SB10-029

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

This fiscal note is written pursuant to Joint Rule 22 (b)(2)

Drafting Number:	LLS 10-0710	**Date:**	March 22, 2010
Prime Sponsor(s):	Sen. Penry Rep. Curry	**Bill Status:**	Senate SVMA
		Fiscal Analyst:	Kerry White (303-866-3469)

TITLE: CONCERNING THE CREATION OF EFFICIENCIES IN GOVERNMENTAL ENTITIES THAT PROVIDE SERVICES TO THE PEOPLE OF THE STATE.

Fiscal Impact Summary	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
State Revenue		($1.65 million)	($1.65 million)	($1.375 million)
State Expenditures	$34,700	($31,178,799)	($40,721,256)	($23,923,056)
General Fund	34,700	(10,063,488)	(12,351,746)	(14,305,262)
Multiple Cash Funds		(12,479,965)	(20,330,312)	(2,734,564)
Reappropriated Funds		(5,458,292)	(5,019,379)	(4,877,035)
Federal Funds		(3,177,054)	(3,019,819)	(2,006,196)
FTE Position Change		(80.2 FTE)	(160.3 FTE)	(240.5 FTE)

Effective Date: Upon signature of the Governor, or upon becoming law without his signature, except that sections 11-14 take effect on July 1, 2010, and sections 7-10 take effect on January 1, 2011, or upon the expiration of the provisions of the federal American Reinvestment and Recovery Act of 2009.

Appropriation Summary for FY 2010-2011: See State Appropriations section.

Local Government Impact: See Local Government Impact section.

Note: All agencies were canvassed for purposes of this fiscal note, both for the introduced bill and the strike-below amendment L.004, but not all agencies were able to respond with complete information. Therefore this fiscal note should be considered preliminary. It will be revised if further information becomes available.

Summary of Legislation

With amendment L.004, this bill directs the implementation of multiple initiatives with the goal of creating operational efficiencies and cost-savings within all branches of state government. By no later than July 1, 2010, the governor is required to identify similar or redundant functions performed by state entities and make recommendations to the General Assembly for their consolidation; begin a study on the cost and feasibility of replacing the state fleet with leased vehicles; and to reduce personnel costs by effecting a regional consolidation plan. The bill's many provisions are detailed below.

Personnel Expenditures

- implements a 2-year statewide hiring freeze, except in situations where the freeze results in increased General Fund expenditures or the position is exempted;
- eliminates bonus compensation paid to an executive branch employee for 2 years;
- reduces certain personnel budgets in the executive branch to FY 2005-06 levels and limits personnel expenditures to no more than 10 percent in the Governor's Energy Office;
- prohibits the payment of life insurance policies for state employees;
- reduces the number of all full-time equivalent (FTE) state employees paid in whole or in part with General Fund dollars by 0.5 percent per year, for a total reduction of 3 percent by FY 2015-16; and
- requires the governor to reduce by 10 percent the FY 2010-11 pay of all executive branch FTE that earn $125,000 or more annually, except those employed by a state institution of higher education.

Procurement Restrictions

- specifies that all executive branch expenditures on professional organization dues and memberships be made from gifts, grants, or donations;
- prohibits procurement of motor vehicles for any governmental entity, except the Colorado State Patrol, and of telephones, computers, or other equipment used for information technology or systems upgrades for 2 years; and
- restricts executive-branch departments from using General Fund or cash fund appropriations for contract lobbying.

Administrative Organization and Procedures

- eliminates the office of the executive director of the Department of Local Affairs (DOLA) and transfers those duties to the lieutenant governor, reduces the DOLA's appropriation for this office by 50 percent in FY 2010-11, and credits the savings to the General Fund;
- establishes a reserve account in the General Fund and requires the state controller to transfer to it the equivalent of the General Fund monies appropriated by all bills vetoed in whole or in part by the governor in the prior legislative session; and
- removes the requirement that motor vehicles have a front license plate.

