



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0679
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Title:	Revise leave law for newly hired public employees
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Primary Sponsor:	Sales, Scott
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Status:	As Introduced
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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2007</u> <u>Difference</u>	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
Expenditures:					
General Fund	\$19,520	(\$254,078)	(\$464,568)	(\$675,100)	(\$885,673)
State Special Revenue	\$0	(\$207,539)	(\$379,474)	(\$551,443)	(\$723,445)
Federal Special Revenue	\$0	(\$94,336)	(\$172,488)	(\$250,656)	(\$328,839)
Other	\$0	(\$72,953)	(\$133,391)	(\$193,840)	(\$254,302)
Revenue:					
General Fund	\$0	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance	(\$19,520)	\$254,078	\$464,568	\$675,100	\$885,673

Description of Fiscal Impact:

This bill revises state law providing sick leave and annual leave for state employees and replaces it with flexible leave for employees hired on or after July 1, 2007.

FISCAL ANALYSIS

Assumptions:

Department of Administration – State Personnel Division (SPD)

1. It is assumed that system analysis and reconfiguration to implement HB 679 will cost \$19,200 prior to the effective starting date of July 1, 2007.
2. HB 679 defines state employees as permanent employees in Section 5. 2-18-601(13), MCA, and further limits flexible leave accumulation to state employees as defined in Section 1. The department interprets this to mean that temporary employees are not eligible to earn flexible leave under HB 679, whereas currently they are eligible to earn vacation and sick leave. Currently the state has 249 temporary and

short-term status employees. New hires into temporary and short-term employment statuses, after July 1, 2007, will no longer receive these leave benefits under HB 679. Currently they can accrue up to 15 days of vacation time and 12 days of sick leave time annually. For purposes of this fiscal note it is assumed that as of July 1, 2007 all temporary and short-term workers are newly hired for a 12-month period at an average salary and benefits rate of \$10/hour. **Table A** shows the value of the savings from HB 679 from not providing leave benefits to these employees assuming that the temporary/short-term workers use 16% of their accumulated sick leave during their employment at 100% value and cash out the remaining 84% upon termination at one-fourth its value.

	Hrs. Accrued	Hrs Sick leave used at 100%	Hrs cashed out at termination	Value of Sick Used During Employment	Value of cashed out leave	Combined Value of Sick and Vacation Leave Paid
Sick leave	23,904	3,825	20,079	\$38,246	\$50,198	\$88,445
Vacation leave	29,880		29,880		298,800	298,800
	53,784	3,825	49,959	\$38,246	\$348,998	\$387,245

* assume hourly rate of \$10

- The remaining 12,870 employees accruing leave are subdivided into the groups shown in **Table B** for number of service years. It is assumed that 12% of the employees will terminate and be replaced with new employees who accrue leave per HB 679. This table shows the amount of vacation and sick leave hours and the assumed payout value of this leave which the new employees would earn annually under current law. For purposes of this fiscal note it is assumed that the average employee salary is \$21.45/hour, including benefits (\$18.53/hr excluding benefits), based on the 2006 Employee Profile generated by the State Personnel Division.

Service Year Group	Type of leave and average % of sick leave used annually **	Number of Permanent Employees	Assumes 12% Attrition Rate. Number of New Hires Annually	New Hires Hrs. Accrued Annually	New Hires Hrs Sick leave used at 100%	New Hires Hrs cashed out at termination	* New Hires Value of Sick Used During Employment	* New Hires Value of cashed out leave	* Combined New Hires Value of Sick and Vacation Leave Paid
	(see note 2)						(see note 1)	(see note 1)	(see note 1)
5 or less	Sick leave (32.8%)			48,630	35,889	12,741	\$769,819	\$68,324	\$838,143
	Vacation leave			60,788		60,788		1,303,894	1,303,894
	Subtotal	4,221	507	109,418	35,889	73,529	\$769,819	\$1,372,218	\$2,142,037
6-10 yrs	Sick leave (18.6%)			27,577	11,541	16,036	\$247,552	\$85,993	\$333,545
	Vacation leave			34,471		34,471		739,403	739,403
	Subtotal	2,394	287	62,048	11,541	50,507	\$247,552	\$825,396	\$1,072,948
11-15	Sick leave (13.6%)			20,164	6,170	13,994	\$132,348	\$75,041	\$207,389
	Vacation leave			25,205		25,205		540,639	540,639
	Subtotal	1,750	210	45,368	6,170	39,198	\$132,348	\$615,680	\$748,028
16-20	Sick leave (13.5%)			20,015	6,080	13,936	\$130,409	\$74,730	\$205,140
	Vacation leave			25,019		25,019		536,664	536,664

