

This document contains two files:

- 1). A March 17, 2009 (presented on March 18) Budget Amendment - Life Insurance Reduction;
- 2). A February 4, 2009, JBC Staff Presentation of Common Policies.

MEMORANDUM

TO: Joint Budget Committee

FROM: Viktor Bojilov, JBC staff

SUBJECT: Department of Personnel Statewide Budget Amendment - Life Insurance Reduction

DATE: March 17, 2009

The Department proposes a statewide reduction in life insurance benefits and associated premium costs for state-paid basic life insurance for all eligible employees and officials under the State Employees Group Benefits Act.

The Department requests a statewide reduction to agencies Health, Life, and Dental Long Bill line items by \$1,475,570 (including \$863,807 General Fund).

Currently, the state funds 100 percent of the \$8.84/month premium for the State Life and Accidental Death and Dismemberment (AD&D) life insurance. The life insurance currently provides up to \$40,000 of coverage. The Committee has approved a FY 2009-10 monthly premium amount of \$11.26, which the Department estimates will allow continuation of the \$40,000 coverage.

The request is for a premium reduction of \$5.26 per month per employee to a new premium amount of \$6.00 per month per employee. The Department estimates that this premium will allow the State to obtain insurance coverage of \$23,000 to \$24,000.

The Department recommends that the life insurance benefit not be reduced below \$12,000 for several reasons: (1) Preliminary research reveals that the cost of a funeral is likely between \$5,000 and \$10,000. A benefit of \$12,000 provides the family sufficient funds for a burial and any other immediate needs; (2) the \$12,000 is the level the state provided for many years before recent efforts to bring it up to prevailing employer levels. The previous benefit was set based on a similar analysis, although funeral costs have risen since then; (3) The department estimates that prevailing market life insurance coverage is between one and one and a half salaries; (4) The results of a *2007 Classified Employee Compensation and Benefits Survey* showed that life insurance is ranked by state employees in importance only slightly below other benefits such as medical, dental, and short-term disability.

If the Committee approves this request, the reduction in state funded basic life insurance will be coupled with an option for employees to maintain the current benefit level at their own expenses through an optional life benefit without evidence of insurability.

Staff Analysis

Staff notes that the Committee is not funding salary and performance pay increases for FY 2009-10. For FY 2008-09 the General Assembly funded \$54,398,111 (including \$30,738,596) for salary survey and \$20,950,257 (including \$12,123,270 General Fund) for performance pay.

Staff does not recommend the Committee approve this request for two reasons: (1) the Committee already voted to keep Health, Life, and Dental premiums at FY 2008-09 levels; and (2) state employees have already given up salary increases for FY 2009-10 in order to help the state revenue shortfall.

The tables below summarizes the actions the Committee took on February 4, 2009, related to the state contributions for Health, Life, and Dental.

Overview of Current State Contributions and JBC Action for FY 2009-10 for State Contribution Rates				
	FY 2008-09	FY 2009-10	Change	Percent Change
Employee	\$370.78	\$389.36	\$18.58	5.01%
Employee + Spouse	\$606.88	\$647.42	\$40.54	6.68%
Employee + Child(ren)	\$545.34	\$684.28	\$138.94	25.48%
Employee + Family	\$839.32	\$942.34	\$103.02	12.27%

Contribution Rate Changes by Insurance Type - Health, Life, Dental				
	Jan. 1 - June 30, 2009	FY 2009-10	Change	Percent Change
HEALTH				
Employee	\$340.26	\$352.78	\$12.52	3.68%
Employee + Spouse	\$565.44	\$594.66	\$29.22	5.17%
Employee + Child(dren)	\$499.80	\$629.22	\$129.42	25.89%
Employee + Family	\$782.92	\$871.10	\$88.18	11.26%
DENTAL				
Employee	\$21.58	\$25.32	\$3.74	17.33%
Employee + Spouse	\$32.50	\$41.50	\$9.00	27.69%

Contribution Rate Changes by Insurance Type - Health, Life, Dental				
	Jan. 1 - June 30, 2009	FY 2009-10	Change	Percent Change
Employee + Child(dren)	\$36.60	\$43.80	\$7.20	19.67%
Employee + Family	\$47.46	\$59.98	\$12.52	26.38%
LIFE				
All Tiers	\$8.94	\$11.26	\$2.32	25.95%

JBC Action on State Contributions for Health, Life, and Dental					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Agriculture	431,350	1,128,878	0	48,874	1,609,102
Corrections	37,637,912	1,210,723	0	0	38,848,635
Education	1,444,951	84,288	193,362	938,861	2,661,462
Governor	649,748	0	1,298,925	19,488	1,968,161
Health Care Policy	640,247	31,332	38,965	704,147	1,414,691
Higher Education	0	625,844	174,788	27,231	827,863
Human Services	14,869,072	643,157	6,883,504	2,989,792	25,385,525
Judicial	19,986,668	2,213,343	0	0	22,200,011
Labor	0	2,582,173	26,989	2,969,093	5,578,255
Law	551,445	154,101	1,158,836	55,543	1,919,925
Legislature*	1,820,169	0	0	0	1,820,169
Local Affairs	535,683	132,526	163,776	191,600	1,023,585
Military Affairs	185,560	458	0	347,709	533,727
Natural Resources	2,143,214	6,043,226	334,176	748,204	9,268,820
Personnel	617,961	0	1,506,100	0	2,124,061
Public Health	520,859	2,090,455	916,175	3,163,480	6,690,969
Public Safety	1,623,218	6,145,793	339,529	382,811	8,491,351

JBC Action on State Contributions for Health, Life, and Dental					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Reg Agencies	92,248	2,243,800	542,780	43,369	2,922,197
Revenue	4,674,099	3,264,723	0	0	7,938,822
State	0	676,089	0	0	676,089
Transportation	0	1,306,248	0	0	1,306,248
Treasury	<u>78,939</u>	<u>66,879</u>	<u>0</u>	<u>0</u>	<u>145,818</u>
TOTAL	88,503,343	30,644,036	13,577,905	12,630,202	145,355,486

Department of Personnel FY 2009-10 Budget Amendment Request - Life Insurance Reduction					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Agriculture	(4,801)	(12,064)	0	(1,314)	(18,179)
Corrections	(492,486)	(13,828)	(271)	0	(506,585)
Education	(19,417)	(1,206)	(1,312)	(10,699)	(32,634)
Governor	(6,070)	0	(12,361)	(2,967)	(21,398)
Health Care Policy	(7,448)	(429)	(947)	(8,408)	(17,232)
Higher Education	0	(7,070)	(1,382)	(890)	(9,342)
Human Services	(214,662)	(5,194)	(76,469)	(72,269)	(368,594)
Judicial	0	0	0	0	0
Labor	0	(31,260)	(350)	(34,729)	(66,339)
Law	0	0	0	0	0
Legislature*	0	0	0	0	0
Local Affairs	(4,811)	(1,704)	(1,613)	(2,413)	(10,541)
Military Affairs	(2,685)	(158)	0	(5,742)	(8,585)
Natural Resources	(21,726)	(67,149)	(3,913)	(2,221)	(95,009)

MEMO
Page 5
March 18, 2009

Department of Personnel FY 2009-10 Budget Amendment Request - Life Insurance Reduction					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Personnel	(7,063)	(787)	(17,145)	0	(24,995)
Public Health	(12,461)	67,092	(9,647)	(133,267)	(88,283)
Public Safety	(13,629)	(9,771)	(53,966)	(8,162)	(85,528)
Reg Agencies	(1,262)	(27,308)	(4,306)	(514)	(33,390)
Revenue	(55,286)	(32,893)	0	0	(88,179)
State	0	0	0	0	0
Transportation	0	0	(757)	0	(757)
Treasury	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	(863,807)	(143,729)	(184,439)	(283,595)	(1,475,570)

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2009-10 STAFF FIGURE SETTING
PERSONAL SERVICES COMMON POLICIES**

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

**Prepared By:
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February 4, 2009**

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**FY 2009-10 FIGURE SETTING
STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE**

COMMON POLICIES

TABLE OF CONTENTS

Personal Services Calculations	1
Total Compensation	14
Health, Life, and Dental	16
Salary Survey	21
Performance-based Pay	21
Short-term Disability	23
PERA Amortization Equalization Disbursement	25
PERA Supplemental Amortization Equalization Disbursement	27
Shift Differential	30
Operating Expenses	33
Utilities	36
Indirect Cost Assessment	37

**COMMON POLICIES
FY 2009-10
FIGURE SETTING**

JBC Working Document -- All Decisions Subject to Change

PERSONAL SERVICES CALCULATIONS

Overview of Personal Services Calculations

During the FY 1995-96 figure setting process, the Committee adopted a method for funding personal services, also known as Option 8. Since that year, this method has been used, with minor modifications, to compute the recommended appropriation for each personal services line item in the Long Bill. The personal services calculation is a formula that integrates base funding from the previous year and makes adjustments (both increases and decreases) to estimate the need for the following year. The historical components of the personal services calculation include:

- 1. Prior Year Long Bill Appropriation** - The Long Bill provides a base level of funding from which to build appropriations for the next fiscal year. By starting with last year's Long Bill appropriation, the method effectively builds in last year's base salaries for FTE, vacancy savings, contracts, temporary personnel, PERA, Medicare, and other items appropriated at that time such as one-time funding requests. Because of this, adjustments are made to the base appropriation to reflect the impact of items that may have affected the base need.

- 2. Adjustment for Special Bills, including Supplemental Appropriations** - The base appropriation is adjusted to incorporate funding and related FTE that were appropriated in legislation enacted in the prior legislative session. These funds and FTE are those that are not reflected in the Long Bill. One-time appropriations for FTE are not built into the base. Base building FTE must be annualized. For example, if legislation included an appropriation to support 10.0 FTE for one-half of the fiscal year (hired on January 1), the appropriation would need to be annualized (in this case doubled) to 20.0 FTE in the subsequent fiscal year. Supplemental adjustments, which include annualization of partial-year funding decisions, are made to reflect any ongoing supplemental appropriations which affect the personal services line. If one-time supplemental appropriations are approved, the personal services formula will not incorporate these changes in the subsequent fiscal year. For example, one-time increases or reductions in the current fiscal year due to circumstances present in the current fiscal year will not permanently increase or reduce the base appropriation for a department.

- 3. Adjustments for Prior-Year Decision Items** - The Long Bill contains decision items that were approved in the previous year. However, some of these decision items may have been one-time expenses. These need to be reduced from the base. Others may have only received partial-year funding in the first fiscal year and must be annualized for the second fiscal year.

