

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



FY 2011-12 STAFF FIGURE SETTING

COMMON POLICIES

(Total Compensation and Statewide Indirect Cost Recoveries *ONLY*)

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

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**FY 2011-12 FIGURE SETTING
STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE**

COMMON POLICIES

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**FY 2011-12 FIGURE SETTING
COMMON POLICIES
JBC Working Document -- All Decisions Subject to Change**

DOCUMENT OVERVIEW

This document includes recommendations for the statewide common policies that impact employee compensation (such as salary adjustments, supplemental retirement contributions, and group benefits), as well as the amount of statewide indirect cost recoveries for each department.

Staff's recommendations include actual dollar amounts for the health, life, and dental benefits, shift differential, and statewide indirect cost recoveries. Staff's recommendations for the remaining items refer to how they should be calculated, such as the percentage used to calculate short-term disability premiums, or the percentage used to calculate supplemental retirement benefits. Joint Budget Committee (JBC) staff then apply the Committee's approved calculations to generate a recommended appropriation amount for each department.

At figure-setting, the Joint Budget Committee (JBC) staff final recommendations may differ from the department's request due to differences in the source of the base calculations. The OSPB calculates its requested appropriations for short-term disability, amortization equalization disbursement, and supplemental amortization equalization disbursement based on the requested FY 2011-12 salary amounts. However, Joint Budget Committee staff have historically used the most recent prior year actuals (FY 2009-10) as the calculation base.

The first portion of the document details staff's recommendation for how to calculate the Personal Services line items. The following items are statewide common policies for total compensation (salaries, group health and dental benefit, life insurance, short-term disability, supplemental retirement payments, and shift differential pay), as well as any other recommendations pertaining to the FY 2011-12 Personal Services base appropriation. The final item in the document is the Statewide Indirect Cost Allocation Plan, which is not related to the total compensation components.

OSPB Request for Total Compensation Common Policies, including General Fund Estimate			
Common Policy	Requested Appropriation	General Fund	% General Fund
Health, Life, and Dental	\$154,000,000	\$87,200,000	56.6%
Short-term Disability	2,600,000	1,400,000	53.8%
Amortization Equalization Disbursement (AED)	40,800,000	22,000,000	53.9%
Supplemental AED (SAED)	32,800,000	17,800,000	54.3%
Shift Differential	<u>11,227,091</u>	<u>9,000,000</u>	<u>8.0%</u>
Total	\$241,427,091	\$137,400,000	56.9%
These amounts do not include the non-appropriated positions in Higher Education			

TOTAL COMPENSATION

Pursuant to Section 24-50-104 (1) (a) (I), C.R.S., total compensation includes (but is not limited to): (1) salary; (2) health, life, and dental benefits; (3) supplemental PERA contributions; (4) shift differential; (5) short-term disability; (6) salary survey; and (7) performance-based pay. The Department of Personnel and Administration (DPA) is required to conduct an annual review of the State's total compensation system to determine if it is comparable with other public and private sector employers (Section 24-50-104 (1) (a) (II), C.R.S.). The purpose is to ensure the State's ability to recruit, retain, and motivate a qualified workforce.

Pursuant to Section 24-50-104 (4) (c), C.R.S., the State Personnel Director is to publish the Total Compensation Report every August. This report includes recommendations for base pay increases to occupational groups in the state personnel system. Recommendations should consider the results of the annual compensation survey, fiscal constraints, and the State's ability to recruit and retain employees. The appropriations for the supplemental PERA contributions are statutorily determined, but the Director is to calculate their fiscal impact for the upcoming year.

OVERVIEW OF PERSONAL SERVICES CALCULATIONS

The personal services calculation is a formula that integrates base funding from the prior year and applies adjustments (both increases and decreases) based on legislative action or the Committee's approval of staff recommendations. The historical components of the personal services calculation include:

Personal Services Calculations: Building the Appropriation for FY 2011-12
Please note: The "+" indicates that an item is included in the calculation, but item may increase or decrease the dollar amount.
Starting base: FY 2010-11 Long Bill appropriation
+ Adjustment for supplemental appropriations that impacted FY 2010-11
+ Annualize for prior-year decision items
+ Adjustments for legislation other than the Long Bill (special bills during the 2010 Legislative Session)
= FY 2011-12 Base Appropriation
+ Annualize prior-year legislation (special bills from 2010 session)
+ Annualize prior-year decision items
+ Base adjustments (i.e. vacancy savings)
+ FY 2011-12 change requests
+ Staff recommended adjustments
= Recommended FY 2011-12 Long Bill Appropriation

