Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1240 (Delegate Acevero, *et al.*)
Appropriations Budget and Taxation

State Personnel – Merit Pay

This bill requires the Governor to include in the fiscal 2021 budget at least $94,178,000 from any fund source for the purpose of providing a merit pay increase to specified employees whose overall performance is rated satisfactory or above on the employee's annual performance appraisal. The bill applies to permanent employees in the Executive Branch who are not (1) in a bargaining unit that has agreed to and ratified the economic terms of a memorandum of understanding (MOU) for fiscal 2020; (2) elected to a position by popular vote; (3) in a position by election or appointment that is provided for by the Maryland Constitution; or (4) included in the Executive Pay Plan. The bill may not be construed to prohibit an exclusive representative and an employer from negotiating any economic terms of an MOU that exceed the merit pay increases required by the bill. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: No effect in FY 2020. State expenditures (all funds) increase by at least $94.2 million in FY 2021 and $125.6 million beginning in FY 2022 to provide specified employees within the Executive Branch merit increases. Out-year expenditures reflect the ongoing impact but do not incorporate additional likely personnel costs beyond FY 2022. Federal fund revenues increase beginning in FY 2021, by approximately $18.8 million in FY 2021 and $25.1 million annually thereafter, for the federal share. **This bill establishes a mandated appropriation for FY 2021.**

($ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
FF Revenue	$0	$18.8	$25.1	$25.1	$25.1
GF/SF/FF Exp.	$0	$94.2	$125.6	$125.6	$125.6
Net Effect	$0.0	($75.3)	($100.5)	($100.5)	($100.5)

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

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.

Background: The State generally struggles to be competitive in comparison to the private sector, federal government, and several local governments in regard to compensation. According to a national study conducted by CBIZ Human Capital Services in 2016 for the state of Missouri, Maryland ranked twenty-ninth in average State employee salary. As shown in **Exhibit 1**, State employees have received employee increments once (in fiscal 2017) and general salary increases twice (in fiscal 2019 and 2020) in the past five years.

Exhibit 1
Permanent Employee Statewide Salary Actions
Fiscal 2003-2020

Year	Date of General Salary Increase	General Salary Increase	Increments
2003	July 1, 2002	None	None
2004	July 1, 2003	None	None
2005	July 1, 2004	$752	On time
2006	July 1, 2005	1.5%	On time
2007	July 1, 2006	2% with $900 floor and $1,400 ceiling	On time
2008	July 1, 2007	2%	On time
2009 [1]	July 1, 2008	2%	On time
2010 [2]	July 1, 2009	None	None
2011 [2]	July 1, 2010	None	None
2012	July 1, 2011	$750 one-time bonus	None
2013	January 1, 2013	2%	None
2014	January 1, 2014	3%	April 1, 2014
2015	January 1, 2015	2%	On time
2016	July 1, 2015	None	None
2017	July 1, 2016	None	On time
2018	July 1, 2017	None	None
2019 [3]	January 1, 2019; April 1, 2019	2.5% and $500 bonus	None
2020	July 1, 2019	3%	None

[1] 2- to 5-day furlough.
[2] 3- to 10-day furlough.
[3] 2% general salary increase on January 1, 2019, and 0.5% and $500 bonus on April 1, 2019.

Note: Does not include increases negotiated by State Law Enforcement Office Labor Alliance members.

Source: Department of Budget and Management

State Revenues: Federal fund revenues increase by approximately $18.8 million in fiscal 2021 and $25.1 million annually thereafter to offset the increase in federal fund expenditures for step increases for specified Executive Branch employees.

State Expenditures: As required by the bill's mandated appropriation, State expenditures increase by at least $94,178,000 in fiscal 2021 to provide merit increases to specified Executive Branch employees, which includes corresponding fringe benefits. This analysis assumes some employees receive merit increases in July, while others receive merit increases in January; thus, when fully annualized in fiscal 2022, State expenditures increase by at least $125.6 million annually. This analysis assumes approximately 60% of expenditures are general funds, 20% are special funds, and 20% are federal funds. Under that assumption, general fund expenditures increase by at least $56.5 million in fiscal 2021 and $75.3 million in fiscal 2022; if the funding split is different, general fund expenditures may be higher or lower. These expenditures continue in future years at relatively the same level as for fiscal 2022, depending on employee turnover and adjustments to fringe benefit costs. To the extent annual salary increases are provided in future years, the impact is compounded.

The bill does not provide merit increases for Judicial and Legislative branch employees, but, historically, these employees receive similar increases when the Governor provides funding for Executive Branch employees. Thus, to the extent that Judicial and Legislative branch employees receive similar merit increases, State expenditures increase by at least an additional $5.8 million in fiscal 2021 and $7.8 million annually thereafter.

Additional Comments: The amount of funding necessary to provide merit pay increases to eligible employees under the bill may be less than the mandated level. The mandated amount assumes that all eligible positions are filled, but due to regular employee turnover, a substantial number of positions may be vacant.

Additional Information

Prior Introductions: None.

Cross File: SB 730 (Senator Guzzone, *et al.*) - Finance.

Information Source(s): Department of Budget and Management; Maryland Department of Health; Department of Public Safety and Correctional Services; Department of Legislative Services

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