

**TOTAL COMPENSATION  
EXECUTIVE SUMMARY OF SALARY INCREASES  
FOR FY 2007-08**

**JOINT BUDGET COMMITTEE  
April 26, 2007**

The Joint Budget Committee appropriated 5.07 percent of total base payroll for salary increases in Fiscal Year 2007-08. The total increase is characterized as Achievement Pay. Of the total appropriation, 3.70 percent represents the average market or salary survey adjustment for the state's occupational groups. Exact percentages by occupational group are shown in the attached charts. The second portion of the appropriation, 1.37 percent of payroll, is allocated to the performance pay component of Achievement Pay.

Before distributing these new dollars to the workforce, Senate Bill 06-235 requires that we first deduct the amount necessary to fund the Supplemental Amortization Equalization Distribution (SAED) to be paid the Public Employees Retirement Association (PERA). This legislation calls for .50 percent of the State's total payroll to be paid to PERA annually to improve its financial health, starting January 1, 2008. This amount is to be funded each year from amounts appropriated for total compensation under section 24-50-104 of the Colorado Revised Statutes. Since PERA is on a calendar year cycle and the funding mechanism is on state fiscal year cycle, only .25 percent is due in this first year of implementation.

JBC common policy implements SB 06-235 by deducting the amount due from the salary survey market adjustments (i.e., the 3.70% component). So, the SAED percentage is deducted from each occupational group market percentage as reported in the December 14, 2006 recommendation letter to arrive at the adjusted salary survey percentages and this is illustrated in the attached tables.

The performance component of Achievement Pay, 1.37 percent, will be implemented in two parts, base building and non-base-building. All employees except those rated Needs Improvement will receive a one percent (1%) base building monthly pay increase in addition to their salary survey market adjustment. In addition, top rated performers receive a two percent (2%) non-base pay increase paid as a lump sum in July 2007. This approach of having non-base incentives at twice the level of base pay puts the State on a path to meet the intent of current statutes to have a meaningful pay system based on performance within available dollars.

The attached charts and detailed narrative illustrate these concepts.

## SALARY INCREASES FOR THE FISCAL YEAR 2007-08

Colorado Department of Personnel & Administration

April 26, 2007

### Funding for Salary Increases per the FY 2007-08 Long Bill

Long Bill (SB07-239) appropriations for the fiscal year beginning July 1<sup>st</sup>, 2007, related to payroll are growing by 5.07% to fund salary increases and related costs for qualifying employees through Achievement Pay. This consists of two components: the statewide average salary market adjustment of 3.70% and 1.37% for achievement payments related to performance. Funding for the market component of achievement pay is broken into actual salary increases for employees according to their occupational group and payments to PERA for the Supplemental Amortization Equalization Disbursement (SAED) per SB06-235. Funding for the performance component of achievement pay is also broken into two parts: a 1.00% base building adjustment for all employees except those rated 'Needs Improvement' and an additional 2.00% lump-sum payment (non-base building) for those rated at Level 4 (Outstanding). The following table outlines all the salary adjustments made to eligible employees' base pay through the Achievement Pay system.

Occupational Group	Base Building Achievement Pay			Total Base Pay Adjustment %
	December Market %	Revised Market % After the PERA SAED	Performance Base Pay %	
Enforcement & Protective Services	3.60	3.34	1.00	4.38
Troopers	6.90	6.63		7.70
Financial Services	2.80	2.54		3.57
Health Care Services	4.40	4.14		5.18
Labor, Trades, Crafts	2.80	2.54		3.57
Administrative Support & Related	3.00	2.74		3.77
Professional Services	3.70	3.44		4.48
Physical Sciences & Engineering	3.90	3.64		4.68
Teachers	3.70	3.44		4.48
<b><i>Non-Base Building Lump-sum Achievement Payment for 'Outstanding' Performers</i></b>				<b>2.00%</b>
Notes: <ul style="list-style-type: none"> <li>• 'December Market %' is the market achievement pay component recommended by the Personnel Director for occupational groups. The statewide average for this adjustment is 3.70%.</li> <li>• The 'Revised Market % After the PERA SAED' indicates the slight decreases made to the December recommendations so that payments could be made to PERA for SAED.</li> <li>• The 'Performance Base Pay %' is the performance achievement pay component recommended by the Personnel Director for all occupational groups. This is a base building adjustment.</li> <li>• The 'Total Base Pay Adjustment %' shows the final combined base adjustment to eligible employees' salaries.</li> <li>• The '<b><i>Non-Base Building Lump-sum Achievement Payment</i></b>' is the performance achievement pay component</li> </ul>				

recommended by the Personnel Director for Level 4 (Outstanding) performers. It is not a base building adjustment, but may be earned (at the appropriated level) in future years by all employees rated at the highest level.

**Effect of PERA-SAED Payments on FY 2007-08 on the Market Component of Achievement Pay**

Per SB06-235, a Supplemental Amortization Equalization Disbursement (SAED) will be paid to PERA on behalf of employees at the rate of 0.50% of total payroll beginning in January 2008. In accordance with the implementation of this bill, funding for these payments will be diverted from appropriations for salary increases in FY 2007-08. This provides the budget authority necessary to make these payments. As a result, the salary survey market adjustments proposed in December have been reduced slightly to account for SAED. However, this methodology preserves the mechanisms for Achievement Pay performance awards, described in the next section.