1. **Prior year Long Bill appropriation** - Staff use the prior year's Long Bill as the base amount on which to build appropriations for the following year.
2. **Adjustment for special bills, including supplemental appropriations** - The base appropriation is adjusted to incorporate any changes that occurred the supplemental process. It's also adjusted to reflect the effects of prior year legislation or to annualize one-time funds.
3. **Adjustments for prior year's decision items** - The Long Bill contains change requests that were approved in the previous year, and some of the changes 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 following full fiscal year.
4. **Base adjustment to reflect savings from vacancies and staff turnover** - Historically, the personal services appropriations included a base reduction to account for vacancy savings resulting from staff turnover. Since its inception in FY 1999-00, this adjustment has ranged between 0.2 percent and 2.5 percent. These reductions are intended to be base-building, so they are carried forward in the next year's base appropriation. This adjustment is intended to account for savings where they exist. Base adjustments for vacancy savings *do not impact employee salaries*.
5. **New change requests, budget amendments, or other adjustments** - 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.
6. **Staff-recommended adjustments** - Joint Budget Committee staff periodically recommend other adjustments based on their own analysis. For example, a reduction may be recommended to reflect significant reversions or vacant positions during a prior fiscal year.
7. **Fund mix adjustment** - Joint Budget Committee staff may present a recommendation that adjusts fund sources in order to maximize opportunities for federal funds or cash funds to offset the need for General Fund appropriations. These adjustments change the amount from an individual fund source, but the total dollar amount remains the same.

Continuation of S.B. 10-146: The Committee is sponsoring legislation to continue the effects of S.B. 10-146, which reduced the State's PERA contribution rate by 2.5 percent and increased the employee contribution rate by the same amount. This legislation impacts every Personal Services line item in the FY 2011-12 Long Bill. **Staff recommends allowing JBC staff to incorporate the changes in the figure-setting recommendations even though the PERA swap bill may not yet be signed when figure-setting begins.**

2.0 PERCENT GENERAL FUND REDUCTION FOR PERSONAL SERVICES LINE ITEMS

OSPB Request: The Executive Branch requests a one-time, 2.0 percent reduction for the General Fund portion of certain Personal Services line items. The request impacts the General Fund portion of the Personal Services appropriations only, and anticipates a total reduction of \$5.4 million, including \$4.9 million General Fund. The reduction applies to FY 2011-12 *only*, and would be restored for the FY 2012-13 base appropriation.

Staff Recommendation: Staff **does not recommend this request.** Staff instead recommends a 1.5 percent base reduction.

BASE REDUCTION FOR VACANCY SAVINGS

Vacancy savings are generated when a senior, higher-paid employee is replaced by a less experienced, and thus lower-paid, employee. The difference in the salary amounts represent the vacancy savings. Although the position is filled, the Personal Services line item still contains extra funds that the department could use for other purposes.

In prior fiscal years, base reductions were a tool to reduce the growth rate 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.

The Executive Branch's request to reduce the Personal Services line items for FY 2010-11 and FY 2011-12 are evidence that vacancy savings exist in the Personal Services line items. Despite the lack of recent salary increases, these savings exist because recent reductions have been one-time and restored for the following year. Also, employees have continued to retire, which is the greatest source of vacancy savings. **Staff recommends a 1.5 percent vacancy savings reduction for the General, cash, and reappropriated funds sources for all Personal Services line items, with the following exceptions:**

- Department of Human Services:* A 0.2 percent vacancy savings base reduction for the 24-hour institutions providing mental health and developmental disability services;
- Department of Public Safety:* Exempt Colorado State Patrol;
- Judicial Department:* This department typically proposes its own expenditure reductions. Staff anticipates that this department will work with its JBC analyst to reduce its General Fund expenditures, and these recommendations will be presented at figure-setting; and

- ❑ *Department of Treasury:* This is a very small department (31.1 FTE) with minimal vacancies or turnover. Staff does not recommend applying a base reduction for this department.

SALARY SURVEY AND PERFORMANCE-BASED PAY

Request: The State Personnel Director did not recommend, and OSPB did not request, salary survey or performance-based pay increases for FY 2011-12.

Staff Recommendation: Staff recommends the request to not fund salary survey or performance-based pay increases for FY 2011-12.

