Analysis of the Maryland Executive Budget

For the Fiscal Year Ending June 30, 2017

Volume II: D60A10 – J00I00

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Annapolis, Maryland

April 2016

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D60A10
State Archives

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$2,087	$2,514	$2,460	-$54	-2.2%
Deficiencies and Reductions	0	-54	-6	48	
Adjusted General Fund	**$2,087**	**$2,460**	**$2,454**	**-$7**	**-0.3%**
Special Fund	10,330	7,229	7,423	194	2.7%
Deficiencies and Reductions	0	0	-10	-10	
Adjusted Special Fund	**$10,330**	**$7,229**	**$7,414**	**$184**	**2.5%**
Federal Fund	30	100	46	-54	-54.3%
Adjusted Federal Fund	**$30**	**$100**	**$46**	**-$54**	**-54.3%**
Reimbursable Fund	81	0	0	0	
Adjusted Reimbursable Fund	**$81**	**$0**	**$0**	**$0**	
Adjusted Grand Total	**$12,529**	**$9,790**	**$9,913**	**$123**	**1.3%**

- The fiscal 2017 budget plan assumes a fiscal 2016 reversion of $54,000. This reversion relates to a shared services initiative.

- After accounting for a back of the bill reduction in health insurance and a planned fiscal 2016 reversion, the fiscal 2017 allowance for the State Archives increases by $123,000, or 1.3%. There is a decrease in general funds of $7,000, or 0.3%. Special funds increase by $184,000, or 2.5%. Federal funds decrease by $54,000 because of the ending of the National Historical Publication and Records Commission project in the State and National Archival Partnership program.

Note: Numbers may not sum to total due to rounding.

For further information contact: Sierra S. Boney Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	57.50	56.50	62.50	6.00
Contractual FTEs	24.45	22.60	15.80	-6.80
Total Personnel	**81.95**	**79.10**	**78.30**	**-0.80**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	1.86	3.30%
Positions and Percentage Vacant as of 12/31/15	4.00	7.08%

- There are 6.0 contractual conversions in the agency, consisting of 2.0 archivists, 2.0 archivist trainees, 1.0 information technology programmer, and 1.0 computer network specialist.

- There is a 0.80 decrease in contractual employees in addition to the reduction for conversions.

- The turnover rate of 3.3% requires that the State Archives maintain 1.86 vacant positions. As of December 31, 2015, the State Archives had 4.0 vacant positions.

Analysis in Brief

Major Trends

Online Traffic Continues to Increase: The amount of State Archives data made available online has continued to increase and online traffic has grown with it.

Permanent Records Increase: The State Archives strives to acquire, describe, preserve, and make electronically available the permanent records of Maryland's past. To that end, the amount of permanent records have increased in various formats.

Issues

Reduction in Land Records Improvement Fund Allocation: The State Archives currently receives approximately $5 million in special funds from the Judiciary to house and maintain land records through the Land Records Improvement Fund (LRIF). There is concern that these special funds could be reduced significantly in the future, which could lead to budget pressure on the State Archives. **The Department of Legislative Services recommends that the State Archives and the Judiciary comment on the current status of funding from the LRIF to the State Archives and the nature of the relationship moving forward.**

Recommended Actions

		Funds
1.	Delete double-budgeted funds.	$ 423,724
	Total Reductions	**$ 423,724**

D60A10
State Archives

Operating Budget Analysis

Program Description

As the State's legally and constitutionally mandated historical agency, the State Archives is the central depository for government and designated private records of permanent value. Holdings date from 1634 and include colonial and State executive, legislative, and judicial records; county probate, land, and court records; publications and reports of the State, county, and municipal governments; business records; and special collections of maps, newspapers, photographs, records of religious bodies (particularly as they relate to the records of births, deaths, and marriages), businesses, and private individuals.

Maryland is unique in that the State Archives is responsible for permanent records from all three branches of government and all levels of government including municipal and local governments. As a result, the State Archives is one of the largest state archives in the country.

Only a small percentage of the records created by the government are considered permanent records that the State Archives is mandated to preserve for posterity. The records transferred to the State Archives have been found to have permanent historical, educational, and administrative value through the records scheduling and retention process. Developing records retention and disposition schedules is a collaborative process involving the originating agency, the Department of General Services (DGS), and the State Archivist. Agencies are responsible for drafting retention schedules that are consistent with State laws and regulations; these schedules must be approved by DGS, the State Archivist, and ultimately, the Hall of Records Commission. The State Archives does not accept the transfer of records series unless the records have been determined by schedule to be of permanent value. Permanently valuable records are transferred to archival custody once no longer needed for current agency business.

The State Archives seeks to preserve and make records available in original form and electronically to provide reliable information about Maryland State, county, and municipal government in a continuously compiled, updated, and accessible environment. The State Archives also publishes the *Maryland Manual On-Line* as funding permits. Other publications and the index to various collections are available on the Internet and in digital format. The *Maryland Manual On-Line*, including photographs, is available online and updated daily.

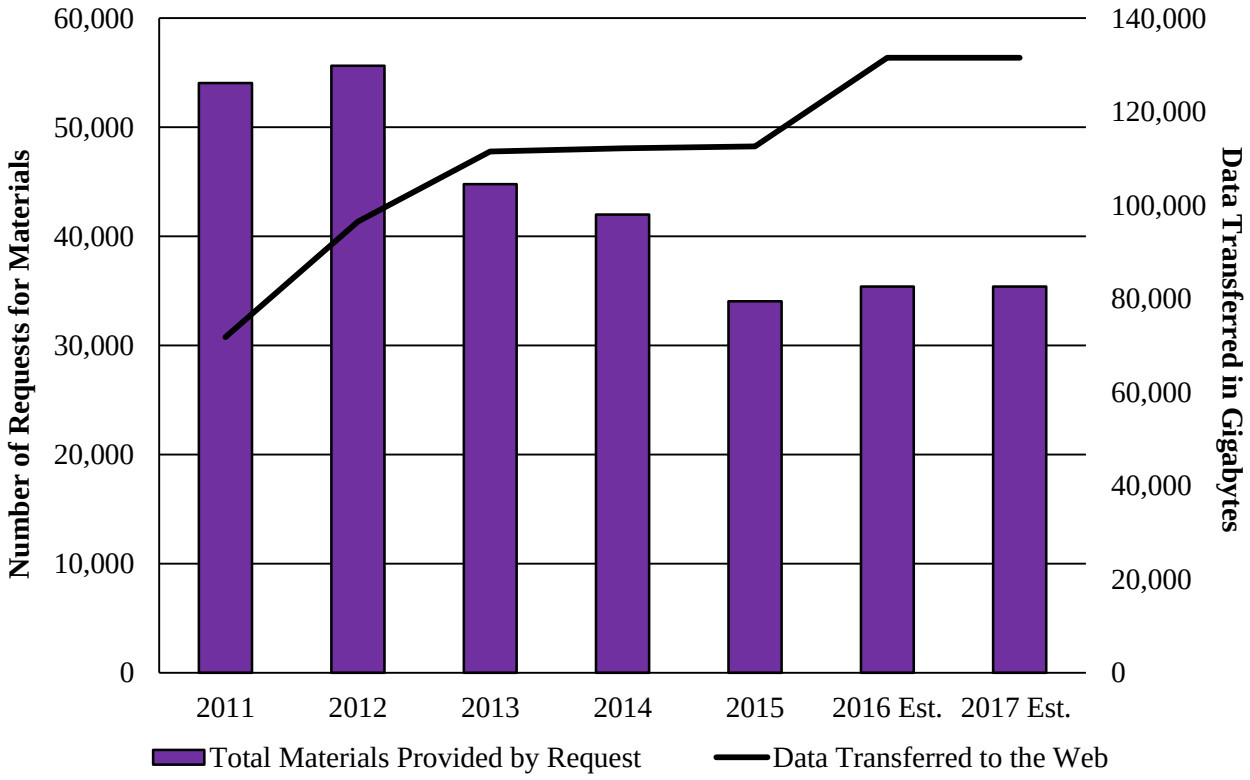
The Maryland Commission on Artistic Property is the official steward of all valuable paintings and other decorative arts that comprise the State-owned art collection. Since the first acquisition in 1774, the collection has evolved into a historically and artistically important collection of paintings, decorative arts, and sculptures with national and international significance. The commission oversees the acquisition, location, proper care, restoration, display, and preservation of these paintings and decorative arts.

Performance Analysis: Managing for Results

1. Online Traffic Continues to Increase

In recent years, there has been a significant increase in the amount of data that has been transferred to an online format. **Exhibit 1** shows that as more data has been transferred to an online format, the number of materials specifically requested and provided to patrons and through interagency requests has declined, likely because of the increased online accessibility.

Exhibit 1
Materials Provided and Accessible Online (Cumulative)
Fiscal 2011-2017 Est.

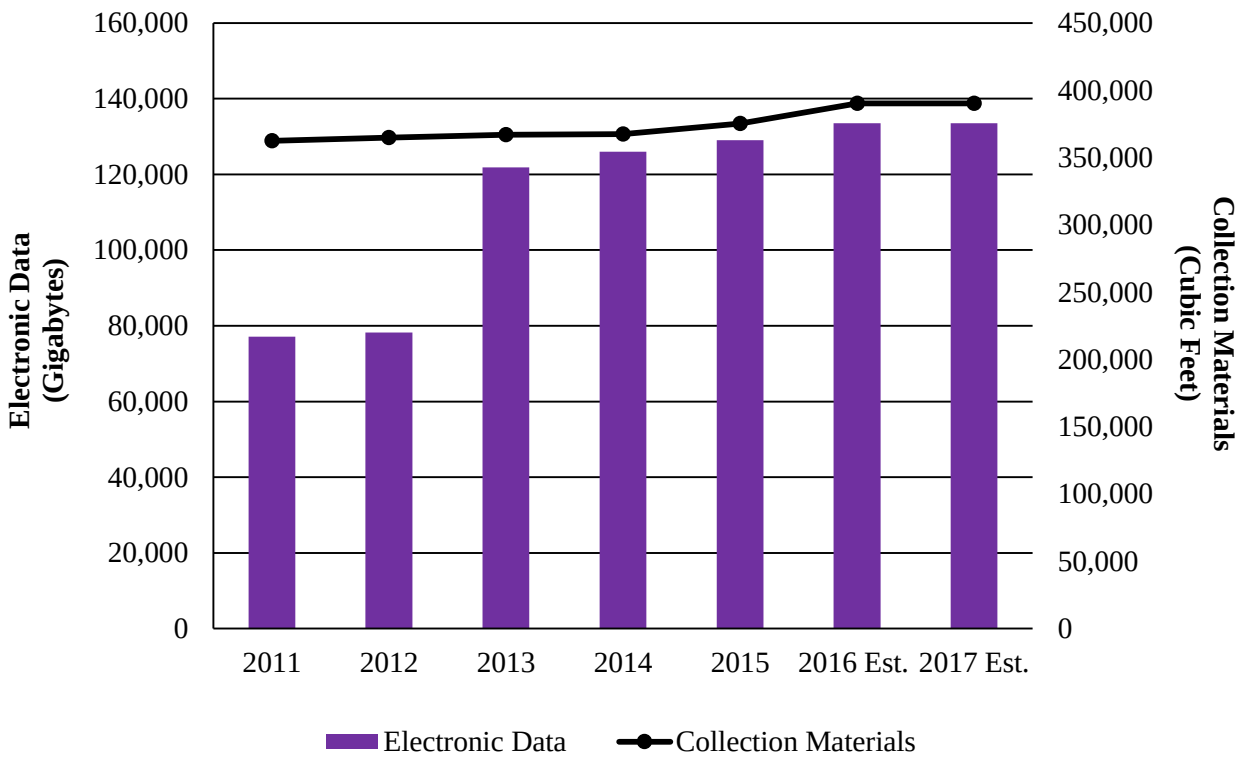


Source: Department of Budget and Management

2. Permanent Records Increase

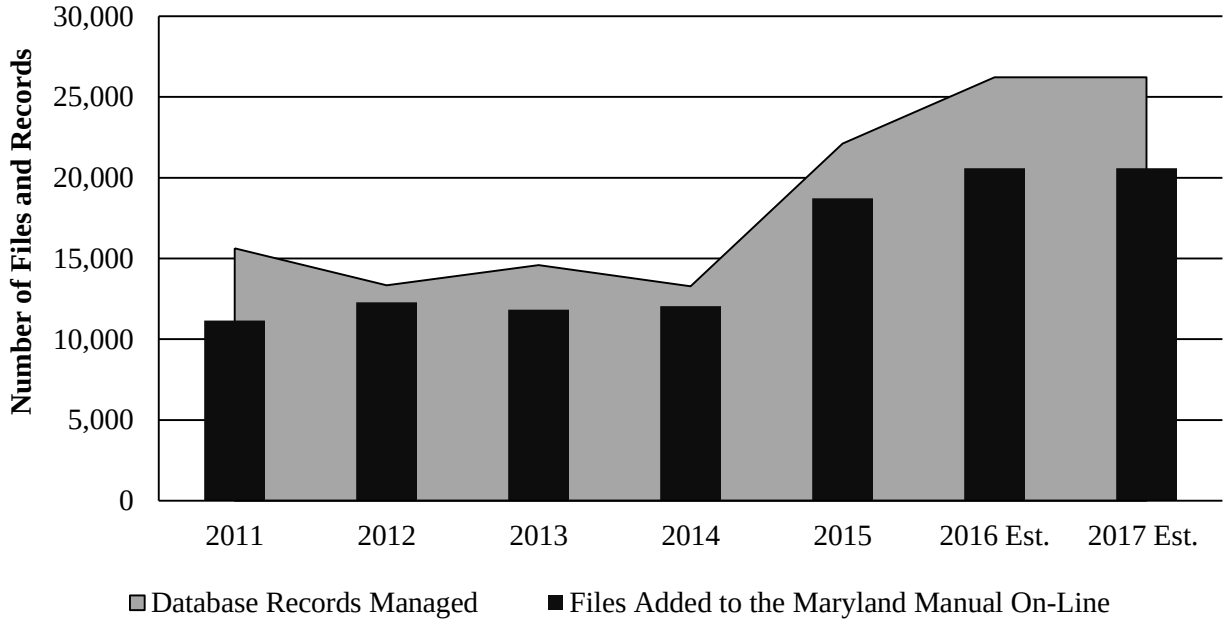
The mission of the State Archives is to acquire, describe, preserve, and make electronically available (in a secure and dynamic environment) the permanent records of Maryland's past. As shown in **Exhibit 2** and **Exhibit 3**, records are collected in various ways and have increased steadily in recent years. The quantity of collection materials, the amount of electronic data managed, the database records managed, and the files and graphics created and maintained for the *Maryland Manual On-Line* have all increased since 2011, and these trends are expected to continue.

Exhibit 2
Collections and Electronic Data
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

Exhibit 3
Database and Maryland Online Materials
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

Fiscal 2016 Actions

Cost Containment

The Administration's fiscal 2016 cost containment strategy includes a 2% across-the-board reduction in general funds. The 2016 cost containment reduction for the State Archives is $45,000 for a partial salary realignment.

Planned Reversion

As a part of the Governor's allowance, there is a consolidation of fiscal, human resources, and information technology through a shared services initiative. For the State Archives there is a planned reversion of $54,000 in general funds for the human resources shared services.

Proposed Budget

Personnel

The fiscal 2017 allowance, after accounting for a back of the bill reduction in health insurance and a planned fiscal 2016 reversion, increases by $123,000, or 1.3%, as shown in **Exhibit 4.** A significant portion of the increase is because of $1.1 million in personnel costs, including $435,000 for 6 new positions, which are all contractual conversions. This cost is partially offset by a $308,000 decrease for contractual employees. There is also $424,000 in reclassifications currently in the budget which reflects double budgeting for the contractual conversions. **The Department of Legislative Services recommends a reduction to delete the double-budgeted funds.**

Exhibit 4
Proposed Budget
State Archives
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$2,087	$10,330	$30	$81	$12,529
Fiscal 2016 Working Appropriation	2,460	7,229	100	0	9,790
Fiscal 2017 Allowance	2,454	7,414	46	0	9,913
Fiscal 2016-2017 Amount Change	-$7	$184	-$54	$0	$123
Fiscal 2016-2017 Percent Change	-0.3%	2.5%	-54.3%		1.3%

Where It Goes:	
Personnel Expenses	
New positions (6 full-time equivalents)	$435
Reclassifications	424
Employee and retiree health insurance	131
Employees' Retirement System	91
Offset of fiscal 2016 planned reversion	54
Turnover adjustments	-43
Other fringe benefit adjustments	-24
Other Changes	
Human Resources shared services	72
Travel	8
Scanner repairs (new scanner purchased in fiscal 2015)	-10

Where It Goes:

Staff training	-10
Microfilm for court generated land records	-43
Other contracts	-53
Electricity	-64
New facility one-time costs	-122
Programming contract for mdlandrec.net	-178
Laptops, storage devices, application servers, and database clusters	-252
Contractual employee costs	-308
Other	15
Total	**$123**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $6,468 in general funds, and $9,909 in special funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Other Expenses

Outside of personnel, the largest increase, $72,000, relates to costs for the Human Services shared services plan. There is also a $252,000 decrease in costs for laptops, storage devices, and database clusters purchased in fiscal 2016. There are also various decreases in costs associated with the new warehouse facility in Woodlawn. There was also a $178,000 decrease for the programming consultant that assisted in the maintenance of the mdlandrec.net website.

Issues

1. Reduction in Land Records Improvement Fund Allocation

In fiscal 1991, the Land Records Improvement Fund (LRIF) was created to repair, replace, modernize, and maintain equipment in the land records offices across the State. Surcharges on the recordation of land instruments support the fund.

In fiscal 1994, the Judiciary, through a contractual agreement with Science Applications International Corporation, began developing an automated means to facilitate the recording, scanning, indexing, retrieval, and storage of land records in Maryland. The Electronic Land Records Online Imaging system (ELROI) was implemented in every county and Baltimore City by early 2007.

The Real Property article tasks the Clerks of the Circuit Courts with recording and indexing land records, as well as providing security backup copies to the State Archives. The State Government article tasks the State Archives with preserving and providing access to the land records. With the advent of ELROI, the State Archives offered the Judiciary a way to improve access to the digitized land records and plats through mdlandrec.net and plats.net. The Judiciary and the State Archives formed a joint project team to develop a plan, which was submitted to the General Assembly in 2003. The original plan called for ELROI to provide recordation and verification, as well as access to the most recent 10 years of images, along with the index system to retrieve the data. In 2005, the plan was revised for ELROI to provide recordation and indexing of land record instruments, while mdlandrec.net would make archived indexed data and images available to the public. This was accomplished through the electronic transfer of land record instruments from ELROI to mdlandrec.net.

In fiscal 2003, the State Archives and the Judiciary began an ongoing partnership to preserve and to make online records of private property ownership and sales accessible throughout the State reaching back to the seventeenth century and the founding of Maryland. The State Archives developed a web-based service and electronic archives of land records that are added to daily through the course of real estate recordings at the courthouses throughout Maryland. The service is paid for and maintained upfront by those who buy and sell land through a fee placed in the LRIF. A portion of these fees are paid to the State Archives for the care and maintenance of the records at the State Archives and made available online. By statute, "the State Archivist may establish reasonable fees for the care and preservation of records and other services provided by the State Archives." In addition, the State Archives may incorporate an overhead and investment charge designed to partially offset the reference and research costs of the State Archives.

Since fiscal 2003, a Memorandum of Understanding (MOU) between the Judiciary and the State Archives has been renewed five times. Starting in 2008, the MOU between the Judiciary and the State Archives established the agreement on a fee-for-services basis. In July 2015, the Judiciary and the State Archives entered into a one-year fee-for-service MOU for the current fiscal year. The amount of the fee ($5 million) outlined in the MOU is to be paid on a quarterly basis, and the Judiciary reserves the right to withhold payment to the State Archives for lack of compliance with the terms of the MOU.

In recent years there have been conflicting estimates of the actual cost of collecting and maintaining land records for the State. It is understood that for the permanent archiving and maintaining of land records, it is appropriate to allocate revenue from the LRIF to the State Archives. However, the amount of funding necessary to comply with the MOU requirements is currently in question.

The 2015 *Joint Chairmen's Report* required a report from the Judiciary and State Archives. The report from the Judiciary determined that the actual cost of land records collection and upkeep for the State by the State Archives should be less than $2 million annually, a significant decrease in funding from the current $5 million in special funds. The Judiciary further asserted that there is a need for the additional $3 million to be reallocated to the Judiciary's in-house ELROI project. The State Archives asserted that this figure is not accurate as it does not include the appropriate levels of staff, warehousing, telecommunications, and utilities necessary to appropriately carry out the process of collections, cataloging, and general land records upkeep. **The Department of Legislative Services recommends that the State Archives and the Judiciary comment on the current status of funding from the LRIF to the State Archives and the nature of the relationship moving forward.**

Recommended Actions

		Amount Reduction	
1.	Delete double-budgeted funds. Funds for contractual conversions were inadvertently put into 2 personnel subobjects.	$ 423,724	SF
	Total Special Fund Reductions	**$ 423,724**	

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
State Archives
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$2,115	$6,523	$0	$0	$8,638
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-43	0	0	0	-43
Budget Amendments	19	4,045	84	81	4,230
Reversions and Cancellations	-3	-238	-54	0	-296
Actual Expenditures	**$2,087**	**$10,330**	**$30**	**$81**	**$12,529**
Fiscal 2016					
Legislative Appropriation	$2,480	$7,177	$96	$0	$9,754
Budget Amendments	34	52	4	0	90
Working Appropriation	**$2,514**	**$7,229**	**$100**	**$0**	**$9,844**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 legislative appropriation for the State Archives was increased by $3,891,615. Cost containment decreased the general fund appropriation by $42,629. Budget amendments increased general funds by $18,911 with $1,962 for communications and $16,949 for a cost-of-living adjustment (COLA). There was $3,368 reverted back to the General Fund.

The special fund appropriation increased by $3,807,113. Budget amendments increased special funds by $4,045,461 with $26,456 for the COLA and $4,019,005 for renovations to the new archives storage facility in Windsor Mills. There was a special fund cancellation of $238,348 because revenue earned by the State Archives was lower than anticipated.

The State Archives received an additional $84,169 in federal funds through budget amendment because of four grants awarded to the State Archives including U.S. Department of Education funds for a project in support of Beneath the Underground and Beyond, the National Historical Publication and Records Commission, the National Park Service to support the education and outreach programs, and the National Historical Publication and Records Commission. Federal fund cancellations totaled $53,883, because there was not enough working hours for the contractual employees to be charged to the grant.

In fiscal 2015, the State Archives also received $81,302 in reimbursable funds from DGS for the restoration of several items in the Old Senate Chamber.

Fiscal 2016

To date, the fiscal 2016 legislative appropriation has increased by $90,317 including $34,000 in general funds and $52,000 in special funds for the restoration of the 2% pay cut.

The federal fund appropriation increased by $4,317 for an adjustment to the National Historical Publication and Records Commission for a project in the State and National Archival Partnership program. Funding will be used to conduct archival best practices and emergency preparedness training workshops for records managers, sponsor an Archives month event, and provide support to the Maryland Historical Records Advisory Board.

Object/Fund Difference Report
State Archives

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	57.50	56.50	62.50	6.00	10.6%
02 Contractual	24.45	22.60	15.80	-6.80	-30.1%
Total Positions	**81.95**	**79.10**	**78.30**	**-0.80**	**-1.0%**
Objects					
01 Salaries and Wages	$ 4,912,507	$ 5,075,346	$ 6,105,533	$ 1,030,187	20.3%
02 Technical and Spec. Fees	849,186	1,014,821	707,029	-307,792	-30.3%
03 Communication	159,094	372,255	331,070	-41,185	-11.1%
04 Travel	28,195	13,980	22,050	8,070	57.7%
06 Fuel and Utilities	59,433	210,411	148,416	-61,995	-29.5%
07 Motor Vehicles	30,417	9,800	10,620	820	8.4%
08 Contractual Services	4,571,803	1,198,954	1,064,724	-134,230	-11.2%
09 Supplies and Materials	94,799	128,037	91,380	-36,657	-28.6%
10 Equipment – Replacement	807,006	848,151	596,000	-252,151	-29.7%
11 Equipment – Additional	2,401	0	0	0	0.0%
13 Fixed Charges	1,014,571	972,236	852,369	-119,867	-12.3%
Total Objects	**$ 12,529,412**	**$ 9,843,991**	**$ 9,929,191**	**$ 85,200**	**0.9%**
Funds					
01 General Fund	$ 2,087,432	$ 2,514,404	$ 2,460,000	-$ 54,404	-2.2%
03 Special Fund	10,330,393	7,229,433	7,423,414	193,981	2.7%
05 Federal Fund	30,286	100,154	45,777	-54,377	-54.3%
09 Reimbursable Fund	81,301	0	0	0	0.0%
Total Funds	**$ 12,529,412**	**$ 9,843,991**	**$ 9,929,191**	**$ 85,200**	**0.9%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
State Archives

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Archives	$ 12,130,755	$ 9,439,352	$ 9,461,766	$ 22,414	0.2%
02 Artistic Property	398,657	404,639	467,425	62,786	15.5%
Total Expenditures	**$ 12,529,412**	**$ 9,843,991**	**$ 9,929,191**	**$ 85,200**	**0.9%**
General Fund	$ 2,087,432	$ 2,514,404	$ 2,460,000	-$ 54,404	-2.2%
Special Fund	10,330,393	7,229,433	7,423,414	193,981	2.7%
Federal Fund	30,286	100,154	45,777	-54,377	-54.3%
Total Appropriations	**$ 12,448,111**	**$ 9,843,991**	**$ 9,929,191**	**$ 85,200**	**0.9%**
Reimbursable Fund	$ 81,301	$ 0	$ 0	$ 0	0.0%
Total Funds	**$ 12,529,412**	**$ 9,843,991**	**$ 9,929,191**	**$ 85,200**	**0.9%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

D70J00
Maryland Automobile Insurance Fund

Operating Budget Data

($ in Thousands)

	CY 14 Actual	CY 15 Budgeted	CY 15 Estimated	CY 16 Budgeted	CY 15-16 $ Change	CY 15-16 % Change
Insured Division	$35,675	$37,227	$35,358	$34,688	-$671	-1.9%
Uninsured Division	2,225	2,963	3,429	2,945	-$485	-14.1%
Nonbudgeted Expenditures	**$37,901**	**$40,190**	**$38,788**	**$37,632**	-$1,156	-3.0%

- The calendar 2016 budget for the Maryland Automobile Insurance Fund (MAIF) decreases by $1.2 million, or 3.0%, compared to calendar 2015.

- The largest reduction is a $1.7 million decrease in salary costs due to the elimination of 39 positions since the beginning of calendar 2015.

Personnel Data

	CY 14 Actual	CY 15 Budgeted	CY 15 Estimated	CY 16 Budgeted	CY 15-16 Change
Regular Positions*	254.60	239.60	222.00	215.00	-7.00
Contractual FTEs*	1.00	0.00	1.00	1.00	0.00
Total Personnel*	255.60	239.60	223.00	216.00	-7.00

* As reported by the Maryland Automobile Insurance Fund.

- MAIF adjusts its total positions each year to match its anticipated needs. The calendar 2016 budget decreases regular positions by 7 compared to calendar 2015.

- Contractual full-time equivalents remain unchanged in calendar 2016.

Note: Numbers may not sum to total due to rounding.

For further information contact: Jason A. Kramer Phone: (410) 946-5530

Analysis in Brief

Major Trends

Uninsured Division's Claims Activity Decreases: The number of claims received and assigned by the Uninsured Division decreased slightly in calendar 2015 compared to the prior year. The agency also reduced the number of outstanding claims in calendar 2015 by about 5% compared to calendar 2014. The reduction in claims received drives the drop in outstanding claims.

Insured Division's Policies and Claims Increase: The number of gross written policies in the Insured Division saw a slight increase in calendar 2015 compared to 2014, from 65,530 to 68,047. Policies in force also increased from 41,161 in calendar 2014 to 43,345 in calendar 2015. The number of claims reported in the Insured Division has steadily increased since calendar 2013.

Issues

MAIF Moves to Baltimore City: MAIF is now leasing a new headquarters in Baltimore City after moving out of a building it owns in Annapolis. The move comes several years after a significant reduction in the agency's workforce, which left it with about 65,000 square feet of unused office space in the Annapolis building. **MAIF should comment on the impact of the move on its operations.**

Installment Payments Continue: MAIF was authorized to begin accepting installment payment plans on October 1, 2013, after the enactment of Chapter 334 of 2013. Since December 2013, MAIF has sold 1,717 policies with an installment plan, a small amount relative to the approximately 68,000 policies written in calendar 2015. MAIF also believes the high down payment required by statute – either 20% or 25% – discourages usage. **MAIF should comment on the status of the installment plan and whether it supports legislation to reduce the down payment requirement.**

Recommended Actions

1. Nonbudgeted.

D70J00
Maryland Automobile Insurance Fund

Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (MAIF) is an independent, nonbudgeted State agency. Similar to other insurance companies, MAIF operates on a calendar-year basis. MAIF has two main responsibilities.

MAIF's Insured Division provides automobile insurance policies for the residents of Maryland whose applications have been declined by at least two private insurers. The Insured Division, like other automobile insurance carriers, handles claims for policyholders. The Insured Division is funded through premiums, investment income, and when necessary, a surcharge on premiums statewide.

MAIF's Uninsured Division administers and pays claims to residents of Maryland who are involved in accidents in Maryland with motorists who are uninsured, or for hit-and-run incidents where a responsible party cannot be found. The Uninsured Division may recover money paid out from the uninsured at-fault party through collections on notes and judgments. In addition, MAIF receives income from investments and uninsured motorist fines.

MAIF's three key goals are:

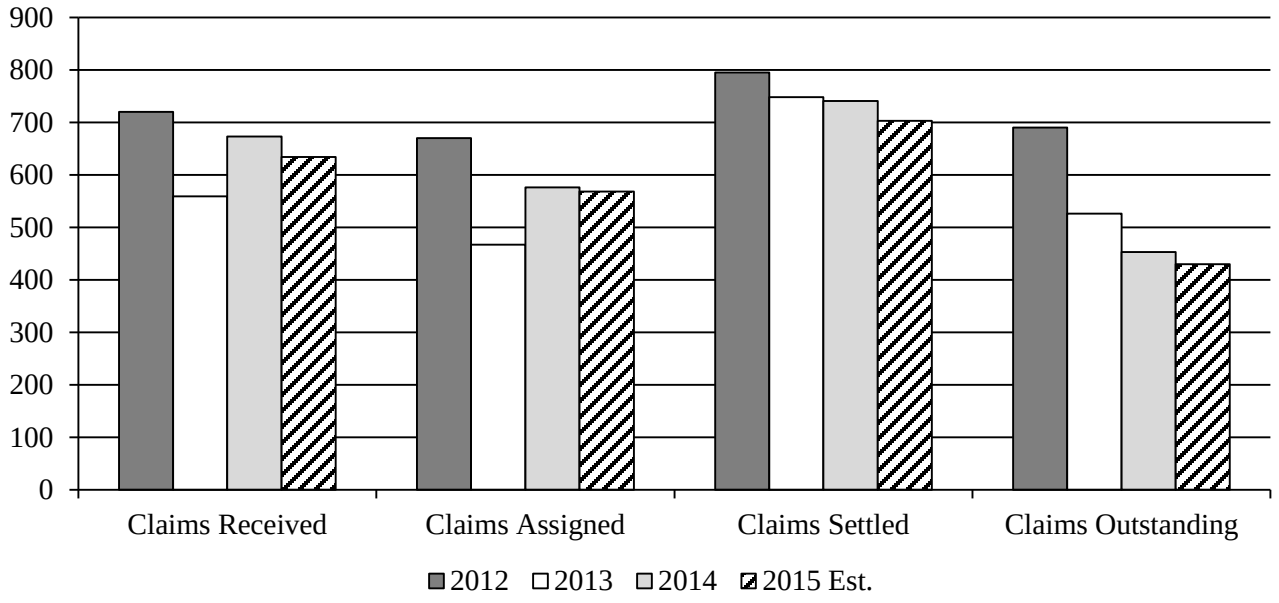
- to offer insurance to all eligible citizens of the State who are unable to obtain private insurance;
- to handle claims of the policyholders and claimants in a manner that is fair, expedient, and professional; and
- to provide services efficiently to minimize the subsidy from the State's insured motorists.

Performance Analysis: Managing for Results

1. Uninsured Division's Claims Activity Decreases

MAIF does not control the number of claims received and assigned in the Uninsured Division. Claims assigned are a function of the eligible claims received. The number of claims received and assigned by the Uninsured Division decreased slightly in calendar 2015 compared to the prior year, as shown in **Exhibit 1**.

Exhibit 1
Claims Activity
Uninsured Division
Calendar 2012-2015 Est.



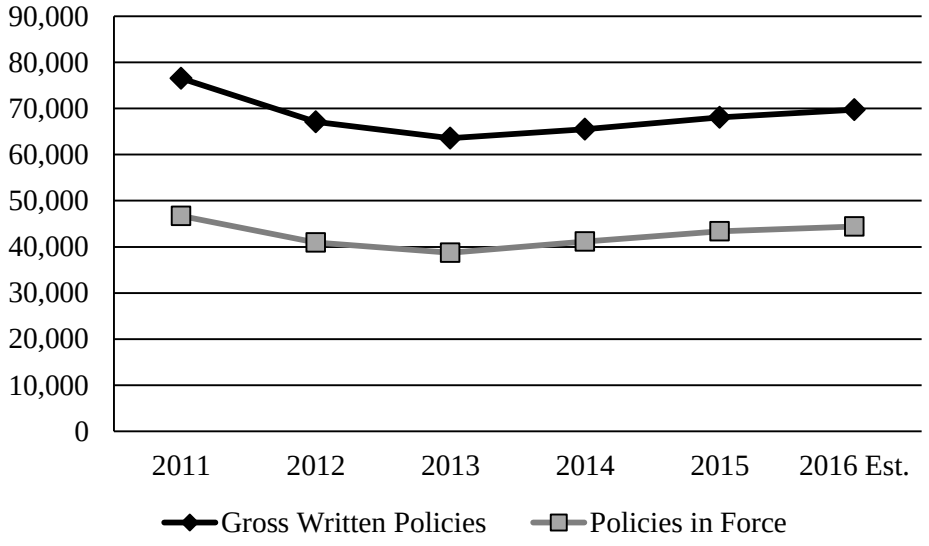
Source: Maryland Automobile Insurance Fund

The number of claims settled by the Uninsured Division declined slightly in calendar 2015 compared to 2014. The agency also reduced the number of outstanding claims in calendar 2015 by about 5% compared to calendar 2014. The reduction in claims received drives the drop in outstanding claims.

2. Insured Division's Policies and Claims Increase

As shown in **Exhibit 2**, the number of gross written policies in the Insured Division saw a slight increase in calendar 2015 compared to 2014, from 65,530 to 68,047. Policies in force also increased from 41,161 in calendar 2014 to 43,345 in calendar 2015.

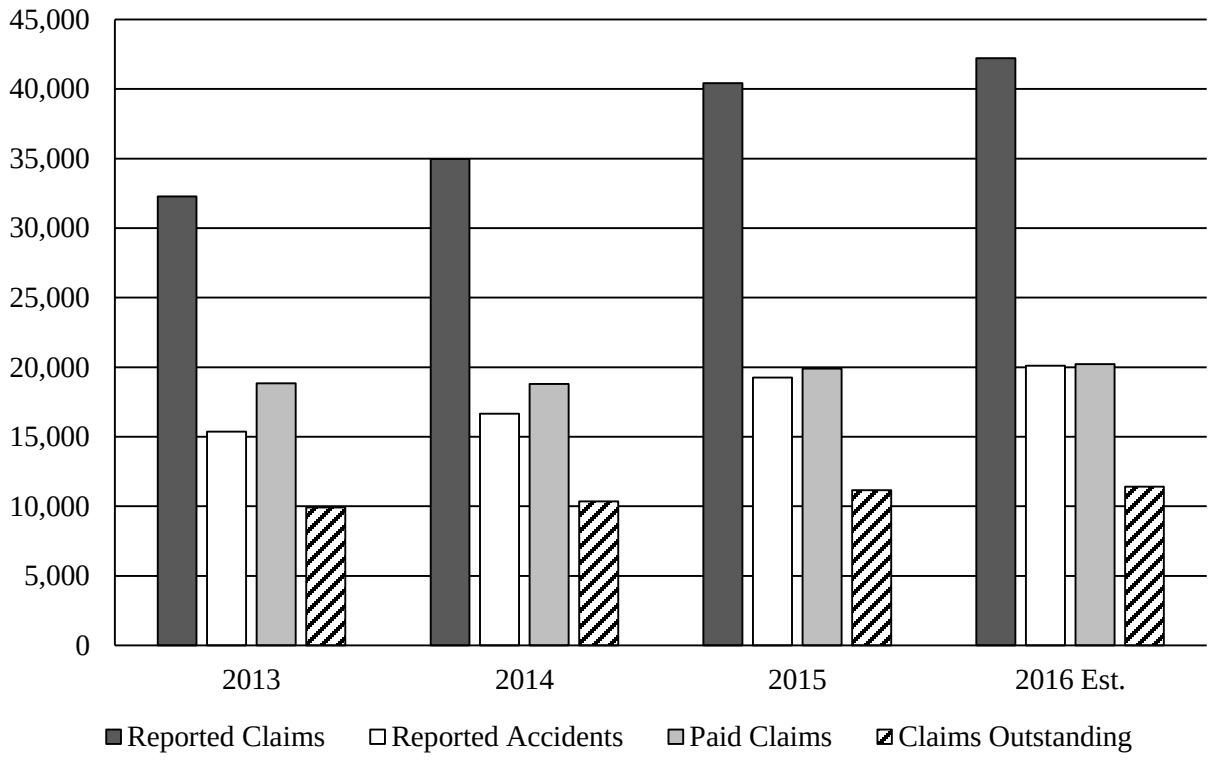
Exhibit 2
Policies
Insured Division
Calendar 2011-2016 Est.



Source: Maryland Automobile Insurance Fund

The number of claims reported in the Insured Division has steadily increased since calendar 2013, as shown in **Exhibit 3**. That trend also holds across reported accidents, paid claims, and claims outstanding. With the increase in the number of policies in force, the related claims volume will also increase. In addition, more miles being driven due to a stronger economy and declining gas prices lead to more claims.

Exhibit 3
Claims Activity
Insured Division
Calendar 2013-2016 Est.



Source: Maryland Automobile Insurance Fund

Calendar 2016 Budget

The calendar 2016 budget for MAIF decreases by $1.2 million, or 3%, compared to calendar 2015.

Exhibit 4
Proposed Budget
Maryland Automobile Insurance Fund
($ in Thousands)

How Much It Grows:	Nonbudgeted Fund	Total
2015 Estimated	$38,788	$38,788
2016 Proposed Budget	37,632	37,632
Amount Change	-$1,156	$-1,156
Percent Change	-3.0%	-3.0%

Where It Goes:

Personnel Expenses	
2.7% merit increase	$450
Lower incentive compensation	-150
Reduction of 39 positions since beginning of calendar 2015	-1,748
Other personnel changes	-112
Other Changes	
Removal of one-time expenses for rebranding to Maryland Auto	-136
Contractual costs for service related to new underwriting system	533
Upgrades in computer software and hardware	352
Removal of one-time relocation expenses	-582
Communications	98
Travel	50
Other changes	89
Total	**-$1,156**

Note: The Maryland Automobile Insurance Fund operates on a calendar-year basis.

Maryland Auto Rebranding

In 2015, MAIF underwent a rebranding effort to change its presentation of itself to the public to Maryland Auto. It was believed that the name "MAIF" had a negative connotation among consumers, and also that many insurance agents were already using the name Maryland Auto to refer to MAIF. The calendar 2016 budget removes about $136,000 in one-time calendar 2015 contractual costs related to the rebranding.

MAIF Assessment Threshold

MAIF is required to assess a surcharge on the Maryland automobile insurance industry, which may be passed on to the policyholders of those companies, after the following two triggers occur: (1) the surplus of the Insured Division falls below 25% of the three-year average of net direct written premiums; and (2) MAIF experiences an operating loss. The last assessment occurred in 1989.

The assessment threshold had steadily declined since 2004, when it was $57.6 million, until calendar 2015, when it saw a slight increase for the first time since then. The expected 2016 assessment level is $20.4 million, as shown in **Exhibit 5**.

Exhibit 5
Maryland Automobile Insurance Fund
Assessment Threshold
Calendar 2012-2016 Est.

Year	Direct Written Premium	Three-year Average	Assessment Threshold
2012	77,879,719	92,363,028	23,090,757
2013	74,154,949	79,779,845	19,944,961
2014	79,098,782	77,044,483	19,261,121
2015	81,541,937	78,265,223	19,566,306
2016 Est.	84,700,160	81,780,293	20,445,073

Note: The Maryland Automobile Insurance Fund operates on a calendar-year basis for its financial statements in accordance with State regulations for insurance companies.

