COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4855S.02T
Bill No.: Truly Agreed To and Finally Passed SCS for HB 2090
Subject: Office of Administration; State Employees
Type: Original
Date: June 3, 2022

Bill Summary: This proposal modifies provisions relating to the Payment of funds from the state treasury.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*/**	($501,228,511) to (could exceed $501,472,151)	$5,489	$5,489
Total Estimated Net Effect on General Revenue	**($501,228,511) to (could exceed $501,472,151)**	**$5,489**	**$5,489**

*FY 2023 includes ($143,640) which reflects programming to include the change into the current SAM II accounting system. ITSD notes that there is a current effort underway to replace the SAM II system, with two week payrolls likely to be included in the new system. If the proposed changes can be delayed until the replacement system is implemented, there would be no fiscal impact for the payroll change provisions of this fiscal note. Oversight notes this change from semimonthly installments to biweekly installments is “as designated by the Commissioner of Administration.” Therefore, Oversight has ranged the fiscal impact from $0 (such designation change is not implemented within the current SAM II system) to the estimated ITSD costs to make the change immediately.
** (§1 (SA1) - Includes $500 million tax credit and the cost to process the refunds per DOR’s estimate (currently in Perfected HCS for HB 3021).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Conservation Commission Fund	$0 to (Unknown, Less than $100,000)	$0	$0
Park, Soil & Waster Fund	$0 to (Unknown, Less than $100,000)	$0	$0
School District Trust Fund	$0 to (Unknown, Less than $100,000)	$0	$0
Total Estimated Net Effect on Other State Funds	**$0 to (Unknown, Less than $100,000)**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Local Government	**$0 to (Unknown, Less than $100,000)**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 33.100 – Once every two week Pay Periods

Officials from the **Office of Administration** state if the bill passed, it would be difficult to implement currently in SAM II-HR due to programming of the payroll system. However, implementing a bi-weekly pay schedule in the future ERP is more feasible. It is expected to be in place in 2024-2025. If the bill was to pass with "bi-weekly" as an added possibility for frequency for State employees to be paid, there would not be a cost in terms of actual payroll. The salaries would be calculated by dividing by 26 pay periods versus 24 pay periods.

Oversight notes in a similar proposal from last year (HB 407), officials from the **Office of Administration - Information Technology Services Division (ITSD)** assumed the proposed legislation would require state employees to be paid every 14 days. Currently, employees are paid on the 15th of the month and the last day of the month, with adjustment for weekend and holidays. The change would require modifications to SAM II. This effort would be a major undertaking in the SAM II system requiring changes to many projects and systems. ITSD would likely see impacts to data and reports along with other errors occurring after implementation until all the changes mature because of the complex program interaction and ability to test all possible scenarios that could occur.

ITSD estimated a cost of $143,640 to the General Revenue Fund. The estimate assumes work for project management coding and testing the changes. The business staff would need to be heavily involved in the analysis and requirements gathering as well as the testing. ITSD has not accounted for Business staff hours in this estimate.

Oversight notes ITSD assumes that every new IT project/system will be bid out because all their resources are at full capacity. For this bill, ITSD assumes they will contract out project management coding and testing the changes needed for SAM II. ITSD estimated the project would take 1,512 hours at a contract rate of $95 for a total cost of $143,640. Oversight notes that an average salary for a current IT Specialist within ITSD is approximately $54,641, which totals roughly $85,000 per year when fringe benefits are added. Assuming that all ITSD resources are at full capacity, Oversight assumes ITSD may (instead of contracting out the programming) hire an additional IT Specialist to perform the work required from this bill; however, for fiscal note purposes, Oversight will reflect the ITSD estimated cost of $143,640 in FY 2023. However, as the bill states, the choice between biweekly, semimonthly, or monthly installments is "as designated by the Commissioner of Administration." Therefore, Oversight will range the cost from $0 (OA Commissioner decides not to shift to biweekly pay installments) or a cost to include upgrading the current SAM II system.

ITSD notes that there is a current effort underway to replace the SAM II system, with two week payrolls likely to be included in the new system. If the proposed changes can be delayed until the replacement system is implemented, (estimated to be 3-5 years) there would be no fiscal impact for this fiscal note.