Analysis:

- ❑ Pursuant to Section 24-50-104 (4) (c), C.R.S., the State Personnel Director is to publish the Total Compensation Report every August. This report includes recommendations for base pay increases to occupational groups in the state personnel system. Based on the revenue shortfall, the General Assembly did not appropriate funds for these purposes for FY 2009-10 and FY 2010-11.
- ❑ *Salary survey* appropriations are inflationary increases intended to keep the State's salaries competitive with the market. *Performance-based pay* appropriations are for the purpose of recognizing high-performing employees. These appropriations are initially based on the results of the Department of Personnel and Administration's annual compensation survey. The amount varies every fiscal year, depending upon factors such as market comparisons and the State's ability to recruit and retain a competent workforce. **The following table includes approximations for the amount that the Department would have requested if funds were available for this purpose.** The approximate amount of General Fund is based on Long Bill fund splits for prior years.

Anticipated Salary Survey and Performance-Based Pay		
Fiscal Year	Total Funds	General Fund
FY 2009-10	\$48,860,843	\$23,368,605
FY 2010-11	12,588,016	6,832,775
FY 2011-12	37,247,838	20,218,126

HEALTH, LIFE, AND DENTAL BENEFITS

Request: Staff estimates that the Executive Branch's statewide request for health, life, and dental benefits is approximately \$152.4 million, including \$85.2 million General Fund. These amounts reflect only the funds that the General Assembly specifically appropriates, and do not reflect the non-appropriated positions for the Departments of Higher Education and Transportation.

Recommendation: Staff recommends the appropriations in the following table, which are based on the Executive Branch's request. Any variations between the Executive Branch's request and staff's recommendation are due to inconsistencies in the documents that staff received.

FY 2011-12 Health, Life, and Dental Contribution Recommendations						
	Total	General Fund	Cash Funds	HUTF	Reapprop. Funds	Federal Funds
Agriculture	\$1,631,507	\$285,788	\$1,284,766	\$0	\$0	\$60,953
Corrections	38,148,683	37,074,321	1,074,362	0	0	0
Education	3,140,202	1,474,625	286,685	0	366,635	1,012,256
Governor	6,517,528	376,769	89,506	0	5,735,881	315,372
Health Care Policy	2,024,577	619,632	263,281	0	0	1,141,663
Higher Education	1,028,168	0	709,171	0	201,398	117,599
Human Services	25,155,396	15,039,459	393,094	0	6,399,073	3,323,770
Judicial	24,310,114	21,879,103	2,431,011	0		
Labor & Employment	6,671,857	0	2,459,337	0	16,461	4,196,060
Law	2,281,572	591,424	237,546	0	1,372,446	80,156
Legislature	1,961,549	1,961,549	0	0	0	0
Local Affairs	1,025,108	398,414	133,968	0	311,683	181,043
Military Affairs	636,077	175,825	16,583	0	0	443,669
Nat Resources	9,021,332	1,588,261	5,749,670	0	317,022	1,366,378
Personnel & Admin.	2,122,541	597,931	136,189	0	1,388,420	0
Public Health	7,088,063	588,613	2,463,310	0	810,775	3,225,365
Public Safety	8,656,662	1,554,945	517,980	5,724,440	447,131	412,165
Reg Agencies	2,873,889	92,463	2,489,786	0	264,772	26,867
Revenue	6,984,800	2,342,713	3,931,177	710,909	0	0
State	713,574	0	713,574	0	0	0
Transportation	997,366	0	953,904	0	43,461	0
Treasury	<u>190,203</u>	<u>91,600</u>	<u>98,603</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$153,180,767	\$86,733,437	\$26,433,507	\$6,435,349	\$17,675,158	\$15,903,317

Analysis

- *Background:* 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 insurance expenditures. This flexibility enables agencies to

absorb shifts in enrollment amongst its employees.

- ❑ *Eligibility:* Eligible participants in the State's benefits program are defined pursuant to Section 24-50-603 (7), C.R.S. Both full and part-time employees are eligible to participate, although statute specifically excludes temporary employees. Generally, all permanent employees are eligible for benefits, although participation in the plan is voluntary. Classified employees in the Department of Higher Education are also included, but non-classified employees, such as faculty and administrators, have a separate benefits program with different contribution and premium levels. 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. An individual employee who works the equivalence of one regularly scheduled full workday per month is eligible for the full State contribution amount for these benefits.

- ❑ *Funding:* The State Personnel Director submits requests for health, life, and dental contribution funding amounts, typically in comparison to the average market employer contribution amounts. For FY 2011-12, the Department requests health insurance contributions that equivalent to 90.0 percent of the average market employer contributions for health insurance, 85.0 percent of this amount for dental insurance, and 72.0 percent for life insurance.