4. **Increase by Prior Year Salary Survey** - The prior year's salary survey is added to the base appropriation. Because salary survey becomes effective on July 1 for all state employees, it is not necessary to annualize salary survey appropriations from prior years. Salary survey is appropriated as a separate line item in each department's Executive Director's Office. It is then allocated to each division based upon a department's analysis of what salary increases are in a particular division. Salary survey is base building and salary increases will be carried into a subsequent fiscal year. For this reason, the personal services calculation has traditionally included the previous year's salary survey when calculating a base for the following fiscal year.

Summary of Department of Personnel and Administration Salary Survey Allocation to Divisions for FY 2008-09	
Division	Allocation
Executive Director's Office	82,066
Division of Human Resources	133,613
Personnel Board	19,445
Central Services	288,250
Finance and Procurement	172,101
Information and Archival Services	20,048
Administrative Hearings	<u>116,362</u>
TOTAL Appropriation	831,885

5. **Increase by Prior Year Performance-based Pay / Annualize Prior Year Anniversary Awards** - An adjustment is made to the base appropriation for performance or anniversary awards appropriated in the prior year. For performance-based pay awards, the calculation is identical to that performed for salary survey. The Judicial Department still operates an anniversary based system. The Committee historically employs an annualization factor to the anniversary system because this system is based on an employee's starting date. For example, if all employees had an anniversary date of July 1, then the annualization factor would be 1.0. If all employees had an anniversary date of October 1, then the annualization factor would be 1.33 (three unfunded months - July through September - and nine funded months - October through June). Performance-based pay awards and anniversary increases operate in the same manner as salary survey. Appropriations are located in an Executive Director's Office and allocated to divisions based on similar criteria that is used with salary survey.

Summary of Department of Personnel and Administration Performance-based Pay Allocation to Divisions for FY 2008-09	
Division	Allocation
Executive Director's Office	29,931
Division of Human Resources	47,728
Personnel Board	6,923
Central Services	127,476
Finance and Procurement	63,850
Information and Archival Services	7,264
Administrative Hearings	<u>42,238</u>
TOTAL Appropriation	325,410

Note that for FY 2008-09, the Committee approved a performance awards system which is 80 percent base-building. This means that for FY 2009-10 figure setting, only 80 percent of the appropriation for FY 2008-09 will be added to the personal services base. In the Department of Personnel's example, only \$260,328 of the \$325,410 appropriation will be added to the personal services base.

6. **Base Adjustment to Reflect Savings from Vacancies and Staff Turnover** - Historically, the personal services calculation formula has incorporated a reduction to account for vacancies resulting from staff turnover. Since its inception in FY 1999-00, this adjustment has ranged between 0.2 percent and 2.5 percent. In FY 2008-09, the Committee opted for a base reduction of 1.0 percent for lines with 20.0 or more FTE. The reduction for the Departments of Corrections and Public Safety was set at 0.75 percent.
7. **New Decision Items/Base Reductions/Budget Amendments/Furloughs** - The base appropriation is adjusted in order to reflect appropriations approved by the Committee for new programs, or adjustments to existing programs, as requested through decision items, or efficiency (base reduction) items, or budget amendments.
8. **Staff Recommended Adjustments** - Joint Budget Committee staff periodically recommend other adjustments based on their analysis of a department's need for base resources. For example, a reduction may be recommended to reflect significant reversions or vacant positions experienced in a previous fiscal year.
9. **Fund Mix Adjustment** - Joint Budget Committee staff may present a recommendation that contains a fund mix adjustment to account for maximizing other funding sources such as federal funds or cash funds before making recommendations on an appropriate level of General Fund for a line. Examples may include additional indirect cost recoveries which can

be applied to a line that has historically been a General Fund line. With this adjustment, the total funding remains the same, but the amounts in any fund source may change up or down.

Components for Consideration

Base Reduction - Staff recommends the Committee approve a base reduction of 1.0 percent for line items with 20.0 or more FTE, **this staff recommendation is not consistent with the FY 2008-09 OSPB common policy request for a 0.0 percent base reduction.**

Background

Staff notes that the JBC has always requested analysis to support any decision related to this line. The OSPB and DPA have not always complied with this request for information. At best, during some years, the OSPB and DPA have provided an FTE report to the JBC to try to explain how personal services funds are being spent and what the turnover vacancies are. However, while providing an FTE report, the OSPB and DPA have claimed that the report does not help in providing accurate information about turnover vacancy savings.

In February 2007, the Joint Budget Committee met with representatives from the OSPB and the Department of Personnel and Administration. The topics of discussion included personal services vacancies, how to better report the use of dollars associated with vacancies, and the Joint Budget Committee's policy for a 0.5 percent personal services base reduction for FY 2007-08. The goal was to come up with better reporting methods for personal services vacancies, the use of dollars associated with vacancies, and possibly a better way to estimate the personal services base reduction amount. *At this meeting, the Committee was assured that departments can come up with a better way to capture personal services savings accumulated through employee turnover.*

For FY 2008-09, the Legislature sent a request for information to the OSPB and DPA requesting that they work with departments to provide an improved vacancy savings report similar to the one provided in FY 2007-08 containing FY 2006-07 vacancies (*see report on page 5*). However, for FY 2008-09, the Legislature requested additional information, namely that the report should include a reconciliation between personal services appropriations and actual expenditures for FTE, state temporaries, sick/annual leave payout, and other personal services. The Legislature requested the report be submitted by September 1, 2008. The Governor instructed agencies to comply with the request to the extent feasible by no later than November 3, 2008. *The OSPB and DPA did not ultimately provide an FTE report for FY 2007-08.*

The November 1 agency requests did not have a calculated personal services reduction for turnover vacancy savings. The OSPB did not provide a decision item analyzing the reasons for the requested increase in funding. JBC staff estimates that the FY 2008-09 personal services turnover vacancy savings rate of 1.0 percent (calculated on line items with 20.0 or more FTE) saved approximately \$12.0 million (including \$7.0 million General Fund).

**Report on Filled and Vacant FTE Positions
Fiscal Year 2006-07**

Departments	FY 07 Total Hours Per CPPS	Total FTE @ 2080 hours/yr.	Reconciliation Adjustments		FY07 Actual	FY07 Appropriation	Difference Over/(Under)	Expenses Paid from Vacancy Savings			Net Vacancies
			Technical Adjustments	Non- Appropriated				State Temps	Sick/Annual Leave Payouts	Other Personal Services	
Agriculture	536,267.84	257.8			257.8	282.0	(24.2)	48.4	2.60		26.8
Corrections	11,826,911.00	5,686.0			5,686.0	6,098.0	(412.0)	2.1	37.00	88.00	(284.9)
Education and CSDB	1,003,007.00	482.2	(20.2)	(2.9)	459.1	466.0	(6.9)		4.00		(2.9)
Governor	334,066.38	160.6		(47.6)	113.0	138.0	(25.0)		2.10	5.30	(17.6)
HCPF	476,383.90	229.0		(1.2)	227.8	231.8	(4.0)	2.1	0.90	5.30	4.3
Higher Education											
Historical Society	239,272.60	115.0		(4.1)	110.9	126.9	(16.0)	0.1	0.50		(15.4)
CCHE	49,016.20	23.6			23.6	30.1	(6.5)	1.1	0.80		(4.6)
DPOS	11,853.00	5.7			5.7	7.8	(2.1)				(2.1)
Human Services	10,540,992.50	5,067.8	(11.2)	(624.6)	4,432.0	4,527.2	(95.2)	58.8	32.80	125.80	122.2
Judicial	5,869,136.00	2,821.7			2,824.7	2,995.6	(170.9)		27.20		(143.7)
PDO	867,166.00	416.9			416.9	426.0	(9.1)		85.00		75.9
ADC	10,168.00	4.9			4.9	5.0	(0.1)		0.20	0.20	0.3
OCR	54,706.00	26.3			26.3	4.0	22.3		0.80		23.1
Labor and Employment	2,113,904.00	1,016.3			1,016.3	1,097.0	(80.7)	45.0	5.00	13.00	(17.7)
Law	714,247.00	343.4			343.4	360.0	(16.6)	4.0	1.40	8.30	(2.9)
Local Affairs	367,566.00	176.7	4.5		181.2	192.8	(11.6)	2.5	0.70	8.10	(0.3)
Military and Veterans Affairs	298,818.40	143.7		(6.4)	137.3	141.8	(4.5)	3.2	1.00		(0.3)
Natural Resources	2,911,788.00	1,399.9		(11.0)	1,388.9	1,467.0	(78.1)	14.0	13.00	39.00	(12.1)
Personnel	1,076,683.62	517.6	0.5		518.1	541.3	(23.2)	6.8	3.20	58.40	45.2
Public Health	2,222,913.00	1,068.7	1.0	(7.0)	1,062.7	1,150.0	(87.3)	5.0	1.00	23.00	(58.3)
Public Safety	2,622,173.00	1,260.7	(10.5)	0.7	1,250.9	1,285.8	(34.9)	4.4	5.90	26.40	1.8
Regulatory Agencies	1,022,358.00	491.5			491.5	536.7	(45.2)	18.0	7.10	6.20	(13.9)
Revenue	2,800,060.20	1,346.2	(1.6)		1,344.6	1,423.0	(78.4)	29.7	9.90	10.10	(28.7)
State	221,516.00	106.5			106.5	126.5	(20.0)		0.57		(19.4)
CDOT, Administration (appropriated on	433,056.00	208.2			208.2	219.7	(11.5)	3.4	1.40		(6.7)
Treasury	49,042.00	23.6			23.6	26.0	(2.4)	0.5	0.24	0.79	(0.9)
Department Total	48,673,071.64	23,400.5	(37.5)	(701.1)	22,661.9	23,906.0	(1,244.1)	249.1	244.3	417.9	(332.8)
					<i>Percentage of Appropriation</i>		-5.2%	1.0%	1.0%	1.7%	-1.4%

FY 2008-09 Turnover Vacancy Savings for a 1.0 percent Reduction (lines with 20.0 or more FTE)				
General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
(6,914,265)	(2,959,027)	(1,199,099)	(907,009)	(11,979,400)

*Departments of Corrections and Public Safety had a personal services reduction for lines with 20.0 or more FTE of 0.75 percent.

Prior Year Justification for Base Reduction

In prior fiscal years, base reductions were used as a tool to lessen the rate of growth in a personal services line item. Since centrally appropriated items such as salary survey and performance-based pay (or anniversary in years before FY 2002-03) were included in calculations, these lines would increase from year to year. A trend upward should be expected in general because of wage inflation, however, *as individuals leave the state's employ, the salary accrued above the minimum would stay in that particular line item.* Base reductions would assist in efforts to keep the growth of line items at a lesser rate than might otherwise occur.

