

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4419-01
Bill No.: HB 1954
Subject: Administration, Office of; Appropriations; State Employees
Type: Original
Date: March 31, 2008

Bill Summary: This proposal increases state employee salaries in an amount equal to the percentage change in the federal Consumer Price Index.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0	(\$37,053,870)	(\$74,107,740)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$37,053,870)	(\$74,107,740)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Other State Funds	\$0	(\$23,000,000)	(\$46,000,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(\$23,000,000)	(\$46,000,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Federal Funds	\$0	(\$12,464,288)	(\$24,928,576)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	(\$12,464,288)	(\$24,928,576)

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	0

☐ 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).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration (OA)** assume the proposed legislation affects all state employees. The OA's 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. In formulating pay plan recommendations, the Personnel Advisory Board would need to estimate future increases in the CPI to comply with this legislation. The legislation would, in a sense, limit budgeting flexibility for pay increases since the CPI-based increase must be adopted. Other pay increases for state employees would be prioritized after the funding for the CPI-based increase was estimated.

Officials at the OA assume the following estimate is based on the FY 2008 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: \$14.8 million General Revenue, \$4.9 million Federal funds, and \$9.2 million Other funds, for a total of \$28.9 million, for FY 2009.

These figures include benefit costs estimated at 27.05%. For increases to state employee salaries it is inaccurate to increase salaries by the full 44.22%, since health care and deferred compensation are "dollar-based" benefits that do not increase when an employee receives a pay increase.

Officials at the **Missouri Department of Transportation (MoDOT)** assume that based on the FY07 actual payroll of \$268,440,746, fringe benefit rate of 38.38%, Midwest Urban CPI growth of 2.66% that the estimated increase in payroll for FY09 is \$7,140,524 and the estimated increase in fringe benefits is \$2,740,533 for a total increase in salaries and fringe benefits of \$9,881,057. The total for FY10 is \$10,143,893 and for FY11 \$10,413,721.

Officials at the **Department of Conservation (MDC)** assume the estimated fiscal impact on MDC, based on current salaries, could be approximately \$1.8 million in the first year. This fiscal impact was estimated by the Midwest Consumer Price Index average growth of 2.4% during the past five years. However, the annual increase based on the most recent Midwest Consumer Price Index on December 2008 data would be 3.8%.

Officials at the **Administrative Hearing Commission** and the **Office of the Attorney General** assume that there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Officials at the **Budget and Planning** assume a statewide impact and they defer to the Division of Personnel for the impact.

Oversight assumes that the Consumer Price Index can vary significantly from year to year. Information obtained from the U.S. Department of Labor's chart for All Urban Consumers for the Midwest Region of the United States shows the following changes to the CPI in the last 5 years.

Dec. 2002 to Dec. 2003	1.9%
Dec. 2003 to Dec. 2004	2.4%
Dec. 2004 to Dec. 2005	3.2%
Dec. 2005 to Dec. 2006	2.4%
Dec. 2006 to Dec. 2007	2.7%

The average CPI over the last 5 years is 2.52%. For the purpose of this fiscal note Oversight assumes a CPI of 2.5%. Oversight assumes this bill does not go into effect until FY 2010 since the legislation if passed would not be effective until August 28, 2008. Therefore the first pay increase would occur on July 1, 2009.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
<u>Cost - state employee salary increase</u>	<u>\$0</u>	<u>(\$37,053,870)</u>	<u>(\$74,107,740)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>(\$37,053,870)</u>	<u>(\$74,107,740)</u>
FEDERAL FUNDS			
<u>Cost - state employee salary increase</u>	<u>\$0</u>	<u>(\$12,464,288)</u>	<u>(\$24,928,576)</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$0</u>	<u>(\$12,464,288)</u>	<u>(\$24,928,576)</u>
OTHER STATE FUNDS			
<u>Cost - state employee salary increase</u>	<u>\$0</u>	<u>(\$23,000,000)</u>	<u>(\$46,000,000)</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>\$0</u>	<u>(\$23,000,000)</u>	<u>(\$46,000,000)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2009 (10 Mo.)	 FY 2010	 FY 2011
	<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 bill increases state employee salaries at the beginning of each fiscal year in an amount equal to the percentage change in the federal Consumer Price Index, rounded to the nearest \$100, for the region containing the State of Missouri as established by the Bureau of Labor Statistics within the United States Department of Labor until the state government pay ranking is equal to

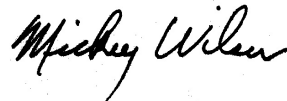
FISCAL DESCRIPTION (continued)

the income ranking by the federal department for all Missouri income. The salary adjustment will be funded and become effective, unless the General Assembly disapproves by passage of a concurrent resolution.

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

Administrative Hearing Commission
Missouri Department of Transportation
Budget and Planning
Office of Administration
Office of the Attorney General
Department of Conservation

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

Mickey Wilson, CPA
Director
March 31, 2008