- ❑ *Contribution rates:* 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 that **the amount of the state contribution for each tier shall be determined by the State Personnel Director in accordance with section 24-50-104 (4), C.R.S**, and shall be the same for all eligible employees within the state personnel system.¹ The requested contribution rates are in the following table

Requested FY 2011-12 Monthly Contribution Amounts for Employee Benefits				
Tier	Total	Health	Life	Dental
Employee	\$401.62	\$368.42	\$9.40	\$23.80
Employee + Spouse	671.82	623.42	9.40	39.00
Employee + Child(ren)	710.24	659.66	9.40	41.18
Family	980.28	914.5	9.40	56.38

Source: August, 2010 Total Compensation Request

¹ Section 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."

- ❑ *Comparison to prevailing market:* The comparison of the Department's requested rates and the prevailing market are reflected below.

Requested State Contribution Rates for Employee Health Care Insurance Premiums, FY 2011-12^{1/}			
Tier	Department's Request	Prevailing Market	Difference
Employee	\$368.42	\$436.00	\$67.58
Employee + Spouse	623.42	738.14	114.72
Employee + Child(ren)	659.66	781.32	121.66
Family	914.5	1,083.46	168.96
1/ Source: Department of Personnel and Administration's Total Compensation Recommendation Letter, August 6, 2010			

SHORT-TERM DISABILITY

Request: The Executive Branch requests a short-term disability rate of 0.177 percent for FY 2011-12, to be calculated on the combination of base salary and shift differential, if applicable. The base salary does not include PERA or Medicare contributions. Staff estimates that this **request requires a statewide appropriation of \$2.5 million, including \$1.4 million General Fund**, for FY 2011-12.

Staff Recommendation: Staff recommends the request for a short-term disability rate of **0.177 percent for FY 2011-12**. Staff recommends calculating the rate based on actual FY 2009-10 salary expenditures, which are the most recent year's actuals that are available in the OSPB budget requests. These amounts will be a component of each department's FY 2011-12 figure-setting presentation.

Analysis:

- ❑ *Background:* Short-term disability coverage provides for the partial payment of an employee's salary if an individual becomes disabled and is unable to work (Section 24-50-603 (13), C.R.S.). The State fully funds this benefit for all employees, and it provides up to 60.0 percent of an employee's salary for a period not to exceed six months. It is calculated on each employee's base salary, not including the State's PERA contribution or Medicare payments.
- ❑ *Rate:* The FY 2011-12 insurance rate increased from 0.155 percent to 0.177 percent of an employee's base salary. The insurance carrier states that this increase is because the plan has experienced an incurred loss ratio of 98.0 percent during the last three years. The expected rate for other similar plans is 85.0 percent.

Short-term Disability Rates (Percent of Base Salary)					
FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
0.113%	0.13%	0.13%	0.155%	0.155%	0.177%

AMORTIZATION EQUALIZATION DISBURSEMENT (AED)

Request: Staff estimates that the Executive Branch requests a total statewide appropriation of \$40.3 million, including \$21.6 million General Fund, for FY 2011-12. The Office of State Planning and Budgeting applied a contribution rate of 2.8 percent for FY 2011-12, which is an average of the rates for the second half of calendar year 2011 (2.6 percent) and the first half of calendar year 2012 (3.0 percent).

Recommendation: Staff recommends adhering to statutory requirements and calculating an AED contribution rate of 2.8 percent of base salaries for FY 2011-12, which accounts for a 2.6 percent contribution rate for July 1, 2011 through December 31, 2011, and a 3.0 percent contribution rate for January 1, 2012 through June 30, 2012. In order to account for the pay date shift, staff also recommends that for General Fund sources staff apply the rate of 2.6 percent for seven months and 3.0 percent for five months.

- ❑ The JBC staff recommendations for the FY 2011-12 AED appropriation will differ from a department's request because they are calculated on different bases. The Executive Branch calculated its submission based on the FY 2011-12 continuation salary, and JBC staff will use the most recently available actual expenditures that are available, which are from FY 2009-10.

Analysis:

- ❑ *Background:* The General Assembly created the Amortization Equalization Disbursement (AED) payment in 2004, with the intent to address the Public Employee Retirement Association's (PERA) unfunded liability. The 2004 legislation increased the State's contribution to PERA by 0.4 percent every calendar year until it reached the maximum contribution rate of 3.0 percent in January, 2012. Pursuant to Section 24-51-411 (3.5), C.R.S., the payments shall continue until the actuarial funded ratio of a particular division is 100.0 percent. At this time, an actuary will determine the amount by which the payments should be adjusted.
- ❑ *Senate Bill 10-001:* This legislation extended the State's incremental increase through January, 2017, when it will total 5.0 percent. The table below reflects the AED contribution rates through January, 2017. The legislation also froze the AED contribution rate at its 2010 amount (2.2 percent) for the Judicial and Local Government divisions (Section 24-51-411

(4), C.R.S).

