

**Second Regular Session
Seventy-fourth General Assembly
STATE OF COLORADO**

REVISED

*This Version Includes All Amendments Adopted
on Second Reading in the Second House*

LLS NO. 24-1184.01 Jessica Herrera x4218

HOUSE BILL 24-1467

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A BILL FOR AN ACT

101 **CONCERNING MODIFICATIONS TO THE STATE EMPLOYEE TOTAL**
102 **COMPENSATION PHILOSOPHY, AND, IN CONNECTION THEREWITH,**
103 **REQUIRING THE DIRECTOR OF PERSONNEL TO ESTABLISH A STEP**
104 **PAY SYSTEM FOR STATE EMPLOYEES IN THE STATE PERSONNEL**
105 **SYSTEM.**

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://leg.colorado.gov/>.)

Joint Budget Committee. Currently, the state personnel director (director) is required to establish survey methodologies to assess total

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
Capital letters or bold & italic numbers indicate new material to be added to existing law.
Dashes through the words or numbers indicate deletions from existing law.

SENATE
2nd Reading Unamended
May 5, 2024

HOUSE
3rd Reading Unamended
May 3, 2024

HOUSE
Amended 2nd Reading
May 2, 2024

compensation practices. Under these compensation practices, a state employee in the state personnel system (employee) may receive merit pay as part of their total compensation. The bill requires the director to establish a "step pay" structure that provides consistent salary increases for employees instead of permitting merit pay.

The bill also repeals the requirement that employees of the division of worker's compensation and the division of labor standards and statistics in the department of labor and employment be paid on a monthly basis.

1 *Be it enacted by the General Assembly of the State of Colorado:*

2 **SECTION 1. Legislative declaration.** (1) The general assembly
3 finds and declares that:

4 (a) State employees are valued partners in the work of the state;

5 (b) State employees should receive compensation based on a pay
6 system that provides predictable salary increases;

7 (c) Pay and pay schedules for classified employees should be
8 aligned with the state's total compensation philosophy and step pay per
9 the partnership agreement with the certified employee organization
10 pursuant to section 24-50-1102.

11 **SECTION 2.** In Colorado Revised Statutes, 24-50-104, **amend**
12 (1)(a)(I), (1)(a)(II), (1)(c)(I), (1)(c)(II) introductory portion, (1)(c)(II)(C),
13 (1)(c)(IV), (1)(c.5)(I), (1)(j)(II)(A), (4)(a), (4)(b)(I), (4)(c), (5)(d), and
14 (5)(e); **repeal** (1)(c)(I.1), (1)(c)(I.2), (1)(c)(I.3), (1)(c)(I.5), (1)(c)(I.7),
15 (1)(c)(I.9), (1)(c)(II)(D), (1)(c)(II)(F), (1)(c.5)(II), and (1)(c.7); and **add**
16 (1)(a)(II.5) and (1)(c)(II)(H) as follows:

17 **24-50-104. Job evaluation and compensation - state employee**
18 **reserve fund - created - study - report - definitions - repeal.** (1) **Total**
19 **compensation philosophy.** (a) (I) It is the policy of the state to provide
20 innovative total compensation that meets or exceeds total compensation

1 provided by public or private sector employers or a combination of both,
2 to officers and employees in the state personnel system to ensure the
3 recruitment, motivation, and retention of a qualified and competent
4 workforce. For purposes of this section, "total compensation" includes,
5 but is not limited to, salary, group benefit plans, retirement benefits, merit
6 STEP pay, incentives, premium pay practices, and leave as specified in
7 statute or in policies of the state personnel director. For purposes of this
8 section, "group benefit plans" means group benefit coverages as described
9 in section 24-50-603 (9). Any monetary components of total
10 compensation are subject to available appropriations by the general
11 assembly.

