Economic Impact Statement

Montgomery County, Maryland

Expedited Bill 21-23 — Fire and Rescue Services – Credited Service for Group G Members

SUMMARY

The Office of Legislative Oversight (OLO) anticipates Expedited Bill 21-23 would have a moderate negative impact on economic conditions in the County in terms of the Council's priority indicators. By modifying the cost-of-living adjustment (COLA) and increasing the pension amount for certain Group G members, the Bill would increase the actuarial value of income for current and future Montgomery County Fire and Rescue Services (MCFRS) employees who participate in the Employees' Retirement System. Based on the low rates of County residence among retired MCFRS employees, 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 the majority of retired MCFRS 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 low rates of County residence among MCFRS retirees continue. Because there are no indications current residence patterns among current and retired MCFRS 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 21-23

The goal of Expedited Bill 21-23 is to implement provisions in the Collective Bargaining Agreement that were negotiated between the County Executive and the Montgomery County Career Fire Fighter Association, International Association of Fire Fighters, Local 1664, AFL-CIO (IAFF). The Bill seeks to do so by making the changes to the County Code regarding retirement plans for Group G members who participate in the Montgomery County Employees' Retirement System. Eligible Group G members include personnel within the Montgomery County Fire and Rescue Services (MCFRS), namely full-time and career part-time paid firefighters, fire officers, and rescue service personnel.[1] If enacted, the Bill would make the following changes to the retirement plans:

- Adjust the cost-of-living adjustment (COLA) provided to certain Group G members.
- Increase the pension amount for Group G members.
- Modify the sick leave benefit credit to correct an oversight in previous legislation submitted to the Council.[2]

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. The actuarial analysis

[1] Summary Description for Sworn Fire Personnel in Retirement Group G.
[2] Introduction Staff Report for Expedited Bill 21-23.

determined that the COLA adjustment and pension increase would have a fiscal impact; the change to the sick leave credit would not. See **Table 1** for the annual and total fiscal impacts over the next six fiscal years.[3]

Table 1. Estimated Fiscal Impacts of Expedited Bill 21-23

Retirement Change	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	Total
COLA Adjustment	$605,046	$1,246,394	$1,283,785	$1,322,299	$1,361,968	$1,361,968	$7,181,460
Pension Increase	$1,995,524	$2,055,390	$2,117,051	$2,180,563	$2,245,980	$2,245,980	$12,840,488
Total	**$2,600,570**	**$3,301,784**	**$3,400,836**	**$3,502,862**	**$3,607,948**	**$3,607,948**	**$20,021,948**

Data Source: Office of Management and Budget

The Council President introduced Expedited Bill 21-23 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 21-23 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.[4]

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.

The analysis here draws on the following sources of information:

- OMB's Fiscal Impact Statement for Expedited Bill 21-23; and
- Data on the residence of active and retired MCFRS employees provided by the Office of Human Resources (OHR).

VARIABLES

The primary variables that would affect the economic impacts of enacting Expedited Bill 21-23 are the following:

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

[3] Ibid.
[4] 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 Expedited Bill 21-23 would have overall negative impacts on County residents in terms of the Council's priority economic indicators.

Resident MCFRS Employees

The Bill would primarily benefit current and future MCFRS employees. By adjusting COLA and increasing the pension amount for certain Group G members, MCFRS personnel 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 MCFRS 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 far fewer MCFRS employees who would reside within the County during retirement would benefit from the pension increase than those who would reside outside the County. As shown in **Table 2**, 19% of active MCFRS personnel reside in the County. MCFRS personnel are an extreme outlier in this way, as 60% of non-MCFRS employees reside in the County.

Given the region's comparatively high rates of senior net migration losses due largely to lack of affordability,[5] it is unsurprising that fewer current pension recipients reside locally than active MCFRS employees. In fact, 15% of retired MCFRS employees and beneficiaries (e.g., surviving spouse) who participate in the Employee's Retirement System currently live in the County. See **Table 2**.

Thus, OLO anticipates the pension increases would positively impact a minor segment of County residents.

Table 2. Place of Residence for Active and Retired MCFRS Employees as of May 2022

	Montgomery, MD	Other Jurisdictions
Active MCFRS Employees	242	1,004
	19%	81%
Retired MCFRS Employees and Beneficiaries	76	516
	15%	85%

Data Source: Office of Human Resources

[5] See, for example, Ostrowski, "Best and Worst States for Retirement 2022"; and Frey, "How migration of millennials and seniors has shifted."

Capital Outflow

While County-based MCFRS 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 rates of residence among retired MCFRS employees. (See Tables 1 and 2.) As shown below, OLO estimates that the pension increase would be $3 million for residents and $17 million for nonresidents over the next six fiscal years.

Table 3. County Contributions by Residence

	County Contributions	Residents 15%	Nonresidents 85%	Difference
FY2024	$2,600,570	$390,086	$2,210,485	($1,820,399)
FY2025	$3,301,784	$495,268	$2,806,516	($2,311,249)
FY2026	$3,400,836	$510,125	$2,890,711	($2,380,585)
FY2027	$3,502,862	$525,429	$2,977,433	($2,452,003)
FY2028	$3,607,948	$541,192	$3,066,756	($2,525,564)
FY2029	$3,607,948	$541,192	$3,066,756	($2,525,564)
Six-Year Total	**$20,021,948**	**$3,003,292**	**$17,018,656**	**($14,015,364)**

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

In sum, the Bill would increase pension earnings for certain MCFRS 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.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates enacting Expedited Bill 21-23 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 low rates of County residence among currently retired and active MCFRS employees, Expedited Bill 21-23 likely would generate significant capital outflows in the form of government revenue used to fund pension increases for the majority of retired MCFRS 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 MCFRS retirees continue, capital outflows caused by the change in the pension plan would occur indefinitely. OLO sees no indication current residence patterns among MCFRS employees and retirees 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 21-23, Fire and Rescue Services – Credited Service for Group G Members. Introduced on April 11, 2023.

Summary Description for Sworn Fire Personnel in Retirement Group G. August 2021. Montgomery County Employee Retirement Plans.

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.