

Joint Budget Committee



Staff Budget Briefing FY 2025-26

Statewide Compensation and PERA

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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ADDITIONAL RESOURCES

Brief summaries of all bills that passed during the 2024 legislative session that had a fiscal impact on this department are available in Appendix A of the annual Appropriations Report:

<https://leg.colorado.gov/sites/default/files/fy24-25apprept.pdf>

The online version of the briefing document may be found by searching the budget documents on the General Assembly's website by visiting leg.colorado.gov/content/budget/budget-documents. Once on the budget documents page, select the name of this department's *Department/Topic*, "Briefing" under *Type*, and ensure that *Start date* and *End date* encompass the date a document was presented to the JBC.

Statewide Compensation Overview

Compensation common policies pay for any salary or benefits for current state employees. The General Assembly typically establishes common policies to budget for compensation consistently across all departments. The compensation common policies:

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

In the budget, statewide or total compensation refers to employee salary and benefit costs, specific to the actual and anticipated employees in each department. Compensation common policies are funded through a group of centrally appropriated line items generally found in a department's Executive Director's Office (EDO). The annual budget request for total compensation is driven by employee salaries, benefit elections, and requested policy changes for compensation components.

Defining Compensation-related Components

The centrally appropriated line items that make up the total compensation common policies discussed in this document include:

- Salary Survey;
- Step Pay;
- Shift Differential;
- Short-term Disability (STD);
- Health, Life, and Dental (HLD);
- Unfunded Liability Amortization Equalization Disbursement (ULAED);
- Paid Family and Medical Leave Insurance; and
- PERA Direct Distribution.

Defining POTS

Compensation common policy line items are also known and referred to as POTS, although the term is not an acronym. Final, budgeted POTS appropriations are:

- Generated through department total compensation templates;
- Calculated on the prior July's actual payroll data with adjustments for known and anticipated staffing increases or decreases; and
- Based on Committee statewide funding decisions for each compensation policy or component.

Because POTS are centrally appropriated in the EDO or other central administration division, allocations from these line items are distributed to department divisions and programs as determined by each department's EDO. This approach simplifies the appropriations process by

limiting each POTS appropriation to a single line item in each department and provides flexibility to departments to make adjustments as necessary to accommodate actual POTS needs across a department.

Additionally, for expenditure purposes, POTS allocations are, in practice, added to or "rolled into" personal services appropriations in each division or program. This practice allows these appropriations to be spent on any personal services expenditure. This flexibility has the effect of allowing departments to independently and internally subsidize programs and divisions which may be under-appropriated. In this way, this flexibility has the effect of causing state agencies to manage their personal services appropriations through annual POTS allocation adjustments to each division or program rather than through requests for structural adjustments to those divisions and programs as might otherwise be necessary.

POTS line items include the following:

- Salary Survey;
- Step Pay;
- Shift Differential;
- Short-term Disability (STD);
- Health, Life, and Dental (HLD); and
- Unfunded Liability Amortization Equalization Disbursement (ULAED).

Therefore, POTS include all compensation-related line items, except Paid Family and Medical Leave Insurance and PERA Direct Distribution.

Defining Employee Benefits

Within POTS appropriations, only the following line items include current employee benefits:

- Salary Survey;
- Step Pay;
- Shift Differential;
- Short-term Disability (STD); and
- Health, Life, and Dental (HLD).

Defining PERA Payments for the Unfunded Liability

Although included as request items, AED and SAED are statutorily-required contributions for *amortization payments* to improve PERA's funded status and are calculated on current payroll. The term amortization refers to payments for an existing debt or liability. AED and SAED are payments made to PERA for the legacy cost of the unfunded liability and do not help fund current employee PERA retirement benefits. Similarly, the PERA Direct Distribution is a payment to PERA for the legacy cost of the unfunded liability.

In 2018, the Joint Budget Committee set aside \$225.0 million General Fund for FY 2018-19, intended as base funding for an ongoing payment to PERA. This action was intended as a

"State" payment for addressing the funding policy deficiencies made by State policymakers for previous generations of PERA members that created the unfunded liability. Senate Bill 18-200 (PERA Unfunded Liability) included a provision that allows OSPB to submit a budget request to allocate payments across fund sources in order to reduce the impact on the General Fund. In FY 2019-20, the PERA Direct Distribution was added as a statewide common policy allocation to collect this payment from other fund sources besides General Fund.

The PERA Direct Distribution does not pay for an employee benefit, and is not calculated on current payroll, but is an **annuity** allocated to state agencies as charges to General Fund, cash funds, reappropriated funds, and federal funds in the same proportion as the AED and SAED components. In a similar manner, the PERA Direct Distribution does not "purchase a service" from the Department of Personnel through their "operating common policies". Therefore, the PERA Direct Distribution is neither a compensation common policy nor an operating common policy, but is simply an annual debt payment located in compensation-related common policies due to its nexus with AED and SAED.

Prevailing Compensation

Pursuant to Section 24-50-104 (1)(a)(I), C.R.S.:

*It is the policy of the State to provide innovative total compensation that meets or exceeds total compensation provided by public or private sector employers or a combination of both, to officers and employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent workforce. For purposes of this section, "total compensation" includes, but is not limited to, salary, group benefit plans, retirement benefits, merit pay, incentives, premium pay practices, and leave as specified in statute or in policies of the state personnel director. **Any monetary components of total compensation are subject to available appropriations by the General Assembly.***

A statutory policy statement is not binding, but it provides direction about the General Assembly's intent that helps guide the budget setting process. Even with a clear goal, though, it can be difficult to determine the funding necessary to provide prevailing compensation. There are a wide range of compensation practices in the market and many state jobs are either uncommon or not found outside of government. Additionally, while most market employers engage in a single or well-defined type of business operation, regardless of size or scale, the business operations of the State reflect the widest variety of types of business operations with the widest variety of staffing types and needs.

Compensation Report

To assist in the process, the Department of Personnel annually prepares recommendations and estimated costs for state employee compensation based on the total compensation analysis and report that is submitted to the Joint Budget Committee by October 1st every four years (beginning in 2025). The General Assembly is not required to follow the recommendations of

the report, but the report expresses the professional opinion of the Department regarding how compensation should be adjusted annually. Following issuance of the report, the Department of Personnel works with the Office of State Planning and Budgeting (OSPB) to build the total compensation request for the following year, and directs executive agencies to apply consistent policies in their budget requests.

The State Personnel System Act and Division of Authority

Article 50 of Title 24, C.R.S., sets forth the State Personnel System Act. Section 24-50-101, C.R.S., sets forth two broad areas of authority and responsibility for the administration of the state personnel system (emphasis added):

(3)(c) It is the duty of the state personnel director to establish the general criteria for adherence to the merit principles and for fair treatment of individuals within the state personnel system. It is the responsibility of the state personnel director to provide leadership in the areas of policy and operation of the state personnel system...

(3)(d) The heads of principal departments and presidents of colleges and universities shall be responsible and accountable for the actual operation and management of the state personnel system for their respective departments, colleges, or universities.

While this provides a reasonable and functional split of responsibility and authority, this bifurcation has the effect of creating some ambiguity regarding responsibility over statewide, classified system, and department-specific recruitment and retention policies and practices. This briefing specifically addresses the statewide compensation-related request. Individual state agency requests will be addressed during JBC staff presentations for state departments.

State Personnel System (classified system)

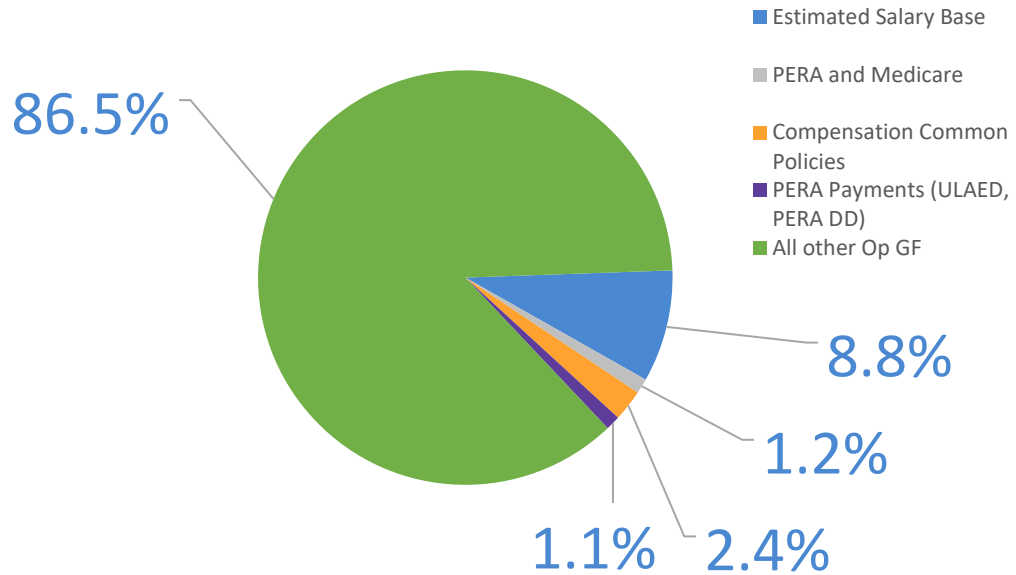
To ensure a state workforce based on tenure and fitness, the Colorado Constitution establishes a State Personnel System, commonly referred to as the classified system, after the job classes used to determine appropriate pay ranges for employees. The Department of Personnel manages the personnel system, with policy direction from the State Personnel Board. Objective criteria must be used to fill positions in the personnel system and employees hold their positions during efficient service or until reaching retirement age. Of significance from a state funding perspective, there must be standardization in the personnel system of the way people with like duties are treated with regard to determining compensation.

The Constitution specifically exempts some positions from the classified system, allowing potentially different pay ranges, benefits, and hiring and termination procedures. Exempt positions include education faculty and certain education administrators, the judicial branch, the legislative branch other than the State Auditor's Office, assistant attorneys general, certain employees of the Governor's office, the heads of departments, and most boards and commissions. With the exception of higher education institutions, exempt employees use the

same insurance and retirement benefits as employees of the classified system. While the judicial branch is exempt from the state personnel system, the courts have developed their own version of a classified system for employees who are not judges, which largely mirrors the state personnel system with regard to salaries and hiring and termination procedures. Judges and elected officials' salaries are set in statute.