The following table demonstrates how the December recommendations for occupational group market adjustments have been revised to account for SAED, diverting appropriations for salary increases to provide for the additional payments to PERA as required by SB06-235. As an example, using a June 30<sup>th</sup>, 2007, salary of \$40,000, this illustration shows that the funding appropriated for salary increases per the December recommendation is used to equivalently fund the implementation of SAED *through slightly lower salary survey market adjustments*. The salaries calculated according to the December market adjustments for each occupational group *equal* the revised salaries calculated according to the Revised Market percentages *plus* the funding for SAED.

<b><u>Occupational Group</u></b> <b>Example: Salary of \$40,000 on June 30, 2007</b>	<b><i>December Recommendation</i></b>		<b><i>...Revised for the PERA-SAED Payment</i></b>		
	<b>December Market %</b>	<b>December Salary \$</b>	<b>Revised Market %</b>	<b>Revised Salary \$</b>	<b>+ SAED</b>
Enforcement & Protective Services	3.60	41,440	3.34	41,337	103
Troopers	6.90	42,760	6.63	42,653	107
Financial Services	2.80	41,120	2.54	41,017	103
Health Care Services	4.40	41,760	4.14	41,656	104
Labor, Trades, Crafts	2.80	41,120	2.54	41,017	103
Administrative Support & Related	3.00	41,200	2.74	41,097	103
Professional Services	3.70	41,480	3.44	41,377	103
Physical Sciences & Engineering	3.90	41,560	3.64	41,456	104
Teachers	3.70	41,480	3.44	41,377	103

**Application of the Performance Components of Achievement Pay in FY 2007-08**

The following table provides the adjusted occupational group salary increases along with the total base adjusting rates of increase all employees except those rated ‘Needs Improvement’ in the performance cycle ending March 31<sup>st</sup>, 2007.

<b><u>Occupational Group</u></b> <b>Example: Salary of \$40,000 on June 30, 2007</b>	<b>Revised Market %</b>	<b>Revised Salary \$</b>	<b>1% Base Achievement Pay</b>	<b>Total Base Pay Adjustment %</b>	<b>Final Base Salary \$ for Employees Rated ‘Satisfactory’ and Above</b>
Enforcement & Protective Services	3.34	41,337	<b>x 1.01 =</b>	4.38	41,749
Troopers	6.63	42,653		7.70	43,079
Financial Services	2.54	41,017		3.57	41,426
Health Care Services	4.14	41,656		5.18	42,073
Labor, Trades, Crafts	2.54	41,017		3.57	41,426
Administrative Support & Related	2.74	41,097		3.77	41,507
Professional Services	3.44	41,377		4.48	41,790
Physical Sciences & Engineering	3.64	41,456		4.68	41,871
Teachers	3.44	41,377		4.48	41,790

Employees rated Level 4 (Outstanding) will receive an additional non-base building lump sum payment of 2.00% on top of the Final Base Salary.

**Transition of Employee Performance Rating Levels from a 4-Tier to 3-Tier System**

The annual performance evaluation cycle for employees in the state personnel system runs from April 1<sup>st</sup> to March 31<sup>st</sup>. Pay increases based on the March 31<sup>st</sup> ratings are paid out in the next ensuing fiscal year starting July 1<sup>st</sup>. Until March 31<sup>st</sup>, 2007, the State used a 4-level rating system. Effective April 1<sup>st</sup>, 2007, the State has moved to a 3-level rating system. The following table describes the rating levels for each approach.

<b>Old Performance Rating System</b> <b>Ending March 31, 2007</b>	<b>New Performance Rating System</b> <b>April 1, 2007 to March 31, 2008 and beyond</b>
Level 1 – Needs Improvement	Level 1 – Needs Improvement
Level 2 – Satisfactory	Level 2 – Successful
Level 3 – Above Satisfactory	Level 3 – Exceptional
Level 4 – Outstanding	

The following table illustrates how the market (salary survey) and performance components of Achievement Pay will be applied under both the final year of the 4-level rating system (payout July 1<sup>st</sup>, 2007) and the new 3-level rating system (payouts July 1<sup>st</sup>, 2008, and beyond). In essence, employees rated at levels 2 and 3 in the performance cycle just ended will be combined for payout purposes July 1<sup>st</sup>, 2007.

<b>Ratings and Payout Components</b>	<b>Performance Rating Level</b>			
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>March 31, 2007 Rating Paid July 1, 2007</b>				
Market Adjustment (salary survey)	0%	Market	Market	Market
Performance Base percentage*	0%	1%	1%	1%
Performance Non-base percentage *	0%	0%	0%	2%
<b>March 31, 2008 Rating Paid July 1, 2008</b>	<b>1</b>	<b>2</b>		<b>3</b>

\* Note: the percentages shown are for FY 2007-08 only. The actual percentages for FY 2008-09 and beyond will be based upon appropriated funding levels.

### **Example of Salary Increases Applied in FY 2007-08**

Employees rated ‘Satisfactory’ and above would have their FY 2007-08 base salaries calculated by the following steps:

#### **New July 1 Base = June 30 Base x Occupational Market Increase x Achievement Pay Base Increase**

For instance, if an employee is in the Financial Services occupational group, has an annual salary for the fiscal year ending June 30, 2007 of \$40,000 and is rated ‘Satisfactory’ for the performance cycle ending March 31, 2007, the new base salary beginning July 1, 2008, is calculated as:

$$\text{New July 1 Base} = (\$40,000 \times 1.0254 = \$41,016) \times 1.01 = \$41,426$$

If this employee was rated as an ‘Outstanding’ (Level 4) performer, an additional lump-sum 2.0% non-base building payment would be made on July 31, 2007, calculated as:

$$\text{Lump sum payment} = \$41,426 \times 0.02 = \$829$$