- The following table reflects the incremental increase for AED through calendar year 2017. The State's AED contribution will increase by approximately \$7.5 million, including \$3.9 million General Fund, between FY 2010-11 and FY 2011-12.

Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED) Contributions for the State Division only			
	AED	SAED	Combined AED & SAED
January 1, 2006	0.50%	-	0.50%
January 1, 2007	1.00%	-	1.00%
January 1, 2008	1.40%	0.50%	1.90%
January 1, 2009	1.80%	1.00%	2.80%
January 1, 2010	2.20%	1.50%	3.70%
January 1, 2011	2.60%	2.00%	4.60%
January 1, 2012	3.00%	2.50%	5.50%
January 1, 2013	3.40%	3.00%	6.40%
January 1, 2014	3.80%	3.50%	7.30%
January 1, 2015	4.20%	4.00%	8.20%
January 1, 2016	4.60%	4.50%	9.10%
January 1, 2017	5.00%	5.00%	10.00%

- *Funding mechanism:* The employer funds the Amortization Equalization Disbursement contribution, which is to be based on the total payroll for all employees who are members of PERA, or who were eligible to elect to become members after January 1, 2006 (Section 24-51-411 (2), C.R.S.).

SUPPLEMENTAL AMORTIZATION EQUALIZATION DISBURSEMENT (SAED)

Request: The Executive Branch requests a total statewide appropriation of \$32.3 million, including \$17.3 million General Fund, for FY 2011-12. The Executive requests calculated these numbers based on 2.25 percent of the FY 2011-12 requested base continuation salary.

Staff Recommendation: Staff recommends that the Committee adhere to the statutorily defined SAED contribution rates, which are 2.0 percent of the base salary (plus shift differential, if

applicable) for July 1, 2011 through December 31, 2011, and 2.5 percent of the base salary for between January 1 and June 30, 2012 (Section 24-51-408, C.R.S.). To account for the pay date shift, for General Fund sources staff recommends that calculating the amount at 2.0 percent of the base salary for seven months, and 2.5 percent of the base salary for five months. Staff recommends calculating these amounts based on FY 2009-10 base salary expenditures (including shift differential, if applicable).

Analysis

- ❑ *Background:* In 2006, the General Assembly created the Supplemental Amortization Equalization Disbursement (SAED) PERA contribution to address the State's continued concerns about PERA's unfunded liability. It requires the State to contribute additional PERA contributions that will be incrementally increased by 0.5 percent annually. The initial legislation incrementally increased the contribution rate until it reached a total of 3.0 percent in January, 2013.
- ❑ Pursuant to Section 24-51-411 (3.5), C.R.S., the payments shall continue until the actuarial funded ratio of a particular division is 100.0 percent. At this time, an actuary will determine the amount by which the payments should be adjusted.
- ❑ *Senate Bill 10-001:* This legislation increased the maximum contribution percentage to a total of 5.0 percent, which will occur in January, 2017. The legislation also froze the SAED contribution rate at its 2010 amount (1.5 percent) for the Judicial and Local Government divisions (Section 24-51-411 (7), C.R.S).
- ❑ *Funding mechanism:* Pursuant to Section 24-51-411 (3.7), C.R.S., the 0.5 percent increase each year shall be funded from money otherwise available for use but not yet awarded as salary increases (Section 24-51-411 (3.7), C.R.S.). Statute is silent as to how the Legislature intends to fund the incremental SAED increase for years in which the Legislature does not fund salary increases. Although there are no recommended salary increases for FY 2011-12, staff's understanding is that the General Assembly is still obligated to fund the SAED. Although Section 24-51-411 (3.7), C.R.S., identifies the fund source as moneys otherwise available for salary increases, this section of statute does not negate Section 24-51-411 (3.2), C.R.S., which the SAED and states that it will increase by 0.5 percent every January 1. **The following table details the SAED's contribution rates through FY 2017.**

Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED) Contributions for the State Division <i>only</i>			
	AED	SAED	Combined AED & SAED
January 1, 2006	0.50%	-	0.50%
January 1, 2007	1.00%	-	1.00%
January 1, 2008	1.40%	0.50%	1.90%
January 1, 2009	1.80%	1.00%	2.80%
January 1, 2010	2.20%	1.50%	3.70%
January 1, 2011	2.60%	2.00%	4.60%
January 1, 2012	3.00%	2.50%	5.50%
January 1, 2013	3.40%	3.00%	6.40%
January 1, 2014	3.80%	3.50%	7.30%
January 1, 2015	4.20%	4.00%	8.20%
January 1, 2016	4.60%	4.50%	9.10%
January 1, 2017	5.00%	5.00%	10.00%

- ❑ The State's contribution amounts for AED and SAED will increase each year until FY 2016-17. The following table estimates the growth in their expenditures between FY 2010-11 and FY 2011-12.