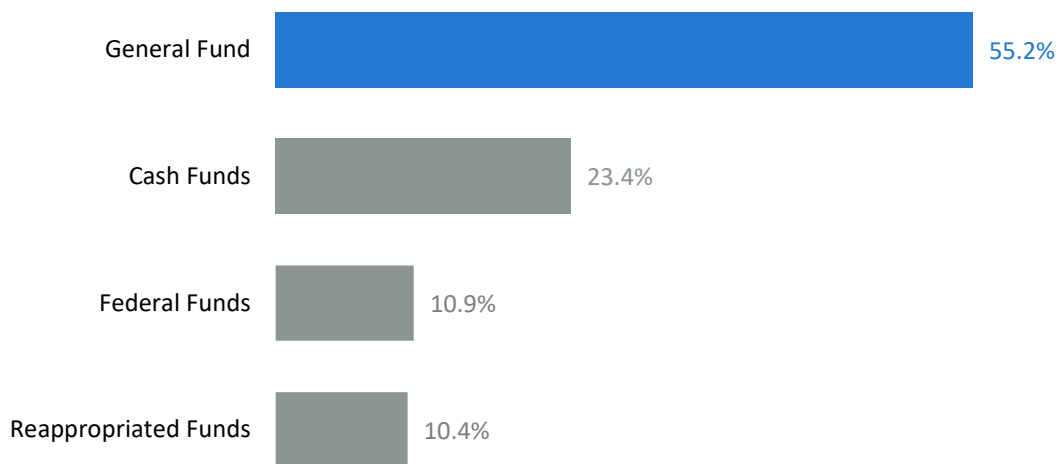
Graphic Overview

Department's Share of Statewide General Fund



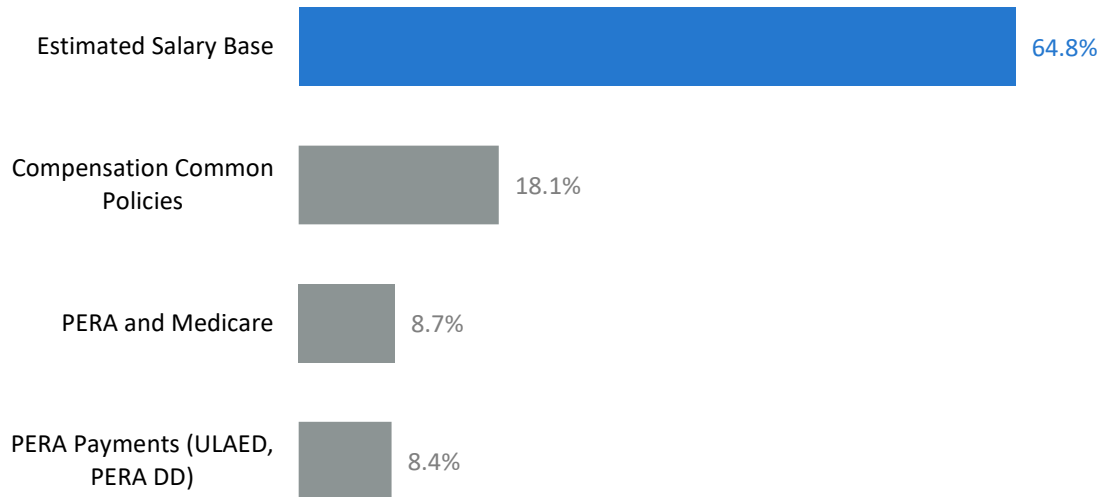
Based on the FY 2024-25 appropriation.

Department Funding Sources



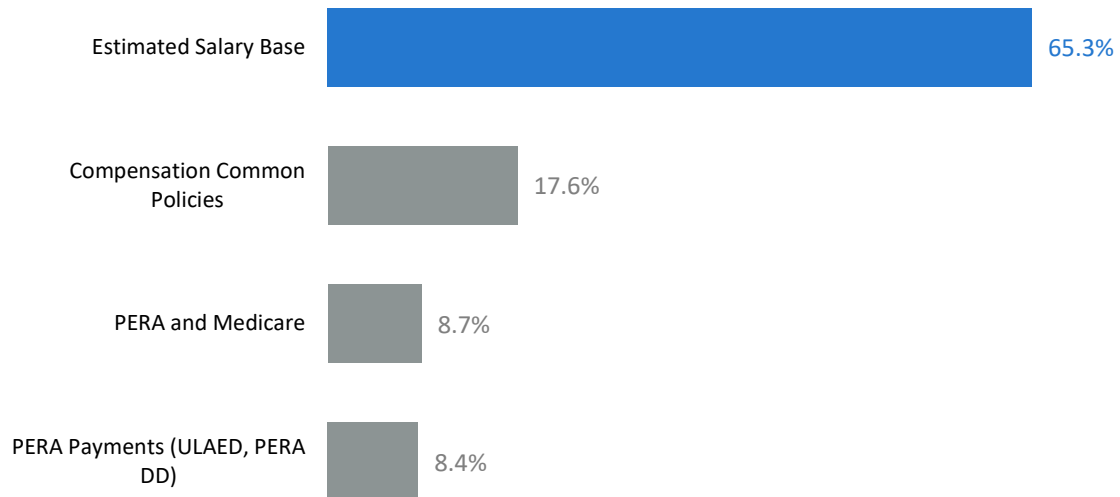
Based on the FY 2024-25 appropriation.

Distribution of General Fund by Category



Based on the FY 2024-25 appropriation.

Distribution of Total Funds by Category



Based on the FY 2024-25 appropriation.

General Factors Driving the Budget

Number of State Employees

Statewide expenditures for compensation are driven by the number of employees, the percentage of employees who choose to participate in optional benefit plans, and contracts with the benefit providers. The following table shows the number of FTE appropriated statewide, excluding employees in the Department of Higher Education.

State Employees ¹ - FTE Reflected in Appropriations										
Item	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Total FTE	31,878.2	32,174.8	32,412.7	32,819.4	34,650.4	35,047.3	35,467.7	37,262.0	38,732.6	39,398.7
Percent Change	1.3%	0.9%	0.7%	1.3%	5.6%	1.1%	1.2%	5.1%	3.9%	1.7%
10-year FTE compound average annual growth rate										2.14%
10-year Colorado Population compound average annual growth rate - 2010-2019 ²										0.95%

¹ Source: FY 2024-25 Appropriations Report excluding Department of Higher Education

² From population estimates, State Demography Office:

<https://dola-online.maps.arcgis.com/apps/dashboards/575d7b347e6b49b8951394106572938b>

Salary Base

Tied to the number of state employees, changes in the salary base reflect the actual increase in salary compensation over time. The salary base increases as a result of funding for additional FTE, salary survey and step pay increases, and other approved salary increases by agency or occupational class. The following table outlines a ten-year history of the estimated salary base included in department compensation templates.

Statewide Salary Base 10-year Estimated Appropriations (in millions)										
Total Funds										
Item	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Salary Base	\$1,757.2	\$1,836.3	\$1,864.1	\$1,964.2	\$2,052.2	\$2,212.6	\$2,246.6	\$2,383.3	\$2,528.5	\$2,736.9
Change		79.1	27.8	100.1	88.0	160.4	34.0	136.7	145.2	208.4
Percentage Change		4.5%	1.5%	5.4%	4.5%	7.8%	1.5%	6.1%	6.1%	8.2%
10-year Statewide Salary Base compound average annual growth rate										4.5%

Compensation Common Policies and PERA

In addition to the base salary, total compensation includes state employee compensation benefits, including health, life, and dental insurance, paid family and medical leave insurance, short-term disability, and state payments to PERA and Medicare. While paid family and medical leave insurance was a newly created common policy in FY 2022-23, pursuant to H.B. 22-1133 (Family and Medical Leave Insurance Fund), \$57.0 million from the Revenue Loss Restoration Cash Fund was transferred to the Family and Medical Leave Insurance Fund to prepay state employer premiums for FY 2022-23 and into the future until the Insurance Fund balance reaches zero. Then, in the 2023 legislative session the General Assembly passed S.B. 23-234 (State Employee Insurance Premiums) which ended the prepay of state employer premiums after FY 2023-24. As a result, in FY 2022-23 and FY 2023-24 no appropriations were made to

departments for this purpose, but appropriations to departments for Paid Family and Medical Leave Insurance (PFML) resumed in FY 2024-25.

Benefits					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
FY 2024-25 Appropriation					
PERA and Medicare	\$341,182,967	\$188,096,291	\$80,072,389	\$36,189,769	\$36,824,518
Health, Life, Dental	458,180,656	253,044,436	107,469,482	42,610,045	55,056,693
Short-term Disability	4,058,811	2,234,415	940,724	431,527	452,145
Paid Family Leave and Medical Insurance	12,399,070	6,794,353	2,843,136	1,294,506	1,467,074
SUBTOTAL - Benefits	\$815,821,505	\$450,169,496	\$191,325,731	\$80,525,848	\$93,800,430
FY 2025-26 Request/Recommendation					
PERA and Medicare	\$365,930,436	\$201,138,727	\$87,993,579	\$38,282,309	\$38,515,821
Health, Life, Dental	\$498,569,233	275,730,720	119,761,940	48,775,121	54,301,452
Short-term Disability	\$4,296,407	2,360,852	1,023,043	453,359	459,153
Paid Family Leave and Medical Insurance	\$12,889,221	7,082,559	3,069,125	1,360,073	1,377,464
SUBTOTAL - Benefits	\$881,685,297	\$486,312,858	\$211,847,688	\$88,870,861	\$94,653,890
Increase/(Decrease)	65,863,792	36,143,362	20,521,956	8,345,013	853,460
Percent Change	8.0%	8.0%	11.0%	10.0%	1.0%

Cost of Health Insurance

Health insurance is traditionally the compensation component experiencing the greatest increases. The following table outlines the 10-year history of appropriations for Health, Life, and Dental (HLD).

