Ohio Legislative Service Commission

Nick Thomas

Fiscal Note & Local Impact Statement

Bill: S.B. 209 of the 128th G.A.

Date: November 18, 2009

Status: As Introduced

Sponsor: Sen. Schaffer

Local Impact Statement Procedure Required: No — No local cost

Contents: Reduces by five percent the salaries of General Assembly members, the Governor and Lieutenant Governor, and executive department heads

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund and Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Department Heads Reduction of approximately $92,000 in pay and benefits for department heads (various funds)	Department Heads Reduction of approximately $92,000 in pay and benefits for department heads (various funds)	- 0 -
	- 0 -	Governor, Lieutenant Governor Reduction of approximately $6,300 in pay and benefits for Governor and Lieutenant Governor (GRF)	Governor, Lieutenant Governor Reduction of approximately $12,600 in pay and benefits for Governor and Lieutenant Governor (GRF)
	- 0 -	General Assembly Reduction of $261,000 for legislator salary cut (GRF)	General Assembly Reduction of $536,000 for legislator salary cut (GRF)

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill would reduce the salaries of 24 state department heads during calendar year (CY) 2010 by 5% and would also affect certain benefit costs proportionately. The salary and benefit cost savings would thus be spread over the second half of FY 2010 and the first half of FY 2011. The savings would amount to approximately $92,000 in both FY 2010 and FY 2011, accruing to the GRF and other state funds.
- The bill would reduce the salaries of the Governor and Lieutenant Governor by 5% beginning FY 2011, for an annual savings of roughly $12,000 to the GRF.
- The bill would reduce legislator salaries by 5% beginning FY 2011, for an annual savings of roughly $536,000 to the GRF.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Pay reduction for state legislators

The bill reduces the salaries of legislators specified in R.C. 101.27 by 5%. This includes base pay of Senators and Representatives and pay increments for chairpersons, vice-chairpersons, and ranking minority members of standing committees and standing subcommittees.[1] These pay amounts total approximately $9.1 million and are paid entirely from the GRF. Consequently, a 5% reduction lowers pay by about $450,000 each year. However, under the Ohio Constitution, legislators are prohibited from changing their compensation during their terms of office. This means that the pay reductions for legislators would not go into effect until on or after January 2011. Therefore, expenditures for legislator pay will be reduced in FY 2011 by about $225,000 and the full amount in FY 2012 and thereafter.

Reduction of legislators' total annual salaries by $450,000 will result in additional savings to the GRF for the cost of benefits. The largest of these is state matching contributions to the Public Employees Retirement System (PERS) toward legislators' retirement funds, an amount currently equal to 14% of pay. Others include accrual of sick leave, estimated at about 4% of pay; the cost paid by the state for premiums, equal to about 0.4% of pay, on life insurance coverage equal to one year's salary; and workers' compensation premiums, about 0.4% of pay. These additional annual savings would be approximately $85,000, raising the total estimated cost savings to the state in FY 2011 to about $268,000 and the total annual savings to about $536,000. Not included are state payments for benefits that do not vary with the amount of the employees' pay. The state's share of medical insurance premiums, for example, does not vary with the amount of the employee's pay.

Legislators pay school district income taxes and municipal income taxes based on their location of residence, not their place of work. A 5% cut in legislators' pay will reduce income tax revenues to those school districts and municipal corporations in which the legislators reside. The amounts of these reductions in local tax revenues will generally be quite small relative to total collections for these governments from these taxes.

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[1] In addition, the Speaker and Speaker Pro Tempore of the House are precluded from receiving any additional pay for serving as chairperson or vice-chairperson of a committee.

Pay reduction for the Governor and Lieutenant Governor

The bill would reduce the salary of the Governor and Lieutenant Governor by 5%. As with members of the General Assembly, the Ohio Constitution prohibits changing the compensation of the Governor and Lieutenant Governor during their terms of office. Thus, the salary reduction would begin January 1, 2011 and remain effective indefinitely. The combined salary of these two officials, all of which is paid from the GRF, is approximately $212,000, 5% of which would be $10,600. The provision's impact on benefit expenditures would be a reduction of slightly less than $1,500 for PERS contributions and $500 for other benefits, bringing the annual total cumulative savings of the provision to approximately $12,600. As this provision would take effect on January 1, 2011, $6,300 would be saved during FY 2011, and $12,600 would be saved each fiscal year thereafter. The provision would also have a slight effect on state and local income tax collections.

Pay reduction for department heads

In addition to members of the General Assembly, the Governor, and Lieutenant Governor, the bill would reduce the pay of 24 department heads by 5% based on their annual salaries as of July 1, 2009. The pay cuts would apply to the CY 2010 period. As of July 1, 2009, the combined salary of the department heads was approximately $3.1 million. Applying a 5% pay cut would yield salary savings of $155,000 over this time. At 14% of pay, the state's contribution to PERS would be reduced by approximately $21,500 for PERS contributions. Other benefit costs related to pay would be reduced by approximately $7,000. Thus, the cumulative savings derived by reducing the pay of the specified departmental heads is approximately $184,000. Half of these savings would accrue in the last half of FY 2010 and half would accrue over the first half of FY 2011. This provision would affect the GRF and other operating funds from which the salaries of the department heads are paid. The provision would also have a slight effect on state and local income tax collections.

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