COLORADO
Division of Human Resources
Department of Personnel
& Administration
1525 Sherman St.
Denver, CO 80203

August 1, 2014

Honorable John Hickenlooper
Governor of Colorado
136 State Capitol Building
Denver, Colorado 80203

Honorable Representative Crisanta Duran
Chair, Joint Budget Committee
Colorado General Assembly
200 East 14th Avenue
Denver, Colorado 80203

Dear Governor Hickenlooper and Representative Duran,

In accordance with C.R.S. Section 24-50-104 (4), the State Personnel Director (Director) is required to submit an Annual Compensation Letter and Report for annual adjustments to the State of Colorado (State) employee compensation and group benefits.

**ANNUAL COMPENSATION FINDINGS AND RECOMMENDATION**

The State's policy is to provide employees competitive pay and group benefit plans that are consistent with prevailing practices in the market in order to provide a competitive total rewards package designed to recruit, reward and retain a qualified workforce. The Director's priorities are as follows:

i. Establish overall pay and benefits consistent with prevailing practices within the market;
ii. Move employees in the workforce whose salary is below market toward midpoint; and
**III.** Reward employees in the workforce who are meeting or exceeding performance expectations.

**MERIT PAY RECOMMENDATIONS**

In FY 2014-15, the State administered a 2.5% across-the-board market salary adjustment for all State employees. In addition, an average 1.0% merit increase was awarded based on priorities established by the Director.

Potential merit pay adjustments for FY 2015-16 were determined using three independent survey source comparisons as recommended by the Office of the State Auditor's 2013 *Evaluation of the Department of Personnel & Administration's Annual Compensation Survey for Fiscal Year 2014*. Specifically, the WorldatWork *2014 Annual Compensation Report* was referenced along with the Mountain States Employers Counsel (MSEC) *2014 Compensation*

*Survey*, and the MSEC *2013 National Salary Budget Survey*. The data from all three survey sources project overall salary increases of three percent nationally and for Colorado.

Additionally, local data collected by MSEC revealed that merit increases, based on individual employee performance, are the primary method of delivering pay increases. In FY 2013-14, the State implemented a merit-based approach, as authorized by House Bill 12-1321. This affords lower paid, high-performing employees greater opportunity to work toward the midpoint of the range. Merit pay does not replace salary survey market adjustments. Merit pay may be a base or non-base building increase.

Based on State Constitution (C.O. Const. art. XII, §13) requirements, the Director has established a merit pay system for employees in the State Personnel System for the purpose of providing salary increases based on individual employee performance. Awards of merit pay increases are based upon priority groups. The priority groups are determined by an employee's location within the pay range and performance based on the following three performance levels: Exceptional (level 3), Successful (level 2) and Below Expectations (level 1).

**MARKET SALARY ADJUSTMENT RECOMMENDATION**

For the FY 2015-16 analysis, the State conducted a market analysis of salaries and benefits based on surveys published by public and private organizations that included a fair sample of public and private sector employers. Surveys were aged to July 1, 2015, adjusted to Colorado income levels by utilizing the Economic Research Institute Geographic Assessor, and weighted at 80% for local data and 20% for national data.

The State was able to benchmark 186 job classes. The benchmarks represent 38% of the State classes and 53% of employees in the State Personnel System.

The Department conducted a five step analysis to determine the need for occupational group structure adjustments and to indentify individual classification adjustments. Occupational group adjustments ensure that the State is able to maintain salary ranges for all job classifications that are comparable to public and private employers. Individual classifications may be recommended for a pay grade change when occupational group adjustments are not enough to move all classifications to a competitive position in the market. For FY 2015-16 the Department recommends the following occupational group range adjustments:

| Occupational Group | | Adjustment |
|---|---|---|
| A | Enforcement and Protective Services | 1.06% |
| C | Heath Care Services | 1.90% |
| D | Labor, Trades and Crafts | 2.60% |
| G | Administrative Support and Related | 1.00% |
| H | Professional Services | 3.00% |
| H | Information Technology | 3.00% |
| I | Physical Science and Engineering | 6.10% |

The recommended adjustment for each occupational group should be applied to the FY 2014-15 range minimum.