Health, Life, and Dental 10-year Appropriations History (in millions)										
Item	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21*	FY21-22	FY22-23	FY23-24	FY24-25
HLD Total Appropriations	\$217.3	\$217.6	\$237.8	\$261.3	\$287.2	\$309.8	\$323.2	\$347.9	\$407.6	\$458.2
Change		0.3	20.2	23.5	25.9	22.6	13.4	24.7	59.7	50.6
Percentage Change		0.1%	9.3%	9.9%	9.9%	7.9%	4.3%	7.6%	17.2%	12.4%
10-year HLD Appropriations compound average annual growth rate										7.7%

* The FY 2020-21 appropriation for HLD included a General Fund balancing action decrease totaling \$57.8 million. That decrease is not included in this total to more accurately reflect the actual annual change in cost of Health, Life, and Dental in this table.

The FY 2025-26 request amount for HLD totals \$498.6 million – a \$40.4 million or 9.0 percent increase over the full appropriation amount identified for FY 2024-25. This amount includes \$275.1 million General Fund – a \$22.1 million or 9.0 percent increase over FY 2024-25.

PERA Payments for the Unfunded Liability

As part of the total compensation package received by employees and in lieu of contributions to Social Security, the state makes contributions to the Public Employees Retirement Association (PERA). The FY 2025-26 contribution rate is 11.6 percent. Appropriations for the base salary contribution to PERA are made in Personal Services or program line items in which funding to support a department's FTE are found. Actuarial analyses of PERA resulted in the passage of bills in 2004 and 2006 which increased contributions to the pension plan above the base employer and employee contribution rates. These additional state payments, defined in

Section 24-51-411, C.R.S., and called Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED), are each calculated at 5.0 percent of the base salary for most state employees and had been appropriated in separate line items in each department's section of the Long Bill. AED and SAED rates for judges remained constant at 2.2 percent and 1.5 percent, respectively, until H.B. 17-1265 (PERA Judicial Division Total Employer Contribution) enacted increases for both line items to 3.4, 3.8, 4.2, 4.6, and 5.0 percent in each succeeding year beginning in calendar year 2019. Last session, the Committee approved a change to how these payments appear in the Long Bill. They now appear under a single line item titled Unfunded Liability Amortization Equalization Disbursement Payments (ULAED).

Pursuant to S.B. 18-200 (PERA Unfunded Liability), automatic increase adjustments are triggered for employee contribution rates. For most employees, the rate increased from 8.0 to 8.75 percent in FY 2019-20; increased to 10.0 percent in FY 2020-21; increased to 10.5 percent in FY 2021-22; and increased to 11.0 percent in FY 2022-23. Job classes in the Safety Officers category have consistently and historically paid 2.0 percent higher than other state employees, resulting in a current fiscal year (2024-25) contribution rate of 13.0 percent.

In FY 2019-20, a common policy allocation to state agencies was added for the State's \$225.0 million statutory PERA Direct Distribution payment. This allocation was added to common policies in order to charge cash and federal funds sources for what would otherwise be a General Fund payment. Unlike AED and SAED, the direct distribution payment is not calculated as a percentage of payroll, however the allocation of fund sources by each state agency should match the proportions determined for the AED and SAED appropriations. The following table outlines the 10-year history of ULAED and PERA Direct Distribution appropriations.

PERA Unfunded Liability (UL) Payments (ULAED/PERA DD) 10-year Appropriations History (in millions)										
Item	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21*	FY21-22	FY22-23	FY 23-24	FY 24-25	FY 25-26
ULAED Total Appropriation	\$155.3	\$169.2	\$179.4	\$193.4	\$196.8	\$206.6	\$217.8	\$236.8	\$270.6	\$286.4
PERA Direct Distribution	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>56.5</u>	<u>0.0</u>	<u>57.6</u>	<u>58.1</u>	<u>8.9</u>	<u>59.1</u>	<u>60.4</u>
PERA UL Payments	\$155.3	\$169.2	\$179.4	\$249.9	\$196.8	\$264.2	\$275.9	\$245.7	\$329.7	\$346.8
Change	17.9	13.9	10.2	70.5	-53.1	67.4	11.7	-30.2	84.0	17.1
Percentage Change	13.0%	9.0%	6.0%	39.3%	-21.2%	34.2%	4.4%	-10.9%	34.2%	5.2%
PERA Amortization Payments compound average annual growth rate										8.4%

* House Bill 20-1379, Suspend PERA Direct Distribution for FY 2020-21, suspended this payment for the fiscal year. The amount appropriated in the Long Bill totaled \$54.1 million.

Total Compensation General Fund

The compensation components share of state operating General Fund is determined by total operating General Fund as well as annual changes in each of the components.

Compensation Components share of State Operating General Fund			
Item	FY 2023-24	FY 2024-25	FY 2025-26
Operating General Fund	\$15,093,631,195	\$16,051,369,812	\$16,801,270,196
Estimated Salary Base	1,211,993,595	1,404,844,396	1,493,386,391
percent change		15.9%	6.3%
PERA and Medicare	164,434,810	188,096,291	201,138,727
percent change		14.4%	6.9%

Compensation Components share of State Operating General Fund			
Item	FY 2023-24	FY 2024-25	FY 2025-26
Compensation Common Policies	332,763,800	399,087,814	365,710,226
percent change		19.9%	-8.4%
Total State Employee Compensation	1,709,192,205	1,992,028,502	2,060,235,344
percent change		16.5%	3.4%
PERA UL Payments	133,894,421	180,972,525	190,667,803
percent change		35.2%	5.4%
Percentage of Operating General Fund			
Estimated Salary Base	8.0%	8.8%	8.9%
PERA and Medicare	1.1%	1.2%	1.2%
Compensation Common Policies	2.2%	2.5%	2.2%
State Employee Compensation	11.3%	12.4%	12.3%
PERA UL Payments	0.9%	1.1%	1.1%

Summary of Request

Salary Base, Compensation Common Policies, and PERA Payroll Components

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
FY 2024-25 Appropriation					
Base Salary Estimate	\$2,564,593,004	\$1,404,844,396	\$602,479,877	\$275,834,706	\$281,434,025
PERA	305,010,405	168,398,173	71,571,033	32,311,865	32,729,334
Medicare (FICA)	36,172,562	19,698,118	8,501,356	3,877,904	4,095,184
Shift Differential	33,231,000	27,981,403	1,932,384	2,262,289	1,054,924
Salary Survey	193,027,309	109,017,890	43,984,039	20,217,682	19,807,698
Minimum Wage	114,578	15,317	89,605	4,144	5,512
Health, Life, Dental	458,180,656	253,044,436	107,469,482	42,610,045	55,056,693
Short-term Disability	4,058,811	2,234,415	940,724	431,527	452,145
Paid Family Leave and Medical Insurance	12,399,070	6,794,353	2,843,136	1,294,506	1,467,074
AED	135,293,667	74,480,472	31,357,485	14,384,190	15,071,520
SAED	135,293,667	74,480,472	31,357,485	14,384,190	15,071,520
PERA Direct Distribution	57,054,571	32,011,581	17,337,557	3,429,374	4,276,059
TOTAL	\$3,934,429,301	\$2,173,001,026	\$919,864,163	\$411,042,422	\$430,521,689
FY 2025-26 Request/Recommendation					
Base Salary Estimate	\$2,736,914,019	\$1,493,386,391	\$659,488,485	\$290,432,958	\$293,606,185
PERA	326,245,117	179,484,570	78,430,989	34,071,031	34,258,527
Medicare (FICA)	39,685,319	21,654,157	9,562,590	4,211,278	4,257,294
Shift Differential	37,948,879	28,616,615	2,297,917	2,647,416	4,386,931
Salary Survey	95,604,504	51,919,480	23,216,914	10,712,424	9,755,686
Minimum Wage	0	0	0	0	0
Health, Life, Dental	498,569,233	275,730,720	119,761,940	48,775,121	54,301,452
Short-term Disability	4,296,407	2,360,852	1,023,043	453,359	459,153
Paid Family Leave and Medical Insurance	12,889,221	7,082,559	3,069,125	1,360,073	1,377,464
ULAED	286,427,134	157,390,191	68,202,790	30,223,839	30,610,314
PERA Direct Distribution	60,352,598	33,277,612	16,346,600	8,291,801	2,436,585
TOTAL	\$4,098,932,431	\$2,250,903,147	\$981,400,393	\$431,179,299	\$435,449,592
Increase/(Decrease)	\$164,503,130	\$77,902,120	\$61,536,230	\$20,136,877	\$4,927,903
Percent Change	4.2%	3.6%	6.7%	4.9%	1.1%

FY 2025-26 Total Compensation Request

The FY 2025-26 total compensation request is estimated to be \$4.10 billion total funds, including \$2.25 billion General Fund, an increase of \$164.5 million over the prior year appropriation, which represents a 4.2 percent increase in total compensation-related appropriations.

Salary Base

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
FY 2024-25 Appropriation					
Base Salary Estimate	\$2,564,593,004	\$1,404,844,396	\$602,479,877	\$275,834,706	\$281,434,025

Salary Base

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
PERA	305,010,405	168,398,173	71,571,033	32,311,865	32,729,334
Medicare (FICA)	36,172,562	19,698,118	8,501,356	3,877,904	4,095,184
TOTAL	\$2,905,775,971	\$1,592,940,687	\$682,552,266	\$312,024,475	\$318,258,543
FY 2025-26 Request/Recommendation					
Base Salary Estimate	\$2,736,914,019	\$1,493,386,391	\$659,488,485	\$290,432,958	\$293,606,185
PERA	326,245,117	179,484,570	78,430,989	34,071,031	34,258,527
Medicare (FICA)	39,685,319	21,654,157	9,562,590	4,211,278	4,257,294
TOTAL	\$3,102,844,455	\$1,694,525,118	\$747,482,064	\$328,715,267	\$332,122,006
Increase/(Decrease)	197,068,484	101,584,431	64,929,798	16,690,792	13,863,463
Percent Change	6.8%	6.4%	9.5%	5.3%	4.4%

Base salary estimate: The request includes a base salary estimate of \$2.7 billion total funds, including \$1.5 billion General Fund, for FY 2025-26 employee salaries.