Estimated AED and SAED Combined Growth, FY 2010-11 to FY 2011-12					
	Total Funds	General Fund	Cash Funds	Reapp. Funds	Federal Funds
AED					
FY 2010-11 Long Bill Appropriation	\$33,303,877	\$18,343,885	\$7,406,609	\$4,368,369	\$3,185,014
FY 2011-12 OSPB Request	40,847,466	22,206,124	9,407,798	4,800,993	4,432,551
Difference	\$7,543,589	\$3,862,239	\$2,001,189	\$432,624	\$1,247,537
SAED					
FY 2010-11 Long Bill Appropriation	\$23,165,223	\$13,281,099	\$5,402,832	\$2,162,696	\$2,318,596
FY 2011-12 OSPB Request	32,793,229	17,813,578	7,559,836	3,857,943	3,561,872
Difference	\$9,628,006	\$4,532,479	\$2,157,004	\$1,695,247	\$1,243,276
AED and SAED Growth Total (Est.)	\$17,171,595	\$8,394,718	\$4,158,193	\$2,127,871	\$2,490,813

SHIFT DIFFERENTIAL

Request: Every August, the State Personnel Director submits a letter to the Governor and General Assembly that reflects the findings of the annual total compensation survey, and recommends annual adjustments to state employee compensation. This letter also served as the Executive Branch's formal total compensation request for FY 2011-12. **The total compensation request for FY 2011-12 does not reference shift differential pay.**

The OSPB provided staff with worksheets that each department used to calculate their request, and which JBC staff is to use for any remaining calculations. These worksheets reflected a total request of \$11.2 million, including \$9.1 million General Fund. However, as reflected in staff's recommendation table, the November budget submissions included a total request of \$11.1 million, including \$9.8 million General Fund. Staff does not know why the numbers are different, and is **unable to determine the Executive Branch actual request for FY 2011-12.**

Recommendation: Staff recommends funding shift differential pay in the amount of 50.0 percent of the FY 2011-12 request for the Departments of Corrections, Human Services, Personnel and Administration, and Public Safety *only*. This would result in a statewide appropriation of \$5,380,856 for FY 2011-12, including \$4.7 million General Fund. Staff's recommendation is limited to these five departments because they are the only ones whose worksheets used updated FY 2009-10 actuals as the calculation base. The OSPB declined the opportunity to confirm with JBC staff about whether the remaining departments actually intended to request the funds for FY 2011-12. Staff's recommendation is detailed in the following table.

Shift Differential Pay, Request versus Staff Recommendation for FY 2011-12				
	FY 2011-12 Department Request		FY 2011-12 Staff Recommendation	
	Total Funds	General Fund	Total Funds	General Fund
Department				
Corrections	\$6,076,380	\$6,067,788	\$3,038,190	\$3,033,894
Education (School for Deaf and Blind)	89,571	89,571	0	0
Dept of Labor	12,797	0	0	0
Human Services	4,317,634	3,544,439	2,158,817	1,772,220
Military Affairs	21,474	0	0	0
Natural Resources	23,643	0	0	0
Personnel	41,710	0	20,855	0
Public Safety	325,988	76,934	162,994	38,467
Revenue	<u>165,320</u>	<u>2,900</u>	<u>0</u>	<u>0</u>
Total	\$11,074,517	\$9,781,632	\$5,380,856	\$4,752,673

Analysis

- ❑ *Background:* Shift differential pay is intended to assist with the recruitment and retention of employees for positions that are historically difficult to staff, such as those shifts that are outside of the traditional Monday through Friday, 8:00 a.m. to 5:00 p.m. work schedule. Department Directors also have some discretion to designate other positions as eligible for shift differential pay.
- ❑ *Purpose:* Shift differential pay is intended to address staffing problems due to turnover and prolonged vacancies for second and third shift positions.
- ❑ *Discretion:* **Shift differential pay is not a federal requirement, and the State is not required to pay it.**² The State's only requirements under the Fair Labor Standards Act are to pay a minimum wage and overtime pay for more than 40 hours per week. The General Assembly is not required to appropriate funds for this purpose. Additionally, the State Personnel Director chooses which positions are eligible for shift differential pay as a part of the annual compensation plan. Due to the State Personnel Director's discretion, **a position that was eligible for shift differential pay for FY 2010-11 may not be eligible for this additional compensation for FY 2011-12.**
- ❑ *Unemployment rate:* Given that the State's unemployment rate is approximately 8.6 percent, staff questions whether Departments are experiencing the recruitment or retention issues that may have justified shift differential during prior fiscal years. The following table reflects the growth in regional unemployment rates between November, 2009 and November, 2010.

