

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3037H.02I  
 Bill No.: HB 1648  
 Subject: Teachers; State Employees  
 Type: Original  
 Date: January 8, 2024

Bill Summary: This proposal creates incentive programs for public employees.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	\$0	\$0 to (Could exceed \$429,070,519)	\$0 to (Could exceed \$429,070,519)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0 to (Could exceed \$429,070,519)</b>	<b>\$0 to (Could exceed \$429,070,519)</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 2026.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Other State Funds*	\$0	\$0 to (Could exceed \$263,650,949)	\$0 to (Could exceed \$263,650,949)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0 to (Could exceed \$263,650,949)</b>	<b>\$0 to (Could exceed \$263,650,949)</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Federal Funds*	\$0	\$0 to (Could exceed \$171,991,387)	\$0 to (Could exceed \$171,991,387)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0 to (Could exceed \$171,991,387)</b>	<b>\$0 to (Could exceed \$171,991,387)</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</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 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0 to (Unknown, Could exceed \$250,000)</b>	<b>\$0 to (Unknown, Could exceed \$250,000)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §105.1750 – Personnel Incentive Program

Officials from the **Office of Administration – Office of Personnel, Division of Personnel (OA)** state if this proposal was implemented statewide, the proposal could have a potential impact of \$0 to \$864,712,855.

The Office of Administration, Division of Personnel based this information on various turnover percentage rates within the executive branch from November 30, 2023, 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 \$864,712,855 with total regular payroll with fringe benefits. The potential cost using a turnover rate of 25.3% would be \$645,211,802.00 with a total regular payroll with fringe benefits. The potential cost using a turnover rate of 56.9% (percentage of turnover for employees with less than two years of services) would be \$372,705,330.00 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 (49.62%): \$429,070,519

Federal Funds (19.89%): \$171,991,387

Other Funds (30.49%): \$263,650,949

**Total (100%): \$864,712,855**

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/appropriated) 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 ‘26.

Oversight notes this legislation also allows school districts to adopt written policies, to be approved by their school boards, allowing exceptional employment achievement payments in

contracts between school districts and individual district employees. It also includes differentiated placement of teachers on the salary schedule to increase compensation for teachers in hard-to-staff subject areas or schools.

Oversight did not receive any fiscal impact responses from school districts; therefore, Oversight will assume a fiscal impact of \$0 (the program is not utilized) to cost of Unknown to local school districts.

Officials from the **Department of Higher Education and Workforce Development (DHEWD)** assume 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 2025 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 (DOLRI)** assume the impact could be significant, depending on the criteria to be used. Because the criteria must be in place for one year prior to award, the fiscal impact will likely will not be seen until 2025. As there is no funding source identified in the bill, it is assumed payments would be from existing appropriations if funds are available or allowable. However, DOLIR does note that Federal Grants disallow incentives or bonuses meaning additional appropriation from General Revenue for current Federal payroll would be required for the incentive program. Section 105.1750.2 notes public employees holding positions of employment for which salary is set by statute would include the Division of Worker's Compensations Administrative Law Judges and Chief Administrative Law Judges would be disallowed. DOLIR calculates that 20% of current PS to be \$14,603,645 based on FY25 PS appropriations (plus NDIs) and assume a 2% increase from COLA each year. The federal portion that would need to be covered by General Revenue and is calculated as \$12,778,588 for the 1st year.

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 (SPD)** assume the SPD will participate in any exceptional performance program authorized by the legislature, but the fiscal impact of that participation is unknown at this time.

Officials from the **Missouri Lottery Commission** assume 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 of \$8.8 million times 20% is \$1.8 million.

The Lottery would need additional personal services appropriation authority to implement this program. Without additional appropriation authority, the Lottery 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)** state if MOPS chose to participate in such an incentive program, there would be a negative fiscal impact. The negative impact is compounded by the fact that the majority of funding from MOPS comes from limited revenue from the surcharge and from grants. It would be a challenge to find funding to implement an incentive program. The amount of this negative impact cannot be accurately determined.

