TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 606 - HB 647

March 4, 2015

SUMMARY OF BILL: Deletes Tenn. Code Ann. § 8-23-206(a)(5) relative to any retiring wildlife officer of the Tennessee Wildlife Resources Agency (TWRA) and the longevity pay prorated for each month of employment since the period for which such officer last received an annual longevity payment. Eliminates longevity payments for eligible executive branch employees effective July 1, 2015. Each executive branch employee currently eligible for longevity will receive a permanent increase in the employee's base salary equal to one-half of the longevity payment due to such employee as of June 30, 2015. The remaining funds previously used for employee longevity to be reallocated to the general fund for the sole purpose of funding the merit pay system established in Tenn. Code Ann. § 8-30-207.

ESTIMATED FISCAL IMPACT:

Decrease State Expenditures - $4,600/Tennessee Wildlife Resources Agency Fund

Other Fiscal Impact – In FY15-16, there will be recurring shift of funds from the repurposing and reallocation of the longevity budget base resulting in $25,995,650 (state, federal, and other) being allocated to employees' current base salaries. Additionally, $15,410,200 in state funds, currently expended on longevity pay, will be reallocated to the General Fund to provide for future merit pay adjustments to salaries. There will also be a reduction in dedicated fund expenditures of $3,038,200 for the elimination of longevity pay from those funds.

An appropriation in the amount of $47.7 million is included in the Governor's FY15-16 budget for merit pay adjustments to salaries and other enhancements state employee compensation through salary range adjustments. Information provided by the Department of Finance and Administration indicates that $15,410,300 of the $47.7 million appropriation is to be funded by the reallocation of longevity pay authorized in this legislation.

Assumptions:

- According to the TWRA, there have been five employees in the last two years that have mandatorily retired. The longevity supplemental payments to these employees totaled $9,250 or an average of $4,625. Deleting Tenn. Code Ann. § 8-23-206(a)(5) will result in a recurring decrease in state expenditures of $4,625.

- Longevity payments to eligible executive branch employees will cease on June 30, 2015. According to the Department of Human Resources, the following agencies are not included: Tennessee Highway Patrol; Law Enforcement Training Academy commissioned officers; Tennessee Wildlife Resources Agency (TWRA) officers; certified teachers in the Departments of Correction, Children's Services, and Human Services and in Special Schools; Tennessee Rehabilitative Initiative in Correction (TRICOR); Tennessee Housing Development Agency (THDA); Tennessee Higher Education Commission (THEC); and Tennessee Advisory Commission on Intergovernmental Relations (TACIR).
- The Department of Finance and Administration (F&A), Division of Budget has noted that longevity base amounts for the executive branch have been gradually decreasing since FY09-10 from $54,878,200 to a base of $51,991,300 projected in FY15-16. The total number of employees receiving longevity payments for these periods have not been extrapolated at this time.
- The provisions of the bill authorize the Governor to modify the executive branch pay plan for FY15-16 by transferring one-half of an employee's longevity payment to his or her base salary. For purposes of this analysis, it is assumed that one-half of the total longevity base, or $25,995,650 ($51,991,300 x .50) represents the amount of funding being transferred to employees' salaries.
- The remaining 50 percent of the longevity base will be repurposed and reallocated into the general fund for the sole purpose of funding the merit pay system.
- Employee benefits estimated to be $5,896,000 and interdepartmental reallocation of $4,845,900 bring the total estimated adjustment to $36,737,600 ($25,995,650 + $5,896,000 + $4,845,900).
- Of the $36,737,600, approximately 26.602 percent, or $9,772,900, are federal funds and approximately 23.1813 percent, or $8,516,300, are other funding sources.
- The state funds impacted by this bill are estimated to be $18,448,400 ($36,737,600 - $9,772,900 - $8,516, 300).
- Included in the state funds amount are dedicated funds in which the reductions will stay with the funds and not be reallocated to the general fund for the merit pay system. These funds and amounts include:
    - Special Revenue Fund amount of $1,138,300;
    - Transportation Fund amount of $1,530,200; and
    - Earmarked State Dollars amount of $369,700.
- The total state funds repurposed and reallocated to fund the merit pay system from the current longevity base is estimated to be $15,410,200 ($18,448,400 - $1,138,300 - $1,530,200 - $369,700).
- As noted above, longevity pay has been gradually decreasing since FY09-10. By placing the longevity base into salaries and merit pay, the state could forego future reductions in expenditures because the funds will be tied to an employee's base salary.
- Also, longevity pay is counted toward an employee's base income for calculating retirement benefits. By reducing the amount of longevity payments by one-half, the amount of an individual employee's retirement benefits expended by the state will be reduced.
- The Governor's FY15-16 proposed budget includes an appropriation of $47,700,000 state dollars (the $15,410,200 reallocation to the general fund is included in this amount)

for merit pay and other salary scale adjustments. It is unknown, if all of these funds will be expended because merit pay is dependent on an employee’s evaluation. Depending on the amount of merit pay adjustments, there will be an impact to retirement benefits for the employees.

- Due to a number of unknown factors, the net impact to the retirement benefit liability of the state is unknown.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Jeffrey L. Spalding, Executive Director

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