

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4605-01
Bill No.: HB 1575
Subject: Labor and Management, Labor and Industrial Relations Dept., Public Officers,
Salaries.
Type: Original
Date: April 18, 2006

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|----------------|-----------------------|-----------------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| General Revenue | \$0 | (\$50,300,000) | (\$51,800,000) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$0 | (\$50,300,000) | (\$51,800,000) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|----------------|-----------------------|-----------------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| Other | \$0 | (\$16,000,000) | (\$16,400,000) |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | (\$16,000,000) | (\$16,400,000) |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------------|----------------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| Various | \$0 | (\$9,100,000) | (\$9,400,000) |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | (\$9,100,000) | (\$9,400,000) |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Health and Senior Services** assume this similar proposal would have no fiscal impact on their organization.

Officials from the **Missouri House of Representatives** assume this proposal would have an unknown impact on their organization.

Officials from the **Office of the Attorney General**, the **Office of the State Auditor**, the **Missouri Ethics Commission**, the **Department of Public Safety**, **Missouri Army Reserve National Guard** and **Division of Water Safety**, the, **Certificate of Need Program**, and the **Missouri Gaming Commission** assumed a similar proposal would have no fiscal impact on their organizations.

Officials from the **Office of Prosecution Services** assume the impact of this proposal would be according to the rate outlined in the legislation.

ASSUMPTION (continued)

Officials from the **Office of State Courts Administrator** assume this proposal would have a cost to their office of \$3,011,919 based on FY 2006 payroll expenditures and a 2.25% inflation rate.

Officials from the **Missouri Comprehensive Health Care Plan** assume this proposal would have a cost to their organization of \$45,569 to \$136,708 based on an inflation rate ranging from 1.5% to 4.5%.

Officials from the **Department of Public Safety, Missouri Veterans Commission**, assumed a similar proposal would have a significant cost to their organization. The FY 2006 estimated additional cost would be:

| Fund | 3% increase | 5% increase |
|---|-------------|-------------|
| General Revenue | \$323,031 | \$538,384 |
| Home Fund | \$913,318 | \$1,522,197 |
| Veterans Commission Capital Improvement Trust | \$26,635 | \$44,391 |
| Total | \$1,262,984 | \$2,104,972 |

Officials from the **Department of Insurance (INS)** assumed a similar proposal would automatically adjust certain state employees' compensation on July first of each year. INS assumes this proposal would tie annual employee pay increases to increases in the Consumer Price Index as determined by the U.S. Department of Labor, Bureau of Labor Statistics, for the Midwest Region of the United States which contains the State of Missouri. Budgeted Personnel Service appropriations for FY 2006 are \$4.9 million from the Insurance Dedicated Fund and \$5.2 million from the Insurance Examiners Fund. For every one percent increase in the Consumer Price Index, INS would incur the following costs: \$49,000 thousand in Dedicated Funding and \$52,000 in Exam Funding for a total of \$101,000 dollars/per one percent increase.

In response to a similar proposal, officials from the **Office of State Public Defenders** assumed the proposal would have a cost to their office of \$1,324,465 for FY 2007, \$1,377,443 for FY 2008, and \$1,432,540 based on a 4% annual increase in the Consumer Price Index.

ASSUMPTION (continued)

Officials from the **Department of Economic Development, Public Service Commission (PSC)** assumed a similar proposal would have a cost to their organization. Using a 2.9% inflation rate, the annual impact for the PSC Fund would be \$273,132 and \$8,973 for the Manufactured Housing Fund.

Officials from the **Department of Agriculture** assumed a similar proposal would require increased appropriations for annual state employee increases.

| | FY 2007 | FY 2008 | FY 2009 |
|----------------------------|-----------|-----------|-----------|
| General Revenue | \$69,220 | \$69,912 | \$70,611 |
| Aquaculture Marketing Fund | \$81 | \$82 | \$83 |
| Boll Weevil Eradication | \$686 | \$693 | \$700 |
| Commodity Fund | \$777 | \$785 | \$793 |
| Single Purpose Animal | \$973 | \$982 | \$992 |
| Ag Development Fund | \$1,947 | \$1,966 | \$1,986 |
| Milk Inspection Fee | \$2,474 | \$2,498 | \$2,523 |
| Grain Inspection Fee | \$15,370 | \$15,524 | \$15,679 |
| Marketing Development Fund | \$1,192 | \$1,204 | \$1,216 |
| Petroleum Fee Fund | \$13,560 | \$13,695 | \$13,832 |
| State Fair Fees | \$12,020 | \$12,140 | \$12,261 |
| Animal Care Fund | \$3,461 | \$3,496 | \$3,531 |
| Laboratory Fees | \$1,455 | \$1,470 | \$1,484 |
| All State Funds | \$123,216 | \$124,447 | \$125,691 |
| All Federal Funds | \$14,736 | \$14,883 | \$15,032 |

In response to a similar proposal, officials from the **Office of the Governor**, the **Office of the Secretary of State**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, **Office of the Director**, the **State Tax Commission**, and the **Department of Social Services** deferred to the Office of Administration for an estimate of the fiscal impact of this proposal.