PERA: The request includes an estimate of \$326.2 million total funds, including \$179.5 million General Fund, for employer payroll-related contributions to PERA.

Medicare (FICA): The request includes an estimate of \$39.7 million total funds, including \$21.7 million General Fund, for employer payroll-related contributions to Medicare.

Other Salary Related Adjustments

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
FY 2024-25 Appropriation					
Shift Differential	\$33,231,000	\$27,981,403	\$1,932,384	\$2,262,289	\$1,054,924
Salary Survey	193,027,309	109,017,890	43,984,039	20,217,682	19,807,698
Minimum Wage	3,539,838	179,490	3,183,053	156,203	21,092
TOTAL	\$229,798,147	\$137,178,783	\$49,099,476	\$22,636,174	\$20,883,714
FY 2025-26					
Shift Differential	\$37,948,879	\$28,616,615	\$2,297,917	\$2,647,416	\$4,386,931
Salary Survey	95,604,504	51,919,480	23,216,914	10,712,424	9,755,686
Minimum Wage	1,409,954	136,392	1,203,991	64,197	5,374
TOTAL	\$134,963,337	\$80,672,487	\$26,718,822	\$13,424,037	\$14,147,991
Increase/(Decrease)	-94,834,810	-56,506,296	-22,380,654	-9,212,137	-6,735,723
Percent Change	41.3%	41.2%	-45.6%	-40.7%	-32.3%

Shift Differential: Shift differential funds are used for adjustments to some employee wages for work that is performed outside of standard 8:00 a.m. to 5:00 p.m. business hours. Shift differential is requested at 100 percent of prior year actual expenditures. The request includes \$37.9 million total funds, including \$28.6 million General Fund.

Salary Survey: The request includes \$95.6 million total funds, including \$51.9 million General Fund. The request includes a 2.5 percent across-the-board increase as agreed upon in the COWINS Partnership Agreement.

Minimum wage: The request includes \$1.4 million total funds, including \$136,392 General Fund, for adjustments to wages for those employees who earned less than \$16.22 per hour. This is not a statutory minimum wage. Instead, it reflects a 2.0 percent increase from \$16.22 – the current minimum wage pursuant to the Colorado Overtime and Minimum Pay Standards Order (COMPS Order) #38 – in accordance with the newly signed Partnership Agreement.

Insurance Benefits					
Item	Total Funds	General Fund	Cash Funds	Reapprop Funds	Federal Funds
FY 2024-25 Appropriation					
Health, Life, Dental	\$458,180,656	\$253,044,436	\$107,469,482	\$42,610,045	\$55,056,693
Short-term Disability	4,058,811	2,234,415	940,724	431,527	452,145
Paid Family Leave and Medical Insurance	12,399,070	6,794,353	2,843,136	1,294,506	1,467,074
SUBTOTAL - Benefits	\$474,638,538	\$262,073,205	\$111,253,342	\$44,336,079	\$56,975,912
FY 2025-26 Request/Recommendation					
Health, Life, Dental	\$498,569,233	\$275,730,720	\$119,761,940	\$48,775,121	\$54,301,452
Short-term Disability	4,296,407	2,360,852	1,023,043	453,359	459,153
Paid Family Leave and Medical Insurance	12,889,221	7,082,559	3,069,125	1,360,073	1,377,464
SUBTOTAL - Benefits	\$515,754,861	\$285,174,131	\$123,854,109	\$50,588,552	\$56,138,069
Increase/(Decrease)	41,116,323	23,100,926	12,600,766	6,252,473	-837,843
Percent Change	8.7%	8.8%	11.3%	14.1%	-1.5%

Health, life, dental: The request includes \$498.6 million total funds, including \$275.7 million General Fund, for employee health, life, and dental benefits elected by employees as of July 2024. Additional adjustments may be included in a budget amendment based on new actuarial recommendations received in December. The base adjustment request reflects an increase of \$40.4 million total funds, including \$22.7 million General Fund, in FY 2025-26.

Short-term Disability: Short term disability (STD) is requested at a rate of 0.15 percent of revised base salaries. STD is estimated at \$4.3 million total funds, including \$2.4 million General Fund.

Paid family and medical leave insurance: The request includes \$12.9 million total funds, including \$7.1 million General Fund for FY 2025-26. Pursuant to H.B. 22-1133 (Family and Medical Leave Insurance Fund), the State’s portion of the insurance premium was to be prepaid until the balance in the Family and Medical Leave Insurance (FAMLI) Fund reached zero. However, in the 2023 legislative session, the General Assembly passed S.B. 23-324, which transferred the remaining balance in the FAMLI Fund back to the Restoration Loss Cash Fund. The bill also ended the State prepayment of premiums at the end of FY 2023-24. As a result, starting July 1, 2024, departments and employees began paying the premiums for the FAMLI program. These premiums are 0.9 percent of wages per employee, split evenly between the state and employees.

PERA Payments for Unfunded Liability (non-benefit components)					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
FY 2024-25 Appropriation					
AED	\$135,293,667	\$74,480,472	\$31,357,485	\$14,384,190	\$15,071,520

PERA Payments for Unfunded Liability (non-benefit components)					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
SAED	135,293,667	74,480,472	31,357,485	14,384,190	15,071,520
PERA Direct Distribution	57,054,571	32,011,581	17,337,557	3,429,374	4,276,059
TOTAL	\$327,641,904	\$180,972,525	\$80,052,527	\$32,197,754	\$34,419,099
FY 2025-26 Request/Recommendation					
ULAED	\$286,427,134	\$157,390,191	\$68,202,790	\$30,223,839	\$30,610,314
PERA Direct Distribution	60,352,598	33,277,612	16,346,600	8,291,801	2,436,585
TOTAL	\$346,779,732	\$190,667,803	\$84,549,390	\$38,515,640	\$33,046,899
Increase/(Decrease)	19,137,828	9,695,278	4,496,863	6,317,886	-1,372,200
Percent Change	5.8%	5.4%	5.6%	19.6%	-4.0%

ULAED: Unfunded Liability Amortization Equalization Disbursement is a simplified combination of AED and SAED, which are both set at a statutory rate of 5.0 percent of the revised base salary. ULAED is therefore 10 percent of the revised base salary and is estimated to be \$286.4 million total funds, including \$157.4 million General Fund.

PERA Direct Distribution: In FY 2019-20, a common policy allocation to state agencies was added for the state's \$225.0 million statutory PERA Direct Distribution payment. This allocation was added to common policies to charge cash and federal funds sources for what would otherwise be a General Fund payment. The PERA Direct Distribution totals \$60.4 million, including \$33.3 million General Fund in FY 2025-26.

The following table outlines all PERA payments included in total compensation.

All PERA Payments					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
FY 2024-25 Appropriation					
PERA (standard employer contrib.)	\$305,010,405	\$168,398,173	\$71,571,033	\$32,311,865	\$32,729,334
AED	135,293,667	74,480,472	31,357,485	14,384,190	15,071,520
SAED	135,293,667	74,480,472	31,357,485	14,384,190	15,071,520
PERA Direct Distribution	57,054,571	32,011,581	17,337,557	3,429,374	4,276,059
SUBTOTAL - Benefits	\$632,652,309	\$349,370,698	\$151,623,560	\$64,509,619	\$67,148,433
FY 2025-26 Request/Recommendation					
PERA (standard employer contrib.)	\$326,245,117	\$179,484,570	\$78,430,989	\$34,071,031	\$34,258,527
ULAED	286,427,134	157,390,191	68,202,790	30,223,839	30,610,314
PERA Direct Distribution	60,352,598	33,277,612	16,346,600	8,291,801	2,436,585
SUBTOTAL - Benefits	\$673,024,849	\$370,152,373	\$162,980,379	\$72,586,671	\$67,305,426
Increase/(Decrease)	40,372,540	20,781,675	11,356,819	8,077,052	156,993
Percent Change	6.4%	5.9%	7.5%	12.5%	0.2%

Budget Reduction Options

The Executive Budget Request includes no General Fund reductions for Statewide Total Compensation. This issue brief reviews options identified by staff.

Summary

- Statewide Total Compensation represents 13.5 percent of total state General Fund appropriations in FY 2024-25. The Executive budget request includes no proposed reductions.
- Statewide decision item R-03 Eliminate the State Employee Reserve Fund would not reduce General Fund obligations, but would transfer approximately \$12.9 million into the General Fund.

Recommendation

- Staff recommends that the Department discuss the Department proposals and staff options in its budget hearing, focusing particularly on statewide R-03 Eliminate SERF, a 1.0% salary base reduction, and a 5.0% salary base reduction.

Discussion

Funding History FY 2018-19 to FY 2024-25

Total statewide compensation represents 13.5 percent of total state General Fund appropriations in FY 2024-25. As reflected in the table below, General Fund in this section of the budget has increased by 24.6 percent since FY 2018-19 after adjustments for inflation¹. This is more than the statewide increase in General Fund appropriations of 11.3 percent over the same period after adjustments. Over the same period total funding in this section of the budget, after adjustments, has changed by 24.9 percent.

FY 2018-19 to FY 2024-25 Appropriations Comparison - Adjusted for Inflation					
Fund	FY 2018-19		FY 2024-25	Increase/ -Decrease after inflation adjustment	
	Nominal Dollars	FY 24-25 Dollars		Amount	Percent
General Fund	\$1,376,967,152	\$1,743,979,610	\$2,173,001,026	\$429,021,417	24.6%
Total Funds	\$2,486,300,296	\$3,148,990,893	\$3,934,429,301	\$785,438,408	24.9%

¹ Fiscal year 2018-19 appropriations are adjusted for inflation, calculated based on the Legislative Council Staff September forecast, which reflects an increase in the Denver-Aurora-Lakewood consumer price index of 26.7 percent between FY 2018-19 and FY 2024-25.

Budget Requests for General Fund Relief

For this section of the budget, the budget request includes proposals for General Fund relief totaling \$12.9 million. The proposal for General Fund relief is summarized in the table below. This proposal requires statutory change.

