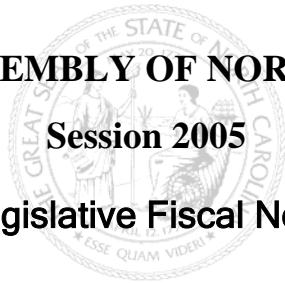


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 799 (First Edition)

SHORT TITLE: Lapsed Salaries/EEO.

SPONSOR(S): Representative Adams

	FISCAL IMPACT				
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
REVENUES:	n/a	n/a	n/a	n/a	n/a
EXPENDITURES:					
General Fund	Zero to \$18,984,874	Zero to \$18,984,874	Zero to \$18,984,874	Zero to \$18,984,874	Zero to \$18,984,874
Highway Fund	No estimate available				
POSITIONS (cumulative):	n/a	n/a	n/a	n/a	n/a
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: State departments, agencies, institutions, and Universities who employ individuals subject to the State Personnel Act.					
EFFECTIVE DATE: June 30, 2005					

BILL SUMMARY:

Enacts new G.S. 126-16.2 to permit State agencies, departments, institutions and the University of North Carolina to allocate up to 10% of lapsed salary funds for bonuses and other career development needs to encourage sound management practices and equal opportunity employment. Authorizes bonuses for managers and supervisors who support and exhibit positive government strategic outcomes, including: (1) achieving equal opportunity goals, (2) practicing fair and equitable salary administration for all demographic groups, (3) attending annual equal employment opportunity and human resources continuing education programs, (4) participating in departmental mentoring programs, and (5) implementing career development plans for all employees. Enacts

new G.S. 126-16.3 to require State agencies, departments, institutions and the University of North Carolina to report on the utilization of lapsed salary funds in equal opportunity reports to the Office of State Personnel (OSP) and requires OSP to incorporate the respective reports into its semiannual report to the Joint Legislative Commission on Governmental Operations. Lastly, amends G.S. 143-23(a2) to permit the use of lapsed salary funds for purposes indicated.

ASSUMPTIONS AND METHODOLOGY:

Lapsed salaries are generated when a budgeted position becomes vacant for some period of time. The Office of State Budget and Management does not track lapsed salaries as they are generated. The Fiscal Research Division does, however, track position vacancies and the budgeted salary of those vacant positions in State agencies, departments, institutions and the Universities. Total position vacancies and budgeted salaries for the last three years are as follows:

Date	Vacant Positions	Budgeted Salary	Vacancies 6 months or older	Budgeted Salary
December 31, 2002	5,391.29	\$194,819,482	1,990.40	\$76,876,577
December 31, 2003	5,105.10	\$180,591,534	1,786.61	\$72,288,959
December 31, 2004	5,129.90	\$194,135,191	1,742.00	\$73,253,469

The average number of vacant positions over the last three years is 5,208.76, full-time equivalents (FTE's), with total average budgeted salaries of \$189,848,736. Likewise, positions vacant six months or more average 1,839.67 FTE's with total average budgeted salaries of \$74,139,668. Thus, ten percent of the total average budgeted salaries of vacant positions over the last three years ranges from \$7,413,967 to \$18,984,874 depending upon whether you are considering only positions vacant six or more months or are considering all position vacancies. The potential General Fund fiscal impact of this legislation could, thus, range from zero to \$18,984,874. These estimates do not include any potential impact to the Highway Fund. Vacant positions funded by the Highway Fund are not currently tracked and information concerning such vacancies is not readily available.

The provisions of G.S. 143-23(a2) specify how funds appropriated for salaries and wages may be used. It is not uncommon for the Executive Branch to use lapsed salaries to fund under-budgeted expenditures for temporary salaries (contractual labor, student wages, etc.), supplements to regular wages (overtime, shift pay, holiday pay, longevity, leave payouts, etc.) and other personnel services payments (workers' compensation, short-term disability, etc.). Lapsed salaries are also being shifted to fund non-labor related expenditures in the operating budget.

For example, information obtained from the Department of Correction indicates they expect to generate \$60.0 million in lapsed salary funds during the 2004-2005 fiscal year and expect to have needs to reallocate those funds for other under-budgeted expenditures of approximately \$66.3 million. Some of the significant expenditures include medical fees and services, workers' compensation medical claims, shift premium pay for correctional officers, contractual medical labor, etc.

The Department of Health and Human Services generated \$35.8 million in lapsed salary funds during the 2003-2004 fiscal year and reallocated \$24.5 million for other under-budgeted expenditures. Some of the significant expenditures included medical services, workers' compensation medical claims, shift premium and overtime pay, temporary wages, etc.

Likewise, the University system expects to generate \$81.9 million in lapsed salary funds during the 2004-2005 fiscal year and expects to have needs to reallocate those funds for other expenditures equaling the same amount. Some of the significant expected expenditures include equipment purchases for classrooms and labs, overtime pay, temporary and contract wages, supplements to the Academic Program and library budgets, information technology, etc.

It is, thus, unclear how much lapsed salary availability exists given the significant lapsed salary expenditures in the Executive Branch and the Universities. Furthermore, a State agency may not be able to determine lapsed salary availability until the end of a fiscal year (given unknown other needs) when the funds revert.

The potential General Fund fiscal impact of this legislation could, thus, range from zero to \$18,984,874.

SOURCES OF DATA: Personnel Management Information System (PMIS), Office of State Personnel, UNC System, Office of State Budget and Management, the Department of Correction, the Department of Health and Human Services, and the Fiscal Research Division, NCGA.

TECHNICAL CONSIDERATIONS: There is not an equitable distribution of lapsed salary funds in State departments, agencies, institutions, and universities. Approximately 80% of the position vacancies as of December 31, 2004 were located within the departments of Health and Human Services, Corrections, and the universities. Thus, many State agencies, departments, and institutions may not have lapsed salary availability to award bonuses as authorized by this legislation.

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DATE: May 11, 2005

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