12 (II) The state personnel director shall establish technically and
13 professionally sound survey methodologies to assess total compensation
14 practices, levels, and costs. Except as provided in subsection (1)(a)(III)
15 of this section, for purposes of this subsection (1)(a), to determine and
16 maintain salaries, state contributions for group benefit plans, and merit
17 STEP pay that meet or exceed total compensation provided by public or
18 private sector employment or a combination of both, the state personnel
19 director shall quadrennially review the results of appropriate surveys by
20 public or private organizations, including surveys by the state personnel
21 director set forth in subsection (4)(b)(I) of this section. Any surveys
22 provided on a confidential basis shall not be revealed except to the state
23 auditor's office and the private firm conducting the audit required in
24 subsection (4)(b) of this section. The state personnel director shall adopt
25 appropriate procedures to determine and maintain other elements of total
26 compensation, including the payment of incentive awards to employees
27 in the state personnel system. The state personnel director's review and

1 determination of total compensation practices shall not be subject to
2 appeal except as otherwise authorized by law or state personnel director
3 procedures.

4 (II.5) WHEN ESTABLISHING PAY PLANS IN ACCORDANCE WITH
5 SUBSECTION (5) OF THIS SECTION AND RECOMMENDING COMPENSATION
6 FOR STATE EMPLOYEES IN ACCORDANCE WITH SUBSECTION (4) OF THIS
7 SECTION, THE STATE PERSONNEL DIRECTOR SHALL DEVELOP, AFTER
8 NEGOTIATIONS WITH THE CERTIFIED EMPLOYEE ORGANIZATION PURSUANT
9 TO SECTION 24-50-1112, AN EQUITABLE PAY STRUCTURE FOR EMPLOYEES
10 IN THE STATE PERSONNEL SYSTEM THAT PROVIDES CONSISTENT AND
11 PREDICTABLE SALARY INCREASES IN COMPLIANCE WITH ANY FEDERAL OR
12 STATE LAWS AND KEEPS THE STATE EMPLOYEE WORKFORCE COMPETITIVE
13 WITH MARKET COMPENSATION. THE REQUIREMENTS OF THIS SUBSECTION
14 (1)(a)(II.5) DO NOT APPLY TO EMPLOYEES OF THE STATE AUDITOR, IN
15 ACCORDANCE WITH SUBSECTION (1)(h) OF THIS SECTION.

16 (c) (I) The state personnel director shall establish a merit STEP pay
17 system in order to provide periodic salary increases for employees in the
18 state personnel system; EXCEPT THAT THE STEP PAY SYSTEM DOES NOT
19 APPLY TO EMPLOYEES OF THE STATE AUDITOR, IN ACCORDANCE WITH
20 SUBSECTION (1)(h) OF THIS SECTION. The purpose of the merit STEP pay
21 system is to provide salary increases for employees based on performance
22 evaluations and salary placement within the appropriate salary range. The
23 state personnel director shall develop the merit pay system so that a merit
24 pay increase is based on the relationship of performance rating
25 distribution and salary range distribution. The merit pay system must
26 include the following characteristics:

27 (A) Salary range is divided into quartiles, except as set forth in

1 ~~subparagraph (I.1) of this paragraph (c);~~

2 ~~(B) The lowest quartile or distribution zone in relation to the~~
3 ~~midpoint has the highest rate of merit pay, and the rate for each~~
4 ~~successive quartile or distribution zone is less than the preceding quartile~~
5 ~~or distribution zone, except as provided in sub-subparagraph (E) of this~~
6 ~~subparagraph (I);~~

7 ~~(C) Performance evaluations are divided into three performance~~
8 ~~categories, except as set forth in subparagraph (I.1) of this paragraph (c);~~

9 ~~(D) The highest performance category has the highest rate of merit~~
10 ~~pay, and the rate for each lower performance category is less than the~~
11 ~~preceding category, except as provided in sub-subparagraph (E) of this~~
12 ~~subparagraph (I); and~~

13 ~~(E) Employees who receive an unsatisfactory performance~~
14 ~~evaluation are not eligible for merit pay.~~

