

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6485-01
Bill No.: HB 2621
Subject: State Auditor; State Departments
Type: Original
Date: March 12, 2018

Bill Summary: This proposal creates the “State Agency Efficiency Fund.”

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue Fund	\$0	Unknown to (Unknown)	Unknown to (Unknown)
Total Estimated Net Effect on General Revenue	\$0	Unknown to (Unknown)	Unknown to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Various State Funds	\$0	(Unknown)	(Unknown)
State Agency Efficiency Fund	\$0	Unknown	Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	Unknown to (Unknown)	Unknown to (Unknown)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Auditor's Office (SAO)** assume although it is unclear how much time the SAO would have to conduct the analysis and prepare the reports required under this proposal (as the date these reports would be due to the SAO is unspecified), and although the SAO is unable to predict how many state agencies would submit annual reports to the SAO under this proposal, the SAO would likely be able to absorb the costs of this proposal through current appropriations.

Officials from the **Office of the Secretary of State (SOS)** assume the only SOS fund with automatic reversion is the Technology Trust Fund, from which any balance over \$5,000,000 reverts to GR at the end of the fiscal year. This fund takes care of all the IT needs for SOS. This agency self-funds all technology such as the election system, business services system and replacement of old technology and equipment as needed. Per subsection 4, the full remaining balance in the Technology Trust Fund at the end of FY19 would revert to the "State Agency Efficiency Fund" as of the beginning of FY20. SOS estimates this at \$4,266,500, the balance in the Technology Trust Fund at the end of FY17. This proposal would sweep all remaining funds in the Technology Trust Fund at the end of FY19 into the newly created "State Agency Efficiency Fund."

Officials from the **Department of Natural Resources (DNR)** assume Section 29.290 would create in the state treasury the "State Agency Efficiency Fund", which shall consist of moneys remaining unspent at the end of the fiscal year in any state agency account or fund that automatically reverts to the general revenue, for the purpose of funding salary adjustments. The state treasurer shall be custodian of the fund.

State agencies shall certify to the office of the state treasurer the amount of moneys subject to transfer into the fund at the end of each fiscal year. Such certification shall contain a verification that unspent moneys transferred to the fund are a product of the cost savings and efficiency gains. It shall be deemed bad faith for an agency to request new or identical annual appropriations on the basis of past appropriations where a portion of such appropriations was retained by the fund for the benefit of such agency's employees.

Upon receipt of the certification report, the state treasurer shall transfer seventy-five percent of the moneys to the general revenue fund, with the other twenty-five percent to remain in the state agency efficiency fund. Moneys in the fund shall be expended for the sole purpose of incentivizing state agency efficiency. If an agency has a cost savings or efficiency improvement greater than one million dollars, the amount of the cost savings shall be returned to the agency by

ASSUMPTION (continued)

increasing salaries under an existing salary schedule or adjusting salaries in accordance with fiscal year appropriation authorization. Salary increases or adjustments shall be made on an agency-wide basis subject to the recommendation of the state auditor.

All state agencies and departments shall have the right to participate in the presentation of an annual report to the office of the state auditor verifying cost savings and efficiency improvements. The office of the state auditor shall conduct its own analysis of the annual reports and make recommendations concerning the overall accuracy of the report.

DNR states salary increases must be sustainable for future fiscal years. Individual fund balances and cash flow consideration would be necessary before implementing salary adjustments.

Officials from the **Office of Administration-Budget and Planning** assume the proposal creates the State Agency Efficiency Fund, which shall consist of monies transferred from other funds. Movement or transfer of monies among state funds will not impact TSR or the calculation under Article X, Section 18€.

Officials from the **Department of Corrections (DOC)** assume this legislation establishes the State Agency Efficiency Fund which causes monies remaining unspent at the end of each fiscal year due to cost savings or efficiencies to be reverted to this fund. If agencies have a cost savings greater than one million, the savings would go towards a salary increase for most employees of the agency.

While this statute could have a positive impact to the Department of Corrections, we are unable to calculate what that impact might be. It will take additional time to determine if there are any cost savings that would fall under this statute. Therefore, the impact of this legislation is unknown.

Officials from the **Department of Mental Health (DMH)** assume it is not possible to anticipate the efficiency level of DMH in the future, in order to project transfers to the new fund. Therefore, the impact to DMH is unknown.