Budget Requests for General Fund Relief				
Option	General Fund	Other Funds	Bill? Y/N	Description
Revenue Enhancements				
Eliminate the State Employee Reserve Fund	\$12,912,688	\$0	Y	This fund captures General Fund reversions from personal services and related line items. The purpose of this was to pay for merit pay for state employees. The funds in SERF have never been used to pay for merit pay.
Subtotal - Revenue	\$12,912,688	\$0		
Net General Fund Relief	\$12,912,688			

Additional Options for JBC Consideration

The table below summarizes options identified by the JBC staff that the Committee could consider in addition to or instead of the options presented in the budget request.

A General Fund reduction of 1.0 percent to the salary base would require a reduction of \$40,989,324. A General Fund reduction of 5.0 percent to the salary base would require a reduction of \$204,946,622.

Additional Options for General Fund Relief				
Option	General Fund	Other Funds	Bill? Y/N	Description
Expenditure Reductions				
1.0% salary base reduction	-\$22,509,031	-\$18,480,293	N	This option would reduce General Fund expenditures by \$22.5 million by decreasing the salary base by 1.0 percent.
5.0% salary base reduction	-\$112,545,157	-\$92,401,464	N	This option would reduce General Fund expenditures by \$112.5 million by decreasing the salary base by 5.0 percent.

Expenditure Reductions

Salary Base Reductions

Description: This option would reduce the salary base for each department by a certain percentage as decided by the Committee.

Key Considerations: Most departments have excess funds leftover at the end of the fiscal year as a result of turnover – these funds are referred to as vacancy savings.

Additional background: The following table shows what savings a reduction of 1.0 percent to the salary base would achieve.

1.0 Percent Salary Base Reduction					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
Agriculture	-434,858	-166,246	-268,610	-2	0
Corrections	-6,514,845	-6,431,082	-83,763	0	0
Early Childhood	-354,565	-152,820	-70,033	-36,310	-95,402
Education	-891,099	-367,976	-133,160	-93,975	-295,987
Governor's Office	-2,215,166	-252,352	-160,163	-1,687,126	-115,525
Health Care Policy and Financing	-1,189,470	-481,573	-86,554	0	-621,343
Higher Education - Admin & Hist	-294,218	-97,312	-155,256	0	-41,651
Human Services	-5,480,978	-3,462,955	-273,665	-752,482	-991,876
Judicial	-7,055,507	-6,630,989	-414,599	-9,919	0
Labor and Employment	-2,068,808	-177,998	-1,032,274	-12,375	-846,161
Law	-1,146,966	-278,370	-161,801	-679,517	-27,278
Legislature	-626,216	-626,216	0	0	0
Local affairs	-280,540	-133,740	-49,196	-48,489	-49,115
Military and Veterans Affairs	-206,450	-83,368	-3,950	0	-119,132
Natural Resources	-2,459,390	-338,532	-1,996,576	-79,902	-44,379
Personnel	-544,593	-243,442	-15,848	-285,303	0
Public Health and Environment	-2,855,457	-563,700	-970,721	-267,415	-1,053,621
Public Safety	-3,127,002	-1,098,746	-1,707,596	-284,738	-35,922
Regulatory Agencies	-806,761	-19,712	-703,244	-66,703	-17,102
Revenue	-1,874,982	-853,954	-1,013,493	-7,535	0
State	-217,282	0	-217,282	0	0
Transportation	-270,444	0	-270,444	0	0
Treasury	-73,727	-47,951	-25,777	0	0
Total	-40,989,324	-22,509,031	-9,814,004	-4,311,793	-4,354,496

A 1.0 percent salary base reduction would result in savings of \$41.0 million total funds, including \$22.5 million General Fund.

This amount could be reduced from line items in most departments' Executive Director's Offices or equivalent divisions with little to no impact on personnel or operations. Most departments have vacancy savings at the end of the fiscal year as a function of normal staff turnover, and it is generally assumed that the level of vacancy savings hovers between 1-3 percent for most departments in any given year.

A more extreme salary base reduction of 5.0 percent would result in the following reductions:

5.0 Percent Salary Base Reduction					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
Agriculture	-2,174,291	-831,232	-1,343,049	-8	-2
Corrections	-32,574,223	-32,155,408	-418,815	0	0
Early Childhood	-1,772,827	-764,098	-350,166	-181,552	-477,012
Education	-4,455,495	-1,839,881	-665,801	-469,876	-1,479,936
Governor's Office	-11,075,832	-1,261,762	-800,816	-8,435,631	-577,623
Health Care Policy and Financing	-5,947,351	-2,407,866	-432,770	0	-3,106,715
Higher Education - Admin & Hist	-1,471,090	-486,558	-776,279	0	-208,253
Human Services	-27,404,892	-17,314,777	-1,368,325	-3,762,409	-4,959,382
Judicial	-35,277,537	-33,154,943	-2,072,996	-49,597	0
Labor and Employment	-10,344,040	-889,991	-5,161,368	-61,874	-4,230,807

5.0 Percent Salary Base Reduction					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
Law	-5,734,831	-1,391,848	-809,005	-3,397,587	-136,391
Legislature	-3,131,078	-3,131,078	0	0	0
Local affairs	-1,402,702	-668,700	-245,980	-242,447	-245,576
Military and Veterans Affairs	-1,032,249	-416,839	-19,750	0	-595,660
Natural Resources	-12,296,948	-1,692,658	-9,982,881	-399,511	-221,896
Personnel	-2,722,963	-1,217,209	-79,238	-1,426,515	0
Public Health and Environment	-14,277,286	-2,818,498	-4,853,607	-1,337,077	-5,268,103
Public Safety	-15,635,008	-5,493,730	-8,537,978	-1,423,690	-179,611
Regulatory Agencies	-4,033,804	-98,558	-3,516,218	-333,515	-85,512
Revenue	-9,374,909	-4,269,768	-5,067,463	-37,677	0
State	-1,086,410	0	-1,086,410	0	0
Transportation	-1,352,222	0	-1,352,222	0	0
Treasury	-368,635	-239,753	-128,883	0	0
Total	-204,946,622	-112,545,157	-49,070,020	-21,558,965	-21,772,480

This 5.0 percent reduction would be a much more significant decrease to each department's personnel and operating budgets of \$204.9 million total funds and \$112.5 million General Fund, and staff believes would make it very difficult for departments to retain all existing employees.

Staff has included a 5.0 percent salary base reduction to show the Committee what staff believes would be an extremely difficult reduction for departments to absorb without negative consequences. For context, this is the same reduction that the Committee chose to approve in 2020 in the days following the COVID shutdowns. In that situation, the expected revenue decline was much greater than the current budget shortfall that the General Assembly faces. That was also a true recessionary environment where it was expected that not all positions would be kept.

The other issue for the Committee to consider is the possibility of reopening negotiations on the COWINS Partnership Agreement.

Staff is unsure at this time where the dividing line is on the magnitude of reduction that would trigger renegotiations, but staff is fairly confident that a 1-2 percent salary base reduction could be achieved without reopening negotiations.

The Committee may choose any percentage decrease they would like, but each percentage decrease would result in approximately \$41.0 million in total savings and \$22.5 million in General Fund savings.

COWINS Partnership Agreement

The Colorado Partnership for Quality Jobs and Services Act requires the State to enter into a partnership agreement with certified employee organizations, defines the duties of the parties, and sets standards and procedure related to disputes. The new agreement was signed on September 23, 2024 and remains in effect until July 31, 2027.

Summary

- House Bill 20-1153 (Colorado Partnership For Quality Jobs and Services Act) established a collective bargaining system between covered state employees and the State's Executive Branch. The partnership agreement identifies covered employees, defines the duties of the parties, and sets standards and procedure related to employment disputes.
- House Bill 24-1467 (Modifications to the State Personnel Total Compensation) put the Step Pay Plan into statute by requiring the Department of Personnel and Administration to develop an equitable pay structure that provides consistent and predictable salary increases.

Discussion

History and Updates

House Bill 20-1153 (Colorado Partnership for Quality Jobs and Services Act), codified in Section 24-50-1101 et seq., C.R.S., created a collective bargaining system between covered state employees and the State's Executive Branch. The Act requires the State to enter into a partnership agreement with certified employee organizations, defines the duties of the parties, and sets standards and procedure related to disputes. The Act defines covered employees as those who are employed in the State's personnel system, **except** for the following:

- Confidential employees;
- Managerial employees;
- Executive employees;
- The director of the Department of Personnel, the director of the Division of Labor Standards and Statistics, the governor's designee, and employees working with either director to implement the Act;
- Administrative law judges and hearing officers;
- State troopers;
- Employees of the Legislative Branch; and
- Temporary appointees as described in Section 24-50-114, C.R.S.

Sections 24-50-1111 and 24-50-1117, C.R.S., identify the duties of the State and the oversight role of the General Assembly and requires that the costs of implementation or administration

of the Act be “paid from the General Fund, subject to available appropriation.” Specifically, Section 24-50-1111 (6), C.R.S., directs that:

“The provisions of a partnership agreement that require the expenditure of money shall be contingent upon the availability of money and the specific appropriation of money by the General Assembly. If the General Assembly rejects any part of the request, or while accepting the request takes any action which would result in a modification of the terms of the cost item submitted to it, either party may reopen negotiations concerning economic issues.”

On September 23, 2024 the new Partnership Agreement (PA) was signed. Many of the economic aspects of the agreement did not change, but there are a few changes that the Committee should be aware of.

- If medical, dental, and/or vision insurance rates increase in any fiscal year through June 30, 2028, the State agrees to absorb 100 percent of the costs of any rate increase. In the first PA, the State agreed to pay the first \$20.0 million of any increase.
- A new series of across-the-board (ATB) increases are now in place. They are as follows:
 - On July 1, 2025 (FY 25-26) employees will receive a 2.5% ATB increase;
 - On July 1, 2026 (FY 26-27) employees will receive a 3.1% ATB increase; and
 - On July 1, 2027 (FY 27-28) employees will receive an ATB increase to be determined by a “Steps 2.0” working group.
- The minimum wage will increase on July 1, 2025 from \$16.22/hour to \$16.55/hour, which represents a 2.0 percent increase.
- The entire step structure will increase by 2.0 percent in each of the next three fiscal years.
- The “requested” amount for critical staffing incentives has been negotiated at \$12.0 million as opposed to 10.0% of non-base building temporary pay differential. Additionally, two job classes in the Department of Public Safety have been added to the list of classes that are expected to receive incentive pay – State Patrol Dispatch and State Firefighters.