<u>Sections 36.020 - 288.220 – Personnel Advisory Board</u>

Officials from the **Office of Administration (OA)** state the non-State employee members of the Personnel Advisory Board (PAB) received per diem payments of $6,120, $5,040, and $5,308 in FY2019, FY2020, and FY2021, respectively. The elimination of the PAB will eliminate these payments and therefore have a positive fiscal impact of $5,489 (the average of those three figures) annually.

Additionally, while this proposal does not eliminate any FTE, this legislation would obviate the need for numerous team members to spend hours preparing for and attending monthly PAB meetings.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect an annual savings to the General Revenue Fund of $5,489.

<u>Section 136.370 – Sales Tax Refunds</u>

Officials from the **Department of Revenue** state this provision would allow the Department to issue a refund to a taxpayer if a court of law finds that a Department employee provided incorrect information to the taxpayer. The Department estimates the fiscal impact to be less than $100,000.

Officials from the **Office of Administration - Budget and Planning (B&P)** state **t**his section would allow a taxpayer to receive a refund for sales and use tax paid after an audit under certain circumstances.

A taxpayer may be granted a refund if the Administrative Hearing Commission (AHC) or a court of competent jurisdiction determines that negligence and/or incorrect information provided by an employee of DOR resulted in a business failing to collect and remit the sales tax when it was originally due, and that business was subsequently audited by DOR.

B&P is unable to estimate a potential impact from this provision, therefore, B&P defers to DOR for the administration and fiscal impact resulting from this language. This provision may impact TSR and the calculation under Article X, Section 18(e).

Oversight assumes section 136.370 allows for a refund to taxpayers if certain negligence or incorrect information has occurred. Oversight will range the fiscal impact of $0 (no refunds are issued) to an unknown, less than $100,000 cost to General Revenue Fund, Conservation Commission Fund, Park & Soil Fund, School District Trust Fund and Local Governments. Oversight assumes the taxpayer has to file for a refund by April 15, 2023, and therefore will only reflect the fiscal impact range in FY 2023.

<u>Section 1 – Non-refundable Tax Credit for Tax Year 2021</u>

Officials from the **Department of Revenue** state this provision would give an automatic nonrefundable tax credit to qualified taxpayers for their 2021 tax year tax return. A qualified taxpayer is one who is subject to state income tax, has a Missouri state tax liability and cannot be claimed as a dependent on another person's return and is not delinquent on child support. Additionally, in order to qualify a taxpayer must have a Missouri adjusted gross income of less than $150,000 for an individual or less than $300,000 for those that file married filing combined. This is a one-time credit that has a $500 million cap, is not allowed to be carried forward and cannot be sold, transferred or assigned.

This will result in a one-time loss to general revenue of $500 million.

The amount of the tax credit a qualified taxpayer can receive is an amount equal or less than their tax liability up to $500 per individual or $1,000 for each married filing combined return. This provision requires that if the amount claimed by all qualified taxpayers exceed the amount of the cap, then the Department is to apportion the credit to all qualified taxpayers.

This provision allows all 2021 tax returns postmarked by October 17, 2022 to potentially be eligible for the tax credit. Since this credit has a cap and is allowed to be apportioned, the Department would not be able to determine the credit amount until after all the 2021 tax returns that were postmarked prior to October 17, 2022 were received. This provision requires the Department to add the tax credit to taxpayer's accounts without the taxpayer being required to submit additional paperwork. This would be a one-time adjustment to taxpayer's accounts.

It should be noted that since this is a nonrefundable tax credit, the Department would not mail a check to those qualified taxpayers that currently have an outstanding tax liability balance with the Department. Those taxpayers would receive their credit as a downward adjustment of their outstanding balance.

The Department assumes that starting November 1, 2022, the apportionment process would begin. The Department is working to determine how best and most cost effective to handle the apportionment of the credit. The Department is weighing the options of the computer being programmed to handle the majority of the work or whether staff members will have to do the work manually. They estimate that if done electronically then this could cost as much as $200,000 for the computer upgrades. If done manually, it may be able to be done with existing staff but take a little longer to issue the credits.