Source: Maryland Automobile Insurance Fund

MAIF Insured Division Financial Statement

Exhibit 6 presents the financial statement for the Insured Division of MAIF. In calendar 2015, the Insured Division's income increased by $2.6 million to $93.8 million. However, net income is expected to decline to $86.4 million in calendar 2016, reflecting a decline in investment income. The vast majority of income in the Insured Division is the result of earned premiums.

Total expenditures increased by $9.7 million in calendar 2015 compared to 2014. The Insured Division will have net losses for three consecutive years, leading to a surplus of $55.0 million in calendar 2016, down from $97.3 million in calendar 2014. The 2016 surplus is 2.7 times the estimated assessment threshold of $20.4 million. **MAIF should comment on the health of the Insured Division and the likelihood of imposing an assessment in the future.**

Exhibit 6
Maryland Automobile Insurance Fund
Insured Division
Calendar 2014-2016 Est.

	Actual 2014	Actual 2015	Estimated 2016
Earned Premium	$75,167,045	$79,879,686	$83,158,916
Investment Income	15,960,134	13,889,257	3,211,114
Other Income	51,391	54,000	54,000
Income	**$91,178,570**	**$93,822,943**	**$86,424,030**
Claims Incurred	$50,011,110	$57,649,810	$57,109,734
Claim Expenses Incurred	21,341,248	22,527,521	23,033,574
Other Expenses	27,256,388	26,099,930	25,015,038
Expenditures	**$98,608,746**	**$106,277,261**	**$105,158,346**
Net Gain (Loss)	**-$7,430,176**	**-$12,454,318**	**-$18,734,316**
Beginning Surplus	$98,882,228	$97,255,167	$75,412,361
Net Income	-7,430,176	-12,454,318	-18,734,316
Change to Non-admitted Assets	5,803,115	-9,388,488	-1,639,467
Release of Over-recoupment	0	0	0
Ending Surplus	**$97,255,167**	**$75,412,361**	**$55,038,578**
Assessment Threshold	$19,261,121	$19,566,306	$20,445,073
Ratio of Surplus to Assessment Threshold	5.05	3.85	2.69

Note: The Maryland Automobile Insurance Fund operates on a calendar-year basis for its financial statements in accordance with State regulations for insurance companies.

Source: Maryland Automobile Insurance Fund

MAIF Uninsured Division Financial Statement

Exhibit 7 presents the financial statement for the Uninsured Division of MAIF. The Uninsured Division's largest income source is revenue received from the Motor Vehicle Administration uninsured motorist fine, which is indexed each year based on the Consumer Price Index – All Urban Consumers – Medical Care. MAIF's share was $3.5 million in calendar 2015. Income continues to be higher than expenses, leading to a projected surplus of $1.5 million in calendar 2016.

Exhibit 7
Maryland Automobile Insurance Fund
Uninsured Division
Calendar 2014-2016 Est.

	Actual 2014	Actual 2015	Estimated 2016
MVA Fines	$3,468,211	$3,516,968	$3,570,527
Collections on Notes and Judgments	783,744	1,120,000	988,380
Investment Income	33,277	21,848	23,835
Income	**$4,285,232**	**$4,658,816**	**$4,582,742**
Claims Incurred	$1,156,837	$1,081,790	$984,379
Claims Expenses Incurred	585,875	1,113,704	1,030,657
Collection Expenses	498,880	821,127	759,897
Administrative Expenses	1,104,677	1,355,081	1,254,035
Expenditures	**$3,346,269**	**$4,371,702**	**$4,028,967**
Net Gain	**$938,963**	**$287,114**	**$553,775**
Beginning Surplus	-$210,717	$711,950	$981,449
Net Income	938,963	287,114	553,775
Unrealized Gain (Losses)	-16,296	-17,615	0
Ending Surplus	**$711,950**	**$981,449**	**$1,535,224**

Note: The Maryland Automobile Insurance Fund operates on a calendar-year basis for its financial statements in accordance with State regulations for insurance companies.

Source: Maryland Automobile Insurance Fund

MAIF Active Vehicle Analysis

Exhibit 8 provides information on the distribution of vehicles insured by MAIF by territory. This distribution may impact the number and value of expected claims. Prince George's County has the highest share of the vehicles insured by MAIF – 34.8% in calendar 2015. The number of vehicles

insured in the Baltimore metropolitan area has increased significantly, likely due to more favorable rates available at MAIF for drivers in the area.

Exhibit 8
Active Vehicle Analysis
Insured Division
Calendar 2012-2015 Est.

Territory	2012	% Dist.	2013	% Dist.	2014	% Dist.	Est. 2015	% Dist.
Baltimore Metropolitan Area	4,419	10.3%	4,092	10.1%	6,450	15.0%	7,480	16.3%
Northeastern Maryland	3,319	7.8%	3,055	7.5%	3,425	8.0%	3,490	7.6%
Eastern Shore	3,899	9.1%	4,023	9.9%	3,667	8.6%	3,751	8.2%
Southern Maryland and Anne Arundel County	4,580	10.7%	4,407	10.9%	4,351	10.1%	3,981	8.7%
Western Maryland	624	1.5%	660	1.6%	838	2.0%	842	1.8%
Montgomery and Howard Counties	7,990	18.7%	7,336	18.1%	9,496	22.1%	10,325	22.5%
Prince George's County	17,981	42.0%	16,913	41.8%	14,632	34.1%	15,927	34.8%
Rest of State	11	0.0%	14	0.0%	13	0.0%	10	0.0%
Total Vehicles	**42,823**		**40,500**		**42,872**		**45,806**	

Dist.: distribution

Source: Maryland Automobile Insurance Fund

Issues

1. MAIF Moves to Baltimore City

MAIF is now leasing a new headquarters in Baltimore City after moving out of a building it owns in Annapolis. The move comes several years after a significant reduction in the agency's workforce, which left it with about 65,000 square feet of unused office space in the Annapolis building.

The move, which took place in the summer of 2015, cost approximately $4.4 million for new furniture, improvements to the new space, and the physical move. MAIF spent approximately $400,000 in operating costs on the Annapolis facility. Rent at the Baltimore City facility is about $1.5 million per year, and operational costs are about $100,000 annually. MAIF still owns the Annapolis building and hopes to sell it sometime this year for a price in the range of $8 million to $16 million. **MAIF should comment on the impact of the move on its operations.**

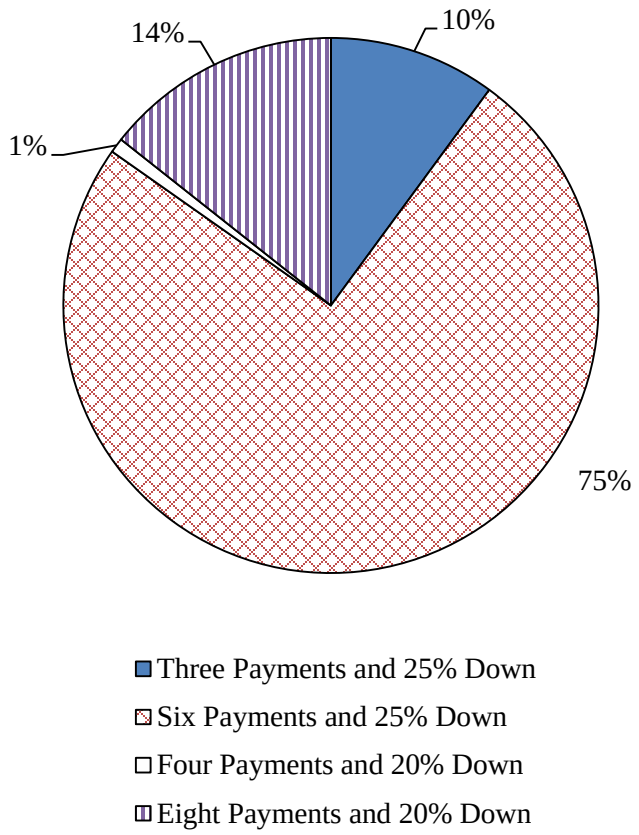
2. Installment Payments Continue

MAIF was authorized to begin accepting installment payment plans on October 1, 2013, after the enactment of Chapter 334 of 2013. Previously, MAIF required either payment of a full year's premium or the acceptance of a loan agreement via a premium finance company, which added significant origination fees and interest costs to the consumer's total payment. MAIF estimates the installment plan saves policyholders an average of $250 annually compared to a premium finance agreement plan.

The new law allows for four different payment plan options, as shown in **Exhibit 9**:

- 25% down and either three or six subsequent payments if the total annual premium is less than $3,000; or
- 20% down and either four or eight subsequent payments if the total annual premium is $3,000 or more.

Exhibit 9
Installment Plan
October 2013 through December 2015



Source: Maryland Automobile Insurance Fund

Since October 2013, MAIF has sold 2,460 policies with an installment plan, a small amount relative to the approximately 68,000 policies written in calendar 2015. MAIF also believes the high down payment required by statute – either 20% or 25% – discourages usage. The typical plan offered by premium financing companies in the State requires a down payment of between 10% and 12%. **MAIF should comment on the status of the installment plan and whether it supports legislation to reduce the down payment requirement.**

Recommended Actions

1. Nonbudgeted.

Object/Fund Difference Report
Maryland Automobile Insurance Fund

	Object/Fund	CY 2014 Actual	CY 2015 Projected	CY 2016 Estimated	CY15-CY16 Amount Change	Percent Change
Positions						
01	Regular	254.60	222.00	215.00	-7.00	-3.2%
02	Contractual	1.00	1.00	1.00	1.00	0.0%
	Total Positions	255.60	223.00	216.00	-7.00	-3.1%
Object						
01	Salaries, Wages and Fringe Benefits	$27,059,027	$27,904,855	$26,347,703	-$1,557,152	-5.6%
02	Tech and Special Fees	$5,826,275	$5,800,098	$5,736,107	-$63,991	-1.1%
03	Communications	$1,020,595	$1,033,094	$1,131,486	$98,392	9.5%
04	Travel	$146,733	$103,470	$153,306	$49,836	48.2%
06	Fuel and Utilities	$287,618	$146,808	$102,720	-$44,088	-30.0%
07	Motor Vehicle Operations and Main	$238,166	$210,676	$182,702	-$27,974	-13.3%
08	Contractual Services	$2,540,323	$2,552,484	$3,099,801	$547,317	21.4%
09	Supplies & Materials	$133,597	$126,802	$130,169	$3,367	2.7%
10	Equipment Replacement	$0	$0	$0	$0	n/a
11	Equipment Additional	$150,872	$157,442	$519,601	$362,159	230.0%
13	Fixed Charges	$319,337	$170,026	$228,633	$58,607	34.5%
14	Land and Structures	$178,135	$582,186	$0	-$582,186	-100.0%
	Total Objects	**37,900,678**	**38,787,941**	**37,632,228**	**-1,155,713**	**-3.0%**
Funds						
07	Non-budgeted Fund	$37,900,678	$38,787,941	$37,632,228	-$1,155,713	-3.0%
	Total Funds	**$37,900,678**	**$38,787,941**	**$37,632,228**	**-$1,155,713**	**-3.0%**

Fiscal Summary
Maryland Automobile Insurance Fund

Program/Unit	CY14 Actual	CY15 Projected	CY16 Estimated	CY15-CY16 Change	% Change
42 Insured Division	$35,675,321	$35,358,453	$34,687,520	-$670,933	-1.9%
47 Uninsured Division	2,225,357	3,429,488	2,944,708	-$484,780	-14.1%
Total Expenditures	**$37,900,678**	**$38,787,941**	**$37,632,228**	**-$1,155,713**	**-3.0%**
Nonbudgeted Fund	$37,900,678	**$38,787,941**	**$37,632,228**	**-$1,155,713**	**-3.0%**
Total Appropriations	**$37,900,678**	**$38,787,941**	**$37,632,228**	**-$1,155,713**	**-3.0%**

D78Y01
Maryland Health Benefit Exchange

-*Operating Budget Data*

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$20,727	$0	$0	$0	
Deficiencies and Reductions	0	6,528	0	-6,528	
Adjusted General Fund	**$20,727**	**$6,528**	**$0**	**-$6,528**	**-100.0%**
Special Fund	45,935	36,657	75,090	38,433	104.8%
Deficiencies and Reductions	0	0	-13	-13	
Adjusted Special Fund	**$45,935**	**$36,657**	**$75,077**	**$38,420**	**104.8%**
Federal Fund	110,216	54,403	47,376	-7,027	-12.9%
Deficiencies and Reductions	0	6,391	-10	-6,401	
Adjusted Federal Fund	**$110,216**	**$60,794**	**$47,366**	**-$13,428**	**-22.1%**
Nonbudgeted Fund	23,682	0	0	0	
Adjusted Nonbudgeted Fund	**$23,682**	**$0**	**$0**	**$0**	
Adjusted Grand Total	**$200,561**	**$103,979**	**$122,443**	**$18,463**	**17.8%**

- There are two proposed general fund deficiencies and one federal fund deficiency for fiscal 2016 – funds to support increased call center expenditures ($5.7 million in general funds and $6.4 million in federal funds) and funds to retain outside legal counsel ($868,436 million in general funds).

- There is one general fund deficiency for fiscal 2015 to support increased call center expenditures and outside legal counsel ($1.6 million in general funds).

- The $38 million increase in special funds is due to the transfer of funds from the Maryland Health Insurance Plan to support reinsurance costs in the Maryland Health Benefit Exchange (MHBE).

Note: Numbers may not sum to total due to rounding.

For further information contact: Lindsey B. Holthaus Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	76.00	74.00	69.00	-5.00
Contractual FTEs	0.00	1.00	0.00	-1.00
Total Personnel	**76.00**	**75.00**	**69.00**	**-6.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		2.96	4.00%	
Positions and Percentage Vacant as of 12/31/15		6.00	8.69%	

- The fiscal 2017 allowance includes 5 fewer regular full-time equivalents (FTE) and 1 fewer contractual FTE than in the fiscal 2016 working appropriation. The 5 FTEs were a result of the wind-down of the Maryland Health Insurance Program, part of which has been consolidated into MHBE, while the contractual FTE came from MHBE directly.

- The agency's vacancy rate has decreased significantly from last year's rate at (26.09%) but remains higher at 8.7% than budgeted turnover (4.0%).

Analysis in Brief

Major Trends

Measuring Success: MHBE has submitted formal Managing for Results performance measures for the second time. However, data to assess the success of health care reform in the State (with consideration of metrics such as accessibility, comprehensiveness of coverage, and changes in health care safety net utilization) is still limited.

The Uninsured Rate Continues to Decrease: The proportion of individuals under 65 with health insurance has increased in both calendar 2013 and 2014. The proportion of low-income adults under 65 without health insurance has decreased from calendar 2012 yet still remains high at 27.5%.

Premiums Are Increasingly Less Affordable: The average total single person premium for Qualified Health Plans (QHP) and all small group plans as a percentage of the Maryland average wage continues to increase. The silver metal level QHP maintains the largest proportion of enrollments, increasing in calendar 2015.

Issues

Health Care Affordability and Network Adequacy: During the third open enrollment, one carrier (BlueCross) continued to capture more than half of the market despite having increased rates two years in a row. Consumers may choose BlueCross for a variety of reasons, one of which may be the inadequacy of networks among other carriers. A workgroup was formed to address the adequacy of networks. In addition, 20% of the plans chosen through the exchange are high-deductible plans. The popularity of such plans may contribute to health care being unaffordable for many consumers.

Federal Audit Findings: In March 2015, the U.S. Department of Health and Human Services Office of the Inspector General (OIG) issued a report that concluded that MHBE did not allocate costs to its establishment grants and Medicaid in accordance with federal requirements and its cost allocation plan. OIG concluded that MHBE misallocated these costs because it did not have adequate internal controls to ensure the proper allocation of costs and, as a result, OIG recommended that MHBE refund $28.4 million to the Centers for Medicare and Medicaid Services that was misallocated.

Settlement with IT Contractor: MHBE reached a $45 million settlement with Noridian Healthcare Solutions, LLC over the technology used during the initial launch of the health care exchange. The State has received a portion of funds from the settlement and is considering legal action against other vendors involved with the development of the original IT platform.

Recommended Actions

		Funds	Positions
1.	Reduce 3 vacant positions.	$ 205,889	3.0
	Total Reductions	**$ 205,889**	**3.0**

Updates

Progress Report on MHBE: The second open enrollment after the switch to a new information technology (IT) platform was generally successful. The third open enrollment included additional enhancements and saw an increase in the number enrolled in QHPs from the second enrollment.

Report on Connector Entities: Due to concerns over lower than expected enrollment, the 2015 *Joint Chairmen's Report* (JCR) requested an update on the role of, and expectations for, connector entities in shaping enrollment, including how the role of connector entities is expected to evolve. The report was submitted by MHBE in December 2015.

Report on System Integration: The new eligibility determination IT system of MHBE does not currently offer the single point-of-entry for benefits determinations that had been the long-term goal of the original MHBE system. MHBE submitted a report as requested by the 2015 JCR providing plans to move toward a single point-of-entry.

D78Y01
Maryland Health Benefit Exchange

Operating Budget Analysis

Program Description

The Maryland Health Benefit Exchange (MHBE) was created during the 2011 session in response to the federal Patient Protection and Affordable Care Act (ACA) of 2010. MHBE is intended to provide a marketplace for individuals and small businesses to purchase affordable health coverage.

Through the Maryland Health Connection (MHC), Maryland residents can shop for health insurance plans, compare rates, and determine their eligibility for tax credits, cost-sharing reductions, and public assistance programs such as Medicaid. Once an individual, family, or small business selects a Qualified Health Plan (QHP) or available program, they enroll in that program directly through MHC. Under the ACA, to be certified as a QHP, an insurance plan must meet certain requirements including providing at least 10 essential benefits with no lifetime maximums and follow established limits on cost sharing (deductibles, copayments, and out-of-pocket maximum amounts). The same rules apply to plans sold both in and out of the exchange, but in order to be sold in the exchange, a health plan must also be certified by the exchange as a QHP. Premium subsidies and cost-sharing reductions are only available to plans purchased in the exchange by eligible individuals.

Performance Analysis: Managing for Results

1. Measuring Success

MHBE has submitted formal Managing for Results performance measures for the second time. However, data to assess the success of health care reform in the State (with consideration of metrics such as accessibility, comprehensiveness of coverage, and changes in health care safety net utilization) is still limited. In calendar 2016, MHBE will develop metrics that will allow for the measurement of carrier partner performance with respect to enrollment, network adequacy, quality information, and complaints and grievances.

To date, MHBE has reported actual data related to:

- the average total single person premium for all QHPs as a percentage of the Maryland average wage, estimated at 8.3%, up from 6.8% in calendar 2014;
- the average total single person premium for all small group plans divided by the Maryland average wage, 10.8% in 2014 up from 10.4% in calendar 2013;
- the proportion of individuals under age 65 with health insurance, 93.5% in 2014 up from 88.3% in calendar 2013;

- the proportion of individuals under 100% of the federal poverty level (FPL), age 19 to 64, without health insurance, 27.4% in 2014 down from 40.0% in calendar 2012;

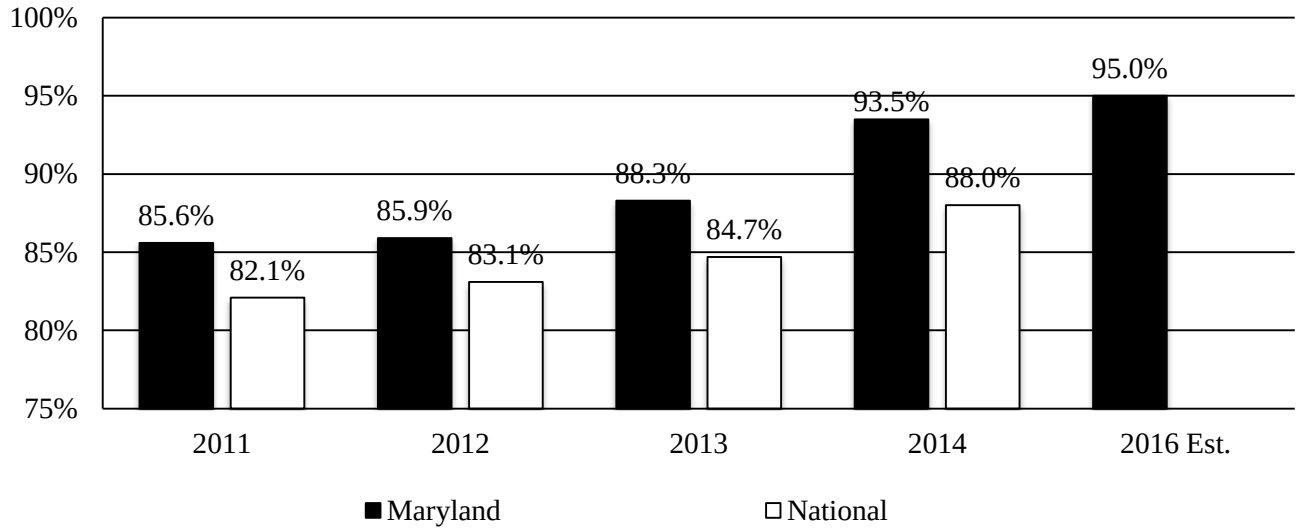
- the enrollee satisfaction with eligibility and services as measured in an annual survey, 67.0% and satisfaction with QHP plan, 95%; and

- the number of Marylanders enrolled in QHPs through MHC (an estimated 140,731 for calendar 2015) and number of Marylanders enrolled in Medicaid through MHC (an estimated 864,489 for calendar 2015).

2. The Uninsured Rate Continues to Decrease

The proportion of individuals under the age of 65 with health insurance continues to increase. **Exhibit 1** shows the proportion of individuals under the age of 65 with health insurance increasing from 85.6% in calendar 2011 to 93.5% in calendar 2014. Maryland's insured rate is greater than the national rate of 88.0% for this same population in calendar 2014. The Maryland Health Care Commission (MHCC) estimates a 95.0% insured rate for this population in calendar 2016 and 2017.

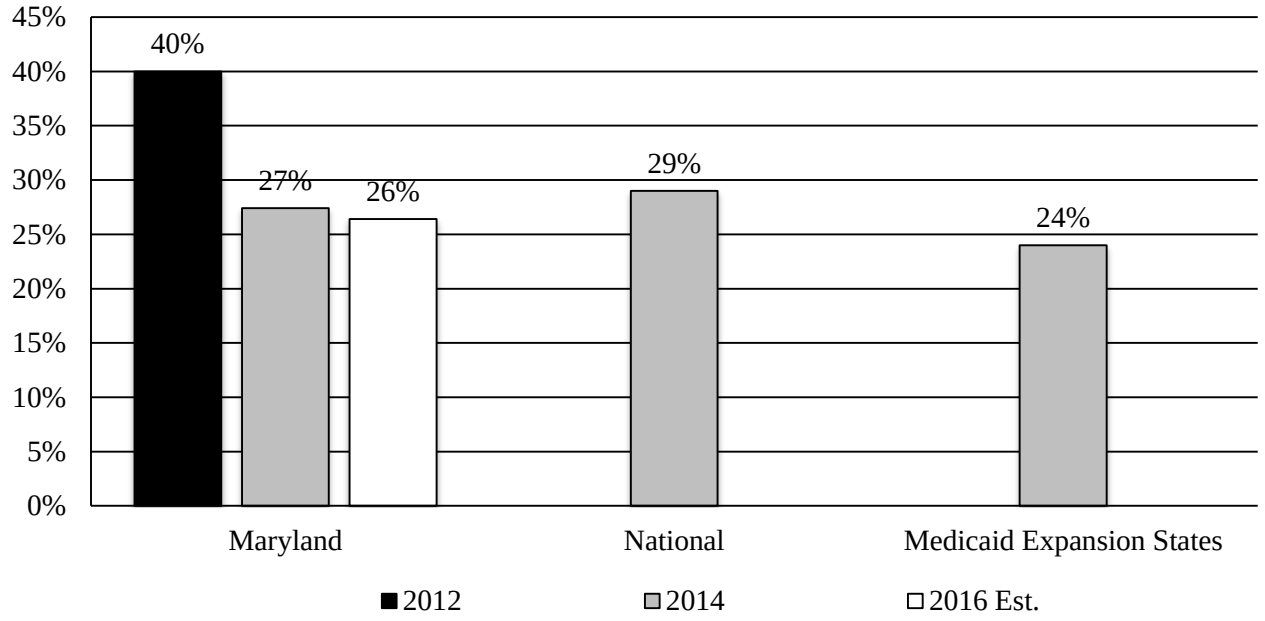
Exhibit 1
Proportion of Individuals under Age 65 with Health Insurance
Calendar 2011-2016 Est.



Source: Maryland Health Care Commission; Census Bureau

The proportion of individuals under 100.0% of the FPL, age 19 to 64, without health insurance has decreased. **Exhibit 2** shows a decline from 40.0% in calendar 2012 to 26.0% in calendar 2016. This decline reflects the expansion of Medicaid in Maryland allowed under the ACA. The calendar 2014 proportion in Maryland (27.4%) is lower than the national proportion (29.0%); however, it is higher than the average for states that expanded Medicaid (24.0%).

Exhibit 2
Proportion of Individuals under 100% of FPL without Health Insurance
Calendar 2012, 2014, and 2016 Est.



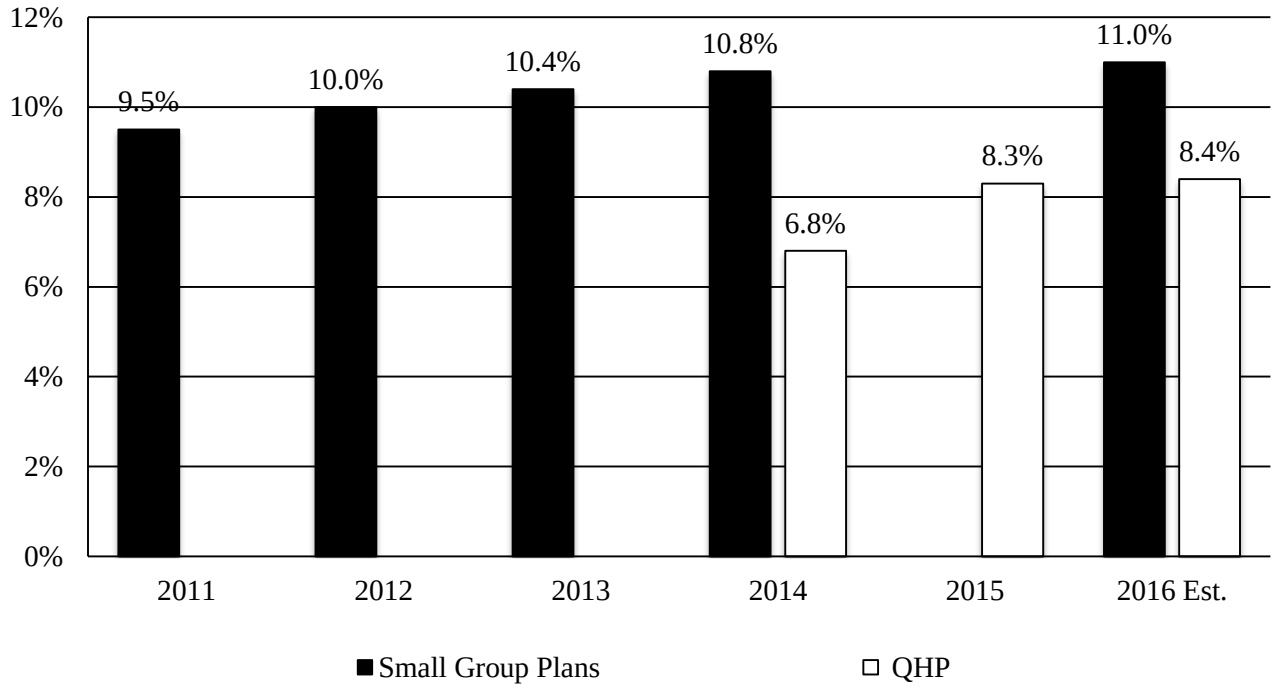
FPL: federal poverty level

Source: Maryland Health Care Commission; Census Bureau

3. Premiums Are Increasingly Less Affordable

Exhibit 3 shows the average total single-person premium for all QHPs as a percentage of the Maryland average wage from calendar 2011 to 2015. The first year this was measured was 2014 at 6.8% and is expected to increase 22.0% to 8.3% in calendar 2015. This average total single-person premium for all small group plans as a percentage of the Maryland average wage increased from 9.5% in calendar 2011 to 10.8% in calendar 2014 and is expected to increase to 11.0% in calendar 2016.

Exhibit 3
Average Total Single-person Premium for QHPs and Small Group Plans as a Percentage of the Maryland Average Wage
Calendar 2011-2016 Est.

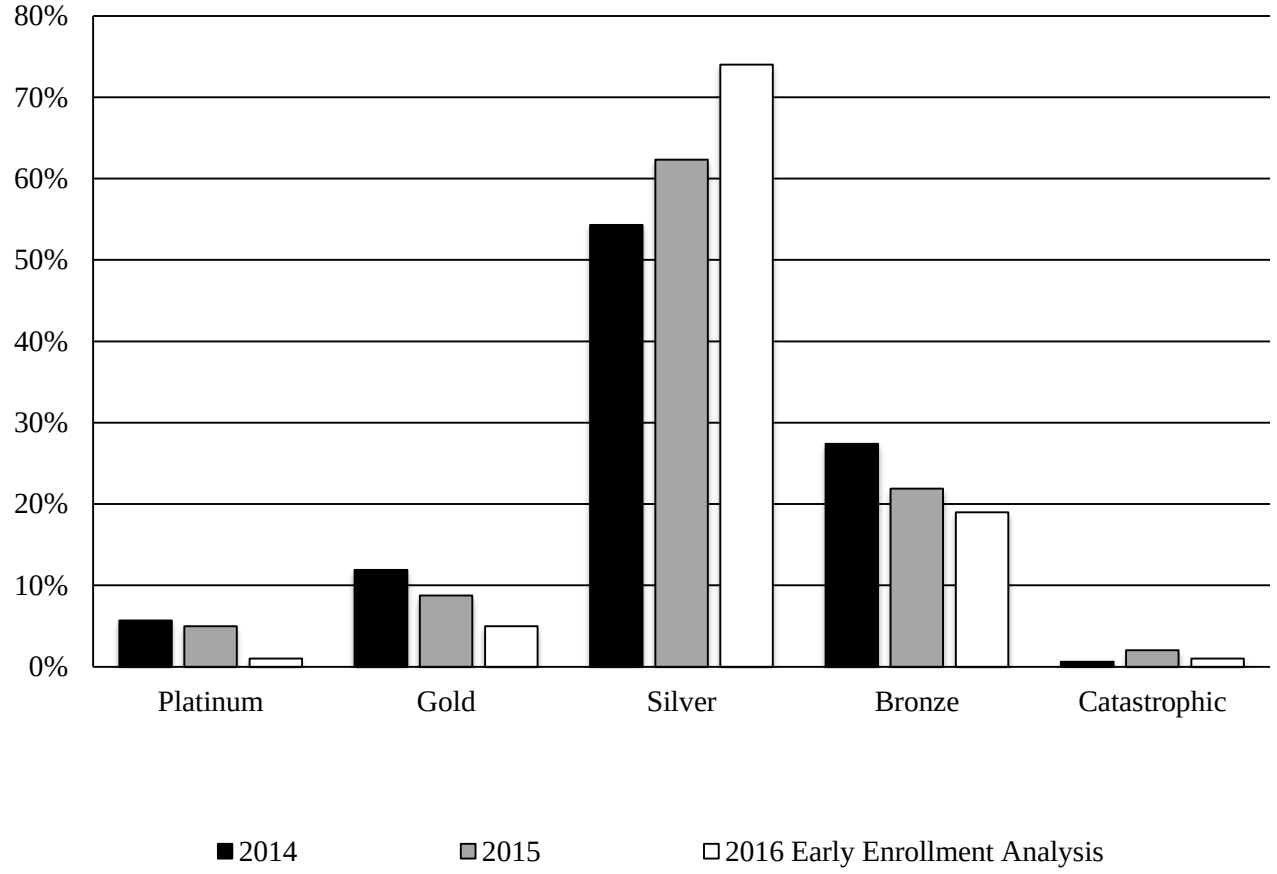


QHP: Qualified Health Plan

Source: Maryland Health Benefit Exchange

In terms of QHP plan selection, in 2015, the silver metal level was the most selected level by consumers for the second year with an average monthly premium cost of $322.81 before the Advanced Premium Tax Credit (APTC). **Exhibit 4** shows the percentage of QHP consumers choosing this plan in calendar 2015, 62%, increasing from 53% in calendar 2014. Plans with a higher metal level typically have higher premiums and lower out-of-pocket costs. Plan levels include bronze, silver, gold, and platinum. For example, in a silver metal plan, on average, the issuer pays 70% of health care costs while the insured pays 30% out-of-pocket. Consumers chose fewer bronze and gold plans, while platinum stayed consistent at around 5%. In calendar 2015, 22% of QHP consumers chose a bronze plan with an average premium cost of $251. Silver plans are the only plans where an individual under 250% of the FPL can qualify for cost-sharing reductions. People under the age of 30 and some people with limited incomes may buy an alternative kind of coverage called a "catastrophic" health plan. A more detailed discussion on the implications of plan choice is found in Issue 1.

Exhibit 4
Quality Health Plan Enrollment by Metal Level
Calendar 2014-2016



Source: Maryland Health Benefit Exchange

Fiscal 2016 Actions

Proposed Deficiency

As a result of the significant changes to planned spending in fiscal 2016, there are two proposed general fund deficiencies and one proposed federal fund deficiency:

- funds to support increased call center expenditures ($12.1 million – $5.7 million in general funds and $6.4 million in federal funds);

- general funds for the retention of outside legal counsel ($868,436), as MHBE pursues potential claims related to the prior exchange eligibility system (HIX) failure; and

- general funds to cover fiscal 2015 expenses for the consolidated service center and legal services ($1.6 million).

It should be noted that of the $12.1 million in call center expenditures, $11.2 million of this amount was to assist with issues surrounding Medicaid redeterminations. During calendar 2015, the State began conducting redetermination using the health benefit exchange eligibility system (HBX) in lieu of the HIX and the Client Automated Resource and Eligibility System (CARES) eligibility system. Of the additional funding for 2016, only $0.8 million carries forward into fiscal 2017. It is assumed that with auto enrollment, there will be less demand on the call center since consumers are in the new system. Fiscal 2017 also has no funding budgeted for legal fees. Legal costs are still not known at this time, so there is the possibility of an additional deficiency for legal fees in fiscal 2016 and 2017.

Proposed Budget

The fiscal 2017 allowance for MHBE increases by $18.5 million (17.8%) from the fiscal 2016 working appropriation adjusted for deficiencies and cost containment. As shown in **Exhibit 5** the increase is driven by growth in special funds in fiscal 2017, largely due to the transfer of the Maryland Health Insurance Plan (MHIP) fund balance for reinsurance costs in MHBE.

Exhibit 5
Proposed Budget
Maryland Health Benefit Exchange
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Nonbud. Fund	Total
Fiscal 2015 Actual	$20,727	$45,935	$110,216	$23,682	$200,561
Fiscal 2016 Working Appropriation	6,528	36,657	60,794	0	103,979
Fiscal 2017 Allowance	0	75,077	47,366	0	122,443
Fiscal 2016-2017 Amount Change	-$6,528	$38,420	-$13,428	$0	$18,463
Fiscal 2016-2017 Percent Change	-100.0%	104.8%	-22.1%		17.8%

Where It Goes:	
Personnel Expenses	
Retirement	$173
Employee and retiree health insurance	134
Miscellaneous adjustments	101
Turnover adjustments	29
Other fringe benefit adjustments	-19
Regular earnings and accrued leave payments	-47
Abolished positions (5 full-time equivalents)	-780
Maryland Health Insurance Plan (MHIP) Expenses and Reinsurance	
MHIP Reinsurance Fund	40,090
Reduction in operating expenses for MHIP	-1,047
Other Operational Expenses	
Telecommunications	-78
Advertising	-200
Reduced training, procurement, and current services costs overhead	-452
Maximus fulfillment support	-500
Unprovided for fiscal 2015 legal services paid in fiscal 2016	-716
Removal of fiscal 2016 deficiency for legal services	-868
Reduction in information technology enhancements	-1,420
Reduction in call center funding	-1,820
Reduced grant to connector entities	-2,000
Removal of fiscal 2016 deficiency for call center	-12,100
Other	-18
Total	**$18,463**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $13,086 in special funds and $9,984 in federal funds. There is an additional across-the-board reduction to abolish vacant positions statewide, but the amounts have not been allocated by agency.

Personnel Expenses

Personnel expenses decrease the MHBE budget by $408,124. The largest reduction of $780,346 is due to the abolition of 5 positions from the Maryland Health Insurance Program as the program ended and is consolidated into MHBE.

These decreases were offset by increases in health insurance of $134,404 and retirement contributions of $173,074. The budget increases by an additional $29,123 to reflect turnover adjustments as the agency continues to fill vacant positions. The allowance also provides a $101,479 increase to allow positions to be hired above the base salary level.

MHIP Reinsurance Fund and MHIP-related Expenses

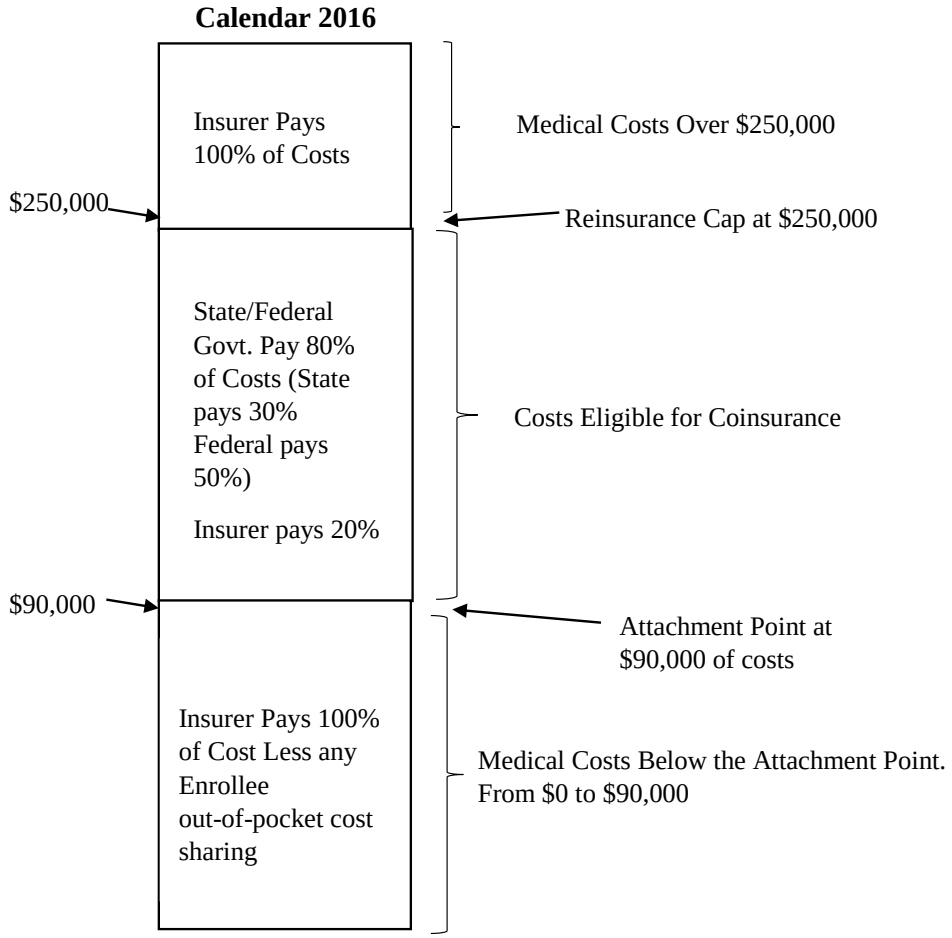
The MHIP Reinsurance Fund increased the agency's budget by $40.0 million. This $40.0 million is to pay for calendar 2015 claims. Calendar 2016 claims will be paid out of the fiscal 2018 budget. The fiscal 2017 allowance includes a reduction for the operating costs associated with MHIP including $0.9 million for administrative hearings and fee-for-service, $85,000 for a management study and consultation, and $43,000 for other operating costs.

Use of the Maryland Health Insurance Plan Fund Balance for Reinsurance in MHBE

One of the changes made by Chapter 159 of 2013, the Maryland Health Progress Act, was to establish a State Reinsurance Program with funding for the program to be derived from the MHIP fund balance. Under the ACA, each state must have a reinsurance program in place for fiscal 2014 through 2016, either created by the state or administered on behalf of the state by the U.S. Department of Health and Human Services (HHS). The goal of the reinsurance program is to reduce the need for insurers to charge higher premiums due to the uncertainty of the health status of the new enrollees in the market. Under the program, insurance carriers make reinsurance contributions to HHS and the Department of the Treasury. These funds are then distributed to health insurance carriers for high-cost enrollees whose insurance claims exceed a certain threshold.