Historical Personal Services Line Items Base Reductions										
	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09*
General Fund	1.0%	1.0%	1.5%	2.5% >20FTE 1.5% <20FTE	0.0% no SS or PBP	0.2%	0.2%	0.2%	0.5%	1.0% >20FTE

*Departments of Corrections and Public Safety had a personal services reduction for lines with 20.0 or more FTE of 0.75 percent.

The table below summarizes turnover rates for departments between FY 2001-02 and FY 2007-08 as listed in the Department of Personnel FY 2007-08 Workforce Demographics Report. As the table shows, there was an average turnover of 12.6 percent for seven years.

Turnover Rates by Occupational Group Between FY 2001-02 and FY 2007-08							
Occupational Group	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
Administrative Support and Related	12.9%	13.3%	12.8%	12.8%	11.8%	12.9%	11.5%
Enforcement and Protective	8.5%	9.9%	10.6%	10.2%	11.3%	14.4%	9.4%
Financial Services	8.5%	10.5%	12.0%	10.0%	9.5%	12.2%	18.0%
Health Care Services	17.5%	18.3%	20.4%	19.5%	20.7%	19.3%	18.4%
Labor, Trades, Crafts	13.0%	12.6%	14.5%	14.2%	14.2%	14.2%	11.4%

Turnover Rates by Occupational Group Between FY 2001-02 and FY 2007-08							
Occupational Group	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
Physical Sciences and Engineering	5.6%	5.2%	5.8%	6.5%	8.4%	7.8%	6.6%
Professional Services	7.7%	9.1%	10.1%	9.9%	9.9%	10.3%	8.2%
Teacher	<u>14.4%</u>	<u>14.7%</u>	<u>22.8%</u>	<u>22.7%</u>	<u>16.2%</u>	<u>15.9%</u>	<u>15.9%</u>
Total Average Turnover	11.0%	11.7%	13.6%	13.2%	12.8%	13.4%	12.4%
Average Turnover for 7 Years							12.6%
Voluntary Turnover	6.8%	6.3%	8.0%	6.9%	7.7%	9.3%	7.2%
Average Voluntary Turnover for 7 Years							7.5%
Retirement Turnover	2.4%	3.0%	4.1%	3.0%	3.2%	2.4%	2.4%
Average Retirement Turnover for 7 Years							2.9%

Furloughs - A January 27, 2009, letter from Todd Saliman, OSPB director, addressed to the Joint Budget Committee, states that the Governor's FY 2009-10 budget balancing plan proposes implementing 5 state employee furlough days in FY 2009-10 and requests legislation to support the furloughs. The letter proceeds to state that the January 27th budget proposal reflects a single placeholder savings of \$7.6 million General Fund. However, the letter continues to state that the individual department budget request forms (Schedule 13s) budget changes for this initiative and for the statewide life insurance adjustment, Capitol Complex Leased Space adjustment, and Administrative Courts will be submitted subsequent to this January 27th submission.

A separate e-mail correspondence by Lisa Esgar, OSPB, to John Ziegler states that the furlough estimate will be sent over to the JBC before March. Staff notes that the proposed OSPB submission time frame is not feasible for staff to analyze and the Committee to determine whether furloughs are a feasible policy to include as part of the FY 2009-10 budget.

The table below provides a State Controller estimate of the cost of a one-day payroll. The Controller estimates that a one-day payroll costs the State approximately \$7.4 million, including \$3.7 million General Fund (not including PERA and Medicare).

Report of the State Controller for December 2008 Payroll (Excluding PERA and Medicare)*					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Agriculture	363,456	919,010	60,747	109,383	1,452,596
Corrections	30,741,645	434,941	599,438	10,925	31,786,949
Education	1,573,053	247,679	277,514	985,565	3,083,811
Governor	526,520	127,827	459,602	348,121	1,462,070
Health Care Policy	703,816	55,009	96,417	810,713	1,665,955
Higher Education	0	1,138,278	162,332	203,191	1,503,801
Human Services	13,843,259	2,873,379	5,053,085	4,265,774	26,035,497
Judicial	21,325,162	768,264	227,782	248,066	22,569,274
Labor	16,214	1,933,803	43,573	4,048,337	6,041,927
Law	535,268	325,151	1,760,320	76,090	2,696,829
Legislature	1,827,964	4,465	0	0	1,832,429
Local Affairs	330,080	158,265	305,570	252,240	1,046,155
Military Affairs	228,978	6,497	0	386,255	621,730
Natural Resources	1,976,598	5,848,300	467,455	985,952	9,278,305
Personnel	365,229	44,874	1,591,649	0	2,001,752
Public Health	490,372	2,267,928	896,905	3,936,879	7,592,084
Public Safety	1,511,086	6,214,016	644,543	595,836	8,965,481
Reg Agencies	115,362	2,496,822	665,425	68,970	3,346,579
Revenue	3,697,204	3,400,774	98,919	122,865	7,319,762
State	0	579,806	18,343	25,817	623,966
Transportation**	0	12,806,286	0	5,636,825	18,443,111
Treasury	<u>2,696</u>	<u>150,234</u>	<u>0</u>	<u>0</u>	<u>152,930</u>
TOTAL	80,173,962	42,801,608	13,429,619	23,117,804	159,522,993
21.67 Average Days per Month					
Estimated Monthly Payroll	3,699,768	1,975,155	619,733	1,066,811	7,361,467

* Numbers do not include state contributions for PERA and Medicare of \$18,775,471, nor exempt employees.

** The Department of Transportation number includes both appropriated and non-appropriated payroll.

Staff Analysis on Furloughs

The January 27, 2009, Governor balancing packet contains a request component for the implementation of 5 furlough days in FY 2009-10. The request states that legislation will be required to grant the Governor authority to require five days of furlough for most state employees in FY 2009-10, excluding certain employees in the Departments of Corrections, Human Services and Public Safety. The letter proposes that FY 2009-10 furloughs be included in the budget as part of balancing.

The letter also requests that the proposed legislation grant the Governor, without budgeting for these furloughs, the authority to furlough up to three days in FY 2008-09 if necessary to balance the budget.

Staff has several problems with this request:

1. Legislative Legal Services staff advised JBC staff that the Governor does not need a statutory change in order to implement furlough days as part of a budget balancing package. The power of the Legislature with respect to appropriations is plenary, subject only to constitutional limitations. Pursuant to this power, if the General Assembly chooses to implement furloughs as part of balancing the budget for FY 2008-09 and/or FY 2009-10, all the General Assembly has to do is calculate an across the board reduction to personal services lines and state that its intent is for the reduction to come from personal services savings, including furloughs. This is enough direction and authority for the Governor to implement furloughs.
2. The Governor request states that although no furloughs are expected or budgeted for FY 2008-09, the proposed bill would give the Governor authority to require up to three furlough days in FY 2008-09 if necessary to balance the budget. This proposal is not feasible because it does not help the Legislature to balance the budget if furloughs are not accounted for in the FY 2008-09 budget. The legislature would need to have a negative supplemental for this proposal to be beneficial.
3. Furloughs are not a good solution to the long-term problem facing the budget deficit. Furloughs are temporary solution and return as a problem in the year they are stopped. In a budget situation such as the State of Colorado, a revenue shortfall ratchets down the expenditure growth for subsequent years, the temporary savings from furloughs will turn into costs in the long-term that need to be dealt with.
4. For similar reasons provided for the furloughs, a hiring freeze implemented for part of FY 2008-09 for a limited number of positions is also not a good solution to a long-term revenue problem unless the hiring freeze reductions are made permanent.

Staff recommends the Committee deny the Governor's request to enact legislation which will grant the Governor the authority to require five days of furloughs in FY 2009-10 and three

days of furloughs in FY 2008-09. Staff does not believe that furloughs are a prudent and a meaningful long-term solution to the long-term revenue shortfall facing the State. Legislative Legal Services staff also advise that the Governor does not need legislative authority from the General Assembly in order to implement furlough days. Staff recommends the Committee consider a more permanent and sustainable solution to the revenue shortfall by pursuing permanent programmatic cost reductions.

Should the Committee decide to go with the Governor recommendation for furloughs, staff notes that the State Controller *estimates* that a one-day payroll costs \$3.7 million General Fund. The OSPB letter from January 27, 2009, assumes in its calculation for a 5-day furlough General Fund saving that the Departments of Corrections, Human Services, and Public Safety are 100 percent exempt from the furlough. However, the OSPB uses a different payroll run (DPA provided October 31, 2008 payroll) in order to calculate the estimated \$7.6 million General Fund placeholder amount.

Staff estimate is higher than OSPB estimate by \$260,000 General Fund daily payroll (not including PERA and Medicare). The table below uses OSPB's methodology but the State Controller Payroll numbers. Staff notes that the State Controller numbers do not include PERA, Medicare, and other associated personal services lines that are calculated based on payroll (namely AED, SAED, and Short-term Disability).

OSPB Furlough Calculation Using State Controller December 2008 Payroll (Excluding Departments of Corrections, Human Services, and Public Safety)					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
Total December 2008 Payroll	80,173,962	42,801,608	13,429,619	23,117,804	159,522,993
Corrections	(30,741,645)	(434,941)	(599,438)	(10,925)	(31,786,949)
Human Services	(13,843,259)	(2,873,379)	(5,053,085)	(4,265,774)	(26,035,497)
Public Safety	(1,511,086)	(6,214,016)	(644,543)	(595,836)	(8,965,481)
Total Monthly Payroll Excluding Exempt Departments	34,077,972	33,279,272	7,132,553	18,245,269	92,735,066
Estimated One-day Payroll	1,572,588	1,535,730	329,144	841,960	4,279,422
Estimated Five-day Payroll	7,862,938	7,678,651	1,645,721	4,209,799	21,397,108
Add PERA and Medicare	912,101	890,723	190,904	488,337	2,482,065

OSPB Furlough Calculation Using State Controller December 2008 Payroll (Excluding Departments of Corrections, Human Services, and Public Safety)					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
Total Estimated Five-day Payroll (including PERA and Medicare)	8,775,038	8,569,374	1,836,624	4,698,136	23,879,173

Summary of Staff Recommendation

Staff recommends the Committee approve the following for the Personal Services Calculation components for FY 2009-10 personal services figure setting: (1) prior year long bill appropriation, (2) adjustments for special bills, (3) adjustments for prior-year decision items, (4) adjustments for supplemental appropriations, (5) increase personal services lines by FY 2008-09 appropriated salary survey (as allocated to divisions by departments), (6) increase personal services lines by FY 2008-09 appropriated performance-based pay at 80 percent of FY 2008-09 appropriation per JBC FY 2008-09 common policy for this line (as allocated to divisions by departments) (7) a base reduction of 1.0 percent, (8) department requested funding changes (as recommended by JBC staff and approved by the Committee), (9) staff recommended funding changes, and (10) fund mix adjustments.