Officials from the **Department of Social Services (DSS)** assume HB 2621 establishes the State Agency Efficiency Fund. The DSS shall submit an annual report of funding that was saved due to cost savings and efficiency measures. Out of the amount identified by the annual report seventy-five percent shall be deposited into general revenue and twenty-five percent shall be deposited into the State Agency Efficiency Fund. DSS assumes this bill would apply to all DSS funds. It is unknown the amount the department would be able to identify as cost savings or

ASSUMPTION (continued)

efficiency measures. Therefore, the impact to all funds is unknown.

Officials from the **Department of Health and Senior Services (DHSS)** assume HB 2621 establishes the State Agency Efficiency Fund. Currently, DHSS has at least one fund that is swept into the General Revenue Fund. The department shall submit an annual report of funding that was saved due to cost savings and efficiency measures. Out of the amount identified by the annual report seventy-five percent shall be deposited into general revenue and twenty-five percent shall be deposited into the State Agency Efficiency Fund. DHSS assumes this bill could apply to all DHSS funds. It is unknown the amount the department would be able to identify as cost savings or efficiency measures. Therefore, the impact to all funds is unknown. It is not possible to project unspent balances of the funds DHSS administers or the expected income from the State Agency Efficiency Fund; therefore, DHSS has an Unknown or (Unknown) fiscal impact for the proposed legislation.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assume dependent upon what is swept from DIFP dedicated funds each year, the fiscal impact to DIFP is unknown.

If the meaning of this bill is to sweep all unspent department dedicated fund balances to a new "State Agency Efficiency Fund" at the end of the fiscal year, the ability of the department to operate would be put into jeopardy. Boards would need to revise regulations regarding renewal cycles of licenses. Currently, for efficiency, most board professions renew biennially with varying renewal dates so that all boards do not renew at once. This legislation will require a change from biennial renewal to annual with a required date change so that monies are received as quickly as possible to cover expenses. In addition, the department may require General Revenue immediately each fiscal year to operate. This would be contrary to the purposes of the DIFP dedicated funds created in statute.

Officials from the **Attorney General's Office** assume that any potential costs arising from this proposal can be absorbed with existing resources. Attorney General's Office may seek additional appropriations if there is a significant increase in litigation.

Officials from the **Office of Prosecution Services** assume the proposal will have no measurable fiscal impact.

Officials from the **Department of Public Safety-Veterans** assume the proposal will have no fiscal impact on their organization. The unspent appropriations of MVC dedicated funds do not revert to General Revenue.

ASSUMPTION (continued)

Officials from the **Missouri Lottery Commission** assume the proposal will have no fiscal impact on their organization. Lottery's funds do not revert to General Revenue.

Officials from the **Missouri Consolidated Health Care Plan, Missouri Tax Commission, Missouri Senate, Office of the State Public Defender, Missouri Lieutenant Governor, Department of Public Safety-Alcohol and Tobacco Control, Department of Public Safety-State Emergency Management Agency, Joint Committee on Administrative Rules, Department of Elementary and Secondary Education, Department of Public Safety-Gaming Commission, Department of Public Safety-Capitol Police, Missouri Ethics Commission, Office of the Governor, Department of Higher Education, Missouri House of Representatives, Office of the State Treasurer, Department of Public Safety-Office of the Director, Office of Administration-Administrative Hearing Commission, Department of Economic Development, Missouri State Employees' Retirement System, Department of Agriculture, Department of Labor and Industrial Relations, Missouri Department of Conservation, and Department of Revenue** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **Department of Transportation (MODOT)** state the department does not have any funds or accounts that automatically revert any unspent money to the general revenue fund at the end of the fiscal year. HB 2621 will have a positive impact on MODOT if GR deposits under this section are used for pay raises for MODOT employees. Otherwise, HB 2621 will have no impact on MODOT/MHTC.

Officials from the **Office of State Courts Administrator** assume the proposed legislation regards state departments or agencies and does not appear to encompass the judicial branch. Accordingly, this fiscal note response is provided without acknowledgment that the provisions of this bill would apply to the judiciary.

Officials from the **MoDOT and Patrol Employees Retirement System** assume they do not meet the definition of an entity subject to the requirements of this proposal and therefore offer no official response on fiscal impact.

Officials from the Department of Public Safety-MNG, Department of Public Safety-Fire Safety, and Bi-State Development did not respond to **Oversight's** request for fiscal impact.