HHS administered the program on behalf of Maryland. HHS allows states to supplement their reinsurance program by three general methods: (1) decreasing the national attachment point; (2) increasing the national reinsurance cap; and/or (3) increasing the national coinsurance rate. Maryland did not supplement the federal reinsurance program in calendar 2014. In calendar 2015, Maryland supplemented the federal reinsurance program by increasing the coinsurance rate from 50% to 80%, using funds made available from MHIP. The coinsurance rate refers to the percentage of health care costs for an individual, between the attachment point and the reinsurance cap, at which HHS will provide reinsurance payment to the carrier. The attachment point refers to the health care payment threshold for an individual, at which HHS will begin providing reinsurance payments to carriers ($90,000 in 2016), and the reinsurance cap refers to the health care payment threshold for an individual, at which HHS will stop providing reinsurance payments to carriers ($250,000 in 2016). The reinsurance funding parameters are illustrated in **Exhibit 6**.

Exhibit 6
Reinsurance Payment Parameters
Calendar 2016



Source: Maryland Health Benefit Exchange

For calendar 2016, Maryland will continue to supplement the coinsurance rate, increasing it to 80%. The calendar 2016 costs will be funded from the remaining MHIP fund balance in the fiscal 2018 budget. Any continuation of a transitional reinsurance program beyond calendar 2016 will likely require dedicated funding as the MHIP fund balance will be exhausted. Legislation introduced in the 2016 session will repeal the current MHIP fund revenue source (a 0.3% hospital assessment). **Given the discontinuation of this dedicated funding stream, the agency should comment on efforts to ensure affordable premiums after funding for the reinsurance program ends.**

Nonpersonnel Operations

After significant efforts to ensure the success of the second and third open enrollment, nonpersonnel operational costs in fiscal 2017 are more reflective of the cost to maintain general operations, with fewer funds needed for technical enhancements. In fiscal 2017, the MHBE budget decreases by $7.0 million due to decreased operational costs, including:

- a reduction in the MHBE main operating program of $2.76 million including fulfillment support from Maximus of $500,000 due to sending more notifications through emails (consumers can now opt out of mail), $144,000 for call center overhead, $140,000 for a procurement consultant, and $167,877 for consumer and customer service staff training;

- a reduction of $1.8 million for the call center with total costs of $24.1 million;

- lower levels of grants to connector entities ($2.0 million);

- lower expenditures of $1.42 million for information technology (IT) operations including $200,000 for reductions in the Small Business Health Options Program (SHOP), $300,000 for reductions in the maintenance and operations contract (Deloitte Consulting in fiscal 2016), and $800,000 for a reduction due to fewer overall enhancements including dental and auto renewals;

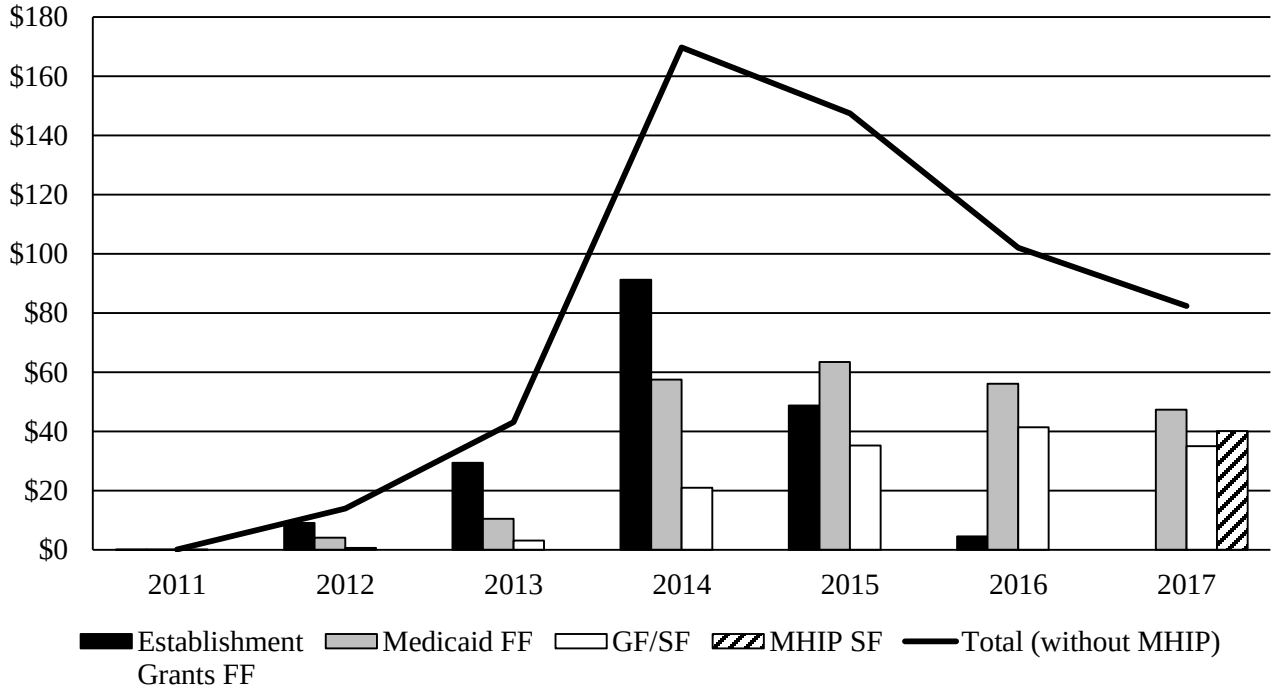
- a technical adjustment reflecting unprovided for fiscal 2015 legal services that were paid out of the fiscal 2016 budget ($0.7 million); and

- lower marketing costs from GMMB ($200,000) for printing.

Sources of Funding

Sources of funding for MHBE are shown in **Exhibit 7**. As shown in the exhibit, fiscal 2017 completes the transitions away from federal establishment grant funding, with State funding now more prominent.

Exhibit 7
Budget by Fund Source
Fiscal 2011-2017
($ in Millions)



FF: federal fund
GF: general fund
MHIP: Maryland Health Insurance Plan
SF: special fund

Source: Maryland Health Benefit Exchange; Department of Legislative Services

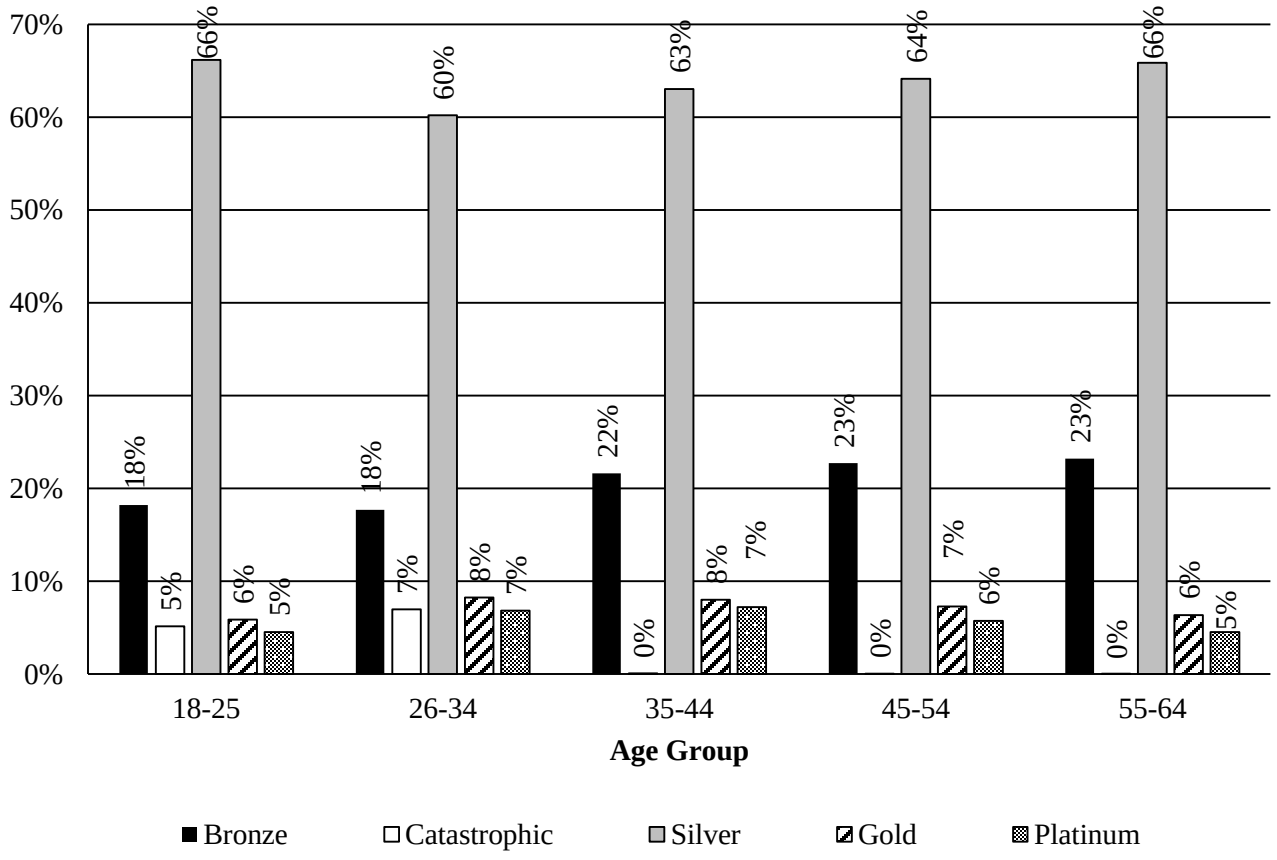
Current law mandates an annual appropriation of at least $35 million to the MHBE fund to support MHBE beginning in fiscal 2016. It should be noted that a requirement of state-run exchanges by the ACA was to be self-sufficient (have a dedicated funding stream) by 2015. The special funds devoted to MHBE are a diversion of revenues derived from a tax on all insurance premiums. The fiscal 2017 allowance includes that $35 million.

Issues

1. Health Care Affordability and Network Adequacy

In calendar 2015, 24% of the plans chosen through the exchange were high-deductible plans (catastrophic or Bronze). For consumers who do not think that they will widely utilize the plan, such as healthier, younger individuals, this may be an affordable option. However, older individuals are more likely to choose a bronze plan through the exchange than younger individuals as shown in **Exhibit 8.** This could be a result of younger consumers having relatively lower incomes, thereby qualifying them for cost-sharing reductions only available under silver plans (less than 250% of the FPL).

Exhibit 8
Enrollment by Metal Level
Calendar 2015



Source: Maryland Health Benefit Exchange; Department of Legislative Services

Metal Level Premiums and Affordability

The average monthly premium (before APTC) decreased for all metal levels in calendar 2015 from 2014, except catastrophic. The APTC is a federal subsidy available to individuals and families who earn less than 400% of the FPL to offset the cost of premiums. Although the average monthly metal level premium decreased, consumers are on average paying more because one carrier (BlueCross) captures a majority of the market (65%), despite having increased rates two years in a row (16% and 26%). Consumers may be choosing BlueCross because of the inability to find a provider from other carriers in their geographic region. One way insurers can reduce costs is by picking and choosing which providers to include in their networks. Carriers with narrow networks may pass these cost savings off to the consumer in the form of reduced premiums or provide increased benefits. However, consumers may not be aware that choosing a lower premium may reduce their ability to find a provider in their network. Additionally narrow-network providers may not be an option for consumers in all areas, leaving consumers with a reduced choice among plans. The issue of network adequacy can be of particular concern in areas with shortages of providers, such as rural areas. For calendar 2016, 17% of plans offered are narrow-network health maintenance organization (HMO) plans, up from 10% in calendar 2015. Currently, Evergreen and UnitedHealthcare offer narrow-network HMO plans.

Network Adequacy and Affordability

During the 2015 interim, the MHBE Standing Advisory Committee established a Network Adequacy and Essential Community Providers (ECP) Workgroup to develop policy options for provider network standards for QHPs. The workgroup reached consensus on seven policy options including that MHBE should work with stakeholders to analyze network adequacy using claims and encounter data; assess the number, capacity, and types of active providers; and educate consumers on how to find a provider and obtain relief when they cannot find a provider.

The ability to find a provider can directly affect the affordability of health care for a consumer. If there are not enough providers in network within their geographic region, a consumer may be forced to go out-of-network, incurring higher costs. A carrier may provide relief when a consumer cannot find a provider; however, consumers may not be aware that this relief is possible.

Improving the Accuracy of Provider Directories

An additional policy option was to improve the accuracy of provider directories including whether or not the provider is accepting new patients. For consumers trying to find a provider, inaccurate provider directories can be misleading. Consumers may choose a plan assuming that the providers on the carrier list are still in practice, accepting the carrier's insurance, and accepting new patients. If the list is inaccurate, they may be unable to access a nearby provider, or any provider at all with the carrier they chose.

Another issue discussed during the workgroup was whether or not the specialty of the provider should be listed. Regarding behavioral or mental health, providers often specialize in a particular area.

If this information is not listed, a consumer will have to contact multiple providers asking for their specialties before they can decide which insurance carrier to choose.

The workgroup was unable to reach consensus on policy options including broadening the definition of ECPs to include local health departments (LHD), certain behavioral health providers, and school-based health centers; and expanding the types of providers included in provider directories.

QHP Certification Standards for Fiscal 2017

The MHBE board considered these recommendations as it developed QHP certification standards for fiscal 2017. Every year carriers get the application timeline, procedures, and any new standards they should follow. The carrier has to submit an application, and each plan has to meet requirements if they want to be offered on the exchange. In December 2015, MHBE published its letter to issuers setting forth the proposal for the 2017 Carrier and Plan Certification Standards.

New for fiscal 2017 to assist consumers in assessing the issuer provider networks, issuers must report certain quantitative provider network metrics. These metrics will include the average wait time for primary care providers (PCP) and mental health (MH) providers, average drive distance to PCP and MH providers, percent of PCP and MH providers in network accepting new patients, consumer assessment of health care providers and systems scores, and additional metrics for any other specialist categories of the issuer's choosing optional.

To address provider directory accuracy, MHBE will use a multistep multi-year process starting in calendar 2016 as part of the 2017 plan year certification requirements. As part of its 2017 plan certification applications, the issuer will provide information to MHBE about the accuracy of the provider directory, including the carrier-selected method of assessment, the issuer's accuracy assessment and steps by the issuer taken to improve accuracy. During calendar 2016, MHBE will propose a standard assessment methodology, baseline target, and requirements for accuracy improvements to the MHBE board for adoption. In preparation for its 2018 plan certification applications, issuers will use the board-adopted standard assessment methodology in order to assess the accuracy of its provider directories. The issuer will include the assessment outputs in their 2018 application.

Beginning in calendar 2017, MHBE will include in the definition of an ECP, an LHD, an outpatient mental health center or substance use disorder treatment provider that is licensed or approved by the Department of Health and Mental Hygiene (DHMH) as program or facilities, or a school-based health center. All providers that fall in these categories must be able to meet the issuer's credentialing certification standards in order to be considered an ECP for that issuer.

Additionally, beginning in calendar 2017, the issuer must contract with at least 30% of available ECPs in each plan's service area as part of each plan's provider network. Issuers must offer contracts in good faith to any willing LHD in the plan's service area.

MHBE received comments and presented the final standards to the board on January 25, 2016, after which the board adopted final plan certification standards. MHBE will release a final 2017 Letter

to Exchange Issuers in early March 2016. **The agency should comment on whether or not they have set a specific deadline for the development of quantitative standards and what that deadline may be.**

2. Federal Audit Findings

In March 2015, the HHS Office of the Inspector General (OIG) issued a report that concluded that DHMH (which processes grant allocation and reimbursements on behalf of MHBE) did not allocate $28.4 million in costs to its establishment grants and Medicaid funds in accordance with federal requirements and its cost allocation plan. The audit recommended that MHBE refund the funds to the Centers for Medicare and Medicaid Services (CMS) and seek CMS approval to claim a portion of the funds through Medicaid, as well as immediately revise its cost allocation methodology and establish adequate controls to ensure proper allocation of costs. If CMS requires these funds to be returned or allows the claims to be resubmitted through Medicaid at a lesser reimbursement rate, additional State funds will be needed to cover these past costs. MHBE is in conversations with CMS. **The agency should comment on the potential payout of claims if CMS requires these funds to be returned.**

3. Settlement with IT Contractor

Following significant IT problems during the initial MHC rollout in October 2013, MHBE retrofitted the Connecticut exchange IT platform as a replacement system for the MHC second open enrollment period in 2014 at an MHBE-estimated cost of approximately $45 million. Fallout from the IT problems continued through 2015, including an investigation by HHS OIG, a financial settlement with the primary contractor on the initial IT system, and an audit report issued by the Office of Legislative Audits.

In July 2015, Noridian Healthcare Solutions, LLC agreed to pay the State $20.0 million upfront and an additional $25.0 million in annual installments of $5.0 million over five years to avoid legal action over its performance. The payments represent a recovery of 61% of the total amount paid to the company for the failed website development and launch in calendar 2013. The settlement is subject to federal approval. In December 2015, the contractor paid out $20.0 million. Of this amount, $14.4 million went to the federal government and the State General Fund received $5.6 million. The State will receive the same percentage (28% or $1.4 million) in each of the five years that the additional sum is paid. In total, the State should receive $12.6 million to the General Fund. The State is considering legal action against other vendors based on the failure of the original IT platform.

Recommended Actions

		Amount Reduction		Position Reduction
1.	Reduce 3 vacant positions. Two of these positions have never been filled. One has been vacant for longer than four months.	$ 205,889	SF	3.0
	Total Special Fund Reductions	**$ 205,889**		**3.0**

Updates

1. Progress Report on MHBE

The switch to a new IT platform (based on Connecticut's existing platform) has been generally successful. In addition, MHBE has made progress with regard to enrollment and carrier participation.

Initial Open Enrollment Period Marred by IT Problems

MHC went live on October 1, 2013, for individuals seeking coverage through the individual exchange. Problems almost immediately arose that prevented consumers from creating accounts and enrolling in coverage. While some consumers were ultimately successful in enrolling through the website or were assisted through the call center or consumer assisters, the IT system never worked as anticipated. The executive director of MHBE resigned, ties with the original IT contractor were severed, new consultants were hired, and the Secretary of Information Technology was put in charge of getting the IT system on track. Despite IT problems, MHBE enrolled 66,203 individuals into commercial plans during the initial open enrollment period.

Second Open Enrollment Period Generally Successful

Following the problems of the initial open enrollment period, MHBE weighed several options for the IT system. In April 2014, MHBE decided to upgrade to the Connecticut IT platform. This option allowed for rapid implementation of a proven IT solution, was feasible given the timeline for the upcoming 2014 open enrollment period, and maximized use of existing software licenses and hardware components. Development costs of $40 million to $50 million (from a combination of reallocated grant funds, Medicaid funds, and other State funds) were in line with the costs of the alternative of migrating to the federally facilitated marketplace and less than the cost of fixing the existing system.

All major milestones for the development of the new MHBE IT platform were completed on time, and the new platform went live with no issues at the start of the second open enrollment period on November 15, 2014. In fact, no major system issues were observed until the final week of open enrollment, when some users had difficulty accessing the system. These issues were relatively minor (particularly compared with the significant issues with the system in the last open enrollment period), but open enrollment was consequently extended from February 20 to February 28, 2015. The MHC website has since been reported to be functioning well.

Going forward, IT management responsibilities that had previously been handled by the Secretary of Information Technology will be handed off to the MHBE Project Management Office (PMO) as MHBE transitions from an implementation phase to an ongoing operations phase.

Third Open Enrollment Period

After a generally successful second open enrollment, the call center experienced high call volumes as Medicaid consumers who were initially provided enrollment through the State's CARES and HIX were directed to enroll through the new exchange eligibility system for continuation of coverage. This added pressure on the call center and resulted in longer wait times and higher abandonment rates for calls. In calendar 2017, call volume may be reduced if auto renewals increase as more consumers are in the new system and if broker support is leveraged.

Broker Assistance Transfer Program

To reduce pressure on the call center in the future, MHBE piloted the Broker Assistance Transfer (BAT) program to have licensed insurance brokers embedded in the call center prior to the start of open enrollment. This process works through phone software installed on a broker's computer. Brokers would log into the software, and the call center would set up a special queue in the software where brokers are waiting to assist consumers in selecting a QHP. After a customer service representative (CSR) determines a consumer's eligibility and offers the consumer help from a broker, the CSR dials the broker queue and begins a three-way call with the consumer, the CSR, and the broker. The CSR then hangs up, and the broker is still on the line with the consumer and helps the consumer with plan enrollment.

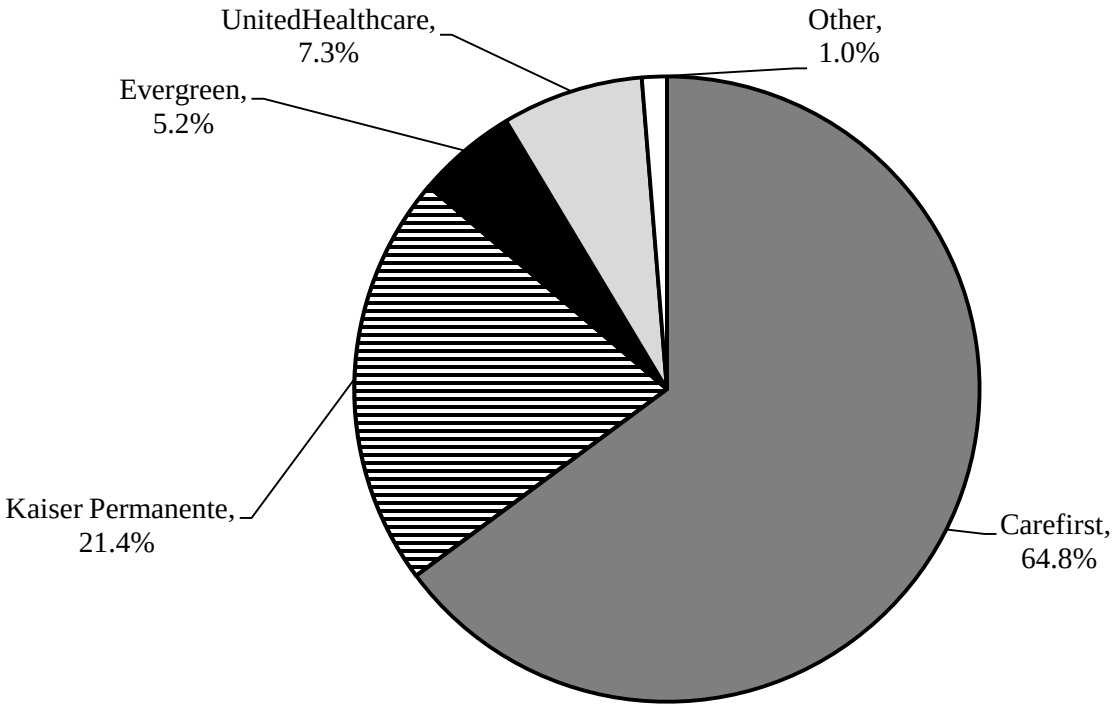
In selecting the brokers to participate in the pilot program, MHBE requires that the broker be located in Maryland, has experience with QHP enrollment, and is supportive of the program's goals. MHBE will also consider the broker's history of commitment to MHBE and the ACA and the amount of time the broker can commit to the program. The pilot project started out on a small scale, 25 brokers, and MHBE will compare statistics for enrollments with and without brokers to assess the program's effectiveness. If the BAT program is successful, it can be expanded to include other experts on the phone such as navigators, caseworkers, and SHOP administrators.

Progress in Enrollment and Carrier Participation

As of January 14, 2016, 364,711 individuals had enrolled during the current enrollment period, with 81,592 individuals enrolled in commercial plans, and 289,119 individuals enrolled in Medicaid. (This includes Medicaid redeterminations, which are made on a rolling basis throughout the year.) This brings total enrollment to 962,887, 800,192 of which are Medicaid.

In fiscal 2016, Marylanders enrolling in commercial plans were able to select from 53 unique health plans offered by five partner carriers. Enrollment by carrier is shown in **Exhibit 9**. As of January 14, 2016, a significant majority of enrollees, 65%, are enrolled in CareFirst. However, this represents a more diverse market than the prior years, 79% of enrollees were enrolled in CareFirst in 2015 and 90% in 2014. MHBE attributes this change to the changes made by carriers to the different plans they offer. MHBE also rolled out "anonymous browsing," allowing consumers to shop plans prior to creating an account.

Exhibit 9
Enrollment by Carrier
January 14, 2016



Source: Maryland Health Benefit Exchange; Department of Legislative Services

MHBE, in conjunction with MHCC, produced a rating system in the MHC *Quality Report* 2015, which summarized quality and performance information on the QHPs offered. Each carrier's star-rating score (out of five stars) is displayed to consumers during plan shopping. All carriers participating in the marketplace, except for All-Savers Insurance Company and Evergreen Health Cooperative, received a star-rating score.

In fiscal 2016, MHBE added Stand-Alone Dental Plans (SADP). Consumers may enroll in health and dental coverage at the same time. MHBE offers family and child-only dental plans – 18 plans in all from six participating dental insurers. As of January 14, 2016, 4,122 individuals were enrolled in a SADP while others enrolled in dental coverage in conjunction with a private health plan. Almost half of consumers (44%) enrolled in a SADP from carrier Dominion Dental, and 21% enrolled in CareFirst.

Average premium rate changes from calendar 2015 to 2016 range from a decline of 14% for Kaiser Permanente to an increase of 26% for CareFirst and Group Hospitalization and Medical Services, Inc. Premium rates vary according to age, geographic region, and the metal level of the health plan (the percentage of medical costs paid by the health plan, compared with the percentage paid by the consumer). Plan levels offered range from catastrophic to bronze, silver, gold, and platinum.

Status of the Small Business Health Options Program Exchange

Due to IT problems in the initial enrollment period, the SHOP Exchange for small businesses was delayed, though small businesses have gained access to a federal tax credit through authorized SHOP Exchange brokers. The Hilltop Institute at the University of Maryland Baltimore County had projected that more than 8,000 employees of small businesses would enroll in the first year; however, in calendar 2014, only 42 small employers with about 250 employees were enrolled in the SHOP Exchange, through a paper-based process. Enrollment in other states has also been reported to be low.

However, MHBE approved a three-phase plan to implement a more robust SHOP Exchange, which will function in partnership with selected third-party administrators. In August 2014, the MHBE board selected Kelly Services, Group Benefit Services, and Benefit Mall to implement the SHOP Exchange over the next two years. These third-party administrators launched phase two of the three-phase implementation in January 2015. This phase involved extending existing platforms to allow employers and employees to access their enrollment application, census, and account information through a website.

Six carriers offer plans through the MHC small business exchange. In August 2015, the employee choice option became available where employers can select from two "choice" options. In the employer choice option, the employer picks one insurance company on the SHOP, and employees can choose any plan offered by that insurer. In the employee choice option, the employer picks the metal level that will be open to employees. Employees can then choose a plan at that metal level from any insurer on the exchange. As of January 14, 2016, 122 groups had enrolled, covering 785 employees. SHOP enrollment may see less growth in calendar 2016 than anticipated due to the change in definition of small employer in October 2015 to not more than 50 employees. Beginning on or after January 1, 2016, small employers will be those that during the previous calendar year employed an average of not more than 50 employees.

2. Report on Connector Entities

Due to concerns over lower than expected enrollment, the 2015 *Joint Chairmen's Report* (JCR) requested an update on the role of, and expectations for, connector entities in shaping enrollment, including how the role of connector entities is expected to evolve. The ACA requires exchanges to develop navigator programs and fund them through grants and offers a broad outline of the funding requirements, eligibility criteria, duties and standards, while still leaving states significant flexibility in designing their own programs.

MHBE developed the Maryland Connector Program, which is organized geographically to provide outreach and enrollment services by region employing both certified navigators and noncertified staff. The goal of the Connector Program was to provide effective, local outreach and enrollment services to individuals who did not have insurance and who would be more inclined to receive information and seek assistance within their own community. The Connector Program targets vulnerable and hard to reach populations including consumers with limited English proficiency, those with limited education, individuals who live in especially remote or rural areas, and older (non-Medicare adults), as these groups are less likely to apply online without assistance.

The connector entity is responsible for organizing all partners and services across the region and provides a single point of responsibility for engagement with MHBE and the Maryland Insurance Administration. The Connector Program includes navigators, application counselor sponsoring entities (ACSE), authorized producers, and agency partner caseworkers. Navigators are tasked with conducting public education, distributing fair, accurate, and impartial information about enrollment into health plans and the availability of tax credits, facilitating enrollment in health plans, providing referrals to applicable agencies for enrollees with grievances, complaints, or questions, providing information in a culturally linguistically appropriate manner and maintaining expertise in eligibility, enrollment, and specifications for insurance and affordability programs including financial assistance for QHPs and Medicaid Programs.

In addition to navigators, the ACSE program assists consumers with trained counselors who are certified by MHBE and sponsored by community-based organization, health care providers, units of State or local government, and other entities authorize by MHBE. The number of ACSEs increased from 29 to 53 in the last year, and the number of certified application counselors (CAC) increased from 140 to 253. MHBE provides training for CACs but does not provide any other financial support to the ACSEs or CACs. CACs only have access to the consumer facing portal, not the "worker" portal, so they may not be able to handle more complex issues.

Authorized producers, or insurance brokers, enroll individuals in QHPs and are the acknowledged experts in the private carrier market. MHBE has been increasing engagement with brokers and instituted a pilot project with the call center that allows real-time phone transfer of QHP-eligible consumers to producers for plan shopping and selection. MHBE had 1,123 authorized producers as of September 30, 2015, and 27,555 people were enrolled in QHPs by producers from January 1 to September 30, 2015. Authorized producers, however, are not always well trained on Medicaid issues, and there is no compensation arrangement for Medicaid enrollments.

Caseworkers in LHDs and local departments of social services (LDSS) have participated in MHC training and have participated in the process of transferring cases from the legacy CARES system to MHC. Caseworkers cannot assist consumers with QHP enrollment, but they are State experts in Medicaid eligibility and enrollment and also perform behind-the-scene tasks such as verifying documents and solving inter-system glitches between MHC and the Medicaid Management Information System (MMIS).

During the first year of enrollment, before the ASCE program was implemented and with less emphasis on producers, the Connector Program staff were the primary in-person resource for consumers along with local agencies. Due to technical challenges, the Connector Program staff had to

shift focus from outreach activities to becoming technical experts to help consumers navigate the challenging system. When open enrollment ended, the staff learned a new system for the second open enrollment period, and many received more extensive training on eligibility rules, cultural competence, and strategies for teaching health literacy. During the second year of open enrollment, navigators were able to use the worker portals instead of only consumer portals as in the first open enrollment. Navigators also helped local agencies move Medicaid enrollees at redetermination from two systems, CARES and the HIX, to another (HBX).

According to the report, residents need continuing in-person assistance with maintaining and renewing coverage, post-enrollment issues, reporting changes, enrolling outside of open enrollment during special enrollment periods, and churning between insurance affordability programs. Although brokers can assist QHPs and LHDs with Medicaid enrollment, navigators can provide education and enrollment assistance across all insurance affordability programs offered through the exchange and can help consumers with post-enrollment billing questions and issues. As more of the uninsured enroll, the hardest to reach populations will be left and will be more difficult to find, educate, and enroll. These challenges are especially significant in rural areas – where low population density, lack of public transportation, and a smaller number of health care providers contribute to decreasing consumer motivation to seek coverage.

The Connector Program can act as regional hubs to MHBE: expanding the number of ACSEs and CACs; integrating producers into QHP enrollment opportunities; providing technical assistance with complex cases to the producers and CACs in their region through a dedicated hotline; handling additional application processing responsibilities through expanded user roles in the system; acting as a coordinator for communication between consumer-facing staff and MHBE policy and operations staff contributing to marketing and communication ideas with local knowledge to expand community awareness; identifying and implementing training needs; and improving health literacy. The ACSEs and CACs will become an increasingly important part of the consumer assistance program, and the report notes that it will be important to have a strong Memorandum of Understanding in place that defines the interaction between their respective staff and LHD and LDSS caseworkers and the roles and responsibilities of each State agency – the Department of Human Resources (DHR), DHMH, and MHBE – especially in the administration of Medicaid programs.

3. Report on System Integration

Due to concerns about the lack of the single point-of-entry for benefits determinations that had been the long-term goal promised of the exchange, the budget committees included narrative in the 2015 JCR requesting a report detailing plans to move toward this system. A report was submitted by MHBE on December 3, 2015.

In the report, MHBE provides a summary of the savings and benefits to Marylanders of integrating the State's eligibility and enrollment systems and processes into a single point-of-entry and an approach, which could be employed if the decision were to be made to move forward with integration. The report identifies redundancies in operating three separate IT systems through DHR,

DHMH and MHBE which all have separate hosting, maintenance and operations, and development contracts.

The new MHBE IT system, mirroring the Connecticut model, does not offer the level of functionality – particularly with regard to Medicaid enrollment – that had been promised of the original MHBE system. There is still no ability to convert income and other data from CARES to the new MHBE platform, so modified adjusted gross income (MAGI)-eligible enrollees who initially enrolled through CARES are still applying through the new MHBE platform. Furthermore, because the new MHBE IT platform was not designed to handle non-MAGI-based determinations, eligibility for non-MAGI-eligible groups will continue to be determined through CARES. Thus, the system remains fractured. While MHBE is able to determine eligibility for Medicaid based on MAGI levels, DHMH and DHR continue to administer the other health and social services programs provided by the State which include non-MAGI Medicaid, the Food Supplement Program (FSP), Temporary Cash Assistance (TCA), and the Maryland Energy Assistance Program (MEAP). Currently, a worker needs to submit applications in different systems based on the benefit that the citizen is looking for and needs to verify the same document twice if the citizen is applying for multiple programs across the system. There are separate call centers and business operations based on the agency. Additionally, enrolling into Medicaid is a multi-step process, and it takes approximately five to seven weeks to complete the enrollment.

The report cites opportunity for administrative simplification through streamlining call centers, creating an online environment with a narrower network of in-person support, and supporting on-the-ground private-sector resources rather than sustaining State personnel offices. This would create a shared infrastructure that would integrate eligibility and enrollment, case management, client information systems, and provider/plan management. This simplification could include a single streamlined application for intake of all health and human services programs, a single streamlined application for document verifications and an opportunity to use the HBX consumer portal to enroll in non-MAGI Medicaid or other social services programs. The report notes that moving to an integrated platform must also be accompanied by a corresponding effort to streamline, coordinate, and align agencies' operations in order to increase efficiencies and decrease costs.

The report then lays out the phases in which the system integration could be accomplished. Phase I would include enhancements to the current system such as retroactive Medicaid, managed care organization online plan selection, Medicaid age out and postpartum, client information system interface and eligibility status check with MMIS, establishing direct interface of Medicaid transactions with MMIS, and the Enterprise Content Management System integration. These activities are estimated to take approximately 10 to 12 months to complete. The report suggests a planning session with DHR and DHMH to devise a strategy as well as discussions with relevant stakeholders before moving forward with subsequent phases.

Following this planning session, the report cites Phase II with the goal of streamlining and consolidating data collection and determining eligibility and enrollment for all health insurance applicants under MAGI or non-MAGI guidelines (in addition to targeting the conversion of existing eligibility and enrollment information of the non-MAGI population to HBX). The estimated duration of Phase II is approximately 18 to 20 months.

Phase III would integrate data collection and real time eligibility determination for FSP cash (TCA) and MEAP applications with an estimated duration of 12 to 14 months. Phase IV would integrate data collection and real time eligibility determination for the remaining social service applications Children's Electronic Social Services Information Exchange System and Child Support Enforcement System with an estimated duration time of 12 to 16 months.

The report concludes that the four agencies involved must first undertake a collaborative, comprehensive planning process that must address all components of a successful integration effort, including project governance, IT development, business processing, and funding.

The federal government has extended enhanced funding (90% Federal Medicaid Assistance Percentage) for system integration for an additional two years.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland Health Benefit Exchange
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$15,514	$90,938	$43,584	$0	$150,037
Deficiency Appropriation	5,524	0	0	0	5,524
Cost Containment	-310	0	0	0	-310
Budget Amendments	0	33	85,259	0	85,292
Reversions and Cancellations	0	-45,036	-18,628	0	-63,664
Actual Expenditures	**$20,727**	**$45,935**	**$110,216**	**$0**	**$176,879**
Fiscal 2016					
Legislative Appropriation	$0	$36,592	$42,838	$0	$79,430
Budget Amendments	0	65	11,565	0	11,630
Working Appropriation	**$0**	**$36,657**	**$54,403**	**$0**	**$91,060**

Note: The fiscal 2015 appropriation excludes nonbudgeted funds. The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 budget for MHBE closed $26.8 million above the legislative appropriation. A deficiency appropriation increased general funds by $5,523,727 to supplement existing funding for the call center ($2.0 million), retain outside legal counsel ($1.2 million), and funds the contract with Deloitte Consulting to build the new IT system ($2.3 million).

Cost containment reduced the legislative appropriation for MHBE by $310,277 in general funds to realign the 2 % cost containment between agencies. Funding for website and IT enhancements were reduced by this amount.

Budget amendments increased the fiscal 2015 legislative appropriation for MHBE by $85.3 million including $85.26 million in federal funds and $26,000 in special funds. Of this amount, $59,761 ($33,161 in special funds and $26,585 in federal funds) reflects the fiscal 2015 cost-of-living adjustment approved during the 2014 session but not included in the fiscal 2015 allowance. One budget amendment increases the federal fund appropriation for MHBE by $85.2 million to supplement funding for IT contractual services and various operating costs.

IT contractual services ($52.1 million) make up the bulk of new spending and represent costs associated with:

- the design, development, and implementation (by Deloitte Consulting) of the new MHBE IT system, which will replace the faulty, original MHBE system;
- oversight through a PMO contract, which continues to be necessary due to the transition between systems: and
- operating costs ($33.1 million) make up the remainder of new spending and include:
    - call center contractual services ($20.9 million), which includes additional staff and costs associated with moving the call center to a new location;
    - connector entities ($4.2 million), which includes additional staff;
    - IT contractor operational support ($3.3 million), which includes costs related to the transition between systems (including workarounds);
    - advertising ($1.3 million); and
    - other operational support ($3.4 million).

Cancellations totaled $18.6 million in federal funds and $45.0 million in special funds. Of this amount, $16.5 million in federal funds represents federal funds that could not be encumbered due to

the unavailability of State matching funds for MHBE and $47.0 million ($45.0 million in special funds and $2.0 million in federal funds) were cancelled due to overestimates of program spending for MHIP.

Fiscal 2016

To date, the fiscal 2016 legislative appropriation for MHBE has been increased by $11.6 million. Of this amount, $65,000 in special funds reflects the restoration of the 2% pay reduction. Another budget amendment increased federal funds by $11.6 million to cover the cost of call center activities ($8.1 million), Medicaid related activities ($3.2 million), a procurement consultant ($130,000), and an assessment study ($190,000).

Appendix 2

Audit Findings

Audit Period for Last Audit:	June 1, 2011 – July 23, 2014
Issue Date:	October 2015
Number of Findings:	10
Number of Repeat Findings:	0
% of Repeat Findings:	%
Rating: (if applicable)	n/a

Finding 1: MHBE procurement policy was not followed for certain contracts and MHBE did not always retain relevant procurement documentation.

Finding 2: Certain payments for contractual services were made without sufficient support or documented review.

Finding 3: Grant expenditures for the Connector Program were not verified for propriety.

Finding 4: Federal fund reimbursement requests were not made in a timely manner.

Finding 5: MHBE did not accurately maintain control and detail records or properly account for all of its equipment.

Finding 6: The Board of Trustees of the exchange violated the Open Meetings Act.

Finding 7: Personally identifiable information was not appropriately safeguarded.

Finding 8: Administrative access to the MHBE network was excessive and not properly restricted.

Finding 9: MHBE lacked assurance that critical data on contractor servers were properly secured.

Finding 10: MHBE network was not properly secured.