Officials from the **Attorney General's Office, the Office of Administration - Administrative Hearing Commission, the Department of Economic Development, the Department of Elementary and Secondary Education, the Department of Revenue, the Department of Public Safety (Division of Alcohol and Tobacco Control, Capitol Police, Fire Safety, Missouri Gaming Commission, Missouri Veterans Commission, State Emergency Management Agency and the Missouri National Guard), the Missouri Department of Conservation, the Missouri Ethics Commission, the Missouri Department of Transportation, the MoDOT & Patrol Employees' Retirement System, the Office of Administration, the Office of the State Treasurer, the University of Missouri, the Office of the State Auditor, the Missouri House of Representatives, the Joint Committee on Administrative Rules, the Joint Committee on Education, the Joint Committee on Public Employee Retirement, Legislative Research, the Oversight Division, the Missouri Senate, the Missouri Consolidated Health Care Plan, the Office of the State Courts Administrator, and the State Tax Commission** each assume 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.

Officials from the **Department of Commerce and Insurance**, the **Department of Higher Education and Workforce Development**, 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 Highway Patrol** and the **Missouri Department of Agriculture** each defer to the Office of Administration for the potential fiscal impact of this proposal.

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 2025 (10 Mo.)	FY 2026	FY 2027
<b>GENERAL REVENUE FUND</b>			
<u>Cost – OA §105.1750 p.3 Incentive Programs</u>	<u>\$0</u>	<u>\$0 to (Could exceed \$429,070,519)</u>	<u>\$0 to (Could exceed \$429,070,519)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>\$0 to (Could exceed \$429,070,519)</u></b>	<b><u>\$0 to (Could exceed \$429,070,519)</u></b>

<b>OTHER STATE FUNDS</b>			
<u>Cost – OA §105.1750 p.3 Incentive Programs</u>	<u>\$0</u>	<u>\$0 to (Could exceed \$263,650,949)</u>	<u>\$0 to (Could exceed \$263,650,949)</u>
<b>ESTIMATED NET EFFECT TO OTHER STATE FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$0 to (Could exceed \$263,650,949)</u></b>	<b><u>\$0 to (Could exceed \$263,650,949)</u></b>
<b>FEDERAL FUNDS</b>			
<u>Cost – OA §105.1750 p.3 Incentive Programs</u>	<u>\$0</u>	<u>\$0 to (Could exceed \$171,991,387)</u>	<u>\$0 to (Could exceed \$171,991,387)</u>
<b>ESTIMATED NET EFFECT TO FEDERAL FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$0 to (Could exceed \$171,991,387)</u></b>	<b><u>\$0 to (Could exceed \$171,991,387)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>LOCAL SCHOOL DISTRICTS</b>			
<u>Cost – Local School Districts §105.1750 p.3 Incentive Programs</u>	<u>\$0</u>	<u>\$0 to (Unknown, Could exceed \$250,000)</u>	<u>\$0 to (Unknown, Could exceed \$250,000)</u>
<b>ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS</b>	<b><u>\$0</u></b>	<b><u>\$0 to (Unknown, Could exceed \$250,000)</u></b>	<b><u>\$0 to (Unknown, Could exceed \$250,000)</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 annually. The payments indicated in the bill are not considered a bonus in violation of Article III, Section 39 of the Missouri Constitution. These provisions shall not apply to any public employee whose salary is set by statute.

This bill allows school districts to adopt written policies describing criteria, to be approved by their school boards, allowing exceptional employment achievement payments in contracts between school districts and individual district employees.

This bill also allows the board of education of a school district to include differentiated placement of teachers on the salary schedule to increase compensation for teachers in hard-to-staff subject areas or hard-to-staff schools, as defined in the bill. Each school district that includes differentiated placement of teachers on the district salary schedule shall submit an annual report to the Department of Elementary and Secondary Education. The contents of the report are specified in the bill.

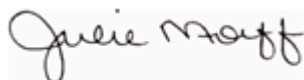
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

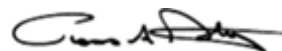
Attorney General's Office  
Department of Commerce and Insurance  
Department of Economic Development  
Department of Elementary and Secondary Education  
Department of Higher Education and Workforce Development  
Department of Health and Senior Services  
Department of Mental Health  
Department of 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  
Missouri Department of Transportation  
Missouri State Employee's Retirement System  
MoDOT & Patrol Employees' Retirement System  
Missouri Office of Prosecution Services  
Office of Administration  
Office of Administration - Administrative Hearing Commission  
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



Julie Morff  
Director  
January 8, 2024



Ross Strobe  
Assistant Director  
January 8, 2024