

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0303-01
Bill No.: SB 11
Subject: Appropriations; State Employees; Salaries
Type: Original
Date: January 21, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	\$0	(\$29,600,000)	(\$30,300,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$29,600,000)	(\$30,300,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Other	\$0	(\$6,600,000)	(\$6,800,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(\$6,600,000)	(\$6,800,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Various	\$0	(\$9,600,000)	(\$9,800,000)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	(\$9,600,000)	(\$9,800,000)

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTIONS

Officials from the **Office of the Secretary of State (SOS)** assume this proposal would automatically adjust compensation for certain state employees according to the Consumer Price Index level. The Office of Administration would promulgate rules to implement this legislation. Those rules would be published in both the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the Office of Administration could require as many as 8 pages in the Code of State Regulations. The estimated cost of a page in the Code of State Regulations is \$27. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. The estimated cost of a page in the Missouri Register is \$23. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn. $((12 \times \$23) + \$8 \times \$27) = \492

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

ASSUMPTIONS (continued)

Officials from the **Office of Administration, Division of Personnel** (OA) assume this proposal would tie annual employee pay increases to increases in the Consumer Price Index as determined by the U.S. Department of Labor, Bureau of Labor Statistics, for the Midwest Region of the United States which contains the State of Missouri. Budgeted Personnel Service expenditures for FY 2005 are \$2.22 Billion and benefits based on salaries total approximately 20.71% of salaries. Thus, budgeted expenditures for personal services and benefits for FY 2005 are approximately \$2.68 Billion. For every one percent increase in the Consumer Price Index, the state would incur the following costs: \$12.7 million GR; \$4.4 million Federal funds and \$9.7 million Other funds, for a total of \$26.8 million dollars.

Officials from the **Department of Conservation** assume the impact of this proposal on the Conservation Commission fund could be approximately \$1.7 million the first year.

Officials from the **Department of Labor and Industrial Relations** (DOL) assume the proposal would change the method of calculating salary increases for state employees by tying the salary increase to changes in the Consumer Price Index.

DOL calculated the following table using the percentage change in the Consumer Price Index - Urban Wage Earners & Clerical from 2002 annual to the 2003 annual. DOL used an annual payroll of \$37,432,852 (FY 2004 actual less Governor's Council on Disability which was transferred to OA beginning FY 2005). The 2003 annual CPI is 173.5 and the 2002 annual CPI is 170.4. The change in the CPI is 3.1 which results in a 1.8192% percentage change from 2002 to 2003. This percentage was multiplied by the annual payroll amount and then allocated across DOLIR funds based on the FY 2004 PS expenditures. DOLIR calculated a first-year impact of \$828,209.

Officials from the **Department of Transportation** (MODOT) assume the proposed legislation would provide for a salary adjustment every July for all state employees. The adjustment would be based on the percentage change of the Midwest Region Consumer Price Index then rounded to the nearest multiple of one hundred dollars.

MODOT used the Mid-West Urban CPI report (not seasonally adjusted). The annual CPI for 2002 was 174.9 and the annual CPI for 2003 was 178.3, for a 1.9% increase. The payroll estimate for FY06 is \$268,167,583. Therefore, the estimated increase in payroll for FY07 would be \$5,095,200. The estimated increase in benefits using a rate of 38.14% (Social Security 7.65% + Retirement & Long Term Disability 30.49%) for FY07 would be \$1,943,309 for a total increase of salaries and benefits for FY06 of \$7,038,509.

ASSUMPTIONS (continued)

Officials from **Missouri Consolidated Health Care Plan** (MCHCP) assume this proposal would create a fiscal impact from \$45,771 to \$106,799 based on average increases in the Consumer Price Index from 2000 to 2004.

Officials from the **Office of Administration, Division of Budget and Planning**, assume the proposal would impact the Office of Administration, and deferred to the Division of Personnel for an estimate of fiscal impact.

Oversight estimates the fiscal impact of this proposal on the following assumptions:

- A. MOSERS June 30, 2004 active membership of 47,886 and average salary of \$29,250. Salary cost of $(47,886 \times \$29,250) = \1.401 billion
- B. MPERS June 30, 2004 active membership of 8,884 and average salary of \$36,788. Salary cost of $(8,884 \times \$36,788) = \327 million
- C. Total FY 2004 employee salaries of \$1.728 billion
No, or minimal increases in total salaries for FY 2005 and FY 2006.
- D. The Consumer Price Index - All Urban Consumers, Midwest Region would be the applicable measure for computing salary increases. That index has increased by 2.1%, 1.6%, and 3.0% for the years ended October 31, 2002, 2003, and 2004, respectively, for an average annual increase of 2.2%.
- E. Benefits based on salaries of 20.71% of salaries.
- F. Proposal would be effective in August 2005 and would first impact the FY 2007 budget.
- G. Estimated FY 2007 cost of $(\$1.728 \text{ billion} \times 1.2071 \times .022) = \45.8 million.
- H. Cost distributed among state funds as follows -

General Revenue	64.61%
Federal Funds	20.90%
Other State Funds	14.49%

ASSUMPTIONS (continued)

	First Year (FY 2007)	Second Year (FY 2008)
General Revenue	\$29,600,000	\$30,300,000
Other State Funds	\$6,600,000	\$6,800,000
Federal Funds	<u>\$9,600,000</u>	<u>\$9,800,000</u>
Total cost	<u>\$45,800,000</u>	<u>\$46,900,000</u>

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
Cost - Salaries and Benefits	<u>\$0</u>	<u>(\$29,600,000)</u>	<u>(\$30,300,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$29,600,000)</u>	<u>(\$30,300,000)</u>
OTHER STATE FUNDS			
Cost - Salaries and Benefits	<u>\$0</u>	<u>(\$6,600,000)</u>	<u>(\$6,800,000)</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>\$0</u>	<u>(\$6,600,000)</u>	<u>(\$6,800,000)</u>
FEDERAL FUNDS			
Cost - Salaries and Benefits	<u>\$0</u>	<u>(\$9,600,000)</u>	<u>(\$9,800,000)</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$0</u>	<u>(\$9,600,000)</u>	<u>(\$9,800,000)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2006 (10 Mo.)	 FY 2007	 FY 2008
	<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.

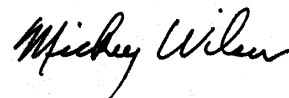
DESCRIPTION

This proposal would automatically adjust certain state employees' compensation on July first of each year. The adjustment would be an amount, rounded to the nearest multiple of one hundred dollars, equal to the percentage of such annual rate which corresponds to the most recent percentage change in the Consumer Price Index for the region Missouri is included in as set by the United States Department of Labor, Bureau of Labor Statistics. Such salary adjustment would become effective and necessary appropriations made, unless disapproved by concurrent resolution adopted by the general assembly.

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

Office of the Secretary of State
Office of Administration
Department of Conservation
Department of Labor and Industrial Relations
Department of Transportation
Missouri Consolidated Health Care Plan



Mickey Wilson, CPA
Director
January 21, 2005