Object/Fund Difference Report
Maryland Health Benefit Exchange

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	76.00	74.00	69.00	-5.00	-6.8%
02 Contractual	0.00	1.00	0.00	-1.00	-100.0%
Total Positions	**76.00**	**75.00**	**69.00**	**-6.00**	**-8.0%**
Objects					
01 Salaries and Wages	$ 6,360,374	$ 8,089,077	$ 7,704,023	-$ 385,054	-4.8%
02 Technical and Spec. Fees	631	0	59,172	59,172	N/A
03 Communication	288,374	194,973	75,988	-118,985	-61.0%
04 Travel	33,336	32,598	23,897	-8,701	-26.7%
07 Motor Vehicles	3,896	4,016	0	-4,016	-100.0%
08 Contractual Services	174,825,462	69,880,689	103,801,804	33,921,115	48.5%
09 Supplies and Materials	81,234	77,284	44,346	-32,938	-42.6%
11 Equipment – Additional	130,470	2,008	6,900	4,892	243.6%
12 Grants, Subsidies, and Contributions	18,042,859	12,000,000	10,000,000	-2,000,000	-16.7%
13 Fixed Charges	794,660	779,566	749,594	-29,972	-3.8%
Total Objects	**$ 200,561,296**	**$ 91,060,211**	**$ 122,465,724**	**$ 31,405,513**	**34.5%**
Funds					
01 General Fund	$ 20,727,332	$ 0	$ 0	$ 0	0.0%
03 Special Fund	45,935,397	36,657,070	75,090,000	38,432,930	104.8%
05 Federal Fund	110,216,140	54,403,141	47,375,724	-7,027,417	-12.9%
07 Nonbudgeted Fund	23,682,427	0	0	0	0.0%
Total Funds	**$ 200,561,296**	**$ 91,060,211**	**$ 122,465,724**	**$ 31,405,513**	**34.5%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Maryland Health Benefit Exchange

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Maryland Health Benefit Exchange	$ 62,844,755	$ 56,208,073	$ 50,837,730	-$ 5,370,343	-9.6%
02 Major Information Technology Development Projects	83,032,778	32,962,449	31,537,994	-1,424,455	-4.3%
03 Maryland Health Insurance Program	0	0	40,090,000	40,090,000	0%
01 Maryland Health Insurance Program	54,683,763	1,889,689	0	-1,889,689	-100.0%
Total Expenditures	**$ 200,561,296**	**$ 91,060,211**	**$ 122,465,724**	**$ 31,405,513**	**34.5%**
General Fund	$ 20,727,332	$ 0	$ 0	$ 0	0.0%
Special Fund	45,935,397	36,657,070	75,090,000	38,432,930	104.8%
Federal Fund	110,216,140	54,403,141	47,375,724	-7,027,417	-12.9%
Nonbudgeted Fund	23,682,427	0	0	0	0.0%
Total Appropriations	**$ 200,561,296**	**$ 91,060,211**	**$ 122,465,724**	**$ 31,405,513**	**34.5%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

D80Z01
Maryland Insurance Administration

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$31,334	$30,989	$33,061	$2,072	6.7%
Deficiencies and Reductions	0	0	-78	-78	
Adjusted Special Fund	**$31,334**	**$30,989**	**$32,983**	**$1,994**	**6.4%**
Federal Fund	627	1,242	779	-463	-37.3%
Deficiencies and Reductions	0	0	-1	-1	
Adjusted Federal Fund	**$627**	**$1,242**	**$778**	**-$465**	**-37.4%**
Adjusted Grand Total	**$31,961**	**$32,232**	**$33,761**	**$1,529**	**4.7%**

- After adjusting for a back of the bill reduction in health insurance, there is an increase in the fiscal 2017 allowance of $1.5 million, or 4.7%. Special funds increase by $2.0 million, or 6.4%. There is a $465,000 decrease in federal funds or 37.4%.

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	265.00	265.00	265.00	0.00
Contractual FTEs	12.25	14.70	14.30	-0.40
Total Personnel	**277.25**	**279.70**	**279.30**	**-0.40**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	14.68	5.54%
Positions and Percentage Vacant as of 12/31/15	28.00	10.57%

Note: Numbers may not sum to total due to rounding.

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- The number of authorized positions remains unchanged from fiscal 2016 to 2017. There is a decrease of 0.40 contractual employees for the Affordable Care Act contract review.

- The fiscal 2017 turnover rate of 5.54% requires the Maryland Insurance Administration (MIA) to keep 14.68 regular positions vacant. As of December 31, 2015, there were 28.0 positions vacant.

Analysis in Brief

Major Trends

Insurance Complaints Received and Resolved: The number of insurance complaints received in fiscal 2015 have increased. There has also been a decline in the number of complaints resolved.

Restitution and Penalties: There has been a decline in the amount of restitution and penalties paid to consumers and to the State since fiscal 2013 with a significant decline from fiscal 2014 to 2015.

Issues

Office of Legislative Audits Update: MIA is wholly funded through special funds and is tasked with assessing and collecting premium taxes from insurers. The revenues from the taxes largely go back to the General Fund. The Office of Legislative Audits found a significant number of issues with the MIA system for collecting, managing, and securing premium tax funds including a number of repeat findings.

Recommended Actions

1. Concur with Governor's allowance.

D80Z01
Maryland Insurance Administration

Operating Budget Analysis

Program Description

The Maryland Insurance Administration (MIA) implements laws and develops policies, procedures, and regulations that affect Maryland's insurance industry. MIA performs rate and form reviews, financial audits, licensing examinations, market conduct examinations, and fraud investigations. It also resolves consumer complaints and issues licenses to companies and procedures.

The main goals of MIA are to:

- ensure that the terms and conditions of insurance contracts are reasonable and meet the requirements of Maryland law;
- adjudicate consumer complaints in accordance with insurance law and in a prompt and fair manner;
- protect the public from unfair trade practices and other violations of the Insurance Code;
- enforce solvency standards to ensure that insurers have the financial ability to pay claims when due; and
- protect Maryland citizens through enforcement of the Annotated Code of Maryland's provisions relating to insurance fraud.

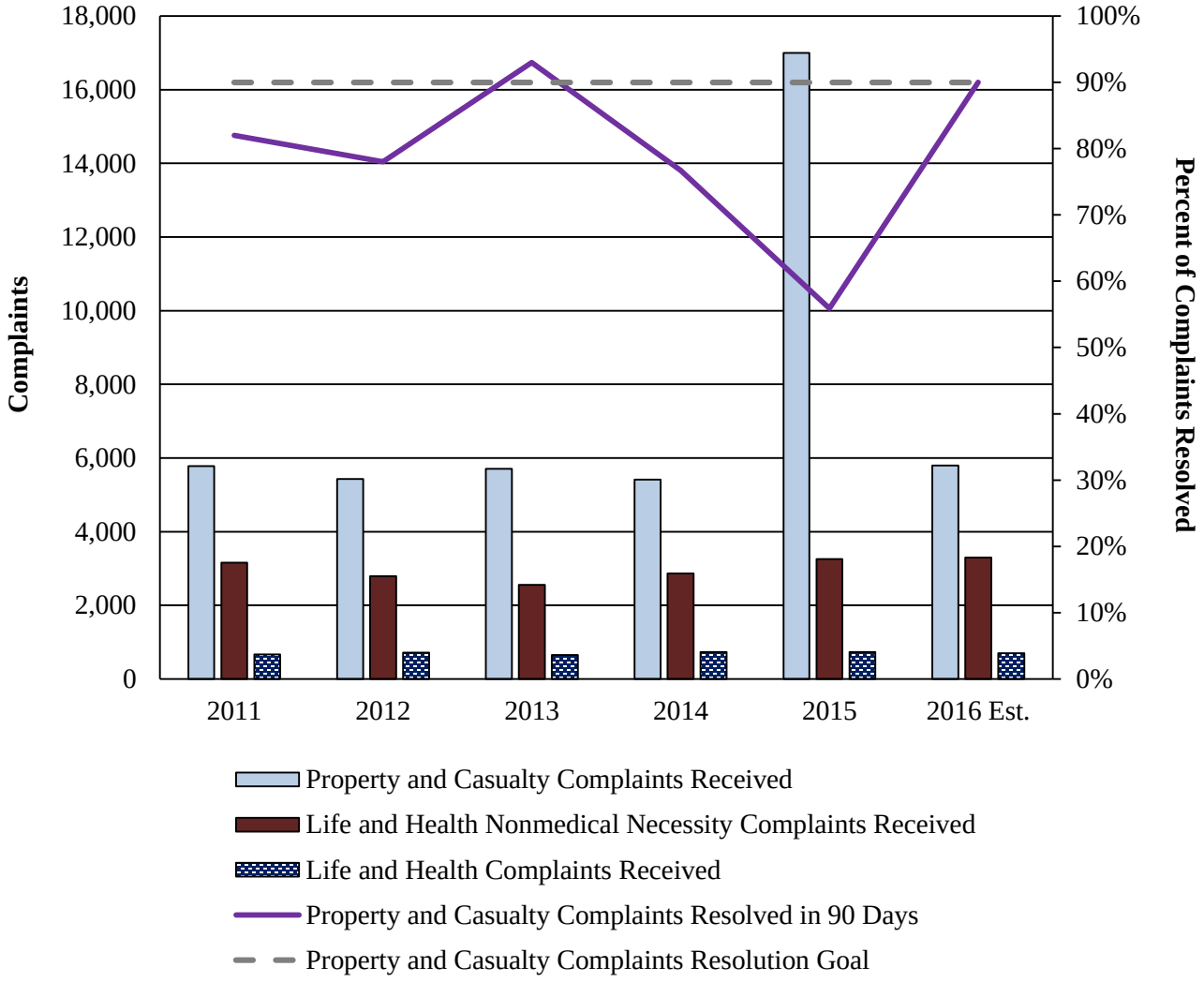
Performance Analysis: Managing for Results

1. Insurance Complaints Received and Resolved

MIA is responsible for receiving and resolving insurance complaints made by consumers. **Exhibit 1** shows that the number of insurance complaints received has remained relatively steady for Life and Health, Life and Health nonmedical necessity, and Property and Casualty from fiscal 2011 to 2014. There was a significant increase in the number of Property and Casualty complaints in fiscal 2015, from 5,412 to 17,001. This is because MIA received 10,615 complaints from policyholders disputing a notice of premium increase issued by State Farm Fire and Casualty. The number of complaints in fiscal 2016 are expected to be closer to historical levels. It is also important to note that the percentage of Property and Casualty complaints resolved in 90 days has decreased from 93.0% in

fiscal 2013 to 76.0% in fiscal 2014 and 55.9% in fiscal 2015. This is a significant decrease particularly because the goal for the agency is to resolve 90.0% of Property complaints in 90 days. **The Department of Legislative Services (DLS) recommends that MIA comment on the decrease in Property and Casualty complaints resolved in 90 days.**

Exhibit 1
Insurance Complaints and Property and Casualty Complaints with Timely Resolution
Fiscal 2011-2016 Est.



Source: Department of Budget and Management

2. Restitution and Penalties

One of the goals of MIA is to protect the public from unfair trade practices and other violations of the State's insurance laws. MIA can perform market conduct examinations and, based on the findings, the agency can direct a company or producer to pay a fine to the agency or pay restitution to the consumer. For example, the agency could issue a fine to an insurer who had not paid a claim within the statutorily required 30 days and could seek restitution if an insurer or producer overcharged the consumer for a premium and never provided the refund. **Exhibit 2** shows the amount of money returned to Maryland citizens and the amount of fines collected since fiscal 2011. Restitution and penalty amounts fluctuate annually, but there has been a consistent decline in recent years. This is due, in part, to the lack of any multi-state collaborative actions involving large insurance companies. This is particularly true of Life and Health insurers. In addition, for many of the smaller investigations, insurers have in recent years been more willing to comply with MIA orders and have provided restitution directly to consumers without having to be directly compelled to do so by the agency.

Exhibit 2
Penalties Paid to MIA and Restitution Paid to Consumers
Fiscal 2011-2015

	2011	2012	2013	2014	2015
Total Penalties	$2,414,214	$1,983,597	$4,320,008	$3,422,462	$2,443,128
Total Restitution	6,598,683	17,544,782	5,619,094	4,970,782	436,100
Total	**$9,012,897**	**$19,528,379**	**$9,939,102**	**$8,393,244**	**$2,879,228**

MIA: Maryland Insurance Administration

Source: Department of Budget and Management

Proposed Budget

After adjusting for a back of the bill reduction in health insurance, the fiscal 2017 allowance for MIA increases by approximately $1.5 million driven mainly by personnel costs. The most significant areas of growth are spending on employee and retiree health insurance ($744,000) and employees' retirement ($441,000). As shown in **Exhibit 3**, there is a decrease of $291,000 in salaries because of new employees being hired at base rates. There is also an increase of $100,000 in turnover, lowering the budgeted turnover rate by 0.5%. Contractual employee expenses increased by $50,000 largely because of the inclusion of health insurance costs.

There is a $170,000 increase in fiscal 2017 for the storage area network replacement. There are also increases of $40,000 for a tape library and $30,000 for server replacements. There was a $39,000 decrease in a one-time expense for software and software licensing. Other changes include a $285,000 increase in costs for administrative hearings as a result of the increase in Property Casualty State Farm complaints and an increase of $44,000 for communications.

Exhibit 3
Proposed Budget
Maryland Insurance Administration
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2015 Actual	$31,334	$627	$31,961
Fiscal 2016 Working Appropriation	30,989	1,242	32,232
Fiscal 2017 Allowance	32,983	778	33,761
Fiscal 2016-2017 Amount Change	$1,994	-$465	$1,529
Fiscal 2016-2017 Percent Change	6.4%	-37.4%	4.7%

Where It Goes:	
Personnel Expenses	
Employee and retiree health insurance	$744
Employees' retirement	441
Accrued leave payout	150
Turnover adjustments	100
Other fringe benefits and adjustments	-37
Regular salaries	-291
Information Technology	
Storage area network replacement	170
Tape library replacement	40
Replacement server	30
Statewide system allocations	15
Virtual servers	-35
Software and licensing	-39
Enterprise Complaint Tracking System (See Appendix 2 for additional details)	-50
Secure file protocol site	-52

Where It Goes:	
Other Changes	
Administrative Hearings assigned costs	285
Contractual employees	50
Communications	44
Office of the Attorney General Administration fee	17
Office supplies and materials	-9
Disaster relief, document destruction, and other contractual services	-18
Other	-26
Total	**$1,529**

Note: Numbers may not sum to total due to rounding.

Enterprise Complaint Tracking System

Over the past several years, MIA has undertaken a variety of information technology (IT) upgrades. IT upgrades typically require significant time and funding. Effective project management is necessary to meet project timelines and maintain projected costs. MIA has identified the need to replace the current Enterprise Complaint Tracking System (ECTS) with a browser-based document management technology that automates workflow. MIA began the initial phases of the project in October 2011. The project is currently underway but initial cost were overestimated, which resulted in $126,707 in canceled special funds for the project in fiscal 2015. The 2016 legislative appropriation was $404,500 in special funds and the 2017 allowance is $355,000. **DLS recommends that the agency brief the committees on the status of the ECTS project and steps that the agency has taken to ensure effective project management.**

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $78,214 in special funds and $1,346 in federal funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Issues

1. Office of Legislative Audits Update

The Office of Legislative Audits (OLA) conducted an audit for MIA in November 2014, which outlined 14 findings, including 4 repeat audit findings, as shown in **Exhibit 4**. The audit also included 11 recommendations for resolving these findings. As a result, the 2015 *Joint Chairmen's Report* (JCR), required that prior to the release of $150,000 in administrative funds, MIA must take corrective action on all unresolved repeat audit findings. The JCR language further required that OLA submit a report to the budget committees listing each unresolved repeat audit finding along with the determination that each finding was corrected. The OLA report is required to be submitted to allow 45 days for the budget committees to review and to release the funds prior to the end of the fiscal year. In February 2016, OLA conducted a follow up review stating that Finding 3 has been resolved, Finding 8 is still currently in process, and Findings 10 and 12 no longer apply to the processes used by MIA.

MIA asserts that Finding 8 – that MIA did not reconcile its records of premium tax revenues with the corresponding State accounting records – has also been corrected. OLA notes that while MIA has developed procedures to conduct monthly reconciliations of payments, there are still no reconciliation of cumulative year-to-date tax balances. As a result, uncorrected errors or unauthorized changes would not be detected. This was illustrated in a duplicate payment entry of $2,000 on their master balance sheet that was previously undetected. MIA asserts that they have in fact incorporated cumulative-to-date reconciliation, but employees who performed the monthly premium tax reconciliation from October 2014 to May 2015 also had the ability to post payments to the master spreadsheet. This was allowed because of a shortage of employees and was corrected in May 2015. **DLS recommends that MIA comment on the recent OLA follow up report. DLS also recommends that the currently restricted funds be released.**

Exhibit 4
Audit Findings

Audit Period for Last Audit:	September 29, 2010 – August 4, 2013
Issue Date:	November 2014
Number of Findings:	14
Number of Repeat Findings:	4
% of Repeat Findings:	29%
Rating: (if applicable)	n/a

Finding 1: The new automated premium tax system procurement did not comply with the State procurement regulations governing competitive procurement and contract modifications. System development and implementation proceeded without a plan or specifications.

Finding 2: An MIA management employee exercised control over all aspects of the procurement and implementation of the new premium tax system.

Finding 3: **The premium tax system was not properly secured to restrict control and access. As a result, the premium tax system contractor had complete control over the system and unnecessary access to the MIA network.**

Finding 4: The premium tax system lacked proper security and configuration to protect it from the external threats and unauthorized changes.

Finding 5: MIA lacked adequate control over the premium tax findings, including supervisory review of audit results.

Finding 6: Procedures were not sufficient to ensure that MIA received certain tax payments in a timely manner, therefore, MIA did not always assess penalties and interest for late payments.

Finding 7: MIA had not established proper internal controls over premium tax refunds.

Finding 8: **MIA did not reconcile its records of premium tax revenues with corresponding State accounting records.**

Finding 9: MIA lacked effective control over financial examination services.

Finding 10: **MIA lacked effective control over cash receipts.**

Finding 11: MIA did not establish sufficient control for issuing producer licenses.

Finding 12: **MIA lacked assurance that outsourced producer, and pre-licensing service systems were protected against operational and security risks.**

Finding 13: MIA lacked effective control over purchases and disbursements.

Finding 14: MIA lacked effective control over information technology network access.

*Bold denotes item repeated in full or part from preceding audit report.

Source: Office of Legislative Audits

Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland Insurance Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$29,147	$1,279	$0	$30,426
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	2,564	4	0	2,568
Reversions and Cancellations	0	-377	-657	0	-1,033
Actual Expenditures	**$0**	**$31,334**	**$627**	**$0**	**$31,961**
Fiscal 2016					
Legislative Appropriation	$0	$30,600	$1,234	$0	$31,835
Budget Amendments	0	389	8	0	397
Working Appropriation	**$0**	**$30,989**	**$1,242**	**$0**	**$32,232**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 legislative appropriation for MIA was increased by $1,534,552. Budget amendments increased special funds by $2,564,020:

- $1,435,000 for the ECTS project;
- $297,290 for building rent and retiree health insurance;
- $194,532 for a cost-of-living adjustment (COLA); and
- $637,198 for other software and equipment.

Special fund cancellations totaled $376,959 including a contingency amount of $250,752 and $126,707 in lower than anticipated expenditures for the ECTS, as the project plan started later than expected.

The original federal fund appropriation of $1,279,150 was increased by $4,012 by budget amendment for a COLA. There was a cancellation of $656,521 for consulting services that were not used.

Fiscal 2016

To date, the fiscal 2016 special fund appropriation has increased by $389,000 for the restoration of the 2% pay cut. Similarly, federal funds have also increased by $8,000.

Major Information Technology Projects

Maryland Insurance Administration
Enterprise Complaint Tracking System

Project Status	Implementation.	**New/Ongoing Project:**	Ongoing.
Project Description:	The Maryland Insurance Administration (MIA) has identified the need to replace the current Enterprise Complaint Tracking System (ECTS) with a browser-based document management technology that automates workflow by routing electronic documents and notifications across the organization and enables online data entry, form creation, standard reports, *ad hoc* queries, and data exchange with internal and external systems.		
Project Business Goals:	Replacing the current ECTS with upgraded technology will provide MIA with the ability to improve complaint resolution efficiency percentages beyond current targets.		
Estimated Total Project Cost:	$2,699,500	**Estimated Planning Project Cost[1]:**	n/a.
Project Start Date:	August 2012	**Projected Completion Date:**	October 2017
Schedule Status:	Due to the delay in approving the ECTS Infrastructure Design, the infrastructure components have not yet been purchased or installed. This will impact the project schedule and delay implementation plans.		
Cost Status:	1. A contract modification for $37,000 to incorporate Microsoft SharePoint document management software into the new ECTS application was requested by MIA and approved by the Department of Information Technology. 2. A contract modification to acquire additional infrastructure components for the project is anticipated. Cost estimates for this change are currently being collected.		
Scope Status:	n/a.		
Project Management Oversight Status:	In place.		
Identifiable Risks:	The infrastructure for the new ECTS system is a critical component to ensure the success of the project. At this time, MIA and the contractor are working together to finalize the infrastructure design and quantify cost estimates for all components. This effort has taken longer than initially planned and will cause an impact to the project schedule.		
Additional Comments:	n/a.		

Fiscal Year Funding ($ in Thousands)	**Prior Years**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Balance to Complete**	**Total**
Personnel Services	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Professional and Outside Services	2,344.5	355.0	0.0	0.0	0.0	0.0	0.0	2,699.5
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	00.0
Total Funding	**$2,344.5**	**$355.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$2,699.5**

Object/Fund Difference Report
Maryland Insurance Administration

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	265.00	265.00	265.00	0.00	0%
02 Contractual	12.25	14.70	14.30	-0.40	-2.7%
Total Positions	**277.25**	**279.70**	**279.30**	**-0.40**	**-0.1%**
Objects					
01 Salaries and Wages	$ 23,905,461	$ 24,120,891	$ 25,307,457	$ 1,186,566	4.9%
02 Technical and Spec. Fees	750,956	743,869	794,007	50,138	6.7%
03 Communication	367,177	264,479	308,217	43,738	16.5%
04 Travel	251,598	379,894	378,710	-1,184	-0.3%
07 Motor Vehicles	195,490	217,963	216,247	-1,716	-0.8%
08 Contractual Services	3,608,434	3,527,327	3,696,755	169,428	4.8%
09 Supplies and Materials	290,269	276,570	267,252	-9,318	-3.4%
10 Equipment – Replacement	19,564	181,000	421,000	240,000	132.6%
11 Equipment – Additional	12,276	87,300	0	-87,300	-100.0%
12 Grants, Subsidies, and Contributions	609,886	610,000	622,200	12,200	2.0%
13 Fixed Charges	1,949,703	1,822,326	1,828,563	6,237	0.3%
Total Objects	**$ 31,960,814**	**$ 32,231,619**	**$ 33,840,408**	**$ 1,608,789**	**5.0%**
Funds					
03 Special Fund	$ 31,334,173	$ 30,989,273	$ 33,061,419	$ 2,072,146	6.7%
05 Federal Fund	626,641	1,242,346	778,989	-463,357	-37.3%
Total Funds	**$ 31,960,814**	**$ 32,231,619**	**$ 33,840,408**	**$ 1,608,789**	**5.0%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Maryland Insurance Administration

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Administration and Operations	$ 30,297,021	$ 31,827,119	$ 33,485,408	$ 1,658,289	5.2%
02 Major Information Technology Development Projects	1,663,793	404,500	355,000	-49,500	-12.2%
Total Expenditures	**$ 31,960,814**	**$ 32,231,619**	**$ 33,840,408**	**$ 1,608,789**	**5.0%**
Special Fund	$ 31,334,173	$ 30,989,273	$ 33,061,419	$ 2,072,146	6.7%
Federal Fund	626,641	1,242,346	778,989	-463,357	-37.3%
Total Appropriations	**$ 31,960,814**	**$ 32,231,619**	**$ 33,840,408**	**$ 1,608,789**	**5.0%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

D90U00
Canal Place Preservation and Development Authority

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$155	$102	$129	$27	26.5%
Adjusted General Fund	**$155**	**$102**	**$129**	**$27**	**26.5%**
Special Fund	401	708	567	-142	-20.0%
Adjusted Special Fund	**$401**	**$708**	**$566**	**-$142**	**-20.0%**
Adjusted Grand Total	**$557**	**$810**	**$695**	**-$115**	**-14.2%**

- The fiscal 2017 allowance decreases 14.2% from $810,380 to $695,870 largely because of the one-time costs in fiscal 2016 associated with the construction of an access ramp and parking that meets the standards set forth by the Americans with Disabilities Act. General funds increase 26.5% in fiscal 2017, which is an increase of $27,017 for various maintenance repairs. Special funds decrease by $141,527 because of an overall decrease in special funds available.

Note: Numbers may not sum to total due to rounding.

For further information contact: Sierra S. Boney Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	3.00	3.00	3.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**3.00**	**3.00**	**3.00**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/15	0.00	0.00%

- The number of regular employees and contractual positions remains unchanged between the current year and the allowance.

- The Canal Place Preservation and Development Authority (Canal Place) does not have any vacant positions because the agency is a staff of 3. The Administrative Officer retired in October 2015, and Canal Place has since hired 1 new staff person.

Analysis in Brief

Major Trends

Number of Events and Visitors for Attractions Fluctuates: The number of visitors to Canal Place declined from fiscal 2011 to 2014 but increases in fiscal 2015. There has also been a parallel trend in the number of events held at Canal Place.

Alternative Revenue for Canal Place: Canal Place receives funding through grants, property leases, paid parking, and from the City of Cumberland in addition to the State funds received. Non-State revenue declined in fiscal 2015.

Issues

Ownership of Canal Place: Canal Place oversees the preservation, development, and management of the Canal Place Preservation District, a designated heritage area in Cumberland, Maryland around the western end of the Chesapeake and Ohio Canal. The 2014 *Joint Chairmen's Report* requested that Canal Place submit a report on alternatives to State ownership of the authority's property. This issue will address the current state of alternative ownership options as well as the financial stability of Canal Place in the case that no external options are viable.

Recommended Actions

1. Add language that requires the completion of an asset appraisal for the Canal Place Preservation Development Authority related to the transition to non-State ownership.

D90U00
Canal Place Preservation and Development Authority

Operating Budget Analysis

Program Description

In 1993, the Canal Place Preservation and Development Authority (Canal Place) was created by legislation to spur the preservation, development, and management of the Canal Place Heritage Area in downtown Cumberland. Canal Place is charged with transforming the area into a major heritage tourism destination. Its responsibilities are directed by a nine-member commission and include:

- preserving or assisting in the preservation of buildings, structures, and a setting of historical value;
- conducting activities to educate the public about the history and significance of the heritage area;
- providing recreational uses of the heritage area; and
- facilitating economic development in the heritage area, such as through public and private investment in adaptive reuse, interpretive attractions, or other activities.

When fully developed, Canal Place will feature boat rides along a restored section of the Chesapeake and Ohio (C&O) Canal, which broke ground in Washington, DC in 1828 and reached Cumberland in 1850. Today, visitors can walk or bike along the canal towpath and can benefit from other Canal Place projects that have been completed. A retail marketplace includes nine shop locations and a plaza that hosts music and festival events. Currently, all shops are occupied and are open for business. A canal boat replica is on display, and train rides are available from the historic Western Maryland Railway Station.

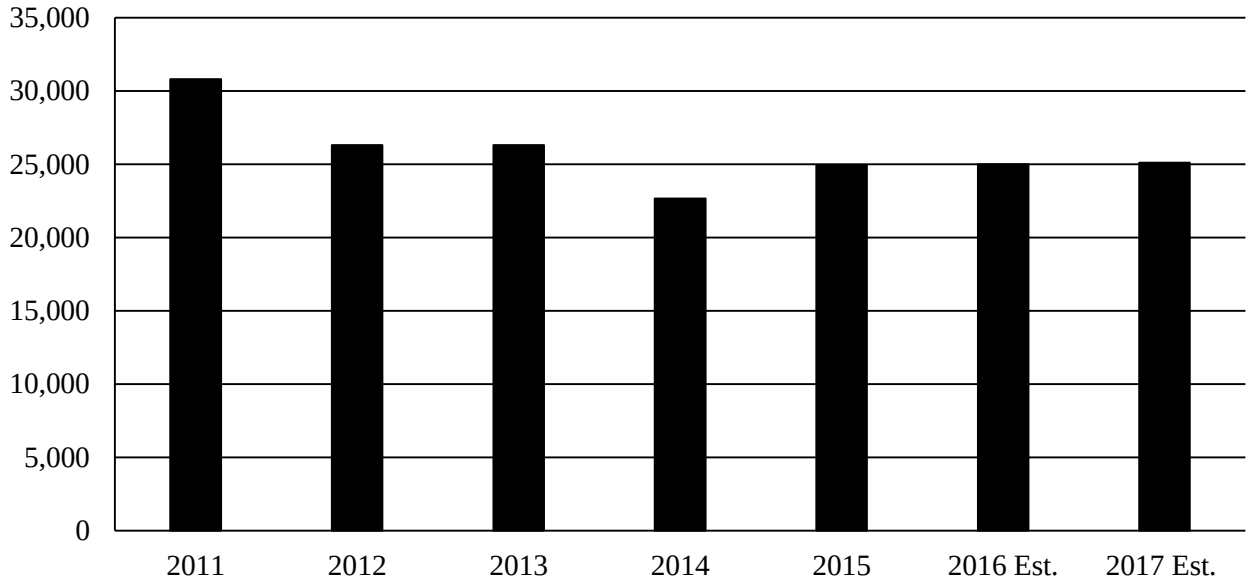
Major festival grounds have been completed and are a focal point of the area. The interstate Allegheny Highlands Trail was linked to Canal Place in December 2006. This trail stretches from Pittsburgh to Washington, DC; the Maryland portion of the Great Allegheny Passage currently measures about 22 miles. In addition to the fairgrounds, Canal Place is home to eight buildings that house a variety of shops and a Montessori school, two bridges, a parking lot, and a newly acquired and currently renovated Footer Dye building.

Performance Analysis: Managing for Results

1. Number of Events and Visitors for Attractions Fluctuates

The number of visitors to Canal Place declined for several years after fiscal 2011. However, in fiscal 2015, visitors increased to 24,960 after dropping significantly to 22,649 in fiscal 2014. This increase can be attributed to the hiring of a contractual public relations coordinator that has promoted Canal Place as an ideal site for a variety of events as well as a place to visit for different interest groups. **Exhibit 1** illustrates the historical pattern of visitor activity.

Exhibit 1
Visitors to Canal Place
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

Exhibit 2 illustrates the variation in the type of events held on Canal Place grounds and by whom they are sponsored. The number of total events has increased from 24 in fiscal 2014 to 33 in fiscal 2015 with revenue increasing as well. The increase in the number of events can also be attributed to the increase in public relations. Some of the events held at Canal Place include:

- outdoor movie nights for families with vendors paying to provide concessions;

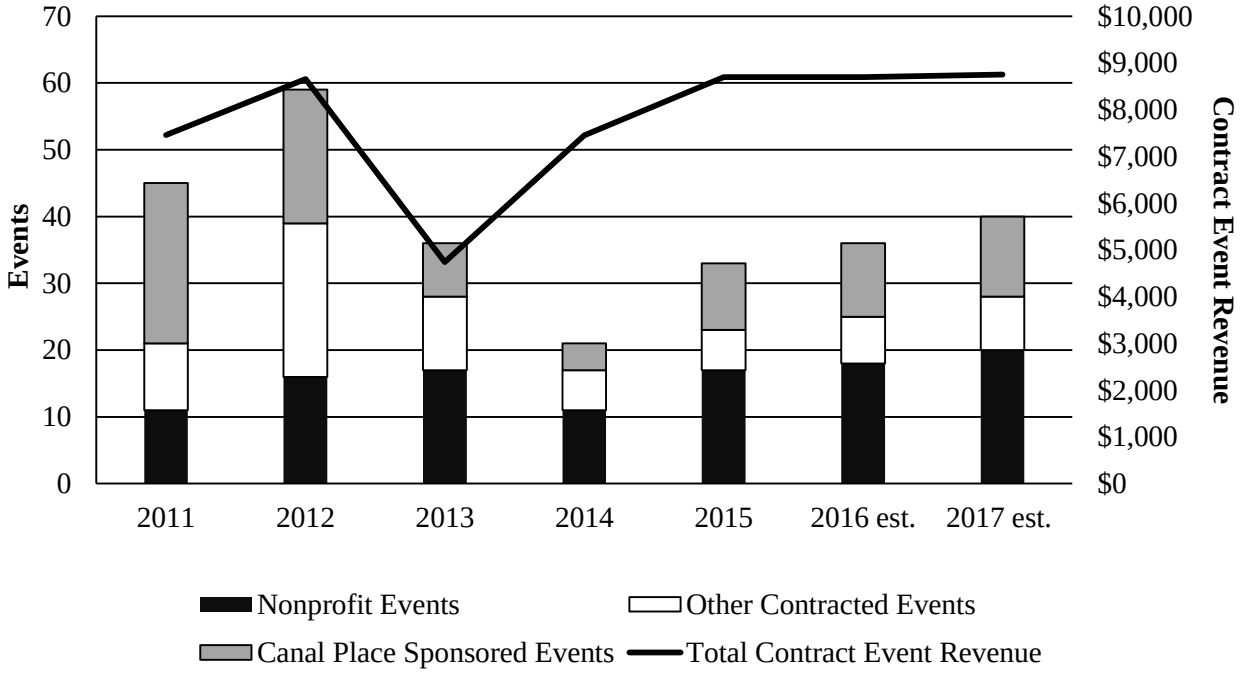
- a star spangled living history event with historical figures like Harriet Tubman sharing their experiences at the canal;

- concerts co-sponsored with Canal Place tenants including the Grand Ole Ditch Bluegrass Band and Travis Minnick Band; and

- the annual July 4 event most recently themed the Red, White and Bluegrass Celebration, which is attended by thousands of visitors each year.

Canal Place has also worked to restore the annual CanalFest, which is a popular celebration of the transportation heritage area.

Exhibit 2
Events by Type and Contract Event Revenue
Fiscal 2011-2017 Est.

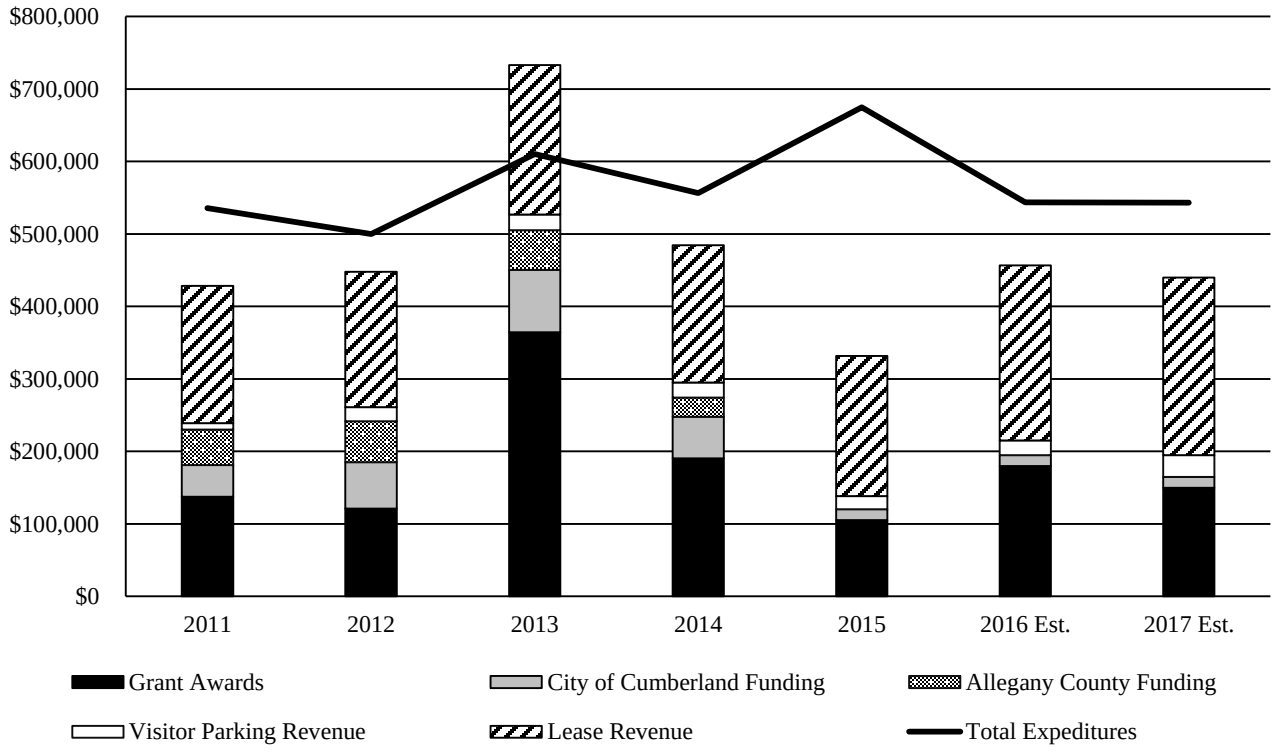


Source: Department of Budget and Management

2. Alternative Revenue for Canal Place

Canal Place has historically received funding from Allegany County and the City of Cumberland as well as several private entities. In fiscal 2011, funding from the City of Cumberland totaled $43,583, Allegany County contributed $49,000, and $137,500 was received from other grants, which combined totaled 43% of the overall budget in fiscal 2011. In fiscal 2015, there was a significant decline in support from the City of Cumberland (to $14,920) and other grants (to $105,238). Contributions from Allegany County also ended. From fiscal 2010 to 2014, Canal Place received revenue from Allegany County in relation to a grounds lease and motel tax revenues from the Fairfield Inn, which is housed on Canal Place property. It is unclear if Canal Place is currently receiving funds from motel tax revenues. **Exhibit 3** shows the annual revenue, revenue source, and expenditures for fiscal 2011 through 2017 projections. **The Department of Legislative Services (DLS) recommends that Canal Place comment on the current status of revenues received from Allegany County and other non-State revenues generally.**

Exhibit 3.
Canal Place Non-state Revenue and Expenditures
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

Fiscal 2016 Actions

Cost Containment

The Administration's fiscal 2016 cost containment strategy for Canal Place includes a 2% across-the-board reduction in general funds. The 2016 cost containment reduction is $2,000 in maintenance costs.

Proposed Budget

The fiscal 2017 allowance is approximately $115,000 lower than the fiscal 2016 working appropriation, as shown in **Exhibit 4**. The general fund appropriation increased by $27,000, which is a 26.5% increase. This is more than offset by a $142,000 (20%) decline in special fund expenditures.

Exhibit 4
Proposed Budget
Canal Place Preservation and Development Authority
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
Fiscal 2015 Actual	$155	$401	$557
Fiscal 2016 Working Appropriation	102	708	810
Fiscal 2017 Allowance	129	566	695
Fiscal 2016-2017 Amount Change	$27	-$142	-$115
Fiscal 2016-2017 Percent Change	26.5%	-20.0%	-14.2%

Where It Goes:	
Personnel Expenses	
Retiree and employee health insurance	$11
Employees' retirement system	4
Regular earnings	-1
Grounds, Building Maintenance, and Repairs	
Construction of raised crosswalks, a bike washing station, and bike shelters	77
Trash removal	1
Flooring and carpet replacement	-4
Construction of Americans with Disabilities access parking and ramp	-209

Where It Goes:	
Other Changes	
Contractual public relations services	12
Attorney General services	10
Communications and utilities	3
Supplies, fixed charges, and equipment	-2
Conference travel and replacement vehicle costs	-2
Other contractual services	-5
Request for Proposal solicitation for special projects	-5
Other	-5
Total	**-$115**

Note: Numbers may not sum to total due to rounding.

Grounds, Building Maintenance, and Repairs

The largest increase in the fiscal 2017 allowance is the $77,000 to fund project managers to provide expertise and facilitate several construction projects to enhance the attractiveness of Canal Place to visitors. These projects include the improvement of signs for the Allegheny Passage bike trail as well as the construction of a raised crosswalk, a bike washing station, and shelters for bikers and hikers.

There is a $209,000 decrease in the fiscal 2017 budget because in fiscal 2016, there was a project to construct an access ramp and parking that met the standards set forth by the Americans with Disabilities Act.

Other Charges

Canal Place also has a $12,000 increase in expenses for contractual services to promote the events and Farmers Market taking place on the Canal Place property. This position also provides website hosting, social media, sponsorship development, public relations, and marketing.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $386 in special funds. There is an additional across-the-board reduction to abolish vacant positions statewide, but the amounts have not been allocated by agency.

Issues

1. Ownership of Canal Place

In recent years, there have been questions surrounding the fiscal sustainability of Canal Place. The 2014 *Joint Chairman's Report* required the Maryland Heritage Areas Authority (MHAA) and the Department of General Services (DGS), in consultation with Canal Place, to prepare a report on alternatives to State ownership and management of the Heritage Area and associated real property assets by December 31, 2014. Since then, a report has been issued by the Maryland Department of Planning in reference to ownership options. The report issued on December 31, 2014, acted as an interim report because it was determined that there was a need for appraisals as well as the development and issuance of a Request for Expression of Interest (RFEI). The RFEI would be issued to private and non-State entities to determine if there were attractive options for ownership outside of the current State agencies.