ASSUMPTION (continued)

Officials from the **Department of Economic Development, Office of the Director**, the **Department of Mental Health**, the **Department of Revenue**, and the **Missouri State Highway Patrol** assumed a similar proposal would have an unknown impact on their organizations.

Officials from the **Office of Administration, Division of Budget and Planning**, defer to the Division of Personnel for an estimate of the impact of this proposal.

Officials from the **Department of Conservation** assume this proposal would result in additional cost to the Conservation Commission Fund of approximately \$2.5 million for the first year.

In response to a similar proposal, officials from the **Department of Labor and Industrial Relations** (DOLIR) assume the proposal would tie state employee salary increases to changes in the Consumer Price Index. Based on the 2.631% increase from 2003 to 2004, the cost to DOLIR would be as follows:

| Fund | FY 2007 | FY 2008 | FY 2009 |
|-----------------------------|-----------|-------------|-------------|
| Special Employment Security | \$1,753 | \$2,157 | \$2,211 |
| Crime Victims Compensation | \$6,310 | \$7,762 | \$7,955 |
| Workers Compensation | \$236,927 | \$291,419 | \$298,706 |
| General Revenue | \$56,819 | \$69,888 | \$71,634 |
| Federal | \$817,147 | \$1,005,092 | \$1,005,905 |

ASSUMPTION (continued)

Officials from the **Department of Transportation** (MODOT) assume this proposal would provide for a salary adjustment every July for all state employees. The adjustment would be based on the percentage change of the Midwest Region Consumer Price Index then rounded to the nearest multiple of one hundred dollars. MODOT estimated the cost of the proposal as follows:

| | FY 2007 | FY 2008 | FY 2009 |
|---------------------------|------------|--------------------|--------------------|
| Aviation Trust Fund | \$0 | \$13,549 | \$13,549 |
| Road Fund | \$0 | \$8,695,234 | \$8,695,234 |
| State Transportation Fund | \$0 | \$4,424 | \$4,424 |
| Railroad Expense Fund | <u>\$0</u> | <u>\$12,857</u> | <u>\$12,857</u> |
| All State Funds | <u>\$0</u> | <u>\$8,728,072</u> | <u>\$8,728,073</u> |
| | | | |
| Highway Safety Fed Fund | \$0 | \$10,784 | \$10,784 |
| Multimodal Fed Fund | <u>\$0</u> | <u>\$14,516</u> | <u>\$14,516</u> |
| All Federal Funds | <u>\$0</u> | <u>\$25,300</u> | <u>\$25,300</u> |

Officials from the **Office of Administration, Division of Personnel** assumed a similar proposal would impact the manner in which state employee pay increases are applied and the manner in which pay is administered. Annual pay increases would be tied to increases in the Consumer Price Index as determined by the U.S. Department of Labor, Bureau of Labor Statistics for the Midwest Region of the United States which contains the State of Missouri. The following estimate is based on the FY 2006 Total Personal Service (TPS) estimates supplied by the Office of Administration, Division of Budget and Planning. For every one percent increase in the Consumer Price Index, the state would incur the following costs:

| | TPS | Benefits | TPS + Benefits | 1% TPS + Benefits |
|-----------------|-----------------|---------------|-----------------|-------------------|
| GENERAL REVENUE | \$1,032,239,278 | \$217,596,040 | \$1,249,835,318 | \$12,498,353 |
| FEDERAL | \$366,692,929 | \$77,298,869 | \$443,991,798 | \$4,439,918 |
| OTHER | \$651,497,473 | \$137,335,667 | \$788,833,140 | \$7,888,331 |
| TOTAL | \$2,050,429,680 | \$432,230,576 | \$2,482,660,256 | \$24,826,602 |

ASSUMPTION (continued)

Oversight estimates the fiscal impact of this proposal on the following assumptions:

- A. The Missouri State Employees Retirement System (MOSERS) June 30, 2005 active membership was 55,944 and average salary was \$32,293. Estimated salary cost total of $(55,944 \times \$32,293) = \1.807 billion
- B. The MoDOT and Patrol Employees Retirement System (MPERS) June 30, 2005 active membership of 9,154 and average salary of \$37,252. Estimated salary cost total of $(9,154 \times \$37,252) = \341 million
- C. Total FY 2005 estimated employee salary cost of \$2.148 billion
No, or minimal increases in total salaries for FY 2006 and FY 2007.
- D. The Consumer Price Index - All Urban Consumers, Midwest Region would be the applicable measure for computing salary increases. That index has increased by 1.6%, 3.0%, and 4.1% for the years ended October 31, 2003, 2004, and 2005, respectively, for an average annual increase of 2.9%.
- E. Office of Administration, Division of Personnel calculation of benefits as a percentage of salary for FY 2006 was 21.08%.