DEPARTMENT OF "GOOD
INTENTIONS"
Personal Services Calculation

PERA SAED (CY 2009)	1.00%
PERA SAED (CY 2010)	1.50%
PERA AED (CY 2009)	1.80%
PERA AED (CY 2010)	2.20%
Short-term Disability Rate	0.155%
Base Reduction (1.0%)	-1.00%

(1) EDO	1					2		3		4		5		6		7		8
	Long Bill	Session Bills				Adjustment for Prior Year DI	Salary Survey	PBP at 80 % of FY 09 Approp.	Base Continuation		FY 2009-10 Base Continuation	Base Reduction (1.0%)	Department Requests	Staff Initiated Adjustment				
TOTAL	1,648,595	0	0	0	0	0	56,535	19,302	1,724,432		1,724,432	(17,244)	0	0				
FTE	21.5	0.0	0.0	0.0	0.0	0.0			21.5		21.5		0.0	0.0				
General Fund		0	0	0	0		56,535	19,302	75,837		75,837	(758)	0	0				
Cash Funds		0	0	0	0		0	0	0		0	0	0	0				
Cash Funds Exempt	1,648,595	0	0	0	0		0	0	1,648,595		1,648,595	(16,486)	0	0				
Federal Funds		0	0	0	0		0	0	0		0	0	0	0				

(1) EDO - HIPAA	1					2		3		4		5		6		7		8
	Long Bill	Session Bills				Adjustment for Prior Year DI	Salary Survey	Awards at 80 Percent of Appropriation	Base Continuation		FY 2009-10 Base Continuation	Base Reduction (1.0%)	Decision Item	Staff Initiated Reduction				
TOTAL	131,920	0	0	0	0	0	2,575	806	135,301		135,301	0	0	0				
FTE	2.0	0.0	0.0	0.0	0.0	0.0			2.0		2.0		0.0	0.0				
General Fund	71,247	0	0	0	0		2,575	806	74,628		74,628	0	0	0				
Cash Funds		0	0	0	0		0	0	0		0	0	0	0				
Cash Funds Exempt	60,673	0	0	0	0		0	0	60,673		60,673	0	0	0				
Federal Funds		0	0	0	0		0	0	0		0	0	0	0				

(1) EDO - Total	1					2		3		4		5		6		7		8
	Long Bill	Session Bills				Adjustment for Prior Year DI	Salary Survey	Awards at 80 Percent of Appropriation	Base Continuation		FY 2009-10 Base Continuation	Base Reduction (1.0%)	Decision Item	Staff Initiated Reduction				
TOTAL	1,780,515	0	0	0	0	0	59,110	20,109	1,859,734		1,859,734	(17,244)	0	0				
FTE	23.5	0.0	0.0	0.0	0.0	0.0			23.5		23.5		0.0	0.0				
General Fund	71,247	0	0	0	0		59,110	20,109	150,466		150,466	(758)	0	0				
Cash Funds	0	0	0	0	0		0	0	0		0	0	0	0				
Cash Funds Exempt	1,709,268	0	0	0	0		0	0	1,709,268		1,709,268	(16,486)	0	0				
Federal Funds	0	0	0	0	0		0	0	0		0	0	0	0				

This Personal Services Calculation is for illustration and does not represent actual staff figure setting recommendations to the JBC.

DEPARTMENT OF "GOOD INTENTIONS"
Personal Services Calculation

PERA SAED (CY 2009)
PERA SAED (CY 2010)
PERA AED (CY 2009)
PERA AED (CY 2010)
Short-term Disability Rate
Base Reduction (1.0%)

(1) EDO		9		
	Fund Mix Adjustment	TOTAL Personal Services Recommendation	Department Request	TOTAL Recommendation
TOTAL	0	1,707,188	1,724,974	1,707,188
FTE		<u>21.5</u>	<u>21.5</u>	<u>21.5</u>
General Fund	(75,079)	0	0	0
Cash Funds	0	0	0	0
Cash Funds Exempt	75,079	1,707,188	1,724,974	1,707,188
Federal Funds	0	0	0	0

Base Salary - Sch. 3 (no PERA/Medic are)		FY 10			Total Salary		PERA		
	FY 10 Salary Survey	Performance Awards	FY 10 Shift Differential	Base	STD	SAED	PERA AED	TOTAL	POTS
1,554,585	0	0	0	1,554,585	2,410	19,432	31,092	52,934	
0	0	0	0	0	0	0	0	0	
0	0	0	0	0	0	0	0	0	
1,554,585	0	0	0	1,554,585	2,410	19,432	31,092	52,934	
0	0	0	0	0	0	0	0	0	

(1) EDO - HIPAA				
	Fund Mix Adjustment	TOTAL Personal Services Recommendation	Department Request	TOTAL Recommendation
TOTAL	0	135,301	147,323	135,301
FTE		<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
General Fund	0	74,628	74,628	74,628
Cash Funds	0	0	0	0
Cash Funds Exempt	0	60,673	72,695	60,673
Federal Funds	0	0	0	0

Base Salary - Sch. 3 (no PERA/Medic are)		FY 10			Total Salary		PERA		
	FY 10 Salary Survey	Performance Awards	FY 10 Shift Differential	Base	STD	SAED	PERA AED	TOTAL	POTS
129,574	0	0	0	129,574	201	1,591	2,568	4,360	
69,980	0	0	0	69,980	108	846	1,376	2,330	
0	0	0	0	0	0	0	0	0	
59,594	0	0	0	59,594	92	745	1,192	2,029	
0	0	0	0	0	0	0	0	0	

(1) EDO - Total				
	Fund Mix Adjustment	TOTAL Personal Services Recommendation	Department Request	TOTAL Recommendation
TOTAL	0	1,842,490	1,872,297	1,842,489
FTE	0.0	<u>23.5</u>	<u>23.5</u>	<u>23.5</u>
General Fund	(75,079)	74,629	74,628	74,628
Cash Funds	0	0	0	0
Cash Funds Exempt	75,079	1,767,861	1,797,669	1,767,861
Federal Funds	0	0	0	0

Base Salary - Sch. 3 (no PERA/Medic are)		FY 10			Total Salary		PERA		
	FY 10 Salary Survey	Performance Awards	FY 10 Shift Differential	Base	STD	SAED	PERA AED	TOTAL	POTS
1,684,159	0	0	0	1,684,159	2,610	21,023	33,660	57,293	
0.0									
69,980	0	0	0	69,980	108	846	1,376	2,330	
0	0	0	0	0	0	0	0	0	
1,614,179	0	0	0	1,614,179	2,502	20,177	32,284	54,963	
0	0	0	0	0	0	0	0	0	

This Personal Services Calculation example is for illustration and does not represent actual staff figure setting recommendations to the JBC.

TOTAL COMPENSATION

In the 2003 legislative session, the General Assembly passed H.B. 03-1316 (Spradley/Arnold), which altered the manner in which state contributions for medical insurance plans, salary survey, and performance-based pay were treated by the state personnel director. Pursuant to Section 24-50-104 (4) (a), C.R.S., the annual compensation process's purpose is to: "determine any necessary adjustments to state employee salaries, state contributions for group benefit plans, and performance awards."

Pursuant to Section 24-50-104 (4) (c), C.R.S., by August 1 of each year, the state personnel director is responsible for producing a report which contains the recommended changes to employee compensation for the next fiscal year. In prior years, the Department of Personnel has in practice circumvented the August 1 statutory deadline by delivering a letter to the Joint Budget Committee and revisiting the recommendations it previously made on August 1. The rationale for this was based on updated data available to the Department of Personnel and Administration. For the FY 2009-10 total compensation submission, the Department of Personnel did not provide an updated letter in December 2008 or January 2009. Neither the Department nor the OSPB submitted an explanation for the reason why they are choosing not to circumvent statute this year.

New OSPB Instructions

Staff notes that for the FY 2009-10 request, the OSPB changed its total compensation submission methodology by not requiring departments to do any work on common policies budget submission calculations for the November 1 request. This means that the November 1 budget submissions for common policies for FY 2009-10 are out of balance because agencies did not calculate the fund splits for the requested health, life, and dental amounts. The OSPB originally had stated that it planned to provide these numbers through budget amendments subsequent to the November 1 submission, however, these budget amendments have not been submitted to this date.

On August 1, 2008, pursuant to Section 24-50-104 (4) (c), C.R.S., the state personnel director submitted a letter to the Governor and the Joint Budget Committee. In that letter, the Director stated that in order to reach prevailing market compensation, the State would need to contribute \$85,507,171 for salary adjustments (includes salary survey and performance-based pay), and increase the state contribution for Health, Life, and Dental benefits by \$32,012,189 in order to reach market contributions for Health, Life, and Dental benefits.

The personnel director's recommendation from his August 1, 2008, letter was to fund salary increases at the full amount of \$85.5 million in order to get to prevailing market compensation. The personnel director recommended continuing the salary increase program from FY 2008-09, which used salary survey to adjust occupational group ranges and provided a 1 percent base-building performance pay for all employees ranked at 2 (meets all duties and responsibilities, approximately 99.9 percent of employees) on their performance evaluation, and a 2 percent one-time non-base building performance award for those employees ranked at 3 (exceptional performers, budgeted for 20 percent of work force). In addition, the personnel director recommended that part of the total salary budget

include funding for "special recognition programs" to be applied throughout the year for employee contributions. However, the Department did not explain in its August 1 submission letter how much this program would cost nor how it would be implemented. The Department did not provide additional information subsequent to the August 1 letter to elaborate on this program.

The August 1 letter also recommended funding the state Health, Life, and Dental contributions at \$16,567,779. The personnel director estimated that this amount would allow funding for Health benefits to remain at the FY 2008-09 level of 90 percent of prevailing market health contributions, 85 percent of market dental contributions, and contribute 100 percent of life insurance contributions.

By the time of the November 1, 2008, budget submission, the Governor had instructed departments to take out the request for the yet undefined "special recognition programs" and take out the request for performance-based pay awards.

