



Date: August 30, 2019

To: Representative Lyndon Carlson, Chair
Representative Pat Garofalo
Representative Paul Marquart, Chair
Representative Greg Davids
Senator Julie Rosen, Chair
Senator Richard Cohen
Senator Roger Chamberlain, Chair
Senator Ann Rest

From: Britta Reitan, State Budget Director 

Subject: Local Impact Note Request: SF 274 (Lang) – County employees mobilized in the United States military reserve component pay differential award authorization

Minnesota Management and Budget (MMB) has completed the local impact note requested for SF 274 (Lang) – county employees mobilized in the United States military reserve component pay differential award authorization. A copy of the note is attached.

Local impact notes are similar to the fiscal notes that you are familiar with, but they focus on the fiscal impact of proposed legislation on local governments rather than the state. This process is described in Minnesota Statutes 2018, sections 3.987 and 3.988. This statute requires MMB to gather and analyze information on local costs of legislation when requested by the chair or ranking minority member of the House and Senate Taxes committees, the House Ways and Means committee, or the Senate Finance committee.

Senate File 274 makes multiple changes to MS 471.975. First, it requires that all Minnesota counties provide differential pay to members of the National Guard or other reserve components that are called to active duty. Second, it requires counties to continue an employee's health and dental insurance benefits until coverage is provided by the armed forces. Finally, it requires counties to set aside funds from which differential payments would be made.

MMB surveyed all 87 counties and consulted with the Minnesota Department of Military Affairs (DMA) to gather data on possible fiscal impacts under SF 274. One of the 28 responding counties, one currently offers differential pay, which is optional under current law, and DMA did not have access to federal active duty compensation data. Although it is reasonable to assume there is a local fiscal impact related to SF 274, given the insufficient data available, MMB determined that it could not calculate an accurate amount in this local impact note.

If you or your staff have any questions about the local note process, please do not hesitate to contact Shawn Kremer at 651-201-8087.

cc: Senator Andrew Lang
Legislative Staff
MMB Staff

August 30, 2019

SF 274 (Lang)

County employees mobilized in the United States military reserve component pay differential award authorization

Local Fiscal Impact				
Net Expenditure Increase/Revenue Loss or (Expenditure Decrease/Revenue Gain)				
Dollars in Millions, Calendar Years				
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Statewide	Yes - Unknown	Yes - Unknown	Yes - Unknown	Yes - Unknown

Bill Description

Senate File 274 amends Minnesota Statutes 471.975, which relates to differential pay for National Guard members or other reserve components of the United States armed forces. Differential pay is an amount equal to the difference between the member’s base active duty military salary and the salary the member would be paid as an active political subdivision employee, including any adjustments the member would have received if not on leave of absence. SF 274 makes three main changes to current law. First, the bill requires all Minnesota counties to provide differential pay to members of the National Guard or other reserve components that are called to active duty. Second, the bill also requires counties to continue an employee’s health and dental insurance benefits until the employee is covered by health and dental benefits provided by the armed forces. Lastly, the bill requires counties to set aside funds equal to the amount of salary the county would have otherwise paid to the employee during the leave for military service, from which differential payments would be made. This bill applies retroactively to the date an employee was ordered to active service on or after January 1, 2018.

Local Impact Methodology

MS 471.59 currently requires local school districts to make differential payments and makes differential payments optional for all other political subdivisions. SF 274 amends this statute by extending the requirement to Minnesota counties, and the bill was identified as having a possible fiscal impact on counties. In order to estimate the fiscal impact of the bill, Minnesota Management and Budget (MMB) surveyed counties and consulted with the Minnesota Department of Military Affairs (DMA). The survey and bill language were distributed to all 87 counties by the Association of Minnesota Counties and Minnesota Inter-County Association. A total of 28 counties responded for a response rate of 32%. A summary of the questions MMB included in the survey is below:

- Does the county currently provide differential pay in a manner similar to what would be required under SF 274? If so, how much did the county pay?
- Does the county track the number of employees currently serving in the national guard or as reservists in another branch of the military? If so, how many employees were employed?
- What is the county’s monthly employer-paid cost (per employee) for health and dental insurance benefits for single coverage?
- How many FTEs were employed by the county in calendar year 2018? What was the annual salary per employee?