15 ~~(I.1) On or after September 1, 2015, the state personnel director~~
16 ~~shall review the effectiveness of the use of quartiles for salary range and~~
17 ~~three performance categories in the merit pay system. Based on the~~
18 ~~review, the state personnel director may adjust the number of distribution~~
19 ~~zones or performance categories to be used in the system. Thereafter, the~~
20 ~~state personnel director shall conduct a biennial review of the distribution~~
21 ~~zones and performance categories and may adjust the number of~~
22 ~~distribution zones or performance categories based on the review. The~~
23 ~~minimum number of distribution zones the state personnel director may~~
24 ~~establish is three, and the maximum number is six.~~

25 ~~(I.2) If a state department or institution of higher education has a~~
26 ~~performance review system that has a different number of performance~~
27 ~~categories than the number used by the state personnel director in the~~

1 merit pay system, the state personnel director shall establish a method for
2 converting the departmental or institutional categories into the categories
3 used in the merit pay system.

4 (I.3) ~~Based on professionally sound survey methodologies, the~~
5 ~~state personnel director shall establish annually one or more priority~~
6 ~~groups of employees that have priority to receive merit pay based on~~
7 ~~available moneys. The priority groups must be based on length of service,~~
8 ~~relation to the salary range midpoint, performance, recruitment, retention~~
9 ~~needs, and other factors established by the director. The amount of merit~~
10 ~~pay that an employee in the state personnel system may receive depends~~
11 ~~first on the employee's priority group and then on the amount of merit~~
12 ~~pay, if any, associated with the employee's performance category and~~
13 ~~salary range.~~

14 (I.5) (A) ~~Except as set forth in sub-subparagraph (B) of this~~
15 ~~subparagraph (I.5), the merit pay system applies uniformly across state~~
16 ~~departments and institutions of higher education subject to the provisions~~
17 ~~of subparagraph (I.9) of this paragraph (c). For each state fiscal year the~~
18 ~~state personnel director shall determine the appropriate merit pay rates~~
19 ~~that apply to all state departments and institutions and the priority group~~
20 ~~or groups that receive merit pay.~~

21 (B) ~~Notwithstanding any provision of this section to the contrary,~~
22 ~~an institution of higher education may enact its own merit pay system, so~~
23 ~~long as the system is consistent with the provisions of this subsection (1).~~

24 (I.7) ~~An employee who is at or above the maximum amount for~~
25 ~~his or her salary range is not eligible for a merit pay salary increase, but~~
26 ~~is eligible for a merit pay payment that is nonbase building.~~

27 (I.9) ~~Merit pay is subject to available appropriations. Except as set~~

1 ~~forth in subparagraph (H) of paragraph (j) of this subsection (1), the~~
2 ~~general assembly shall appropriate any moneys for merit pay in the annual~~
3 ~~general appropriation act in suitable personal services line items or other~~
4 ~~line items that include salary appropriations.~~

5 (II) In addition to any other requirements set forth in this
6 ~~paragraph (c)~~, SUBSECTION (1)(c)(II), the department of personnel shall
7 develop the merit STEP pay system so that it:

8 (C) Is developed with input from employees in the state personnel
9 system, managers, and other affected parties; AND

10 (D) ~~Emphasizes planning, management, and evaluation of~~
11 ~~employee performance; and~~

12 (F) ~~Prohibits a forced distribution of performance ratings.~~

13 (H) MINIMIZES EMPLOYEE PAY DISRUPTIONS RESULTING FROM
14 IMPLEMENTATION OR MODIFICATION OF STEP PAY.

15 (IV) ~~Each state department and institution of higher education~~
16 ~~shall ensure that it has a performance review system that can be used to~~
17 ~~implement a merit pay system.~~ The state personnel director shall
18 encourage state departments and institutions of higher education to
19 implement performance evaluations of employees that are as objective as
20 possible and that, as soon as possible and wherever feasible, include an
21 assessment from multiple sources of each employee's performance. Such
22 sources shall include, where applicable, the employee's self-assessment;
23 the employee's superiors, subordinates, and peers; and any other
24 applicable sources of an employee's performance. The state personnel
25 director shall adopt procedures to establish a process to resolve employee
26 disputes related to performance evaluations that do not result in corrective
27 or disciplinary action against the employee. Each program established by

1 a state department or institution of higher education pursuant to this
2 ~~subparagraph (IV) shall be~~ SUBSECTION (1)(c)(IV) IS subject to the
3 director's approval.

