

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 443 (Southern Maryland Delegation)
 Appropriations

Potomac River Fisheries Commission - Employees and Retirees - Participation in State Health and Welfare Benefits Program

This bill allows employees and retirees of the Potomac River Fisheries Commission to participate in the State Employee and Retiree Health and Welfare Benefits Program, subject to the commission’s approval. The commission is responsible for paying the full cost of the employees’ and retirees’ participation in the program, subject to any employee cost-sharing it establishes.

The bill takes effect October 1, 2007, but requires that the Commonwealth of Virginia enact a similar bill before taking full effect.

Fiscal Summary

State Effect: General fund expenditures by the Department of Natural Resources (DNR) increase by approximately \$13,000 in FY 2009 to cover one eligible retiree of the Potomac River Fisheries Commission. Also, the State’s accrued liabilities for retiree health insurance increase by approximately \$280,000 for each new retiree added to the program, assuming the retiree also covers a spouse. Out-year increases reflect inflation. No effect on revenues.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	13,000	13,600	14,200	14,900
Net Effect	\$0	(\$13,000)	(\$13,600)	(\$14,200)	(\$14,900)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: In general, only State employees and retirees may enroll and participate in the health insurance benefit options established under the State Employee and Retiree Health and Welfare Benefits Program. In addition, employees (but not retirees) of the following organizations may participate in the State health insurance benefit program, subject to the approval of their employers:

- county and municipal governments;
- Maryland Environmental Service;
- Northeast Maryland Waste Disposal Authority;
- not-for-profit organizations that receive more than one-third of their operating expenses from the Department of Health and Mental Hygiene;
- Legal Aid Bureau;
- Tri-County Council for Southern Maryland;
- Tri-County Council for Western Maryland;
- Tri-County Council for the Lower Eastern Shore of Maryland; and
- Mid-Shore Regional Council.

In each case, the employers are responsible for paying the full premium amounts to the State, subject to any employee cost-sharing they establish.

The State subsidizes 80% of the health insurance premiums for all State employees.

Background: The Potomac River Fisheries Commission, a bi-state regulatory authority established jointly with the Commonwealth of Virginia in 1958, regulates all recreational and commercial fishing, crabbing, oystering, and clamming in the mainstem tidal Potomac River from Washington, DC to the Chesapeake Bay.

In 2005, the Governmental Accounting Standards Board (GASB) issued new standards that require state and local governments to account for liabilities associated with the employers' commitment to provide Other Post Employment Benefits (OPEB) such as health insurance for retirees. Under these standards, all public employers will be required to account for these OPEB liabilities beginning in fiscal 2008. Under the new GASB rules, if Maryland carries large unfunded OPEB liabilities on its balance sheets, bond

raters could downgrade the State's bond rating from its long-held AAA status. A lower bond rating could cost the State millions of dollars in interest payments on its general obligation bonds.

Chapter 433 of 2006 established a blue ribbon commission to study options for funding health care for State retirees. An actuarial valuation performed for the commission in 2006 estimated the State's current OPEB liabilities to be \$14.5 billion. To avoid carrying those liabilities on its balance sheet, and thus imperiling its AAA bond rating, the State would have to make annual amortization payments of between \$468 million and \$810 million above its current pay-as-you-go costs beginning in fiscal 2008.

State Fiscal Effect: The fisheries commission's operating budget is provided jointly by Maryland and Virginia. DNR's budget includes Maryland's share of the commission's budget.

The commission currently has five employees, including four Virginia residents and one Maryland resident. The four Virginia residents employed by the commission participate in the Virginia employees' health plan and are not affected by this bill. However, the one Maryland resident participates in the Maryland employees' health plan but is not authorized to participate in the plan as a retiree. The commission advises that the one Maryland resident expects to retire shortly, so this analysis assumes that one retiree from the commission will join the State health plan and will be replaced with an active employee who is already eligible to participate in the plan.

Based on the above assumptions, general fund expenditures by DNR would increase by approximately \$13,000, the unsubsidized cost for a single covered employee in the State health plan, to add the retiree to the State health plan. If the commission chooses to require cost-sharing, DNR expenditures would decrease by the amount of the premium paid by the retiree.

Adding commission retirees to the State health plan also increases the State's accrued OPEB liabilities. Although a precise estimate of the additional liabilities contributed by a single new retiree is not available, the blue ribbon commission's actuary estimates that a new member adds approximately \$280,000 in liabilities to the plan, assuming the retiree also obtains coverage for a spouse. Since the bill applies to all future retirees from the fisheries commission, the State's liabilities could increase further in the future.

Additional Information

Prior Introductions: None.

Cross File: SB 284 (Senators Middleton and Dyson) – Finance.

Information Source(s): No Department of Natural Resources, Department of Budget and Management, Department of Legislative Services

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nas/ljm

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510