Economic Impact Statement

Office of Legislative Oversight

Expedited Bill 7-22 — Fire and Rescue Services – Credit Service for Group G Members

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Expedited Bill 7-22 would have a net negative impact on economic conditions in the County in terms of several of the Council's priority indicators. By increasing pension payments to retired Fire and Rescue Services (FRS) personnel, the change in law likely would increase household income for certain residents. However, because most FRS personnel reside outside the County, enacting the Bill likely would result in a net capital outflow in the form of government revenue flowing out of the County to non-resident households. OLO concludes that the economic opportunity cost from the capital outflow would be greater than the economic benefits of the increase in household income from the pension increase for the minority of retired FRS personnel who would reside in the County.

BACKGROUND

Bill Description

Expedited Bill 7-22 would amend retirement benefits for certain retired Fire and Rescue Services (FRS) personnel with the County.[1] It would do so by permitting "County employees enrolled in Group G of the Employees' Retirement System to receive credited years of service with the County based upon prior years of military service."[2] If enacted, the change in law would take effect on the date when it becomes law.[3]

Primary Economic Stakeholders

The economic impacts from enacting Expedited Bill 7-22 would occur through increasing pension payments to certain retired County employees. The primary economic stakeholders of the change in law would be **FRS employees who receive increased pension payments after retiring from County employment**. In its Fiscal Impact Statement, the Office of Management and Budget (OMB) estimates that in FY23, the change in law "would affect 15 percent of the 1,166 current active Group G members as of July 1, 2021," or approximately 175 employees.[4] OMB concludes that the change to the

[1] Legislative Request Report, Expedited Bill 7-22; and Wellons to County Council, Memorandum, April 14, 2022.
[2] Expedited Bill 7-22.
[3] Ibid.
[4] Legislative Request Report, Fiscal Impact Statement.

pension would increase County expenditures by $337,073 in FY23. Thus, the change in law would increase pension payments to each retiree by approximately $1,926 per year.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess Expedited Bill 7-22's impacts on County-based private organizations and residents in terms of the Council's priority economic indicators.[5] Enacting the Bill would involve a transfer from the County to certain households. The County would use tax revenue to increase pension payments to qualifying individuals. The internal transfer would not, however, entail a net increase in the amount of economic activity in the County. Indeed, as shown below, OLO anticipates that enacting Bill 7-22 would result in a net capital outflow in the form government revenue flowing out of the County to non-resident households due to the high rate of FRS employees who reside outside the County. The total economic impact would depend on:

(a) The per year economic benefits to County residents and businesses from increased pension payments to eligible individuals; and
(b) The per year economic opportunity cost of the foregone County revenues—that is, taxpayer dollars flowing out of the County ("capital outflow").

Because OLO does not know how the foregone County revenues would otherwise be used in the absence of enacting Bill 7-22, OLO limits the scope of the analysis to the economic impacts of increased pension payments vis-à-vis the estimated net outflow in terms of the Council's priority indicators. That is, this analysis does <u>not</u> account for the economic impacts of alternative government spending with the foregone revenue. In this Economic Impact Statement, OLO estimates the net capital outflow using the following information sources:

- OMB's Fiscal Impact Statement for Expedited Bill 7-22; and
- Data on the residence of County employees that the Office of Human Resources (OHR) provided to OLO,

VARIABLES

The primary variables that would affect the economic impacts of enacting Expedited Bill 7-22 are the following:

- Total annual retirement payments for qualifying individuals; and
- Place of residence of qualifying individuals.

[5] Montgomery County Code, Sec. 2-81B.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Residents

OLO anticipates that enacting Expedited Bill 7-22 would have mixed, yet overall negative, impacts on County residents. Holding all else equal, recipients of the increase in pension payments would experience a net increase in household income. Importantly, the benefit to County residents (as well as businesses) from increased household income largely is contingent on qualifying individuals *residing within the County after retirement*. Data from OHR on the residence of active County employees suggest that most affected households would reside outside the County. Given the strong relationship between proximity to home and transaction location,[6] the economic impacts of the increase in household income to non-residents are assumed here to have no effect on economic conditions in the County.

