

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1788 - SB 1919

February 6, 2018

**SUMMARY OF BILL:** Increases the cash award for the employee suggestion award program from a maximum of 10 percent of the first year's estimated savings or \$10,000, whichever is less, to 15 percent of the annual savings realized in a fiscal year for a period of three fiscal years following the year in which the suggestion was made. Requires the Employee Suggestion Award Board to promulgate rules to develop criteria for the development and implementation of an electronic mail notification, to transmit to all state government employees, information on the employee suggestion award program.

**ESTIMATED FISCAL IMPACT:**

**Other Fiscal Impact – Due to multiple unknown factors, a precise fiscal impact in any given year cannot be quantified with certainty. However, it is reasonably estimated that, over any five-year period, any increase in state expenditures resulting from additional cash awards paid to state employees will be sufficiently offset by decreases in state expenditures realized from additional employee suggestions.**

Assumptions:

- Under current law, pursuant to Tenn. Code Ann. § 4-27-105(a), the maximum cash award for the program is limited to 10 percent of the first year's estimated savings or \$10,000, whichever is less. The Board is, however, authorized to increase the maximum amount of the award for suggestions that result in extraordinary amounts of savings. Cash awards that have a first year's estimated savings of less than \$250 will be \$25. Any cash award is to be charged against the appropriation item or items to which estimated savings apply.
- The proposed legislation would increase the cash award to 15 percent of the annual savings realized in a fiscal year and would authorize such award to be applied to the first three fiscal years following the year in which the suggestion is made. The provision establishing that \$25 cash awards resulting from a first year's estimated savings of less than \$250 is repealed under this legislation.
- According to the Department of Human Resources, the Board has awarded a total of \$40,684 from 2012 through 2017 (\$35,319 in 2012; \$5,365 in 2017). No awards have been approved for the 2013 through 2016 time period.

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- The awards from the 2012 through 2017 time period were based on total savings of \$513,776 (\$460,122 in 2012; \$53,654 in 2017).
- For the purposes of this fiscal analysis, the average annual award under current law is estimated to be \$6,781 (\$40,684 / 6 years). The average annual savings are estimated to be \$85,629 (\$513,776 / 6 years).
- Increasing the cash award to 15 percent of the annual savings and authorizing any such award to be claimed for the first three years is estimated to result in the following schedule of awards:
  - \$12,844 in FY18-19 ( $\$85,629 \times 15\%$ );
  - \$25,688 in FY19-20 [ $(\$85,629 \times 15\%) + (\$85,629 \times 15\%)$ ]; and
  - \$38,532 in FY20-21 and subsequent years [ $(\$85,629 \times 15\%) + (\$85,629 \times 15\%) + (\$85,629 \times 15\%)$ ].
- The resulting increases in state expenditures for awards are estimated to be:
  - \$6,063 in FY18-19 ( $\$12,844 - \$6,781$ );
  - \$18,907 in FY19-20 ( $\$25,688 - \$6,781$ ); and
  - \$31,751 in FY20-21 and subsequent years ( $\$38,532 - \$6,781$ ).
- Under current law, state government employees could receive a cumulative maximum award of \$8,563 for suggestions that result in annual savings to the state of \$85,629 ( $\$85,629 \times 10\%$ ). Under this legislation, such employees would receive a cumulative award totaling \$38,533 [ $(\$85,629 \times 15\%) \times 3$  years]. This represents approximately a 350 percent increase in total awards that the employees would receive. If the savings to the state of \$85,629 were one-time, rather than annual, the employees would realize an increase in total awards of \$4,281 ( $\$85,629 \times 5\%$  award increase), representing approximately a 50 percent increase over the amounts that would have been received under current law.
- Therefore, the proposed legislation would result in a 50 percent to a 350 percent increase in the award amounts that employees would receive in most cases based on the historical patterns of the current employee suggestion award program.
- It is reasonable to assume that such increased cash awards will incentivize employees to make suggestions that would not have been made under the current awards system. This could result in significant savings to the state through reduced expenditures of public funds. These savings would be partially offset by reduction in the amount of the savings realized by the state from increased cash payments for such suggestions.
- The Fiscal Review Committee staff finds that if such increased incentives and additional suggestions result in an increase of only 17.65 percent in annual savings, over the average annual savings of \$85,629 realized under current law, this legislation would have a not significant net impact on state expenditures. Increased cash awards to state employees would be offset by increased savings realized from additional state employee suggestions.
- Due to the relative inconsistency in the number of suggestions received and cash awards approved in any given year, the magnitude of realized savings and associated awards relative to such suggestions, and the extent to which this legislation will incentivize additional suggestions to be submitted leading to additional savings to the state, a precise fiscal impact in any given year cannot be quantified with certainty. However, it is reasonably estimated that, over any five-year period, savings realized from additional

employee suggestions will at least offset any additional state expenditures incurred from increased cash awards to state employees.

- The Board will not realize a significant increase in expenditures to promulgate rules to develop criteria for the development and implementation of an electronic mail notification, to transmit to all state government employees, information on the employee suggestion award program.

**CERTIFICATION:**

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

Handwritten signature of Krista M. Lee RNC in blue ink.

Krista M. Lee, Executive Director

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