

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

LAST UPDATED _____

SPONSOR Szczepanski/Roybal Caballero/Chavez, E. **ORIGINAL DATE** 2/4/2025

BILL

SHORT TITLE Public Employee Probation Period **NUMBER** House Bill 129

ANALYST Simon

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*

(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
State Agencies' General Fund Budget	\$0	\$1,600.0 to \$2,100.0	Up to \$2,200.0	Up to \$4,300.0	Recurring	General Fund
State Agencies' Other State Fund and Federal Funds Budget	\$0	\$1,600.0 to \$2,200.0	Up to \$2,300.0	Up to \$5,500.0	Recurring	Other State Funds and Federal Funds
Total	\$0	\$3,200 to \$4,300.0	Up to \$4,500.0	Up to \$9,800.0	Recurring	All Funds

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
 State Personnel Board
 Health Care Authority (HCA)
 Administrative Office of the Courts (AOC)

SUMMARY

Synopsis of House Bill 129

House Bill 129 (HB129) would reduce the probationary period for state employees in the executive branch's classified system from one year to 180 days, or about six months. The bill would also provide that an employee that has completed a probationary period cannot be required to complete another probationary period if that employee moves to another assignment.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

Provisions of the General Appropriation Act traditionally limit annual pay raises to employees

who have completed their probationary period. Currently, employees who have yet to complete their probationary period at the start of the fiscal year are eligible to receive an adjustment on completing their probationary period. Because HB129 would reduce the probationary period from one year to about six months, new employees would receive the increase six months earlier than they otherwise would.

Data from the State Personnel Office (SPO) indicates, of the 17,665 classified state employees as of February 3, 2025, 2,712 employees have been employed with the state for less than one year. Those employees have aggregate annual salaries of \$167 million, or \$215.2 million including the costs of benefits that vary with salary (pensions, retiree healthcare, and taxes on social security and Medicare). Given these levels, LFC estimates six months of salary and benefits costs for new employees at \$2.2 million for each percentage point increase in salary approved by the Legislature. For FY26, the LFC recommendation included an average 4 percent increase, and the executive recommendation included an average 3 percent increase, although some of this increase was through programs such as longevity pay, which tilt increases toward more experienced employees. LFC estimates the general fund portion of pay increases at 48.8 percent for the executive branch.

Using the above assumptions, LFC estimates the total cost of decreasing the probationary period by six months to be between \$3.2 million and \$4.3 million, with a total general fund impact of between \$1.6 million and \$2.1 million and a total impact of other state funds and federal funds of up to \$2.2 million. For FY27, the above table assumes an increase of up to 4 percent; however, this amount could be reduced should the retention of state employees improve.

SIGNIFICANT ISSUES

The Personnel Act currently requires a new employee to complete one year within the state's merit-based classified service before that employee is protected from discharge or demotion without a hearing. The classified service covers most executive branch employees, excluding temporary employees, those in agency leadership positions, or those in policymaking positions. While the Personnel Act's limitation of coverage for probationary employees is very narrow in scope, in practice many additional benefits are not available to probationary employees, including the accrual of two personal leave days, the ability to use up to two hours per week of fitness and wellness leave, and eligibility for alternative work schedules for employees otherwise eligible for such arrangements. While the bill could result in these benefits being extended to employees earlier than current practice, it would not be required under the bill. Similarly, the Personnel Act does not currently prohibit these benefits from being extended to employees in their probationary period.

Additionally, the bill could supersede a current administrative rule that requires an employee with a break in employment of at least one work day to serve another probationary period upon rehire; however, it is unclear if the bill's intent is to change the current system or would possibly allow an employee with a break in service to forgo a new probationary period. Under the current rule, employees who accept other employment within the state's classified system must repeat their probationary period unless their service is continuous. The bill would specify that an employee would not need to complete another probationary period "upon electing to transfer or otherwise move to another service assignment." If the intent of the bill is to require continuous service for an employee to forgo another probationary period, it may serve to only elevate the current administrative rule to a statutory requirement. However, the bill does not define the

phrase “transfer or otherwise move” to clearly guide the Personnel Board on the intent of the proposed requirement (see “Technical Issues” below). For example, if an employee resigns their current employment only after they have accepted new employment with another agency, it may be unclear if that employee could be said to have “transferred or otherwise moved” even if that employee observes a brief break in service. Similarly, the Personnel Board may choose to interpret the term “transfer or otherwise move” to only apply in cases where there is not a break of employment of at least one workday. Differing interpretations of this new requirement could lead to litigation to resolve its meaning.

PERFORMANCE IMPLICATIONS

The percentage of new state employees completing their probationary period is a key performance metric for SPO. SPO reports 66 percent of classified service employees completed their probationary period in FY24 and 8 percent of new employees were involuntarily terminated in FY24. About half of the employees who were involuntarily terminated in FY24 were terminated within 180 days. Analysis from SPO indicates the bill could increase the number of appeals for disciplinary action for employees who reach career status in 180 days, rather than within one year. Alternatively, analysis from the Health Care Authority (HCA) suggests agencies may choose to terminate employees more quickly, possibly driving up turnover rates.

ADMINISTRATIVE IMPLICATIONS

The HCA notes it can take more than six months to effectively train new employees to correctly perform the functions of their job, and it is the agency’s current practice to train workers over time, using simpler tasks at first before shifting to more complex tasks.

The bill could require the Personnel Board to revise administrative rules related to probationary employees. For example, current board rules require employees to be evaluated twice during the probationary period, which may need to be reduced with a shorter probationary period.

HCA notes it is unclear how employees currently on probation would be treated under the bill. For example, would an employee hired in early December 2024 have the probationary period end immediately on the effective date of the bill, or would these individuals complete the one year period. Should the bill pass the Legislature, it must be signed no later than April 11 to become law. To avoid potential conflict and litigation, the Personnel Board may choose to interpret the bill in the manner most advantageous to current employees, which could cause agencies to need to move up training and evaluation to meet this deadline to between April 11 and June 20.

TECHNICAL ISSUES

SPO notes the bill uses the word “transfer” on page 2, line 18. Strictly speaking, the state’s merit-based system does not allow for a transfer of employment. SPO notes employment decisions are based solely on qualifications and ability and current state employees wishing to fill a new position must apply and be considered on the same basis as a person who is not employed by the state. (Personnel Board rules do allow the state personnel director to waive standard recruitment process, but this happens in limited circumstances.) While most laypeople might consider a person moving from a job at one agency to a different job at another agency a

“transfer,” SPO suggests the more technically accurate “applying and accepting new employment within the state classified service.”

The Attorney General notes the phrase “provided that ...” may cause confusion and is not necessary because it implies a contingency for a person who has not yet completed the probationary period. Because the contingency would only apply after the completion of the probationary period, the analysis states it is unnecessary. The analysis suggests striking the semicolon and beginning a new sentence with “Once an employee ...”

JWS/hg/sgs