State Medicaid Program

- clarifies that tobacco cash funds and hospital provider fees may not be used to extend Medicaid eligibility for certain persons;
- specifies that if the General Assembly adopts a resolution declaring a state fiscal emergency, the Department of Health Care Policy and Financing (DHCPF) is to require an asset test of children and families; and
- restricts the ability of the DHCPF to extend Medicaid eligibility to optional groups under certain conditions, and directs any savings be used to offset state expenditures for medical services premiums.

State Revenue

State revenues will decrease by up to $1.65 million in FY 2010-11 and FY 2011-12, and up to $1.375 million in future years.

License Plates. Assuming that the state will reduce the portion of vehicle registration fees related to the production of license plates by 50 percent, the state will reduce revenues by up to $1.375 million per year. While this amount is shown as reduced revenue, a corresponding decrease in costs for $1.375 million is shown in the State Expenditures section. An additional $8,500 in fine revenue is collected each year as a result of license plate violations, including vehicles cited for having only one license plate. As license plate violations are not tracked in detail, the proportion of this revenue that may be decreased is unknown and not included in this analysis.

Vehicle Sales. The state currently sells vehicles that have exceeded their usable life span. During FY 2008-09, the Department of Personnel recovered $389,000 and the Department of Corrections recovered $151,000 from the sale of these vehicles. The fiscal note assumes that 50 percent of these vehicles would not be resold while the procurement of new vehicles is prohibited and that these vehicles will be retained for use within state agencies. The net impact is a reduction in state revenue of $270,000 per year in FY 2010-11 and FY 2011-12. It should be noted that extending the life of these vehicles creates additional costs for state agencies. These impacts are discussed in the State Expenditures section.

School Districts. The bill requires member schools of boards of cooperative services that realize savings to remit the full amount to the state. To the extent that school districts participate in boards of cooperative services and these boards experience cost savings, state revenues will increase. This amount has not been estimated or included in the fiscal note.

State Expenditures

State expenditures will increase by $34,700 in the current fiscal year of FY 2009-10, but decrease by $31.2 million in FY 2010-11 and $40.7 million in FY 2011-12. Many of the bill's cost savings provisions are limited to 2 years. Therefore, overall savings are lessened as of FY 2012-13, but will increase as additional General Funded FTE are reduced through FY 2015-16. A summary of impacted state expenditures is shown in Table 1, and detailed in the discussion that follows.

Table 1. Expenditures Under SB10-029			
Cost Components	**FY 2009-10**	**FY 2010-11**	**FY 2011-12**
Personal Services	$34,700	($20,619,272)	($25,330,630)
Elimination of the DOLA Executive Office		(69,943)	(146,000)
Memberships		(2,114,189)	(2,114,189)
Procurement Restrictions		(6,998,490)	(6,018,368)
License Plates		(1,376,905)	(1,376,905)
Medical Services Premiums		undetermined	undetermined
TOTAL	**$34,700**	**($31,178,799)**	**($40,721,256)**
General Fund	**34,700**	**(10,063,488)**	**(12,351,746)**
Cash Funds		**(12,479,965)**	**(20,330,312)**
Reappropriated Funds		**(5,458,292)**	**(5,019,379)**
Federal Funds		**(3,177,054)**	**(3,019,819)**

Personal Services. Personal services costs will be reduced by $20.6 million in FY 2010-11 and $31.1 million in FY 2011-12. Total state expenditures for personal services are impacted by multiple provisions, as discussed below:

- ***Governor's Office Studies***. The governor is directed to study opportunities for consolidating state operations and among regional offices, and concerning the state fleet program. Due to the timing of these requirements, the fiscal note assumes the Governor's Office will require $34,700 to hire two contractors in the current fiscal year, 2009-10. Due to the volume of information available from the Joint Budget Committee and the Department of Personnel and Administration, the fiscal note assumes the study of the state fleet program in FY 2010-11 can be absorbed within existing resources. As they are dependent on the outcome of future studies, the fiscal and other impacts created by the implementation of the governor's recommendations have not been estimated.

- ***Hiring Freeze.*** The hiring freeze provision has two impacts: personal services costs related to reviewing exemption requests and the anticipated savings as a result of its implementation. The net effect of this initiative is anticipated to reduce costs by at least $5,431,322 in FY 2010-11 and $14,262,667 in FY 2011-12.