FY 2009-10 Request for Benefits Submitted November 1, 2008 (FY 2008-09 fund splits)					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Health, Life, and Dental	88,503,343	30,644,036	13,577,905	12,630,202	145,355,486
Salary Survey	26,620,930	9,879,139	3,803,637	3,480,248	43,783,954
Performance-based Pay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	115,124,273	40,523,175	17,381,542	16,110,450	189,139,440

FY 2009-10 Revised Request for Benefits Submitted January 27, 2009 (FY 2008-09 fund splits)					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Health, Life, and Dental	88,503,343	30,644,036	13,577,905	12,630,202	145,355,486
Salary Survey	0	0	0	0	0
Performance-based Pay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	88,503,343	30,644,036	13,577,905	12,630,202	145,355,486

HEALTH, LIFE, AND DENTAL

Pursuant to Section 24-50-609 (2) (b) (I), C.R.S., the state provides for contributions to employee health, life, and dental insurance premiums. Appropriations for these purposes are consolidated into a single line item, Health, Life, and Dental, in each Executive Director's Office. The single line item appropriation gives a department the flexibility to transfer centrally appropriated spending authority to the line items for which it has health, life, and dental costs. This flexibility enables agencies to absorb shifts in enrollment among its employees. In March of each year, employees participate in open enrollment, which can result in costs shifting from one personal services line to another. The open enrollment figures are the basis for the recommended appropriations for the next fiscal year. Requested appropriations contained in the November 1 budget submission are placeholders for health, life, and dental as open enrollment figures are not yet available. Other shifts in health costs can occur throughout the year as employees retire, are hired, or change their family status. H.B. 08-1321, placed a definition of Health, Life, and Dental contributions for group benefit plans in Section 24-75-112 (1)(e), C.R.S. During the 2007 session, S.B. 07-97 also provided \$2.26/month per employee in additional state contributions for all state employees. Beginning with FY 2008-09, H.B. 07-1335 reallocated tobacco litigation settlement money, previously allocated pursuant to SB07-97 to supplement the state contribution to the medical and dental benefit plan premiums of all state employees, to instead supplement the state contribution to the benefit plan premiums of lower-income state employees who have at least one dependent other than their spouse.

Program Eligibility - Under Section 24-50-603 (7), C.R.S., there is a statutory definition of state employees eligible for the benefits program offered by the state. State law specifically excludes an employee classified as temporary from the definition of eligible employees. Non-classified employees in the Department of Higher Education, such as faculty and administrators, have a separate benefits program with different contribution and premium levels. Generally, all permanent employees are eligible for benefits, although participation in the plan is voluntary.

Program Funding - H.B. 04-1449 (Rhodes / Tupa) allows the State Personnel Director the authority to establish a "group benefits plan year" beginning in FY 2005-06. This legislation was assessed as having no fiscal impact. The State Personnel Director has the authority to establish contribution rates subject to the General Assembly's approval. Section 24-50-609 (2) (b) (I), C.R.S., states:

"The amount of the state contribution for each tier shall be determined by the director in accordance with section 24-50-104 (4) and shall be the same for all eligible employees within the state personnel system."¹

¹Section 24-50-104 (4) (d) (II), C.R.S., states: "For the 2005-06 fiscal year and each fiscal year thereafter, to the extent such changes are funded, the recommended changes in state contributions for group benefit plans and any adjustments to the recommended changes made by the general assembly in the annual general appropriation act for the next fiscal year shall be effective on the first day of the annual group benefit plan year established pursuant to section 24-50-604 (1) (m), C.R.S."

Overview of Current and State Personnel Director August 2008 Recommendation for State Contribution Rates				
	FY 2008-09	FY 2009-10	Change	Percent Change
Employee	\$370.78	\$389.36	\$18.58	5.01%
Employee + Spouse	\$606.88	\$647.42	\$40.54	6.68%
Employee + Child(ren)	\$545.34	\$684.28	\$138.94	25.48%
Employee + Family	\$839.32	\$942.34	\$103.02	12.27%

The FY 2008-09 recommendations in the table above include funding for all three components of the Department of Personnel and Administration's proposal. Changes are occurring in health, dental, and life contributions. Below is a summary of all components.

Contribution Rate Changes by Insurance Type - Health, Life, Dental				
	Jan. 1 - June 30, 2009	FY 2009-10	Change	Percent Change
HEALTH				
Employee	\$340.26	\$352.78	\$12.52	3.68%
Employee + Spouse	\$565.44	\$594.66	\$29.22	5.17%
Employee + Child(dren)	\$499.80	\$629.22	\$129.42	25.89%
Employee + Family	\$782.92	\$871.10	\$88.18	11.26%
DENTAL				
Employee	\$21.58	\$25.32	\$3.74	17.33%
Employee + Spouse	\$32.50	\$41.50	\$9.00	27.69%
Employee + Child(dren)	\$36.60	\$43.80	\$7.20	19.67%
Employee + Family	\$47.46	\$59.98	\$12.52	26.38%
LIFE				
All Tiers	\$8.94	\$11.26	\$2.32	25.95%

Below are the Department's November 1, 2008, requests for funding Health, Life, and Dental:

FY 2010 Requests Submitted by Departments - November 1, 2008 (FY 2008-09 fund splits)					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Agriculture	431,350	1,128,878	0	48,874	1,609,102

FY 2010 Requests Submitted by Departments - November 1, 2008 (FY 2008-09 fund splits)					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Corrections	37,637,912	1,210,723	0	0	38,848,635
Education	1,444,951	84,288	193,362	938,861	2,661,462
Governor	649,748	0	1,298,925	19,488	1,968,161
Health Care Policy	640,247	31,332	38,965	704,147	1,414,691
Higher Education	0	625,844	174,788	27,231	827,863
Human Services	14,869,072	643,157	6,883,504	2,989,792	25,385,525
Judicial	19,986,668	2,213,343	0	0	22,200,011
Labor	0	2,582,173	26,989	2,969,093	5,578,255
Law	551,445	154,101	1,158,836	55,543	1,919,925
Legislature*	1,820,169	0	0	0	1,820,169
Local Affairs	535,683	132,526	163,776	191,600	1,023,585
Military Affairs	185,560	458	0	347,709	533,727
Natural Resources	2,143,214	6,043,226	334,176	748,204	9,268,820
Personnel	617,961	0	1,506,100	0	2,124,061
Public Health	520,859	2,090,455	916,175	3,163,480	6,690,969
Public Safety	1,623,218	6,145,793	339,529	382,811	8,491,351
Reg Agencies	92,248	2,243,800	542,780	43,369	2,922,197
Revenue	4,674,099	3,264,723	0	0	7,938,822
State	0	676,089	0	0	676,089
Transportation	0	1,306,248	0	0	1,306,248
Treasury	<u>78,939</u>	<u>66,879</u>	<u>0</u>	<u>0</u>	<u>145,818</u>
TOTAL	88,503,343	30,644,036	13,577,905	12,630,202	145,355,486

Staff Analysis

With this request the department seeks to maintain the state's contribution rate to 90 percent of prevailing market levels for state health contributions, 85 percent of prevailing market levels for state dental contributions, and 100 percent for the state life contribution. This request would maintain the same state contribution rates for FY 2009-10 as in FY 2008-09.

Ultimately, the General Assembly can determine the state's contribution rate pursuant to Section 24-

50-104 (4) (d) (II), C.R.S. It states:

"For the 2005-06 fiscal year and each fiscal year thereafter, to the extent such changes are funded, the recommended changes in state contributions for group benefits and any adjustments to the recommended changes made by the general assembly in the annual general appropriation act for the next fiscal year shall be effective on the first day of the annual group benefit plan year established pursuant to Section 24-50-604 (1) (m)."

For FY 2008-09, the General Assembly appropriated \$126.9 million, including \$76.9 million General Fund to health, life, and dental line items. Based on the statutory flexibility referenced above, staff has prepared several options for the Committee's consideration. Options presented here change the proposed health, life and dental contribution rates.

Health, Life, and Dental State Contribution Options for Committee Consideration					
	Employee	Employee + Spouse	Employee + Child(ren)	Employee + Family	
Current Rate	\$370.78	\$606.88	\$545.34	\$839.32	
OPTION 1 - Fund FY 2009-10 Contribution Rates at FY 2008-09 Funding Level (will reduce state contribution to less than the FY 2009 contribution of 90 percent of market)					
FY 2009-10 Rate	\$370.78	\$514.60	\$572.26	\$791.70	
Difference over Current	\$0.00	(\$92.28)	\$26.92	(\$47.62)	
Percent Increase	0.00%	-15.21%	4.94%	-5.67%	
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Cost of Option 1	76,927,612	26,377,154	12,218,013	11,384,302	126,907,081
OPTION 2 - Requests Submitted by Departments in November, 2008 (Increase to 90 percent of market for health contributions)					
FY 2009-10 Rate	\$389.36	\$647.42	\$684.28	\$942.34	
Difference over Current	\$18.58	\$40.54	\$138.94	\$103.02	
Percent Increase	5.01%	6.68%	25.48%	12.27%	
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Cost of Option 2	88,503,343	30,644,036	13,577,905	12,630,202	145,355,486
OPTION 3 - 100 Percent of Prevailing Market Contributions (staff estimate)					
FY 2008-09 Rate	\$432.62	\$719.36	\$760.31	\$1,047.04	

Difference over Current	\$43.26	\$71.94	\$76.03	\$104.70	
Percent Increase	11.67%	11.85%	11.11%	11.11%	
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Cost of Option 3	98,337,048	34,048,929	15,086,561	14,033,558	161,506,096

The table below, provides the incremental costing comparison of the three options as compared to the FY 2008-09 appropriation amount.

Comparison of Costs - FY 2008-09 Appropriation and Incremental Costs from Options Presented Above					
Fiscal Year	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
FY 2008-09	76,927,612	26,377,154	12,218,013	11,384,302	126,907,081
Option 1	76,927,612	26,377,154	12,218,013	11,384,302	126,907,081
Difference	0	0	0	0	0
Option 2	88,503,343	30,644,036	13,577,905	12,630,202	145,355,486
Difference	11,575,731	4,266,882	1,359,892	1,245,900	18,448,405
Option 3	98,337,048	34,048,929	15,086,561	14,033,558	161,506,096
Difference	21,409,436	7,671,775	2,868,548	2,649,256	34,599,015

Staff Recommendation:

Based on providing contribution rate increases identified in Option 2, staff recommends the Committee approve the departmental requests presented in the November 1, 2008 budget requests.

Staff further recommends that analysts determine the specific fund splits for departments without going over the General Fund appropriation contained with the November 1, 2008 budget requests.

SALARY SURVEY AND SENIOR EXECUTIVE SERVICE AND PERFORMANCE-BASED PAY AWARDS

On August 1 of each year, the state personnel director, pursuant to Section 24-50-104 (4) (c), C.R.S., publishes the Total Compensation Report which contains, among other things, recommendations for salary adjustments. Section 24-50-104 (4) (a), C.R.S., states "The purpose of the annual compensation process is to determine any necessary adjustments to state employee salaries, state contributions for group benefit plans, and performance awards." The Total Compensation Report includes recommendations for base pay increases to occupational groups in the state personnel system across all departments. The table below summarizes the recommended increases published in the Personnel Director August 1, 2008, recommendation letter and the November 1 requests submitted by Departments.

