Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1272 (Delegate Rawlings)
Economic Matters

Labor and Employment - Direct Deposit of Wages

This bill allows employers to require that employees be paid through direct deposit into a personal bank account either (1) selected by the employee; (2) provided by the employer and authorized by the employee; or (3) provided by the employer if the employee fails to select or accept a personal bank account.

Fiscal Summary

State Effect: General fund revenues could increase an estimated $14,300 in FY 1998; out-year revenues reflect annualization and inflation. General fund expenditures could increase an estimated $25,200 in FY 1998; out-year expenditures reflect 10% growth in bank fees and inflation.

(in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	$14,300	$23,200	$26,900	$30,200	$33,200
GF Expenditures	$25,200	$26,800	$26,800	$27,300	$27,800
Net Effect	($10,900)	($3,600)	$100	$2,900	$5,400

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Potential increase in expenditures should local governments choose to pay employees through direct deposit.

Small Business Effect: Potential minimal effect on small business as discussed below.

Fiscal Analysis

Background: The Central Payroll Bureau advises that a total of approximately 132,000 individuals were employed by the State for some portion of 1996. The number of employees working at the end of 1996 was 97,300. Thus, employment turnover for all of State government is estimated at 36%.

Of the 97,300 individuals employed at the end of 1996, approximately 54,000 State employees currently participate in the direct deposit program. This represents over 55% of State employees working in one of the 250 State agencies.

State Revenues: The State Comptroller and the Treasurer plan to require all new hire employees to have direct deposit of wages as a condition of employment, with some limited exceptions, as a result of this bill. Requiring new hire employees to participate in direct deposit creates both a revenue increase and a revenue decrease for the State, with a net revenue gain of $14,300 in fiscal 1998.

The State currently receives $5 in compensation for each employee that attends a seminar on direct deposit whether or not the employee chooses direct deposit. According to the Treasurer's Office, there would be 24,000 new employees attending such seminars annually. Thus, $90,000 would be generated from new employees attending direct deposit seminars based on the $5 fee collected per employee and the bill's October 1, 1997 effective date. It is assumed, however, that 50% of newly hired State employees would participate in direct deposit seminars absent the bill. Thus, the bill is estimated to generate an additional $45,000 in revenues.

The bill also causes a decrease in general fund revenues of approximately $30,700 in fiscal 1998. This is a result of a reduction in float income for the general fund. In a direct deposit system the funds for new hire employees would be transferred immediately and the State would lose the opportunity to earn money on the employees wages before the employees cashed their bank checks. This revenue loss assumes that 50% of newly hired employees would have selected direct deposit absent the bill and is adjusted for the bill's October 1, 1997 effective date.

State Expenditures: As a result of employment turnover of 36%, the Central Payroll Bureau would need to hire one full-time Supervisor to process the increased number of direct deposit forms for new hire State employees at a cost of $29,800 in fiscal 1998. This cost reflects salary, fringe benefits, one-time start-up costs, ongoing operating expenses, and the October 1, 1997 effective date. Future year expenditure projections reflect a full salary with 3.5% annual increases, 3% employee turnover, and 2% increases in ongoing operating expenses.

General fund expenditures would also decrease minimally as a result of the bill. The State is charged $.0405 by banking institutions for each check that the bank has to process. The bank charges a reduced fee of $.0295 for each direct deposit made. As a result, State expenditures would decline by $4,600 in fiscal 1998. According to Central Payroll, the State employment turnover was 36%, or 34,000 people, in 1996. The estimated expenditure decrease assumes that half of these 34,000 employees of the State would have chosen direct deposit during their employment regardless of the bill and reflects the bill's October 1, 1997 effective date. As a result of both the increase and decrease in general fund expenditures, State expenditures would increase by $25,200 in fiscal 1998.

Small Business Effect: Approximately 96% of all businesses in the State are small businesses. To the extent that small businesses choose to require their employees to be paid by direct deposit and doing so reduces payroll expenditures, small business could be positively impacted by the bill.

Also, the majority of State-chartered credit unions as well as several banks operating in the State are small businesses. These financial institutions could benefit from the decreased costs associated with a decline in the number of checks processed and employees needed to serve customers on high volume pay days.

Information Source(s): Central Payroll Bureau, Department of Budget and Management, State Treasurer's Office, Department of Fiscal Services

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Analysis by: Shelley Finlayson
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710