FY 2025-26 Costs of the Agreement

The primary cost driver for FY 2025-26 resulting from the PA is the 2.5 percent across-the-board increase. The table below outlines the different aspects of the agreement that are driving increased costs for FY 2025-26.

Costs Associated with COWINS Partnership Agreement FY 2025-26					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
FY 2025-26 Request					
2.5 percent ATB increase	\$78,199,570	\$42,377,147	\$18,713,926	\$8,814,768	\$8,293,729
Step Increases	12,230,817	7,427,686	2,792,525	816,632	1,193,974
Critical Staffing Incentives (COR, DHS, DPS)	12,000,000	12,000,000	0	0	0
STEP-like increases (0.6%)	3,234,420	1,682,885	320,647	989,531	241,358
Movement to Minimum Wage	1,594,094	154,205	1,361,232	72,581	6,076
TOTAL	\$107,258,902	\$63,641,922	\$23,188,331	\$10,693,512	\$9,735,136

2.5 Percent Across-the-Board Increase

The request includes \$78.2 million total funds, including \$42.4 million General Fund to implement a 2.5 percent across-the-board (ATB) increase for all classified employees. This is the first of three ATB increases outlined in the new Partnership Agreement. For FY 2026-27, the prescribed ATB increase is 3.1 percent. For FY 2027-28, the ATB increase amount will be determined by the Steps 2.0 working group.

Step Increases

The request includes \$12.2 million total funds, including \$7.4 million General Fund to continue the implementation of the Step Pay plan. The step increase is significantly smaller for FY 2025-26 than it was for FY 2024-25 because most employees are now placed in the appropriate step, so the increase here is purely from employees who have moved up one step based on the number of years they have worked in their job series. This increase is smaller than what would be expected of a more 'standard' step increase because of the 2.5 percent ATB being applied to all employees *before* the step increases are applied.

Critical Staffing Incentives

The request includes \$12.0 million General Fund distributed among the Departments of Corrections, Human Services, and Public Safety as follows.

Critical Staffing Incentives					
Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
FY 2025-26 Request					
Corrections	\$7,541,248	\$7,541,248	\$0	\$0	\$0
Human Services	3,921,031	\$3,921,031	\$0	\$0	\$0
Public Safety	537,721	\$537,721	\$0	\$0	\$0
Total	\$12,000,000	\$12,000,000	\$0	\$0	\$0

This part of the request is a result of section 32.3 of the PA which states that for FY 2025-26, the State and COWINS “agree to seek funding of \$12 million in general funds...and agree that the job classifications listed below working in 24/7 facilities shall receive an equally distributed non-base building incentive.”

- Correctional Officers (DOC)
- Nurses (DOC and CDHS)
- State Teachers (DOC and CDHS)
- Social Workers (DOC)
- Legal Assistants (DOC)
- Client Care Aides (CDHS)
- Health Professionals (DOC)
- Health Care Tech (DOC and CDHS)
- Clinical Youth Safety and Security Officers (CDHS)
- State Patrol Dispatch (CDPS)
- State Firefighters (CDPS)

Step-like Increases

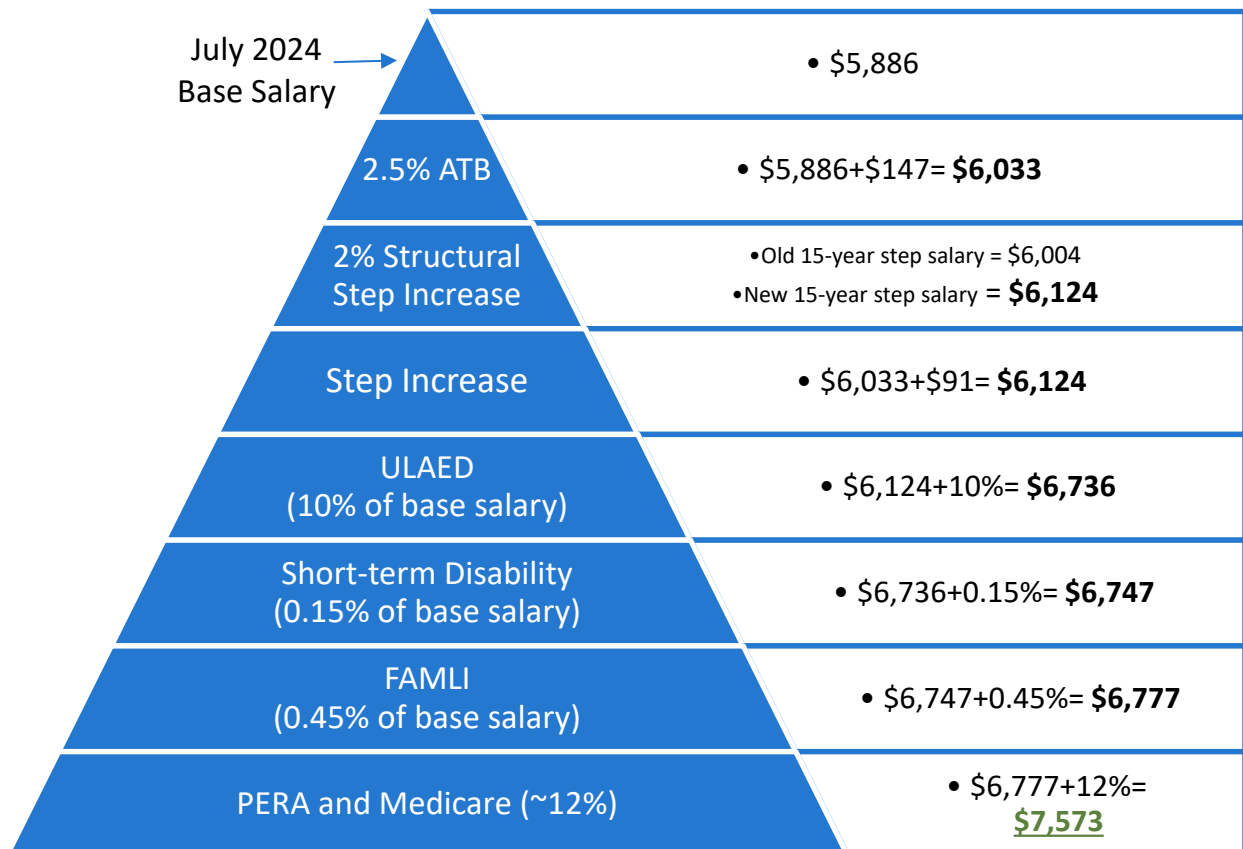
The request includes \$3.2 million total funds, including \$1.7 million General Fund to implement step-like increases for non-covered employees. For FY 2025-26, the Department has calculated the average step plan increase at 0.6 percent. If approved, these funds would be distributed proportionally to departments with non-covered employees. Denial of this portion of the request would not trigger renegotiations.

Movement to Minimum Wage

The final piece of the total cost – \$1.6 million total funds, including \$154,205 General Fund – comes from increasing wages for employees who make less than \$16.55 per hour. Section 31.3 of the PA stipulates that the minimum wage shall increase by 2.0 percent for FY 2025-26, FY 2026-27, and FY 2027-28. As such, for FY 2026-27 the minimum wage will be \$16.88/hour and for FY 2027-28 the minimum wage will be \$17.22/hour.

Salary Build

To help the Committee better understand how all of these different aspects build into an employee's salary, staff has created the following graphic. This hypothetical employee has a 'time in series' value of 14 as of June 30, 2024 which means they will be placed in the next step level for FY 2025-26. If their base monthly salary in FY 2024-25 is \$5,886 it will increase to \$7,573 for FY 2025-26.



PERA Update

The Public Employees' Retirement Association prepares an annual financial report that details the plan's performance for the preceding calendar year.

Summary

- PERA experienced an investment return of 13.4 percent in 2023, compared with -13.4 percent in 2022. The net investment income of the plan in 2023 was \$8.3 billion. Member contributions totaled \$1.6 billion and employer contributions totaled \$2.5 billion.
- Despite the positive investment returns, the aggregate funded ratio declined to 69.6 percent – down from 69.9 percent a year earlier – and the aggregate unfunded liability increased from \$26.3 billion to \$27.5 billion – an increase of \$1.2 billion.
- The state employee contribution rate of 11.0 percent for most state employees and 13.0 percent for Safety Officers FY 2024-25 is not scheduled to increase in 2026. This compares to the normal cost rate of 12.99 percent for the State Division as identified in the 2023 annual report. The normal cost reflects the percentage of salary required to fully fund a current employee's PERA benefits.

Discussion

According to the PERA 2023 Comprehensive Annual Financial Report (CAFR), PERA experienced a positive investment year in 2023, resulting in a combined return of 13.4 percent net-of-fees. The investment performance is only one of several factors used to calculate a retirement plan's funded status, however. Factored into this determination are actuarial assumptions related to inflation, payroll and employment, retirement rates, and member longevity. As of December 31, 2023, the plan's unfunded liability is reported at \$27.5 billion giving it a funded status of 69.6 percent, as compared with 69.9 percent on December 31, 2022. For the State Division, the unfunded liability is reported at \$9.6 billion, with a funded status of 66.2 percent.

Investment Return

For 2023, PERA experienced an investment return of 13.4 percent. PERA's annualized rate of return over extended periods include the following:

- 4.5 percent over three years;
- 10.0 percent over five years;
- 7.8 percent over 10 years; and
- 8.3 percent over 30 years.

Funded Ratio

The following table outlines the funded ratio for each division and the aggregate for PERA as a whole.

