LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT

PROPOSED RULE: 02-10 **DATE PREPARED:** Jul 19, 2002
STATE AGENCY: State Personnel Department **DATE RECEIVED:** June 6, 2002

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Digest of Proposed Rule: This rule amends 31 IAC 1-9-3, 31 IAC 1-9-4, 31 IAC 1-9-4.5, 31 IAC 2-11-3, 31 IAC 2-11-4, and 31 IAC 2-11-4.5 to reference the new leave conversion into a deferred compensation plan. The rule adds 31 IAC 5 to provide that a portion of accrued but unused vacation and sick leave will be converted into the deferred compensation plan. This rule also repeals 31 IAC 1-12.1, 31 IAC 2-17.1, and 31 IAC 4.

Governmental Entities: *State:*This rule will affect all state government entities, including the State Personnel Department, the Legislative Services Agency, legislative staff, state elected officials and their office staff, any separate corporate body politic that adopts the plan, and authorities, boards, branches, commissions, committees, departments, divisions, or other instrumentalities of state government. This list explicitly excludes state educational institutions and political subdivisions.

31 IAC 5 allows the state to convert unused sick and vacation leave into a monetary equivalent that is deposited in the employee's deferred compensation account. This rule contains both a mandatory and voluntary component. Eligible employees may voluntarily elect to convert an amount of time equal to the eligible mandatory amount. The amount of leave converted depends upon the total leave accrued to date by the employee and has set criteria (see Figure 1 for further detail). Leave hours can be converted one time per year on December 31. Converted leave is valued at 60% of the employee's hourly rate of compensation.

The total cost of this rule depends upon several factors. These factors include the number of voluntary leave hours converted (depends upon the voluntary participation rate), the amount of reduced mandatory overtime costs, the amount of reduced staff turnover costs and associated lower staff training and hiring costs, and the cost of the existing flexible spending plan (estimated at $700,000). The estimated cost of this rule is $9.4 M per year, $5 M from the general fund and $4.4 M from dedicated funds. This estimate is based upon accumulated leave hours as of 6/10/02 obtained from the Auditor of State, and an assumption of 60% voluntary participation. Costs may increase as more employees meet the criteria. Increased hourly rates will increase costs as well.

Figure 1: Proposed Rule - Hours Converted per Employee

Leave Balance (hours)	Mandatory Conversion (hrs)	Voluntary Conversion (hrs)	Total Conversion Eligible (hrs)
$300 <375 Vacation	22.5	22.5	**45.0**
$300 < 375 Sick	22.5	22.5	**45.0**
$375 < 525 Vacation	45.0	45.0	**90.0**
$375 < 525 Sick	45.0	45.0	**90.0**
$525 < 750 Vacation	75.0	75.0	**150.0**
$525 < 750 Sick	75.0	75.0	**150.0**
$750 Vacation	120.0	120.0	**240.0**
$750 Sick	120.0	120.0	**240.0**

It is important to note this rule may not reduce the number of some large vacation leave balances. For example, the mandatory hour conversion will not net out, on an annual basis, the total leave hours accrued by an employee with 20 years of service. Staff with at least 20 years of service accrue 187.5 hours of annual leave per year (see Figure 2 for schedule of leave accrual) and would be mandated to convert 120 hours per year, with an option to convert an additional 120 hours voluntarily.

Figure 2: State Employee Vacation Leave Accrual

Years of Service	Base Vacation Leave (hrs)	Bonus Leave (hrs)	Total Leave (hrs)
0-4.99	97.5	0	**97.5**
5-9.99	97.5	22.5	**120.0**
10-19.99	97.5	60.0	**157.5**
20 and above	97.5	97.5	**187.5**

Potential Cost Savings: There could be some cost savings associated with this rule to the extent that increased compensation for excess leave time could result in reduced mandatory overtime costs, reduced staff turnover costs, and associated lower staff training and hiring costs. For example, the Department of Corrections uses a mandatory overtime system to accommodate vacation requests and regular staff shortages. Mandatory overtime cost the Department $30.6 M in FY 2002 (as of 4/24/02). The Department has an average turnover rate of 25.7% - adult custody staff 24.11% and juvenile custody staff 36.01% (FY 2001 data). The Department incurs a cost of $4,500 to train each new employee. Given the number of employees that left during FY 2001 this represents a total training cost of $5.7 M. The staff turnover rate for all state government averaged 18.7% from 1999 to 2001. It is anticipated that this rule may reduce the amount of mandatory overtime and associated turnover. It is difficult to estimate the effect the proposed rule will have

on these two factors. Thus, the total cost savings realized depend upon the effect the proposed rule has upon employee leave utilization and employee retention.

This rule places no unfunded mandates upon any state governmental unit.

Local: This rule places no unfunded mandates upon any local government unit.

Regulated Entities: This rule has no effect upon any regulated entities.

Information Sources: Keith Beesley, State Personnel Department, 317-232-3062; David Reynolds, State Budget Agency, 317-233-5707; Doris Anne Sadler, Auditor of State, 317-233-1545; Kathy Lisby, Indiana Department of Correction, 317-232-1926.