

**GEORGIA STATE UNIVERSITY  
ANDREW YOUNG SCHOOL OF POLICY STUDIES  
FISCAL RESEARCH PROGRAM  
JANUARY 27, 2003**

**SUBJECT:** Pay Day Shifts

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I have looked briefly into the question of shifting paydays from the last day of the month that ends one fiscal year to the first day of the month that begins the next. The idea, obviously, is to shift the cost of that payroll to the next year, thereby “saving” the payer the cost of the shifted payroll in the original fiscal year. If the pay schedule is changed permanently to first days of months, the effect is a permanent one-time cost savings. If, in a subsequent year, payroll practice shifts back to the end of months, the effect is that of a short term loan to address cash flow needs.

Time has not permitted thorough research, but the few examples that have been found may be instructive.

## **Federal Government**

Apparently the Federal government frequently shifts paydays from one fiscal year to the next to achieve short-term savings. “To reduce expenditures in one fiscal year, lawmakers frequently try to move the end-of-September payday for some federal workers and military personnel to the beginning of October, when the next fiscal year begins.”<sup>1</sup> This may cause some household cash flow problems for those who have automatic checking deductions on the first day of a month, but otherwise seems to generate no great objections from employees.

## **States**

I have found news articles regarding payday shifts in four states: Hawaii, Virginia, North Carolina, and Colorado. North Carolina and Colorado simply shifted (or tried to shift) a payday, as described above, from one fiscal year to another. Hawaii and Virginia were not only shifting payday, but were revamping the payroll system from monthly to fortnightly payments and from “forward funding” (encumbering payroll outlays at the beginning of pay periods) to a system that encumbered funds only after a pay period had passed. The effect was that current employees “missed” one current two week pay check. In effect, it is paid two weeks after termination of employment or retirement. This is called a “pay lag”, not a “pay shift”. The material I have found indicates that a “pay shift” is much easier to accomplish than a “pay lag”.

*North Carolina.* In 1991, North Carolina shifted the payroll from June 30 to July 1 to balance the budget. The shift was restored in 1994. Apparently, an attempt was made in the FY 2000-01

budget to move teacher payroll from an accrual to a cash basis. This would have the effect of shifting costs to the next fiscal year.<sup>2</sup> I do not know what happened to the attempt.

*Colorado.* Governor Owens [R] proposed as early as last November to shift the state pay-date from June 30 to July 1 as a one-time cost cutting measure. It was said to potentially save \$134 million in the general fund and \$238 million in all funds and protect 2,300 jobs from elimination. At the time, employees raised questions regarding or calculating retirement benefits (no effect according to the system administrator, but a possible effect on 401(k) and deferred comp) and direct deposit/automatic payments.<sup>3</sup>

As of January 14, the proposed shift was “dead.” Apparently, members of the Joint Budget Committee felt the state’s budget problems were deeply rooted and sought more fundamental reform; a payroll shift would “hide the problem,” not address it.<sup>4</sup>

*Virginia.* In 1997, Virginia made a transition from a monthly payroll to a fortnightly payroll. The transition took place at the end of June/beginning of July. Thus, one two week payroll liability was shifted from one fiscal year to the next. As noted above, this also had the effect of shifting (delaying) employee compensation two weeks. Not only was it necessary to create a \$21.8 million reserve to cover the delayed payroll liability, but created a significant political response on both the campuses of the University of Virginia and Virginia Tech. As a result, the governor moved to change details of the payroll change implementation program.<sup>5</sup> Even so, the plan was not fully implemented in the university system until 2002.<sup>6</sup>

*Hawaii.* Hawaii had a very difficult time implementing a pay lag program. As with Virginia, the attempt began in 1997 and there were two issues: first, move a payday from June 30 to July 1 and, second, move the entire pay system from one that anticipated work to one that pays for work already done. There was a \$51 million anticipated saving. University personnel and AFSME both opposed the shift, but would support the one day shift. To make a long story medium length, lawsuits followed and the full plan was not implemented (as with Virginia) for several years.<sup>7</sup>

## NOTES

1. Brian Friel, “Accounting Games” *Pay and Benefits Watch* April 4, 2002 [bfriel@govexec.com](mailto:bfriel@govexec.com)
2. The John Locke Foundation, “No. 180-R - Framing the Budget Debate: House Plan Reduces State Savings, Increases Risk”, *Spotlights*, June 21, 2000 <http://www.johnlocke.org/spotlights/2000062130.html>
3. Marianne Goodland, “Employees Question Impact of Proposed Pay-Date Shift” <http://newmedia.colorado.edu/silverandgold/messaged/1400.ht>, November 21, 2002

4. Steven K. Paulson (The Associated Press), "Payday Shift Shot Down," *The Coloradoan*, January 16, 2003, [http://www.coloradoan.com/news/coloradoanpublishing/government/legislature/011403\\_paydayshift.html](http://www.coloradoan.com/news/coloradoanpublishing/government/legislature/011403_paydayshift.html)
5. "Governor Responds to Employee Pay Lag Concerns," *Commonwealth Currents*, v2 no5, December 1996/January 1997. <http://www.dpt.state.va.us/comcur/commcurr/1996/d96j97.htm>
6. <Http://www.hrs.virginia.edu/mgrmemos/payfreqchg.html>.
7. Crystal Kua, "Cayetano: UHPA Talks Hinge on Payroll Lag," *Honolulu Star-Bulletin Hawaii News*.