DGS took the lead on this appraisal process, but because of the Administration change and all of the subsequent adjustments, they were delayed in completion. **DLS recommends adding budget language that specifies that general funds from the Department of General Services and special funds from the Maryland Heritage Area grant given to Canal Place be specifically used for the purpose of completing an appraisal of all Canal Place assets. This appraisal should be used to develop an RFEI in the purchase of Canal Place assets.**

Recommended Actions

1. Add the following language:

   SECTION XX. AND BE IT FURTHER ENACTED, That $10,000 of the general fund appropriation made for administration in the Department of General Services and $10,000 of the special fund appropriation of the Canal Place Preservation and Development Authority (Canal Place) received from the Maryland Heritage Areas Authority may not be expended for their original purpose but instead may be expended only for the purpose of an independent appraisal on the property owned and maintained by Canal Place. The appraisal should be used to issue a Request for Expressions of Interest (RFEI) to determine external interest in the purchase of any or all assets managed by Canal Place. The Maryland Heritage Area Authority, the Department of General Services, and Canal Place shall, by June 30, 2017, submit a report to the budget committees including the appraisal of Canal Place Heritage Area assets, the RFEI, a summary of the responses to the RFEI, and recommended ownership alternatives for the Canal Place Heritage Area. The budget committees shall have 45 days to review and comment.

   Explanation: This language restricts $10,000 in general funds in the Department of General Services (DGS) and $10,000 in special funds to Canal Place to be used to get appraisals of all of the Canal Place assets. This appraisal will be used to develop an RFEI in order to outline alternative ownership options for Canal Place.

Information Request	**Authors**	**Due Date**
Report on alternative ownership options including Canal Place appraisal, RFEI, response to request	DGS Maryland Heritage Areas Authority Canal Place	June 30, 2017

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Canal Place Perservation and Development Authority
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$116	$433	$0	$0	$549
Deficiency Appropriation	42	0	0	0	42
Cost Containment	-2	0	0	0	-2
Budget Amendments	0	87	0	0	87
Reversions and Cancellations	0	-118	0	0	-118
Actual Expenditures	**$155**	**$401**	**$0**	**$0**	**$557**
Fiscal 2016					
Legislative Appropriation	$102	$438	$0	$0	$540
Budget Amendments	0	270	0	0	270
Working Appropriation	**$102**	**$708**	**$0**	**$0**	**$810**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The 2015 legislative appropriation for Canal Place increased by $7,966. A deficiency appropriation increased general funds by $41,572 for maintenance and repairs. Cost containment decreased general funds by $2,324.

The special fund appropriation decreased by $31,282. Budget amendments increased special funds by $86,723 including $1,723 for a cost-of-living adjustment and $85,000 to purchase new gates for the paid parking lots. There was $118,005 in special fund cancellations:

- $30,000 in MHAA marketing grant funds;
- $23,000 in trailhead funds because the project started later than anticipated;
- $15,000 for the Footer Dye renovation because the project started later than anticipated; and
- $50,005 for repairs to other leaking dormers on the roof of the Western Maryland Railway Station that will not begin until fiscal 2016.

Fiscal 2016

To date, the 2016 legislative appropriation for Canal Place has increased by $270,000, which includes $3,000 for the restoration of the 2% pay cut and $266,933 for the construction of an access ramp and parking that meets the standards set forth by the Americans with Disabilities Act.

Object/Fund Difference Report
Canal Place Preservation and Development Authority

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	3.00	3.00	3.00	0.00	0%
Total Positions	**3.00**	**3.00**	**3.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 194,040	$ 194,769	$ 209,204	$ 14,435	7.4%
03 Communication	13,027	12,432	11,393	-1,039	-8.4%
04 Travel	3,902	4,000	1,000	-3,000	-75.0%
06 Fuel and Utilities	71,759	70,251	73,910	3,659	5.2%
07 Motor Vehicles	1,527	1,770	2,980	1,210	68.4%
08 Contractual Services	222,095	496,221	295,611	-200,610	-40.4%
09 Supplies and Materials	19,367	20,400	19,500	-900	-4.4%
10 Equipment – Replacement	15,410	1,000	500	-500	-50.0%
13 Fixed Charges	6,857	5,188	4,533	-655	-12.6%
14 Land and Structures	8,716	4,349	77,239	72,890	1676.0%
Total Objects	**$ 556,700**	**$ 810,380**	**$ 695,870**	**-$ 114,510**	**-14.1%**
Funds					
01 General Fund	$ 155,459	$ 101,983	$ 129,000	$ 27,017	26.5%
03 Special Fund	401,241	708,397	566,870	-141,527	-20.0%
Total Funds	**$ 556,700**	**$ 810,380**	**$ 695,870**	**-$ 114,510**	**-14.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Canal Place Preservation and Development Authority

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
0000 Grounds Maintenance	$ 137,182	$ 141,555	$ 0	-$ 141,555	-100.0%
1000 General Administration	419,518	668,825	695,870	27,045	4.0%
Total Expenditures	**$ 556,700**	**$ 810,380**	**$ 695,870**	**-$ 114,510**	**-14.1%**
General Fund	$ 155,459	$ 101,983	$ 129,000	$ 27,017	26.5%
Special Fund	401,241	708,397	566,870	-141,527	-20.0%
Total Appropriations	**$ 556,700**	**$ 810,380**	**$ 695,870**	**-$ 114,510**	**-14.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

D99A11
Office of Administrative Hearings

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$1,158	$44	$44	$1	1.1%
Adjusted Special Fund	**$1,158**	**$44**	**$44**	**$1**	**1.1%**
Reimbursable Fund	13,772	15,343	15,231	-113	-0.7%
Adjusted Reimbursable Fund	**$13,772**	**$15,343**	**$15,231**	**-$113**	**-0.7%**
Adjusted Grand Total	**$14,930**	**$15,387**	**$15,275**	**-$112**	**-0.7%**

- The fiscal 2017 allowance is $112,234, or 0.7%, less than the fiscal 2016 working appropriation.

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	114.00	119.00	119.00	0.00
Contractual FTEs	3.31	5.50	0.50	-5.00
Total Personnel	**117.31**	**124.50**	**119.50**	**-5.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		3.57	3.00%	
Positions and Percentage Vacant as of 12/31/15		2.00	1.68%	

Note: Numbers may not sum to total due to rounding.

For further information contact: Benjamin B. Wilhelm Phone: (410) 946-5530

- The fiscal 2017 allowance includes 119.0 regular positions, the same as the fiscal 2016 working appropriation. The allowance also includes a reduction of 5.0 contractual full-time equivalents (FTE) below the working appropriation. This change is due to the Board of Public Works action in August 2015 authorizing the conversion of these 5.0 contractual FTEs to permanent positions. The decrease in contractual FTEs in fiscal 2017 is a result of that already completed action.

- The budgeted turnover rate is 3.0%, which requires 3.57 vacancies. As of December 31, 2015, the agency reported 2.0 vacancies, for a rate of 1.68%.

Analysis in Brief

Major Trends

Total Number of Hearings Decreases, Fewer Cases on Most Dockets: The Office of Administrative Hearings (OAH) heard 4,715 fewer cases in fiscal 2015 than in fiscal 2014, a decrease of 9.4%. Declines in the agency's largest dockets – the Motor Vehicle Administration and the Department of Health and Mental Hygiene (DHMH) – are the primary cause of the decline, but there was also a 28.4% decrease in foreclosure mediations.

Time to Disposition Falls for Most Cases: The primary efficiency measure used by OAH is time to dispose of cases from filing. In fiscal 2015, the agency's overall time to disposition improved from 50.1 to 48.3 days. While most dockets showed improvement, some, including DHMH, did show marginal increases.

Satisfaction Ratings Fall Back Slightly but Remain High: OAH surveys participants in its hearings to access their satisfaction with the preparation, organization, fairness, and outcome of the proceedings. There were slight decreases in the number of satisfactory responses for fairness and outcomes in fiscal 2015, but all three measures remained above 90% satisfaction and near the all-time high results of fiscal 2014.

Recommended Actions

1. Concur with Governor's allowance.

D99A11
Office of Administrative Hearings

Operating Budget Analysis

Program Description

The Office of Administrative Hearings (OAH) holds hearings in contested cases involving State agencies. The office was created in 1989 to centralize the hearing functions in various units of State government. Most cases originate from the Motor Vehicle Administration (MVA); the Department of Health and Mental Hygiene (DHMH); the Department of Human Resources (DHR); the Department of Housing and Community Development; and the Maryland State Department of Education. Funding primarily comes from those agencies that use OAH services. These agencies reimburse OAH based on the proportion of time spent on their cases.

Pursuant to Chapter 485 of 2010, homeowners who are subject to foreclosure may request mediation with an administrative law judge (ALJ). A portion of revenues paid to the Housing Counseling and Foreclosure Mediation Fund are used by OAH for the costs of conducting foreclosure mediations.

OAH decisions may be appealed on the record to the circuit court. In certain cases, the OAH decision is advisory, and the originating agency may overrule or reject the OAH ruling. When an agency has rejected the OAH decision, recourse again is with the circuit court.

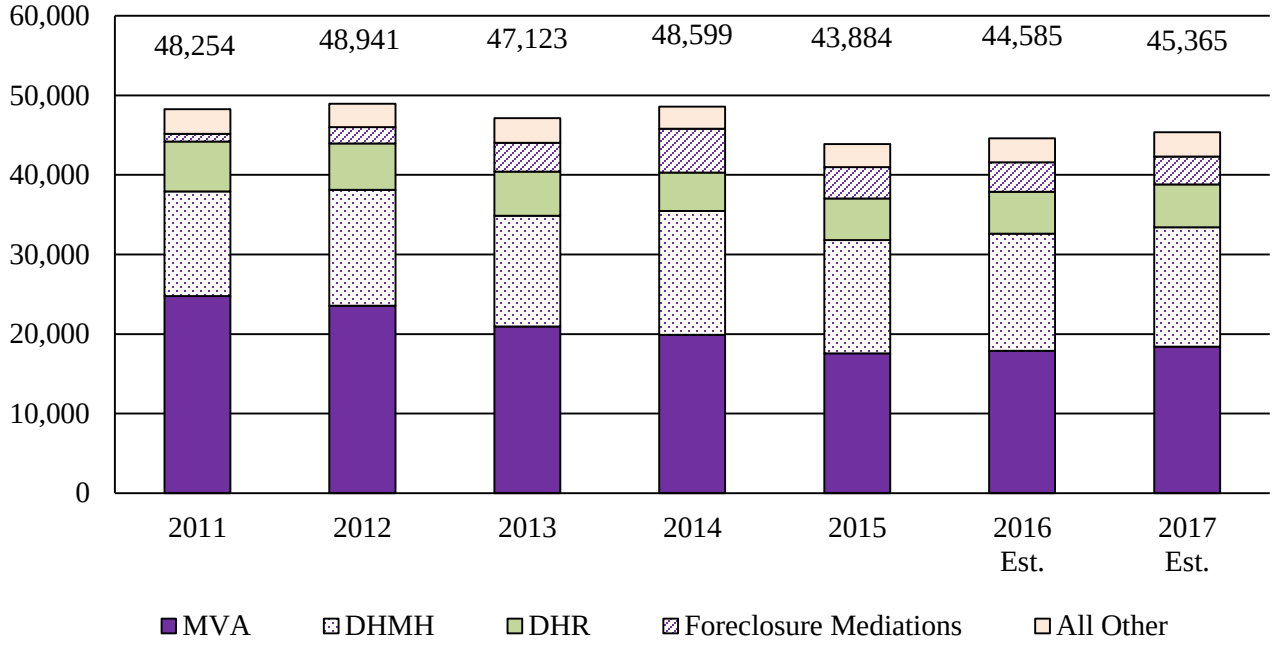
The chief ALJ is the administrative head of the agency. The State Advisory Council on Administrative Hearings oversees all activities of the agency and provides guidance and direction to the chief ALJ.

Performance Analysis: Managing for Results

1. Total Number of Hearings Decreases, Fewer Cases on Most Dockets

In fiscal 2015, OAH disposed of 43,884 cases for State agencies and under the foreclosure mediation program. This is a decrease of 4,715 cases, or 9.7%, below the 48,599 disposed in fiscal 2014. This decrease is largely attributable to decreases for three of the agency's four largest dockets. MVA cases fell by 2,333 to 17,574. DHMH cases were down 1,321 to 14,249. There were also 3,950 mortgage foreclosure mediations, 1,564 fewer than in fiscal 2015. **Exhibit 1** breaks down the agency caseloads since fiscal 2011 in more detail.

Exhibit 1
OAH Case Count by Major Component
Fiscal 2011-2017



DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources
MVA: Motor Vehicle Administration
OAH: Office of Administrative Hearings

Source: Department of Budget and Management

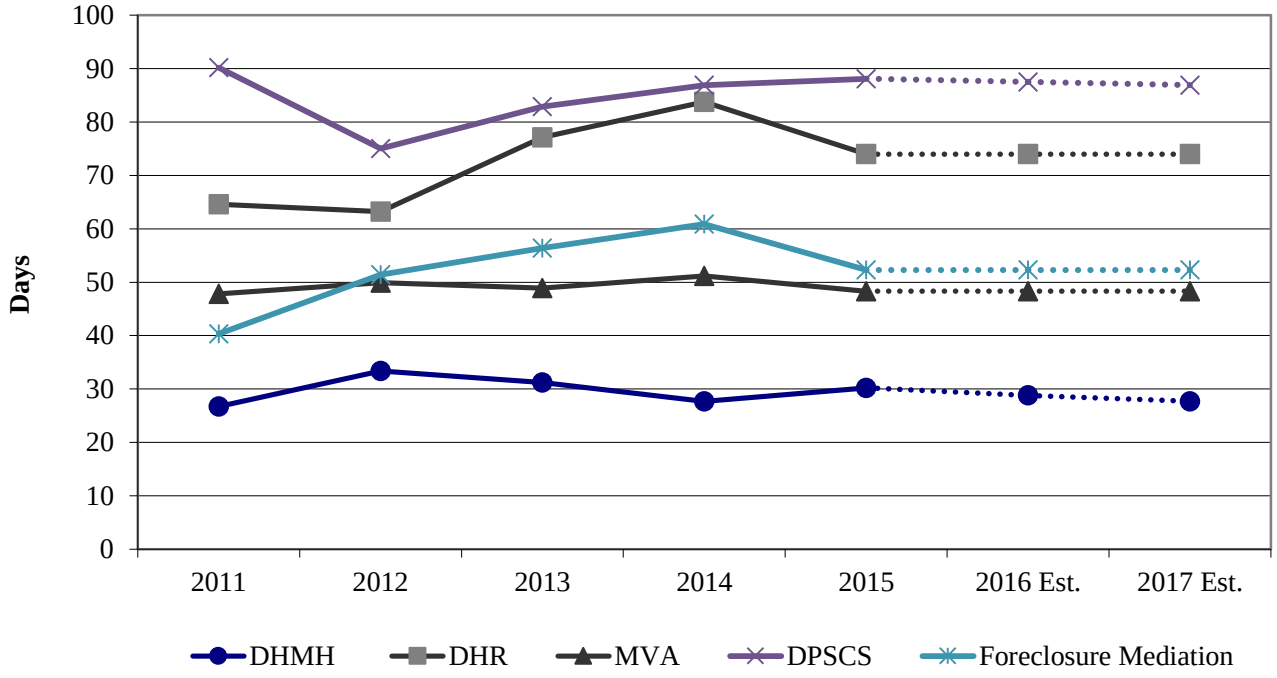
The caseload for OAH fluctuates from year to year depending on a variety of factors that affect the agencies that refer cases to OAH. For fiscal 2015, there are three main factors that can explain this decrease in the agency's caseload. First, while the number of DHMH cases fell by almost 10.0%, this is not even the largest change in this docket in the last five years and appears to be a normal fluctuation. Second, the fall in MVA cases is part of a larger trend that has seen the total number of MVA cases fall by 29.1% since fiscal 2011. Increased filing fees for hearings and the availability of ignition locks in lieu of license suspensions in many driving while intoxicated cases have driven fewer people to seek OAH hearings. Third, an improving economy and housing market, along with changing behavior by homeowners and lenders, appears to be responsible for the decrease in foreclosure mediations in fiscal 2015. As this program matures and the economy continues to recover, the number of mediations is expected to stabilize. However, OAH has reported that the number of foreclosure mediations in the first half of fiscal 2016 increased relative to fiscal 2015.

2. Time to Disposition Falls for Most Cases

Performance goals for OAH center on efficiency and quality. Time to dispose of cases from filing is the standard measurement for efficiency. In fiscal 2015, OAH showed overall improvement in time to disposition across all cases and within most dockets. Overall, average time to disposition fell from 50.3 to 48.1 days. **Exhibit 2** provides a more detailed breakdown of the disposition time for major classes of cases.

Time to disposition for DHMH cases increased from 27.7 to 30.2 days. Department of Public Safety and Correctional Services disposition time grew from 86.9 to 88.1 days. However, the disposition time for other large dockets decreased – DHR cases fell from 83.8 to 74.0 days, MVA cases fell from 51.2 to 48.3 days, and mortgage foreclosure mediations fell from 60.9 to 52.3 days.

Exhibit 2
Average Number of Days Between Receipt and Disposition of Selection Cases
Fiscal 2011-2017 Est.



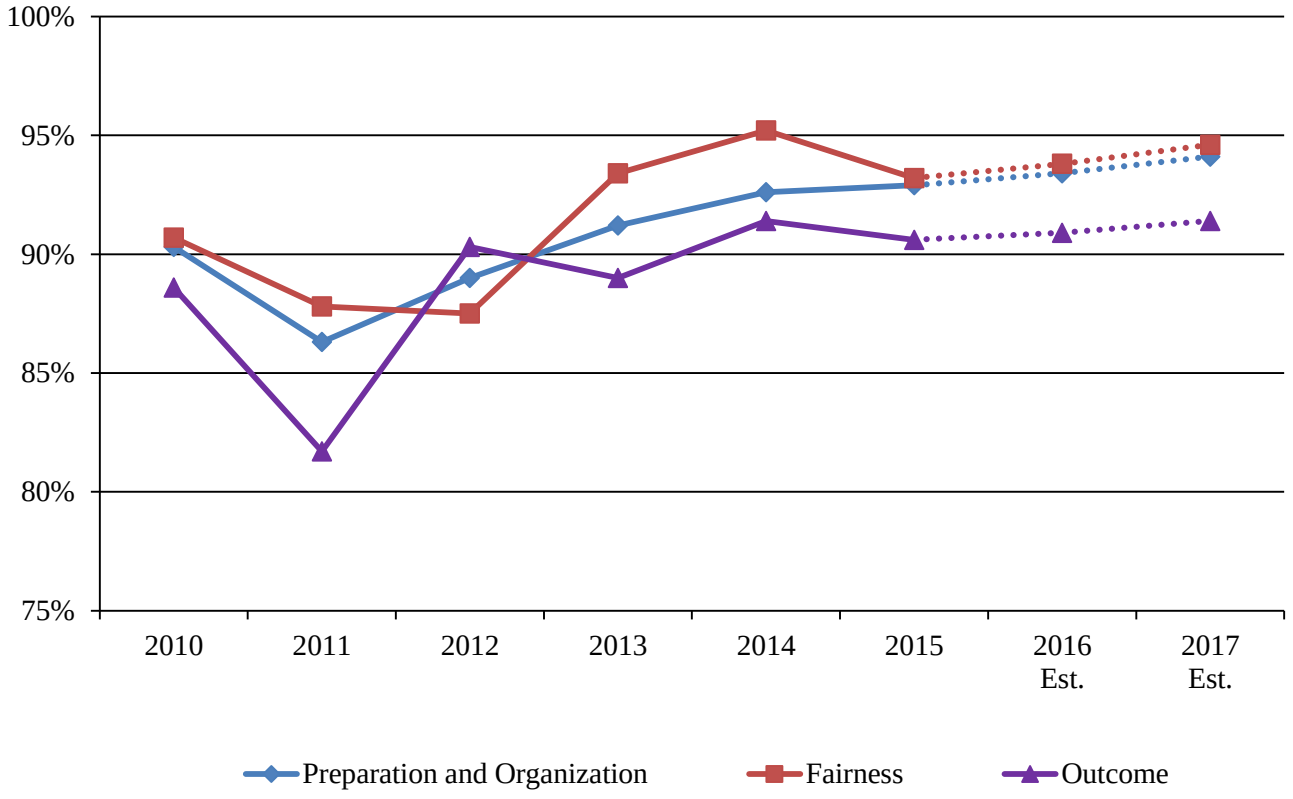
DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources
DPSCS: Department of Public Safety and Correctional Services
MVA: Motor Vehicle Administration

Source: Department of Budget and Management

3. Satisfaction Ratings Fall Back Slightly but Remain High

Quality is measured through the use of hearing participant surveys that quantify satisfaction with elements such as preparation, organization, and fairness of the proceedings. Participants are also surveyed on satisfaction with the outcome of the proceeding. As shown in **Exhibit 3**, the percentage of participants who rated these elements as satisfactory or excellent was down slightly for two of the three measures, but all three remain above 90% and indicate that the agency has been largely successful in maintaining progress shown since fiscal 2012. Specifically, the metrics for fairness and outcome decreased by 2.0 and 0.8 percentage points, respectively from fiscal 2014, while the metric for preparation increased by 0.3 percentage points.

Exhibit 3
Participants Rating Hearing Elements as Satisfactory or Excellent
Fiscal 2010-2017 Est.



Source: Department of Budget and Management

Fiscal 2016 Actions

Cost Containment

Section 45 of the 2015 budget bill included language reducing the OAH appropriation by at least $425,881 for fiscal 2016 spending and requiring the Governor to develop a plan for the allocation of that reduction to the agencies charged for OAH services. This action resulted in a reduction in the agency's fiscal 2016 appropriation of $459,831. OAH is managing this reduction by holding positions open and delaying nonessential equipment purchases.

Proposed Budget

As shown in **Exhibit 4**, the agency's allowance for fiscal 2017 is $15.3 million, a decrease of $112,234, or 0.7%, from the fiscal 2016 working appropriation.

Exhibit 4
Proposed Budget
Office of Administrative Hearings
($ in Thousands)

How Much It Grows:	Special Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$1,158	$13,772	$14,930
Fiscal 2016 Working Appropriation	44	15,343	15,387
Fiscal 2017 Allowance	44	15,231	15,275
Fiscal 2016-2017 Amount Change	$1	-$113	-$112
Fiscal 2016-2017 Percent Change	1.1%	-0.7%	-0.7%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	$235
Employee retirement	85
Reclassification	28
Turnover	-34
Other fringe benefit adjustments	-41
Compensation	-333

Where It Goes:	
Other Changes	
New telephone system	75
Office, library, and data processing supplies	46
Transcription and interpreter services	31
Security services	25
Conferences and training	22
Statewide services allocations	7
Other communications	-25
Conversion of 5 contractual full-time equivalents	-233
Total	**-$112**

Note: Numbers may not sum to total due to rounding.

Personnel

In fiscal 2017, agency personnel expenditures decrease by $59,006 from the fiscal 2016 working appropriation. This decrease is largely attributable to a net reduction of $332,808 in employee compensation due to the abolition of 6 positions as part of the Voluntary Separation Program. This decrease is partially offset by the conversion of 5 contractual full-time equivalents (FTE) to regular positions as approved by the Board of Public Works in December 2015. There are also changes for health insurance ($235,174) and retirement contributions ($85,406).

The Governor's budget also includes an appropriation for employee increments totaling $172,833 for this agency. This funding and associated expenses are included in the budget of the Department of Budget and Management and will be distributed to each agency by budget amendment at the start of the fiscal year.

Other

The most significant other change is a reduction of $232,721 for contractual employee compensation, resulting from the reclassification of the 5 contractual FTEs as discussed above. Other changes included $75,000 for a new telephone system and $25,000 to increase security from four to five days a week at the main OAH office.

Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Office of Administrative Hearings
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$897	$0	$14,301	$15,198
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	303	0	0	303
Reversions and Cancellations	0	-43	0	-529	-571
Actual Expenditures	**$0**	**$1,158**	**$0**	**$13,772**	**$14,930**
Fiscal 2016					
Legislative Appropriation	$0	$44	$0	$15,343	$15,387
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$44**	**$0**	**$15,343**	**$15,387**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

OAH finished fiscal 2015 $267,897 below its legislative appropriation, due to unspent funds. Amendments for the cost-of-living adjustment (COLA) and additional staff for foreclosure mediations increased the appropriation by $303,256.

Special Funds

Actual expenditures were $260,628 above the legislative appropriation, due to $303,256 in amendments including:

- $300,000 increase related to foreclosure mediation hearings to comply with Chapter 156 of 2012. The entire amount was directed to salaries and benefits for 3 ALJs.

- $3,256 increase for the COLA.

These increased funds were offset by the cancellation of $42,628 in unspent funds.

Reimbursable Funds

Actual expenditures were $528,525 below the legislative appropriation, all due to unspent funds. OAH was not subject to statewide cost containment actions but reduced expenditures in line with those actions.

Fiscal 2016

To date, there have been no changes to the fiscal 2016 legislative appropriation of $15.4 million.

Object/Fund Difference Report
Office of Administrative Hearings

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	114.00	119.00	119.00	0.00	0%
02 Contractual	3.31	5.50	0.50	-5.00	-90.9%
Total Positions	**117.31**	**124.50**	**119.50**	**-5.00**	**-4.0%**
Objects					
01 Salaries and Wages	$ 12,406,430	$ 12,917,823	$ 12,858,817	-$ 59,006	-0.5%
02 Technical and Spec. Fees	231,534	248,001	15,280	-232,721	-93.8%
03 Communication	186,527	196,659	246,475	49,816	25.3%
04 Travel	158,316	138,444	165,000	26,556	19.2%
06 Fuel and Utilities	116,381	134,715	119,872	-14,843	-11.0%
07 Motor Vehicles	3,879	16,144	11,494	-4,650	-28.8%
08 Contractual Services	659,387	627,532	699,323	71,791	11.4%
09 Supplies and Materials	162,625	126,122	173,000	46,878	37.2%
10 Equipment – Replacement	19,499	6,980	41,980	35,000	501.4%
11 Equipment – Additional	43,903	35,000	0	-35,000	-100.0%
13 Fixed Charges	942,008	939,434	943,379	3,945	0.4%
Total Objects	**$ 14,930,489**	**$ 15,386,854**	**$ 15,274,620**	**-$ 112,234**	**-0.7%**
Funds					
03 Special Fund	$ 1,158,096	$ 43,500	$ 44,000	$ 500	1.1%
09 Reimbursable Fund	13,772,393	15,343,354	15,230,620	-112,734	-0.7%
Total Funds	**$ 14,930,489**	**$ 15,386,854**	**$ 15,274,620**	**-$ 112,234**	**-0.7%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

E00A
Comptroller of Maryland

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$82,076	$85,192	$92,321	$7,129	8.4%
Deficiencies and Reductions	0	0	-232	-232	
Adjusted General Fund	**$82,076**	**$85,192**	**$92,088**	**$6,897**	**8.1%**
Special Fund	21,576	23,360	32,515	9,155	39.2%
Deficiencies and Reductions	0	700	-45	-745	
Adjusted Special Fund	**$21,576**	**$24,060**	**$32,470**	**$8,410**	**35.0%**
Reimbursable Fund	17,561	21,716	21,849	132	0.6%
Adjusted Reimbursable Fund	**$17,561**	**$21,716**	**$21,849**	**$132**	**0.6%**
Adjusted Grand Total	**$121,213**	**$130,968**	**$146,407**	**$15,439**	**11.8%**

- The fiscal 2016 working appropriation includes a deficiency appropriation of $700,000 to implement the decision in the U.S. Supreme Court case of *Comptroller v. Wynne.*

- After adjusting for the fiscal 2016 deficiency and the back of the bill reduction in health insurance, the fiscal 2017 allowance increases by $15.4 million, or 11.8%. General funds increase by $6.9 million, or 8.1%. Special funds increase by $8.4 million, or 35.0%. Reimbursable funds increase by $132,000, or 0.6%.

Note: Numbers may not sum to total due to rounding.

For further information contact: Sierra S. Boney Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	1,123.00	1,120.90	1,120.90	0.00
Contractual FTEs	27.10	27.10	26.60	-0.50
Total Personnel	**1,150.10**	**1,148.00**	**1,147.50**	**-0.50**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	56.38	5.03%
Positions and Percentage Vacant as of 12/31/15	123.00	10.97%

- The number of regular positions remains unchanged between the current year and the allowance and the number of contractual positions decreases by 0.5 in fiscal 2017.

- The turnover rate of 5.03% requires that the Comptroller's Office maintain 56.38 vacant positions to achieve the necessary savings. As of December 31, 2015, the Comptroller had 123.0 vacant positions.

Analysis in Brief

Major Trends

Customer Service Decline: The number of electronic returns processed in 4 days and the number of paper returns processed in 22 days both declined in fiscal 2015. There was also an increase in the amount of time customers were on hold during phone calls.

Big Data Analytics: The Comptroller's Office currently works with one primary and three subcontractors to collaborate and develop new models and programs that generate extra income revenue for the State by using the Comptroller's Data Warehouse in order to locate individuals who were either not filing or underreporting their tax obligations in Maryland.

Cigarette, Alcohol, and Motor Fuel Enforcement: The percentage of inspections through the Field Enforcement Division has seen fluctuations since fiscal 2011. Currently the division is experiencing vacancies, which have translated into a decline in overall inspections, but the number of inspections in each unit are at the appropriate threshold.

Issues

Montgomery County/Chevy Chase Tax Revenue: The Office of the Comptroller is responsible for collecting all of the tax revenue for the State of Maryland and distributing the proper tax amount to local municipalities. Within each county, there may be a separate distribution to the county, any local municipalities, and any unincorporated area. It has recently been discovered that tax revenue that should have been sent to Montgomery County was actually distributed to the Town of Chevy Chase, resulting in $6 million for Chevy Chase and $6 million less revenue for Montgomery County. **The Department of Legislative Services (DLS) recommends that the Comptroller comment on the misallocation of funds between Montgomery County and Chevy Chase.**

***Comptroller v. Wynne Decision*:** *Comptroller v. Wynne* is a Supreme Court case in which it was decided that the Maryland income tax scheme violated the dormant Commerce Clause. The decision affects Maryland residents who have earned income in other states as well as the local income tax revenue. **DLS recommends that the agency comment on the effects of the *Comptroller v. Wynne* ruling.**

Recommended Actions

1. Restrict general funds in Travel and Motor Vehicles objects to be used specifically for customer service.

Updates

Revenue Administration: The Revenue Administration is responsible for processing and collecting various taxes, including the personal income tax, corporate income tax, and sales tax. The Office of Legislative Audits found a number of issues, including several repeat findings with the Revenue Administration's security in reference to taxpayer information, and the verification procedures for Social Security numbers, refund checks, and certain collections.

E00A
Comptroller of Maryland

Operating Budget Analysis

Program Description

The Comptroller of Maryland is charged with the general supervision of the State's fiscal matters, including collecting taxes, distributing revenues, and administering financial accounts. The agency has eight divisions generally falling into the following categories:

Revenue

The Revenue Administration Division (RAD) is responsible for processing and collecting various taxes, including the personal income tax, the corporate income tax, and the sales tax. RAD is also responsible for administering the laws governing the sale, manufacture, storage, transportation, distribution, and promotion of alcohol, tobacco, and motor fuel. The Compliance Division conducts audits and collects delinquent taxes from all revenue sources. The Field Enforcement Division enforces all tax laws by conducting investigations, tests, and inspections.

Administration

The Office of the Comptroller has general supervision over the agency. The General Accounting Division accounts for all State funds received and disbursed and prepares financial reports required by law. This division is also responsible for the Relational Statewide Accounting and Reporting System. The Central Payroll Bureau issues payroll checks and administers the direct deposit transactions for State employees in three separate payroll systems.

Other Divisions

The Bureau of Revenue Estimates provides estimates of State revenues and formulates recommendations to be submitted to the Governor. The Information Technology Division administers the Annapolis Data Center (ADC). The data center is available to all State agencies on a reimbursable basis.

The goals of the Comptroller are to

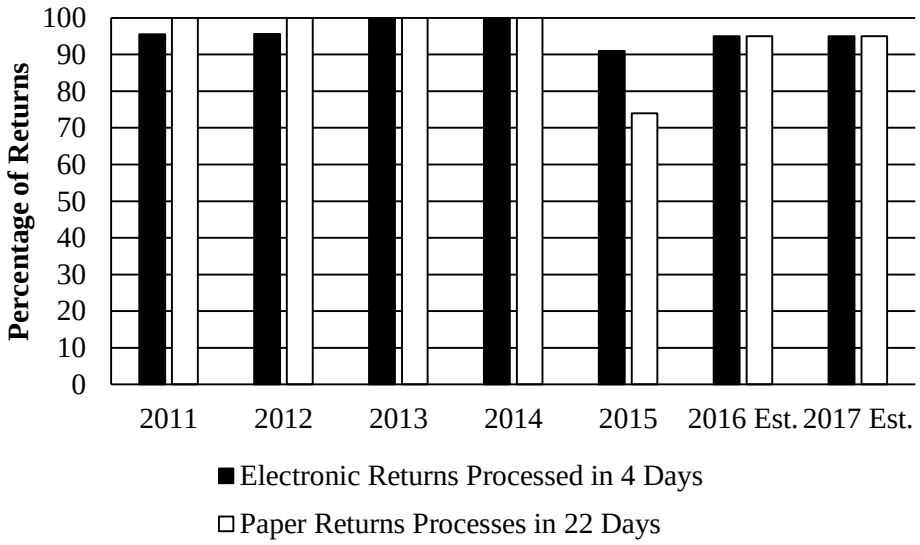
- provide high-quality public service;
- fully utilize Information Technology (IT); and
- vigorously enforce tax laws essential to the fair treatment of all taxpayers.

Performance Analysis: Managing for Results

1. Customer Service Decline

It is the industry standard for electronic returns that are filed during any tax season to be processed within 4 days and for paper returns to be processed within 22 days. **Exhibit 1** shows that the percentage of electronic returns processed in 4 days rose steadily from fiscal 2011 to 2014 from 95.5% to 100.0%. That number dropped in fiscal 2015 to 91.0%. Paper returns were consistently at 100.0% until 2015 when this percentage took a significant dip to 74.0%.

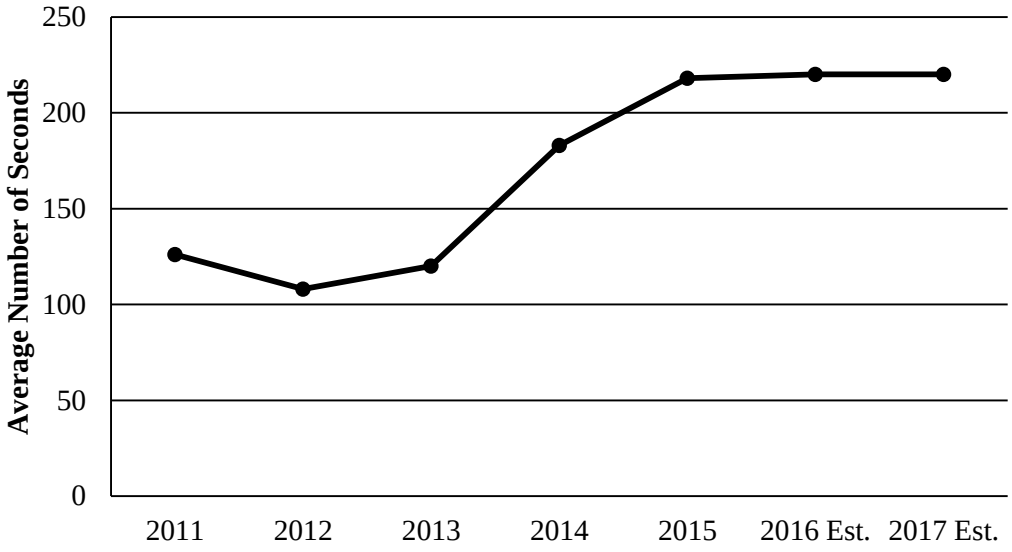
Exhibit 1
Returns: Processing Times
Tax Season 2011-2017 Est.



Source: Department of Budget and Management

Simultaneously, **Exhibit 2** shows that the average number of seconds taxpayers are on hold has increased consistently from 108 seconds in fiscal 2012 to 218 seconds in fiscal 2015. In both cases, processing time and telephone wait time, the increases are likely due to the decrease in contractual employees during the tax season. **DLS recommends that the Comptroller comment on whether factors that led to lower customer service in 2015 have been addressed.**

Exhibit 2
Seconds on Hold for a Call
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

2. Big Data Analytics

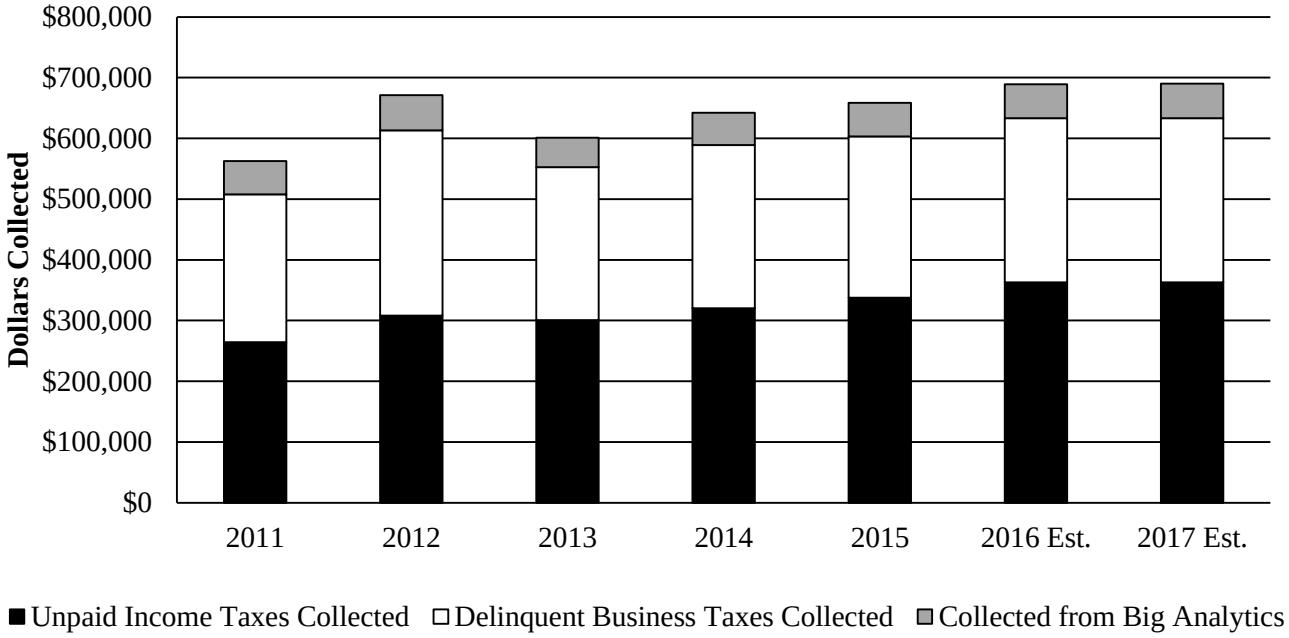
The Comptroller's Office currently works with one primary and two subcontractors to develop new models and programs that generate extra revenue for the State. These models use the Comptroller's Data Warehouse to locate individuals who are either not filing or underreporting their tax obligations in Maryland. There are currently four analytic models being implemented in fiscal 2015 which are:

- Miscellaneous Fraud (Enhancements);
- Collections Model (Enhancement);
- Census Model (Large Enhancement); and
- Sales and Use Tax Audit Selection.

