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## FISCAL IMPACT REPORT

SPONSOR: Varela DATE TYPED: 0/12/03 HB 9/aHGUAC  
 SHORT TITLE: Public Employee Cost of Living Increase SB \_\_\_\_\_  
 ANALYST: Gonzales

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
	\$110,348.9			Recurring	GF
	\$15,394.5			Recurring	Various

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

#### Responses Received From

Commission on Higher Education (CHE)  
 State Highway and Transportation Department (SHTD)  
 State Department of Education (SDE)  
 Administrative Office of the District Attorneys (AODA)  
 State Personnel Office (SPO)  
 Department of Public Safety (DPS)

### SUMMARY

#### Synopsis of HGUAC Amendment

The amendment addresses the technical amendment noted in the original bill analysis, effectively reducing the original general fund appropriation in the bill by \$4,935.9 due to an error.

#### Technical Amendment

On lines 16 and 17, the total appropriation also needs to be changed from \$115,284.8 to \$110,348.9 to track with the amended amount listed in the Appropriation Table above.

#### Synopsis of Original Bill

House Bill 9 appropriates \$115,284.8 from the general fund and at least \$15,394.5 from various other agency funds to the Department of Finance and Administration for the purpose of provid-

ing a 4% cost-of-living salary increase to public employees. The salary increases apply to public school employees, faculty and staff at public post-secondary educational institutions, executive classified employees, executive exempt employees, legislative permanent employees, judicial and district attorney permanent employees, and justices, judges, child support officers, special commissioners and district attorneys. The bill contains language to ensure employees whose salaries are funded from non-general fund appropriations will be covered by the same salary increase provision provided in this bill.

The cost-of-living increases would be effective the first pay period after July 1, 2003.

### Significant Issues

Salary increases were not appropriated for public employees for FY03. The increase will assist all agencies and public school and higher education institutions to recruit and retain employees and help maintain equity and remain competitive with comparator markets.

The cost-of-living salary increase is important to help offset inflationary living expenses, such as the fast growing health insurance premiums and should help boost the morale of state employees. Morale of state employees seems to be low due to a lack of salary increases in the current fiscal year with an increase in health insurance which ultimately has led to a decrease in take home pay for most employees where many employees have experienced a 13% to 16% increase in health insurance premiums which are expected to increase by an additional 18% in FY04. According to SPO, "on average" it would require at least a 3.3% salary increase for the average employee to restore the amount of pay they took home prior to July 2001 due to health insurance premium increase and lack of salary increase in FY03.

### **FISCAL IMPLICATIONS**

The appropriation of \$115,284.8 from the general fund and at least \$15,394.5 from various other agency funds contained in this bill is a recurring expense to the respective funds. Any unexpended or unencumbered balances remaining at the end of fiscal year 2004 shall revert to the general fund or other designated fund.

The State Highway and Transportation Department is one agency that is non-general fund, therefore, according to SHTD operating costs and the Road Betterments Division that fund the construction and maintenance programs would be directly affected. However, this is the same effect on this agency every year salary increases have been appropriated.

### **ADMINISTRATIVE IMPLICATIONS**

Affected agency personnel staff including that of SPO and the Human Resource System Team at the Information Systems Division of the General Services Department can implement the proposed salary increase using the current Human Resource Management System.

### **CONFLICT**

This bill conflicts with the duplicate General Appropriation Acts, as introduced, (HB7 and SB2) which include a 2% merit increase effective January 2004 for all public employees as referenced above.

## TECHNICAL ISSUES

The appropriation needs to be reduced by \$4,935.9 due to a technical error in calculating the increase for district attorney employees, which equates to a 16% increase rather than 4%. Page 3, lines 4 and 5 should read \$59.3 and page 3 lines 7 and 8 should read \$1,586.0.

## OTHER SUBSTANTIVE ISSUES

The bill does not contain performance criteria for the salary increase eligibility.

The State Personnel Office notes the following issues with regard to the executive classified system:

- The current classified service salary structure (policy line) is set to represent 95% of the comparator salary market (market line). State Personnel Office Compensation staff tracks market, industry and economic trends to determine the amount the salary structure should be adjusted each fiscal year. This year's data analysis supports adjusting the salary structure by 2.8%.
- Benefit costs are expected to rise another 17.9% this year in addition to the 12.9% increase this last year resulting in lower take home pay. This increase would more than offset the reduction in take-home pay over the past two years.

Additionally, SPO proposes the following alternatives for allocating the funding provided in this bill for executive classified employees:

- Provide \$18,071.8 (General Fund) to adjust the salary structure by 2.8% in July, 2003, and provide another 2.5% actual salary increase in January, 2004. *(It is imperative that the salary structure be adjusted each year to reflect market movement.)*
  - This would include bringing approximately 150 employees who are below pay band and pay opportunity minimums to the current minimums.
  - Each employee would then have their compa-ratio restored under the new salary structure. It would cost \$12,650.3 (General Fund) to fund a 2.8% structure adjustment in July, 2003, and \$325.1 (thousand) (General Fund) would be available to bring the approximately 150 employees to minimum. The cost of these two components together would be \$12,975.4 (General Fund).
  - This would leave \$5,096.4 (General Fund) to provide an additional 2.5% actual salary increase in January, 2004.
  - Bill language should be amended to provide salary increases to those employee's who are performing at a satisfactory level or higher.
- Provide classified employees a 4% of "actual" salary increase in July, 2003 at a cost of \$16,690.4 (General Fund). Since the average compa-ratio is 91.4% it would cost less to provide a salary increase as a percentage of actual salary than a uniform increase based off of pay band or pay opportunity midpoints.

**POSSIBLE QUESTIONS**

Should the bill include criteria requiring employees to perform at a satisfactory level or higher to be eligible for the increase ?

JMG/prr/lis