Staff notes that subsequent to the November 1, 2008, submission, the OSPB submitted a budget balancing plan on January 27, 2009, which withdrew the request for salary survey increases for FY 2009-10. The OSPB November 1, 2008, submission did not request funding for Performance-based Pay for FY 2009-10.

FY 2008-09 Appropriations					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Salary Survey	30,738,596	13,870,717	5,041,729	4,747,069	54,398,111
Performance-based Pay	12,123,270	4,840,990	2,093,790	1,892,207	20,950,257
TOTAL	42,861,866	18,711,707	7,135,519	6,639,276	75,348,368

FY 2009-10 Requests for Salary Increases from Personnel Director's August 1, 2008 Letter (Staff Estimate of Fund Splits using FY 2008-09 Combined Salary Survey and Performance-based Pay Fund Splits)					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Salary Adjustments	50,988,340	19,100,441	8,047,610	7,370,780	85,507,171

FY 2009-10 Requests for Salary Increases from November 1, 2008 Budget Requests (FY 2008-09 Fund Splits)					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Salary Survey	26,620,930	9,879,139	3,803,637	3,480,248	43,783,954
Performance-based Pay	0	0	0	0	0
TOTAL	26,620,930	9,879,139	3,803,637	3,480,248	43,783,954

FY 2009-10 Requests for Salary Increases from November 1, 2008 Budget Requests - Adjusted By January 27, 2009 Budget Amendments (FY 2008-09 Fund Splits)					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Salary Survey	0	0	0	0	0
Performance-based Pay	0	0	0	0	0
TOTAL	0	0	0	0	0

Staff Recommendation

Based on the revenue shortfall projected for FY 2008-09 and FY 2009-10, staff recommends the Committee approve the OSPB request to not fund salary survey and performance-based pay increases for FY 2009-10.

SHORT-TERM DISABILITY

The state provides short-term disability coverage pursuant to Section 24-50-603 (13), C.R.S., that covers the partial payment of an employee's salary if an individual becomes disabled and can not perform job related duties. This benefit is available to all employees and it is paid entirely by the state. The state purchases its short-term disability insurance from Standard Insurance Company. Under short-term disability insurance, an employee is covered for a period not to exceed six months at a maximum of 60.0 percent of the eligible employee's salary. Short-term disability is provided to an employee only after all sick leave available to the employee is exhausted.

Under its current contract, the State pays Standard Insurance a pre-negotiated premium to shift the entire risk of claims costs to the insurer. This type of insurance is also referred to as indemnity policy. The premium that the State pays is the maximum State liability for short-term liability costs.

Departments receive a central appropriation for short-term disability, based on a percentage of base continuation salaries as well as any salary survey, performance-based pay, and shift differential increases (including salary, performance pay and shift increases into the base for the calculation was adopted as a policy by the Committee during FY 2008-09 figure setting). Base salaries represent actual salaries paid to employees and do not include items such as the state's PERA contribution rate or Medicare payments. When payroll is delivered each month, the funds appropriated in the short-term disability line item are transferred from it to a department's personal services line items or program line items where salaries are paid to pay the premium.

FY 2009-10 Statewide Requests for Short-term Disability as Contained in Departments' November 1, 2008 Budget Requests <u>Including Salary Survey and Calculated on a 0.13 percent Rate</u> (Fund Splits Estimated Using FY 2008-09 Fund Splits)					
	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Salary Adjustments	1,164,040	427,542	186,853	205,247	1,983,682

The Department had not submitted updated schedules to account for the rescission of the salary survey request as of the presentation of this document. Staff estimates that statewide requests for Short-term Disability would have been approximately 3.0 percent lower if Short-term Disability was not calculated on salary survey increase request amounts from the November 1, 2008, budget submissions.

New Short-term Disability Rate

In 2006, the Department of Personnel and Administration completed a re-negotiation of the contract for provision of short-term disability insurance. On January 20, 2006, the RFP evaluation process was completed and the Department issued a Notice of Intent to award the new short-term disability contract to Standard Insurance Company. The contract rate set for FY 2006-07 was 0.113 percent. The rate for FY 2007-08 and FY 2008-09 was set at 0.13 percent. The Department had informed JBC staff that after the end of three years, the contract will be evaluated and the rate may change for

FY 2009-10.

Staff notes that the November 1, 2008, department requests are based on a rate of 0.13 percent and the calculation includes funding for salary increases for FY 2009-10. Staff is aware that the Department of Personnel has received an updated rate for FY 2009-10 from Standard Insurance. This rate is 0.155 percent. Standard Insurance states that the reason for the increase of the rate has to do with the fact that the short-term disability plan has experienced an Incurred Loss Ratio of 98 percent during the last three years. For this plan, Standard Insurance expects the Incurred Loss Ratio to be around 85 percent. For this reason, Standard Insurance has raised the rate for FY 2009-10 to 0.155 percent.

Staff has not received communication from the OSPB or DPA on whether a change request will be submitted for the increase in rates. The new rate of 0.155 percent represents a 19.2 percent increase from the old rate of 0.13 percent.

Staff estimates that the compound effect of removing salary survey from the calculation of Short-term Disability and applying a higher rate of 0.155 percent will end up costing the state slightly less than the Departments' requests submitted on November 1, 2008.

Staff Recommendation:

Staff recommends the Committee approve a short-term disability rate of 0.155 percent to be calculated only on base salaries, salary survey (the Governor withdrew the salary survey requests for FY 2009-10), performance pay (there were no performance pay requests for FY 2009-10), and shift differential (staff discusses shift differential later in this packet). Staff recommends that the short-term disability be applied to base salaries before PERA and Medicare are applied. Staff notes that this rate is different than what was used (0.13 percent) to calculate the November 1, 2008, budget requests by departments.

PERA AMORTIZATION EQUALIZATION DISBURSEMENT

In the 2004 session, the General Assembly passed S.B. 04-257 (Owen / Young) which, in part, addressed the unfunded liability of the PERA pension trust fund. The bill established a schedule whereby the employer contributes a higher percentage of salary to the pension trust fund.

Amortization Equalization Disbursement (AED) Schedule			
	State Rate	Amortization Equalization Disbursement	Aggregate Contribution - State Division
January 1, 2005	10.15%	-	10.15%
January 1, 2006	-	0.50%	10.65%
January 1, 2007	-	1.00%	11.15%
January 1, 2008	-	1.40%	11.55%
January 1, 2009	-	1.80%	11.95%
January 1, 2010	-	2.20%	12.35%
January 1, 2011	-	2.60%	12.75%
January 1, 2012	-	3.00%	13.15%

Pursuant to Section 24-51-411 (2), C.R.S., the amortization equalization disbursement is capped at 3.0 percent of payroll, and its yearly increases are delineated in statute, as reflected in the table above. It will remain in effect until PERA's actuary determines that the actuarial funded ratio of a division of PERA is one hundred percent funded. When a division reaches one hundred percent, the the actuary will determine the amount by which AED can be reduced and still maintain the actuarial funded ration of that division at 100 percent.

The table below shows the total appropriations statewide for AED for FY 2008-09.

FY 2008-09 Total AED Appropriations Contained in Department Budgets				
General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
13,377,357	5,174,546	2,587,534	2,470,767	23,610,204

Based on Departments' November 1, 2008, budget requests, the AED requests total approximately \$30.3 million including \$17.6 million General Fund.

November 1, 2008 Department Requests for AED Appropriations				
General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
17,635,126	6,593,118	2,865,645	3,200,841	30,294,730

As in all other November 1, 2008, personal services common policies requests, staff notes that department requests are calculated based on a request which includes salary survey increases. Staff notes that when JBC staff calculate the AED lines as part of their personal services common policy calculation, they will come up with a different number which will be calculated on base personal services salaries only.

Staff Recommendation:

1. **Staff recommends the Committee appropriate funds for AED based on a rate of 1.8 percent for July 1, 2009 through December 31, 2009 and a rate of 2.2 percent for January 1, 2009 through June 30, 2009. Except that, for those lines that contain General Fund, the Committee appropriate funds for AED based on a rate of 1.8 percent for seven months and 2.2 percent for 5 months in order to account for the provisions of S.B. 03-197, regarding the pay-date shift.**
 2. **The Committee use base salaries (before PERA and Medicare are applied), as contained in the Schedule 3 of departments' budget requests, salary survey (the Governor withdrew the salary survey requests for FY 2009-10), performance pay (there were no performance pay requests for FY 2009-10), and shift differential (staff discusses shift differential later in this packet).**
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PERA SUPPLEMENTAL AMORTIZATION EQUALIZATION DISBURSEMENT

In the 2006 session, the General Assembly passed S.B. 06-235 (Sandoval / Marshal) which, made changes to public employees' retirement benefit plans. Among other changes, the bill provides a Supplemental Amortization Equalization Disbursement (SAED) of 0.5 percent of total payroll beginning January 1, 2008, and increasing 0.5 percent per year for a total of 3 percent by 2013. The SAED is to be funded from money otherwise available for use but not yet awarded as salary increases. Together, AED and SAED will contribute an additional 6 percent of total payroll to PERA by 2013.

Section 24-51-411 (3.2), C.R.S., states:

"For the calendar year beginning January 1, 2008, the supplemental amortization equalization disbursement shall be one-half of one percent of the employer's total payroll. The supplemental amortization equalization disbursement shall increase by one-half of one percent of total payroll on January 1 of each year following 2008 through 2013."

Section 24-51-411 (3.7), C.R.S., states:

"For state employers in the state division, for the 2007-08 state fiscal year and for each fiscal year through the 2012-13 state fiscal year, from the amount of changes to state employees' salaries and any adjustments to the annual general appropriation act pursuant to section 24-50-104, an amount equal to one-half of one percent of total salary shall be deducted and such amount shall be utilized by the employer to fund the supplemental amortization equalization disbursement."

Supplemental Amortization Equalization Disbursement (SAED) Schedule			
	State Rate	Supplemental Amortization Equalization Disbursement	Aggregate Contribution - State Division
January 1, 2007	10.15%	-	10.15%
January 1, 2008	-	0.50%	10.65%
January 1, 2009	-	1.00%	11.15%
January 1, 2010	-	1.50%	11.65%
January 1, 2011	-	2.00%	12.15%
January 1, 2012	-	2.50%	12.65%
January 1, 2013	-	3.00%	13.15%

The table below shows the total appropriations statewide for SAED for FY 2008-09.

