

Department of Legislative Services  
Maryland General Assembly  
2011 Session

FISCAL AND POLICY NOTE  
Revised

Senate Bill 993

(Senator Middleton, *et al.*)

Finance

Economic Matters and Appropriations

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Maryland Automobile Insurance Fund - Employee Compensation

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This bill specifies that employees of the Maryland Automobile Insurance Fund (MAIF) are not subject to any State law, regulation, or executive order governing State employee compensation, including furloughs, salary reductions, or any other general fund cost savings measure. The bill also repeals a requirement that the compensation of specified employees be, whenever possible, in accordance with the State pay plan and specified reporting requirements regarding changes in MAIF's salary plans. MAIF's Executive Director must administer the compensation of personnel in specified technical or professional positions.

The bill takes effect July 1, 2011.

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Fiscal Summary

**State Effect:** Payroll savings due to furloughs and salary reductions of MAIF employees are deposited in the MAIF surplus fund, not the State's general fund. Additionally, any costs associated with the slowing of claims processing would only reduce MAIF's surplus fund. Any costs or savings associated with the Comptroller no longer administering compensation to MAIF personnel is expected to be minimal. Thus, State finances are not affected by reductions in MAIF's payroll. However, general fund revenue increases by \$4 million in FY 2012 because the Budget Reconciliation and Financing Act of 2011 (BRFA) requires the Governor to transfer \$4 million from MAIF to the general fund contingent on enactment of this bill.

**Maryland Automobile Insurance Fund Effect:** Mandatory furlough/salary reductions in FY 2011 decreased MAIF's salary expenses by an estimated \$785,000; however, any savings due to the salary reductions was more than offset by costs associated with the slowing of claims processing. MAIF advises that total claims expenses increased by an estimated \$1.2 million. Thus, exempting MAIF employees from mandatory salary reductions imposed on other State employees in the future benefits MAIF's operations

and finances. Additionally, MAIF advises that it will accept bids for payroll services. It is estimated that this increases nonbudgeted expenditures in FY 2012 by anywhere from \$10,000 to \$50,000, depending on which bid is accepted. MAIF's fund balance decreases by \$4 million in FY 2012 due to BRFA's requirement that the Governor transfer the amount from MAIF to the general fund, again contingent on enactment of this bill. MAIF's investment income decreases by approximately \$170,000 due to the \$4 million transfer.

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

**Current Law/Background:** MAIF is an independent, nonbudgeted State agency that was established in 1972. MAIF's Insured Division provides automobile insurance policies for those residents of Maryland whose applications have been declined by private insurers; it is funded through premiums, investment income, and, when necessary, a surcharge on premiums statewide. MAIF's Uninsured Division administers and pays claims to residents of Maryland who are involved in accidents in Maryland with motorists who are uninsured, or for hit-and-run incidents where a responsible party cannot be found. Revenues for MAIF's Uninsured Division consist of recoveries from uninsured at-fault parties, uninsured motorist fines, and interest earnings.

MAIF's Executive Director must appoint and remove MAIF staff in accordance with the provisions of the State Personnel and Pensions Article. However, positions that the Executive Director designates with the approval of the Board of Trustees as technical or professional positions are in the executive service, management service, or are special appointments of the skilled service or the professional service in the State Personnel Management System. The Executive Director must determine the compensation offered for these technical or professional positions with the approval of the Board of Trustees and, when possible, in accordance with the State pay plan.

If there is a change to MAIF's salary plan that increases or decreases salary ranges outside of routine reclassifications, promotions, or general salary increases approved by the General Assembly, the Executive Director must report the change to the Secretary of Budget and Management at least 45 days before the effective date of the change. The Secretary must then review the proposed changes and, at least 15 days before the effective date of the proposed changes, advise the Executive Director whether the changes would have an adverse effect on comparable State jobs. If the Secretary does not respond to the changes in a timely manner, the changes are assumed to have no adverse effect.

As part of cost containment measures, the Governor ordered most State employees to take mandatory furloughs and/or temporary salary reductions in both fiscal 2009 and 2010. Executive Order 01.01.2008.20, dated December 16, 2008, required all State employees, except certain exempt Executive Branch employees and employees in the Legislative and Judicial branches, to forego the equivalent of two full days of compensation prior to the end of fiscal 2009. Depending on their annual compensation, employees were also subject to two or three furlough days, for a maximum total of five days of reduced compensation. Based on a 250-day work year, the total salary reduction was 0.8% of annual compensation.

Executive Order 01.01.2009.11, dated August 25, 2009, instituted a combined furlough/salary reduction plan for most State employees for fiscal 2010. Affected employees were subject to a minimum salary reduction equivalent to 3 days of pay, and a maximum combined furlough/salary reduction equivalent to 10 days of pay, which varied according to annual compensation. Based on a 250-day work year, the average furlough/salary reduction was 2.6% of annual compensation.

Executive Order 01.01.2010.11, dated May 21, 2010, instituted the furlough/salary reduction plan for fiscal 2011. Affected employees who earn more than \$40,000 per year are required to take between three and five furlough days in fiscal 2011. In addition, most State employees are required to take five service reduction days on specified dates during fiscal 2011. The salaries of employees who earn \$40,000 or more are reduced by the equivalent of five days; the salaries of employees who earn \$39,999 or less are reduced by three days.

The Governor's fiscal 2012 budget plan does not include a furlough/salary reduction proposal. However, accompanying reconciliation legislation includes a provision specifying that – notwithstanding any other provision of law – State employees with any entity may not receive merit increases prior to April 1, 2014.

**State Revenues:** General fund revenue increases in fiscal 2012 due to BRFA's requirement that the Governor transfer \$4 million from MAIF. This transfer is contingent on the enactment of the bill.

**Maryland Automobile Insurance Fund Effect:** MAIF has 377.6 full-time equivalent positions in fiscal 2011. In fiscal 2011, MAIF employee salaries were reduced by an estimated \$785,000 as a result of the mandatory furlough/salary reduction plan. However, MAIF advises that the combined furlough/salary reduction days increased MAIF's total expenditures by an estimated \$1.2 million. Each day of delay caused by reduced staffing costs MAIF an additional \$120,000 to \$140,000. This amount is partially accounted for by increased rental reimbursement costs due to additional days of use and delays in establishing the terms of the rental agreement, as well as increased

supplemental repair costs due to delays in the final settlement. However, the most significant portion of the cost caused by the mandatory furlough/salary reduction plan is the cost associated with delays in settling bodily injury claims. Any delay in settling a claim may increase medical expenses and customer dissatisfaction which, consequently, further increases the possibility that a claimant may contact a personal injury attorney. Under the bill, MAIF employees are not affected by future mandatory furloughs or salary reductions imposed on State employees.

As noted above, the bill's requirement that MAIF's Executive Director administer compensation increases nonbudgeted expenditures by \$10,000 to \$50,000 per year. It is anticipated that this amount will be constant in future years as any start-up costs in fiscal 2012, such as programming costs, are minimal.

Enactment of the bill effectuates a contingent transfer from MAIF to the general fund as required by BRFA. The \$4 million transfer is implemented using approximately \$1.26 million from Central Payroll. The remaining \$2.74 million comes from both MAIF's Insured and Uninsured divisions. MAIF advises that the loss of this \$2.74 million causes a decrease in investment income of approximately \$170,000 in fiscal 2012 and future years until the surplus increases to a similar level.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Automobile Insurance Fund, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 22, 2011  
ncs/ljm Revised - Senate Third Reader - March 30, 2011  
Revised - Updated Information - April 5, 2011  
Revised - Updated Budget Information - June 24, 2011

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