Funded Ratio (actuarial value from CAFR)								
Item	2016	2017	2018	2019	2020	2021	2022	2023
Year end	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
State	54.6%	57.5%	56.1%	58.0%	59.1%	64.0%	66.5%	66.2%
Judicial	66.6%	72.4%	70.6%	74.0%	78.7%	85.9%	88.5%	89.2%
School	56.3%	59.4%	57.9%	59.9%	60.6%	65.3%	67.0%	66.7%
DPS	75.9%	79.7%	76.8%	80.0%	81.2%	86.9%	90.3%	89.6%
Local Government	74.4%	79.5%	77.7%	80.7%	82.4%	88.6%	91.0%	90.7%
PERA aggregate	58.1%	61.3%	59.8%	61.9%	62.8%	67.8%	69.9%	69.6%

Unfunded Actuarial Accrued Liability

The following table outlines the unfunded actuarial accrued liability for each division and the aggregate for PERA as a whole.

Unfunded Actuarial Accrued Liability (in millions)										
Item	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Year end	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
State	\$9,885	\$10,203	\$11,644	\$10,526	\$11,206	\$10,796	\$11,078	\$9,780	\$9,276	\$9,609
Judicial	100	115	149	118	132	120	102	69	59	57
School	14,243	14,805	18,090	16,266	17,504	17,013	17,951	16,084	15,933	16,766
DPS	665	698	1,026	831	987	853	850	609	465	521
Local Gov.	982	1,004	1,334	1,037	1,170	1,028	996	654	534	571
PERA agg.	\$25,875	\$26,825	\$32,242	\$28,777	\$30,999	\$29,810	\$30,977	\$27,196	\$26,266	\$27,524
Agg. Change	77	950	5,417	(3,465)	2,222	(1,190)	1,167	(3,781)	(930)	1,258

Pursuant to S.B. 18-200 (Modifications to PERA Public Employees' Retirement Association to Eliminate Unfunded Liability), PERA must reach full funding by the end of 2047. With the plan's positive investment year, PERA's asset to liabilities comparison indicates that the automatic adjustment provision, which automatically adjusts member and employer contributions, will not be necessary in 2025. As a result, the employee contribution will remain 11.0 percent for most State employees and 13.0 percent for employees in the Safety Officers category. The amortization funding valuation for the State Division changed from 20 years in 2022 to 18 years in 2023.

PERA Direct Distribution Payments

Pursuant to Section 24-51-414, C.R.S., the State Treasurer is required to issue an annual warrant on July 1 to the Public Employees' Retirement Association (PERA) in the amount of \$225.0 million. The annual payment, established in S.B. 18-200 is to be made until there are no unfunded actuarial accrued liabilities of any division of PERA. Pursuant to S.B. 18-200, payment may be made from the General Fund or any other fund. Subsequent legislation enacted in 2020 and 2022 made changes to the amounts to be paid to PERA on July 1 in 2020, 2023, and 2024. A

brief summary of PERA-related legislation enacted since 2018 is provided below. There was no legislation that passed in the 2024 legislative session that significantly impacted the unfunded liability.

- **S.B. 18-200 (Modifications to PERA Public Employees' Retirement Association to Eliminate Unfunded Liability)** established an annual direct distribution payment of \$225.0 million to be made from the General Fund or any other fund. Payments are scheduled to be made on July 1 of each year beginning July 1, 2018 and continue until there is no unfunded actuarial accrued liabilities of any division of PERA that receives the direct distribution.
- **H.B. 20-1379 (Suspend Direct Distribution to PERA Public Employees' Retirement Association for 2020-21 Fiscal Year)** eliminated the July 1, 2020 scheduled direct distribution payment of \$225.0 million to PERA.
- **S.B. 21-228 (PERA Public Employees' Retirement Association Payment Cash Fund)** created the PERA Payment Cash Fund, appropriated \$380.0 million General Fund to the Cash Fund, authorized the State Treasurer to use the Cash Fund to pay any employer contribution or disbursements required by statute, and required that the PERA direct distribution payment scheduled to be paid on July 1, 2022, be made from the Cash Fund as opposed to the General Fund. The bill allows for the payment of some or all of a future payment to PERA to be made from the cash fund as well.
- **S.B. 22-214 (General Fund Transfer to PERA Payment Cash Fund)** requires the transfer of \$198.5 million General Fund to the PERA Payment Cash Fund in order to reimburse the Cash Fund for the portion of the July 1, 2022 direct distribution payment that was made from the Cash Fund pursuant to H.B. 22-1329 (FY 2022-23 Long Appropriations Bill).
- **H.B. 22-1029 (Compensatory Direct Distribution to Public Employees' Retirement Association)** required the State Treasurer to make a payment to PERA as soon as practicable in the amount of \$380.0 million cash funds from the PERA Payment Cash Fund, in order to recompense PERA for the eliminated July 1, 2020 direct distribution payment that was required by H.B. 20-1379. The payment is in addition to the regularly scheduled July 1, 2022 \$225.0 million payment (funded in the FY 2022-23 Long Bill). In addition, the bill reduced the scheduled July 1, 2023 direct distribution payment by \$190.0 million.
- **S.B. 23-056 (Compensatory Direct Distribution to PERA)** requires the State Treasurer to issue a warrant on July 1, 2023 to PERA in the amount of the balance of the PERA Payment Cash Fund, plus \$10.0 million General Fund for a total of \$14,455,499. The payment was intended to recompense PERA for interest earnings on the repealed July 1, 2020 direct distribution payment. The bill also repealed the PERA Payment Cash Fund on July 1, 2023

It is very important to note that the payment plan established in S.B. 18-200 is an annuity and was created in order to ensure that a fixed sum of money is paid to PERA on an annual basis so that the unfunded liability is resolved in a timely fashion. Legislation making changes to the annuity has in effect birthed the concept that modifications to the PERA Direct Distribution payment is a means through which the State budget can be balanced. This is a dangerous paradigm in that PERA is a healthy investment and the unfunded liability is a debt. Staff recommends against reducing the Direct Distribution payments for any reason.

PERA Direct Distribution Payment Fund Sources

Statute allows for regularly scheduled direct distribution payments to be made from the General Fund or other sources of funding. Only a portion of the payment is attributable to the State (typically approximately \$58 million), therefore “other sources of funding” refers to cash funds, reappropriated funds, or federal funds to which state departments have access and that can be used to cover pension plan costs. This language allows for Long Bill appropriations for each department’s portion of the direct distribution payment to be made up of various sources, thereby reducing the impact of the annual payment on the General Fund.

Regularly scheduled \$225.0 million payments are typically comprised of approximately 88.0 percent General Fund, 7.0 percent cash funds from various sources, 3.0 percent reappropriated funds, and 2.0 percent federal funds. The fund type splits for each department are determined through the use of the total compensation templates, however the statewide percentages reflected in the Long Bill change very little from year to year. It is important to note that these other sources of funding are only available for the portion of the payment attributable to the State Divisions. The portion of the liability associated with other PERA divisions are solely covered by General Fund. Under current law, the FY 2025-26 payment is \$225.0 million.

Pension Review Subcommittee

Over the interim, the Pension Review Subcommittee met to consider a report that PERA’s actuary – Segal – produced for the Subcommittee’s semi-annual review of the planned reduction in the unfunded liability (UL). In that report, Segal says that:

“The 67% likelihood metric does not coordinate well with PERA’s:

- Automatic Adjustment Provision (AAP) Assessment enacted through Senate Bill 18-200
- Pension Funding Policy intentionally updated in 2018 to coordinate with the recently enacted annual AAP Assessment
- Periodic AUM analysis or Board investment policies used in setting economic assumptions”.²

The likelihood metric is what the Pension Review Subcommittee uses to instruct PERA to recommend corrective policy changes. If the Subcommittee determines that the state is less than 67 percent likely to fully fund the liability by 2048, then PERA must make policy change recommendations to the Subcommittee.

² Pension Review Subcommittee letter to the Joint Budget Committee
https://leg.colorado.gov/sites/default/files/images/committees/2024_pension_subcommittee_letter_on_the_67_percent_funded_status-accessible_0.pdf

The above quoted text from the Segal report basically says that this ‘likelihood metric’ does not comport well with other aspects of SB 18-200, and that it is not an appropriate method of determining when or if PERA needs to make recommendations for corrective changes.

Segal provided several scenarios that would be needed for PERA to achieve the 67% likelihood metric, all of which include lump sum payments between \$4 billion and \$38 billion. The final scenario that Segal outlined is one where the likelihood metric increases from 52% to 54% as a result of indexing the Direct Distribution payments to the Denver-Aurora-Lakewood CPI. This graphic can be referenced in Appendix A of this document.

The current likelihood of full funding by 2048 is 52%. Normally, because this is less than 67%, PERA would be required to make recommendations on policy changes to the Subcommittee. However, in light of Segal’s analysis, “PERA has informed the Subcommittee that they have no recommendations for changes to the pension...[and that] allowing the provisions of Senate Bill 18-200 to continue, particularly the Automatic Adjustment Provision, will keep the pension on-track for full funding by 2048.”³

Staff is uncertain of the implications of this change, but staff is aware that members of the Pension Review Subcommittee are working on a resolution. At this point, staff does not believe that the JBC needs to take any action on this issue, it is included here to keep the JBC informed on something that may or may not require action/attention in the future.

³ Pension Review Subcommittee letter to the Joint Budget Committee
https://leg.colorado.gov/sites/default/files/images/committees/2024_pension_subcommittee_letter_on_the_67_percent_funded_status-accessible_0.pdf

Critical Staffing Incentive Funding

This issue brief provides an overview of critical staffing incentive request amounts.

Summary

The Department of Personnel has included – for the third consecutive year – funding for critical staffing incentives within the request for total compensation. JBC Staff has twice recommended, and the Committee has twice agreed, that these inclusions should instead be formal request items.

Recommendation

Staff recommends that the Committee send a letter to OSPB requesting budget amendment decision items for critical staffing incentive funding.

Discussion

Past Critical Staffing Incentive Funding

In the first Partnership Agreement (PA) there was a section called Critical Staffing Needs Incentives. This section called for specific job classes in the Departments of Corrections and Human Services who work in 24/7 facilities to receive up to 10% non-base building pay differential.

In FY 2023-24, the Department of Personnel included an additional \$13,483,952 total funds within the compensation templates for the departments mentioned above. In the creation of the budget for that year, JBC staff considered those separately from the total compensation amount in those departments, and the compensation analyst recommended to the Committee that future Critical Staffing Incentives should be separated from the total compensation request, as they are department specific, non-base building, targeted salary adjustments. The Committee approved funding for the incentive pay and requested that departments submit these as a separate request in future years.