FY 2008-09 Total SAED Appropriations Contained in Department Budgets				
General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
6,227,211	2,422,558	1,201,368	1,150,374	11,001,511

Based on Departments' November 1, 2008, budget requests, the SAED requests total approximately \$18.7 million including \$10.8 million General Fund.

November 1, 2008 Department Requests for SAED Appropriations				
General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
10,784,736	4,085,337	1,793,554	2,064,989	18,728,616

As in all other November 1, 2008, personal services common policies requests, staff notes that department requests are calculated based on a request which includes salary survey increases. Staff notes that when JBC staff calculate the SAED lines as part of their personal services common policy calculation, they will come up with a different number which will be calculated on base personal services salaries only.

Issues for Committee Consideration

The SAED funding mechanism is dependent on salary increases. Pursuant to Section 24-51-411 (3.7), C.R.S., the 0.5 percent increase each year shall be funded from the amount of changes to state employees' salaries and any adjustments to the annual general appropriations act for state employee total compensation. Staff had brought the issue of funding SAED in years when no salary increases are funded in prior presentations. Basically, statute is silent as to how the Legislature intends to fund the incremental SAED increase in years when the Legislature does not fund salary increases.

Staff requested the advice of Legislative Legal Services staff on this issue. According to LLS staff, Section 24-51-411 (3.7), C.R.S., does not negate Section 24-51-411 (3.2), C.R.S., which creates SAED and states that it will increase by 0.5 percent every January 1 for the years 2008 through 2013. LLS staff advise that the Legislature still has to fund SAED in years when no salary increases are awarded.

Staff estimates that a 0.5 percent SAED increase totals approximately \$8.4 million, including \$4.9 million General Fund.

The Legislature has the following options with regard to funding the incremental 0.5 SAED increase:
 (a) provide funding for the increment without making any other corresponding negative adjustments,
 (b) reduce another component of employee total compensation (Health, Life, and Dental), (c) amend

statute to clarify the Legislature's intent on funding SAED in years when no salary increases are being funded.

Staff recommendation:

Staff recommends the Committee provide funding for the SAED 0.5 percent incremental increase without making any other corresponding negative adjustments.

Staff recommends the Committee appropriate funds for SAED based on a rate of 1.0 percent for July 1, 2009 through December 31, 2009 and a rate of 1.5 percent for January 1, 2010 through June 30, 2010. Except that, for those lines that contain General Fund, the Committee appropriate funds for SAED based on a rate of 1.0 percent for seven months and 1.5 percent for 5 months in order to account for the provisions of S.B. 03-197, regarding the pay-date shift.

The Committee use base salaries (before PERA and Medicare are applied), as contained in the Schedule 3 of departments' budget requests, salary survey (the Governor withdrew the salary survey requests for FY 2009-10), performance pay (there were no performance pay requests for FY 2009-10), and shift differential (staff discusses shift differential later in this packet).

SHIFT DIFFERENTIAL

Shift differential is the adjustment made to compensate employees for work performed outside the regular Monday through Friday 8:00am to 5:00pm work schedule. The State Personnel Rules define shift differential as additional pay beyond base pay for employees working shifts. Eligible classes are published in the annual compensation plan. Department heads may designate eligibility for individual positions in classes not published and shall maintain records for such classes. Shift differential does not apply to any periods of paid leave. Second shift rate applies when half or more of the scheduled work hours fall between 4:00 pm and 11:00 pm. Third shift rate applies when half or more of the scheduled work hours fall between 11:00 pm and 6:00 am. The state provides shift pay based on second and third shifts for the weekday and the first shift for health care class workers on weekends.

Historical Common Policy

JBC common policy guidelines have historically funded departments' shift differential requests at 80.0 percent of actual prior year expenditures.

The table below lists the total appropriations for shift differential for FY 2008-09.

FY 2008-09 Shift Differential Statewide Appropriations Totals				
General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
9,167,225	454,583	1,416,192	56,167	11,094,167

The FY 2009-10 request for shift differential is as follows:

FY 2009-10 Department Requests for Shift Differential					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
Corrections	6,543,691	12,992	0	0	6,556,683
Education	94,572	0	0	0	94,572
Governor	0	0	46,384	0	46,384
Human Services	2,808,055	366	1,550,543	11,331	4,370,295
Labor and Employment	0	13,150	789	12,361	26,300
Military and Veterans Affairs	0	0	0	17,829	17,829
Natural Resources	6,460	15,074	0	0	21,534
Personnel and Administration	0	0	34,766	0	34,766

FY 2009-10 Department Requests for Shift Differential					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
Public Health	0	0	0	15,628	15,628
Public Safety	61,902	237,449	0	0	299,351
Revenue	44,174	127,808	0	0	171,982
Transportation	<u>0</u>	<u>25,323</u>	<u>0</u>	<u>0</u>	<u>25,323</u>
TOTAL	9,558,854	432,162	1,632,482	57,149	11,680,647

The table below shows the actual shift differential expenditures for FY 2007-08 as listed in Departments' schedules.

FY 2007-08 Actual Expenditures for Shift Differential (from Department Schedules)					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
Corrections	5,752,626	0	7,227	0	5,759,853
Education	82,047	0	0	0	82,047
Human Services	2,837,484	2,005	1,573,716	7,342	4,420,547
Labor and Employment	0	2,662	170	2,831	5,663
Military and Veterans Affairs	0	0	0	22,286	22,286
Natural Resources	3,675	8,576	0	0	12,251
Public Health	0	0	0	11,703	11,703
Public Safety	44,850	183,549	14,474	0	242,873
Revenue	52,100	101,685	12,733	0	166,518
Transportation	<u>0</u>	<u>27,756</u>	<u>0</u>	<u>0</u>	<u>27,756</u>
TOTAL	8,772,782	326,233	1,608,320	44,162	10,751,497

The table below shows staff calculation of shift differential at 80 percent of FY 2007-08 actual expenditures.

80 Percent of FY 2007-08 Actual Expenditures for Shift Differential					
Department	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total
Corrections	4,602,101	0	5,782	0	4,607,883
Education	65,638	0	0	0	65,638
Human Services	2,269,987	1,604	1,258,973	5,874	3,536,438
Labor and Employment	0	2,129	136	2,265	4,530
Military and Veterans Affairs	0	0	0	17,829	17,829
Natural Resources	2,940	6,861	0	0	9,801
Public Health	0	0	0	9,362	9,362
Public Safety	35,880	146,839	11,579	0	194,298
Revenue	41,680	81,348	10,186	0	133,214
Transportation	<u>0</u>	<u>22,205</u>	<u>0</u>	<u>0</u>	<u>22,205</u>
TOTAL	7,018,226	260,986	1,286,656	35,330	8,601,198

FY 2007-08 Actual Expenditures

As indicated above, historically, FY 2007-08 actual expenditures for shift payments have been the basis for common policy calculations for the request year, or FY 2009-10 in this case. Historically, the Committee has funded this line item at 80 percent of most recent prior year actual expenditures. Staff notes, that due to the revenue shortfall, the Committee may wish to consider not funding shift differential for FY 2009-10 or consider some lower amount of funding for shift differential. Staff cannot find any restriction in statute that may prevent the Legislature from not funding shift differential for FY 2009-10. Pursuant to the Legislature's plenary power to appropriate, the Committee can choose not to fund shift differential.

Staff Recommendation:

Staff recommends the Committee not fund shift differential for FY 2009-10 .

OPERATING EXPENSES

Traditionally, any common policy adjustments to operating expenses adopted by the Committee are related to certain inflationary factors that may cause expenditures to increase in order to maintain existing program delivery. Operating expenses affect all department budgets, and the common policies adopted by the Committee will be used by staff to recommend funding levels during figure setting presentations. The Committee generally considers two factors when determining the need for adjustments to operating expenses: (1) broad-based adjustments, and (2) food and medical adjustments. The Committee did not approve any type of inflation for operating expenses in FY 2004-05, nor did it approve any such increases in FY 2003-04 or in FY 2002-03. The Committee approved 2.9 percent inflation for food and 2.5 percent inflation for medical during the FY 2005-06 Common Policy presentation. The Committee approved 2.1 percent inflation for food and 2.05 percent for medical during the FY 2006-07 Common Policy presentation. The Committee approved 1.8 percent inflation for food and 2.0 percent inflation for medical during the FY 2007-08 Common Policy figure setting. The Committee did not approve any type of inflation for operating expenses in FY 2008-09. Historically, but with a few exceptions, operating expenses have been held constant since FY 1989-90. Prior to that fiscal year, inflationary increases for operating expenses were built into all department budgets. In previous fiscal years, the Committee has adopted common policy for operating expenses line items that:

- reduced these lines by 5.0 percent in FY 1993-94;
- reduced them by 2.0 percent in FY 1996-97; and,
- reduced them by 1.0 percent in FY 1999-00.

In all of these instances, the common policy has exempted food and medical costs. The November 1, 2008, budget requests from the departments do not contain any broad-based inflationary requests.

Staff is aware of two specific requests. The Department of Corrections requested 1.5 percent for utilities costs increases and 8.5 percent for food costs increases as part of decision item 12. The Department of Human Services also requested 1.5 percent for utilities costs increases and 8.5 percent for food costs increases as part of decision item 17.

While there was no formal policy for general operating expenses for FY 2004-05 figure setting as well as for FY 2003-04 figure setting, the Committee did reduce a number of these lines as a result of reduced revenues experienced at that time. Because of these reductions, for the last two years during common policy figure setting presentation, staff has recommended against any broad-based *decreases or increases* to operating expenses lines.

Food and Medical Expenditures

In recent years, the Committee has approved inflationary increases for food and medical expenditures for departments in which these expenditures are not incidental. In years past (FY 2002-03, FY 2003-04, and FY 2004-05), these inflationary increases have either not been given - such is the case in FY 2003-04 and FY 2004-05, or incorporated into a department's budget and then reduced through

supplementals as in FY 2002-03.

Below is a summary of actual expenditures for food and medical object codes for FY 2006-07 and FY 2007-08 provided to staff by the State Controller's Office. The departments listed represent those areas of the state's budget for which specified expenditures are not incidental. These departments include the Department of Corrections, Department of Education, Department of Human Services, Department of Public Health and Environment, and Department of Public Safety.

