COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1996-01
Bill No.: HB 717
Subject: Taxation and Revenue - Income; State Employees; Administration, Office of
Type: Original
Date: March 14, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	Unknown to ($56,726)	Unknown to ($70,794)	Unknown to ($72,692
Total Estimated Net Effect on General Revenue Fund	**Unknown to ($56,726)**	**Unknown to ($70,794)**	**Unknown to ($72,692)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Various	Unknown	Unknown	Unknown
Total Estimated Net Effect on Other State Funds	**Unknown**	**Unknown**	**Unknown**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTIONS

Officials from the **Office of Administration, Division of Budget and Planning** and **Missouri Consolidated Health Care Plan** assume this proposal would have no fiscal impact on their organizations.

In response to a similar proposal, officials from the **Department of Transportation** (MODOT) assumed the proposal would require that any qualified premiums or expenses could be redirected through the Cafeteria Plan and reduce an employee's taxable income. Employees would not pay federal income tax, state income tax or social security taxes on the amount that they redirect through the Cafeteria Plan. In addition, the state would not have to match the social security taxes paid by the employee on their plan payments. If employees had more expenses redirected through the Cafeteria Plan, they would reduce their tax liability, and the state's social security tax liability. Therefore MODOT assumes the proposal would have a positive unknown cost savings.

ASSUMPTIONS (continued)

Officials from the **Office of the Secretary of State** (SOS) assume the proposal would change allowable products under the state employees cafeteria plan. The Office of Administration may promulgate rules to carry out this bill. Those rules would be published in both the Missouri Register and the Code of State Regulations. The published rules could require as many as 12 pages in the Code of State Regulations and half again as many pages in the Missouri Register because cost statements, fiscal notes and the like are not repeated in Code. The estimated cost of a page in the Register is $23 and the estimated cost of a page in the Code is $27. The impact of the legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn. ((12 x $27) + (18 x $23) = $738)

Officials from the **Office of Administration, Division of Accounting** (OADA) assume this proposal would allow any vendor to join the Missouri State Employees' Cafeteria Plan if it receives more than $500,000 annually through voluntary payroll deductions and meets the federal qualifications to join a Cafeteria Plan. Currently, the Office of Administration manages the Cafeteria Plan through a third-party administrator and requires that all benefits provided to employees in the Cafeteria Plan be competitively bid. Products in the voluntary payroll deduction plan are not evaluated for quality or cost, but are added to the plan on the basis of acquiring 100 signatures within 90 days.

This proposal would impose an additional administrative burden on the plan administrator to conduct additional enrollments, change the official plan documents and their instructions to employees and agencies. Reprogramming costs would also be incurred to increase available options in the plan for four or more additional vendors that would qualify. OADA assumes the effective date would require a mid-year special enrollment period and conversion from payroll deductions to cafeteria plan reductions. Ongoing maintenance costs would be increased to process employee terminations, refunds, and adjustments to taxable income.

We project that additional personnel officers would be required to enroll employees and additional personnel to approve sales literature, handle employee complaints, maintain the payroll files and employee tax records.

OADA provided an estimate of fiscal impact including three additional FTE employees and $25,000 in computer programming cost, for a total of $$123,863 in FY 2006, $147,352 in FY 2007, and $151,165 in FY 2008.

ASSUMPTIONS (continued)

Oversight assumes:

(1) A mid-year special enrollment period and conversion would not be needed;

(2) The Office of Administration could implement the proposal with one additional FTE and existing resources; and

(3) Additional duties, related to the proposal, imposed on various state agencies' personnel offices could be absorbed.

(4) There would be an unknown savings from the reduction in Social Security taxes on the additional cafeteria Plan payments.

Oversight has ranged the fiscal impact to the General Revenue Fund from unknown savings to the calculated cost.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE			
Savings - payroll taxes	Unknown	Unknown	Unknown
Costs – Additional Duties (COA)			
Salaries (1 FTE)	($25,160)	($31,574)	($32,363)
Fringe Benefits	($10,733)	($13,470)	($13,806)
Expense (Programming/Maintenance)	($20,833)	($25,750)	($26,523)
Total Costs	($56,726)	($70,794)	($72,692)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Unknown to ($56,726)**	**Unknown to ($70,794)**	**Unknown to ($72,692)**
VARIOUS STATE FUNDS			
Savings - payroll taxes	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	**Unknown**	**Unknown**	**Unknown**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal would require the Office of Administration to include certain products in the cafeteria plan for state employees. The Office of Administration would be required to provide cafeteria plan services for all products eligible under the United States Internal Revenue Code, provided the vendor is approved by the Office of Administration to provide benefits on a payroll-deduction basis and is receiving in excess of five hundred thousand dollars annually from state employees through voluntary payroll deductions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
Division of Accounting
Division of budget and Planning
Missouri Consolidated Health Care Plan

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Director
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