

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1349-01  
Bill No.: HB 641  
Subject: Retirement - State; Retirement Systems and Benefits - General  
Type: Original  
Date: March 5, 2007

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Bill Summary: Increase state employee salaries in an amount equal to the percentage change in the Federal Consumer Price Index.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0	(\$45,870,000)	(\$47,124,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$45,870,000)</b>	<b>(\$47,124,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Other State Funds	\$0	(\$14,595,000)	(\$14,994,000)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>(\$14,595,000)</b>	<b>(\$14,994,000)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Various Federal Funds	\$0	(\$9,035,000)	(\$9,282,000)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>(\$9,035,000)</b>	<b>(\$9,282,000)</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Division of Personnel** assume this proposal affects all state employees. The Office of Administration, Division of Personnel administers the Uniform Classification and Pay System pay plan, affecting about 40,000 employees in 12 state agencies. This proposal would impact the manner in which state employee pay increases are applied and the manner in which pay is administered.

The long range (and short range) implications of the proposed legislation is that 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. Since other employers take other factors into consideration than just the CPI, it is possible that state average salaries would fall behind those of other public and private employers in Missouri, and other state governments. When determining salary increases other employers may take into consideration salaries being paid for similar type work, salary increases being provided by other employers in the labor market and the performance of current employees, along with contributions to benefit plans, all of which play a role in the determination of pay rates and salary increases.

The following estimate is based on the FY 2007 Total Personal Service estimates supplied by the Office of Administration, Division of Budget and Planning. One percent of the state's total personal service is used as an estimate. For every one percent increase in the Consumer Price Index, the state would incur the following costs: \$13.4 million GR; \$4.6 million Federal funds and \$8.4 million Other funds, for a total of \$26.3 million dollars.

	<b>FY 2007</b>	<b>22.69%</b>		
	<b>Total Personal Service</b>	<b>Benefits</b>	<b>TPS + Benefits</b>	<b>1% TPS + Benefits</b>
GENERAL REVENUE	\$1,088,921,532	\$247,076,296	\$1,335,997,828	\$13,359,978
FEDERAL	\$376,883,043	\$85,514,762	\$462,397,805	\$4,623,978
OTHER	\$680,910,231	\$154,498,531	\$835,408,762	\$8,354,088
<b>TOTAL</b>	<b>\$2,146,714,806</b>	<b>\$487,089,589</b>	<b>\$2,633,804,395</b>	<b>\$26,338,044</b>

	<b>1% Salaries Only</b>
GENERAL REVENUE	\$10,889,215
FEDERAL	\$3,768,830
OTHER	\$6,809,102
<b>TOTAL</b>	<b>\$21,467,147</b>

ASSUMPTION (continued)

Officials from the **Department of Conservation (MDC)** assume this proposal appears to have significant impact on MDC funds because of the automatic compensation adjustment. The estimated fiscal impact on MDC, based on current salaries, could be approximately \$1.7 million in the first year.

Officials from the **Office of State Courts Administrator** assume the proposal would require the salaries of all state employees, excluding elected officials and certain other statutory officials, be automatically adjusted at the beginning of each fiscal year to an amount equal to the percentage of such annual rate which corresponds to the most recent percentage change in the Consumer Price Index for the region of which Missouri is included.

We will assume that the Missouri region will not differ markedly from the national Consumer Price Index. For 1988 through 2006, the average Consumer Price Index inflation rate is 3.07%.

Assuming a 3.07% inflation rate, and using the current year personal service cost for non-statutory judiciary employees, the cost of this legislation would be \$2,563,166 (\$83,490,740 x .0307).

Officials from the **Missouri Consolidate Health Care Plan** assume according to the U.S. Department of Labor, Bureau of Labor Statistics, for the Midwest Region of the United States which includes the State of Missouri; the Consumer Price Index (CPI) percentage change ranged between 1.2% in 2002 to 3.1% in 2005. Assuming the CPI will continue to average between 1.2% and 3.1%; this legislation could create a fiscal impact for FY 2008 between \$34,345 and \$90,388.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume no immediate impact on contributions to MOSERS is expected. However, if this proposal were enacted and did result in pay increases being greater than would have otherwise been the case, it should be anticipated that contributions for retirement benefits would increase at least proportionally and perhaps more.

Officials from the **Department of Agriculture** defers to whatever the Office of Administration determines to be the correct figure for all employees statewide.

Officials from the **Department of Insurance, Financial Planning & Professional Registration** assume this proposal would provide an increase to allstate employees salaries each July based on the Consumer Prices Index for the region in Missouri as set by the U.S. Department of Labor,

**ASSUMPTION** (continued)

Bureau of Labor Statistics each year unless disapproved by the concurrent resolution adopted by the General Assembly before July 1 of each year.

Officials from the **Department of Transportation (DHT)** assume based on the FY08 Anticipated payroll of \$275,404,000, fringe benefit rate of 38.69%, Midwest Urban CPI growth of 2.4% increase based on FY05 of 188.4 and FY06 of 193.0. The rounded estimated increase in payroll for FY08 is \$6,609,697 and the estimated increase in fringe benefits is \$2,557,292 for a total increase in salaries and fringe benefits of \$9,166,989.

