Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1459 (Delegate D. Davis)
Economic Matters

Bonuses - Distribution to All Employees

This bill provides that an employer who pays bonuses to its employees must pay bonuses to each employee. If the employer pays bonuses that are "rewards" or "compensation for the performance of the employer's business," the bonus money must be pooled, each employee must be awarded a bonus, and no employee may receive a bonus that is more than twice the amount of the smallest bonus. If the employer pays annual bonuses that are not "rewards" or "compensation for the performance of the employer's business," all employees must receive a bonus and the employer may not pay a bonus to an employee that exceeds two weeks of regular pay for the employee. "Rewards" and "compensation for the performance of the employer's business" are not defined.

Fiscal Summary

State Effect: General fund expenditures to regulate bonus practices would increase by $66,000 for personnel and other costs in FY 1998, reflecting the October 1 start-up date. Future-year increases reflect annualization and growth. State compensation policies would not be affected.

($ in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	66,600	79,800	82,700	85,700	88,800
Net Effect	($66,600)	($79,800)	($82,700)	($85,700)	($88,800)

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

Local Effect: None. Local governments are not subject to the wage and hour provisions of State law.

Small Business Effect: Meaningful impact on small businesses that use bonuses as part of their compensation package, as discussed below.

Fiscal Analysis

State Expenditures: The bill requires that the Employment Standards Service (ESS) of the Division of Labor and Industry of the Department of Labor, Licensing, and Regulation regulate the manner in which an employer awards bonuses to employees. Currently, ESS has a staff of six people, including three investigators, who each complete an average of 500 investigations per year. It is estimated that an additional 1,000 complaints would be filed each year regarding bonuses. ESS would therefore need two additional investigators and a clerical support person to conduct these investigations.

General fund expenditures could increase by an estimated $66,600 in fiscal 1998, which accounts for the bill's October 1, 1997 effective date. This estimate reflects the cost of hiring two investigators and one support staff to handle cases related to bonuses. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- 1,000 additional cases for the ESS;
- at 500 cases per investigator; and
- one support staff.

Salaries and Fringe Benefits	$56,603
Operating Expenses	$10,005
Total FY 1998 State Expenditures	**$66,608**

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

The bill would not apply to the State or local governments. As a matter of policy, however, the State often applies State wage and hour provisions to its own employment practices. Fiscal Services is aware of several State agencies -- including the Central Collection Unit of the Department of Budget and Management, the Maryland Port Administration, and State Use Industries -- that pay bonuses. If this provision were applied to these agencies, it could cause expenditures associated with these bonuses to increase by an indeterminate amount.

Small Business Effect: The bill sets limits on the payment of a bonus to an employee, including both relative limits (relative to other employees, in the case of "reward" bonuses) and absolute limits (in the case of non- "reward" bonuses). Under the bill, if the employer wanted to pay a bonus of the same magnitude as allowed under current law to a particular employee, the total costs of bonuses could increase because other employees, who currently receive little or no bonuses, would receive higher bonuses. Alternatively, if the employer chose to keep the total cost of bonuses constant, the employer could not pay a bonus of the same magnitude to that particular employee because more employees would be eligible for bonuses.

Information Source(s): Department of Budget and Management; Department of Labor, Licensing, and Regulation; State Use Industries; Department of Fiscal Services

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