Assumptions

MMB assumes that the local fiscal impact of mandatory differential pay in SF 274 will depend on:

- A service member's military base pay
- A service member's county salary
- The frequency and duration of active duty military leave
- The number of service members employed by a county

Discussion of Local Costs

Of the 28 counties that responded to the survey, data indicates that 234 of the 21,399 FTEs employed by those counties in 2018, about 1.1%, were members of the armed forces. It is reasonable to assume that as these individuals are called to active duty, counties would incur additional costs if they were required to provide differential pay according to SF 274.

It would be possible to arrive at an estimated local fiscal impact of SF 274 by comparing the difference between the average military base pay salary with the average county salary on a per employee basis, although this approach would mask the local fiscal impact that results from service members that have significantly higher county salaries than military base pay. MMB received data indicating that the average salary of a county employee in calendar year 2018 ranged from \$41,200 to \$70,492, depending on the county. Military service members are paid based on rank and years of service. For 2019, annual active duty base pay ranges from \$18,648 for newly enlisted members to \$189,600 for the most senior commissioned officers.

According to DMA, it is likely that service members can expect to be on active duty for one year out of every four. Service members, regardless of branch, are usually paid by the federal Defense Finance Accounting Service while on active duty, and DMA does not readily have access to this active duty service member compensation data. Without this comparison point, MMB cannot calculate the difference between average county pay and average military base pay.

Another approach to calculating a local fiscal impact would involve extrapolating data from counties that currently elect to offer differential payments, similar to what would be required by SF274, to estimate a statewide cost or potential range of costs. However, only one county out of the 28 survey respondents – Hennepin county – voluntarily provides differential pay to employees who are called to active duty service. Many counties did reference their practice of providing up to 15 days of paid military leave annually, which is required of all counties in MS 192.26.

The lack of available and representative data makes it very difficult to estimate the local fiscal impact of SF 274. MMB assumes that this bill will likely result in increased costs for counties, but that those costs will vary by county and by employee. Rather than offer a statewide local fiscal impact, which would imply a level of precision and certainty in the data received by MMB, this local impact note will discuss the experiences of Hennepin county and DMA as providers of differential pay to provide insight into how SF 274 might affect other counties if the legislation were enacted.

Differential Pay

Section 1, Subdivision C of the bill requires counties to provide differential pay if a county employee is called to active duty and their military base pay is less than their county salary.

Under current law, counties may elect to provide differential pay as outlined in MS 471.975. Hennepin County provides differential pay and has provided \$328,120 in total payments over the last five years, for an average annual cost of \$65,624. Data on the number of employees who received differential payments was not available to meet the timeline of this local impact note.

The Department of Military Affairs provides differential pay under MS 43A.183 and provided their experience as a state agency as a supplement to the survey data from Hennepin county. DMA provided differential pay totaling \$184,737 to 21 employees over the last five years. The average per-employee cost was \$8,797 and was paid to four employees each year, on average.

In addition to the direct cost of providing differential payments, this bill may result in some additional costs, like implementation costs to develop tracking and payment processes, and staff time to process differential payments, but these are unknown.

Health and Dental Insurance Coverage

Section 1, subdivision F of the bill requires counties to continue an employee's enrollment in health and dental benefits, and the employer contribution toward those benefits, until the employee is covered by military health and dental programs. This requirement is limited to the cost of single coverage, though service members may elect to continue dependent coverage at their own expense.

According to DMA, service members are eligible for military health and dental benefits for active duty service lasting 30 days or longer. In this scenario, members are generally eligible for military health and dental benefits for 30 days prior to deployment and up to 90 days after. For long-term insurance-eligible active duty service, it is unlikely that there will be costs to counties to maintain the county insurance benefits as required in this section of the bill.

Conversely, not all active duty service is long-term, and if members are called to service for less than 30 days, they generally will not be eligible for military health and dental coverage. Since this bill requires counties to maintain their employer contributions toward health and dental benefits until military coverage begins, this bill could result in a cost to counties for active duty lasting less than 30 days. Although short active duty periods like this are possible, DMA indicated they are not common. According to survey respondents, the average county cost of one month of health and dental insurance for single coverage in 2018 was \$757.

Set Aside Funds for Differential Payments

Section 1, subdivision H of the bill requires counties to set aside funds equal to the amount of salary the county would have otherwise paid to the employee during the leave for military service, from which differential payments would be made. While this section restricts the availability of some county funds, this section is not anticipated to have a cost.