevailing percentage share by market employers;
 - \$18.3 million total funds (\$10.2 million General Fund) would be required to maintain contributions to health, life, and dental premiums at 90 percent of prevailing market levels, which is the budget target for FY 2011-12;
 - Medical plan options provide prevailing coverage and are comparable to the market in terms of cost-sharing features other than premiums;
 - Dental plan benefits are below the market, as are the premiums, and the Department plans to increase both by approximately 18 percent to match prevailing practice, which will impact the employee share of premiums.

Vacancy Savings

When determining the aggregate amount that a department needs in order to pay its employees prevailing compensation, the Committee typically considers vacancy savings. The Committee could appropriate the full annual funding required for all positions, but that is unlikely to represent reality. Most likely departments will have some turnover that will result in savings. If the Committee can capture that savings up front in the budget process, then it can apply the savings to other priorities, rather than tying the money up in programs that will ultimately not need all of it.

However, capturing vacancy savings in the budget process can beget more vacancy savings. Managers are reluctant to gamble that they will have vacancy savings every year. If a manager receives less than full funding for the positions in a program, then that manager may not fill all those positions, in order to ensure that the program does not overexpend. Then, when the inevitable turnover occurs, the program has additional vacancy savings on top of what the Committee originally planned for and captured through the budget process. If the Committee revises the vacancy savings estimate to try to capture this additional savings, then the cycle becomes what some departments describe colorfully as a "death spiral" for the program.

If the Committee wants to capture vacancy savings up front in the budget process without creating a death spiral, then managers must be convinced to hire a full compliment of staff without full funding. Managers must trust that the vacancy savings estimate is accurate. And, there must be some flexibility in the budget where departments can cut expenses and/or transfer funds if actual vacancies are less than the forecast. Providing flexibility reduces the General Assembly's control and creates risk for abuse, but not capturing the vacancy savings up front also creates risk for abuse.

The Committee must weigh the cost of providing flexibility against the benefit of capturing the vacancy savings up front.

One of the ways the legislature has historically provided flexibility is through centralized appropriations in the executive director's office for each department. These centralized appropriations are often referred to as "POTS." Although the term is typically spelled with all capital letters, it is not an acronym. It refers to metaphorical containers that hold money until it is distributed to other line items where it is expended. Departments are statutorily authorized to transfer centralized appropriations, or POTS, from the executive director's office to line items throughout the department. However, the transfer authority is limited by the headnote definition of each POT contained in Section 24-75-112, C.R.S. For example, the Health, Life, and Dental POT is supposed to be used only for the state contribution to health, life, and dental premiums. The state contribution to health, life, and dental premiums is only one aspect of total compensation that could fluctuate if actual vacancy savings are different than the projection. In years with salary survey and performance-based pay awards departments had significantly more flexibility in POTS appropriations than in recent years that have not included these centralized appropriations.

Another way the legislature has provided flexibility is through program line items. In some divisions appropriations are divided into personal services and operating expenses, but in other divisions the personal services and operating expenses are combined into a single program appropriation. This gives departments the flexibility to use money intended for operating expenses to support personal services expenses, and vice versa. There is no specific criteria that the JBC uses to determine when to break out personal services and operating appropriations and when to combine them in a program appropriation. Factors that influence the decision may include the size of the program, the degree of specificity in statute about the purpose of the program, the availability of quantified data to measure the performance of the program, and the Committee's history and level of trust with the program. OSPB submitted some requests to consolidate personal services and operating appropriations for FY 2012-13. The Committee has historically evaluated these types of requests on a case by case basis.

Another form of flexibility is the inclusion of contract services in line items that also pay for personal services. This form of flexibility is sometimes created by the legislature and sometimes created by departments. If a manager is worried that a lack of vacancy savings will result in an overexpenditure, the manager may hire less than the appropriated FTE and try to accomplish some of the work through contract services that the manager can increase or decrease based on whether the actual vacancy savings fit the projection.

Departments have some control over the level of vacancy savings. While departments do not directly determine when employees leave, they can often determine when replacements are hired. If actual turnover is trending below the projection used for the appropriation, a department could increase the length of time positions are vacant to increase the savings achieved per turnover.

There are two types of vacancy savings: (1) Those associated with the amount of time a position is empty and a department is not paying anybody; and (2) Those that result from hiring somebody to fill a position at a lower pay grade than the person who left that position. The two types of vacancy savings impact the budget in subtly different ways, and so it can be important to determine which type of vacancy savings is being discussed, though both types are frequently conflated as simply "vacancy savings."

