LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 6, 2011

TO: Honorable Bill Callegari, Chair, House Committee on Government Efficiency & Reform

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

IN RE: **HB3168** by Callegari (Relating to the operation of state agencies), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3168, As Introduced: a positive impact of $199,053,768 through the biennium ending August 31, 2013.

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

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	$98,807,344
2013	$100,246,424
2014	$100,007,344
2015	$100,246,424
2016	$100,007,344

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *GR Dedicated Accounts* 994	Probable Savings/(Cost) from *Federal Funds* 555	Probable Savings/(Cost) from *Other Funds* 997
2012	$98,807,344	$12,457,594	$16,700,545	$19,224,495
2013	$100,246,424	$12,457,594	$16,700,545	$19,224,495
2014	$100,007,344	$12,457,594	$16,700,545	$19,224,495
2015	$100,246,424	$12,457,594	$16,700,545	$19,224,495
2016	$100,007,344	$12,457,594	$16,700,545	$19,224,495

Fiscal Year	Change in Number of State Employees from FY 2011
2012	4.2
2013	4.2
2014	4.2
2015	4.2
2016	4.2

Fiscal Analysis

Article 1 of the bill would eliminate longevity pay for state employees and create a structured merit pay program. The bill would require each state agency to adopt a merit pay policy and restrict appropriations for merit pay to not more than an amount equal to $200 times the number of full-time employees authorized in the General Appropriations Act. The bill provides for the distribution of merit pay within a state agency and repeals provisions related to longevity pay for state judges and justices. Article 1 provisions would apply beginning with the first full pay period on or after September 1, 2011.

Article 2 of the bill would amend statutory requirements for state agency workforce plans and require the State Auditor's Office (SAO) to expand oversight, analysis, and training related to state agency workforce planning. The bill would modify state agency human resource (HR) staffing levels and require the State Council on Competitive Government to determine the cost effectiveness of consolidating HR functions or outsourcing HR functions at small and medium size state agencies. The bill would require the governing body of a state agency to develop and enter into agreements with agency management to communicate agency goals, identify management performance targets, and establish performance accountability.

Article 3 of the bill would remove the state purchasing restriction that agencies not purchase forms, bond paper, stationery, pads, or similar paper supplies that exceed 8.5 inches by 11 inches in size or a filing cabinet designed to store completed documents exceeding that size.

Article 4 of the bill would require the Comptroller of Public Accounts (CPA) to develop a centralized statewide vehicle fleet management system, including: vehicle acquisition and maintenance; fueling operations; and inventory management. The bill would authorize the CPA to negotiate a contract with a private vendor to outsource one of more of the required functions or for related software and services.

The provisions of the bill would take effect September 1, 2011.

Methodology

The provisions contained in Article 1 of the bill are estimated to result in a savings of $149.5 million in All Funds each year, including associated retirement benefits. Under current statute, certain full-time state and higher education employees are eligible for longevity pay based on years of service. Eligible employees receive $20 a month in longevity pay once they achieve two years of service with the state and the amount increases by $20 every two years, up to a maximum of $420 a month at 42 years of state service. In fiscal year 2010, the state's longevity pay expenditure was $163.2 million in All Funds.

State agencies subject to the provisions of the bill paid an average of $9.2 million a month for longevity pay in the first half of fiscal year 2011, and the annual expenditure for state agency longevity pay for fiscal year 2011 is estimated to be $110.7 million. The bill would cap the fiscal year appropriation for merit pay each agency receives at $200 times the number of full-time employees (FTE) authorized in the General Appropriations Act (GAA). Based on FTE caps in the GAA in fiscal year 2011, state agency appropriations for merit pay would have been $31.7 million under the bill's provisions. The difference between the longevity pay estimated to be expended in fiscal year 2011 and the amount of merit pay that would have been authorized by the provisions of the bill is $79.0 million in All Funds each year.

Institutions of higher education would no longer have the authority to pay longevity pay to eligible employees; however, it is unclear if employees at institutions of higher education who receive longevity pay would become eligible for the merit pay created by the bill. This analysis assumes that institutions of higher education would not receive an appropriation for the merit pay created by the bill; therefore, the reduction in longevity pay to employees at institutions of higher education is estimated to be $52.5 million in All Funds each year.

The total reduction in pay to state employees currently receiving longevity pay would vary based on salary and years of service. The average state employee earns $39,265 per year in salary and $960 per year in longevity pay. Eliminating longevity pay would result in a 2.4 percent reduction in pay to the average employee. However, 22.1 percent of employees would experience between a 5 and 10 percent reduction in pay and 3.8 percent of employees would experience more than a 10 percent reduction in pay. Some eligible employees may receive future merit increases provided for in the bill to offset the reduction in pay. The bill's provisions may also limit agencies' authority to make merit payments already established in Government Code, Section 659.255, Merit Salary Increases; One-Time Merit Payments.

Longevity pay is paid from each agency's budget for salary and is not a separate appropriation. It is assumed that state agencies and institutions of higher education would retain the funds currently used to pay longevity pay. Longevity pay would be retroactively removed from the annuity calculation for Employee Retirement System (ERS) retirees, even though prior state and member contributions to ERS have included longevity pay as part of base pay. Active employees who are currently eligible to retire may choose to retire before the provisions of the bill take effect to avoid a reduction in their retirement annuities. This analysis assumes an increase in retirements would cause an immediate actuarial impact to the fund, estimated to be a loss of $160 million. In the long run, some of this cost could be mitigated by savings from lower retirement annuities, but such savings would not be recognized by the fund until at least the next experience study.

The provisions in Article 2 of the bill are estimated to result in a General Revenue cost of $1.0 million for the 2012–13 biennium. The State Auditor's Office (SAO) estimated it would require 4.2 additional FTEs to analyze 83 workforce plans and provide training and assistance to a portion of agencies submitting plans. The SAO also reported that expanded duties related to workforce planning could compromise the agency's auditing independence and could require the agency to hire an independent contractor to conduct the duties prescribed in the bill, at a higher cost. In accordance with Government Code 321.013, all additional duties and responsibilities prescribed by the bill would be proposed in the SAO's annual audit plan for Legislative Audit Committee approval.

On average, large state agencies employ less than one HR person for every 100 employees, therefore, this analysis assumes that increasing the HR staff from 1 for every 85 employees to 1 for every 100 employees would have no significant impact on current operations. Savings associated with changes to the state HR model would be based on the findings of the State Council on Competitive Government. The Comptroller of Public Accounts (CPA) estimates the cost of performing a one-time review of small agency human resource functions to be $2.1 million during the 2012-13 biennium. This cost estimate includes the contracting for state vehicle fleet management services described below in Article 4.

This analysis assumes there is no fiscal impact to the state from implementing the provisions contained in Article 3 of the bill.

The CPA reports that a contract with a private vendor would be necessary to fulfill the requirements of the provisions contained in Article 4 of the bill. The CPA estimates the total cost of the initial development contract and ongoing maintenance to be $2.1 million during the 2012-13 biennium, with ongoing costs of $469,000 per year in future biennia. This cost estimate includes the CCG review of human resources functions described above in Article 2.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 308 State Auditor's Office, 320 Texas Workforce Commission, 327 Employees Retirement System, 601 Department of Transportation, 771 School for the Blind and Visually Impaired, 772 School for the Deaf, 781 Higher Education Coordinating Board

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