Economic Impact Statement

Montgomery County, Maryland

Expedited Bill 20-23 — OPT/SLT Bargaining Units – Pension and Retirement Adjustments

SUMMARY

The Office of Legislative Oversight (OLO) anticipates Expedited Bill 20-23 would have a moderate negative impact on economic conditions in the County in terms of the Council's priority indicators. By modifying the pension and retirement plans for County employees in Groups E and J, the Bill would increase the actuarial value of income for current and future sheriffs and correctional officers and staff who participate in the Employees' Retirement System. Based on low rates of County residence among retired Department of Corrections and Rehabilitation (DOCR) and Sheriff's Office personnel, a minor share of the income increase likely would go to residents. The remainder would constitute significant capital outflows in the form of government revenue used to fund pension increases for retired DOCR and Sheriff's Officer employees who would reside outside the County. Capital outflows would result in forgone economic activity that would negatively impact residents and private organizations. Moreover, capital outflows caused by the policy change would occur indefinitely if current rates of County residence among employees in these agencies continue. Because there are no indications current residence patterns among these employees will drastically change, OLO believes the negative impacts of the Bill would be significant in the long term.

BACKGROUND AND PURPOSE OF EXPEDITED BILL 20-23

Expedited Bill 20-23 proposes adjustments to pension and retirement plans for County Employees in Group E and J. The proposed adjustments are a result of the newly negotiated Memorandum of Agreement between the Montgomery County Government and the Municipal and County Government Employees Organization, UFCW, Local 1994. If enacted the Bill would make the following changes to retirement and pension plans:

- Amend Group E eligibility to add eligibility for certain ECC positions to the Group E Optional Retirement Plan and the Integrated Retirement Plan;
- Amend Group J eligibility to add eligibility for certain ECC positions to be designated by the Chief Administrative Officer;
- Amend credited service to provide credited service adjustments for military service;
- Separate Group E and Group J regarding pension multipliers;
- Adjust pension multipliers for Group E and Group J;
- Amend the guaranteed retirement savings plan to default into the guaranteed retirement savings plan certain part-time employees in the OPT/SLT bargaining unit;
- Amend the disability benefits plan; and

- Generally amend pension and retirement benefits.[1]

To estimate the Bill's fiscal impact to the Montgomery County Employee's Retirement System, GRS performed an actuarial analysis, which is summarized in the Office of Management and Budget's Fiscal Impact Statement. See **Table 1** for the annual and total fiscal impacts over the next six fiscal years.

Table 1. Estimated Fiscal Impacts of Expedited Bill 20-23

Retirement Change	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	Total
Pension Multiplier	$1,279,163	$1,317,538	$1,357,065	$1,397,776	$1,439,710	$1,439,710	$8,230,962
Military Service	$134,758	$138,800	$142,965	$147,254	$151,672	$151,672	$867,121
ECC to Group E/J	$537,142	$537,142	$537,142	$537,142	$537,142	$537,142	$3,222,852
Long-Term Disability	$0	$640,000	$1,280,000	$1,280,000	$1,280,000	$1,280,000	$5,760,000
SS Integration Age	$0	$526,306	$542,095	$558,358	$575,109	$592,363	$2,794,231
Total	**$1,951,063**	**$3,159,786**	**$3,859,267**	**$3,920,530**	**$3,983,633**	**$4,000,887**	**$20,875,166**

Data Source: Office of Management and Budget

The Council President introduced Expedited Bill 20-23, OPT/SLT Bargaining Units – Pension and Retirement Adjustments, on behalf of the County Executive on April 11, 2023.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Expedited Bill 20-23 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.[2]

In this statement, OLO estimates how much of the pension increase likely would go to resident and nonresident households. The amount that would likely go to nonresident households represents the magnitude of the capital outflow.

Because OLO does not know how County revenues used to fund the pension increases would otherwise be used in the absence of enacting the Bill, OLO limits the scope of the analysis to the economic impacts of increased pension payments. That is, this analysis does not account for the economic impacts of alternative government spending in the amount of the capital outflow.

[1] Introduction Staff Report for Expedited Bill 20-23.
[2] Montgomery County Code, Sec. 2-81B.

The analysis here draws on the following sources of information:

- OMB's Fiscal Impact Statement for Expedited Bill 20-23; and
- Data on the residence of active and retired DOCR and Sheriff's Officer employees provided by the Office of Human Resources (OHR).