Each year the Department processes approximately 3,200,000 individual income tax returns. Over the last two tax years (2019 & 2020) 75% of the individual income tax filers that are eligible for a refund (1,375,000) have received a refund check by direct deposit. Another 450,000 receive their refund by check and the remaining 1,375,000 owed the state money. DOR assumes that it could direct deposit into the accounts already receiving direct deposits. For those that currently receive a paper check or owe the state money (1,825,000) don't have direct deposit information on file DOR would be required under this proposal to mail them a refund check.

In order to mail the checks to those without direct deposit information, the Department notes that the checks would printed by the state data center, and there would be costs for envelopes and postage. Postage rates are set to increase July 1, 2022 and again on January 1, 2023. They estimate that the total piece cost is $0.5082. That includes the increased postage rate in July of $0.4910 and the envelope cost as of 8/16/2022 (when it is expected to increase) of $0.0172. The estimated mailing cost for the checks is $930,000. The state data center expects the check printing costs are $0.057 per piece for an estimate of $104,000 for the 1,825,000 checks.

The Department notes that would it take 2 team members running the mail machine 258 hours to get out the 1,825,000 checks. Given the Department only has one machine and other statutorily required mailings go out each month, it could take up to eight weeks to process all the checks, without overtime being paid.

It should be noted that the Department's existing FY 2022 appropriation authority does not currently include enough appropriation authority to cover the Department's administrative costs of this proposal or the tax check amounts. Therefore, DOR will likely need additional supplemental appropriation authority.

Oversight will reflect the $500 million in revenue decrease to the general revenue, programming costs ($200,000) and mailing/postage costs ($1,034,000) in the fiscal note.

Officials from the **Office and Administration – Budget and Planning (B&P)** assume the proposal would create a non-refundable tax credit for tax year 2021. A qualified taxpayer must be an individual who filed an individual income tax return for tax year 2021 by October 17, 2022. Such individual must have a Missouri income tax liability, cannot be claimed as a dependent, may not be an estate or trust, is not delinquent on child support, and is a Missouri resident.

For tax year 2021, qualifying individuals may receive a tax credit of $500 for an individual or $1,000 for a married filing combined couple. The tax credit is non-refundable, cannot be transferred or sold, and cannot be carried forward. B&P notes that because the tax credit is non-refundable and cannot be carried forward, the amount of an individual's tax credit will be limited to their state income tax liability.

The total amount of tax credits that may be authorized is $500 million. In the event that total tax credits exceeds $500 million, DOR must apportion all tax credits by the smallest uniform percentage such that total redemptions do not exceed the $500 million cap.

This section would limit the non-refundable tax credit to individual with Missouri Adjusted Gross Income (MAGI) of $150,000 or $300,000 for married filing combined individuals.

Using 2019 tax year data, the most current complete year, there were 1,579,708 individuals who filed as single, 384,754 individual who filed as head of household, and 1,248,788 married filing combined returns. Accounting for income tax liability, B&P estimates that total credits claimed for tax year 2019 would have been $1,221,976,536. Therefore, in order to remain under the $500 million redemption cap, B&P estimates that the tax credits would have had to been apportioned to 40.9%. Using the above information, B&P estimates that the maximum tax credit for an individual would have been $204.50 and the maximum tax credit for a married couple would have been $409.00 for tax year 2019.

B&P notes that the number of filers for tax year 2021 and an individual's tax liability may be significantly different from the number and liability for tax year 2019. Therefore, the maximum credit may also be significantly different.

This provision would also create the "Tax Credit Offset Fund" subject to appropriation by the General Assembly. The fund shall only be used to issue tax refunds created under this provision. At the end of FY23, any money left in the fund shall revert to the credit of General Revenue.

B&P assumes that all tax credits under this provision will be paid during FY23. Therefore, B&P estimates that this provision will reduce TSR by $500 million in FY23. This provision will not impact TSR beyond FY23.

Section 2 – Mandatory COVID 19 Vaccine

Officials from the **Office of Administration - Budget and Planning (B&P)** state this section would prevent any state working from being mandated to receive a COVID-19 vaccine unless they work in a hospital or long-term care facility. This provision is not expected to impact TSR or the calculation under Article X, Section 18(e).

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for Section 1.

