

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2020 REGULAR SESSION**

MEASURE

2020 BR NUMBER 461

HOUSE BILL NUMBER 143

TITLE AN ACT relating to state employee compensation.

SPONSOR Representative James Tipton

FISCAL SUMMARY

STATE FISCAL IMPACT: YES NO UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY: ACTUARIAL ANALYSIS LOCAL MANDATE CORRECTIONS IMPACT HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: All appropriation units with state employees.

FUND(S) IMPACTED: GENERAL ROAD FEDERAL RESTRICTED _____

FISCAL ESTIMATES	2019-2020	2020-2021	2021-2022	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES				
EXPENDITURES		\$49,583,000 - \$164,900,000	\$100,344,000 - \$334,492,000	Indeterminable
NET EFFECT		(\$49,583,000 - \$164,900,000)	(\$100,344,000 - \$334,492,000)	(Indeterminable)

() indicates a decrease/negative

PURPOSE OF MEASURE: The purpose of this measure is to amend existing statute to index the annual increment provided for KRS 18A employees to the consumer price index for all urban consumers (CPI-U).

FISCAL EXPLANATION: The last seven biennial budgets have notwithstanding KRS 18A.355 and either not provided for or otherwise adjusted the existing statutory 5% increment for state employees, pursuant to KRS 48.130. Given current practice, there are no savings associated with the increment possibly being lower than what is currently provided in statute.

Fiscal Year 2021:

As published by the federal Bureau of Labor Statistics, the average of the consumer price index for all urban consumers for the last two (2) calendar years prior to the biennium is 2.25%. To establish a fiscal impact, the CPI-U average was applied to payroll data for all classified permanent full-time and permanent part-time Executive Branch state employees as of June 30, 2019, with inclusion of projected Federal Insurance Contributions (FICA) and retirement contributions.

A July 1 increment date was assumed for all employees, meaning the following calculation captures the maximum potential impact, as increment dates vary. The following chart represents the cumulative total of these projections for Executive Branch employees in Fiscal Year 2021, by retirement plan:

Retirement Plan	CPI-U Payroll Increase	FY 2021 Ret. Contribution	FY 2021 FICA Contribution	FY 2021 Total
KERS Nonhazardous	22,561,000	20,051,000	1,726,000	44,338,000
KERS Hazardous	3,616,000	1,352,000	277,000	5,245,000
Total	\$ 26,177,167	\$ 21,403,000	\$ 2,003,000	\$ 49,583,000

Notes:

- 1) SPRS was not included because Trooper pay is adjusted by CPI pursuant to KRS 16.052.

Given the historical retirement contributions by fund source from payroll for Fiscal Year 2018, the projected fiscal impact by fund source is as follows:

General	Federal	Capital	Road	Restricted	Tobacco	Off-Budget	Total:
53%	11%	0%	13%	20%	0%	4%	100%
\$26,048,000	\$5,489,000	\$30,000	\$6,343,000	\$9,767,000	\$29,000	\$1,877,000	\$49,583,000

The Legislative and Judicial branches have historically provided the same increment given to Executive Branch employees via their respective biennial budgets. The following represents the projected fiscal impact to the General Fund for each branch in Fiscal Year 2021, similarly accounting for a 2.25% CPI-U assumption, projected FICA, and retirement contributions:

Retirement Plan	CPI-U Payroll Increase	FY 2021 Ret. Contribution	FY 2021 FICA Contribution	FY 2021 Total
KERS Nonhazardous	1,686,000	1,498,808	129,000	3,314,000
CERS Nonhazardous	3,616,000	965,790	277,000	4,859,000
Total	\$ 5,302,370	\$ 2,464,597	\$ 406,000	\$ 8,173,000

KRS 157.420 (2) also provides that certified teaching staff shall have at least the equal cost-of-living adjustment given to state employees within the biennial budget. The following represents the projected fiscal impact to the General Fund, with a break out of contributions required to the Kentucky Teachers' Retirement System:

CERTIFIED STAFF	
FY 21	
TOTAL CERTIFIED PAYROLL (FY19)	\$ 2,925,605,000
2.25% INCREMENT	\$ 65,826,000
TRS CONTRIBUTION (STATE) (13.105%-14.105%)	\$ 8,857,000
TRS CONTRIBUTION (LOCAL) (3.00%)	\$ 1,975,000
TOTAL	\$ 76,658,000

