

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 523
Appropriations

(Delegate Hettleman, *et al.*)

Finance

State Personnel - Employees in the Same Classification - Report

This bill requires the Department of Budget and Management (DBM), in consultation with the Maryland Department of Transportation (MDOT), to submit a report to the budget committees of the General Assembly by January 1, 2020. The report must outline a plan to (1) phase out the practice of hiring a newly appointed employee at a higher pay rate than an incumbent employee who is in the same unit and in the same classification and (2) adjust the pay rate of each incumbent employee in a unit who is in the same classification as, and has a pay rate lower than, the newly appointed employee so that the pay rates are equal. These requirements do not apply if the higher pay rate of the new employee is based solely on a higher level of qualification or experience relevant to the position or an employee transfer. The report must identify units and the number of incumbent employees affected by the plan, a timeline for implementing the plan, and the estimated cost associated with doing so. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: DBM and MDOT can create the report with existing resources; as discussed below, costs associated with implementation of the plan, which is not required by the bill, would be significant. State revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Within the State Personnel Management System (SPMS), there are two pay plans: the Standard Pay Plan and the Executive Pay Plan. The purpose of the pay plans is to provide employees in positions that involve comparable effort, knowledge, responsibilities, skills, and working conditions with comparable pay according to the relative value of services performed. The Standard Pay Plan includes all positions in SPMS and all other positions for which the Secretary of Budget and Management has authority to administer pay.

Pay rates in the Standard Pay Plan may be set by a series of pay grades and steps within each grade, fixed rates, or minimum and maximum amounts. When setting or amending a pay rate, the Secretary of Budget and Management must consider the prevailing pay rates for comparable services in private and public employment, experience, living costs, benefits, and the financial condition and policies of the State. A pay rate is subject to any limitations included in the State budget.

The Secretary of Budget and Management may increase pay rates for a specific class under the Standard Pay Plan with the approval of the Governor in order to recruit or retain competent personnel or to ensure that pay rates adequately compensate for the effort, knowledge, responsibility, skills, and working conditions of employees in that class. If an amendment to the pay plan affects a position in the Executive Branch that is listed in the budget bill, the amendment is contingent on the approval of the Board of Public Works. An amendment to the Standard Pay Plan may not take effect unless sufficient money is available in the budget to cover the resulting pay rates.

MDOT, which has an independent personnel system, must use the standard salary schedule adopted by the Secretary of Budget and Management in establishing a pay plan. The Secretary of Transportation must prepare and recommend a standard pay plan for all classes of positions in the human resources management system that conforms to most provisions that govern the Standard Pay Plan of the State.

Background: DBM advises that the step of an employee is based on many factors, such as State seniority, salary rules, a candidate's current salary, market salaries for certain professions, and recruitment difficulties.

State Expenditures: DBM and MDOT can create the report with existing resources. The bill does not require the plan outlined in the report to be implemented but, if implemented, expenditures increase significantly. The actual increase would depend on the timeline established for implementing the plan and the salaries of newly hired and incumbent employees affected by the plan.

Advancing employee steps to the level of the most recently hired employee in the same classification was considered during negotiations with the State's largest union in December 2016. At that time, DBM calculated the cost of advancing employees represented by that single union. DBM considered three levels of advanced steps – step 12, step 15, and step 17 – and calculated the associated costs of advancing all lower-stepped employees up to the advanced step. Those costs and the number of affected employees were estimated to be:

- Step 12 and lower: 13,875 employees = \$76.6 million
- Step 15 and lower: 15,356 employees = \$117.2 million
- Step 17 and lower: 16,191 employees = \$147.6 million

Those costs reflect only 62% of SPMS employees in the skilled or professional service and do not reflect any costs for MDOT employees. MDOT estimates approximately 8,600 employees could be eligible for salary adjustments under the plan outlined in the report established by the bill, increasing expenditures by \$86.1 million if salaries are adjusted to the highest pay rate in each classification, although this scenario is not likely. Thus, State expenditures could increase by well over \$100 million if the higher rate of pay for a newly appointed employee is not due to relevant qualifications or experience. However, the cost increase may be significantly lower based on the classifications and units of new employees and their pay rates. DBM advises that the fiscal impact of implementing the plan is indeterminate. The Department of Legislative Services (DLS) concurs that the increase in State expenditures from implementing the plan is indeterminate but could be in the tens of millions of dollars annually.

Under the plan outlined in the report required by the bill, when an appointing authority of SPMS or MDOT appoints an employee to a position, the pay rate of employees in that unit with the same classification but lower pay rates as the newly appointed employee must be adjusted to equal the pay rate of the newly appointed employee unless the pay disparity is due to the new employee's relevant qualifications or experience or an employee transfer. The actual cost of the plan depends on which units hire employees and the pay rate of the newly appointed employee if the new employee's pay rate is not based solely on an employee transfer or relevant qualifications or experience. There were 2,544 appointments within SPMS and 492 appointments within MDOT in fiscal 2017. Thus, DLS estimates a significant number of adjustments will need to be made if and when the plan is implemented. Appointing authorities could appoint new employees to the lowest pay rate, in which case there will be no associated costs, but filling those positions may be difficult. There were 4,772 vacant positions within SPMS and 613 vacant positions within MDOT at the conclusion of fiscal 2017.

Additional Information

Prior Introductions: A similar bill, HB 614 of 2017, received a hearing in the House Appropriations Committee and was later withdrawn. Its cross file, SB 483, received a hearing in the Senate Finance Committee, but no further action was taken.

Cross File: SB 464 (Senator Klausmeier, *et al.*) - Finance.

Information Source(s): Department of Budget and Management; Maryland Department of Transportation; Department of Legislative Services

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Analysis by: Heather N. Ruby

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