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BILL ANALYSIS

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Senate Bill 850 (Substitute S-5 as reported by the Committee of the Whole)
Sponsor: Senator Jason E. Allen
Committee: Local, Urban and State Affairs

CONTENT

The bill would amend the Management and Budget Act to require that, beginning October 1, 2005, all payroll and payments to nonclassified State government employees and elected and appointed State officials be paid by electronic funds transfer (EFT). The bill also provides that all contracts that the State entered into for the purchase of goods or services would have to require payment by EFT. These requirements would begin October 1, 2005, except that the Department of Community Health and the Family Independence Agency would have to implement the requirements by October 1, 2006. The bill states that the Department of Management and Budget would be "strongly encouraged" to implement the bill before October 1, 2005.

The bill also provides that the Civil Service Commission would be strongly encouraged to require that payroll and payments for all State classified employees be paid by EFT.

Proposed MCL 18.283a Legislative Analyst: J.P. Finet

FISCAL IMPACT

According to the Department of Management and Budget (DMB), in FY 2002-03 payroll transactions processed through warrants totaled 414,539, and payroll transactions by electronic fund transfers totaled 1,180,014. The data include payments for separations and monthly early retirement sick leave payments. Other transactions (non-payroll) during the same time period included 4,130,661 warrants and 110,499 EFT transactions. Other transactions include travel reimbursements, contracts, and payments to grantees. The "other transactions" category does not include income tax refunds, payroll, and retirement.

The cost to the State for each EFT transaction is $0.12. The cost for each warrant (production and mailing cost) is $0.59. The net saving would be $0.47 per transaction. The net saving would be less for situations in which a wage statement still would have to be delivered to certain employees, e.g., employees who do not have Internet access to self-service accounts.

Based on the above, requiring payroll transactions to be processed through EFT would save the State approximately $194,800 annually. However, the number of payroll transactions varies from year to year. With early retirements resulting in additional transactions for sick leave payouts over a five-year period, the overall reduction of the State workforce, and situations in which statements still would be required, the estimated amount of savings may be on the high end of projected savings. Employees without bank accounts would have to establish accounts. There would be no costs to the State related to system modifications.

The amount of savings related to the requirement that payments for all contracts for the purchase of goods and services by the State be processed through EFT is not determinable. The non-payroll transactions reported by the DMB include items other than contract payments (e.g., grants) and therefore savings cannot be estimated. Converting all non-payroll warrant transactions to EFT would result in savings of approximately $1.9 million.

Whether it is feasible to require EFT for all transactions is not known. Costs to the State regarding EFT payments to all vendors would include system modifications. Currently, not all vendors are on the State's vendor file. Interfaces with other departmental data systems are used to make payments. The DMB does not have a cost estimate for system changes.

Date Completed: 4-27-04 Fiscal Analyst: Bill Bowerman