	Subtotal	1,737	208	45,035	6,080	38,955	\$130,409	\$611,394	\$741,803
21 & more	Sick leave (21.5%)			31,876	15,420	16,456	\$330,764	\$88,246	\$419,010
	Vacation leave			39,846		39,846		854,686	854,686
	Subtotal	2,767	332	71,722	15,420	56,302	\$330,764	\$942,933	\$1,273,696
	Total	12,870	1,544	333,590	75,100	258,491	\$1,610,892	\$4,367,620	\$5,978,512
Note 1. Assumes hourly rate of \$21.45									
Note 2. Average % of sick leave used annually derived from SABHRS query to capture hours of leave used in FY 2006									

4. **Table C** shows the amount and value of flexible leave the employee will accrue annually under HB 679. For purposes of this fiscal note, it is assumed that all employees use their flexible leave before it is forfeited. The annual flexible leave accrual under HB 679 will apply only to new hires after 7/1/2007. Again, a 12% annual attrition rate is assumed for this calculation and it is assumed that employees terminating each of the years covered by this fiscal note were hired prior to 7/1/2007 and have their leave hours calculated under current law.

Table C. HB 679 - Flexible Leave: 12,870 Permanent Employees						
Service Year Group	Type of leave	Number of Permanent Employees	Assumes 12% Attrition Rate. Number of New Hires Annually	Individual's Flexible Hours Accrued Annually	Total New Hire Employees' Flexible Hours Earned Annually	* Value of total hours - Assumes employees use all leave before it is lost (see note 1)
5 or less	Flexible leave	4,367	524	120	62,885	\$1,348,879
6-10 yrs	Flexible leave	2,411	289	160	46,291	\$992,946
11-15 yrs	Flexible leave	1,634	196	200	39,216	\$841,183
16-20 yrs	Flexible leave	1,727	207	220	45,593	\$977,966
(see note 2)						
21 yrs +	Flexible leave	2,731	328	240	78,653	\$1,687,103
	Total	12,870	1,544	940	272,638	\$5,848,077
Note 1. Assumes hourly rate of \$21.45						
Note 2. Assumes the average flexible leave earned by employees with 16-20 years of service is 27.50 days.						

Department of Administration - Health Care and Benefits Division (HCB D)

- Under Section 14 of the bill, the eligibility for the sick leave benefit changes for employees who are hired on or after July 1, 2007. Title 2, Chapter 18, Part 13, MCA, is the Voluntary Employees' Beneficiary Act (VEBA). The VEBA benefit uses sick leave accrued under 2-18-618, MCA, as a contribution source for funding the plan. Employees hired on or after July 1, 2007 would not have sick leave available as a funding source.
- At this time the department is unable to estimate the impact of this bill on the VEBA plan. Current employees who participate in the VEBA plan tend to be those who are nearing retirement and have

accrued sick leave during the course of their career. Under this assumption, the impact of the change in benefits to flexible leave would not substantially impact the existing VEBA program during the next four years.