The dollars collected from unpaid income tax cases has continued to increase from $300 million in fiscal 2013 to $338 million in fiscal 2015. The amount of tax collection revenue from delinquent businesses has fluctuated annually from fiscal 2011 to 2015, with revenues of almost $266 million in

fiscal 2015. The new data systems and their analytical models have resulted in between $48 million and $57 million in additional tax revenue with $55 million in revenue for fiscal 2015, as shown in **Exhibit 3.**

Exhibit 3
Tax Dollars Collected
Fiscal 2011-2017 Est.
($ in Thousands)



ITS: Integrated Tax System

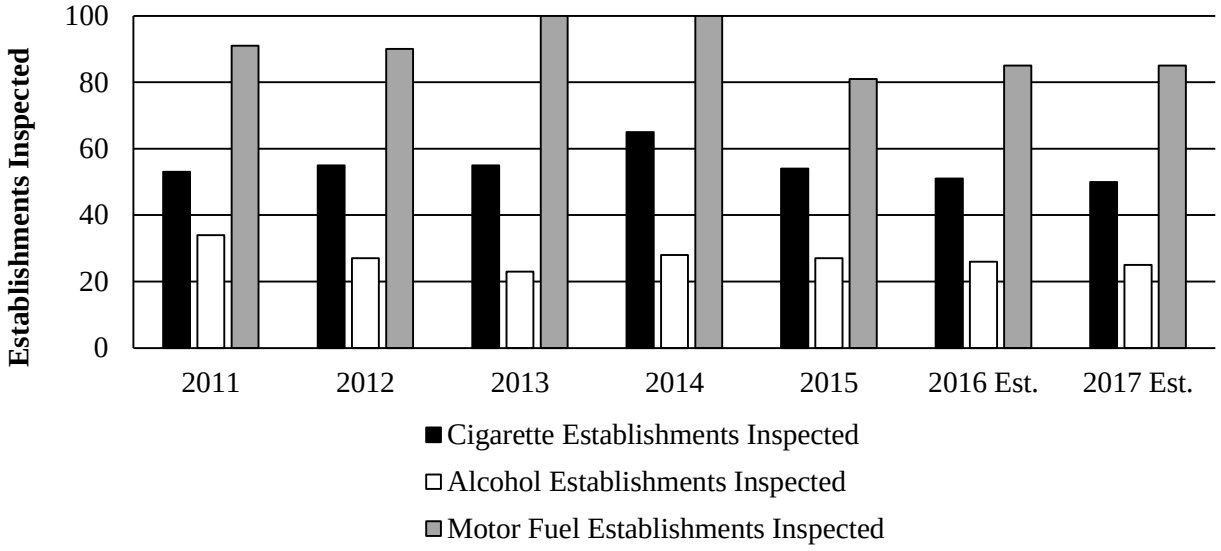
Source: Department of Budget and Management

3. Cigarette, Alcohol, and Motor Fuel Enforcement

The Comptroller's Office is responsible for inspecting licensed cigarette, alcohol, and motor fuel retailers. **Exhibit 4** shows that the percent of inspections for licensed retailers of all types decreased in fiscal 2015. This was attributed to two vacancies in the Field Inspection Unit. In fiscal 2016 and 2017, cigarette and alcohol inspections are both projected to decrease with motor fuel inspections increasing slightly. Because of the vacancies, the division seeks to more strategically align the number of inspections for each unit with the industry standard. In field enforcement, the goal is to inspect 50% of the tobacco distributors, 25% of the alcohol distributors, and 75% of motor fuel distributors annually. The decrease in inspections for tobacco and alcohol vendors is to ensure that

there are enough resources to inspect motor fuel vendors at the appropriate level, as well as any vendors not on the original inspection list against whom complaints have been received.

Exhibit 4
Tax Law Enforcement
Fiscal 2011-2017 Est.



Source: Department of Budget and Management; Comptroller of Maryland

Fiscal 2016 Actions

Proposed Deficiency

There is a fiscal 2016 deficiency of $700,000 in special funds for the Compliance Division of the Comptroller's Office for legal fees associated with the Attorney General's defense of the U.S. Supreme Court case of *Comptroller v. Wynne.*

Cost Containment

The Administration's fiscal 2016 cost containment strategy includes a 2% across-the-board reduction in general funds. The 2016 cost containment reduction for the Comptroller is $1,745,000 which includes:

- $59,000 in employee training;
- $338,000 in travel costs;
- $563,000 for software and computers;
- $125,000 in lockbox services because of enhanced tax form layout reducing necessity of services;
- $25,000 for carpet cleaning; and
- $635,046 in data warehouse operations initiatives.

Proposed Budget

As seen in **Exhibit 5**, after adjusting for the fiscal 2016 deficiency and a back of the bill reduction for health insurance, the fiscal 2017 allowance increases $15.4 million, or 11.8%, from the current working appropriation. There is a $6.9 million increase in general funds, or 8.1%, and an $8.4 million increase in special funds, or 35%. The Integrated Tax System (ITS), personnel, and ADC costs contribute significantly to the overall increase.

Exhibit 5
Proposed Budget
Comptroller of Maryland
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$82,076	$21,576	$17,561	$121,213
Fiscal 2016 Working Appropriation	85,192	24,060	21,716	130,968
Fiscal 2017 Allowance	92,088	32,470	21,849	146,407
Fiscal 2016-2017 Amount Change	$6,897	$8,410	$132	$15,439
Fiscal 2016-2017 Percent Change	8.1%	35.0%	0.6%	11.8%

Where It Goes:

Personnel Expenses	
Employee and retiree health insurance	$2,034
Employee retirement contributions	1,704
Turnover adjustment	443
Other fringe benefit adjustments	71
Regular earnings	-386
Annapolis Data Center (ADC) Mainframe	
Costs for mainframe use statewide	2,293
ADC software licensing for new mainframe	1,183
ADC software transfer and installation	483
ADC mainframe lease	334
ADC backup generator	60
ADC disaster recovery mainframe site	-24
ADC mainframe	-140
ADC mainframe storage components	-161
Other Information Technology (IT) Changes	
Integrated Tax System	6,135
Cybersecurity contracts	850
Software and system maintenance for the agency	450
SQL server encryption upgrade	366
Teradata data warehouse maintenance	164
Personal computer software	148
Teradata database management contract	104
IT staff training	45
Tax Collection System software (one-time expense)	-830
Other Changes	
Tax prep employees	346
Vehicles and travel	271
Contractual employees	269
Statewide assigned costs	150
Employee fingerprinting	67
Motor fuel testing lab equipment	51
LiveScan finger printing equipment	45
Carpet replacement	33
Executive direction changes	21

Where It Goes:

Law books for field enforcement	-25
Office supplies	-30
Tax form translation, record storage, and other contractual services	-34
Cigarette tax revenue stamp	-50
Print shop	-82
Communications	-122
Unclaimed property newspaper advertising	-157
Expenses associated with the U.S. Supreme Court case of *Comptroller v. Wynne*	-700
Miscellaneous other charges	60
Total	**$15,439**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

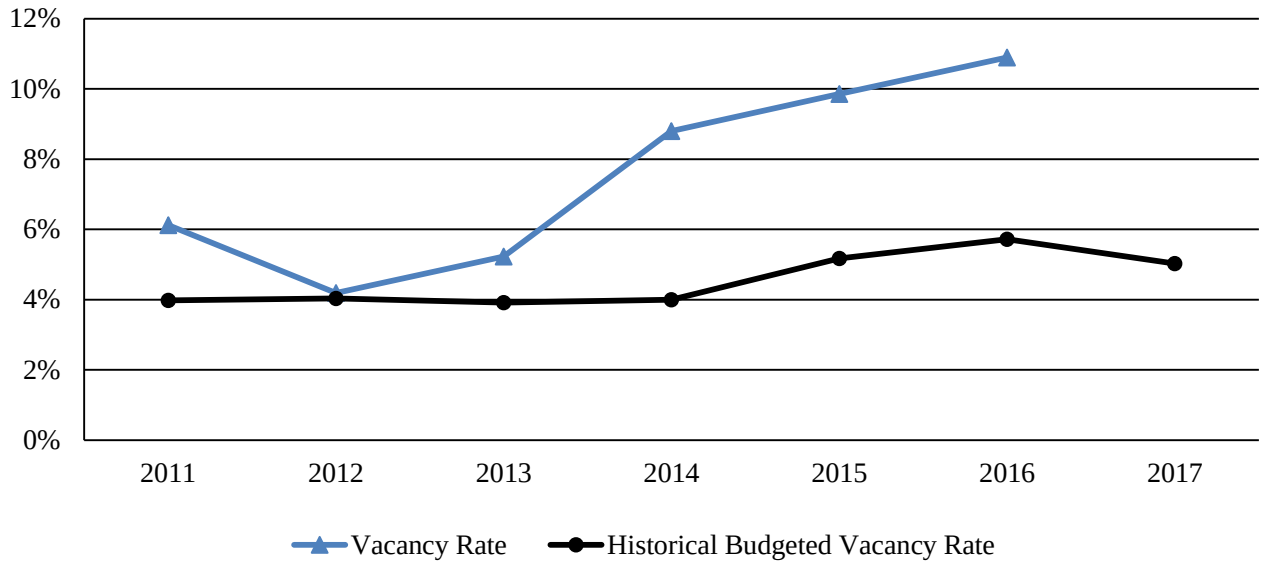
The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $232,043 in general funds, and $45,148 in special funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Personnel and Turnover

Regular salaries decrease by $386,000 because there was a significant number of retirees in fiscal 2016. As a result, positions were returned to base salary levels.

Under current statewide budget practices, the full amount of funding for each authorized position is funded in the budget regardless of whether or not the positions will be filled or vacant. In order to more accurately display real time costs for an agency, there has historically been a turnover expectancy in the form of a negative adjustment. As shown in **Exhibit 6**, between fiscal 2011 and 2013 the vacancy rate was 4% to 6%, higher than the budgeted vacancy rate or turnover. Since that time, vacancy rates have increased sharply, and turnover rates have increased less dramatically. Higher vacancy rates did not appear to impact performance until the 2015 tax season. The fiscal 2017 budget does provide some turnover relief. **The Comptroller should outline what issues are preventing hiring into regular positions and how the office intends to overcome them in fiscal 2017.**

Exhibit 6
Historical Budgeted and Actual Vacancy Rates
Fiscal 2011-2017



Note: Fiscal 2016 vacancy rate is as of December 31, 2015.

Source: Department of Legislative Services

ADC Mainframe

ADC has added a larger mainframe computer which has several expenses including $334,000 for the lease of the new mainframe, $483,000 for software installation, $1.2 million for software licensing, and $2.3 million for the costs of mainframe usage statewide. There are also decreases of $140,000 and $161,000 for the previous mainframe and storage components.

Other IT Changes

There is a $6.1 million increase for the ITS which will replace the agency's State of Maryland Tax System, the Computer Assisted Collection System, and other outdated tax processing systems. More detail is found in **Appendix 3**. In general, the new system will be designed to increase responsiveness to taxpayers, process returns more efficiently, and integrate with a more robust data warehouse to continue and expand revenue generating options.

There is an $850,000 increase for cybersecurity contracts and $366,000 for a SQL server encryption upgrade. There is an increased need for cybersecurity to protect the personal information

of Maryland taxpayers. There is also an $830,000 decrease related to tax collection system software purchased in fiscal 2016.

Other Changes

Other changes include a $346,000 increase for temporary tax preparers during the tax season. This increase is to ensure that the department is able to provide an adequate level of customer service. There is a $271,000 increase for vehicles and travel for the tax auditors and field enforcement investigators. There is also an increase of $269,000 for contractual employees which are largely retired employees working part time to transfer their institutional knowledge within the agency. The increase of contractual costs is because of health insurance and because the fiscal 2016 contractual costs were understated. There is a decrease of $122,000 in communications and $157,000 for the unclaimed property newspaper advertising because of a renegotiated contract with the vendor.

Issues

1. Montgomery County/Chevy Chase Tax Revenue

The Office of the Comptroller is responsible for collecting all of the tax revenue for the State of Maryland and distributing the proper taxes to counties and local municipalities. Within each county, there may be a separate distribution to the county, local municipalities, and any unincorporated area. In most counties, the lines drawn between each jurisdiction are based specifically on zip codes. In Montgomery County this is not the case and the Comptroller's Office misallocated approximately $6 million in revenue due to Montgomery County to the Town of Chevy Chase. The Town of Chevy Chase alerted the Comptroller's Office to the potential error. As a result of the misallocation of tax dollars, the Comptroller's Office hired SB & Company to conduct a third-party audit to determine if this is a historical mistake and the dollar amount that Montgomery County would be entitled to as a result. In addition, SB & Company is currently assessing the prevalence of such errors in other counties, with particular interest in Allegany County as they also have township lines that are not strictly determined by zip code. There is proposed legislation (SB 766) which requires the Comptroller to pay a municipality that has been underpaid and outlines terms by which an overpaid municipality should return the funds. Currently, any jurisdiction that has been underpaid will be made whole in the next income tax distribution. Any jurisdiction that has been over allocated will begin interest-free repayment in fiscal 2018 to be paid over 10 years. **The Department of Legislative Services (DLS) recommends that the Comptroller comment on the misallocation of funds between Montgomery County and Chevy Chase.**

2. *Comptroller v. Wynne* Decision

Comptroller v. Wynne is a Supreme Court case in which Brian Wynne argued that Maryland's personal income tax scheme violated the dormant Commerce Clause. The dormant Commerce Clause prohibits a state from passing laws that discriminate against interstate commerce. Maryland's personal income tax on State residents consists of a State income tax and a local income tax for each county and Baltimore City. Residents who pay income tax to another state were allowed a credit against the State income tax, but not against the local income tax. The Supreme Court determined that this taxing was unconstitutional because it discriminated in favor of intrastate over interstate economic activity.

The decision made in this case affects any Maryland citizens that have earned income in a different state. As a result of the decision, the Comptroller has created the new 502LC to assist taxpayers in calculating their potential credit owed and the Comptroller will accept amended returns for up to three years from the time the return was filed. In addition, any interest eligible refunds have an interest rate of 3% in accordance with the Budget Reconciliation and Financing Act (BRFA) of 2014. The BRFA of 2015 included a provision that requires the Comptroller to pay interest and refunds from the Local Income Tax Reserve Account to taxpayers affected by the case. If a local government does not reimburse the account in a timely manner, the Comptroller must withhold the affected local government's quarterly income tax distribution in nine equal installments beginning in the first quarter of fiscal 2017.

The Comptroller's Office estimates that local government income tax revenues will decrease by about $43 million annually beginning in fiscal 2016 in addition to an estimated $201.6 million in potential refunds and interest for prior tax years dating back to the 2006 tax year with the largest annual impact being in Montgomery and Baltimore counties. **DLS recommends that the agency comment on the effects of the *Comptroller v. Wynne* ruling, the use of the Local Income Tax Reserve Account, and any plans for local repayment.**

Recommended Actions

1. Add the following language:

   Provided that $200,000 of this general fund appropriation made for the purpose of Travel and Motor Vehicles may not be used for the purpose but instead may only be used to provide turnover relief in order to improve customer service outcomes for the office. Funds not used for this restricted purpose may not be transferred, by budget amendment or otherwise, to any other purpose and shall revert back to the General Fund. The Comptroller shall submit a report to the budget committees by October 1, 2016, detailing how funds will be spent and how it will result in improved customer service.

   Explanation: The language restricts $200,000 allocated for motor vehicles and travel to be restricted to specifically address the decline in customer service that the agency has experienced.

Information Request	**Author**	**Due Date**
Report on how to improve customer service	Comptroller	October 1, 2016

Updates

1. Revenue Administration

The Office of Legislative Audits (OLA) conducted an audit for RAD of the Office of the Comptroller in August 2013 which outlined four repeat audit findings (Findings 4, 6, 9, and 10) with five recommendations for resolving these findings.

- **Finding 4:** Procedures were not in place to ensure that taxpayers reported valid Social Security numbers for dependents claimed on their individual income tax returns.

- **Finding 6:** Accountability and verification procedures for refund checks need to be improved.

- **Finding 9:** Sensitive, personally identifiable information was unnecessarily stored in plain text on a publically accessible iFile web server; and controls over the security of sensitive taxpayer information in various systems need improvement.

- **Finding 10:** Deposit verification procedures for certain collections were not sufficient.

In March 2015, a letter from OLA concluded that only two of the four repeat findings (findings 4 and 9) had been resolved with the other two (findings 6 and 10) still subject to review in the upcoming year. As a result, the fiscal 2016 budget bill withheld $200,000 in administrative funds until RAD took corrective action on all unresolved repeat audit findings. The budget language further provided that OLA submit a report to the budget committees listing each unresolved repeat audit finding, along with the determination that each finding was corrected.

In accordance with the April 2015 *Joint Chairmen's Report* (JCR) requirement, OLA provided a report dated October 14, 2015, detailing the corrective actions that were taken with respect to the two unresolved repeat findings. OLA had conducted a review to confirm that RAD had taken the necessary corrective action which concluded that the JCR requirement had been satisfactorily addressed in such a way that currently withheld funds should be released. In November 2015, the funds were released by the General Assembly.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Comptroller of Maryland
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$83,739	$19,815	$0	$19,926	$123,481
Deficiency Appropriation	61	1,000	0	0	1,061
Cost Containment	-2,103	0	0	0	-2,103
Budget Amendments	560	833	0	0	1,393
Reversions and Cancellations	-181	-72	0	-2,366	-2,619
Actual Expenditures	**$82,076**	**$21,576**	**$0**	**$17,561**	**$121,213**
Fiscal 2016					
Legislative Appropriation	$84,174	$23,144	$0	$20,141	$127,459
Budget Amendments	1,018	216	0	1,575	2,809
Working Appropriation	**$85,192**	**$23,360**	**$0**	**$21,716**	**$130,268**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 legislative appropriation for the Comptroller decreased by $2,267,470. A deficiency appropriation of $60,923 increased general funds. Cost containment decreased general funds by $2,102,916. Budget amendments increased general funds by $560,497 largely due to funding for a cost-of-living adjustment (COLA). There was $181,449 in reverted general funds for vacant positions, travel, and contractual services.

The special fund appropriation increased by $1,761,152. A deficiency appropriation of $1,000,000 increased special funds. Budget amendments increased special funds by $832,807 including $188,666 for a COLA and $175,775 for the additional costs associated with the delayed new processing center for the International Fuel Tax Agreement states. States that are aligned with this agreement have a processing center currently located in New York state but are in the process of being relocated to the Commonwealth of Kentucky. There was also an increase of $475,000 to pay for the auditing of revenues associated with unclaimed funds collected in the State of Maryland. The amount of unclaimed funds exceeded expectation. There was an increase of $72,366 in special funds for the legal fees associated with the defense of the *Comptroller v. Wynne*. Brian Wynne argued that Maryland taxpayers should be allowed a credit against payment of the local tax in the amount equal to the local taxes paid in other states. There was a special fund cancellation of $71,655 for salaries.

The reimbursable fund appropriation decreased by $2,365,677. There was a reimbursable fund cancellation of $2,365,677 including $2,018,969 for a postponed upgrade to the ADC software and $75,698 for postage and contractual services.

Fiscal 2016

To date, the 2016 legislative appropriation has increased by $2,808,815. General funds increased by $1,018,000 for the restoration of the 2% pay cut.

Similarly, the special fund appropriation increased by $216,000 for the restoration of the 2% pay cut.

The reimbursable fund appropriation increased by $1,574,815 through budget amendment with $1,440,000 for the ITS and $134,815 for cellular phones, radios, and other electronic equipment.

Appendix 2

Audit Findings

Annapolis Data Center Operations

Audit Period for Last Audit:	December 31, 2009 – June 2, 2014
Issue Date:	March 2015
Number of Findings:	3
Number of Repeat Findings:	2
% of Repeat Findings:	66 %
Rating: (if applicable)	n/a

Finding 1: **Mainframe security software access and monitoring controls were not sufficient.**

Finding 2: **Contractors had unnecessary network-level access to the Comptroller's network.**

Finding 3: Controls over the Comptroller's Data Loss Prevention System need improvement.

*Bold denotes item repeated in full or part from preceding audit report.

Central Payroll Bureau

Audit Period for Last Audit:	October 18, 2011 – March 17, 2015
Issue Date:	September 2015
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

The audit did not disclose any findings.

Bureau of Revenue Estimates

Audit Period for Last Audit:	October 6, 2011 – March 3, 2015
Issue Date:	August 2015
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	0 %
Rating: (if applicable)	n/a

The audit did not disclose any findings.

Major Information Technology Projects

Comptroller of Maryland
Integrated Tax System

Project Status[1]	Planning.	**New/Ongoing Project:**	Ongoing.
Project Description:	The Integrated Tax System (ITS) project will replace the agency's Automated Record Tracking system, Computer Assisted Collection System, and other outdated tax processing systems, and integrate with a robust data warehouse to both continue and expand revenue generating projects and provide enhanced reporting functionality.		
Project Business Goals:	Goals for the taxpayer would be increased responsiveness, reduced wait times, more efficient refund processing, enhanced account visibility via web access, and uniformity of function across tax types for business taxpayers. Internally ITS will improve employee productivity, improve back-office workflows for all processes, provide a more user-friendly interface, greater level of security and comprehensive audit trails, and a more dynamic and agile system for the future.		
Estimated Total Project Cost[1]:	$110.0 million	**Estimated Planning Project Cost[1]:**	$2.5 million
Project Start Date:	January 2014.	**Projected Completion Date:**	Fiscal 2019.
Schedule Status:	Project is in the initial systems development lifecycle phase of the project planning request. A contract was awarded in August 2015 and shortly thereafter, the project manager accepted another position. Currently, requirements are in progress for another project manager to join the project.		
Cost Status:	There was $2.5 million in fiscal 2016 with $22.0 million in the fiscal 2017 allowance. There are minimal schedule delays anticipated due to another project manager support person in progress but the anticipated costs are expected to remain the same.		
Scope Status:	As the project is just being initiated, the full scope of the project is unknown.		
Project Management Oversight Status:	There will be a project manager assigned in spring 2017.		
Identifiable Risks:	There are four high-risk factors for the ITS. The first is sufficient funding is critical as the project is estimated to cost a total of $110.0 million. The second high-risk factor is the interdependencies with other systems as it has to be compatible with the Comptroller's data warehouse and imaging applications. Third, the organizational culture could be resistant to the change. Management will have to closely monitor employee reactions and utilize an active Cultural Change management program. Lastly, technical personnel will have to be shifted from mainframe technology support to the new technology and training and contractor support will be critical to ensure smooth implementation.		
Additional Comments:	None.		

Fiscal Year Funding ($ in Thousands)	Prior Years	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Balance to Complete	Total
Personnel Services	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Professional and Outside Services	2,500.0	22,000.0	22,000.0	22,000.0	41,500.0	0.0	63,500.0	110,000.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	**$2,500.0**	**$22,000.0**	**$22,000.0**	**$22,000.0**	**$41,500.0**	**$0.0**	**$63,500.0**	**$110,000.0**

[1] Initially, an agency submits a Project Planning Request. After the requirements analysis has been completed and a project has completed all of the planning required through Phase Four of the Systems Development Lifecycle (Requirements Analysis), including a baseline budget and schedule, the agency may submit a Project Implementation Request and begin designing and developing the project when the request is approved. For planning projects, costs are estimated through planning phases. Implementation projects are required to have total development costs.

Object/Fund Difference Report
Comptroller of Maryland

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	1,123.00	1,120.90	1,120.90	0.00	0%
02 Contractual	27.10	27.10	26.60	-0.50	-1.8%
Total Positions	**1,150.10**	**1,148.00**	**1,147.50**	**-0.50**	**0%**
Objects					
01 Salaries and Wages	$ 80,948,400	$ 84,915,587	$ 89,058,427	$ 4,142,840	4.9%
02 Technical and Spec. Fees	1,433,487	1,109,024	1,381,317	272,293	24.6%
03 Communication	7,867,401	8,327,952	8,212,861	-115,091	-1.4%
04 Travel	334,152	264,045	404,567	140,522	53.2%
06 Fuel and Utilities	54,714	64,215	56,356	-7,859	-12.2%
07 Motor Vehicles	276,097	374,278	519,362	145,084	38.8%
08 Contractual Services	25,787,190	30,534,918	41,700,144	11,165,226	36.6%
09 Supplies and Materials	2,171,073	2,218,494	2,270,193	51,699	2.3%
10 Equipment – Replacement	421,782	446,323	1,177,925	731,602	163.9%
11 Equipment – Additional	311,729	311,700	133,100	-178,600	-57.3%
12 Grants, Subsidies, and Contributions	35,000	35,000	35,000	0	0%
13 Fixed Charges	1,498,256	1,665,630	1,696,457	30,827	1.9%
14 Land and Structures	73,932	500	38,500	38,000	7600.0%
Total Objects	**$ 121,213,213**	**$ 130,267,666**	**$ 146,684,209**	**$ 16,416,543**	**12.6%**
Funds					
01 General Fund	$ 82,076,211	$ 85,191,600	$ 92,320,509	$ 7,128,909	8.4%
03 Special Fund	21,576,432	23,359,924	32,515,150	9,155,226	39.2%
09 Reimbursable Fund	17,560,570	21,716,142	21,848,550	132,408	0.6%
Total Funds	**$ 121,213,213**	**$ 130,267,666**	**$ 146,684,209**	**$ 16,416,543**	**12.6%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Comptroller of Maryland

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Office of the Comptroller	$ 10,420,290	$ 10,895,644	$ 11,356,192	$ 460,548	4.2%
02 General Accounting Division	5,285,744	5,530,110	5,721,835	191,725	3.5%
03 Bureau of Revenue Estimates	1,011,867	895,044	1,602,247	707,203	79.0%
04 Revenue Administration Division	31,155,982	34,785,639	41,980,569	7,194,930	20.7%
05 Compliance Division	33,561,685	35,835,411	36,102,128	266,717	0.7%
06 Field Enforcement Division	5,300,724	5,384,425	6,839,909	1,455,484	27.0%
09 Central Payroll Bureau	2,662,474	2,821,376	2,901,568	80,192	2.8%
10 Information Technology Division	31,814,447	34,120,017	40,179,761	6,059,744	17.8%
Total Expenditures	**$ 121,213,213**	**$ 130,267,666**	**$ 146,684,209**	**$ 16,416,543**	**12.6%**
General Fund	$ 82,076,211	$ 85,191,600	$ 92,320,509	$ 7,128,909	8.4%
Special Fund	21,576,432	23,359,924	32,515,150	9,155,226	39.2%
Total Appropriations	**$ 103,652,643**	**$ 108,551,524**	**$ 124,835,659**	**$ 16,284,135**	**15.0%**
Reimbursable Fund	$ 17,560,570	$ 21,716,142	$ 21,848,550	$ 132,408	0.6%
Total Funds	**$ 121,213,213**	**$ 130,267,666**	**$ 146,684,209**	**$ 16,416,543**	**12.6%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

E20B
State Treasurer

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$4,799	$5,039	$5,115	$76	1.5%
Deficiencies and Reductions	0	0	-7	-7	
Adjusted General Fund	**$4,799**	**$5,039**	**$5,108**	**$69**	**1.4%**
Special Fund	1,332	2,025	1,846	-179	-8.8%
Deficiencies and Reductions	0	0	-1	-1	
Adjusted Special Fund	**$1,332**	**$2,025**	**$1,845**	**-$180**	**-8.9%**
Reimbursable Fund	32,810	37,327	40,218	2,891	7.7%
Deficiencies and Reductions	0	0	0	0	
Adjusted Reimbursable Fund	**$32,810**	**$37,327**	**$40,218**	**$2,891**	**7.7%**
Adjusted Grand Total	**$38,940**	**$44,391**	**$47,171**	**$2,780**	**6.3%**

- The fiscal 2017 allowance increases by $2.8 million, or 6.3% after adjusting for a back of the bill reduction in health insurance. There is an increase of $69,000, 1.4%, in general funds. There is a decrease of $180,000, 8.9% in special funds. Reimbursable funds increase by $2.9 million, 7.7%, because of insurance coverage.

Note: Numbers may not sum to total due to rounding.

For further information contact: Sierra S. Boney Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	59.00	60.00	60.00	0.00
Contractual FTEs	1.00	0.00	0.00	0.00
Total Personnel	**60.00**	**60.00**	**60.00**	**0.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		4.33	7.22%	
Positions and Percentage Vacant as of 12/31/15		6.00	10.00%	

- The number of regular employees and contractual positions remains unchanged between the current year and the fiscal 2017 allowance.

Analysis in Brief

Major Trends

Bank Accounts Are Reconciled in a Timely Manner: The average number of days to reconcile accounts has dropped to under three days, even as the total receipts and disbursements have increased.

Investment Earnings Are Maximized: The economic downturn has reduced the rate of return on investments, but the State's return has continued to be greater than the 90-day U.S. Treasury Bill rate.

Insurance Claims Processed: In fiscal 2015, the State Treasurer's Office saw a decrease in the number of new claims processed and an increase of claims closed.

Recommended Actions

1. Concur with Governor's allowance.

E20B
State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. In this capacity, the Treasurer selects and manages the depository facilities for State funds, issues or authorizes agents to issue payments of State funds, invests excess funds, safeguards all State securities and investments, and provides insurance protection against sudden and unanticipated damage to State property or liability of State employees. The State Treasurer plans, prepares, and advertises State of Maryland general obligation (GO) bond issues and, through the Capital Debt Affordability Committee (CDAC), reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis. CDAC annually reviews the total amount of State debt that prudently may be authorized for the next fiscal year.

The key goals of the State Treasurer's Office (STO) are to:

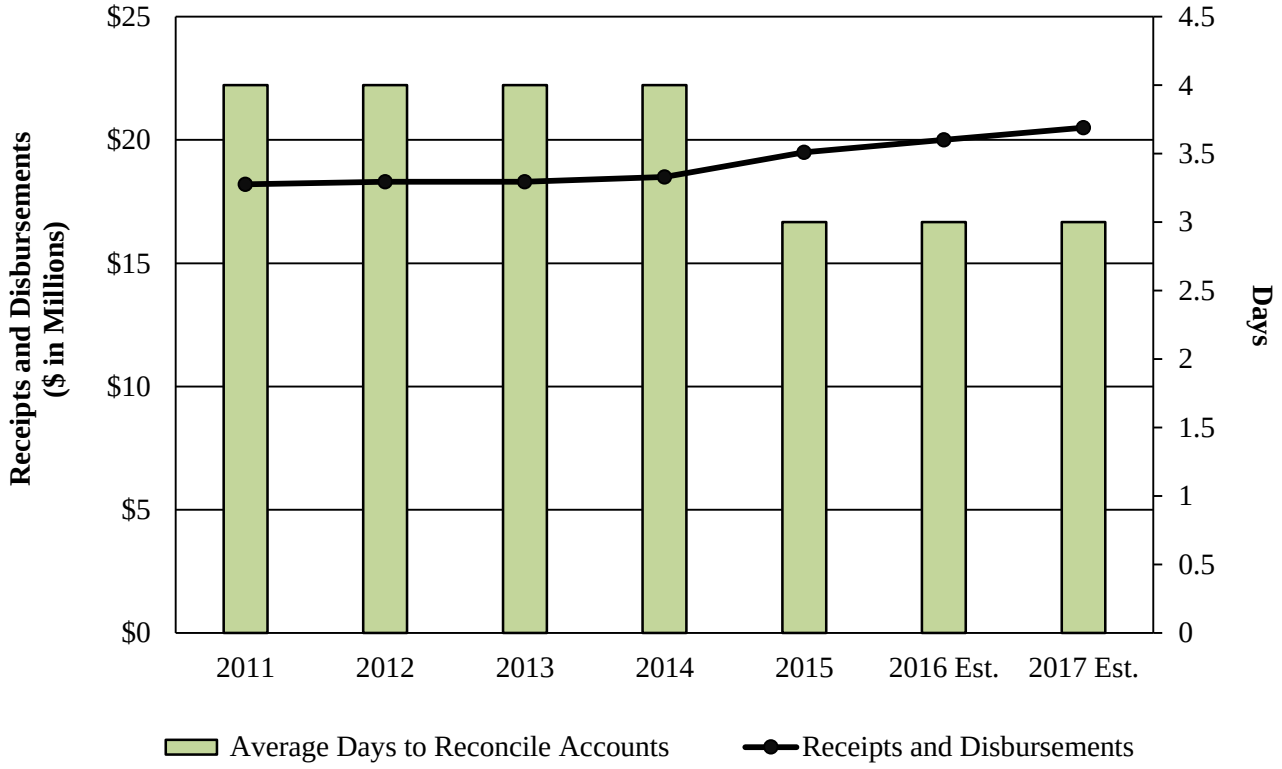
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State's surplus funds in accordance with State law;
- maintain and enhance the information technology capability and infrastructure to meet the diverse needs of STO and the agencies it serves; and
- process all agency and third-party claims submitted to the Insurance Division.

Performance Analysis: Managing for Results

1. Bank Accounts Are Reconciled in a Timely Manner

As shown in **Exhibit 1**, receipts and disbursements have increased from $18.5 million in fiscal 2014 to $19.5 million in fiscal 2015 with projections showing that number continuing to increase. However, even with receipts and disbursements increasing, the number of days that it takes to reconcile accounts has decreased from less than four days in fiscal 2014 to less than three days in fiscal 2015 with this trend expected to continue.

Exhibit 1
Number of Receipts and Disbursements and Average Number of Days to Reconcile
Fiscal 2011-2017 Est.

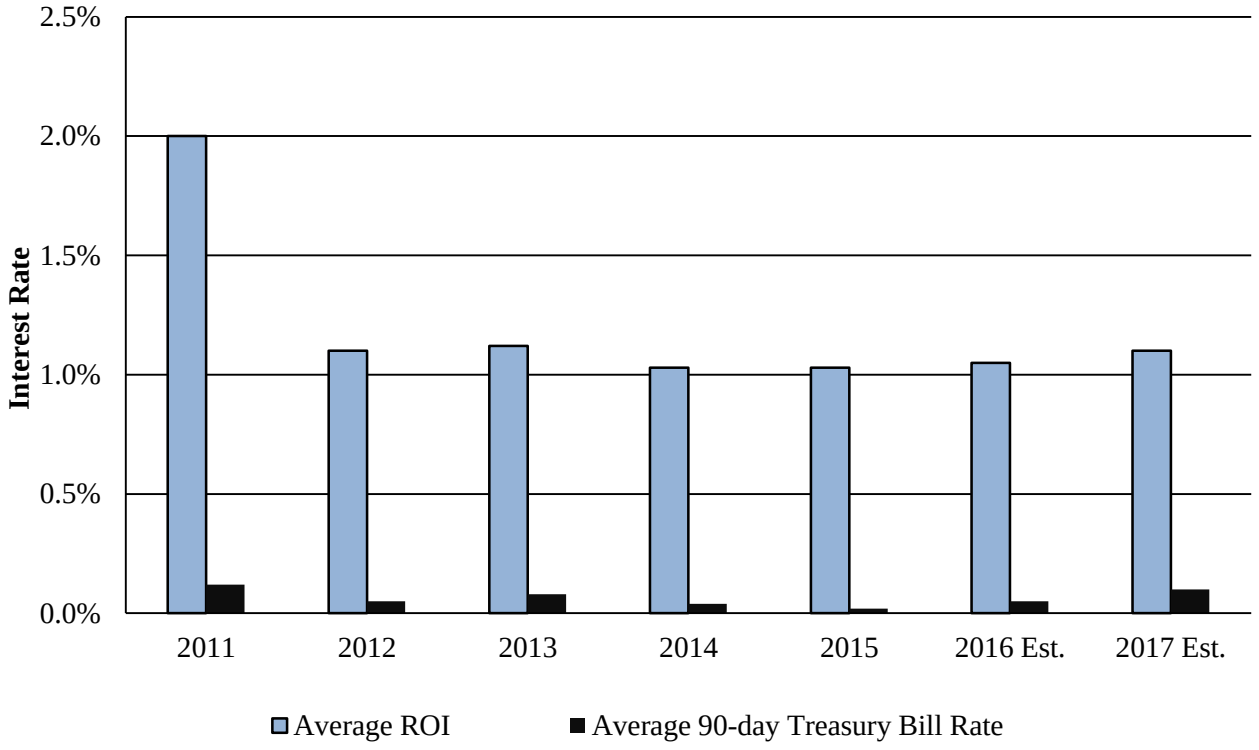


Source: Department of Budget and Management

2. Investment Earnings Are Maximized

STO is responsible for maximizing the investment earnings for the State's surplus funds. There are limitations by statute on the types of investments that the office may make. **Exhibit 2** compares the rate of return on the State's investment portfolio to the average 90-day U.S. Treasury Bill rate. The rate of return for the State has decreased from 2.0% in fiscal 2011 to 1.03% in fiscal 2014 and 2015. The average return on investment for the State still exceeded the average 90-day U.S. Treasury Bill rate, which is STO's goal.

Exhibit 2
Comparison of the State Treasurer's Office Investment Portfolio ROI
Fiscal 2011-2017 Est.



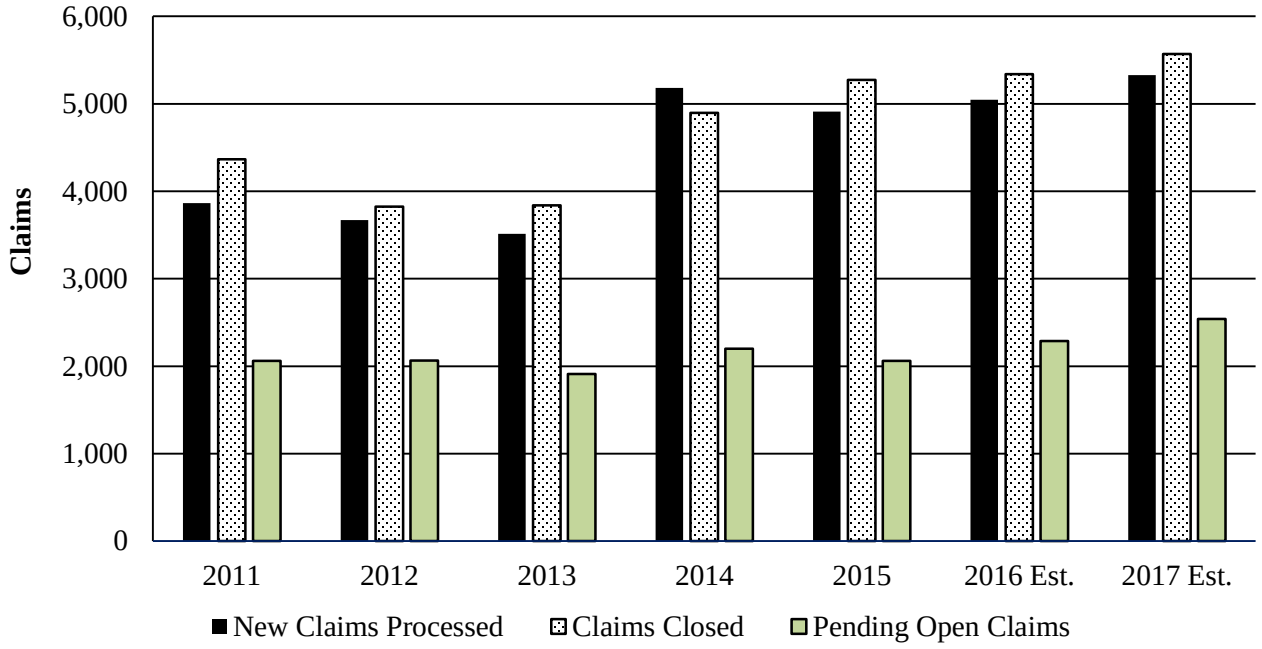
ROI: return on investment

Source: Department of Budget and Management

3. Insurance Claims Processed

STO is responsible for the cost effective administration of the State Insurance Program that includes self-insurance and procurement of commercial insurance to cover catastrophic property and liability issues and other potential claims against the State. **Exhibit 3** outlines the number of pending, processed, and closed insurance claims for each year from fiscal 2011 to 2015 and projections for fiscal 2016 and 2017. While there has been an increase in the number of new claims processed, the rate of claims closed has paralleled the number of new claims, indicating that claims are being processed in a timely manner. The number of pending open claims has also increased as the number of new claims increased but the increase is nominal in comparison to the number of claims closed.

Exhibit 3
Insurance Claims Processed, Closed, and Pending
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

Fiscal 2016 Actions

Cost Containment

The Administration's fiscal 2016 cost containment strategy includes a 2% across-the-board reduction in general funds. The 2016 cost containment reduction for STO was $105,000, which was derived from savings in administrative supplies and costs associated with the issuance of GO bonds.

Proposed Budget

As shown in **Exhibit 4**, after adjusting for a back of the bill reduction in health insurance, the fiscal 2017 allowance for STO is $2.8 million, 6.3% above the working appropriation. Personnel costs increased $225,000 because of higher health insurance and retirement costs and the annualization of costs associated with the addition of a new assistant Attorney General in the middle of fiscal 2016 to

handle tort litigations. Insurance coverage increases the fiscal 2017 allowance by $2.7 million, which is the estimated State Insurance Trust Fund (SITF) payouts on behalf of State agencies. Agencies are assessed an annual premium based on a collection of strategic assumptions to ensure that funding in the SITF is at actuarially recommended levels. There was also a $200,000 decrease in costs associated with bond issuance (rating agency costs, *etc.*).

Exhibit 4
Proposed Budget
State Treasurer
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$4,799	$1,332	$32,810	$38,940
Fiscal 2016 Working Appropriation	5,039	2,025	37,327	44,391
Fiscal 2017 Allowance	5,108	1,845	40,218	47,171
Fiscal 2016-2017 Amount Change	$69	-$180	$2,891	$2,780
Fiscal 2016-2017 Percent Change	1.4%	-8.9%	7.7%	6.3%

Where It Goes:	
Personnel Expenses	
Salaries and other compensation	$140
Employees' retirement system	96
Employee and retiree health insurance	73
Other fringe benefits	-2
Turnover adjustments	-82
Other Changes	
Insurance Coverage to the State Treasurer's Office	2,672
Laser check printer capital lease payment	55
Check printing	17
Costs associated with bond issuance	-200
Other	11
Total	**$2,780**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $6,997 in general funds, and $756 in special funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
State Treasurer
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$5,129	$1,924	$0	$37,095	$44,147
Deficiency Appropriation	98	0	0	0	98
Cost Containment	-254	0	0	0	-254
Budget Amendments	17	3	0	0	20
Reversions and Cancellations	-191	-594	0	-4,285	-5,070
Actual Expenditures	**$4,799**	**$1,332**	**$0**	**$32,810**	**$38,940**
Fiscal 2016					
Legislative Appropriation	$4,997	$2,021	$0	$37,327	$44,345
Budget Amendments	42	4	0	0	46
Working Appropriation	**$5,039**	**$2,025**	**$0**	**$37,327**	**$44,391**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The 2015 legislative appropriation for STO decreased by $5.2 million. A deficiency appropriation increased general funds by $97,503 to fund an additional regular position. Cost containment decreased general funds by $253,908. Budget amendments increased general funds by $17,471 for a cost-of-living adjustment (COLA) and telecommunications. There was $191,032 in reverted general funds from unfilled regular positions and unspent bank fees.