Bill as a whole:

Officials from the **Attorney General's Office**, the **Department of Commerce and Insurance,** the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education and Workforce Development**, the

Department of Natural Resources, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Public Safety** (**Office of the Director**, **Capitol Police**, **Alcohol & Tobacco Control**, **Fire Safety**, **Gaming Commission**, **Missouri Highway Patrol**, **Missouri National Guard**, **State Emergency Management Agency** and **Veterans Commission**), the **Department of Social Services**, the **Office of the Governor**, the **Joint Committee on Public Employee Retirement**, the **Missouri Lottery Commission**, the **Missouri Consolidated Health Care Plan**, the **Department of Agriculture**, the **Missouri Department of Conservation**, the **Missouri Ethics Commission**, the **Missouri House of Representatives**, the **Department of Transportation**, the **Office of Prosecution Services**, the **Office of Administration** (**Administrative Hearing Commission)**, the **Office of the State Courts Administrator**, the **Office of the State Auditor**, the **Missouri Senate**, the **Office of the State Public Defender**, the **Office of the State Treasurer** and the **State Tax Commission** each assume the proposal will have no fiscal impact on their respective organizations for this proposal.

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 those organizations.

Officials from the **Department of Health and Senior Services** and the **Department of Mental Health** defer to the Office of Administration for the potential fiscal impact of this proposal.

<u>Rule Promulgation</u>

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.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
Cost Avoidance – OA (p. 4) Elimination of the Personnel Advisory Board §§36.020 - 288.220	$5,489	$5,489	$5,489
Cost - OA – ITSD §33.100 (p. 3) Coding to move to payroll once every two weeks	$0 or ($143,640)	$0	$0
Cost – B&P, DOR – non-refundable tax credit (§1) p. 5-7	(Up to $500,000,000)	$0	$0
Cost – DOR (§1) p. 5-7			
Programming	($200,000)	$0	$0
Mailing Costs	($1,034,000)	$0	$0
Total Costs – DOR	($1,234,000)	$0	$0
Cost –§136.370 p. 4-5 Sales Tax Refund	$0 to (Unknown, Less than $100,000)	$0	$0
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($501,228,511) to (could exceed $501,472,151)**	**$5,489**	**$5,489**
CONSERVATION COMMISSION FUND			
Cost – DOR §136.370 p. 4-5 Sales Tax Refund	$0 to (Unknown, Less than $100,000)	$0	$0

ESTIMATED NET EFFECT TO THE CONSERVATION COMMISSION FUND	**$0 to (Unknown, Less than $100,000)**	**$0**	**$0**
PARK, SOIL & WATER SALES TAX FUND			
Cost – DOR §136.370 p. 4-5 Sales Tax Refund	$0 to (Unknown, Less than $100,000)	$0	$0
ESTIMATED NET EFFECT TO PARK, SOIL & WATER SALES TAX FUND	**$0 to (Unknown, Less than $100,000)**	**$0**	**$0**
SCHOOL DISTRICT TRUST FUND			
Cost – DOR §136.370 p. 4-5 Sales Tax Refund	$0 to (Unknown, Less than $100,000)	$0	$0
ESTIMATED NET EFFECT TO SCHOOL DISTRICT TRUST FUND	**$0 to (Unknown, Less than $100,000)**	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
Cost – DOR §136.370 p. 4-5 Sales Tax Refund	$0 to (Unknown, Less than $100,000)	$0	$0
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**$0 to (Unknown, Less than $100,000)**	**$0**	**$0**

FISCAL IMPACT – Small Business

Certain small businesses could receive a sales tax refund as a result of this proposal (SA 2).

FISCAL DESCRIPTION

This bill modifies provisions relating to the payment of funds from the state treasury.

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

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 Public Safety
Department of Social Services
Office of the Governor
Joint Committee on Public Employee Retirement
Joint Committee on Administrative Rules
Missouri Lottery Commission

KC:LR:OD

Legislative Research
Oversight Division
Missouri Department of Agriculture
Missouri Department of Conservation
Missouri Ethics Commission
Missouri House of Representatives
Office of the Lieutenant Governor
Missouri Office of Prosecution Services
Office of Administration
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
State Tax Commission

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