The vacancy savings from unfilled positions may be partially or wholly offset by other costs. These include payouts for accumulated leave, temporary services and/or overtime to cover for the unfilled position, and training required for a new person to perform the duties.

Departments frequently complain about the burden of payouts for accumulated leave, but this is really just planned unproductive time that departments should be accounting for in their budgets. It should be no different to a department if an employee quits and then gets paid for leave time or if an employee takes the leave time and then quits. There are some state employees who are allowed to accumulate more leave time than others due to grandfather provisions that exempt them from current caps on accumulated leave. Departments have to plan for more potential unproductive time associated with these employees, whether that unproductive time is the result of long periods of leave or payouts at termination. It is true that any measure of the vacancy savings from unfilled positions needs to net the costs of accumulated leave payouts. In some cases, especially for employees who have been with the state for a long time, a position could be filled faster than the accumulated leave, negating any vacancy savings from unfilled positions, but if departments are budgeting properly for accumulated leave they should never be forced to fill a position this quickly and accept no vacancy savings from unfilled positions.

Vacancy savings from unfilled positions are one-time. Once the position is filled, the savings go away. However, if the turnover rate and length of time positions are unfilled are consistent, one could expect roughly the same level of one-time vacancy savings to recur every year. It would not be reasonable to adjust the base budget downward for the savings from unfilled positions every time a vacancy occurs, but the base budget could be adjusted downward once for the projected annual savings from unfilled positions, and then reasonably expected to stay at that reduced funding need in future years.

Vacancy savings from the difference in compensation between a previous employee and a new hire are ongoing. These savings can be taken from the budget every time there is a vacancy, as long as the new hires earn less than the previous employees. If there is no money to increase the compensation of new hires during their time with the state, then eventually when they leave they will be replaced with people making the same compensation. There will be no vacancy savings from a difference in compensation.

Recycling vacancy savings

Rather than providing a pot for pay raises and then taking the money away in vacancy savings, it may make more sense to assume that vacancy savings from differences in compensation are recycled by

departments into pay raises for other employees. Assume a department hires one employee a year for four years at \$100 each to fill positions A, B, C, and D. Each year after hire those employees get a \$1 raise, so that in the fourth year the department is spending \$406 annually on salaries. In the fifth year position A turns over and a new employee is hired at \$100, saving \$3. That \$3 in savings gets recycled into \$1 raises for positions B, C, and D. The department is still spending \$406 annually on salaries. In the sixth year position B turns over, saving \$3 that gets recycled into \$1 raises for positions A, C, and D, resulting in annual salary expenditures of \$406. The table below illustrates how this recycling scenario works.

Position:	A	B	C	D	TOTAL
Year	Salary	Salary	Salary	Salary	Salaries
1	100				100
2	101	100			201
3	102	101	100		303
4	103	102	101	100	406
5	100	103	102	101	406
6	101	100	103	102	406
7	102	101	100	103	406
8	103	102	101	100	406
9	100	103	102	101	406
10	101	100	103	102	406

This steady salary state will occur as long as the employee tenure is a factor of the number of positions. It will occur with different assumptions about how employees receive pay raises. A compensation system could be designed to reach a steady state with big pay raises in the first couple of years, to recognize greater competence as an employee masters the job, followed by declining or no increases in later years. Alternatively, a compensation system could be designed to reach a steady state with little or no raises during a long beginning apprenticeship, followed by big pay raises at the end to reward employees who stay and master the position. If the employee tenure is not a factor of the number of positions, then the total salary expenditures will fluctuate slightly around a steady state. A compensation system could be designed to fluctuate near a steady state with raises based strictly on merit, with no consideration for tenure, as long as the distribution of high achieving and low achieving salaries remains relatively constant over time. In all of these cases, the magic steady state could be predicted by extrapolating from the expected average compensation over the tenure of employees.

In reality, employees don't always have the exact same tenure or raises each year, but it could still be expected that total annual salaries would fluctuate around a steady state, if the population of employees is large enough, and trends in tenure and raises remain relatively constant. And, this steady state could be predicted using the expected average compensation during the average tenure of employees.

The legislature doesn't necessarily need to know how employees progress through the pay structure to budget to the steady state. There may be differing opinions about how much compensation should

be based on merit versus tenure, or how much should be base-building versus one-time incentives, or how quickly employees should progress through the pay structure, or even if employees should progress through the pay structure. The prevailing average compensation per pay class will be reflective of the steady state in the market. Budgeting to the market average compensation for each pay class should provide sufficient funds for the state to compensate employees according to prevailing practices. Whether the way state employees move through the pay structure ultimately mirrors prevailing practices will depend on the policies of the Department of Personnel and the implementation of those policies by individual managers.