The special fund appropriation decreased by $591,618. A budget amendment increased special funds by $2,721 for a COLA. There was $594,339 in canceled special funds with $78,637 for investment reconciliation software and $515,702 for cost issuance associated with variable rate debt issuance.

The reimbursable fund appropriation decreased by $4,285,058 through cancellations.

Fiscal 2016

To date, the 2016 legislative appropriation for STO has increased by $46,000 including $42,000 in general funds and $4,000 in special funds to restore the 2% pay cut.

Object/Fund Difference Report
State Treasurer

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	59.00	60.00	60.00	0.00	0%
02 Contractual	1.00	0.00	0.00	0.00	0.0%
Total Positions	**60.00**	**60.00**	**60.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 5,163,111	$ 5,826,574	$ 6,059,188	$ 232,614	4.0%
02 Technical and Spec. Fees	29,917	2,650	1,650	-1,000	-37.7%
03 Communication	81,117	77,492	78,312	820	1.1%
04 Travel	28,766	11,200	13,250	2,050	18.3%
07 Motor Vehicles	1,992	4,570	4,580	10	0.2%
08 Contractual Services	4,051,564	5,054,903	4,860,967	-193,936	-3.8%
09 Supplies and Materials	156,711	143,593	160,497	16,904	11.8%
10 Equipment – Replacement	102,502	0	57,837	57,837	N/A
11 Equipment – Additional	71,972	0	0	0	0.0%
13 Fixed Charges	29,252,417	33,269,673	35,942,007	2,672,334	8.0%
Total Objects	**$ 38,940,069**	**$ 44,390,655**	**$ 47,178,288**	**$ 2,787,633**	**6.3%**
Funds					
01 General Fund	$ 4,798,643	$ 5,039,345	$ 5,115,000	$ 75,655	1.5%
03 Special Fund	1,331,923	2,024,618	1,845,511	-179,107	-8.8%
09 Reimbursable Fund	32,809,503	37,326,692	40,217,777	2,891,085	7.7%
Total Funds	**$ 38,940,069**	**$ 44,390,655**	**$ 47,178,288**	**$ 2,787,633**	**6.3%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
State Treasurer

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Treasury Management	$ 6,147,989	$ 6,744,930	$ 6,861,256	$ 116,326	1.7%
01 Insurance Management	2,755,797	3,023,236	3,221,330	198,094	6.6%
02 Insurance Coverage	29,212,010	33,240,385	35,912,202	2,671,817	8.0%
01 Bond Sale Expenses	824,273	1,382,104	1,183,500	-198,604	-14.4%
Total Expenditures	**$ 38,940,069**	**$ 44,390,655**	**$ 47,178,288**	**$ 2,787,633**	**6.3%**
General Fund	$ 4,798,643	$ 5,039,345	$ 5,115,000	$ 75,655	1.5%
Special Fund	1,331,923	2,024,618	1,845,511	-179,107	-8.8%
Total Appropriations	**$ 6,130,566**	**$ 7,063,963**	**$ 6,960,511**	**-$ 103,452**	**-1.5%**
Reimbursable Fund	$ 32,809,503	$ 37,326,692	$ 40,217,777	$ 2,891,085	7.7%
Total Funds	**$ 38,940,069**	**$ 44,390,655**	**$ 47,178,288**	**$ 2,787,633**	**6.3%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

E50C
State Department of Assessments and Taxation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$101,839	$107,826	$113,671	$5,845	5.4%
Deficiencies and Reductions	0	0	-87	-87	
Adjusted General Fund	**$101,839**	**$107,826**	**$113,585**	**$5,759**	**5.3%**
Special Fund	28,291	28,931	29,608	678	2.3%
Deficiencies and Reductions	0	101	-94	-196	
Adjusted Special Fund	**$28,291**	**$29,032**	**$29,514**	**$482**	**1.7%**
Adjusted Grand Total	**$130,130**	**$136,858**	**$143,099**	**$6,241**	**4.6%**

- The fiscal 2016 working appropriation includes a deficiency appropriation of $101,202, all from special funds for employee benefits.

- The fiscal 2017 allowance is $143.1 million, an increase of $6.2 million over the fiscal 2016 working appropriation. This increase is attributable to an additional $4.3 million for tax credit payments and $2.2 million for a new initiative to use aerial imagery for property assessments.

Note: Numbers may not sum to total due to rounding.

For further information contact: Benjamin B. Wilhelm Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	607.30	615.30	615.30	0.00
Contractual FTEs	16.95	11.35	15.35	4.00
Total Personnel	**624.25**	**626.65**	**630.65**	**4.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	36.98	6.01%
Positions and Percentage Vacant as of 12/31/15	76.00	12.35%

- The fiscal 2017 allowance includes 615.3 regular positions, the same as the fiscal 2016 working appropriation, and 15.35 contractual full-time equivalents, 4.0 more than the fiscal 2016 working appropriation. This increase is attributable to the realignment of document scanning from an outside vendor to contractual employees.

- The budgeted turnover allowance for fiscal 2017 is 6.01%, which requires that approximately 37.0 positions be held vacant. As of January 1, 2016, there were 76.0 positions vacant, a rate of 12.35%.

Analysis in Brief

Major Trends

Assessment to Sales Ratio Improves after Two Years of Decreasing Accuracy: The performance of the State Department of Assessment and Taxation (SDAT) is measured based on the accuracy of the agency's assessments relative to actual sale prices. In fiscal 2015, the SDAT assessment-to-sales ratio increased from 90% to 93%, nearly reaching the lower bound of the agency's 95% to 105% target range. Additional measures for bias in assessments within geographic areas and by assessed value, both remained well within agency targets.

Utilization of Electronic Forms and Filings Continues to Grow: SDAT is beginning to move more filings, especially for businesses online. While SDAT continues to accept paper filings, early analysis shows that SDAT is succeeding in moving more activity to the Internet. It is too soon to evaluate the overall effectiveness of this effort, but the Department of Legislative Services (DLS) will continue to monitor the agency's efforts.

Issues

Use of Oblique Aerial Imagery for Property Tax Assessments Moves Forward: The SDAT fiscal 2017 budget allowance includes $2.2 million for a new oblique aerial imagery program for property tax assessments. SDAT conducted a pilot of the technology in fall 2014 and determined that it would improve the efficiency of its assessors and generate additional revenue without negatively impacting assessment accuracy. SB 115, which is currently before the General Assembly, would change the State's assessment statutes to allow SDAT to use aerial imagery. **DLS recommends that the agency comment on the benefits and reliability of oblique aerial imagery as an assessment tool and the effect that this program, if authorized, would have on the agency's ability to conduct timely property assessments.**

Recommended Actions

1. Add budget bill language making $2,200,000 of the appropriation contingent upon enactment of SB 115.

E50C
State Department of Assessments and Taxation

Operating Budget Analysis

Program Description

The State Department of Assessments and Taxation (SDAT) supervises the assessment of all property in the State. The department performs assessments on one-third of all real property and all personal property in the State every year and certifies to the local taxing authorities the assessment of every piece of property. The department also administers four tax credit programs: the Homeowners' Property Tax Credit Program, the Renters' Tax Credit Program, the Base Realignment and Closure (BRAC) Revitalization and Incentive Zone Tax Credit Program, and the Urban Enterprise Zone Tax Credit Program. The homeowners' and renters' programs provide property tax relief to all eligible homeowners and renters. The BRAC zone program provides tax-related financial incentives to local governments by providing State support for property tax increases on qualifying properties located in BRAC zones. The Urban Enterprise Zone Tax Credit program reimburses local governments for property tax credits given to businesses that are located in, or expand into, enterprise zones. The department collects public service franchise taxes and assesses all public utility companies in the State. It also serves as the filing place for businesses operating in the State. The department registers companies, corporations, and partnerships in Maryland and generates certificates and certified documents. The various forms that businesses must file with the department are available to the public for inspection.

The goals of the department are to provide a consistently accurate property valuation system; run efficient and effective programs for property tax relief and business services; and operate convenient and professional facilities.

Performance Analysis: Managing for Results

1. Assessment to Sales Ratio Improves after Two Years of Decreasing Accuracy

Property assessments are a sensitive and sometimes volatile issue for property owners. SDAT strives to provide accurate and fair assessments. SDAT measures appraisal accuracy as the degree to which properties are appraised at market value, as defined by professional standards published by the International Association of Assessing Officers (IAAO). There are three measures as detailed below.

The assessment-to-sales ratio (ASR) is a ratio of the assessed value to the sales price of the property. The closer the ratio is to 100.0%, the closer the assessment is to the sales prices. A ratio over 100.0% indicates that assessments were higher, and a ratio under 100.0% indicates that assessments were lower than market values. The IAAO range for acceptable performance for the ASR is 90.0% to 110.0%. The SDAT goal is to be within 95.0% to 105.0%. As illustrated in **Exhibit 1**, the department's fiscal 2015 ASR is 93.0%, an increase from an ASR of 90.0% in fiscal 2014 and 91.3% in fiscal 2013.

While the ASR is within the range of the national benchmark, it is still outside the SDAT target. The agency projects that the ASR will increase to 95.0% in fiscal 2016. The low ASRs of recent years were caused by volatility of the housing market. According to SDAT, lingering foreclosures have affected the market in certain regions of the State. Supervisors are carefully monitoring their county for reactions in the market because market conditions vary from town to town and county to county. As the market stabilizes and improves, the ASR should return to 95.0%.

Exhibit 1
Accuracy Measures
Fiscal 2010-2016 Est.

Measure	Goal	2010	2011	2012	2013	2014	2015	Est. 2016
Assessment-to-sales Ratio*	95%-105%	95.00%	90.00%	93.10%	91.30%	90.00%	93.00%	95.00%
Coefficient of Dispersion	=< 15.00	10	10	10.27	10.22	10	10	10
Price-related Differential	0.98-1.03	1	1	1.03	1.01	1.02	1	1

Source: Department of Management and Budget

The department is performing within its targets for the remaining two measures. The coefficient of dispersion (COD) measures how close individual ASRs are to the median ASR for an area. A large COD indicates a wide range of assessment values in a particular area. The lower the COD, the more closely the ASRs are to the median ASR value; a COD under 15.0 is considered reasonable. The COD for SDAT in fiscal 2015 was 10.0, the same as in fiscal 2014. The third measure is the price-related differential (PRD). The PRD measures bias in the ASR. A bias is when the assessments for the assessed properties are higher or lower than it should be, based on the ASR. The ideal PRD is 1.0, indicating unbiased assessments. A PRD in excess of 1.0 indicates underestimated appraisals for high-dollar properties, and a PRD less than 1.0 indicates underestimated appraisals for low-dollar properties. The PRD for SDAT in fiscal 2015 is 1.0, a slight improvement over the 1.02 PRD in fiscal 2014.

2. Utilization of Electronic Forms and Filings Continues to Grow

As part of an effort to streamline and modernize agency operations, SDAT is in the process of increasing the number of agency forms that can be submitted online and the percentage of filers using those forms online. As more SDAT services migrate online, the agency will be able to provide the same services with greater speed and cost efficiency.

In fiscal 2014, SDAT began to collect data on electronic filing for certain business forms as part of its Managing for Results data. While there is not yet enough data to analyze the long-term trajectory of the modernization effort by SDAT, early returns show solid growth in the second year of tracking. **Exhibit 2** identifies the two classes of filings currently being tracked by SDAT for uptake of online forms. In fiscal 2014, 22.5% of new business registrations were filled online. In fiscal 2015, this grew to 30.0%. Good Standing Certificates are already largely filed online, but still showed an increase in electronic filings. In fiscal 2014, 86.8% were filled online, increasing to 89.1% in fiscal 2015.

Exhibit 2
Utilization of Electronic Documents
Fiscal 2014-2016 (Est.)

	Actual 2014	Actual 2015	2016 Est.
New Business Registrations	81,414	85,000	85,000
Percentage Filed Electronically	22.5%	30.0%	40.0%
Good Standing Certificates	43,839	46,000	47,000
Percentage Filed Electronically	86.8%	89.1%	90.0%

Source: Department of Budget and Management

Fiscal 2016 Actions

Proposed Deficiency

The budget includes one deficiency for fiscal 2016, an increase of $101,202 in special funds for employee benefits. These additional funds are necessary to account for benefit payments for 43 employees in local assessment offices who were grandfathered into the State benefits system.

Cost Containment

The 2015 budget bill included an across-the-board 2% general fund reduction due to the State's fiscal condition. The SDAT share of that reduction was $549,000 in general funds. Additionally, due to local match requirements, an additional $233,325 in special funds was removed by subsequent budget amendment as a direct result of the general fund reduction, totaling a $782,325 reduction of all funds. SDAT has managed this reduction by reducing information technology (IT) expenditures ($330,000), realizing savings due to a projected decrease in utilization of the Homeowners' Property Tax Credit ($280,575), and other cuts to operating expenditures ($171,750).

Proposed Budget

As shown in **Exhibit 3**, the SDAT appropriation for fiscal 2017 increases by $6.2 million, or 4.6%, above the fiscal 2016 working appropriation. This increase is largely attributable to an anticipated increased in utilization of the Urban Enterprise Zone Tax Credit and Homeowners' Property Tax Credit programs and funding for a new aerial imagery program from property assessments. The Governor's budget also includes an appropriation for employee increments totaling $819,582 for this agency. This funding is included in the budget of the Department of Budget and Management and will be distributed to each agency by budget amendment at the start of the fiscal year.

Exhibit 3
Proposed Budget
State Department of Assessments and Taxation
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
Fiscal 2015 Actual	$101,839	$28,291	$130,130
Fiscal 2016 Working Appropriation	107,826	29,032	136,858
Fiscal 2017 Allowance	113,585	29,514	143,099
Fiscal 2016-2017 Amount Change	$5,759	$482	$6,241
Fiscal 2016-2017 Percent Change	5.3%	1.7%	4.6%

Where It Goes:	
Personnel Expenses	
Employee and retiree health insurance	$945
Employee retirement	785
Other fringe benefit adjustments	17
Turnover adjustments	-71
Compensation	-461
Tax Credit Programs	
Urban Enterprise Zone Tax Credit	3,386
Homeowners' Property Tax Credit	1,647
Renters' Tax Credit	-762
Other Changes	
Aerial imagery project	2,200
Software licenses	30
Subscriptions to real property information databases	28
Other	5

Where It Goes:	
Realignment of scanning to contractual full-time equivalents	-74
Elimination of scanning contracts	-80
Postage	-131
Office assistance	-150
Software acquisition and maintenance	-361
State information technology adjustments	-712
Total	**$6,241**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $86,694 in general funds and $94,335 in special funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Personnel

Personnel expenditures increase by $1.2 million, or 2.6%. The growth is attributable to increased contribution rates for health insurance and employee retirement. These increases are offset by a reduction of $460,681 in employee compensation, largely attributable to long-time staff leaving the agency.

Tax Credit Payments

Expenditures for the four tax credit programs administrated by the agency increase by a total of $4.3 million, or 5.2%, above the fiscal 2016 working appropriation. Urban Enterprise Zone Tax Credits increase by $3.4 million. While the number of businesses receiving these credits falls from 816 to 788, the value of the average credit increases. The largest increase is $2.8 million in Baltimore City. Additionally, the appropriation for the Homeowners' Property Tax Credit increases by $1.6 million, and the Renters' Tax Credit decreases by $762,120 based on projections of program utilization.

Other Changes

The most significant additional changes to the budget include an increase of $2.2 million to use aerial imagery to conduct assessments. The budget also includes the addition of 4 contractual full-time equivalents in the Charter Unit to take over document scanning tasks currently performed by an outside contractor. This adjustment is expected to reduce net expenditures by $73,689 in fiscal 2017. There is also a significant reorganization of IT functions between SDAT and the Department of Information Technology (DoIT), which will reduce department IT expenditures by $711,582 and move more functions to DoIT.

Issues

1. Use of Oblique Aerial Imagery for Property Tax Assessments Moves Forward

In fall 2014, in consultation with StateStat, SDAT conducted a pilot program to determine the effectiveness of oblique aerial imagery as a supplement to the agency's physical property assessments. Under current law, SDAT is required to reassess all properties in the State every three years, including physical inspections for properties that have been sold or improved. SDAT has struggled, due to understaffing, to conduct these physical inspections in a timely manner. The agency has reported that this program will significantly reduce the agency backlog of inspections, generate additional tax revenue, and bring it closer to meeting the mandated assessment cycle.

What Is Oblique Aerial Imagery?

Oblique aerial imagery is a common tool for conducting property assessments. During the winter months, when there is less leaf cover, planes fly over a region in a grid pattern taking photographs of properties. Software then processes the images and generates a three-dimensional rendering of each property. The user, in this case an SDAT assessor, can then use these renderings to determine whether changes have been made to the property, take measurements of exterior dimensions, and make the appropriate adjustment to the property's assessed value.

IAAO has determined that oblique aerial imagery is a reliable tool for assessments and recommends its use as long as property data is well maintained and images are updated on a regular basis (every two to five years). Both Virginia and the District of Columbia already rely on aerial imagery and no longer conduct any physical property inspections. While the tool is more effective in less dense suburban and rural settings, it can be used to evaluate most properties in all regions of the State, including Baltimore City.

Results of the Pilot Program

SDAT assigned 19 assessors in Anne Arundel and Frederick counties to perform their regular job duties using oblique aerial imagery supplemented with traditional physical inspections as needed. These assessors reviewed over 12,000 accounts that require physical inspections under current law. Assessors were able to evaluate over 90% of those properties using only the aerial images and eliminating the need for physical inspections. In the remainder of cases, assessors determined that a physical inspection was required.

Based on the results of the pilot, SDAT believes that this technology will allow assessors to review approximately twice the number of properties that they currently cover with physical inspections. SDAT conducted a staffing analysis to determine the number of additional assessors needed statewide to meet its mandate to reassess all properties every three years. According to the agency, the implementation of the proposed aerial imagery plan would reduce that need from 205 additional assessors to only 101.

SDAT also tracked how the use of aerial imagery affected the value of resulting assessments. The pilot program added a total of $32 million to the tax base in Anne Arundel County. While most of this additional assessed value would have been captured by physical inspections, SDAT estimates that statewide implementation would lead to a slight increase to the tax base of $1.4 billion, or about 0.2%, above the amount for physical inspections alone.

Statewide Implementation

SDAT has determined, based on the pilot, that it wishes to implement this technology statewide. However, the agency is not authorized, under current law, to use aerial imagery as a supplement or substitute for physical inspections. There is currently department legislation before the General Assembly (SB 115) that would allow SDAT to use aerial imagery for assessments with discretion to conduct physical inspections when necessary.

The SDAT fiscal 2017 budget allowance includes $2.2 million for this project and, as shown in **Exhibit 4**, the agency projects that the total cost over the first three-year assessment cycle (fiscal 2017 to 2019) will be $5.6 million.

Exhibit 4
Projected Aerial Imagery Expenditures
Fiscal 2017-2019

Year	State Share	Local Share
2017	$1,100,000	$1,100,000
2018	900,000	900,000
2019	800,000	800,000
Total	**$2,800,000**	**$2,800,000**

Source: State Department of Assessments and Taxation

The projected average annual cost of the program is $1.9 million. Under current law, half of that amount would be paid by the counties. Based on the SDAT estimate of additional revenue from the program, each county enjoys a positive return on investment, as shown in **Exhibit 5**.

The Department of Legislative Services (DLS) recommends that the agency comment on the benefits and reliability of oblique aerial imagery as an assessment tool and the effect this program, if authorized, would have on the agency's ability to conduct timely property assessments.

Exhibit 5
Estimated Local Costs and Revenues – Aerial Imagery Program
Fiscal 2017-2019

	Cost Share			Return on Investment	
	% of Total	$	Estimated Tax Revenue Added	$	%
Allegany	1.8%	$50,400	$85,111	$34,711	68.9%
Anne Arundel	9.2%	257,600	1,555,683	1,298,083	503.9%
Baltimore City	10.3%	288,400	1,711,824	1,423,424	493.6%
Baltimore County	13.0%	364,000	1,422,735	1,058,735	290.9%
Calvert	1.9%	53,200	237,632	184,432	346.7%
Caroline	0.7%	19,600	63,288	43,688	222.9%
Carroll	2.9%	81,200	576,379	495,179	609.8%
Cecil	2.0%	56,000	201,601	145,601	260.0%
Charles	2.8%	78,400	423,744	345,344	440.5%
Dorchester	1.0%	28,000	73,659	45,659	163.1%
Frederick	4.1%	114,800	777,606	662,806	577.4%
Garrett	1.3%	36,400	43,125	6,725	18.5%
Harford	4.3%	120,400	504,451	384,051	319.0%
Howard	4.5%	126,000	1,046,187	920,187	730.3%
Kent	0.6%	16,800	59,893	43,093	256.5%
Montgomery	14.6%	408,800	2,964,395	2,555,595	625.1%
Prince George's	12.7%	355,600	1,275,379	919,779	258.7%
Queen Anne's	1.1%	30,800	193,781	162,981	529.2%
St. Mary's	2.1%	58,800	185,684	126,884	215.8%
Somerset	0.7%	19,600	28,012	8,412	42.9%
Talbot	0.9%	25,200	121,564	96,364	382.4%
Washington	2.6%	72,800	299,047	226,247	310.8%
Wicomico	2.0%	56,000	104,468	48,468	86.6%
Worcester	2.9%	81,200	217,343	136,143	167.7%
Total	**100.0%**	**$2,800,000**	**$14,172,591**	**$11,372,591**	**406.2%**

Source: State Department of Assessments and Taxation

Recommended Actions

1. Add the following language to the general fund appropriation:

   Provided that $1,100,000 in general funds and $1,100,000 in special funds is contingent upon the enactment of SB 115.

   Explanation: This action makes $2,200,000 of the appropriation for the Real Property Valuation Program contingent upon the enactment of SB 115, which would authorize the use of aerial imagery for some property tax assessments.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
State Department of Assessments and Taxation
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$108,204	$28,022	$0	$0	$136,226
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-623	-100	0	0	-723
Budget Amendments	118	654	0	0	772
Reversions and Cancellations	-5,860	-285	0	0	-6,145
Actual Expenditures	**$101,839**	**$28,291**	**$0**	**$0**	**$130,130**
Fiscal 2016					
Legislative Appropriation	$107,448	$28,794	$0	$0	$136,242
Budget Amendments	378	137	0	0	515
Working Appropriation	**$107,826**	**$28,931**	**$0**	**$0**	**$136,757**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

SDAT finished fiscal 2015 $6,095,837 below its legislative appropriation, which is largely attributable to unspent funds for tax credits. Cost containment reduced the appropriation by $722,820. Amendments added $374,459 for the cost-of-living adjustment (COLA), $143,724 for salaries and wages, and $325,000 for operating expenses in the Charter Program.

General Funds

Actual expenditures were $6,364,393 below the legislative appropriation largely attributable to unused funds for tax credit programs ($5,210,000) and the Annapolis Data Center ($434,000). The appropriation was also reduced by $504,388 for budget amendments, including:

- $189,132 increase for the COLA;
- $622,820 decrease for cost containment actions;
- $65,000 decrease for the Voluntary Separation Program; and
- $5,700 decrease for telecommunications.

Special Funds

Actual expenditures were $268,556 above the legislative appropriation. Budget amendments increased the appropriation by $654,051 and were offset by $100,000 in cost containment and $285,494 in cancellations. Budget amendments included:

- $325,000 increase for operating expenses in the Charter Program;
- $185,327 increase for the COLA; and
- $143,724 increase to offset a general fund reduction for the Office of the Director.

Fiscal 2016

Two budget amendments have adjusted the fiscal 2016 legislative appropriation; $378,000 in general funds and $370,000 in special funds were added to restore employee salaries, which would have been reduced by 2% effective July 1, 2015. There was also a reduction of $233,325 in special funds, to reduce the local contribution for property tax assessments due to the reduction in the State share caused by the 2% general fund reduction.

Object/Fund Difference Report
State Department of Assessments and Taxation

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	607.30	615.30	615.30	0.00	0%
02 Contractual	16.95	11.35	15.35	4.00	35.2%
Total Positions	**624.25**	**626.65**	**630.65**	**4.00**	**0.6%**
Objects					
01 Salaries and Wages	$ 45,359,312	$ 46,776,886	$ 48,273,955	$ 1,497,069	3.2%
02 Technical and Spec. Fees	354,634	263,788	362,451	98,663	37.4%
03 Communication	1,373,916	1,177,697	1,028,388	-149,309	-12.7%
04 Travel	281,335	188,750	172,450	-16,300	-8.6%
06 Fuel and Utilities	23,809	18,500	25,100	6,600	35.7%
07 Motor Vehicles	72,568	62,090	72,500	10,410	16.8%
08 Contractual Services	4,230,744	4,825,458	5,563,434	737,976	15.3%
09 Supplies and Materials	182,136	147,559	149,449	1,890	1.3%
10 Equipment – Replacement	391,013	165,667	161,667	-4,000	-2.4%
11 Equipment – Additional	35,023	0	5,000	5,000	N/A
12 Grants, Subsidies, and Contributions	76,014,261	81,450,325	85,722,000	4,271,675	5.2%
13 Fixed Charges	1,811,268	1,679,685	1,743,260	63,575	3.8%
Total Objects	**$ 130,130,019**	**$ 136,756,405**	**$ 143,279,654**	**$ 6,523,249**	**4.8%**
Funds					
01 General Fund	$ 101,839,460	$ 107,825,833	$ 113,671,232	$ 5,845,399	5.4%
03 Special Fund	28,290,559	28,930,572	29,608,422	677,850	2.3%
Total Funds	**$ 130,130,019**	**$ 136,756,405**	**$ 143,279,654**	**$ 6,523,249**	**4.8%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
State Department of Assessments and Taxation

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Office of the Director	$ 2,800,383	$ 2,940,092	$ 3,108,833	$ 168,741	5.7%
02 Real Property Valuation	34,965,214	35,134,716	38,426,160	3,291,444	9.4%
04 Office of Information Technology	3,809,064	5,057,423	3,966,644	-1,090,779	-21.6%
05 Business Property Valuation	3,656,119	3,516,684	3,617,538	100,854	2.9%
06 Tax Credit Payments	76,014,262	81,450,325	85,722,000	4,271,675	5.2%
08 Property Tax Credit Programs	2,898,913	2,983,305	2,996,037	12,732	0.4%
10 Charter Unit	5,986,064	5,673,860	5,442,442	-231,418	-4.1%
Total Expenditures	**$ 130,130,019**	**$ 136,756,405**	**$ 143,279,654**	**$ 6,523,249**	**4.8%**
General Fund	$ 101,839,460	$ 107,825,833	$ 113,671,232	$ 5,845,399	5.4%
Special Fund	28,290,559	28,930,572	29,608,422	677,850	2.3%
Total Appropriations	**$ 130,130,019**	**$ 136,756,405**	**$ 143,279,654**	**$ 6,523,249**	**4.8%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

E75D
State Lottery and Gaming Control Agency

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$66,263	$25,003	$21,806	-$3,197	-12.8%
Deficiencies and Reductions	0	0	-36	-36	
Adjusted General Fund	**$66,263**	**$25,003**	**$21,770**	**-$3,233**	**-12.9%**
Special Fund	72,023	78,516	77,493	-1,023	-1.3%
Deficiencies and Reductions	0	0	-40	-40	
Adjusted Special Fund	**$72,023**	**$78,516**	**$77,453**	**-$1,062**	**-1.4%**
Adjusted Grand Total	**$138,286**	**$103,519**	**$99,223**	**-$4,296**	**-4.1%**

- After back of the bill reductions related to health insurance savings, the fiscal 2017 allowance for the State Lottery and Gaming Control Agency (SLGCA) declines by about $4.3 million, or 4.1%, from the fiscal 2016 working appropriation. Contributing to this decline are lower than expected costs for the Instant Ticket Lottery Machine program at veterans organizations and lower lease costs for State-owned video lottery terminal (VLT) machines.

- Mitigating the decline in the fiscal 2017 allowance is a $4.0 million increase in special funds for advertising under regular lottery operations. Other increases include additional personnel costs related to the opening of a sixth casino facility mid-year fiscal 2017.

Note: Numbers may not sum to total due to rounding.

For further information contact: Jody J. Sprinkle Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	305.60	314.60	327.60	13.00
Contractual FTEs	8.75	9.00	9.00	0.00
Total Personnel	**314.35**	**323.60**	**336.60**	**13.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		16.52	5.25%	
Positions and Percentage Vacant as of 12/31/15		11.00	3.50%	

- The fiscal 2017 allowance includes 13 additional full time equivalent (FTE) positions under the VLT and gaming program in anticipation of the opening of a sixth casino facility in Prince George's County.

- Contractual staff FTE count does not increase in the fiscal 2017 allowance; however, salaries for contractual staff increase, which will be discussed in this analysis.

- At the end of calendar 2015, the lottery agency reports 11 vacant positions; too few to meet its budgeted turnover. The agency may be required to find other budgeted monies to fund its filled positions in the upcoming fiscal year.

Analysis in Brief

Major Trends

Traditional Lottery Performance Measures Increase in Fiscal 2015: Proceeds from traditional lottery games pay for prizes, agent earnings, and contribute to general fund revenue for the State. Strong sales in fiscal 2015 contributed to especially profitable results for lottery players and retail agents.

Gaming Audit Findings Reported: The lottery agency has been responsible for the State's VLT and gaming program since fiscal 2008. In fiscal 2014, the agency began reporting measures that demonstrate its oversight role of the State's gaming facilities. Specifically, the agency is reporting the number of audits and audit findings related to casino accounts, records, and control procedures.

Issues

Sales of Traditional Lottery Games Rebound in Fiscal 2015: The sales of traditional lottery games rebounded in fiscal 2015, driven largely by a significant increase in instant ticket sales. Based in part on the findings detailed in the agency's white paper entitled *Perspective of the Future of the Lottery*, the agency is focusing sales efforts on instant tickets and on a new draw game: Cash4Life. **The Department of Legislative Services (DLS) recommends that SLGCA comment on its current trend of sales and revenues, and in particular, the increase in sales of instant ticket games. Additionally, the agency should comment on its new multistate jackpot game and how it expects to ensure its success. Finally, the agency should comment on its white paper on the *Perspective of the Future of the Lottery*.**

VLT and Gaming Program: Sixth Facility to Open in Fiscal 2017: Since fiscal 2008, SLGCA has been tasked with the responsibility of administering the gaming program for the State. The agency is responsible for the regulation and licensing of operators, accounting for and distribution of revenues, managing the program's central system, and the purchase or lease of a portion of the gaming machines. The State's sixth and last gaming facility is expected to open in January 2017. SLGCA continues to make adjustments to its personnel and other resources to address the expanded gaming market. Revenues from the gaming facilities continue to make a significant impact on the State's fiscal health. **DLS recommends that SLGCA comment on the status of the State's gaming program including the agency's preparations for the impending introduction of the sixth gaming facility.**

Recommended Actions

1. Concur with Governor's allowance.

E75D
State Lottery and Gaming Control Agency

Operating Budget Analysis

Program Description

Since 1973, the State Lottery and Gaming Control Agency (SLGCA) has administered and operated lottery games to generate revenue for the State. The lottery currently offers the following games: Pick 3, Pick 4, Keno, Keno Bonus and Super Keno Bonus, Mega Millions, Powerball, Bonus Match Five, Instant Games, Multi-Match, Racetrax and Racetrax Bonus, 5 Card Cash, and most recently Cash4Life.

All games, except Instant Games, are draw games, meaning that players pick their numbers or use computer-generated numbers, receive a ticket, and then wait for a drawing to see if they have won. With Instant Games, players scratch off a latex covering on a ticket play area to reveal preprinted combinations. Games are sold through lottery agents, which are private businesses that receive commissions and fees in exchange for selling the games to the public.

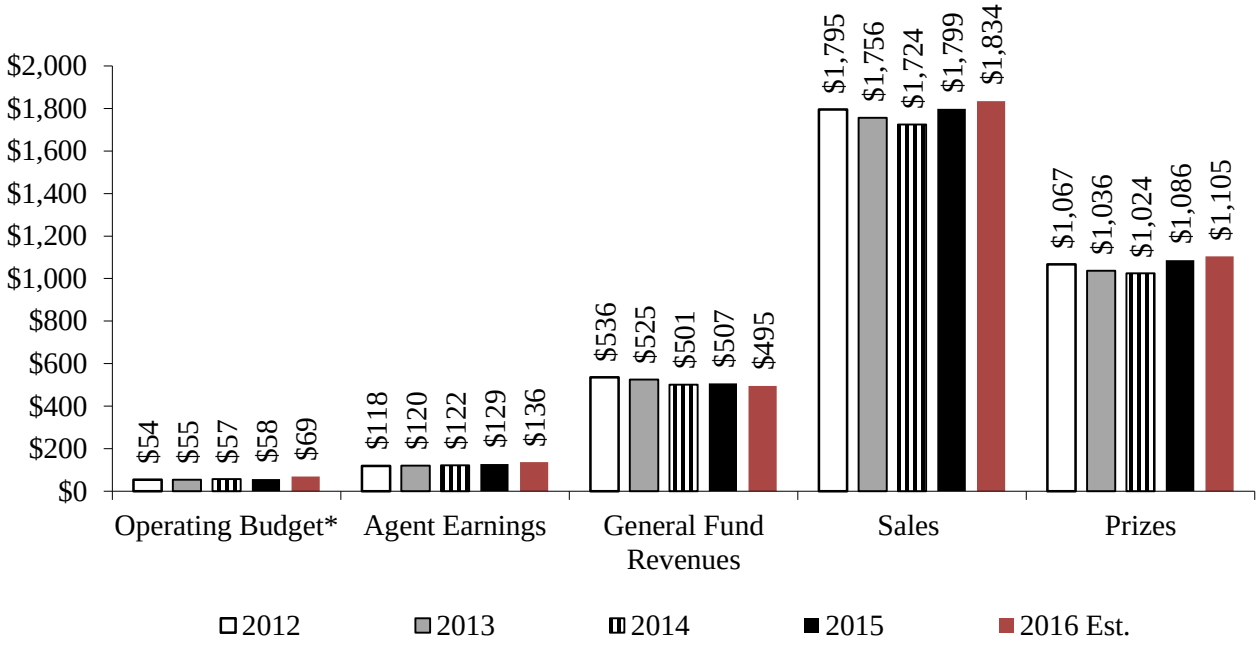
The State Lottery Gaming and Control Commission has oversight responsibility for the agency. In 2008, the commission was expanded to address additional responsibilities stemming from the video lottery terminal (VLT) legislation. The agency is responsible for the administration of the VLT program including accounting for and distributing VLT revenues, managing the program's central system, and regulating and licensing of operators. In fiscal 2012, the agency's responsibilities were further expanded to include the regulation of table games at the previously authorized VLT facilities, among other new duties. The agency's divisions include Executive; Administration, Finance, and Operations; Information Technology; Sales; Marketing and Communications; Legal; and Gaming and Enforcement.

Performance Analysis: Managing for Results

1. Traditional Lottery Performance Measures Increase in Fiscal 2015

Proceeds from the traditional lottery games pay for prizes, agent earnings, and all operating expenses of the agency. In fiscal 2015, 60.4% of sales paid for prizes, 7.1% paid for agent commissions and redemption fees, 3.2% paid for agency operations, and 28.1% was credited as revenue to the State (a small percentage is forwarded to the Maryland Stadium Authority per statute). **Exhibit 1** shows total lottery sales and the distribution of those sales from fiscal 2011 through an estimate for fiscal 2016.

Exhibit 1
Lottery Sales and Expenditures
Fiscal 2012-2016 Est.
($ in Millions)



*The operating budget does not include funds to operate the video lottery terminal program.

Note: General fund revenues excludes disbursements to the Maryland Stadium Authority.

Source: Maryland State Budget Books, Fiscal 2011 to 2017

Prize payouts reached a high mark in fiscal 2015, and payouts are expected to increase again in fiscal 2016. Further, prize payouts represented a larger share of total sales than in the previous year (60.4% compared to 59.0%). This may be due, in part, to the increase in sales of instant tickets, which tend to have higher payout rates. Agents also experienced an increase in their earnings in fiscal 2015. Agents earn 5.5% of sales at retail establishments as well as 3.0% in cashing commissions. According to the lottery agency, there are 4,596 lottery retailers. Of these, 301 retailers participate in the Expanded Cashing Authority Program and are allowed to cash winnings of up to $5,000. All other retailers may cash winning tickets up to $600.

As shown in the exhibit, sales and revenues also increased in fiscal 2015. A more in depth discussion of sales and revenues can be found in the Issues section of this analysis.

2. Gaming Audit Findings Reported

At the encouragement of the Department of Legislative Services (DLS), the agency began to report performance measures for its gaming program in the fiscal 2016 budget cycle. The agency began its responsibilities associated with the State's gaming program in 2008. An entirely new division was established with new and unique duties that enable the regulation and oversight of the casino facilities. It is, therefore, important to have performance oversight through the legislative budget process.

The statute requires that the lottery agency issue regulations requiring regular audits of gaming facilities. Those audits must disclose whether the accounts, records, and control procedures maintained by the video lottery operation licensees are as required by statute and by regulation. The agency is now reporting on the number of casino audits and reviews and the number of findings. It is too early to be able to report on any trends in these measures; however, for informational purposes, the lottery agency performed 118 audits and reviews and catalogued 185 findings in fiscal 2015. According to the agency, once a gaming facility is alerted to a finding, the facility management must report on how it will address the finding. Depending on the severity of the finding, the agency's enforcement division may issue appropriate disciplinary action. The agency will then perform follow up audit test work to ensure that the finding has been resolved. The agency may wish to consider adding a performance measure that would track the rate in which findings are resolved and the number of repeat findings at any one facility.

Fiscal 2016 Actions

Cost Containment

In fiscal 2016, the Administration implemented an across-the-board cost containment initiative that included a general 2% reduction. SLGCA relinquished $507,000 in general funds. It was able to achieve these savings through reduced costs for VLT leases.

Proposed Budget

As shown in **Exhibit 2**, after adjusting for a back of the bill reduction in health insurance, the fiscal 2017 allowance decreases by almost $4.3 million, or 4.1%, from the fiscal 2016 working appropriation. This is largely due to lower than expected costs for the Instant Lottery Ticket Program for veteran organizations and fewer costs related to State-owned VLTs at gaming facilities. However, Exhibit 2 also shows other components of the allowance that mitigate these decreases.

Exhibit 2
Proposed Budget
State Lottery and Gaming Control Agency
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
Fiscal 2015 Actual	$66,263	$72,023	$138,286
Fiscal 2016 Working Appropriation	25,003	78,516	103,519
Fiscal 2017 Allowance	21,770	77,453	99,223
Fiscal 2016-2017 Amount Change	-$3,233	-$1,062	-$4,296
Fiscal 2016-2017 Percent Change	-12.9%	-1.4%	-4.1%

Where It Goes:

Personnel Expenses	
New position (13 full-time equivalents related to the opening of the Prince George's facility)	$625
Employee and retiree health insurance	450
Retirement	357
Workers' compensation premium assessment	110
Turnover adjustments	76
Overtime	56
Regular earnings	-197
Other fringe benefit adjustments	38
Other Changes	
Regular Lottery Operations	
Advertising and Promotions	4,014
Maintenance for instant ticket vending machines	396
Vehicle purchase and fuel	357
Contractual staff salaries	133
Software upgrades	90
One-time upgrade to telephone system in fiscal 2016	-345
Instant ticket printing	-772
Lower than expected costs for lottery machines at veterans organizations	-5,098
Video Lottery Terminal and Gaming Operations	
Maintenance for State-owned machines	805
Removal of one-time costs related to sixth gaming facility	-1,137
Outside background investigations services	-1,394

Where It Goes:

Reduced lease costs for State-owned machines	-2,972
Other	112
Total	**-$4,296**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $36,294 in general funds and $39,686 in special funds. There is an additional across-the-board reduction to abolish vacant positions statewide, but the amounts have not been allocated by agency.

