Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1000 (Delegate Rawlings, et al.)
Appropriations

Workforce Reduction Act

This bill requires the Governor to develop a reorganization plan to eliminate 1,500 positions from the fiscal 1997 State budget. The Governor, in consultation with the Secretary of the Department of Budget and Fiscal Planning, shall notify each unit of State government of the number of positions to be eliminated. Each unit is required to develop a reorganization plan to achieve such reductions.

The bill requires the terminating unit to pay the costs of the lump-sum payments from available appropriations, but authorizes the Governor to transfer up to $15 million from the Revenue Stabilization Account to provide funds for those units that do not have sufficient current appropriations. The bill is effective June 1, 1996.

Fiscal Summary

State Effect: Significant personnel expenditure increase in FY 1997 and significant personnel expenditure decrease and retirement expenditure increase beginning in FY 1998. One-time special fund administrative expenditure increase of $98,000 in FY 1997. No effect on revenues.

Local Effect: None.

Fiscal Analysis

Bill Summary: To facilitate the workforce reduction, the bill provides two severance incentive options for employees in positions targeted for elimination. The first is a lump sum payment that provides: (1) one twenty-fourth (approximately 4.2%) of salary for each year of service through 15 years; (2) one sixteenth (approximately 6.5%) of salary for each year of service from 16 years through 20 years; and (3) one twelfth (approximately 8.3%) of salary for each year of service in excess of 20 years. The bill specifies a maximum $75,000 payment. Alternatively, employees with 25 or more years of service who are age 50 or over may elect a retirement benefit increase equivalent to two months of additional service credit for each year of service. The bill also provides one year of the State health insurance subsidy for those employees voluntarily terminating under the provisions of the bill. The bill provides that only permanent non-federally funded positions are eligible for the severance incentives and provides that voluntary terminations be effective December 31, 1996, with exceptions.

State Expenditures: There are four significant areas of fiscal impact: (1) salary savings; (2) retirement costs; (3) cash buyout costs; and (4) administrative costs. Each of these is discussed in greater detail below.

Salary Savings

The bill requires the abolition of 1,500 positions from the State budget. Salary savings would result from the elimination of positions included in the budget. Two sets of salary savings are set forth in Exhibit 1: (1) salary savings associated with employees electing the retirement incentives; and (2) salary savings associated with employees electing the cash buyout incentive.

An estimated 5% (75 positions) of employees will elect the retirement incentives offered under the bill. The assumptions used in estimating the salary savings associated with these employees are as follows: (1) the average salary of eligible members of the retirement system is $37,500 and the average salary of eligible members of the pension system is $34,600; (2) fringe benefits at the rate of 18% of salary; (3) an annual health insurance subsidy of $3,926; (4) retiring employees have 45 days of unused annual leave, or $7,314; and (5) on average, all abolished positions will be vacant for four months in fiscal 1997. Based on these assumptions, each abolished position would result in a savings of $8,081 in fiscal 1997 and $46,184 on an annualized basis.

The remaining 95% (1,425 positions) of employees will elect the cash buyout incentives offered under the bill. The assumptions used in estimating the salary savings associated with these employees are as follows: (1) an average annual salary of $31,000; (2) fringe benefits at the rate of 18% of salary; (3) an annual health insurance subsidy of $3,926; (4) terminating employees have 20 days of unused annual leave, or $2,385; and (5) on average, all abolished positions will be vacant for four months in fiscal 1997. Based on these assumptions, each abolished position would result in a savings of $11,117 in fiscal 1997 and $40,506 on an annualized basis.

Retirement Costs

It is estimated that the retirement incentive provided in the bill (two months of additional service credit for each year of service) would increase the actuarial liabilities of the systems at the rate of $54.9 million for each 1,000 members receiving the benefit. The bill requires that the actuarial liabilities created by the incentives be amortized and funded over five years. Thus, first year annual retirement contributions would increase by $11.6 million per 1,000 members. These costs would increase by 5% each year until the liability is fully funded. It is estimated that 5% or 75 employees will elect the retirement incentive.

Cash Buyout Costs

The remaining 95% or 1,425 employees would elect the cash incentives offered under the bill. The cash buyout incentive is based on a graduated scale that ranges from 4% of salary for an employee with one year of service, to 62.5% of salary for employees with 15 years of service, to 177% of salary for an employee with thirty years of service. Absent information detailing the specific positions to be eliminated, a reliable estimate of the cash payments cannot be made. However, it is assumed that employees offered the buyout incentive earn an average annual salary of $31,000 and have 15 years of service. The health insurance component assumes that 1,425 participants receive four months of the State subsidy in fiscal 1997 and eight months of the subsidy in fiscal 1998.

Exhibit 1
(000's omitted)

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Severance Expenditures					
Retirement Costs		870	914	959	1,007
Lump Sum Payments	27,609				
Health Insurance	1,865	3,730			
Salary Saving					
Retirements	(606)	(3,464)	(3,464)	(3,464)	(3,464)
Cash Buyouts	(15,842)	(57,721)	(57,721)	(57,721)	(57,721)
Net Effect	13,026	(56,585)	(60,271)	(60,226)	(60,178)

Administrative Costs

Seven contractual employees at a cost of approximately $58,000 would be needed to implement the provisions of this bill. An additional $40,000 in operating expenses would be needed, as follows: (1) overtime - $7,000; (2) data processing - $11,000; (3) postage and communications material - $12,000; and (4) actuarial services - $10,000. Thus, special fund expenditures of the Retirement Agency could increase by an estimated $98,000 in fiscal 1997.

Additional Comments: The Department of Fiscal Services advises that approximately 1,500 members of the employees' retirement and pension systems will retire in fiscal 1997 under current law. Fiscal Services further advises that the estimated salary savings are dependent on the abolishment of positions with average salaries from $31,000 to $37,500. Further, this estimate does not include any adjustment to reflect promotions or salary increases that result from the elimination of positions. Finally, long-term salary savings are dependent on a permanent reduction in the size of the State workforce. If additional positions are created in the future as a result of this downsizing, salary savings would be significantly reduced.

Information Source(s): Maryland State Retirement Agency; Milliman and Robertson, Inc.; Department of Fiscal Services

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