SB 448

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 448 (Senator Currie, *et al.*)
(Joint Committee on the Management of Pubic Funds)
Budget and Taxation

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. Any such regulations may not require direct deposit for employees hired prior to the effective date of the regulations or who request an exemption from the direct deposit requirement.

Fiscal Summary

State Effect: General fund revenues would decrease by $3,000 in FY 2001, offset by reduced general fund expenditures of $5,900, for net general fund savings of $2,800. Future year savings are based on annualization, increased participation in direct deposit program, and assumed increases in bank charges.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	($3,000)	($8,100)	($12,100)	($16,200)	($20,200)
GF Expenditures	(5,900)	(13,200)	(21,100)	(29,100)	(37,200)
Net Effect	$2,800	$5,100	$9,000	$12,900	$16,900

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.

Analysis

Current Law: State employees currently have the option to utilize direct deposit, but are not required to do so.

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 an exemption provision, as a result of this bill. The Comptroller's Office advises that its current payroll count (including contractual employees) is 95,415, of whom 64,269 (or 67.4%) utilize direct deposit and the other 31,146 receive checks.

State Revenues: The bill causes a decrease in general fund revenues of approximately $3,000 in fiscal 2001. 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 2001 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 State incurs several charges as a result of issuing payroll checks that would be reduced under direct deposit, 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 2001 expenditure savings are estimated to be $5,900, based on 69.4% total participation and the October 1 effective date.

It is assumed that participation would increase by 3% per year as new employees enter the State workforce. 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

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Participation	**69.4%**	**71.5%**	**73.6%**	**75.8%**	**78.1%**
Expenditure Decreases					
Processing Fee Savings	$1,154	$1,307	$1,481	$1,678	$1,901
Transmittal Savings	1,488	1,686	1,911	2,165	2,453
Stop Payment Savings	108	122	139	157	178
Check Reissuance Savings	2	2	2	2	3
Check Photocopy Savings	90	102	116	131	148
Administrative Savings	5,000	10,000	17,500	25,000	32,500
Less Oct. 1 Effective Date	(1,960)	0	0	0	0
Total Savings	**$5,881**	**$13,220**	**$21,148**	**$29,133**	**$37,183**
Revenue Decreases					
Lost Float	3,036	8,095	12,143	16,190	20,238
Net Savings (Cost)	**$2,846**	**$5,125**	**$9,005**	**$12,943**	**$16,945**

Numbers may not total due to rounding.

Additional Information

Prior Introductions: Substantially similar bills were introduced in the 1999 and 1998 sessions. SB 716 of 1999 was passed by the Senate but received an unfavorable report from the House Appropriations Committee. HB 1085 of 1999 received an unfavorable report from the House Appropriations Committee. SB 665 of 1998 received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

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

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ncs/jr

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