Unemployment Rates: Regional Comparison		
State	Nov. 2009	Nov. 2010
Arizona	8.9%	9.4%
Colorado	6.9	8.6
Idaho	9.1	9.4
Kansas	6.3	6.8
Montana	6.4	7.2
Nebraska	4.5	4.6
Oklahoma	7.0	6.9
Utah	6.3	7.5
Washington	9.2	9.2
Wyoming	<u>7.2</u>	<u>6.6</u>
Average	7.2%	7.6%
http://www.bls.gov/web/laus/laumstrk.htm (12/17/2010)		

² Based on a conversation with the United States Department of Labor on September 29, 2009.

- ❑ *Alternative fund sources:* Common policy guidelines have historically funded departments' shift differential requests at 80.0 percent of actual prior year expenditures. Staff notes that despite funding this appropriation at no greater than 80.0 percent, the amount continues to increase each year. This reflects the departments' flexibility to use other fund sources for this purpose. Departments can fund shift differential pay out of any of the Personal Services dollars, and are not limited to the General Assembly's appropriation amount.
- ❑ *Market competition:* According to the Culpepper Pay Practices & Policies Surveys, only 26.0 percent of private companies with between 100 and 1,000 employees pay shift differential. The number increases to 31.0 percent for employers with between 1,000 and 5,000 employees. In terms of job type sector, for the healthcare sector (for which shift pay is frequently requested), only 35.0 percent of employers pay shift differential.³ The State's competitiveness with other employers would not be impacted if it eliminated shift differential pay.

INDIRECT COST ASSESSMENT

Indirect cost recoveries are intended to recover the unbillable costs for providing overhead services to federal- or cash-funded programs. These expenses would otherwise be supported by the General Fund. Recoveries from federal- and cash-funded programs are calculated for two areas: (1) statewide overhead costs, and (2) departmental overhead costs. For example, these programs benefit from services provided by the Office of the State Controller and the Personnel Board, but neither of these entities can directly bill these programs for the cost of the services. These funds would be accounted for through the statewide indirect cost allocation plan. Examples of internal department indirects are the internal functions provided by the department's Executive Director's Office and other administrative functions.

Statewide Indirect Cost Recoveries

- ❑ *Purpose:* The purpose of the Statewide Indirect Cost Allocation Plan (SWICAP) is to allocate the unbilled costs of statewide central service agencies to user departments and institutions of higher education that benefit from these services. All state departments and agencies benefit from these services, and the cost recoveries ensure that the General Fund does not support the provision of these services for cash- and federal-funded programs.

Statewide indirect costs are associated with the functions of three departments: (1) the Governor's Office, including the Office of State Planning and Budgeting (OSPB) and the Office of Information Technology (OIT); (2) the Department of Personnel and

³ Culpepper Pay Practices & Policies Surveys, June, 2008 www.culpepper.com.

Administration (DPA); and (3) the Treasury Department.

- *Use:* The State Controller's Office submits the statewide indirect cost allocation plan to the federal Division of Cost Allocation for approval. The federal government must agree to the use of federal funds for these purposes. Once the amount of the statewide indirect cost recoveries have been identified, they are used to offset a corresponding amount of General Fund in the respective department. This occurs during the figure-setting process. Certain departments such as Labor, State, and Transportation do not have General Fund, in which case the statewide indirect recoveries are transferred to offset General Fund in other departments, typically the Department of Personnel and Administration or the Office of the Governor.
- **Request:** The plan submitted to the Joint Budget Committee **includes \$647,247 more than it did for FY 2010-11, which is an increase of 3.7 percent.**

The following tables summarize the requested statewide indirect cost recoveries for FY 2011-12. The first table compares the requested FY 2011-12 amounts to the current fiscal year, and the second table reflects the request for each department.