Applying the adjustment to the range minimum has the following benefits:

1. Ensures integrity of the pay plan structure;
2. Maintains alignment of the range midpoint with the market;
3. Establishes a sound basis for measuring change in the market year over year; and
4. Ensures that range lengths and midpoints are in alignment with generally prevailing practices.

The Department conducted a market analysis on individual classifications. A classification must be +/- 7.5 percent relative to the market for two consecutive years before a change is recommended to ensure a consistent trend in the market. There are no recommended individual classification pay grade changes for FY 2015-16.

Benchmark comparisons for the State Patrol Trooper classes are illustrated in the following table. Pursuant to statute (24-50-104, C.R.S.), the State Patrol Trooper class series has a separate survey methodology, thus the percent change reflects the adjustment needed to reach 99% of the average salaries of the market defined for the State Patrol Trooper classes. The market data indicates that the State Patrol Supervisor, State Patrol Administrator I and State Patrol Administrator II are slightly above the market. To maintain prevailing compensation with the market, no adjustment is necessary for pay ranges or pay for the State Patrol Supervisor, State Patrol Administrator I and State Patrol Administrator II. This does not impact potential merit increases.

The market data indicates that a 3.8% increase is warranted for the State Patrol Intern, State Patrol Trooper and the State Patrol Trooper III. Additionally, the pay ranges for the State Patrol Intern, State Patrol Trooper and the State Patrol Trooper III should be adjusted by 3.8% at the range minimum and the range maximum to ensure equity is maintained between the ranks. This does not impact potential merit increases.

| Market Findings for State Patrol Trooper Classes | Growth/Decrease to Reach Market Weighted Average @ 99% |
|---|---|
| State Patrol Intern* | 3.8% |
| State Patrol Trooper | 3.8% |
| State Patrol Trooper III* | 3.8% |
| State Patrol Supervisor | -3.25% |
| State Patrol Administrator I | -2.50% |
| State Patrol Administrator II | -3.34 |

*Market data was not available.

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## SYSTEM MAINTENANCE STUDY RECOMMENDATIONS

System maintenance studies were conducted for the Administrative Law Judge and for the Lottery Sales Representative classification series. In FY 2013-14 the Department recommended consolidating the Administrative Law Judge I and Administrative Law Judge II into a single class. The Department retracts this recommendation as further investigation revealed distinct differences between the classifications.

The system maintenance study for the Lottery Sales Representative class series indentified the need to develop new classifications. There is no associated cost to the recommended changes. The following table reflects the recommended classifications and pay ranges for the Lottery Sales Representative class series.

| New Classifications Resulting from Lottery Sales Representative System Maintenance Study | | | |
|---|---|---|---|
| Class Title | Range Minimum | Range Midpoint | Range Maximum |
| Retail Business Rep-Entry | $2,790 | $3,432 | $4,074 |
| Retail Business Analyst II | $3,323 | $4,220 | $5,118 |
| Retail Business Analyst III | $3,734 | $4,742 | $5,750 |
| Retail Business Analyst IV | $4,195 | $5,328 | $6,461 |

## STATE CONTRIBUTIONS FOR GROUP BENEFIT PLANS

Overall findings of plan comparison and cost-sharing features indicate the State provides medical and dental plans that are generally prevailing in the market. For medical, the State's employer percent contribution for all tiers is currently generally prevailing to market. However, with a projected 8.3% increase in medical costs, the State's contribution will need to increase in order to maintain a prevailing contribution level. For dental, the State's employer percent contribution is prevailing to market. For FY 2015-16, the Department projects a 3.68% increase to dental costs. In order to provide generally prevailing benefits, additional State funding is necessary.

