Colorado Legislative Council Staff

STATE and

STATUTORY PUBLIC ENTITY REVISED CONDITIONAL FISCAL IMPACT

(replaces fiscal impact dated January 5, 2004)

Drafting Number:

LLS 04-0265

Date: January 16, 2004

Prime Sponsor(s):

Rep. King

Bill Status: Senate SVMA

Sen. Anderson

Fiscal Analyst: Steve Tammeus (303-866-2756)

TITLE:

CONCERNING THE EMPLOYMENT STATUS OF PERSONS EMPLOYED WITHIN

THE STATE SYSTEM OF HIGHER EDUCATION.

Fiscal Impact Summary	FY 2004/2005	FY 2005/2006
State Revenues General Fund		
State Expenditures General Fund		×
FTE Position Change	0.0 FTE	0.0 FTE
Other State Impact: Potential future TABOR revenue impact		
Effective Date: Upon signature of the Governor		
Appropriation Summary for FY 2004/2005: None		
Local Government Impact: None		

Summary of Legislation

Under current law, classified employees of state institutions of higher education are within the State Personnel System. Faculty members and administrators of those institutions are exempt from the system.

This re-engrossed bill, effective July 1, 2004, authorizes a governing board of an institution to choose by resolution to withdraw its employees from the system. In that event, the bill requires the resolution to include establishment of an alternative personnel system, and to designate the time period during which the employees may elect whether to remain within the system or to become employees within the alternative system. The bill specifies procedures by which the governing board must develop the alternative system, and allows two or more governing boards to implement a jointly operated alternative system.

For a governing board that chooses to withdraw from the system, the bill requires all employees hired on or after the withdrawal date to be employees within the alternative system, but allows existing employees to elect whether to continue to be within the system or to be within the

alternative system. An employee who elects to be within the alternative system shall receive full credit for accrued sick leave and annual leave. If the governing board or institution establishes an optional retirement plan (ORP), an employee who is hired on or after the withdrawal date shall either participate in the ORP or in the Public Employees' Retirement Association (PERA). If an ORP is not developed such employee shall participate in PERA. The bill specifies procedures and conditions by which an employee may participate in the ORP, and requires PERA to transfer a member's employee contributions and accrued interest to the ORP.

State Expenditures

Higher education institutions. This bill allows the governing board of each institution to elect to withdraw classified employees from the State Personnel System and to adopt an alternative personnel system. Prior to that election, each institution may need to conduct extensive analysis to evaluate the feasibility of implementing an alternative system. Most institutions indicate full conversion to an alternative system may require a period of several years, while some anticipate that most current classified employees may elect to remain permanently within the State Personnel System.

Those institutions that elect to adopt an alternative system and optional retirement plan (ORP) may incur additional operating, administrative, and legal costs to develop, implement, and administer the programs. However, those costs may eventually be offset by allowing the institution to adjust employee compensation commensurate with the local private sector, by reducing administrative and human resources costs associated with maintaining multiple personnel systems, by increasing flexibility of the use of personal services contracts, and by allowing the institution to establish affordable compensation plans.

All state classified employees are offered coverage by a state health benefit plan administered by the Department of Personnel. Those institutions that elect to adopt an alternative system, and whose classified employees that are currently are covered by a state health benefit plan who elect to be within the alternative system, may be required to establish a health benefit plan for those employees.

Due to the time period that may be required to evaluate the current system and implement an alternative system, and due to the anticipated reluctance of current classified employees to convert to an alternative system, this fiscal note assumes that any resulting fiscal impact during FY 2004-05 and FY 2005-06 is anticipated to be minimal.

Department of Law. The department may be required to provide additional legal services to some institutions for the promulgation of policies and rules to develop and implement an alternative personnel system, to adopt an optional retirement plan, and/or to establish a health benefit plan.

Department of Personnel. The department currently does not provide payroll or other administrative services to higher education institutions. Therefore, this bill is not anticipated to affect the department's operating costs to administer the State Personnel System.

State agencies. All state agencies and institutions of higher education currently contribute to the Statewide Indirect Cost Allocation Plan (SWICAP) to recover overhead costs attributable to each agency or institution for personnel services provided by the Department of Personnel. The total amount of these costs state-wide is approximately \$27.3 million. Of this amount, the aggregate amount allocated to the institutions of higher education is approximately \$960,000.

Any institution that elects to not be within the State Personnel System would be exempt from contributing its respective portion of that allocation. In that event, the amount to be recovered from agencies and institutions remaining within the system may be increased to offset the amount of the exemption. Any agency primarily funded by the state General Fund may require additional appropriations to offset any cost increase. Any agency primarily cash funded may require additional cash fund spending authority to offset any increased cost.

State Revenues

Any institution that elects to not be within the State Personnel System would be exempt from contributing its respective portion of the Statewide Indirect Cost Allocation Plan. In that event, the amount to be recovered from agencies and institutions remaining within the System may be adjusted to compensate for any associated cost reductions or increases.

Public Employees' Retirement Association Impact

For any governing board that chooses to withdraw from the State Personnel System, the bill requires an employee who elects to be within the alternative system to decide whether to continue to participate in the PERA plan or in an ORP adopted by the governing board. Based upon the assumption that any institution's conversion to an alternative personnel system and subsequent implementation of an ORP may transpire over an extended period of time, this fiscal note anticipates that the following fiscal impact to the PERA retirement fund and health care fund may not be fully realized during FY 2004-05 or FY 2005-06.

Retirement Trust Fund. Nine higher education institutions have established an ORP under current law for exempt faculty and staff. These institutions currently employ 7,545 state classified employees with an average annual salary of \$39,768 per employee. These classified employees are currently members of PERA.

Based upon an assumption that five percent of these employees would elect to participate in the ORP, 377 employees will terminate their PERA membership. An actuarial evaluation indicates the salaries of employees who elect to participate in an ORP or defined contribution plan, on average, are less than the salaries of employees who elect to participate in a defined benefit plan such as PERA. The cost of the benefits paid to these employees is less than those with higher salaries. Therefore, termination of these 377 employees is anticipated to increase the cost of providing retirement benefits to remaining members of the PERA State and School Division.

A portion of the employer contribution for all PERA members is used to amortize the unfunded accrued liabilities of the State and School Division. The termination of 377 employees from

PERA membership would reduce contributions to amortize unfunded pension fund liabilities. Current law specifies that the period for amortizing PERA unfunded pension liabilities shall not exceed 40 years. Any reduction in contributions to the fund will extend the time period for amortizing the fund's current unfunded liability.

Health Care Trust Fund. PERA uses the trust fund to pay a monthly premium subsidy for benefit recipients who are enrolled in the PERACare Health Benefits Program. Of the employer contribution to PERA, 1.1% of wages is allocated to the trust fund. The amortization period of the trust fund's unfunded liability is currently projected to be 24 years. In the event 377 classified employees terminate membership with PERA, the reduction in contributions to the trust fund will increase the amortization period for the unfunded liability.

State Appropriations

No new state appropriations will be required for FY 2004-05.

Departments Contacted

Higher Education

Personnel

PERA

Law