VARIABLES

The primary variables that would affect the economic impacts of enacting Expedited Bill 20-23 are the following:

- total annual pension payments; and
- place of residence.

IMPACTS

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

Residents

OLO anticipates Expedited Bill 20-23 would have overall negative impacts on County residents in terms of the Council's priority economic indicators.

Resident MCPD Employees

The Bill would primarily benefit current and future DOCR and Sheriff's Office employees in Groups E and J. By modifying the pension and retirement plans for County employees in these Group, DOCR and Sheriff's Office employees who participate in the Montgomery County Employees' Retirement System would receive an increase in the actuarial value of income during their future retirement.

Importantly, the Bill's impacts to County residents (as well as businesses) largely would depend on how many affected DOCR and Sheriff's Office employees *reside within the County*. Data provided by the Office of Human Resources (OHR) on the residence of *active* and *retired* County employees as of May 2022 indicate that 41% of active employees in these agencies reside in the County, compared to 24% of retired employees who reside locally. See **Table 2**.

Thus, OLO anticipates a minor share of the total income increase would positively impact County residents.

Table 2. Place of Residence for Active and Retired DOCR and Sheriff's Office Personnel as of May 2022

	Montgomery, MD	Other Jurisdictions
Active DOCR Employees	187	282
	40%	60%
Retired DOCR Employees and Beneficiaries	8	49
	14%	86%
Active Sheriff's Office Employees	78	103
	43%	57%
Retired Sheriff's Office Employees	10	8
	56%	44%
Total Active	**265**	**385**
	41%	**59%**
Total Retired	**18**	**57**
	24%	**76%**

Data Source: Office of Human Resources

Capital Outflow

While County-based DOCR and Sheriff's Office retirees would benefit from the Bill, OLO believes its overall economic impact on residents would be negative because it likely would result in a significant capital outflow in the form of government revenue flowing out of the County to nonresident households.

Table 3 presents estimates of the amount of County contributions that would go towards resident and nonresident pension earnings, based on the Bill's estimated fiscal impact estimates and the rate of residence among retired DOCR and Sheriff's Office. (See Tables 1 and 2.) As shown below, OLO estimates that the pension increase would be $5 million for residents and $15.9 million for nonresidents over the next six fiscal years.

In sum, the Bill would increase pension earnings for DOCR and Sheriff's Office retirees who would reside in the County during retirement. However, given the magnitude of the capital outflow, the Bill would result in forgone economic activity that would negatively impact residents in terms of the Council's priority economic indicators.

Table 3. County Contributions by Residence

	County Contributions	Residents 24%	Nonresidents 76%	Difference
FY2024	$1,951,063	$468,255	$1,482,808	($1,014,553)
FY2025	$3,159,786	$758,349	$2,401,437	($1,643,089)
FY2026	$3,859,267	$926,224	$2,933,043	($2,006,819)
FY2027	$3,920,530	$940,927	$2,979,603	($2,038,676)
FY2028	$3,983,633	$956,072	$3,027,561	($2,071,489)
FY2029	$4,000,887	$960,213	$3,040,674	($2,080,461)
Six-Year Total	**$20,875,166**	**$5,010,040**	**$15,865,126**	**($10,855,086)**

Data Sources: Office of Management and Budget; Office of Human Resources

Businesses, Non-Profits, Other Private Organizations

OLO anticipates enacting Expedited Bill 20-23 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 3**, the Bill would result in significant capital outflows, which would result in forgone economic activity that would negatively impact private organizations in terms of the Council's priority economic indicators.

Net Impact

In sum, based on the rates of County residence among currently retired and active DOCR and Sheriff's Office personnel, Expedited Bill 20-23 likely would generate significant capital outflows in the form of government revenue used to fund pension increases for retired employees who would reside outside the County. Capital outflows would result in forgone economic activity that would negatively impact residents and private organizations in terms of the Council's priority economic indicators. Moreover, if rates of County residence among DOCR and Sheriff's Office retirees continue, capital outflows caused by the change in the pension plan would occur indefinitely. OLO sees no indication current residence patterns among employees and retirees in these agencies will drastically change. Therefore, OLO believes the negative impacts of the Bill would be significant in the long term.

DISCUSSION ITEMS

Not applicable

WORKS CITED

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

Montgomery County Council. Introduction Staff Report for Expedited Bill 20-23, OPT/SLT Bargaining Units – Pension and Retirement Adjustments. Introduced on April 11, 2023.

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.

AUTHOR

Stephen Roblin (OLO) prepared this report.