HOUSE
RESEARCH
ORGANIZATION bill analysis 4/18/2007

HB 1929
Flynn, Hardcastle
(CSHB 1929 by Bonnen)

SUBJECT: Eliminating payment of state employees by warrants in favor of paycards

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 8 ayes — Keffer, Ritter, Otto, Bonnen, Y. Davis, Paxton, Peña, Pitts

0 nays

1 absent — Flores

WITNESSES: For — Dale Allen, Virtual Money Inc.; Vickie Ivery, JP Morgan Chase

Against — None

On — Joani Bishop, Comptroller's Office

BACKGROUND: Government Code, sec. 403.016 governs the comptroller's electronic funds transfer system for state employees and annuitants. Subsec. 403.016(b) requires the Comptroller to use the electronic funds transfer system to pay an employee's net state salary and travel expense reimbursements unless:

- the employee does not hold a classified position and the employee's gross salary is less than the gross salary of a position classified to group 8, step 1 of the state position classification plan; or
- the employee holds a classified position under the state's position below group 8.

Subsec. 403.016(c) requires the comptroller to use the electronic funds transfer system to make payments of more than $100 to annuitants by the Employees Retirement System or Teacher Retirement System.

If the comptroller is not required to use the electronic funds transfer system to pay a person, a person may request to be paid by electronic funds transfer.

Under Subsec. 403.016(h), the comptroller is required to issue a warrant, or paper check, to pay a person if the person notifies the comptroller that payment by electronic funds transfer is impractical for the person, if electronic funds transfer is more costly, if the person is unable to establish a bank account to receive electronic funds transfer, or if the person chooses to receive payment by warrant. Further, the comptroller must issue payment by warrant if the state agency for which the person works notifies the comptroller that payment by electronic funds transfer is impractical to the agency or payment by electronic funds transfer is more costly than payment by warrant.

DIGEST:

CSHB 1929 would require the comptroller to use the electronic funds transfer system to pay an employee's salary and travel expenses unless an employee agreed to accept payment on an electronic paycard.

The bill would require the comptroller to use the electronic funds transfer system to make payments of more than $100 to annuitants by the Employees Retirement System, Teacher Retirement System, the Texas Emergency Services Retirement System, or another retirement system whose annuitants were paid from the state treasury or from another fund with the comptroller, unless the annuitant agreed to accept payment on an electronic paycard.

The bill would eliminate provisions allowing payment of employees by warrant.

The bill would take effect January 1, 2008.

SUPPORTERS SAY:

Electronic paycards offer many benefits to those who choose to use them. Paycards are similar to ATM or debit cards and can allow for convenient and inexpensive cash management for employees. Such a card is issued to a payee, and new value is added to it electronically when the employee is paid. Many of these cards are "branded" with a major credit card company logo, allowing ease of use at businesses across the state.

CSHB 1929 could lead to significant cost savings to Texas and to state employees. Paycards would eliminate the cost to state government associated with printing and distributing paychecks. For example, the state of Oklahoma, which recently switched to issuing paycards for many state employees, has estimated a savings of $12 million.

The bill would cut down on fees paid by employees at check-cashing businesses and could serve as a bridge to mainstream financial services for "under-banked" state employees. Check-cashing businesses typically charge fees of 1 percent or more to cash payroll checks, money that otherwise could be spent for an employee's living and family expenses. In addition, employees could avoid the inconvenience of physically depositing a check at a bank. Depending on the type of contract into which the state entered, an employee could have access to many free ATM locations to withdraw cash and could use the paycard at any business with point-of-sale capabilities.

Paycards cut down on the messy administrative burden associated with paper paychecks and easily allow automatic transfer of funds to an employee. Such technology could be particularly important in the case of natural disaster, bad weather, or other event that prevented delivery of paychecks to employees.

Potential vendors offer a wide range of services, including the option of a payee receiving a paper check from the vendor. For this reason, CSHB 1929 would be likely to enhance the payment delivery options available to state employees.

OPPONENTS SAY:

CSHB 1959 would reduce the payment options available to state employees who may prefer to receive paper paychecks from the state. Some employees may be unfamiliar with paycard technology and prefer holding hard copies of their checks that they could deposit in person at their banks.

Although some argue that paycards would save the state money, this claim is not borne out in the LBB's fiscal note, which projects no significant impact to the state. This likely is due to the off-setting cost of any private contracts with vendors who would administer the paycard system.

OTHER OPPONENTS SAY:

Because the terms of any paycard program would depend on the contracts entered into by the state, CSHB 1929 more specifically should address the services and choices that payees would receive. If employees no longer would have the option of receiving a paper paycheck, there should be guarantees to ensure competition among providers so that an employee could choose which paycard services best served their needs.

NOTES:

The committee substitute added provisions requiring the comptroller to use the electronic funds transfer system to make payments of more than $100 to annuitants by a retirement system whose annuitants were paid from the state treasury or from another fund with the comptroller, unless the annuitant agreed to accept payment on an electronic paycard. It also would require the comptroller to contract with one or more vendors for electronic paycard services and would eliminate provisions allowing payment of employees by warrant.