If the state is budgeting to the average market compensation, it would imply that there should be no annual vacancy savings factor applied to personal services line items for differences in compensation between outgoing and incoming employees. If the market is giving pay raises that exceed the recycled vacancy savings from differences in compensation, then the average market compensation will go up. If the market is giving pay raises that are less than the recycled savings from differences in compensation, or the market stops giving pay raises, then the average market compensation will go down. To the extent that there are vacancy savings from differences in compensation that are not getting recycled into pay raises for other employees, those vacancy savings will already be accounted for in the average market salary.

It also implies that there need not be an appropriation to move people through the pay structure in addition to an appropriation to bring salaries in line with the average market compensation. The appropriation to bring salaries in line with the average market compensation should be sufficient to provide funds to move people through the pay structure with recycled money from vacancy savings that result from differences in compensation. The General Assembly may want to divide the funds for keeping salaries in line with the average market compensation into different categories, with some money specifically designated for performance-based pay, or for non-base-building incentives. But, these appropriations should be a subset of, rather than an addition to, the money to bring salaries in line with average market compensation. Otherwise, these appropriations would grow state salaries beyond the prevailing market.

Budgeting for new FTE

Some states and businesses budget for new positions based on the expected average compensation for the position, but Colorado has historically used the bottom of the pay scale for each job class. This is the standard policy for both fiscal notes and decisions items considered by the Joint Budget Committee. Section 24-50-104 (1) (f), C.R.S. indicates that initial hiring shall typically be at the minimum rate in the pay grade. So, Colorado's practice reflects the expected incremental cost of adding new positions with this statutory directive. However, Colorado's practice requires annualizing funding for the position until it reaches the expected average compensation, if departments are to achieve a steady salary state.

The funding required to annualize new positions from the range minimum to the average compensation for the position is not tracked individually, and does not occur overtly through the compensation common policies used by the JBC in recent years, but it does get reflected in the

Annual Compensation Survey Report. The Department's method for comparing state compensation to the prevailing market essentially compares average state compensation with average and median market compensation, and this would account for any funding required to annualize new positions from the range minimum to the average compensation for the position.

Some departments argue that the expectation that new positions be filled at the bottom of the pay scale is unrealistic. While the statutes state this policy objective, Colorado's Constitution requires that classified positions be filled from among the top three ranking candidates as determined by competitive tests of competence (Article XII, Section 13). Presumably the top three candidates will be those with more experience and skills, while in the prevailing market the bottom of the pay scale would generally be used for people with less experience and skill.

This argument may have merit, but the Annual Compensation Survey Report should eventually result in annualizing the funding for new positions to the average market compensation, as described above. So, over time a department's funding would catch up from any initial shortfall in funding provided for a position during the first year based on the JBC's common policies.

There are other costs associated with new FTE that are not typically included in fiscal note assumptions or JBC staff recommendations on decision items, but these other costs are estimated and re-based every year. These additional costs include the state contributions to health, life, dental, and short-term disability premiums, AED, SAED, indirect cost assessments, and leased space. Again, department funding will catch up from any initial shortfall provided in the first year.

**FY 2012-13 Joint Budget Committee Staff Budget Briefing
Compensation-related Common Policies**

**APPENDIX B: UPDATE OF FY 2011-12
LONG BILL FOOTNOTES AND REQUESTS FOR INFORMATION**

Long Bill Footnotes

48a Department of Personnel and Administration, Division of Human Resources, Employee Benefits Services -- It is the intent of the General Assembly that the Department shall submit to the Joint Budget Committee the projected premium increases for State and employee contributions for employee group benefits for the upcoming fiscal year. The information shall be submitted in time to be considered as a part of the Joint Budget Committee staff's annual total compensation recommendations for the upcoming fiscal year.

Comment: This report is due, "in time to be considered as part of the Joint Budget Committee staff's annual total compensation recommendations for the upcoming fiscal year."

The Annual Compensation Survey Report for FY 2012-13 projected a 10.5 percent increase in health premiums, an 18.0 percent increase in dental premiums, no increase in life premiums, and no increase in short-term disability premiums. The Governor's request includes no increases in the state's share of these premiums, and so the entire increase in costs would be born by state employees.