



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bills 850 and 851 (as reported without amendment)
Sponsor: Senator Jason E. Allen
Committee: Local, Urban and State Affairs

Date Completed: 3-29-04

RATIONALE

According to the Department of Management and Budget (DMB), 414,539 State payroll transactions were processed through warrants during fiscal year (FY) 2002-3, with the mailing and production cost of each warrant being \$0.59. During the same period, the number of electronic fund transfers (EFTs) to employees, including payments for separations and monthly early retirement sick leave payments, totaled 1,180,014, with an average cost to the State of \$0.12 per transaction.

Some people believe that the State would see cost savings if the DMB were required to use EFTs for all payroll and contracts for goods or services. They believe that all Michigan employers also should be able to achieve these savings, without being subject to the current restriction that wages may be paid by EFT only with the non-coerced written consent of the employee.

CONTENT

Senate Bills 850 and 851 would amend the Management and Budget Act and Public Act 390 of 1978, respectively, to mandate that all State payroll and contracts for the purchase of goods and services be paid by electronic funds transfer beginning October 1, 2004, and allow employers to implement the payment of wages by EFT without the written consent of the employee.

Senate Bill 850

The bill would amend the Management and Budget Act to require that, beginning October 1, 2004, all State government payroll be paid by EFT and that all contracts

that the State enters into for the purchase of goods or services be paid by EFT.

Senate Bill 851

The bill would amend Public Act 390 of 1978, which regulates the payment of wages and fringe benefits, to allow employers to pay wages by direct deposit or electronic transfer to an employee's account at a financial institution. An employer electing to do so would have to provide employees with notice of the election and a period of at least six weeks for them to establish an account at a financial institution to accept the deposit or transfer of wages. The bill would delete language prohibiting an employer from depositing an employee's wages in a bank, credit union or savings and loan association without the full, free, and written consent of the employee or prospective employee, obtained without intimidation, coercion, or fear of discharge or reprisal for refusal to permit the deposit.

Currently, an employer or agent of the employer may pay wages to an employee by payment in United States currency, or by a negotiable check or draft payable on presentation at a financial institution or other established place of business without discount in United States currency. The bill also would allow direct deposit or electronic transfer, as described above.

MCL 18.283a (S.B. 850)
408.476 (S.B. 851)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

While the wages of about 82% of Michigan's classified State employees are currently paid by EFT, Senate Bill 850 would produce an additional \$194,800 in annual savings by mandating that all employees receive their wages via EFT. There currently is no mechanism in place to have the State pay its contracts for goods and services by EFT, which means that employees for State agencies are regularly handling checks made out for hundreds of thousands of dollars. By moving the payment of all contracts for goods and services to EFT, the bill would save the State approximately \$1.9 million annually in transaction costs and would improve cash management.

Supporting Argument

Currently, Michigan law allows employers to pay wages via EFTs only if the employee agrees to the transaction through a full, free, and written consent obtained without intimidation, coercion, or fear of discharge or reprisal. By amending Public Act 390 of 1978 to allow employers to pay wages by EFT without seeking the employee's consent, after giving six weeks for the employee to establish an account with a bank or savings and loan, Senate Bill 851 would enable businesses to reap cost savings by moving all of their payroll to EFTs without having to worry about holdouts who still want to be paid with warrants. A large institution, such as Michigan State University, could see annual cost savings of between \$300,000 and \$350,000 if it moved all of its payroll to an EFT system.

Opposing Argument

Not everyone who is employed in the State wants to be paid by EFT. This fact is demonstrated by the 18% of classified State employees who do not receive their wages via EFT. Employees often refuse EFT payments due to a lack of trust in the banking system. Whether it be older workers who have seen family and friends lose their life savings through bank failures, or others who simply do not like the idea of having to trust an institution with their money, those who distrust banks should not be forced by the State to receive their wages through deposits in banks and savings and loans. Also, many of the State's poorer residents avoid having bank accounts because the banks may charge fees or require that depositors maintain a minimum balance,

something the individuals cannot afford. The bill would offer no alternative forms of payment for those employees who do not want to rely on financial institutions or trust their employers with their banking information.

Also, the bills would offer no protection to migrant or temporary employees who may be in the State only for a matter of days or weeks and could be forced to open bank accounts in Michigan and possibly pay banking fees for the sole purpose of receiving one paycheck in the form of an EFT.

Opposing Argument

According to the Department of Management and Budget, administrative issues would prevent the State from implementing an EFT-based system for paying all contracts for goods and services by the proposed October 1, 2004, deadline.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

Senate Bill 850

Based on the cost of pay warrants and EFTs reported by the DMB (described 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 nonpayroll transactions reported by the DMB include items other than contract payments (e.g., grants) and therefore savings cannot be estimated. Converting all nonpayroll 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.

Senate Bill 851

The bill would have an indeterminate impact on local units of government. To the extent that it would facilitate the use of electronic fund transfers, savings would be realized after initial start-up costs.

The bill would have no fiscal impact on the Department of Labor and Economic Growth.

Fiscal Analyst: Bill Bowerman
Maria Tyszkiewicz

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.