

# Fiscal Note

State of Alaska  
2017 Legislative Session

|                     |           |
|---------------------|-----------|
| Bill Version:       | HB 71     |
| Fiscal Note Number: | 1         |
| (H) Publish Date:   | 1/20/2017 |

Identifier: OOG-OMB-01-05-17  
 Title: NO ST. EMPLOYEE PAY INCREASE FOR 2 YRS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Governor

Department: Various (for Fiscal Notes only)  
 Appropriation: Various  
 Allocation: Executive Branch  
 OMB Component Number: 0

### Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

|                               | FY2018                  | Included in               | Out-Year Cost Estimates |                |                |                |                |
|-------------------------------|-------------------------|---------------------------|-------------------------|----------------|----------------|----------------|----------------|
|                               | Appropriation Requested | Governor's FY2018 Request | FY 2019                 | FY 2020        | FY 2021        | FY 2022        | FY 2023        |
| <b>OPERATING EXPENDITURES</b> | <b>FY 2018</b>          | <b>FY 2018</b>            | <b>FY 2019</b>          | <b>FY 2020</b> | <b>FY 2021</b> | <b>FY 2022</b> | <b>FY 2023</b> |
| Personal Services             | (451.6)                 | (1,817.9)                 | (1,896.1)               |                |                |                |                |
| Travel                        |                         |                           |                         |                |                |                |                |
| Services                      |                         |                           |                         |                |                |                |                |
| Commodities                   |                         |                           |                         |                |                |                |                |
| Capital Outlay                |                         |                           |                         |                |                |                |                |
| Grants & Benefits             |                         |                           |                         |                |                |                |                |
| Miscellaneous                 |                         |                           |                         |                |                |                |                |
| <b>Total Operating</b>        | <b>(451.6)</b>          | <b>(1,817.9)</b>          | <b>(1,896.1)</b>        | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     |

### Fund Source (Operating Only)

|                        |                |                  |                  |            |            |            |            |
|------------------------|----------------|------------------|------------------|------------|------------|------------|------------|
| 1002 Fed Rcpts (Fed)   | (131.7)        | (39.0)           | (183.2)          |            |            |            |            |
| 1003 G/F Match (UGF)   |                | (5.4)            | (15.9)           |            |            |            |            |
| 1004 Gen Fund (UGF)    | (49.9)         | (975.3)          | (744.4)          |            |            |            |            |
| 1005 GF/Prgm (DGF)     | (0.1)          | (31.2)           | (16.4)           |            |            |            |            |
| 1007 I/A Rcpts (Other) | (0.2)          | (380.9)          | (370.0)          |            |            |            |            |
| 1178 temp code (UGF)   | (269.7)        | (386.1)          | (566.2)          |            |            |            |            |
| <b>Total</b>           | <b>(451.6)</b> | <b>(1,817.9)</b> | <b>(1,896.1)</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

### Positions

|           |  |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |  |

### Change in Revenues

|              |            |            |            |            |            |            |            |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| None         |            |            |            |            |            |            |            |
| <b>Total</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

**Estimated SUPPLEMENTAL (FY2017) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2018) cost:** 0.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

### ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency?  
 If yes, by what date are the regulations to be adopted, amended or repealed?

### Why this fiscal note differs from previous version:

Not applicable; initial version.

|              |  |        |                     |
|--------------|--|--------|---------------------|
| Prepared By: | Colleen O'Sullivan, Chief Budget Analyst | Phone: | (907)465-4681       |
| Division:    | Office of Management and Budget          | Date:  | 01/12/2017 05:00 PM |
| Approved By: | Pat Pitney, Director                     | Date:  | 01/12/17            |
| Agency:      | Office of Management and Budget          |        |                     |

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

This fiscal note estimates the potential savings from freezing executive branch employee salaries for two years (FY2018-FY2019).

This hypothetical estimate recognizes that no funding currently exists in agency budgets to pay for merit and pay increment increases. Historically, the cost of merit and pay increment steps was assumed to be offset by the savings due to turnover – positions hired at lower salaries offsetting the merit and pay increment increases of retained employees. Otherwise reductions had to be found in other areas of the budget. Agencies with few employees and/or low turnover have had a greater challenge paying for these unfunded salary increases from their existing budget.

If exempt and partially exempt salaries are frozen, it is assumed the savings that would have been needed to pay for advancing merit steps/pay increments could be retained and the budget reduced. However, given significant budget reductions in recent years, and the fact that actual turnover and actual spending reductions an agency is able to achieve may not directly match the estimated cost of the avoided salary increases, there is a risk that some agencies will not be able to achieve the proposed budget reductions.

The following methodology was used:

1. Increases for exempt and partially exempt positions eligible for merit and pay increment steps were calculated and compared to the current base. Two increases were identified: a) costs of FY2017 increases incurred for 12 months in FY2018 (versus less months at the higher merit step in FY2017). These costs are unavoidable in FY2018 despite a statute change but are used as the estimated avoided cost increase for the second merit step in FY2019. b) Costs of new increases that would have been paid in FY2018. Positions in merit steps were considered separately than those in pay increments.
2. Positions of certain corporations, such as Alaska Housing Finance Corporation and Alaska Permanent Fund Corporation, and positions that appeared to be outside of the "normal" salary rules (Commissioners and positions that have had no pay increases for a number of years) were excluded from the calculation in #1 above. Agencies provided the estimated savings for the positions outside of "normal" salary schedule.

The estimated savings that may be realized is \$4,165.6 over two fiscal years for the executive branch. Estimates for the Alaska Permanent Fund Corporation, the University, and the Legislative and Judicial Branches are not included in this fiscal note. The University is not included because the Board of Regents already implemented similar actions, so no additional savings would be realized from the University for this bill.

Total savings are not realized in one year because individuals in pay increments receive a salary increase every other year. In addition, individuals in merit steps receive increases at various times during the fiscal year. It takes two years to get the full savings because merit steps increases don't happen on July 1, but on an employee's hire date. Additional savings in fiscal years beyond FY2019 are anticipated because salaries will be lower in those years than if the temporary freeze was not implemented, however that amount is indeterminate.

The FY2018 Governor's budget includes an initial estimate in the branch-wide component of \$1,817.9. This updated estimate of \$2,205.5 includes entities where data was not yet available at the time of the initial estimate. This estimate may be reflected in each component's budget versus in a statewide component at the legislature's discretion.

In addition to the \$2,205.5 reduction for the merit and pay increment freeze, a \$64.0 reduction in general funds in FY2018 is included for a one-third salary reduction for the Governor of Alaska. The total FY2018 reduction is \$2,269.5.