# LEGISLATIVE BUDGET BOARD
## Austin, Texas

## FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

**April 20, 2005**

**TO:** Honorable Jim Pitts, Chair, House Committee on Appropriations

**FROM:** John S. O'Brien, Deputy Director, Legislative Budget Board

**IN RE:** **HB3540** by Pitts (Relating to certain fiscal matters affecting governmental entities.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3540, As Introduced: a positive impact of $29,618,090 through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

The bill includes various provisions that would allow for the reduction of appropriations, consolidate certain activities by agencies in order to save funds, and grants authority to pursue funds recovery and establish fees.

### General Revenue-Related Funds, Five-Year Impact:

| Fiscal Year | Probable Net Positive/(Negative) Impact to General Revenue Related Funds |
|---|---|
| 2006 | $9,607,390 |
| 2007 | $20,010,700 |
| 2008 | $14,594,475 |
| 2009 | $15,934,094 |
| 2010 | $17,097,652 |

### All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/ (Cost) from *GENERAL REVENUE FUND* 1 | Probable Savings/ (Cost) from *ALL GR DEDICATED ACCOUNTS* 994 | Probable Savings/ (Cost) from *FEDERAL FUNDS* 555 | Probable Savings/ (Cost) from *ALL OTHER FUNDS* 997 |
|---|---|---|---|---|
| 2006 | $9,607,390 | $1,011,304 | $3,371,013 | $0 |
| 2007 | $20,010,700 | $1,995,863 | $3,652,878 | $3,000,000 |
| 2008 | $14,594,475 | $1,499,418 | $3,998,061 | $1,000,000 |
| 2009 | $15,934,094 | $1,640,431 | $4,467,653 | $1,000,000 |
| 2010 | $17,097,652 | $1,762,899 | $4,876,332 | $1,000,000 |

| Fiscal Year | Probable Savings/ (Cost) from *STATE HIGHWAY FUND* 6 | Probable Revenue Gain/(Loss) from *BENEFIT RELATED FUNDS* 998 |
|---|---|---|
| 2006 | $2,781,086 | $84,276 |
| 2007 | $3,013,623 | $91,322 |
| 2008 | $3,298,400 | $99,952 |
| 2009 | $3,686,184 | $111,703 |
| 2010 | $4,022,974 | $121,908 |

## Fiscal Analysis

**Sections 3, 4, 5 and 6** of the bill would implement the Legislative Budget Board's (LBB) Staff Performance Report, "Offer an Incentive to Employees Who Opt Out of the State Employee Health Insurance Program."

**Sections 3, 4, and 5** of the bill would modify the process an employee or annuitant would use to waive participation in the Employees Retirement System (ERS) health benefit plan.  The bill would require the ERS board of trustees (board) to offer a TRICARE supplemental health coverage as an optional coverage.  The bill authorizes the board to allow an incentive payment to an employee who elects to opt out of the state's health coverage.  The amount of the incentive payment is to be set in the General Appropriations Act.  The incentive may be used by the employee only to pay for optional coverage provided under the ERS group benefits plan, including the TRICARE supplemental health coverage.

**Section 6** of the bill authorizes a reduction in the state contribution for an employee or annuitant who waives participation in the state's health plan.  The state is authorized to appropriate the amount specified in the General Appropriations Act for the incentive payment instead of the amount of the state contribution for "member-only" health coverage.

**Sections 7, 8, and 9** of the bill would implement the LBB Staff Performance Report "Change Policies Governing Return to Work Retirees."  Section 7 of the bill would prohibit a state retiree from receiving longevity pay, and Section 8 of the bill would make a state retiree ineligible to receive benefit replacement pay.  Section 9 of the bill would reduce the amount of vacation hours a state retiree who returns to work would accrue each month.

**Section 10** of the bill would implement the LBB Staff Performance Report, "Recover Certain State Agency Overpayments to Vendors."  The bill would require agencies with total expenditures exceeding $100 million in a biennium to participate in recovery audits on expenditures to third parties.  The CPA may exempt some agencies by rule

Article IX, Section 8.03 of the current version of the General Appropriations Bill as passed by the House and Senate directs the Comptroller to deposit 50 percent of recovered General Revenue Funds, General Revenue-Dedicated Funds, and Other Funds in the state treasury.  The remaining 50 percent is retained by the agency for the original purpose of the appropriations and to pay the recovery audit firm.  The bill would require the Comptroller to report results to the legislature.

The bill would take effect September 1, 2005.

## Methodology

There is no significant fiscal impact to the state from Sections 3, 4 or 5.

A 2006-07 All Funds savings of $8,378,327 (of which $5,278,346 is General Revenue Related savings) is included in Article IX of the current version of the General Appropriations Bill as passed by the House based on savings resulting from Section 6.  This section of the bill authorizes a reduction in the state contribution for an employee or annuitant who waives participation in the state's health plan.  House Committee Report, C.S.S.B. 1, Article IX, Section 13.16 provides a $60 per month state contribution for each employee or retiree who opt out of the state's health coverage.

The savings estimate assumes: the HealthSelect premium will increase each year; the employee/annuitant population is constant; and savings are reduced 20 percent for selection. It is assumed that seventy-five percent of TRICARE eligible employees/annuitants currently in the state's health plan would opt out and an additional one-half of one percent of employees and annuitant with member-only coverage would opt out. The total anticipated 2006-07 All Funds savings is $16,001,855; including General Revenue Related savings of $10,081,169. This is an additional 2006-07 All Funds savings of $7,623,528 and General Revenue Related savings of $4,802,823 above amounts assumed in the General Appropriations Bill as passed by the House.

The savings achieved by Sections 7 and 8 of the bill are assumed in Article IX of the current General Appropriations Bill as passed by the House. The bill would discontinue longevity and benefit replacement pay to return-to-work retirees. The savings assumes a growth in state retirees that return to work of 358 per year. The trend is based on the number of return-to-work retirees employed from 1999 to 2003. The increase in the number of return-to-work retirees that occurred in 2004 was not included in the trend. The base amount used to calculate the future population of return-to-work retires was 3,830; equal to the number employed in May 2004. The saving estimate also assumes that 89 percent of return-to-work retirees are eligible for benefit replacement pay and 66 percent are eligible for longevity pay. The 2006-07 All Funds savings is $19,117,600; including General Revenue Related savings of $12,044,088.

There is no significant fiscal impact to the state from Section 9.

For Section 10 it is assumed that the recovery audit firm would produce a 0.04 percent recovery rate on all expenditures. It is assumed that recoveries from fiscal years 2003 to 2005 would be collected in fiscal year 2007, but subsequent years would recover expenditures from a single prior fiscal year. As each Federal Funds program has its own rules regarding recovered expenditures, it is estimated that there would be no savings or revenue gain from Federal Funds. Per Article IX, Section 8.03 of the General Appropriations Bill passed by the House, half of recovered funds would be returned to the state treasury for each fiscal year that is audited. In fiscal year 2007, recovered funds returned to the state treasury would be for three years, thus saving $10.5 million in General Revenue Related Funds and $3.0 million in Other Funds. It is assumed that the CPA could absorb the cost of administering this program within current appropriations.

## Local Government Impact

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 529 Health and Human Services Commission

**LBB Staff:** JOB, SD, WP, DH, JI