As shown in **Table 1**, among all active County personnel, 55% reside in the County and 45% reside in other jurisdictions. However, only 19% (242) of active FRS personnel reside in the County, compared to 81% (1,004) who reside in other jurisdictions. **Tables 2** and **3** indicate the geographic scope where active FRS personnel reside. Assuming the rate of County residence among active FRS personnel is approximate to the year-to-year rate of retired FRS employees,[7] a minority of recipients of the pension increase would reside within the County. Thus, OLO anticipates that enacting the Bill would result in a net capital outflow in the form of government revenue flowing out of the County to non-resident households.

Table 1. Place of Residence for Active FRS and Other MCG Personnel

	Montgomery, MD	Other Jurisdictions
Uniformed FRS	242	1,004
	19.4%	80.6%
Other MCG Employees	4,964	3,320
	59.9%	40.1%
All MCG Employees	5,206	4,324
	54.6%	45.4%

Data Source: OHR

[6] Agarwal, et al, "Consumer Mobility and the Local Structure of Consumption Industries."
[7] This assumption should be seen conservative given the tendency of retirees to move out of the jurisdiction where their former employers are based.

Table 2. Top Ten Places of Residence for Active FRS Personnel

Jurisdiction	Count	Percent
Montgomery, MD	242	19.4%
Frederick, MD	208	16.7%
Carroll, MD	106	8.5%
Anne Arundel, MD	69	5.5%
Prince Georges, MD	54	4.3%
Washington, MD	54	4.3%
Adams, PA	48	3.9%
Baltimore, MD	39	3.1%
York, PA	38	3.0%
Baltimore City, MD	34	2.7%

Data Source: OHR

Table 3. States of Residence for Active FRS Personnel

State	Count	Percent
Maryland	941	75.5%
Pennsylvania	175	14.0%
West Virginia	57	4.6%
Virginia	46	3.7%
Washington, D.C.	9	0.7%
Delaware	7	0.6%
South Carolina	5	0.4%
New Jersey	4	0.3%
Florida	2	0.2%

Data Source: OHR

Table 4 presents the estimates of the annual net capital outflow. In its Fiscal Impact Statement for Expedited Bill 7-22, the Office of Management and Budget (OMB) concludes that the pension increase would increase County expenditures by $337,073 in FY23. Using this figure and the current rate of County residence among active FRS personnel cited above, OLO estimates that there would be a total annual pension increase of $65,392 to County residents and $271,681 for non-residents, resulting in an annual net capital outflow of $206,289.

Even when accounting for the multiplier effect[8] of increasing pension payments to County residents, the change in law would result in a net capital outflow. The multiplier effect captures how changes in economic activity affect other rounds of spending, and how additional spending impacts certain economic indicators. To illustrate, an increase in household income may in turn increase demand for local restaurants, resulting in restaurant owners hiring more workers. Using the Regional Input-Output Modeling System (RIMS II) "final-demand multipliers" for Montgomery County developed by the U.S. Bureau of Economic Analysis,[9] OLO estimates that the $65,392 increase in total annual pension payments to residents would increase household spending, resulting in an additional $32,317 in value-added, i.e., the total value of income generated from production (equivalent to gross domestic product). However, as shown in **Table 4**, the combined economic impact of the pension increase and value-added does not make up the total difference of the capital outflow.

Table 4. Estimated Net Capital Outflow

	County Residents	Non-Residents	Difference
Annual Pension Increase	$65,392	$271,681	($206,289)
Value-Added	$32,317	.	.
Combined	$97,709	$271,681	($173,972)

Beyond the potential impacts described above, OLO does not expect the Bill to affect residents in terms of the Council's other priority indicators.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Expedited Bill 7-22 would have mixed, yet overall negative, impacts on private organizations in the County. Higher pension payments to residents likely would increase household spending on goods and services, benefiting certain County-based businesses. However, as indicated in **Table 4**, the value-added generated from greater household spending would not make up the total difference of the net capital outflow. OLO expects this loss of economic activity to result in foregone business income and employment. However, the magnitude of these costs would not be significant enough to negatively affect competitiveness, economic development, or other Council indicators.

DISCUSSION ITEMS

Not applicable

[9] U.S. Bureau of Economic Analysis, RIMS II.

WORKS CITED

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

Montgomery County Council. Expedited Bill 7-22, Fire and Rescue Services – Credit Service for Group G Members. Introduced on April 19, 2022.

Agarwal, Sumit J. Bradford Jenson, and Ferdinando Monte. "Consumer Mobility and the Local Structure of Consumption Industries." National Bureau of Economic Research. January 2020.

U.S. Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners*. December 2013.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.