7. Additionally under Section 14, employees who are hired on or after July 1, 2007 become ineligible to participate in the sick-leave fund or to give or receive direct grants of sick leave. The sick leave fund permits employees to donate hours to a non-refundable fund and in return become eligible for grants of sick leave provided they meet the requirements for receiving sick leave hours outlined by the department in rule. Currently 2-18-618 (9), MCA, provides for the department to establish the sick leave fund and adopt rules for operation of the fund. Following are statistics related to the sick leave fund and direct grants of sick leave:
 - a. During FY 2006, 157 employees donated 1,954.32 hours of sick leave to the sick leave fund (an average donation of 12.45 hours per employee). There were 28 enrolled employees who used 963.60 hours during that same time period (an average of 34.41 hours used per recipient). As of June 30, 2006, the sick leave fund balance was 1299.29 hours.
 - b. Periodically the department will notify agencies of the status of the fund and employees will participate in a ‘drive’ for contributions to the fund in order to increase the balance.
 - c. As of June 30, 2006, there are 1,635 active employees enrolled in the sick leave fund. Employees enrolled in the sick leave fund may submit claims to the fund if they become eligible (i.e. have been absent from work for 10 consecutive days, have exhausted their sick and vacation leave, and have had 20 hours of leave-without-pay) if there are sufficient hours in the fund.
 - d. There were 16,519.40 sick leave hours donated by 749 employees for direct sick leave grants to other employees during fiscal year 2006 (an average of 22.05 hours donation per employee). During that same time period, 149 employees received direct sick leave grants (an average of 110.87 hours used per recipient).
8. The 177 (28 + 149) employees who received either grants from the sick leave fund or direct grants, received a total of 17,483 (963.60 + 16,519.40) hours. Using an average annual salary of \$18.53 per hour based on the 2006 Employee Profile, the total cost of the salary granted would have been estimated at \$323,960.
9. For purposes of this fiscal note, HCBD assumed that one-third of these employees would have been fairly recent hires. (Sick leave and direct grant recipients tend to either be employees who are fairly new to State government and have met their minimum of six-months to use sick leave but have not accrued a substantial balance before a significant health event occurs or later in their career when a catastrophic health event or chronic health conditions erode their sick leave balances).
10. One-third of the granted salary from assumption #8 is equal to \$107,986. This is the amount of estimated savings from eliminating newly hired employees as of July 1, 2007 and after, from access to the sick leave fund and direct grants.
11. For purposes of this fiscal note, HCBD assumed a 3% pay increase each year from FY 2007 through FY 2011. Savings in FY 2008 would be \$111,226, in FY 2009 would be \$114,562, in FY 2010 would be \$117,999, and in FY 2011 would be \$121,539.
12. The fiscal impact shown on the following page reflects the savings shown in Tables A and B and assumption #11 and the cost shown in Table C. For purposes of this fiscal note, funding is assumed to be 40.4% general fund, 33% state special revenue, 15% federal special revenue, and 11.6% proprietary funds. Actual experience may differ from these funding assumptions.

Fiscal Note Request – As Introduced

(continued)

	FY 2007 Difference	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:					
State Agencies					
Expenditures:					
Personal Services	\$0	(\$628,906)	(\$1,149,922)	(\$1,671,039)	(\$2,192,259)
Operating Expenses	\$19,520	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$19,520	(\$628,906)	(\$1,149,922)	(\$1,671,039)	(\$2,192,259)
Funding of Expenditures:					
General Fund (01)	\$19,520	(\$254,078)	(\$464,568)	(\$675,100)	(\$885,673)
State Special Revenue (02)	\$0	(\$207,539)	(\$379,474)	(\$551,443)	(\$723,445)
Federal Special Revenue (03)	\$0	(\$94,336)	(\$172,488)	(\$250,656)	(\$328,839)
Other	\$0	(\$72,953)	(\$133,392)	(\$193,840)	(\$254,302)
TOTAL Funding of Exp.	\$19,520	(\$628,906)	(\$1,149,922)	(\$1,671,039)	(\$2,192,259)
Revenues:					
General Fund (01)	\$0	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	\$0	\$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):					
General Fund (01)	(\$19,520)	\$254,078	\$464,568	\$675,100	\$885,673
State Special Revenue (02)	\$0	\$207,539	\$379,474	\$551,443	\$723,445
Federal Special Revenue (03)	\$0	\$94,336	\$172,488	\$250,656	\$328,839
Other	\$0	\$72,953	\$133,392	\$193,840	\$254,302

Technical Notes:

1. The current proposal does not address part-time employees. It is assumed that the department would need to write rules to allow a pro-rated accrual of flexible leave.

Sponsor's Initials

Date

Budget Director's Initials

Date