Actual Food and Medical Expenditures for FY 2006-07 for Select Departments					
Department	Food #3118	Medical Services #2710 and #1940	Laboratory #3119	Pharmaceuticals #3129	TOTAL Expenditures
Corrections	13,072,905	36,067,536	882,185	9,630,048	59,652,674
Education	123,221	170,980	29,459	0	323,660
Human Services	5,027,826	27,630,559	1,731,343	6,009,505	40,399,233
Public Health	53,025,768	4,670,759	3,212,936	8,343,998	69,253,461
Public Safety	186,233	264,027	822,578	0	1,272,838
TOTAL	71,435,953	68,803,861	6,678,501	23,983,551	170,901,866

Actual Food and Medical Expenditures for FY 2007-08 for Select Departments					
Department	Food #3118	Medical Services #2710 and #1940	Laboratory #3119	Pharmaceuticals #3129	TOTAL Expenditures
Corrections	14,296,963	43,153,805	904,501	9,719,847	68,075,116
Education	131,898	77,186	4,131	0	213,215
Human Services	6,135,189	25,967,515	2,263,427	6,489,564	40,855,695
Public Health	63,536,554	6,541,965	2,942,454	11,635,227	84,656,200
Public Safety	209,717	270,900	1,022,115	0	1,502,732
TOTAL	84,310,321	76,011,371	7,136,628	27,844,638	195,302,958

For FY 2006-07 and FY 2007-08, expenditures for food and medical related items for the five departments have increased by 14.3 percent. Food and medical inflation is projected to be 4.0 percent and 2.7 percent, respectively, for the upcoming FY 2009 and FY 2010 as estimated by Legislative Council staff.

Food and Medical Inflation Estimated by Legislative Council Staff	
Object Code	FY 200-09 Recommendation
Food (#3118)	Factor: 4.0%
Medical (#1940, #2710, #3119, and #3129)	Factor: 2.7%
Note: Inflation figures are based on Legislative Council projections and have been provided to JBC staff.	

Given the current economic situation, staff recommended reductions for community provider rates for FY 2008-09 and FY 2009-10.

Staff assumes that analysts for specific departments (such as Corrections and Human Services) will discuss separately any specific requests submitted through decision items. However, staff recommends the Committee not adopt a common policy increase in FY 2009-10 for operating expenses, or specific food and medical expenses through this common policy figure setting.

UTILITIES

OSPB Request - The Office of State Planning and Budgeting has not requested any inflationary increases for utilities in its FY 2009-10 common policies. In the FY 2008-09 OSPB common policy, no inflationary increases were requested.

FY 2008-09 Committee Common Policy - The Committee's common policy for FY 2008-09 was to fund increases in utility line items on a case by case manner.

FY 2009-10 Utility Requests - In FY 2009-10, there has been no established common policy regarding increases on a statewide basis. Staff is aware of several departments requesting individual increases for utilities costs through decision items.

Departments have the flexibility to transfer funding from certain line items to others to pay for utility expenditures. Pursuant to Sections 24-75-108 (3) and 24-75-108 (8), C.R.S., agencies can move spending authority from operating expenses line items to utilities line items and from utilities line items to other utilities line items within a department at the end of the fiscal year. In other words, statute allows for the *intra*-departmental transfer from operating expense or other utility lines for utility payments, but not *inter*-departmental transfers for the same purpose. Pursuant to statute, there is no limit on the amount of spending authority that can be transferred intra-departmentally for this purpose.

Staff recommends the Committee adopt a common policy for FY 2009-10 which does not provide statewide increases to utility line items. Rather, staff recommends the Committee have each analyst provide analysis on a case by case basis regarding utility requests.

INDIRECT COST ASSESSMENTS

Indirect cost assessments are appropriated to divisions and programs which are necessary to recover or offset a like amount of General Fund in an Executive Director's Office. Indirect costs are the overhead costs associated with the operation of general government functions and departmental administrative duties. These indirect costs are intended to offset overhead costs from cash and federally funded sources; costs that would otherwise have been supported by General Fund dollars. Recoveries from cash and federally funded programs are calculated for two areas: (1) statewide overhead costs, and (2) departmental overhead costs.

- 1. Statewide Overhead Costs** - These are the costs associated with the operation of general government functions, which, by definition, support the activities of all departments but do not necessarily charge a specific fee to recover the costs of services provided. An example of such a statewide program is the Personnel Board. The Personnel Board is responsible for adopting and amending the state personnel rules, and for hearing and resolving appeals filed by state classified employees concerning disciplinary or other adverse actions and grievances. Although the Personnel Board provides its services to all state departments and agencies, it does not charge departments for the time and resources that are spent handling cases from classified employees who have filed a complaint with the Personnel Board.

There are 3 departments and agencies for which statewide indirect costs are associated. They are: (1) the Treasury Department, (2) the Governor's Office, including the Office of State Planning and Budgeting, (3) and the Department of Personnel and Administration. Within the Department of Personnel and Administration, numerous agencies are included in indirect cost recoveries: (1) the Executive Office, (2) the State Controller's Office, (3) the Real Estate Services Program, (4) the Personnel Board, (5) the State Agency Services section of the Division of Human Resources. Charges are allocated to these programs based on direct surveys of user agencies or workload measures which are compiled by the State Controller's Office.

Both statewide and departmental indirect cost recoveries are used to offset appropriations, first in the Executive Director's Office of a department, and then if excess amounts remain, other parts of a department, which would otherwise be General Fund. If indirect costs are not allocated as appropriate, a General Fund impact may be experienced. The more indirect cost recoveries that are generated from cash and federally funded programs, more General Fund can be offset in a department. Thus, the Committee could use this extra General Fund as savings or for program priorities in other areas.

The Statewide Indirect Cost Allocation Plan (SWICAP) is prepared by the State Controller's Office each year, typically in August. The statewide plan includes amounts to be recovered from cash and federally funded activities based on algorithms which use numerous measurements of workload data to estimate allocations of statewide costs among departments. The General Fund portion of the plan is excluded from final allocations and

is included in the SWICAP for informational purposes only.

The plan submitted to the Joint Budget Committee is estimated to generate \$3.0 million less than the plan did in FY 2008-09. This represents a decrease of 16.1 percent from the current fiscal year. Statewide indirect costs, excluding the federally recoverable costs, are based on the FY 2008-09 Long Bill.

The net decrease of indirect cost recoveries available can be explained by several major factors, including the elimination of the following cost pools from the indirect cost plan:

- As a result of SB 08-155, several functions are being refinanced from General Fund to direct billing to user agencies. These functions include: the Information Technology Unit (ITU) function, previously within DPA, was transferred to the Governor's OIT; Office of Information Technology Management; Chief Information Security Officer (CISO); and the Technology Management Unit (TMU).

Statewide Indirect Cost Recoveries Available				
	FY 2008-09	FY 2009-10	Difference	Percentage
Cash Funds	3,903,487	2,776,656	(1,126,831)	-28.87%
Reappropriated Funds	12,442,539	10,241,316	(2,201,223)	-17.69%
Federal Funds	<u>2,296,640</u>	<u>2,633,202</u>	<u>336,562</u>	14.65%
TOTAL	18,642,666	15,651,174	(2,991,492)	-16.05%

Below is a summary of statewide indirect cost allocations as requested and recommended.

FY 2009-10 Recommended Indirect Cost Allocation Plan				
Department	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Agriculture	105,925	79,753	38,372	224,050
Corrections	4,723	68,486	898	74,107
Education	100,601	120,165	207,289	428,055
Governor	530	987,520	71,454	1,059,504
Health Care Policy and Financing	0	42,945	440,746	483,691
Higher Education	856,614	1,331,709	147,274	2,335,597
Human Services	65,927	550,452	457,926	1,074,305

FY 2009-10 Recommended Indirect Cost Allocation Plan				
Department	Cash Funds	Reappropriated Funds	Federal Funds	TOTAL
Judicial	75,363	2,469	5,420	83,252
Labor and Employment	182,554	39,872	272,956	495,382
Law	110,312	370,771	46,503	527,586
Local Affairs	49,867	75,181	142,337	267,385
Military and Veterans Affairs	0	3,944	120,427	124,371
Natural Resources	284,629	661,256	184,047	1,129,932
Personnel and Administration	0	2,627,013	0	2,627,013
Public Health and Environment	135,604	61,985	393,601	591,190
Public Safety	70,650	920,223	70,559	1,061,432
Regulatory Agencies	414,380	77,278	14,502	506,160
Revenue	231,264	547,738	18,891	797,893
State	83,838	5,969	0	89,807
Transportation	<u>3,875</u>	<u>1,666,587</u>	<u>0</u>	<u>1,670,462</u>
TOTAL	2,776,656	10,241,316	2,633,202	15,651,174

2. **Departmental Overhead Costs** - These costs are associated with the internal delivery of services to divisions within a department. Typically, these activities are located in a department's Executive Director's Office. For example, budget preparation for an entity such as the Brand Board, a cash funded division in the Department of Agriculture, is the responsibility of staff located in the Commissioner's Office. Although individuals in the office perform services for the Brand Board, fees are not charged for the services provided. Departments will establish indirect costs to capture the costs of these central activities and services.

The calculation of departmental indirect cost recoveries involves the allocation of overhead between divisions within each department. Each staff analyst calculates the projected indirect cost of all personal services and operating expenses in the Executive Director's Office or in any other divisions which maintain a central oversight role for the department. This amount is allocated to the major funding sources by one of the following methods: (1) actual workload data, (2) estimated FTE, or (3) personal services dollars. In previous fiscal years, allocations have most often been determined by using the second methodology: estimated FTE. This occurs because most departments do not maintain records on the types of workload data

necessary to distribute departmental overhead costs between divisions.

Staff recommends the Committee approve the Statewide Indirect Cost Allocation Plan submitted by the State Controller's Office for FY 2009-10. The plan is estimated to recover approximately \$15.7 million from cash funds, reappropriated funds, and federal funds. This represents a decrease in indirect costs when compared to FY 2008-09.

Staff recommends that the indirect costs identified in the table above be used to offset General Fund in the relevant department's Executive Director's Office. If the amount of indirect cost available is more than the General Fund need of an Executive Director's Office, then staff recommends excess indirect cost recoveries be applied to other General Fund divisions or departments. There are certain departments for which the indirect cost recoveries identified in the table above are not funded through General Fund appropriations. These include the Department of Labor and Employment, the Department of Transportation, and the Department of State. Historically, the Committee has approved policy to offset General Fund in the Governor's Office (OSP) and then the Department of Personnel and Administration with the indirect costs associated with the Department of Transportation. The Department of Personnel and Administration also receives indirect costs associated with the Department of Labor and Employment, the Department of State, and the Department of Higher Education. **Staff recommends the Committee continue this policy.**

Finally, staff recommends that departmental indirect cost recoveries be calculated by each analyst based on either: (1) actual workload data, if available, (2) estimated FTE, or (3) personal services dollars. During figure setting presentations, the Committee will consider individual departmental plans. Each analyst will brief the Committee on available departmental indirect cost recoveries and the methodology used to calculate them.