  - *Exemption Requests*. In each of the branches of government, staff are needed to review and approve requests for exemptions to the hiring freeze. Based on a hiring freeze during FY 2008-09, state agencies with large numbers of FTE that are likely to qualify for exemptions may also require additional resources to prepare exemption requests. The fiscal note assumes the Governor's Office will require 1.0 FTE for a total cost of $77,401 per year, and the Joint Budget Committee will increase its meeting expenses by $1,122 per year. Staffing resources for individual state agencies have not been estimated and the fiscal note assumes any such costs will be addressed through the budget process.

- *Agency Savings*. As there are many factors that affect staff turnover, the fiscal note only includes savings from departments that have identified trends related to turnover for specific positions. Savings are projected to be at least $5,509,845 in FY 2010-11 and $14,341,190 in FY 2011-12. It should be noted that existing case law may limit the ability of the legislature to require the governor to implement a hiring freeze. If the bill's provisions are implemented, there may be positions affected that do not meet the exemption requirements but that create unintended impacts, such as the loss of funding or inability of an agency to fulfill statutory obligations.

- ***Elimination of Bonus Pay***. The Department of Revenue will reduce state expenditures by $70,200 per year by eliminating incentives paid to sales representatives within its Lottery Division. The fiscal note assumes that performance-based pay for state employees will not be funded in FY 2010-11 or FY 2011-12.

- ***Salary Reduction for certain FTE***. Salaries for all executive-branch employees that earn more than $125,000 per year, except those employed by state institutions of higher education, will be reduced by 10 percent in FY 2010-11 only. There are currently 121 positions that meet this criteria, not including any for the Department of Treasury, for which information was not available. The net savings is $1.9 million, including $845,000 General Fund and $446,000 cash funds.

- ***Life Insurance for State Employees***. The state expends $112.80 per year for life insurance premiums for each of its 34,487 covered employees. By prohibiting the use of state monies for life insurance policies, costs will be reduced by $3.9 million per year.

- ***Personnel Budgets to 2005-06 levels.*** The net impact of reducing personnel budgets in the Governor's Office, the executive directors offices of each state department, and for selected positions within the DHCPF is a reduction of at least $5.7 million per year in personal services costs. This does not include data for the Governor's Office or the DHCPF, for which information was not available at the time of this writing. Depending on each agency's resources, this reduction will likely result in reduced FTE. The fiscal note assumes this reduction is in addition to the bill's provisions specifying the reduction of General Fund FTE, which is discussed below.

- ***Reduction of General Fund FTE.*** This bill reduces the number of all full-time equivalent (FTE) state employees paid in whole or in part with General Fund dollars by 0.5 percent per year, for a total reduction of 3 percent. Using FY 2009-10 as a base year and assuming no other significant changes, costs will be reduced by at least $3.6 million and 80.2 FTE per year. As some departments may opt to eliminate non-filled positions initially, the fiscal note does not include a corresponding reduction in operating costs, although it assumes these costs will be further reduced. It should also be noted that these figures do not include current employees or those that will transfer to the Governor's Office on July 1, 2010, or employees of the DHCPF, for which information was not available. Agencies that are solely funded with cash or reappropriated funds that do not originate from the General Fund have also been excluded from this analysis. Minimal savings are as follows:

- FY 2010-11 - $3,553,555 and 80.2 FTE
- FY 2011-12 - $7,107,109 and 160.3 FTE
- FY 2012-13 - $10,660,664 and 240.5 FTE
- FY 2013-14 - $14,214,818 and 320.6 FTE
- FY 2014-15 - $17,767,773 and 400.8 FTE
- FY 2015-16 - $21,321,327 and 480.9 FTE

Elimination of the DOLA Executive Office. The duties of the DOLA's Executive Director's Office are transferred to the lieutenant governor under this bill. The FY 2010-11 appropriation for this office is reduced by 50 percent, with the savings credited to the General Fund. The fiscal note assumes that after deducting for leave payouts, savings of $69,943 will be realized in FY 2010-11 and $146,000 each year thereafter.

