

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1305H.03C
 Bill No.: HCS for HB 471
 Subject: State Employees; State Departments
 Type: Original
 Date: March 21, 2023

Bill Summary: Allows state agencies to create incentive programs for employees.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
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)
Total Estimated Net Effect on General Revenue	\$0	\$0 to (Could exceed \$369,086,226)	\$0 to (Could exceed \$369,086,226)

*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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
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)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 to (Could exceed \$228,823,015)	\$0 to (Could exceed \$228,823,015)

Numbers within parentheses: () indicate costs or losses.

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

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

- 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.

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

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

Oversight assumes this version of the proposal changes the potential bonuses to annually vs biennially in the 01 version. 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 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 annually. 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.

In response to a previous version, officials from the **Department of Labor and Industrial Relations** assumed 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 this proposal will cost the state \$1.5 million in year 1, \$1.8 million in year 2 and \$1.8 million 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 annually. The Lottery's base salary \$8.8 million after the Governor's 8.7% statewide pay increase, times 20% is \$1.8 million.

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 **Attorney General's Office**, the **Department of Economic Development**, the **Department of Public Safety (Alcohol & Tobacco Control, Fire Safety, Gaming Commission, Missouri National Guard and Veterans Commission)**, the **Missouri Ethics Commission**, the **Missouri Department of Transportation**, the **Joint Committee on Administrative Rules**, the **Missouri Consolidated Health Care Plan**, the **Missouri the Missouri House of Representatives**, the **Office of the State Courts Administrator**, the **Office of the Lieutenant Governor**, the **Office of the State Auditor**, the **Missouri Office of Prosecution Services** the **Missouri Senate**, the **Office of the Secretary of State** the **State Tax Commission** 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 – Capitol Police**, **Department of Social Services**, the **Office of the Governor**, **Department of Conservation**, **Office of Administration (Budget and Planning)**, the assumed the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

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 Commerce and Insurance**, 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**, **State Emergency Management Agency** and the **Missouri Department of Agriculture** defer to the Office of Administration for the potential fiscal impact of this proposal.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

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

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

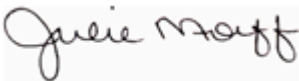
In order to encourage retention or exceptional employment achievement, this bill provides for personnel payments to be made according to specific, written criteria, predetermined and approved by the department director in writing, at least one year prior to the exceptional employment achievement. The 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 annually. 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
 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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March 21, 2023



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