4 (c.5) (I) The state personnel director shall provide for the
5 evaluation of employee performance. Each employee shall be evaluated
6 at least once a year. ~~The evaluation of performance shall be used as a~~
7 ~~factor in compensation, promotions, demotions, removals, reduction of~~
8 ~~force, and all other transactions as determined by the state personnel~~
9 ~~director in which considerations of quality of service are properly a~~
10 ~~factor.~~

11 (II) ~~A supervisor, including a supervisory state employee not~~
12 ~~within the state personnel system, who does not evaluate subordinate~~
13 ~~employees in the state personnel system as required by this paragraph~~
14 ~~(c.5) on at least an annual basis shall be suspended from work without~~
15 ~~pay for a period of not less than one workday. The provisions of this~~
16 ~~subparagraph (II) shall only apply to supervisors who are state employees.~~

17 (c.7) ~~In addition to the periodic salary increases authorized by~~
18 ~~paragraph (c) of this subsection (1), the performance review component~~
19 ~~of the merit pay system established pursuant to subparagraph (IV) of~~
20 ~~paragraph (c) of this subsection (1) shall be used for the purpose of~~
21 ~~determining eligibility for a performance-based award permitted pursuant~~
22 ~~to section 24-38-103 (1.5). The award shall be in addition to any other~~
23 ~~compensation authorized by law, and it shall not affect the compensation~~
24 ~~that the employee is entitled to receive in subsequent years.~~

25 (j) (II) (A) The state employee reserve fund is hereby created in
26 the state treasury, which consists of money transferred pursuant to
27 subsection (1)(j)(IV) of this section. Money in the fund is continuously

1 appropriated for the purpose of ~~providing merit pay to employees as~~
2 provided in this subsection (1). No money from the fund shall be
3 expended without the approval of the director of the office of state
4 planning and budgeting.

5 (4) **Quadrennial compensation process.** (a) The purpose of the
6 quadrennial compensation process is to determine any necessary
7 adjustments to state employee salaries, state contributions for group
8 benefit plans, and merit STEP pay. The quadrennial compensation survey,
9 based on an analysis of surveys by public or private organizations,
10 including surveys by the state personnel director, shall include a fair
11 sample of public and private sector employers and jobs, including areas
12 outside the Denver metropolitan area. In order to establish confidence in
13 the selection of surveys, the state personnel director shall meet and confer
14 in good faith with management and state employee representatives.

15 (b) (I) On October 1, 2025, and on October 1 of each fourth year
16 thereafter, the state personnel director shall prepare a quadrennial
17 compensation report based on the analysis of surveys conducted pursuant
18 to subsection (4)(a) of this section. The purpose of the quadrennial
19 compensation report shall be to reflect all adjustments necessary to
20 maintain the salary structure, state contributions for group benefit plans,
21 and merit STEP pay FOR THE UPCOMING FISCAL YEAR. The state personnel
22 director shall also include a detailed analysis of salary ranges for all
23 employees in the state personnel system and how employees' salaries are
24 distributed within these ranges. The state personnel director shall also
25 publish the report. Notwithstanding the requirement in section 24-1-136
26 (11)(a)(I), the requirement to submit the report required in this subsection
27 (4)(b)(I) continues indefinitely. The state auditor is responsible for

1 contracting with a private firm to conduct a performance audit of the
2 procedures and application of data, including any survey conducted by the
3 state personnel director. Beginning January 1, 2005, through January 1,
4 2021, and beginning on January 1, 2026, the audits shall be conducted
5 every four years. A report shall be submitted to the governor and the
6 general assembly by the December 30 immediately following the
7 completion of the audit.