The following tables show the medical and dental proposed FY 2015-16 State contribution by tier, compared to the FY 2014-15 State contribution by tier:

| FY 2014-15 Medical State Contributions vs. FY 2015-16 Proposed Medical State Contributions | | | |
|---|---|---|---|
| Tier | FY 2014-15 Actual | FY 2015-16 Proposed | Difference |
| Tier 1- Employee | $434.10 | $488.67 | $54.57 |
| Tier 2 - Employee + Spouse | $762.60 | $861.26 | $98.66 |
| Tier 3 - Employee + Child(ren) | $795.66 | $896.76 | $101.10 |
| Tier 4 - Family | $1,080.90 | $1,199.36 | $118.46 |

The State utilized excess reserve fund balance to offset medical cost increases to the State and employees for the past two years. Due to excess reserve fund balance in FY 2014-15 the State was able to absorb cost increases to the employer and employee. This practice has contributed to much of the difference between the State's FY 2014-15 actual and FY 2015-16 proposed contributions.

| FY 2014-15 Dental State Contributions vs. FY 2015-16 Proposed Dental State Contributions | | | |
|---|---|---|---|
| Tier | FY 2014-15 Actual | FY 2015-16 Proposed | Difference |
| Tier 1 - Employee | $25.92 | $28.32 | $2.40 |
| Tier 2-Employee + Spouse | $42.62 | $46.39 | $3.77 |
| Tier 3-Employee + Child(ren) | $46.44 | $53.92 | $7.48 |
| Tier 4-Family | $62.22 | $69.33 | $7.11 |

**TOTAL COMPENSATION ANALYSIS**

The Department recognizes the value of providing an overall measure of total compensation in order to assess the overall competitiveness of the State's total compensation package. As such, the Department performed a comparison of the State's contribution toward paid leave, life insurance and short term disability.

In addition, although statute does not require the Department to consider compensation other than salaries, benefit plan contribution and merit pay as part of the annual compensation report, the Department agreed to include non-salary elements of total compensation in the annual report as recommended by the Office of the State Auditor's 2013 *Evaluation of the Department of Personnel & Administration's Annual Compensation Survey for Fiscal Year 2014*.

Overall findings related to non-salary compensation features indicate the State provides a generally prevailing compensation package. Although the State's compensation package is generally prevailing, there are elements of the compensation package the State should consider adjusting to sustain prevailing practices.

For FY 2015-16 the State will conduct a comparison of the PERA benefit to market benefits pursuant to Senate Bill 14-214, which requires the Director to contract with a third-party compensation consulting firm to perform a total compensation study that includes the retirement benefits provided by the State through PERA. The results will be reported by January 15, 2015.

The analysis shows the prevailing practice in the market for life insurance is to provide a benefit based on a factor times the employee's annual earnings. The State offers a flat rate amount of $50,000. The average salary of a State employee is approximately $52,000. The State may want to consider providing a minimum benefit of $50,000 and maximum of 1X the employee's annual salary, up to $150,000.

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In addition to life insurance, the short term disability (STD) market analysis reports 45.5% of organizations have a seven-day waiting period before an employee is eligible to receive STD benefits, in comparison to 5.2% of organizations that have a 30-day waiting period. When considering market data the State may want to explore a shorter waiting period. The Department continues to research and evaluate the State's options and will report findings in its November FY 2015-16 Update to Director's Recommendations Letter.

Beginning in FY 2014-15 the State began offering a debit card to employees to provide access to the funds in their flexible spending accounts. Currently the employee pays the annual $6.00 fee for the debit card. In the market, 63% of organizations provide a debit card at no cost to the employee. Again, to sustain prevailing practices the State should consider offering the flex debit card as an employer paid benefit.

The compensation factors identified in this year's annual compensation report and letter indicate adjustments to salary and benefit contributions will be necessary to meet prevailing levels in the market. The Department will continue to work closely with the Governor's Office of State Planning and Budgeting to develop a recommendation for the appropriate amount of funding for annual salary and benefit increases for FY 2015-16. The final recommendation must consider the results of the annual compensation survey, fiscal constraints, and the ability to recruit and retain State employees. The recommendation will be submitted with the Governor's November 1, 2014 Budget Request for FY 2015-16.

Respectfully submitted,

Kathy Nesbitt
Executive Director

cc: Colorado General Assembly, Cabinet Members and Higher Education Presidents