| | |
|--------------------------------|---------------|
| Retirement | 12.59% |
| OASDHI | 6.20% |
| Medicare | 1.45% |
| Life Insurance | 0.33% |
| Long term disability insurance | <u>0.51%</u> |
| Total | <u>21.08%</u> |
- F. Proposal would be effective in August 2006 and would first impact the FY 2008 budget.
- G. Estimated FY 2008 cost of $(\$2.148 \text{ billion} \times .029 \times 1.2108) = \75.4 million.
Estimated FY 2009 cost of $(\$75.4 \text{ million} \times 1.029) = \77.6 million.

ASSUMPTION (continued)

H. Cost distributed among state funds as follows -

| | |
|-------------------|--------|
| General Revenue | 66.74% |
| Federal Funds | 21.20% |
| Other State Funds | 12.06% |

| | First Year (FY 2008) | Second Year (FY 2009) |
|-------------------|----------------------|-----------------------|
| General Revenue | \$50,300,000 | \$51,800,000 |
| Other State Funds | \$16,000,000 | \$16,400,000 |
| Federal Funds | <u>\$9,100,000</u> | <u>\$9,400,000</u> |
| Total cost | <u>\$75,400,000</u> | <u>\$77,600,000</u> |

FISCAL IMPACT - State Government

FY 2007
(10 Mo.)

FY 2008

FY 2009

GENERAL REVENUE FUND

| | | | |
|------------------------------|------------|-----------------------|-----------------------|
| Cost - Salaries and Benefits | <u>\$0</u> | <u>(\$50,300,000)</u> | <u>(\$51,800,000)</u> |
|------------------------------|------------|-----------------------|-----------------------|

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

| | | |
|------------|-----------------------|-----------------------|
| <u>\$0</u> | <u>(\$50,300,000)</u> | <u>(\$51,800,000)</u> |
|------------|-----------------------|-----------------------|

OTHER STATE FUNDS

| | | | |
|------------------------------|------------|-----------------------|-----------------------|
| Cost - Salaries and Benefits | <u>\$0</u> | <u>(\$16,000,000)</u> | <u>(\$16,400,000)</u> |
|------------------------------|------------|-----------------------|-----------------------|

**ESTIMATED NET EFFECT ON
OTHER STATE FUNDS**

| | | |
|------------|-----------------------|-----------------------|
| <u>\$0</u> | <u>(\$16,000,000)</u> | <u>(\$16,400,000)</u> |
|------------|-----------------------|-----------------------|

FEDERAL FUNDS

| | | | |
|------------------------------|------------|----------------------|----------------------|
| Cost - Salaries and Benefits | <u>\$0</u> | <u>(\$9,100,000)</u> | <u>(\$9,400,000)</u> |
|------------------------------|------------|----------------------|----------------------|

**ESTIMATED NET EFFECT ON
FEDERAL FUNDS**

| | | |
|------------|----------------------|----------------------|
| <u>\$0</u> | <u>(\$9,100,000)</u> | <u>(\$9,400,000)</u> |
|------------|----------------------|----------------------|

FISCAL IMPACT - Local Government

FY 2007
(10 Mo.)

FY 2008

FY 2009

\$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 adjust state employee salaries. State employee salaries would be adjusted on July first of each year by an amount, rounded to the nearest multiple of one hundred dollars, equal to the most recent percentage change in the regional Consumer Price Index for the region which includes Missouri as set by the United States Department of Labor, Bureau of Labor Statistics. Such salary adjustment would become effective and necessary appropriations would be made, unless disapproved by concurrent resolution adopted by the general assembly.

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 Governor
Office of State Courts Administrator
Missouri House of Representatives
Office of the Secretary of State
Office of the State Auditor
Office of the Attorney General
Office of Prosecution Services
Office of Administration
 Division of Budget and Planning
 Division of Personnel
Department of Agriculture
Department of Conservation
Department of Economic Development
 Office of the Director
 Public Service Commission
Department of Elementary and Secondary Education

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SOURCES OF INFORMATION (continued)

Department of Health and Senior Services
 Office of the Director
 Certificate of Need Program
Department of Higher Education
Department of Insurance
Department of Labor and Industrial Relations
Department of Mental Health
Department of Public Safety
 Missouri Army Reserve National Guard
 Missouri Veterans Commission
 Missouri State Highway Patrol
 Division of Water Safety
Department of Revenue
Department of Social Services
Department of Transportation
State Tax Commission
Missouri Ethics Commission
Missouri Gaming Commission
Missouri Comprehensive Health Care Plan



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