8 (c) By September 15, 2017, and by September 15 of each year
9 thereafter through September 15, 2021, and on or before October 1, 2022,
10 and on or before October 1 of each year thereafter, the state personnel
11 director shall submit recommendations and estimated costs for state
12 employee compensation for the next fiscal year, covering salaries, state
13 contributions for group benefit plans, and ~~merit~~ STEP pay, to the governor
14 and the joint budget committee of the general assembly. The
15 recommendations shall reflect a consideration of the results of the
16 quadrennial compensation survey, fiscal constraints, the ability to recruit
17 and retain state employees, appropriate adjustments with respect to state
18 employee compensation, and those costs resulting from implementation
19 of section 24-50-110 (1)(a). The recommendations for state contributions
20 for group benefit plans shall specify the annual group benefit plan year
21 established pursuant to section 24-50-604 (1)(m). The ~~recommendations~~
22 ~~submitted to the governor and the joint budget committee~~ COMPENSATION
23 REPORT shall include the results of the surveys of public or private
24 employers and jobs. The state personnel director shall also publish such
25 ~~recommendations~~ REPORT. This subsection (4)(c) is exempt from the
26 provisions of section 24-1-136 (11), and the periodic reporting
27 requirements of this section are effective until changed by the general

1 assembly acting by bill.

2 (5) **Pay plans.** (d) In the medical pay plans, there are no
3 anniversary-based ~~merit~~ STEP increases. The salaries in such pay plans are
4 based on the negotiation of an annual contract between the employee and
5 the department head or the state auditor, when appropriate, and the
6 amount of such salaries may increase, decrease, or remain unchanged
7 from year to year. Any employee dismissed for failure to perform under
8 such contract may only appeal directly to the state personnel board.

9 (e) In the pay plans for the senior executive service and those
10 positions specified in section 13 (2)(a)(XI) of article XII of the state
11 constitution, there are no anniversary-based ~~merit~~ STEP increases. The
12 salaries in such pay plans are based on policies set forth by the state
13 personnel director. The amount of such salaries may increase, decrease,
14 or remain unchanged from year to year.

15 **SECTION 3.** In Colorado Revised Statutes, **amend** 8-47-205 as
16 follows:

17 **8-47-205. Salaries of employees of division.** All deputies,
18 statisticians, accountants, clerks, experts, and other employees of the
19 division shall receive such compensation as may be fixed by law. The
20 salaries so fixed shall be paid ~~monthly~~ from the fund appropriated for the
21 use of the division after approval by the director.

22 **SECTION 4.** In Colorado Revised Statutes, 8-1-103, **amend** (2)
23 as follows:

24 **8-1-103. Division of labor standards and statistics - director -**
25 **employees - qualifications - compensation - expenses.** (2) All
26 employees, except experts, shall have been for one year prior to such
27 employment or appointment bona fide residents of this state and, while

1 in the employ of the division, shall receive such compensation as is fixed
2 by the state personnel system laws of this state, such compensation to be
3 paid ~~monthly~~ from funds appropriated for the use of the division. All
4 expenses incurred by the division and its employees pursuant to the
5 provisions of law shall be paid from funds appropriated for its use upon
6 the approval of the director. The traveling expenses of the director or of
7 any employee of the division incurred while on business of the division
8 outside this state shall be paid in the manner prescribed in this subsection
9 (2), but only when such expenses are authorized in advance.

10 **SECTION 5.** In Colorado Revised Statutes, 24-38-103, **repeal**
11 (1.5) as follows:

12 **24-38-103. Agency authority and incentives for budget**
13 **savings.** (1.5) ~~Beginning with the 2004-05 fiscal year, an agency that~~
14 ~~achieves cost savings, as an alternative to the transfer authorized pursuant~~
15 ~~to subsection (1) of this section, may transfer fifty percent of the amount~~
16 ~~of the cost savings from one item of appropriation made to the agency in~~
17 ~~the general appropriation act or any supplemental appropriation act to the~~
18 ~~item for personal services in the appropriation made to the same agency~~
19 ~~for the purpose of paying performance-based awards to employees of the~~
20 ~~agency. The award shall be awarded in the fiscal year in which the cost~~
21 ~~savings are achieved, and shall be made consistent with the performance~~
22 ~~review done in accordance with the merit pay system identified in section~~
23 ~~24-50-104 (1)(c.7). Prior to the end of the state fiscal year in which a~~
24 ~~transfer is made pursuant to this subsection (1.5), an agency shall submit~~
25 ~~written notice to the joint budget committee, the office of state planning~~
26 ~~and budgeting, and the state controller of the amount of the cost savings~~
27 ~~achieved by the agency during the state fiscal year.~~

