

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1305H.02I  
 Bill No.: HB 471  
 Subject: State Employees; State Departments  
 Type: Original  
 Date: February 28, 2023

Bill Summary: This proposal allows state agencies to create incentive programs for employees.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	\$0	\$0 to (Could exceed \$369,086,226)	\$0 to (Could exceed \$369,086,226)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0 to (Could exceed \$369,086,226)</b>	<b>\$0 to (Could exceed \$369,086,226)</b>

\*Oversight notes the fiscal impact depends on numerous factors, including an appropriation(s) for the program, formally adopted policies by the state departments, and the number of employees meeting the targets outlined in the adopted policies. All of these considered, the fiscal impact could be substantially less than the stated amounts. As the criteria would have to be stated in writing at least one year before the retention or achievement payments are made, Oversight will not reflect a potential fiscal impact until FY 2025.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Other State Funds*	\$0	\$0 to (Could exceed \$228,823,015)	\$0 to (Could exceed \$228,823,015)
<b>Total Estimated Net Effect on <u>Other State Funds</u></b>	<b>\$0</b>	<b>\$0 to (Could exceed \$228,823,015)</b>	<b>\$0 to (Could exceed \$228,823,015)</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
Federal Funds	\$0	\$0 to (Could exceed \$148,171,669)	\$0 to (Could exceed \$148,171,669)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0 to (Could exceed \$148,171,669)</b>	<b>\$0 to (Could exceed \$148,171,669)</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §105.1750 – Personnel Incentive Program

Officials from the **Office of Administration – Office of Personnel (OA)** state if this proposal was implemented statewide, the proposal could have a potential impact of \$0 to \$746,080,910. The Office of Administration, Division of Personnel based this information on various turnover percentage rates within the executive branch from November 30, 2022 data.

The Division of Personnel assumes that, if this proposal was passed, state agencies could pay out bonuses of up to 20% once every other year. Following this assumption as well as assuming 0% turnover, the potential cost would be up to \$746,080,910.00 with total regular payroll with fringe benefits.

The potential cost using a turnover rate of 27.4% would be \$541,895,659.00 with total regular payroll with fringe benefits. The potential cost using a turnover rate of 58.6% (percentage of turnover for employees with less than two years of services) would be \$308,767,684.00 with total regular payroll with fringe benefits. Office of Administration, Division of Personnel based this impact purely on longevity requirements, assuming the max of 20% with no consideration for other written criteria that would affect eligibility.

OA assumes the cost will be split as follows

General Revenue (49.47%): \$369,086,226

Federal Funds (19.86%): \$148,171,669

Other Funds (30.67%): \$228,823,015

**Total (100%): \$746,080,910**

For fiscal note purposes, **Oversight** will use the cost estimate provided by OA to reflect the potential cost as a result of this proposal for the executive branch of government. However, Oversight assumes this legislation applies to all branches of government and will reflect the cost estimate as “could exceed” to capture potential cost to the legislative and judicial branches.

Oversight also assumes this legislation will not be mandated and therefore will reflect the fiscal impact as \$0 (the program is not utilized) to “Could exceed” the max 20% cost estimate provided by OA split between the General Revenue Fund, Federal Funds and Other Funds beginning in FY 25.

Officials from the **Department of Economic Development** state section 105.1750 creates a retention or achievement payment not to exceed 20% of base salary to be awarded on completion of the retention period and not more frequently than biennially. This may result in the need for additional Personal Service funding to cover these increases; however, it is difficult to determine

an estimated cost. They estimated 25% of the department's FTE receiving the payment and then calculated the 20% increase.

Estimated costs:

General Revenue - \$0 to \$248,009

Federal - \$0 to \$174,683

Other - \$0 to \$92,841

Total - \$0 to \$515,533

Officials from the **Department of Higher Education and Workforce Development (DHEWD)** assumes Section 105.1750 states “Personnel payments to encourage retention or exceptional employment achievement, established by formally adopted policy or contract at least one year prior to the applicable employment achievement, shall not be considered a bonus in violation of Article III, Section 39 of the Constitution of Missouri. The retention or achievement payments include, but are not limited to, payments that do not exceed twenty percent of base wages or salary, to be awarded on completion of the retention period in question and not more frequent than biennially. Payments for exceptional employment achievement shall be made according to specific, written criteria predetermined and approved by the department director in writing at least one year prior to the exceptional employment achievement.”

DHEWD is unable to estimate either the number of individuals who will receive retention or exceptional employment achievement payments. DHEWD's annual payroll at full employment is \$23,972,498, 20% of which is \$4,794,500. DHEWD estimates an impact of \$0 to \$3,995,417 in FY 2024 with \$588,491 in GR, \$3,320,322 in Federal Funds and \$86,604 in Other funds.

Officials from the **Department of Labor and Industrial Relations** assume this proposal will have a fiscal impact on their department.

Officials from the **Department of Revenue (DOR)** state this legislation would allow the Department to provide monetary incentives for employee retention and reward, not to exceed 20% of salary, and such payment would not be in violation of the Missouri Constitution. If passed, the Department would request appropriate funding for this incentive program through the appropriations process.

Officials from the **Department of Public Safety - Missouri Highway Patrol** anticipate a fiscal impact if it implemented an incentive program under the proposed legislation, to assist with recruiting, hiring, and retention. At this time, the Patrol has not researched a methodology to implement an incentive program. The most likely affected funds have been listed within this response, however, the actual impact to each fund is unknown. Factors influencing the fiscal impact would be the number of personnel granted the incentive. It is estimated the fund most affected by House Bill 471 would be the Highway Fund (0644).