FISCAL IMPACT - State Government

FY 2019
 (10 Mo.)

FY 2020

FY 2021

GENERAL REVENUE FUND

Transfer In - from State Agency
 Efficiency Fund - 75% of reverted
 unspent monies that would not have
 reverted to General Revenue regardless

\$0

Unknown

Unknown

Loss - Various state agencies - unspent
 monies that would have reverted to the
 General Revenue Fund, however with
 this proposal, now 25% is diverted to the
 State Agency Efficiency Fund

\$0

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON
 GENERAL REVENUE FUND**

\$0

**Unknown to
(Unknown)**

**Unknown to
(Unknown)**

VARIOUS STATE FUNDS

Transfer out - Various State Agencies
 100% of reverted unspent monies
 transferred to the General Revenue Fund
 and the State Agency Efficiency Fund

\$0

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON
 VARIOUS STATE FUNDS**

\$0

(Unknown)

(Unknown)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
STATE AGENCY EFFICIENCY FUND			
<u>Transfer In</u> - Various State Agencies 100% of reverted unspent monies	\$0	Unknown	Unknown
<u>Costs</u> - Various State Agencies - expenditures for the sole purpose of incentivizing state agency efficiency including salary adjustments	\$0	(Unknown)	(Unknown)
<u>Transfer Out</u> - to General Revenue Fund 75% of reverted unspent monies	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON STATE AGENCY EFFICIENCY FUND	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<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 proposed legislation would create in the state treasury the "State Agency Efficiency Fund" (Fund), which shall consist of moneys remaining unspent at the end of the fiscal year in any state agency account or fund that automatically reverts to the general revenue, for the purpose of funding salary adjustments. The state treasurer shall be custodian of the fund.

State agencies shall certify to the office of the state treasurer the amount of moneys subject to transfer into the Fund at the end of each fiscal year. Such certification shall contain a verification

FISCAL DESCRIPTION (continued)

that unspent moneys transferred to the fund are a product of the cost savings and efficiency gains. It shall be deemed bad faith for an agency to request new or identical annual appropriations on the basis of past appropriations where a portion of such appropriations was retained by the fund for the benefit of such agency's employees.

Upon receipt of the certification report, the state treasurer shall transfer seventy-five percent of the moneys to the general revenue fund, with the other twenty-five percent to remain in the Fund. Moneys in the Fund shall be expended for the sole purpose of incentivizing state agency efficiency. If an agency has a cost savings or efficiency improvement greater than one million dollars, the amount of the cost savings shall be returned to the agency by increasing salaries under an existing salary schedule or adjusting salaries in accordance with fiscal year appropriation authorization. Salary increases or adjustments shall be made on an agency-wide basis subject to the recommendation of the state auditor and to appropriation by the legislature.

All state agencies and departments shall have the right to participate in the presentation of an annual report to the office of the state auditor verifying cost savings and efficiency improvements. The office of the state auditor shall conduct its own analysis of the annual reports and make recommendations concerning the overall accuracy of the report.

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

State Auditor's Office
Department of Natural Resources
Office of Administration-Budget and Planning
Department of Corrections
Department of Mental Health
Office of the Secretary of State
Department of Social Services
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Attorney General's Office
Office of Prosecution Services
Department of Public Safety-Veterans
Missouri Lottery Commission
Missouri Consolidated Health Care Plan

SOURCES OF INFORMATION

Missouri Tax Commission
Missouri Senate
Office of the State Public Defender
Missouri Lieutenant Governor
Department of Public Safety-Alcohol and Tobacco Control
Department of Public Safety-State Emergency Management Agency
Joint Committee on Administrative Rules
Department of Elementary and Secondary Education
Department of Public Safety-Gaming Commission
Department of Public Safety-Capitol Police
Missouri Ethics Commission
Office of the Governor
Department of Higher Education
Missouri House of Representatives
Office of the State Treasurer
Department of Public Safety-Office of the Director
Office of Administration-Administrative Hearing Commission
Department of Economic Development
Missouri State Employees' Retirement System
Department of Agriculture
Department of Labor and Industrial Relations
Missouri Department of Conservation
Department of Revenue
Department of Transportation
Office of State Courts Administrator
MoDOT and Patrol Employees Retirement System

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Acting Director
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