In FY 2024-25, the Department of Personnel included an additional \$16,218,719 total funds within the compensation templates for the departments mentioned above. In the creation of the budget for the current year, JBC staff considered those separately from the total compensation amount in those departments, and staff recommended to the Committee that future Critical Staffing Incentives should be separated from the total compensation request, as they are department specific, non-base building, targeted salary adjustments. The Committee approved funding for the incentive pay and requested that departments submit these as a separate request in future years.

For FY 2025-26, the Department of Personnel has included an additional \$12,000,000 General Fund within the compensation templates for the Departments of Corrections, Human Services, and Public Safety. Despite the Committee's continued expectation that the affected departments request this amount separately from the total compensation request, they and/or DPA and/or OSPB has refused to do so.

Reasons for Separate Request

Arguably, there is a justification for this to not be requested separately from the rest of total compensation, which is that the incentive pay request is part of the Partnership Agreement, so should be requested along with other aspects of the Partnership Agreement. This might be reasonable had the Committee not repeatedly asked the Department to submit a formal decision item for the funding. It is also important to note that DPA has requested funding for other aspects of the PA separate from the compensation templates, so it is not the case that all funding prescribed by the PA is included in the compensation templates.

Additionally, this type of funding – targeted salary adjustments for specific job classes – has traditionally been requested as a decision item from the department asking for the funding. Simply because the source of the request is different – the PA instead of the department – should not matter for the way it is requested.

Staff believes there is greater value to the Committee by making this funding a separate request for two reasons.

First, it would enhance transparency around total compensation and ensure that the Committee understands how the requested incentive funding would be distributed. Currently, the only tool that the Committee or staff has for understanding this is a bullet list included in the Partnership Agreement of the job classes that would receive incentive pay, included below.

- Correctional Officers (DOC)
- Nurses (DOC and CDHS)
- State Teachers (DOC and CDHS)
- Social Workers (DOC)
- Legal Assistants (DOC)
- Client Care Aides (CDHS)
- Health Professionals (DOC)
- Health Care Tech (DOC and CDHS)
- Clinical Youth Safety and Security Officers (CDHS)
- State Patrol Dispatch (CDPS)
- State Firefighters (CDPS)

This list clearly does not provide a great deal of information, but with a formal request for funding, the departments would be able to outline how the dollars have been distributed in the past and how they plan to distribute them in the future.

The other aspect of enhancing transparency involves deciding whether this amount is non-base building or base building. If approved, FY 2025-26 would be the third consecutive year that

these funds will have been approved. While this is the final year for this critical staffing incentive pay as indicated by the Partnership Agreement, there would be no restriction on either: a) the Partnership Agreement being reopened; or b) DPA simply keeping these amounts in their total compensation request for FY 2026-27.

The second reason to make this a separate request is that it would give the departments the opportunity to justify the amount to the Committee. Currently, \$12.0 million is a negotiated amount as prescribed by the Partnership Agreement. However, staff has to assume that there is a reason for that number nonetheless. Some questions that staff have – which could easily be answered in a request document – are:

- How are the dollars being distributed to different job classes?
- Are retention rates higher as a result of this incentive pay?
- Does funding need to be added to the base in order to retain employees at 24/7 facilities?

One consideration that the Committee should be aware of is that any deviation from the \$12.0 million incentive pay could potentially reopen partnership negotiations. Staff is not recommending for or against funding at this time, only for OSPB to work with either the Department of Personnel to submit a budget amendment or, more ideally, for each department that would receive these funds to submit their own budget amendments.

Statewide R-03 Eliminate State Employee Reserve Fund

The State Employee Reserve Fund is a fund that exists for no true purpose other than to capture General Fund reversions and hold those until the General Assembly decides to transfer them back to the General Fund. This decision item would require legislation.

Summary

- The State Employee Reserve Fund was created alongside merit pay, but has never been used to help pay for the merit pay system.
- The only purpose the fund has served over the years is a vessel for General Fund to be deposited into and for the General Assembly to periodically transfer back to the General Fund.
- Repealing the SERF would result in approximately \$12.9 million more General Fund for FY 2025-26.

Discussion

State Employee Reserve Fund

The State Employee Reserve Fund (SERF) was created alongside merit pay in Section 24-50-104 (1)(j)(II), C.R.S. to capture General Fund reversions from personal services lines to help pay for the merit pay system. Merit pay was never fully implemented, and the money in the SERF was never used to pay for merit pay, but General Fund from personal services lines still reverts to the SERF.

The fund has served more as that pocket in your coat that you haven't checked since last winter where you find \$10 and your day is instantly better. Staff does not believe that this pocket has a role in the State budget.

Eliminating this fund will simply allow the General Fund reversions to revert back to the General Fund instead of having to go through an extra step of periodically being transferred back to the General Fund from the SERF.

The General Assembly has transferred the funds in the SERF back to the General Fund on:

- July 1, 2017;
- July 1, 2019;
- June 30, 2020;
- July 1, 2023; and
- June 30, 2024.

One final transfer and repeal of the SERF would transfer an estimated \$12,912,688 back to the General Fund to be used for other priorities.

Footnotes and Requests for Information

Update on Long Bill Footnotes

The General Assembly includes footnotes in the annual Long Bill to: (a) set forth purposes, conditions, or limitations on an item of appropriation; (b) explain assumptions used in determining a specific amount of an appropriation; or (c) express legislative intent relating to any appropriation. Footnotes to the 2024 Long Bill (H.B. 24-1430) can be found at the end of each departmental section of the bill at <https://leg.colorado.gov/bills/HB24-1430> The Long Bill footnotes relevant to this document are listed below.

There are no footnotes concerning Total Compensation or PERA for FY 2024-25.

Update on Requests for Information

The Joint Budget Committee annually submits requests for information (RFIs) to executive departments and the judicial branch via letters to the Governor, other elected officials, and the Chief Justice. Each request is associated with one or more specific Long Bill line item(s), and the requests have been prioritized by the Joint Budget Committee as required by Section 2-3-203 (3), C.R.S. Copies of these letters are included as an Appendix in the annual Appropriations Report (Appendix H in the FY 2024-25 Report):

<https://leg.colorado.gov/sites/default/files/fy24-25apprept.pdf>

The RFIs relevant to this document are listed below.

There were no requests for information concerning Total Compensation or PERA for FY 2024-25.

Appendix A: Pension Review Subcommittee Letter to the JBC

The following is the letter that was sent to the JBC from the Pension Review Subcommittee regarding the Segal study that outlines Segal's concerns about the 67% likelihood metric.



Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

**Pension Review
Subcommittee**

September 23, 2024

TO: Members of the Pension Review Commission, the Joint Budget Committee, and the Colorado General Assembly

FROM: Members of the Pension Review Subcommittee

SUBJECT: Funded Status of the Colorado Public Employees' Retirement Association

Section 24-51.1-101 (4)(d), C.R.S., requires the Pension Review Subcommittee to review semi-annually the planned reduction of the unfunded liability of the Public Employees' Retirement Association (PERA). If, upon that review, the subcommittee determines that PERA does not have at least a 67 percent likelihood of achieving full funding by 2048, then PERA is required to provide recommendations to the subcommittee for policy changes, of which the subcommittee is required to inform the Pension Review Commission, the Joint Budget Committee, and the Colorado General Assembly.

Public Employees' Retirement Association Response and Recommendations

This year, PERA's contracted actuaries at the Segal Group explained how the "67 percent likelihood" metric is out of sync with the way PERA reports its progress. From Segal's report:

The 67% likelihood metric does not coordinate well with PERA's:

- Automatic Adjustment Provision (AAP) Assessment enacted through Senate Bill 18-200
- Pension Funding Policy intentionally updated in 2018 to coordinate with the recently enacted annual AAP Assessment
- Periodic AUM analysis or Board investment policies used in setting economic assumptions

At the top of the following page, Segal provided a table illustrating scenarios that would have to occur for the pension to achieve a 67 percent likelihood of full funding.



What is required in each scenario that results in PERA achieving the 67% likelihood metric¹?

Proposed Scenario	Assumed Long-Term Rate of Return	Proposed Change / Action Required to Meet Goal	Estimated Achieved Metric	Notes
Combination of benefit and contribution changes	7.25%	1.75% multiplier 8-Year Avg HAS - Trigger last two AAP adj \$4B Lump Sum	67%	Significant changes to new tier of benefit provisions, plus large lump sum
Lump Sum	7.25%	\$20B (\$13B without considering AAP ²)	67%	
Lump Sum	6.71%	\$38B (\$27B without considering AAP ²)	67%	
Indexing on Direct Distribution (assume 3%, per annum)	7.25%	Indexing the Direct Distribution at Local CPI	Improved Metric from 52% to 54%	Assumed Indexing at 3.0%, per annum (approximate 10-year annualized Local CPI)

¹ 67% likelihood of achieving 100% funded status by 2048.

² Additional dollars needed if considering the AAP, due to the greater likelihood of triggering "120% AAP Adjustments" with large infusion of cash.



As a result of Segal's analysis, PERA informed the subcommittee that they have no recommendations for changes to the pension. PERA staff suggested that allowing the provisions of Senate Bill 18-200 to continue, particularly the Automatic Adjustment Provision, will keep the pension on-track for full funding by 2048.

Subcommittee's Response and Recommendations

Assuming a 7.25 percent rate of return on PERA's investments and minimal changes to beneficiary demographics, PERA's actuaries estimate that all divisions of PERA—State, School, Local Government, Judicial, and Denver Public Schools—are on track to reach full funding by 2048 with a probability of 52 percent, subject to market conditions. PERA's actuaries estimate that for all divisions of PERA to have a 67 percent probability of full funding by 2048, a benchmark in statute, would require substantial additional funding. The subcommittee will continue to evaluate PERA's funded status annually. This interim, the subcommittee is contemplating corrective action through its recommendations to the PERA Board and to the Pension Review Commission, which can be found on the [Pension Review Subcommittee's website](#).