Memberships. This bill requires that all memberships within the executive branch be funded with gifts, grants, and donations. Based on FY 2009-10 expenditures, costs will be reduced by $2.1 million per year, including $520,000 General Fund and $1.1 million cash funds. Of the total savings, $900,000 relates to memberships within the Departments of Natural Resources and Law, and the Governor's Office. The loss of these memberships could affect the state's ability to receive its share of water settlements and other funds. It should also be noted that some administrative expenses will increase with the loss of memberships. For instance, the Department of Personnel is required to purchase salary surveys, which would increase costs by a minimum of $37,000 per year should it lose membership pricing. Other departments may have similar impacts, which have not been identified or estimated.

Procurement Restrictions. The bill prohibits the procurement of state fleet vehicles and certain equipment for 2 years. The net impact of these provisions is a reduction in costs of $6,998,490 in FY 2010-11 and $6,018,368 in FY 2011-12, as discussed below:

- *State Fleet Vehicles.* Based on the previous 5 fiscal years, the state will avoid replacing 644 vehicles and save $3.9 million (vehicle cost plus operations costs) in each fiscal year. This amount is offset by an increase of $2.4 million in operating costs (maintenance, management fees, and lost fuel savings) for the vehicles that have exceeded their lifespan and would have otherwise been replaced. For each year that these vehicles continue to operate, the operating costs increase by $1.1 million. The net savings to the state is $1.5 million in FY 2010-11 and $0.4 million in FY 2011-12. Some departments may also be required to reimburse employees for using personal vehicles if there are no other state vehicles available and one or more vehicles becomes disabled. These costs have not been estimated.

- *Information Technology and Telephone Equipment.* The bill prohibits the state from procuring any telephones, computers, or other equipment used for information technology or system upgrades for 2 years. The net impact of this provision is to reduce state expenditures by $5.5 million per year. The fiscal note assumes that if a department has received grant funding for information technology upgrades or equipment and enters into a procurement contract prior to July 1, 2010, that this bill's provisions will not apply to the completion of that transaction.

- *Contract Lobbying.* The state will reduce its expenditures for contract lobbying by at least $40,000 per year.

License Plates. As noted in the State Revenue section, by altering the number of license plates required on vehicles, the production costs for making license plates will be reduced by up to $1.375 million per year. There may be additional costs associated with modifying the license plate manufacturing equipment. However, these costs are unknown and have not been estimated.

Medical Services Premiums. The bill modifies how certain funds may be used and limits the ability of the DHCPF to increase Medicaid eligibility for persons within optional groups. The bill specifies that any monies appropriated to increase eligibility for optional groups be used to offset medical services premiums within the DHCPF. It should be noted that services for optional groups are currently financed by medical services premiums. To the extent that the DHCPF has funds appropriated to provide services to persons in optional groups impacted by this bill, state expenditures will decrease. At the time of this writing, updated information from the DHCPF was not available. When further information is provided, the fiscal note will be revised.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. Under the provisions of this bill, FTE will continue to be reduced through FY 2015-16. The fiscal note assumes that as this escalation continues, departments will be required to reduce indirect costs and leased space. The timing of any such changes and their fiscal impact are unknown at this time and not included in this analysis. The fiscal note assumes these actions will be addressed through the annual budget process.

Local Government Impact

This bill does not directly impact local governments. The bill requires the State Board of Education to encourage school districts to create boards of cooperative services to consolidate central administrative services. Member schools of boards that realize savings are required to remit the full amount to the state, not to exceed the amount received in the applicable budget year by the school district as its state share of total program funding. To the extent that school districts participate in boards of cooperative services and these boards experience cost savings, state revenue will increase. As it is unknown how many school districts will participate in such boards and whether any savings will be realized, this amount has not been estimated. However, this analysis assumes that because there is no net increase in school district expenditures, there is no fiscal impact to school districts.

State Appropriations

In the current FY 2009-10, the Governor's Office requires an appropriation of $34,700 General Fund. The multiple adjustments in appropriations required under this bill for FY 2010-11 will be provided in a revised fiscal note.

Departments Contacted

All Departments