

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6485-02
Bill No.: HCS for HB 2621
Subject: State Auditor; State Departments
Type: Original
Date: April 16, 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	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0	\$0 or (Unknown)	\$0 or (Unknown)

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

ASSUMPTION (continued)

In response to a previous version, officials from the **Office of Administration-Budget and Planning** assumed 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. DMH utilizes the majority of General Revenue, lapsing very little General Revenue. 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 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

ASSUMPTION (continued)

the State Agency Efficiency Fund; therefore, DHSS has an Unknown or (Unknown) fiscal impact for the proposed legislation.

Officials from the **Attorney General's Office (AGO)** understand this proposal will have no fiscal impact to it because the "State Efficiency Fund" is only applicable to "state agencies", not the AGO.

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

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

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 **Department of Public Safety-Office of the Director** assume a possible fiscal impact due to the loss of the appropriation the following fiscal year, but are unable to state specifically what the efficiencies may be. Therefore, the fiscal impact is unknown.

Officials from the **Department of Public Safety-Missouri State Highway Patrol** assume the proposed legislation would allow agencies to deposit unused year-end appropriation authority into a special fund, 25% of which could be used later for incentivizing efficiency, if the agency can certify that the money is lapsing in the first place because of cost savings due to efficiencies (assuming that this is an optional process). The agency would have to be willing to then core cut the money, as the logic would be that if efficiency caused the lapse, there would be no need to have that amount of appropriation continue. There is a possibility this could impact the Highway Patrol, as any unused spending authority is currently forfeited at the end of the year anyway, and under this scenario we might be able to get 25% of it back. Under this legislation, for example, if the Patrol were going to lapse \$100,000 in General Revenue appropriations, we could request that it be put into this new fund and then request \$25,000 of it to spend it on efficiency. However, we would have to be willing to take a \$100,000 core cut in the original appropriation, as we moved the lapsed money into the efficiency fund, so it would be a net loss to the Patrol of \$75,000 in spending authority. Based on that, the Patrol would characterize the fiscal impact as unknown.

ASSUMPTION (continued)

Oversight notes that the following state agencies: **Office of the Secretary of State, Department of Insurance, Financial Institutions and Professional Registration, and Department of Transportation** have changed their response to no fiscal impact due to the change in language of the proposal.

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-State Emergency Management Agency, Joint Committee on Administrative Rules, Department of Elementary and Secondary Education, Department of Public Safety-Gaming Commission, Office of the State Treasurer, Office of Administration-Administrative Hearing Commission, Office of Administration-Personnel, Department of Economic Development, 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.

In response to a previous version, officials from the **Department of Public Safety-Alcohol and Tobacco Control, Department of Public Safety-Capitol Police, Missouri Ethics Commission, Office of the Governor, Department of Higher Education, Missouri House of Representatives, Missouri State Employees' Retirement System, and Department of Agriculture** each assumed the proposal will have no fiscal impact on their respective organizations.

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 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

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

\$0 or
(Unknown)

\$0 or
(Unknown)

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

\$0

\$0 or
(Unknown)

\$0 or
(Unknown)

**STATE AGENCY EFFICIENCY
FUND**

Transfer In - Various State Agencies - 25% of reverted unspent General Revenue monies

\$0

\$0 or Unknown

\$0 or Unknown

Costs - Various State Agencies - expenditures for the sole purpose of incentivizing state agency General Revenue efficiency including salary adjustments

\$0

\$0 or
(Unknown)

\$0 or
(Unknown)

**ESTIMATED NET EFFECT ON
STATE AGENCY EFFICIENCY
FUND**

\$0

\$0 or
Unknown

\$0 or
Unknown

FISCAL IMPACT - Local Government

FY 2019
(10 Mo.)

FY 2020

FY 2021

\$0

\$0

\$0

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal creates the "State Agency Efficiency Fund."

The fund only shall include moneys appropriated to a state agency from general revenue and shall not include other moneys collected by a stage agency including, but not limited to, professional registration and licensing fees.

The fund can only be used to incentivize state agency efficiency.

The proposal details the process whereby a state agency certifies the amount of unspent moneys to be transferred to the fund, 75% of which is then transferred to the General Revenue Fund and 25% of which is retained in the fund. When a state agency achieves a cost savings or efficiency improvement greater than \$1 million, the amount will be returned to the agency in the form of salary increases or adjustments.

All state agencies and departments can participate in the presentation of the annual report to the State Auditor verifying cost savings and efficiency improvements during the prior fiscal year. Beginning January 1, 2020, these reports will be sent to the General Assembly along with an analysis conducted by the State Auditor concerning the overall accuracy of the reports.

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
Office of the Secretary of State
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
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
Department of Public Safety-Missouri State Highway Patrol
Office of Administration-Administrative Hearing Commission
Office of Administration-Personnel
Department of Economic Development
Missouri State Employees' Retirement System
Department of Agriculture
Department of Labor and Industrial Relations

SOURCES OF INFORMATION (continued)

Missouri Department of Conservation
Department of Revenue
Department of Transportation
Office of State Courts Administrator
MoDOT and Patrol Employees Retirement System

Ross Strobe

A handwritten signature in black ink, appearing to read "Ross Strobe", with a stylized flourish at the end.

Acting Director
April 16, 2018