Officials from the **Office of the State Public Defender** assume to provide an incentive program of a 1% salary increase per successful year of service, the annual current cost to SPD would be approximately \$1,500,000.

Officials from the **Missouri Lottery Commission** assume this proposal will cost the state \$660,650 in year 1, \$800,708 in year 2 and \$808,715 in year 3. The proposal authorizes bonuses to encourage employee retention or to award exceptional achievement, not to exceed 20% of base salary and not more frequently than every other year. The Lottery's base salary is estimated at \$7.9 million times 20% is \$1.6 million, every other year would be \$800k.

The Lottery would need additional personal services appropriation authority to implement this program. Without additional appropriation authority, they could only offer 1-2% of base salary, or approximately \$40k to \$80k per year in bonuses.

Officials from the **Missouri Office of Prosecution Services (MOPS)** assume their department would use such a provision to retain employees or encourage achievement there would be a negative fiscal impact. The amount of this negative impact cannot be accurately determined. However, it should also be noted that the negative fiscal impact might be offset by encouraging the retention of experienced employees thus saving the cost of having to hire and train new employees.

Officials from the **Department of Public Safety (Capitol Police, Alcohol & Tobacco Control, Fire Safety, Gaming Commission, Missouri National Guard, State Emergency Management Agency and Veterans Commission)**, the **Department of Social Services**, the **Office of the Governor**, the **Joint Committee on Administrative Rules**, the **Missouri Consolidated Health Care Plan**, the **Missouri Department of Conservation**, the **Missouri Ethics Commission**, the **Missouri House of Representatives**, the **Office of Administration (Budget and Planning)**, the **Office of the State Courts Administrator**, the **Office of the State Auditor**, the **Missouri Senate**, the **Office of the Secretary of State**, the **Office of the State Treasurer** and the **State Tax Commission** each assume the proposal will have no fiscal impact on their respective organizations.

**Oversight** notes that the above mentioned agencies have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

Officials from the **Department of Elementary and Secondary Education**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Public Safety – Directors Office** and the **Missouri Department of Agriculture** defer to the Office of Administration for the potential fiscal impact of this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>GENERAL REVENUE</b>			
<u>Cost – OA §105.1750 p.3 Incentive Programs</u>	<u>\$0</u>	<u>\$0 (Could exceed \$369,086,226)</u>	<u>\$0 (Could exceed \$369,086,226)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>\$0 (Could exceed \$369,086,226)</u></b>	<b><u>\$0 (Could exceed \$369,086,226)</u></b>
<b>OTHER STATE FUNDS</b>			
<u>Cost – OA §105.1750 p.3 Incentive Programs</u>	<u>\$0</u>	<u>\$0 (Could exceed \$228,823,015)</u>	<u>\$0 (Could exceed \$228,823,015)</u>
<b>ESTIMATED NET EFFECT TO OTHER STATE FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$0 (Could exceed \$228,823,015)</u></b>	<b><u>\$0 (Could exceed \$228,823,015)</u></b>
<b>FEDERAL FUNDS</b>			
<u>Cost – OA §105.1750 p.3 Incentive Programs</u>	<u>\$0</u>	<u>\$0 (Could exceed \$148,171,669)</u>	<u>\$0 (Could exceed \$148,171,669)</u>
<b>ESTIMATED NET EFFECT TO FEDERAL FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$0 (Could exceed \$148,171,669)</u></b>	<b><u>\$0 (Could exceed \$148,171,669)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

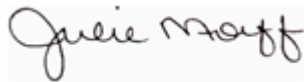
In order to encourage retention or exceptional employment achievement, this bill provides for personnel payments to be made according to specific, written criteria, predetermined and approved by the department director in writing, at least one year prior to the exceptional employment achievement. The payments authorized by the bill shall not exceed 20% of the employee's base wages or salary and are awarded upon the completion of the retention period in question and not more frequently than biennially. The payments indicated in the bill are not considered as a bonus in violation of Article III, Section 39 of the Missouri Constitution.

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

Attorney General's Office  
Department of Commerce and Insurance  
Department of Economic Development  
Department of Elementary and Secondary Education  
Department of Higher Education and Workforce Development  
Department of Health and Senior Services  
Department of Mental Health  
Department of Natural Resources  
Department of Corrections  
Department of Labor and Industrial Relations  
Department of Revenue  
Department of Public Safety  
    Office of the Director  
    Division of Alcohol and Tobacco Control  
    Capitol Police  
    Fire Safety  
    Missouri Gaming Commission  
    Missouri Highway Patrol  
    Missouri National Guard  
    State Emergency Management Agency  
    Missouri Veterans Commission  
Department of Social Services  
Office of the Governor  
Joint Committee on Public Employee Retirement

Joint Committee on Administrative Rules  
Missouri Lottery Commission  
Legislative Research  
Oversight Division  
Local Government Employees Retirement System  
Missouri Consolidated Health Care Plan  
Missouri Department of Agriculture  
Missouri Department of Conservation  
Missouri Ethics Commission  
Missouri House of Representatives  
Office of the Lieutenant Governor  
Missouri Department of Transportation  
Missouri State Employee's Retirement System  
MoDOT & Patrol Employees' Retirement System  
Missouri Office of Prosecution Services  
Office of Administration  
    Administrative Hearing Commission  
    Budget and Planning  
Facilities Management, Design and Construction  
Office of the State Courts Administrator  
Office of the State Auditor  
Missouri Senate  
Office of the Secretary of State  
Office of the State Public Defender  
Office of the State Treasurer  
Public Schools and Education Employee Retirement Systems  
State Tax Commission



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