

Department of Legislative Services
 Maryland General Assembly
 1999 Session

FISCAL NOTE

House Bill 1085 (Delegate Heller)
 (Joint Committee on the Management of Public Funds)

Appropriations

State Personnel - Payment of Wages - Direct Deposit

This bill authorizes the State Treasurer, on warrant of the Comptroller of the Treasury, to pay a wage by direct deposit. Any direct deposit payments shall be made in accordance with regulations adopted by the Treasurer, with the concurrence of the Comptroller.

Fiscal Summary

State Effect: General fund revenues would decrease by \$13,900 in FY 2000, offset by reduced general fund expenditures of \$18,400, for net general fund savings of \$4,500. Future year savings are based on annualization, increased participation in direct deposit program, and assumed increases in bank charges.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	(\$13,900)	(\$36,900)	(\$55,400)	(\$73,900)	(\$92,300)
GF Expenditures	(18,400)	(48,900)	(73,400)	(97,900)	(122,400)
Net Effect	\$4,500	\$12,000	\$18,000	\$24,000	\$30,000

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect
 Numbers may not total due to rounding.

Local Effect: None.

Small Business Effect: Minimal impact on small businesses. 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.

Fiscal Analysis

Background: 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. If the program proves successful, it may be expanded to existing employees.

State Revenues: The bill causes a decrease in general fund revenues of approximately \$13,900 in fiscal 2000. 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. Fiscal 2000 revenue losses reflect the October 1 effective date; future year revenue losses reflect 1% inflation and increased participation in direct deposit program.

State Expenditures: General fund expenditures would also decrease as a result of the bill. The Comptroller's Office advises that its current payroll count (including contractual employees) is 102,378, of whom 60,908 (or 59.5%) utilize direct deposit and the other 41,470 receive checks. The State incurs several charges as a result of issuing payroll checks, as illustrated below.

Some charges, such as processing fees and transmittal fees, are charged for every check that is issued. For each check that is issued, the State is charged \$0.045 for processing; this charge decreases to \$0.0295 for direct deposit, for a savings of \$0.0155. Similarly, the State saves \$0.02 in transmittal fees for check file that is not transmitted. The State also saves charges from stop payment orders, check reissuances, and check photocopying as a result of direct deposit. The State would also realize administrative savings in the Treasurer's office and in personnel offices throughout State agencies due to reduced check-handling. Fiscal 2000 expenditure savings are estimated to be \$18,356, based on 67.6% total participation and the October 1 effective date.

It is assumed that by fiscal 2004, participation in direct deposit (and the associated expenditure reductions and revenue reductions) would reach 100%, due to turnover and increasingly stringent regulations. Participation (and associated savings) are assumed to increase on an incremental basis between fiscal 2000 and 2004. Bank fee rates are assumed to increase 10% per year.

The following chart sets forth the bill's effect on revenues and expenditures.

Impact of Direct Deposit

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Participation	67.6%	75.7%	83.8%	91.9%	100.0%
Expenditure Decreases					
Processing Fee Savings	\$3,670	\$9,787	\$14,681	\$19,575	\$24,469
Transmittal Savings	4,736	12,629	18,943	25,258	31,572
Stop Payment Savings	791	2,108	3,162	4,217	5,271
Check Reissuance Savings	12	32	49	65	81
Check Photocopy Savings	1,647	4,392	6,588	8,785	10,981
Administrative Savings	<u>7,500</u>	<u>20,000</u>	<u>30,000</u>	<u>40,000</u>	<u>50,000</u>
Total Savings	\$18,356	\$48,949	\$73,424	\$97,899	\$122,373
Revenue Decreases					
Lost Float	<u>13,852</u>	<u>36,940</u>	<u>55,410</u>	<u>73,880</u>	<u>92,349</u>
Net Savings (Cost)	\$4,504	\$12,010	\$18,014	\$24,019	\$30,024

Central Payroll Bureau advises that it would require one additional full-time employee to handle the additional direct deposit enrollment forms. Legislative Services, however, believes that under the proposed implementation (mandating direct deposit for new employees only), the additional enrollment forms can be handled with existing budgeted resources.

Information Source(s): Comptroller of the Treasury (Central Payroll Bureau), State Treasurer, Department of Legislative Services

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