1 **SECTION 6.** In Colorado Revised Statutes, 24-50-109.5, **amend**
2 (2) as follows:

3 **24-50-109.5. Fiscal emergencies - emergency orders.** (2) With
4 the advice and assistance of the state personnel director, the governor
5 shall take such actions as necessary to be utilized by each principal
6 department and each institution of higher education, including the Auraria
7 higher education center established in article 70 of title 23, ~~C.R.S.~~, to
8 reduce state personnel expenditures in the event of a fiscal emergency.
9 Such actions ~~shall~~ include, but need not be limited to, separations,
10 voluntary furloughs, mandatory furloughs, suspension of increases in
11 salary and state contributions for group benefit plans, suspension of merit
12 STEP pay, job-sharing, hiring freezes, forced reallocation of vacant
13 positions, or a combination thereof. Any suspension of salary increases
14 or increases in state contributions for group benefit plans shall apply
15 statewide to all employees in the state personnel system. If mandatory
16 furloughs are utilized in any principal department or institution of higher
17 education, including the Auraria higher education center established in
18 article 70 of title 23, ~~C.R.S.~~, such furloughs shall be implemented by each
19 appointing authority so that all employees under such authority,
20 regardless of status, position, or level of employment, are furloughed for
21 the same length of time, consistent with section 24-2-103 (2). Employees
22 of the following agencies and employees with duties as described shall
23 not be subject to mandatory furlough: The Colorado state patrol,
24 correctional officers, police officers, employees of the department of
25 human services providing hands-on care, and employees providing
26 hands-on nursing care.

27 **SECTION 7.** In Colorado Revised Statutes, 24-50-110, **amend**

1 (1) introductory portion and (1)(b) as follows:

2 **24-50-110. Budget control - personal services.** (1) In order to
3 provide controls and proper identification of personal services costs
4 necessary to carry out the policy of the state regarding compensation of
5 state employees, the following administrative and fiscal procedures shall
6 apply:

7 (b) In their annual budget requests, the heads of all principal
8 departments of state government shall set forth separately the projected
9 costs of personal services arising from anticipated classification reviews,
10 promotions, and other increases in compensation or bonuses for
11 employees in their departments. The costs of personal services shall
12 include any merit STEP pay.

13 **SECTION 8.** In Colorado Revised Statutes, 24-75-112, amend
14 (1) introductory portion and (1)(b) as follows:

15 **24-75-112. Annual general appropriation act - headnote**
16 **definitions - general provisions - footnotes.** (1) As used in the annual
17 general appropriation act, the following definitions and general provisions
18 shall apply for the headnote terms preceding and specifying the purpose
19 of certain line items of appropriation:

20 (b) "Centralized appropriation" means the appropriation of funds
21 to an executive director of a department or a central administrative
22 program intended for subsequent allocation and expenditure at and among
23 a department's divisions, programs, agencies, or long bill groups in order
24 to reflect the amount of such resources actually used in each program or
25 division. Such centralized appropriations may include salary survey, merit
26 STEP pay or anniversary increases, senior executive service, shift
27 differential, group health and life insurance, capital outlay, ADP capital

1 outlay, information technology asset maintenance, legal services,
2 purchase of services from computer center, multiuse network payments,
3 vehicle lease payments, leased space, financed purchase of an asset,
4 certificate of participation, payment to risk management and property
5 funds, short-term disability insurance, utilities, communications services
6 payments, amortization equalization disbursements, supplemental
7 amortization equalization disbursements, administrative law judge
8 services, and centralized ADP. As provided in subsection (1)(1) of this
9 section, capital outlay is included within the appropriation for "operating
10 expenses".

11 **SECTION 9. Safety clause.** The general assembly finds,
12 determines, and declares that this act is necessary for the immediate
13 preservation of the public peace, health, or safety or for appropriations for
14 the support and maintenance of the departments of the state and state
15 institutions. ■