

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 87 (First Edition)

SHORT TITLE: State Employees/Pay Periods.

SPONSOR(S): Representative Miller

	FISCAL IMPACT				
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
REVENUES:	n/a	n/a	n/a	n/a	n/a
EXPENDITURES:	\$4,978,316	\$4,627,427	\$4,627,427	\$4,627,427	\$4,627,427
POSITIONS (cumulative):	69 ¹	69 ¹	69 ¹	69 ¹	69 ¹
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: All agencies and Universities using Central Payroll, NC General Assembly, Appalachian State University, North Carolina State University, University of North Carolina at Greensboro, and University of North Carolina at Wilmington.					
¹ Does not include the number of the additional positions required by the four universities maintaining separate payroll systems and paying on a monthly basis.					
EFFECTIVE DATE: July 1, 2005					

BILL SUMMARY:

Provides that state employees in salary grade 64 and under shall have the option to be paid twice-monthly. Adds new GS 126-8.5 and 126-5(c9) and is applicable to all state employees in the executive, judicial, and legislative branches of government, including employees of the UNC system. Effective July 1, 2005.

ASSUMPTIONS AND METHODOLOGY:

House Bill 87 would allow state employees employed in positions salary grade 64 and below the option of being paid twice-monthly (as opposed to monthly). This legislation applies to all State employees in the executive, judicial, and legislative branches and employees of The University of North Carolina. It does not apply to Public School or Community College employees.

The Central Payroll system currently houses payroll for 43 organizations and 80,000 State employees. Nine of the sixteen constituent institutions of the University of North Carolina pay through Central Payroll. Seven constituent institutions maintain their own payroll processing. The legislative branch also maintains a separate payroll system. Of the seven constituent institutions maintaining separate payroll systems, three are already paying employees either twice-monthly or bi-weekly. Thus, only four universities maintaining separate payroll systems would be affected by this legislation.

Payroll software utilized by Central Payroll will require substantial modification to accommodate twice-monthly payrolls. The Office of State Controller (OSC) has estimated the one-time software modification costs at \$89,600 and indicated it would take 12 months to convert the current payroll system. In addition, \$30,153 would be required to purchase three MICR check printers and related software. Given current payroll processing cycle times, payment by direct deposit would not be possible twice-monthly. Another \$10,000 one-time cost has been estimated to determine the feasibility of twice-monthly direct deposit. Finally, OSC has estimated the need for an additional 69 positions to handle the increased workload of twice-monthly payroll processing. The chart below details the recurring and non-recurring cost estimates related to Central Payroll.

Central Payroll Fiscal Impact			
	Total 1st Year Cost	Non- recurring	Recurring
Salaries and Fringes - OSC: 3 Additional Positions	\$160,499		\$160,499
Equipment - OSC: Personal Computers	\$5,136	\$5,136	
Salaries and Fringes - Agency Positions: 66 Additional Positions	\$2,504,909		\$2,504,909
Equipment - Agencies: Personal Computers	\$84,744	\$84,744	
Check Printing Cost: 3 MICR Printers and Software	\$30,153	\$30,153	
Check Printing Cost: Check Stock and Toner	\$16,897		\$16,897
Office Supply Cost: Paper, Envelopes, Tape	\$3,669		\$3,669
Postage Cost	\$24,026		\$24,026
Data Processing Cost	\$183,500		\$183,500
Contractor Cost	\$89,600	\$89,600	
Direct Deposit Feasibility Study	\$10,000	\$10,000	
Additional Space - OSC	\$17,333		\$17,333
Lost Interest Cost	\$686,594		\$686,594
Total	\$3,817,060	\$219,633	\$3,597,427

The Statewide Business Infrastructure Program (SBIP) is a legislatively directed program to replace the State’s business infrastructure over an extended implementation cycle. This project includes a new, fully automated human resources and payroll system that is expected to replace the Central Payroll system. The new HR/Payroll solution will include the ability to handle multiple payroll cycles at varying frequencies (monthly, twice-monthly, semi-weekly, etc.). The Office of State Controller has indicated that the proposal to incorporate a twice-monthly cycle into the current Central Payroll system operations structure would impede the progress of the SBIP initiative.

The North Carolina General Assembly reports the capability to process twice-monthly payrolls without software modification. Annual on-going costs were estimated as “minimal” and the projected loss in investment earnings was estimated as “negligible.”

As stated above, four universities with independent payroll systems would be affected by this legislation. All indicated the capability to process payroll twice-monthly but also indicated the necessity of extensive reprogramming and re-entry of employee records to convert to twice-monthly payroll cycles. UNC-General Administration has estimated the one-time need for approximately 740 man-hours spread across IT and functional staff for each of the four affected campuses to accommodate this change. Using an hourly rate of \$28², this equates to a one-time cost of \$81,256. In addition, North Carolina State University would incur one-time software modification costs between \$40,000 and \$60,000. In estimating the fiscal impact of this legislation, we used the midpoint of this range or \$50,000. The chart below details the recurring and non-recurring cost estimates related to the University System.

University Fiscal Impact			
	Total 1st Year Cost	Non- recurring	Recurring
System and interface modifications Includes re-entering employee pay records to change to twice-monthly pay	\$131,256	\$131,256	
On-going costs include additional checks, supplies, vendor payment processing and staff.	\$830,000		\$830,000
Lost Interest Cost	\$200,000		\$200,000
Total	\$1,161,256	\$131,256	\$1,030,000

² The hourly rate of \$28 was determined by averaging the hourly rate of an IT position using an annual salary of \$83,000 and the hourly rate of a functional position using an annual salary of \$31,000.

The Banner project is a similar initiative to the SBIP and is in varying stages of implementation in the University System. Banner HR includes payroll functionality that will handle payroll cycles at varying frequencies. The campuses implementing Banner have likewise indicated that modifying existing systems to accommodate twice-monthly payroll cycles would impede the Banner implementations.

The North Carolina Department of Transportation (DOT) also maintains a separate payroll system. However, DOT currently pays all employees on a bi-weekly basis and would, thus, not be affected by this legislation.

SOURCES OF DATA: The Office of State Controller, the North Carolina General Assembly, and UNC-General Administration.

TECHNICAL CONSIDERATIONS: The Office of State Controller estimates implementation of twice-monthly payroll cycles at 12 months with a six to nine month lead time for vendors. North Carolina State University estimates a minimum six-month implementation period with the other affected universities estimating only after the successful implementation of the Banner HR system or approximately January 2007.

Both the Office of State Controller and the NC General Assembly state that direct deposit is not possible with twice-monthly payroll cycles given current payroll processing periods. Concerns identified in the responses to our request for information include statements that there is no limitation on the frequency in which an employee could alternate between monthly and twice-monthly pay periods.

The pay plans or salary grades for General Assembly, judicial, and University EPA do not correspond to the State Salary Plan. Thus, guidance may be necessary to determine employee eligibility for twice-monthly pay periods.

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Signed Copy Located in the NCGA Principal Clerk's Offices