Department Request, Available Statewide Indirect Cost Recoveries FY 2011-12				
	FY 2010-11	FY 2011-12	\$ Difference	% Difference
Cash Funds	\$7,552,218	\$8,213,171	\$660,953	8.8%
Reappropriated Funds	7,685,579	7,176,955	(508,624)	-6.6%
Federal Funds	<u>2,488,715</u>	<u>2,983,633</u>	<u>494,918</u>	<u>19.9%</u>
Total	\$17,726,512	\$18,373,759	\$647,247	3.7%

FY 2011-12 Recommended Statewide Indirect Cost Allocation Plan				
Department	Total	Cash Funds	Reapp. Funds	Federal Funds
Agriculture	\$230,299	\$195,703	\$0	\$34,596
Corrections	105,840	49,288	51,076	5,476
Education	567,624	189,488	93,724	284,412
Governor	229,692	59,066	5,703	164,923
Governor - OIT	2,091,414	0	2,091,414	0
Health Care Policy and Financing	665,648	55,014	86,691	523,943

FY 2011-12 Recommended Statewide Indirect Cost Allocation Plan				
Department	Total	Cash Funds	Reapp. Funds	Federal Funds
Higher Education	2,752,630	1,061,120	1,208,576	482,934
Human Services	1,063,150	419,054	261,718	382,378
Judicial	143,285	136,135	3,976	3,174
Labor and Employment	599,281	326,916	4,379	267,986
Law	568,511	122,323	401,174	45,014
Local Affairs	225,739	59,037	75,482	91,220
Military and Veterans Affairs	0	0	0	0
Natural Resources	1,316,390	1,078,647	8	237,735
Personnel and Administration	2,743,222	0	2,743,222	0
Public Health and Environment	505,151	242,144	42,447	220,560
Public Safety	1,078,369	943,966	64,954	69,449
Regulatory Agencies	354,589	305,001	41,293	8,295
Revenue	869,257	845,691	0	23,566
State	136,752	131,560	0	5,192
Transportation	<u>1,993,514</u>	<u>1,992,427</u>	<u>1,087</u>	<u>0</u>
Total	\$18,240,357	\$8,212,580	\$7,176,924	\$2,850,853

- **Recommendation: Staff's recommendation differs from the Department of Personnel and Administration's request because staff's recommendation does not include the Department of Military and Veterans Affairs.** According to the Department of Military and Veterans Affairs, the federal government does not allow the State to collect indirect cost recoveries from these specific fund sources. Although prior statewide indirect cost allocation plans have included Military Affairs, but the funds are never actually included in the Long Bill, nor are they ever collected. Staff's recommendation excludes this department in order to more accurately reflect the actual amount of statewide indirect cost recoveries that are actually applied to offset General Fund in the Long Bill.
- **The indirect costs identified in the preceding table should be used to offset General Fund in each department's central administration division, typically the Executive Director's Office.** In those instances when the amount of indirect cost recoveries is greater than the General Fund need in the central administration division, staff recommends that the

excess recoveries be applied to offset General Fund elsewhere within the department.

- ❑ Staff also recommends that the **FY 2011-12 Long Bill letternotes specify which portion of the indirect cost recoveries are statewide indirects versus departmental.** Staff expects that departments will collaborate with JBC staff to facilitate this process. It will enable the Office of the State Controller to better track these funds, and to allow JBC staff to ensure that all of the available statewide indirect cost recoveries are applied to offset the maximum amount of General Fund.
- ❑ *Transferring Statewide Indirect Cost Recoveries:* There are certain departments that do not contain General Fund against which the indirect cost recoveries can be applied. Examples include the Department of Labor and Employment, the Department of State, and the Department of Transportation. Historically, the Committee has approved a policy to offset General Fund in the Governor's Office (OSP), and then DPA. The transfer of OIT to the Governor's Office has generated a significant amount of statewide indirect cost recoveries that are specific to OIT, so that for FY 2010-11 it has not requested the transfer of funds from other departments. **Staff recommends that for FY 2011-12, the statewide indirect cost recoveries associated with the Departments of Labor, State, and Transportation will be transferred to offset General Fund in the Department of Personnel and Administration.**

Departmental Overhead Costs

- ❑ *Purpose:* These costs are associated with the internal delivery of services to divisions within a department. Typically, these activities are located in a department's Office of the Executive Director. For example, a department's central budget staff prepare the budget submissions for all of the department's federal- and cash-funded programs, but do not charge fees for these services. Indirect cost recoveries ensure that General Fund does not subsidize the expense of providing such central services to federal- or cash-funded programs.
- ❑ *Calculation:* The calculation of departmental indirect cost recoveries involves the allocation of overhead between divisions within each department. Every 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. The preferable methodology to allocate indirect costs is to analyze workload data, if available.