

March 17, 2014

The Honorable Marc Rhoades, Chairperson
House Committee on Appropriations
Statehouse, Room 111-N
Topeka, Kansas 66612

Dear Representative Rhoades:

SUBJECT: Fiscal Note for HB 2750 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2750 is respectfully submitted to your committee.

HB 2750 relates to salaries and wages of state employees. The bill changes the classified employee pay plan for FY 2015. Those classified state employees with annual compensation of \$35,000 or less would receive a base rate pay increase of 3.0 percent. For those employees whose base compensation is more than \$35,000 per year, a pay increase would be calculated by ranking all classified state employees by salary in a smooth, ascending line compared with a smooth, ascending line of percentages commencing with 3.0 percent corresponding to \$35,000 and ending with 0.5 percent corresponding with the dollar amount of the greatest annual compensation of a classified state employee. This calculation is performed by the Director of the Budget in consultation with the Director of Legislative Research and then certified to the Secretary of Administration.

The legislation requires that the Director of the Budget prepare a budget estimate based upon the most recent payroll information for the salary increases proposed by the legislation on behalf of the executive branch of state government, and submit a copy of such estimate directly to the Director of Legislative Research. HB 2750 appropriates money to the State Finance Council for the purpose of distributing the funds to individual agencies, based on the Budget Director's certification to finance the increases.

KSA 75-5541 currently provides that no new classified employee hired after June 15, 2008, will be eligible for a longevity bonus payment. HB 2750 repeals that statute and further states that no such payment will be paid by any state agency to any employee after June 8, 2014, the start of FY 2015 for payroll purposes. This provision would bring an end to longevity bonuses paid by the legislative agencies, Regents universities and Judicial Branch.

The bill amend statutes that require increases in compensation for members of the State Civil Air Patrol, legislators, other statewide elected officials, and judges whenever rates of pay for the state's classified pay plan are increased to provide that such provisions do not apply to increases to the state's classified pay plan that occur in the fiscal year ending June 30, 2015. Finally, the bill amends the statute that sets forth the state's compensation philosophy by deleting the language that states that it is the intent of the Legislature that longevity bonus payments shall not be considered as part of base pay.

According to the Department of Administration, there were 9,277 classified employees assigned to steps on the current pay plan that are equivalent to an annual salary of \$35,000 or less, as of March 12, 2014. The estimated annual cost of a 3.0 percent increase for these employees is approximately \$7.85 million excluding benefits. Division of the Budget estimates the benefit costs on that salary increase to be approximately \$1.7 million. Of the total cost of \$9.5 million, \$3.7 million would be estimated as the State General Fund cost.

There were 8,282 classified employees assigned to steps on the current pay plan that are equivalent to an annual salary of more than \$35,000. At the time this fiscal note was prepared, the Office of Personnel Services had not been provided with the details of the smooth, ascending line of percentages that is to be applied to this group of employees, so the agency was unable to apply that information to generate an estimate. As an alternative, an average increase of 1.25 percent was used for employees in this group, and applied that percentage to result in an estimated annual cost of \$4.65 million excluding benefits. Division of the Budget estimates the benefit costs on that salary increase to be approximately \$1.0 million. Of the total cost of \$5.6 million, \$2.2 million would be estimated as the State General Fund cost.

The modification of the State's classified pay plan in accordance with this legislation will require significant programming and testing of the state's payroll system (SHARP) in order to be ready for implementation with the first payroll period chargeable to FY 2015. The cost of the estimated time spent doing this will amount to approximately \$3,000 in FY 2014. Since the staff who would be required to perform these activities are the same staff working on other SHARP-related initiatives, this would also take time away from those activities, such as the implementation of the state's new data warehouse.

In addition, since the Regents universities all have their own payroll systems that interface with SHARP, all universities with classified employees would be required to make similar modifications to their own systems. While it is the Department of Administration's understanding that several of the universities have recently elected to move employees out of the classified service, the agency does not believe that process will be completely accomplished for all universities by the start of FY 2015 so HB 2750 would affect several of those institutions.

Finally, with respect to the language of the bill regarding longevity bonus payments, it is the Department of Administration's understanding that this language is intended to eliminate longevity bonuses for all state employees, effective on the first day of the first biweekly payroll period which is chargeable to FY2015. That action would result in a savings of approximately

The Honorable Marc Rhoades, Chairperson

March 17, 2014

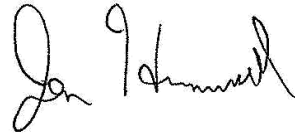
Page 3—HB 2750

\$8.6 million from all funds in FY 2015, of which \$3.4 million would be estimated as State General Fund savings. The Department of Administration would recommend that the language of the bill on this issue be amended to clarify the intent of the Legislature.

The bill appropriates \$8,186,924 from the State General Fund, \$132,716 from the Economic Development Initiatives Fund, \$14,871 from the State Water Plan Fund to the State Finance Council for FY 2015 and also makes provision for the Executive Branch amount to be distributed to the appropriate agency accounts. In addition, authority is granted for special revenue expenditure limitations to be increased accordingly.

The Governor's included \$10.9 million from all funding sources in *The FY 2015 Governor's Budget Report* to finance a 1.5 percent increase for all executive branch classified employees, regardless of their present salary. From the State General Fund, \$5.2 million was included.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is fluid and cursive, with the first name "Jon" being particularly prominent.

Jon Hummell,
Interim Director of the Budget

cc: Pam Fink, Department of Administration