Historically, classified staff within the local school districts receive the same increment that certified staff do. The projected fiscal impact for classified staff are as follows:

CLASSIFIED STAFF	
FY 21	
TOTAL CLASSIFIED PAYROLL (FY19)	\$ 1,067,307,000
2.25% INCREMENT	\$ 24,014,000
CERS CONTRIBUTION (LOCAL) (26.95%)*	\$ 6,472,000
TOTAL COSTS	\$ 30,486,000

*School districts are responsible for this retirement contribution.

Fiscal Year 2022:

Assuming that the increment was implemented in Fiscal Year 2021 and utilizing the same assumptions and calculations applied to Fiscal Year 2021, the following chart represents the cumulative total of projections for Executive Branch employees in Fiscal Year 2022, by retirement plan:

Retirement Plan	CPI-U Payroll Increase	FY 2022 Ret. Contribution	FY 2022 FICA Contribution	FY 2022 Total
KERS				
Nonhazardous	23,069,000	20,563,000	1,765,000	45,397,000
KERS Hazardous	3,697,000	1,384,000	283,000	5,364,000
Total	\$ 26,766,153	\$ 21,947,000	\$ 2,048,000	\$ 50,761,000

Compounding the prior year total together with the new calculations gives a grand total of \$100,344,000. The projected impact by fund source is as follows:

General	Federal	Capital	Road	Restricted	Tobacco	Off-Budget	Total:
53%	11%	0%	13%	20%	0%	4%	100%
\$52,715,000	\$11,109,000	\$61,000	\$12,836,000	\$19,766,000	\$58,000	\$3,798,000	\$100,344,000

Legislative and Judicial Branches

Similarly, the Legislative and Judicial Branches' combined potential impact to the General Fund in Fiscal Year 2022 is as follows:

Retirement Plan	CPI-U Payroll Increase	FY 2021 Ret. Contribution	FY 2021 FICA Contribution	FY 2021 Total
KERS				
Nonhazardous	1,724,000	1,541,000	132,000	3,397,000
CERS				
Nonhazardous	3,697,000	1,106,000	283,000	5,086,000
Total	\$ 5,421,673	\$ 2,647,000	\$ 415,000	\$ 8,483,000

Compounding the prior year total together with the new calculations gives a grand total of \$16,656,000 for the two Branches.

Lastly, providing an increment to teachers pursuant to KRS 157.420 (2), poses the following fiscal impact to the General Fund for both certified and classified staff:

CERTIFIED STAFF	
FY 22	
TOTAL CERTIFIED PAYROLL (FY19)	\$ 2,991,431,000
2.25% INCREMENT	\$ 67,307,000
TRS CONTRIBUTION (STATE) (13.105%-14.105%)	\$ 9,056,157
TRS CONTRIBUTION (LOCAL) (3.00%)	\$ 2,019,210
ADDITIONAL COST OVER PRIOR YEAR	\$ 78,382,000
ADDITIONAL COST OVER BASE YEAR	\$ 155,040,000
BIENNIUM COST	\$ 231,698,000

CLASSIFIED STAFF	
FY 22	
TOTAL CLASSIFIED PAYROLL (FY19)	\$ 1,091,321,000
2.25% INCREMENT	\$ 24,555,000
CERS CONTRIBUTION (LOCAL) (30.18%)*	\$ 7,411,000
ADDITIONAL COST OVER PRIOR YEAR	\$ 31,966,000
ADDITIONAL COST OVER BASE YEAR	\$ 62,452,000
BIENNIUM COST	\$ 92,938,000

*School districts are responsible for this retirement contribution.

The maximum potential fiscal impact between all fund sources and all branches of government is \$499,392,000 within the biennium. The fiscal impact at full implementation is indeterminable.

DATA SOURCE(S): United States Bureau of Labor Statistics, LRC Staff, and eMars Payroll Data
PREPARER: Liz Columbia NOTE NUMBER: 42 REVIEW: JAB DATE: 1/9/2020