<b>Fund Affected</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
General Revenue	\$0	\$0	\$0
Road Fund	\$0	(\$9,115,836)	(\$9,343,731)
Highway Safety Fed Fund	\$0	(\$11,184)	(\$11,463)
Multimodal Fed Fund	\$0	(\$13,375)	(\$13,709)
State Transportation Fund	\$0	(\$3,768)	(\$3,862)
Aviation Trust Fund	\$0	(\$11,202)	(\$11,482)
Railroad Expense Fund	\$0	(\$11,624)	(\$11,914)
<b>Total Estimated Net Effect on All State Funds</b>	<b>\$0</b>	<b>(\$9,166,989)</b>	<b>(\$9,396,161)</b>

Officials from the **Department of Labor and Industrial Relations** assume this proposal would change the method of calculating salary increases for state employees by tying the salary increase to changes in the Consumer Price Index.

DOLIR's estimated salary increases were calculated as follows: An annual payroll of \$36,744,502 (FY 2006 actual) was multiplied by the percentage change in the Consumer Price

ASSUMPTION (continued)

Index (CPI) - Urban Wage Earners & Clerical from 2005 to 2006 annual. The 2006 annual CPI is 188.10 and the 2005 annual CPI is 183.70. Web site used was <http://data.bls.gov/cgi-bin/surveymost>. The change in the CPI is 4.40, which results in a 2.3952% percentage change from 2005 to 2004. This percentage was multiplied by the DOLIR annual payroll and then allocated across all DOLIR funds with PS expenditures based on the FY 2006 PS expenditures.

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

- A. Total FY 2007 estimated employee salary cost of \$2.147 billion. No, or minimal increases in total salaries for FY 2008 and 2009.
- B. The Consumer Price Index - All Urban Consumers, Midwest Region would be the applicable measure for computing salary increases. Over the past three years the CPI increased 2.4% from December 2003 - December 2004, 3.2% from December 2004 - December 2005 and 2.4% from December 2005 to December 2006 respectively, for an average annual increase of 2.67%.
- C. Office of Administration, Division of Personnel calculation of benefits as a percentage of salary for FY 2007 was 21.27%

Retirement	12.78%
OASDHI	6.20%
Medicare	1.45%
Life Insurance	0.33%
Long Term Disability	0.51%
<hr/> Total	<hr/> 21.27%

- D. Proposal would be effective in August 2007 and would first impact the FY 2009 budget.
- E. Estimated FY 2009 cost of  $(\$2.147 \text{ billion} \times .0267 \times 1.2127) = \$69.5 \text{ million}$   
Estimated FY 2010 cost of  $(\$69.5 \text{ million} \times 1.0267) = \$71.4 \text{ million}$

ASSUMPTION (continued)

F. Cost distributed among state funds as follows -

General Revenue	66.0%
Federal Funds	21.0%
Other State Funds	13.0%

	First Year (FY 2009)	Second Year (FY 2010)
General Revenue	\$45,870,000	\$47,124,000
Other State Funds	\$14,595,000	\$14,994,000
Federal funds	<u>\$9,035,000</u>	<u>\$9,282,000</u>
Total Cost	\$69,500,000	\$71,400,000

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
<b>GENERAL REVENUE FUND</b>			
Cost - Salaries and Benefits	<u>\$0</u>	<u>(\$45,870,000)</u>	<u>(\$47,124,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<u><b>\$0</b></u>	<u><b>(\$45,870,000)</b></u>	<u><b>(\$47,124,000)</b></u>
<b>OTHER STATE FUNDS</b>			
Cost - Salaries and Benefits	<u>\$0</u>	<u>(\$14,595,000)</u>	<u>(\$14,994,000)</u>
<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>	<u><b>\$0</b></u>	<u><b>(\$14,595,000)</b></u>	<u><b>(\$14,994,000)</b></u>
<b>FEDERAL FUNDS</b>			
Cost - Salaries and Benefits	<u>\$0</u>	<u>(\$9,035,000)</u>	<u>(\$9,282,000)</u>
<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>	<u><b>\$0</b></u>	<u><b>(\$9,035,000)</b></u>	<u><b>(\$9,282,000)</b></u>

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

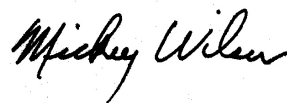
This proposal would adjust state employee salaries. State employee salaries would be adjusted on July first of each year by an amount, rounded to the nearest multiple of one hundred dollars, equal to the most recent percentage change in the regional Consumer Price Index for the region which includes 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 Administration -  
    Division of Budget & Planning  
    Division of Personnel  
Department of Transportation  
Department of Conservation  
Office of State Courts Administrator  
Missouri State Employee Retirement System  
Missouri Consolidated Health Care Plan  
Department of Agriculture  
Department of Insurance, Financial Planning &  
    Professional Registration  
Department of Labor and Industrial Relations

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
March 5, 2007