Regular Lottery Operations

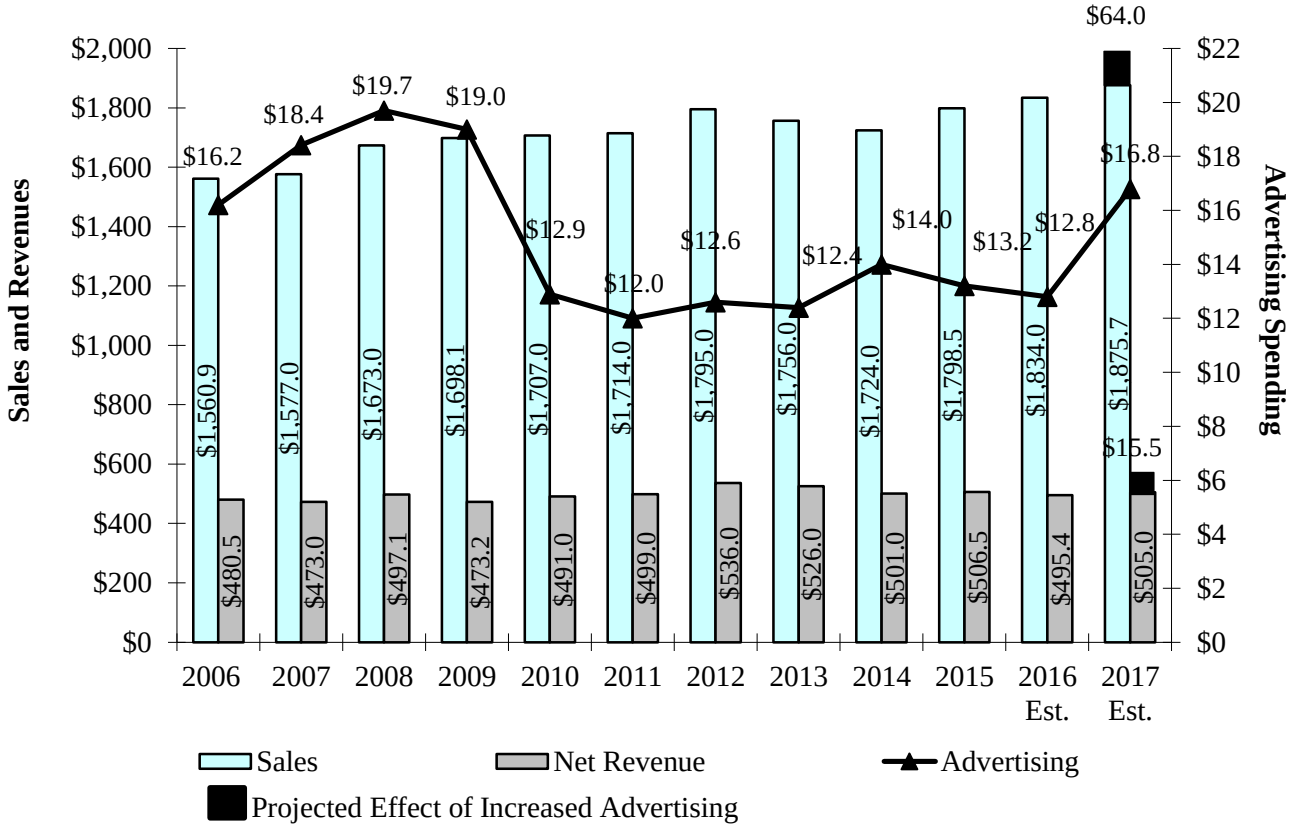
Absent VLT and gaming operations, the fiscal 2017 allowance for regular lottery operations decreases by about $1.0 million from the fiscal 2016 working appropriation. The decrease is primarily attributable a reduction in budgeted funds for the veterans organizations' instant ticket machine program. Chapter 1 of the second special session of 2012 authorized the lottery agency to issue licenses to veterans organizations for up to five instant ticket machines. The agency began issuing the licenses in fiscal 2015, and the first full year of budgeting was fiscal 2016. As it was a completely new program, the lottery agency overestimated the funding needs for the program in fiscal 2016. The fiscal 2017 allowance more accurately reflects program needs and as such, declines by about $5.1 million. The bulk of the funding for the program is for the vendor, which provides the instant ticket machines, the tickets, and the central monitoring system. The vendor receives a portion of the proceeds. Similarly, the veterans organizations earn a sales and cashing commission from the total proceeds. Additionally, the Maryland Veterans Trust Fund receives 10% of the proceeds, and the General Fund receives the remainder. The General Fund received about $342,000 in fiscal 2015. In fiscal 2016, the program is expected to generate about $380,000.

The other notable decline in the allowance is for instant ticket printing, $772,000. Despite a new strategic effort to increase sales of instant tickets, the agency actually expects to spend less funds on their printing. This is because the agency has analyzed its sales patterns and has determined that many expensively produced tickets have no greater appeal to players than other tickets. For example, tickets with licensed and trademarked images (often costly) are selling at no greater rate than those without those images. As such, the agency will target its sales efforts elsewhere; namely increased advertising. Mitigating the decreases in the fiscal 2017 allowance for regular lottery operations is an increase in the agency's advertising funding, an approximate increase of $4 million.

Advertising expenditures include funds for radio, television, print, and other advertisements, as well as promotional events and materials. Cost containment in fiscal 2010 reduced the agency's

advertising budget by $6 million from the original fiscal 2010 appropriation. Despite the decline in advertising after fiscal 2009, record sales were achieved between fiscal 2010 and 2012. However, sales did decline in fiscal 2013 and 2014 before rebounding to a new record level in fiscal 2015 with an advertising budget barely above that in fiscal 2010. This despite competition from the State's gaming facilities. **Exhibit 3** shows sales and revenues as compared to the agency's advertising budget.

Exhibit 3
Regular Lottery Sales and Revenue Trends Compared to Advertising Spending
Fiscal 2006-2017
($ in Millions)



Source: Governor's Budget Books, Fiscal 2006-2016; Lottery Budget, Fiscal 2005-2015

As shown in the exhibit, SLGCA did receive a one-time increase in advertising funds in fiscal 2014. Indeed, sales increased in fiscal 2015. It is difficult to ascertain the impact of advertising on sales. Many other factors affect player behavior, notably the occurrence of large jackpot prizes. However, the agency notes that a study conducted by the New York lottery contends that for every $1 spent on advertising, a state can generate an approximate $5 in net revenue. Based on that study, the agency is forecasting an increase in revenues of $15.5 million in fiscal 2017 from the increased

advertising budget. In fact, the Administration's fiscal 2017 budget plan reflects this additional revenue.

Also included in the allowance is an increase in funds for contractual staff salaries. The agency has added a contractual publication specialist to assist with marketing efforts and an instant ticket product specialist. Additionally, the allowance includes additional funds for vehicle purchases. Lottery sales representatives travel extensively to visit retailer locations.

Finally, notably absent from the fiscal 2017 allowance is evidence of a new contract for the central system for regular lottery operations. The current contract with the system's vendor was originally set to expire at the end of fiscal 2016. However, due to delays associated with developing the Request for Proposal in conjunction with the Department of Information Technology, the agency was obliged to extend the contract for an additional year. (See Appendix 3 for additional detail.)

VLT and Gaming Operations

Chapter 1 of the second special session of 2012 altered the provisions governing the ownership of the VLT machines at the State's casinos. The legislation specified that the operators of the Baltimore City, Anne Arundel, Cecil, and Prince George's facilities would all be required to own their own VLT machines. Conversely, the State would maintain ownership of the machines at the Allegany and Worcester facilities. The fiscal 2016 budget was the first full year of funding that reflected this new ownership structure. At the time, the lottery agency assumed it would lease, and not purchase, all its remaining machines. However, the lottery has instead kept some of its purchased machines. As such, the fiscal 2017 allowance reflects this reality and includes funds for the maintenance of those machines ($805,000). The majority of the State-controlled machines will continue to be leased; however, the lottery was able to renegotiate its terms at a more favorable rate. As such, leased costs decline in the budget by approximately $2.9 million.

An additional change in the budget worth noting is the decline in funds needed for contractual background investigation services, $1.4 million. The lottery agency is required to ensure proper licensure of casino owners and employees. The workload was extensive and required the agency to contract with outside entities to assist in the investigations. However, as the agency has increased its staff, the need for outside services has declined.

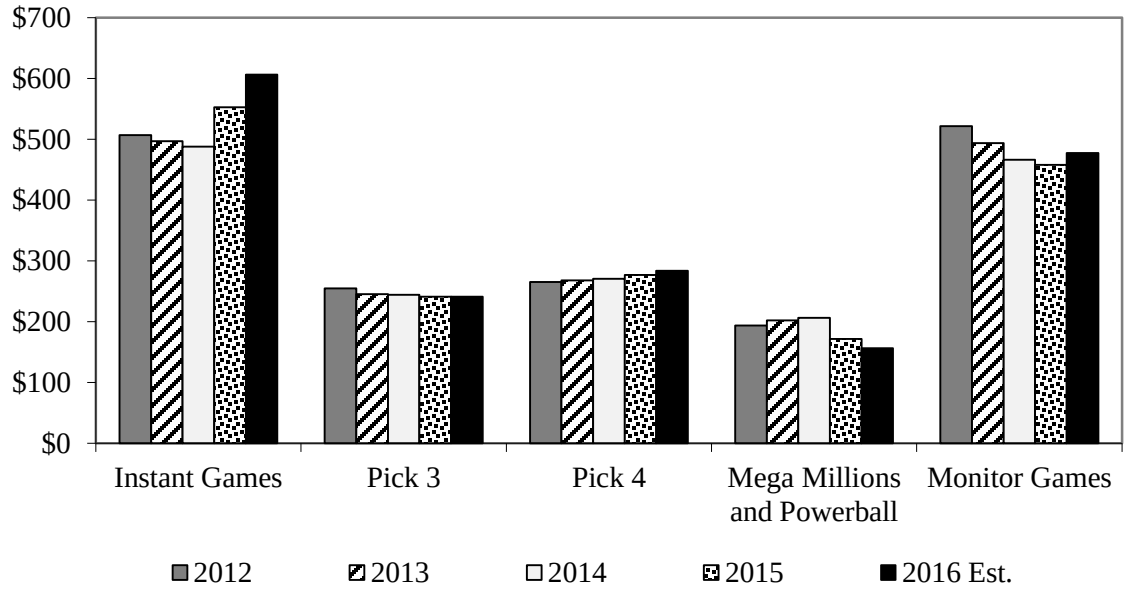
Offsetting some of the decreases under the gaming program are the increased funds for new personnel. The fiscal 2017 allowance includes approximately $625,000 in general funds for 13 new positions. The positions are related to the opening of the sixth casino facility in Prince George's County, scheduled for January 2017. Statute requires that SLGCA have compliance officers, who are State employees, at each casino at all times. The allowance includes funds for 12 such positions and for 1 casino auditor to ensure financial compliance with State regulations. The lottery agency expects to hire for these positions early in the second quarter of fiscal 2017.

Issues

1. Sales of Traditional Lottery Games Rebound in Fiscal 2015

An increase in sales of traditional lottery games in fiscal 2015 was driven largely by a significant uptick in sales of instant games. **Exhibit 4** shows the total sales of selected games from fiscal 2012 through an estimate for fiscal 2016. The exhibit clearly shows the relative popularity of the games, with instant tickets and monitor games like Keno, claiming most of the sales.

Exhibit 4
Sales Selected Games
Fiscal 2012-2016 Est.
($ in Millions)



Source: State Gaming and Lottery Control Agency

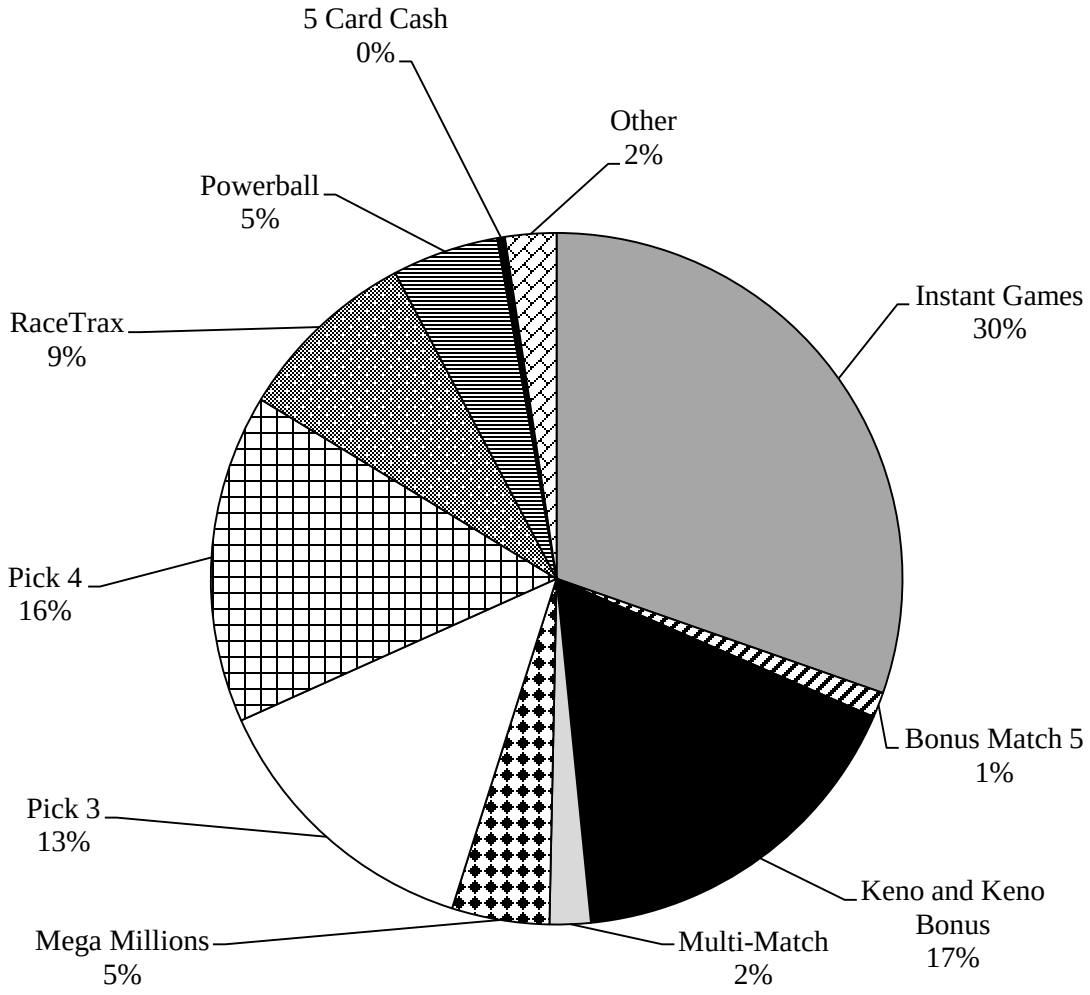
SLGCA has noted that sales of instant tickets have been underperforming as compared to other states. As such, the agency has increased its efforts to market these games. Fiscal 2015 instant ticket sales increased by 13.8% over fiscal 2014. Another significant increase is expected in fiscal 2016. Sales of other games remained fairly stable in fiscal 2015, with the exception of the jackpot games. Combined sales of Mega Millions and Powerball declined in fiscal 2015. This demonstrates how strongly sales are tied to large jackpots. There were two jackpot drawings in fiscal 2015 that were over $400 million, compared with three such jackpots in fiscal 2014. The fiscal 2016 estimate for the jackpot games did not anticipate the record breaking prize for the January 2016 Powerball game and, therefore, should be considerably higher.

The mix of games is important to maintaining costumer interest and to the returns to the General Fund. Because of this variety, any negative impact on revenues from one game can be mitigated by other games.

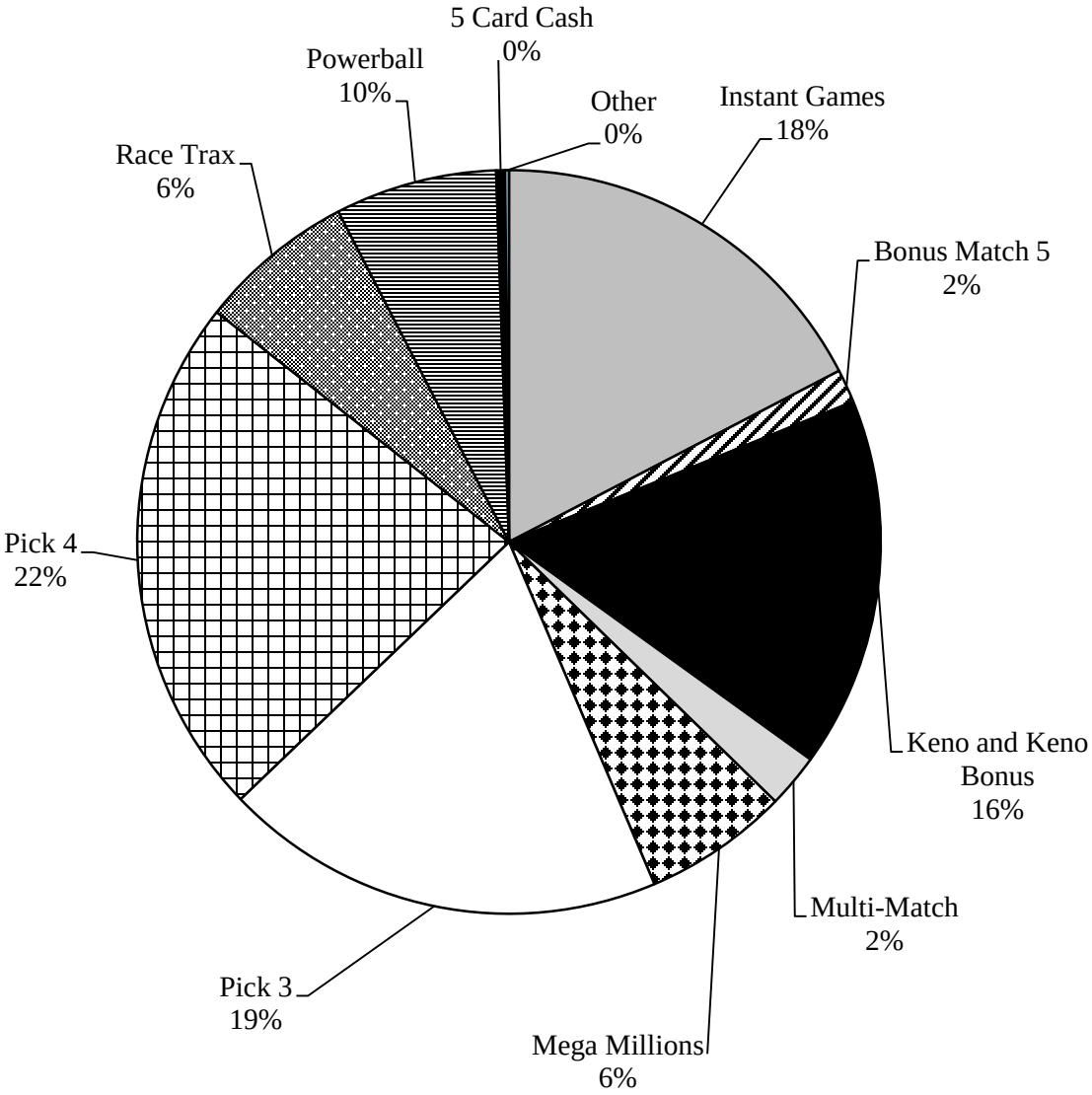
Exhibit 5 shows sales and revenues for each game type in fiscal 2015. As shown, instant games make up 30% of sales but only 18% of revenue. Instant tickets are popular, in part, because of the high payout, which drives down revenues to the State. In contrast, Powerball makes up only 5% of total sales but generates 10% of the revenue to the State.

Exhibit 5
Sales and Revenues
Fiscal 2015

Sales



Revenues



Source: State Gaming and Lottery Control Agency

Included in the "other" category is a small amount ($1.6 million in sales) for the Monopoly Millionaires Club game. This game was a short-lived effort to add another multistate jackpot game to the lottery agency's offerings. However, in December 2014, the lottery agency announced that it would suspend the game due to disappointing sales. Other states came to that same conclusion. In its place, in August 2015, the lottery agency requested Legislative Policy Committee approval to introduce the multistate draw game Cash4Life to Maryland. Cash4Life is a multistate draw game that offers a top prize of $1,000 per day for life. This prize structure differs from the agency's current mix of games.

Thus, the agency believes that it will further its goal of increasing sales and revenue within the framework of a mature lottery. The lottery agency began sales of its new game in January 2016.

Effort to Study Lottery Revenues

In response to concerns about declining sales, Chapter 293 of 2014 established the Task Force to Study Lottery Revenue. The task force was required to study factors that affect lottery sales and any means to improve sales. A report was due by January 1, 2015. However, for various reasons, the task force never convened. Instead, SLGCA volunteered to submit a white paper to address the issues delineated in the legislation. Specifically, the report studied the causes of the decline in lottery sales in fiscal 2013 and 2014 and explored potential innovations that could improve lottery products and ultimately, revenues. The report was issued in August 2015.

The fiscal 2017 budget as introduced does reflect one of the main topics of the report, *ie.*, the advertising budget. The report argues that part of the decline in sales was attributable to the fairly significant decline in the agency's advertising budget in fiscal 2010. The report cites other factors including the distraction of management time during the launch of the State's VLT program, the poor performance of national jackpot games, and the relatively weak performance of Maryland's instant ticket games.

The report also highlights some means to improve sales beyond increases in marketing. Specifically, the agency hopes to emphasize sales of instant tickets; attract new retailers; introduce new draw games (such as Cash4Life); and invest in digital activity, mobile apps, and social media. It should be noted that the report also examined the effect of increasing retailer commission on sales. The report determined that there is no direct relationship between the level of retailer commission and sales performance.

DLS recommends that SLGCA comment on its current trend of sales and revenues, and in particular, the increase in sales of instant ticket games. Additionally, the agency should comment on its new multistate jackpot game and how it expects to ensure its success. Finally, the agency should comment on its white paper on the *Perspective on the Future of the Lottery.*

2. VLT and Gaming Program: Sixth Facility to Open in Fiscal 2017

Since fiscal 2008, SLGCA has been tasked with the responsibility of administering the VLT program for the State. This has included the regulation and licensing of operators, accounting for and distributing VLT revenues, managing the program's central system, and the purchase or lease of gaming machines. Legislation passed during the second special session of 2012 significantly expanded the agency's responsibilities and altered its other responsibilities.

Background

The Video Lottery Facility Location Commission (location commission) is tasked with the review and awarding of facility licenses. The location commission has awarded video lottery operation licenses for the following:

- **Cecil County:** Penn Cecil Maryland Inc. (Penn Cecil) was awarded a license to operate a VLT facility with 1,500 VLTs in Perryville in Cecil County. The facility opened to the public with 1,500 VLTs on September 27, 2010. It currently houses 850 machines and 22 table games.

- **Worcester County:** Ocean Enterprise 589, LLC (Ocean Downs) was awarded a license to operate a facility with 800 VLTs at Ocean Downs Racetrack in Worcester County. The facility opened with 750 VLTs on January 4, 2011, but now has the full complement of 800 VLTs.

- **Anne Arundel County:** PPE Casino Resorts, LLC was awarded a license to operate a facility with 4,750 VLTs adjacent to Arundel Mills Mall in Anne Arundel County. In June 2012, the Maryland Live! facility opened with 3,171 VLTs. As of January 2016, the facility has placed into operation 4,059 VLTs and 202 table games.

- **Allegany County:** On April 26, 2012, Evitts Resort, LLC (Evitts) was awarded a video lottery operation license to own and operate a video lottery facility adjacent to the Rocky Gap Lodge and Resort, subject to certain contingencies. The facility opened in May 2013 and currently has 627 VLTs and 18 table games.

- **Baltimore City:** On July 31, 2012, the location commission awarded the Baltimore City casino operation license to CBAC Gaming, LLC for a facility with 3,750 VLTs, subject to certain contingencies. That facility opened in August 2014 with 2,500 VLTs and 147 table games. It currently has 2,200 VLTs and 178 table games.

- **Prince George's County:** On December 20, 2013, the location commission awarded the Prince George's casino operation license to MGM National Harbor, LLC for a facility with 3,600 VLTs and 140 table games. The statute allows the casino to open as soon as July 2016. Expected opening date is now January 2017.

Revenues

The agency accounts for and disperses the revenue derived from the State's gaming facilities. **Exhibit 6** shows the gross revenue from the facilities in fiscal 2015, compared to the estimate of that revenue. Revenues for both VLTs and table games fell slightly short of expectations. To the extent that revenues fail to meet projections, general fund deficiencies must be provided in the following year to make up the shortfall in the Education Trust Fund (ETF).

Exhibit 6
Maryland Gaming Facilities
Gross Revenues
Fiscal 2015
($ in Millions)

	2015 Estimate	2015 Actual	Difference
Video Lottery Terminal Revenues			
Education Trust Fund	$320.5	$316.5	-$4.0
Facility Owner	256.2	253.9	-2.3
Horse Racing Purse Account	46.5	46	-0.5
Local Impact Aid	36.8	36.4	-0.4
Racetrack Facility Renewal Account	7.2	7.1	-0.1
State Lottery Agency	12.1	11.9	-0.2
Small, Minority and Women-Owned Business Account	10.0	9.9	-0.1
Subtotal	***$689.3***	***$681.7***	***-$7.6***
Table Games			
Education Trust Fund	$73.2	$71.3	-$1.9
Facility Owner	292.9	285.1	-7.8
Subtotal	***$366.1***	***$356.4***	***-$9.7***
Total	**$1,055.4**	**$1,038.1**	**-$17.3**

Source: Board of Revenue Estimates; Department of Legislative Services

Net Effect of Changes to Gaming Revenue Distribution

The statute specifies the distribution of casino revenues, including the distribution to the facility operators. The distribution of VLT revenue to the owners varies by facility based on a number of factors. **Exhibit 7** details the operator share of VLT revenues at benchmarks that are set in statute.

Exhibit 7
Casino Operator Share of Revenue
Current through Fiscal 2020

	Horseshoe Casino Baltimore	Maryland Live!	Hollywood Casino at Perryville	The Casino at Ocean Downs	Rocky Gap Casino and Resort	MGM National Harbor Casino
Current Operator Share	39%	33%	33%	43%	50%	-
Share After VLT Ownership Transfer – April 2015	39%	41%	39%	43%	50%	-
Share after Issuance of Prince George's License (Not before July 1, 2016)	46%	49%	39%	43%	50%	44%
Lottery Commission May Award Increase in Operator Share after July 1, 2019	46%-49%	49%-51%	39%-44%	43%	50%	44%

VLT: video lottery terminal

Source: State Gaming and Lottery Control Agency

The ownership of the VLT machines transferred to the facility operators in April 2015. This only affected the facilities in Anne Arundel and Cecil counties. Facilities with fewer than 1,000 machines do not have to assume ownership of their machines. For the larger facilities, their share of revenues was adjusted upward to account for the fact that the facilities will be responsible for the procurement of their machines. This adjustment equates to less support for the ETF. However, the lottery is spending considerably less to support the machine ownership for these facilities. Based on (1) the actual costs to the State for the VLTs at the Anne Arundel and Cecil counties facility; and (2) the offsetting increase in operator share for those two facilities, DLS is estimating that the State is netting about $27.5 million in fiscal 2016 for the benefit of the ETF.

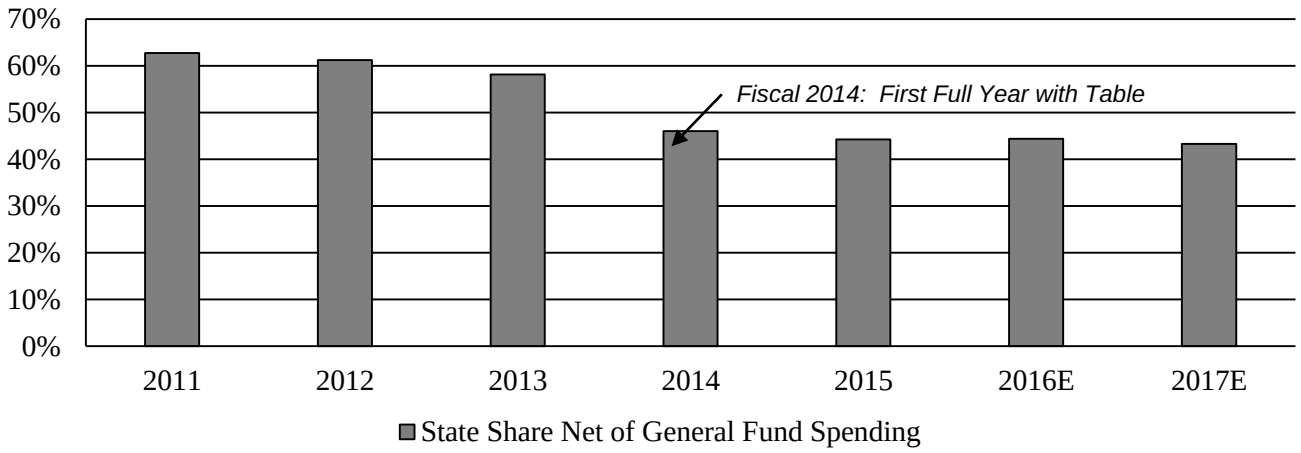
Another adjustment to operator share will occur once the license is issued for the facility in Prince George's County. The State's gaming program was originally planned with a total of five casinos. A sixth one was added by legislation in fiscal 2012 after other facilities were underway. To adjust for the increased and unexpected competition from a sixth casino, operator shares were again adjusted upward for the facilities in Anne Arundel County and Baltimore City. The increase in operator share must be used for marketing, advertising, promotional costs, and capital improvements. The State Lottery Gaming and Control Commission may choose to further increase operator share by up to 5% until July 1, 2019, at the facilities in Anne Arundel and Cecil counties and Baltimore City.

In contrast to this tiered and somewhat complicated structure, table game revenue is distributed: 80% to the facility owners and 20% to the State for deposit in the ETF. The distinction is largely based on industry standards and on the recognition that table games are more costly to operate for the facility owner due primarily to labor costs. However, beginning in fiscal 2017, 5% (taken from the share for the ETF) will be for local impact aid.

Also affecting the gaming revenue distribution are decisions made by the casinos to expand table games at the expense of VLTs. In January 2015, the Maryland Live! Casino and the Horseshoe Casino in Baltimore submitted requests to the lottery agency and commission to reduce the number of VLT machines and to increase the number of table games at their respective facilities. Specifically, Maryland Live! has requested the reduction of 300 VLTs and an increase of 13 table games. Similarly, the Horseshoe Casino requested the reduction of 300 VLTs and an increase of 30 table games.

The significant difference in the State share of revenues between VLTs and table games necessitates a close scrutiny when determining the appropriate mix of gaming options. In 2015, the lottery contracted with a consultant who determined that, despite the difference in the State share of revenue, the gaming market in Maryland indicates that a reduction in VLTs and an increase in table games would, in the long run, be beneficial for both the operators and the State. Accordingly, in late January 2015, the lottery commission approved the requests of both Horseshoe Casino and Maryland Live! to alter the mix of gaming options. However, in the short run, that benefit is not yet evident as shown in **Exhibit 8.**

Exhibit 8
Share of Total Gross Revenues Going to the State
Fiscal 2011-2017 Est.



Note: Total gross revenues includes video lottery terminal and, starting in fiscal 2013, table game revenue. The share going to the State is equal to the total less the amount that is retained by the casino operators netted against the general fund spending to support the program. General fund spending dropped between fiscal 2014 and 2016 as the Hollywood Casino Perryville and Maryland Live! facilities took over ownership of the video lottery terminal machines.

Source: Board of Revenues Estimates; Department of Legislative Services

In fiscal 2014, the State share of gaming revenues declined considerably due the introduction of table games. As the trend toward more table continues, the share, at least in the short run, is expected to decline.

DLS recommends that SLGCA comment on the status of the State's gaming program including the agency's preparations for the impending introduction of the sixth gaming facility.

Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
State Lottery and Gaming Control Agency
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$71,134	$70,639	$0	$0	$141,772
Deficiency Appropriation	1,600	2,995	0	0	4,595
Cost Containment	-1,424	-100	0	0	-1,524
Budget Amendments	21	116	0	0	137
Reversions and Cancellations	-5,067	-1,626	0	0	-6,694
Actual Expenditures	**$66,263**	**$72,023**	**$0**	**$0**	**$138,286**
Fiscal 2016					
Legislative Appropriation	$24,861	$78,284	$0	$0	$103,145
Budget Amendments	142	232	0	0	374
Working Appropriation	**$25,003**	**$78,516**	**$0**	**$0**	**$103,519**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 budget increased by approximately $4.6 million in fiscal 2015 due to deficiencies for the agency – almost $3.0 million in special funds and $1.6 million in general funds. Specifically, under traditional lottery operations, the budget increased by $2,531,000 in special funds for vendor payments for instant ticket lottery machines that are housed at licensed veterans organizations as authorized by Chapter 1 of the second special session of 2012. Also under traditional lottery operations, the budget increased by $463,688 in special funds to pay increased costs for the contract for instant ticket printing. Under the VLT and gaming program, a deficiency increased general funds in fiscal 2015 by $1 million to facilitate the final payment for the 2011 purchase of VLTs. Finally, there was a fiscal 2015 general fund deficiency ($600,000) to complete the agency's eLicensing system.

Additionally, the fiscal 2015 appropriation was reduced by $100,000 in special funds due to the July 2014 cost containment actions taken by the Board of Public Works (BPW). The agency achieved these savings by holding open several vacant positions. A subsequent BPW cost containment action in January 2015 reduced general funds by over $1.4 million.

Finally, as part of the State Employee Voluntary Separation Program, SLGCA relinquished $50,000 in general funds in fiscal 2015. A budget amendment adds $187,000 for the fiscal 2015 cost-of-living adjustment. The agency relinquished over $1.6 million in special funds at the end of the year due to lower than expected costs in instant ticket printing, the contract costs for its online gaming system, and in marketing expenses.

A sizable portion of general and special funds went unspent by the end of the fiscal year. This was due to the transfer of VLT machine ownership from the State to gaming facility owners. The lease costs were overbudgeted and some costs were offset due to larger than expected proceeds from the sale of the machines.

Fiscal 2016

To date, the fiscal 2016 original appropriation was increased by a budget amendment to offset a 2% employee pay reduction. General funds increased by $142,000 and special funds increased by $232,000.

Appendix 2

Audit Findings

Audit Period for Last Audit:	March 7, 2011 – March 19, 2014
Issue Date:	April 2015
Number of Findings:	5
Number of Repeat Findings:	2
% of Repeat Findings:	40%
Rating: (if applicable)	n/a

Finding 1: **The SLGCA network was not adequately secured from untrusted traffic.**

Finding 2: Network workstations and servers were not sufficiently protected against malware.

Finding 3: **Mainframe access controls, account and password controls, and security reporting were not sufficient.**

Finding 4: SLGCA did not distribute unclaimed VLT funds in a manner consistent with State regulations.

Finding 5: SLGCA had not published the award of three contracts, collectively valued at approximately $106 million, on eMaryland Marketplace as required.

*Bold denotes item repeated in full or part from preceding audit report.

Major Information Technology Projects

State Lottery and Gaming Control Agency
Lottery Central Monitoring and Control System

Project Status[1]	Planning	**New/Ongoing Project:**	New.
Project Description:	Lottery Central Monitoring and Control System (LCMCS): Services include system implementation, operation, and maintenance of the LCMCS and related systems; sales, marketing, instant ticket inventory, distribution, accounting, terminals, software, and telecommunications network that shall connect lottery retailers to the primary and back up data centers.		
Project Business Goals:	n/a		
Estimated Total Project Cost[1]:	$24 million annually	**Estimated Planning Project Cost[1]:**	Planning conducted within the State Lottery and Gaming Control Agency budgeted resources.
Project Start Date:	October 1, 2013	**Projected Completion Date:**	Fiscal 2018
Schedule Status:	Project is on track and a Request for Proposal (RFP) is scheduled for release early in third quarter fiscal 2016.		
Cost Status:	Will be estimated at the end of the RFP process.		
Scope Status:	n/a		
Project Management Oversight Status:			
Identifiable Risks:	If the RFP is delayed, the one-year conversion process may be delayed for one year.		
Additional Comments:			

Fiscal Year Funding ($ in Thousands)	**Prior Years**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Balance to Complete**	**Total**
Personnel Services	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Professional and Outside Services	0.0	0.0	24,000.0	24,000.0	24,000.0	24,000.0	0.0	96,000.0
Other Expenditures	100.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Total Funding	**$100.0**	**$0.0**	**$24,000.0**	**$24,000.0**	**$24,000.0**	**$24,000.0**	**$0.0**	**$96,100.0**

[1] Initially, an agency submits a Project Planning Request. After the requirements analysis has been completed and a project has completed all of the planning required through Phase Four of the Systems Development Lifecycle (Requirements Analysis), including a baseline budget and schedule, the agency may submit a Project Implementation Request and begin designing and developing the project when the request is approved. For planning projects, costs are estimated through planning phases. Implementation projects are required to have total development costs.

Object/Fund Difference Report
State Lottery and Gaming Control Agency

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	305.60	314.60	327.60	13.00	4.1%
02 Contractual	8.75	9.00	9.00	0.00	0%
Total Positions	**314.35**	**323.60**	**336.60**	**13.00**	**4.0%**
Objects					
01 Salaries and Wages	$ 22,681,310	$ 24,297,757	$ 25,888,719	$ 1,590,962	6.5%
02 Technical and Spec. Fees	351,179	351,674	461,809	110,135	31.3%
03 Communication	462,231	482,888	413,527	-69,361	-14.4%
04 Travel	227,104	59,000	59,000	0	0%
06 Fuel and Utilities	178,851	222,592	256,216	33,624	15.1%
07 Motor Vehicles	357,596	181,998	550,144	368,146	202.3%
08 Contractual Services	48,398,587	59,278,745	55,786,379	-3,492,366	-5.9%
09 Supplies and Materials	232,665	211,000	291,000	80,000	37.9%
10 Equipment – Replacement	412,147	132,500	132,500	0	0%
11 Equipment – Additional	46,333,644	17,089,522	14,118,000	-2,971,522	-17.4%
13 Fixed Charges	18,649,052	1,201,322	1,332,011	130,689	10.9%
14 Land and Structures	1,834	10,000	10,000	0	0%
Total Objects	**$ 138,286,200**	**$ 103,518,998**	**$ 99,299,305**	**-$ 4,219,693**	**-4.1%**
Funds					
01 General Fund	$ 66,263,057	$ 25,003,449	$ 21,806,259	-$ 3,197,190	-12.8%
03 Special Fund	72,023,143	78,515,549	77,493,046	-1,022,503	-1.3%
Total Funds	**$ 138,286,200**	**$ 103,518,998**	**$ 99,299,305**	**-$ 4,219,693**	**-4.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
State Lottery and Gaming Control Agency

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
00 State Lottery Agency	$ 138,286,200	$ 103,518,998	$ 99,299,305	-$ 4,219,693	-4.1%
Total Expenditures	**$ 138,286,200**	**$ 103,518,998**	**$ 99,299,305**	**-$ 4,219,693**	**-4.1%**
General Fund	$ 66,263,057	$ 25,003,449	$ 21,806,259	-$ 3,197,190	-12.8%
Special Fund	72,023,143	78,515,549	77,493,046	-1,022,503	-1.3%
Total Appropriations	**$ 138,286,200**	**$ 103,518,998**	**$ 99,299,305**	**-$ 4,219,693**	**-4.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

E80E
Property Tax Assessment Appeals Boards

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$1,022	$1,002	$1,055	$53	5.3%
Deficiencies and Reductions	0	0	-2	-2	
Adjusted General Fund	**$1,022**	**$1,002**	**$1,053**	**$51**	**5.1%**
Adjusted Grand Total	**$1,022**	**$1,002**	**$1,053**	**$51**	**5.1%**

- The fiscal 2017 allowance increases by $51,215, or 5.1%, above the fiscal 2016 working appropriation. This increase is largely attributable to an increase in the agency's shared services allocation.

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	8.00	8.00	8.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**8.00**	**8.00**	**8.00**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/15	1.00	12.50%

Note: Numbers may not sum to total due to rounding.

For further information contact: Benjamin B. Wilhelm Phone: (410) 946-5530

- Turnover is budgeted at 0% in the fiscal 2017 allowance. As of December 31, 2015, there was 1 regular position vacant, which equates to a vacancy rate of 12.5%. The agency reports that it is actively working to fill this position.

Analysis in Brief

Major Trends

Decline in Caseloads Increases Clearance Rate: The number of assessments appealed to the Property Tax Assessment Appeals Boards (PTAAB) fell 9% in calendar 2014, and the boards cleared nearly as many cases as it had in calendar 2013. This led to a decrease in the year-end backlog of 305 cases.

Appeals to Maryland Tax Court Increase, but Reversal Rate Falls: While there was an increase in the percentage of PTAAB decisions appealed to the Maryland Tax Court from 8% to 10% in calendar 2014, the reversal rate was significantly reduced from 28% to 11%.

Recommended Actions

1. Concur with Governor's allowance.

E80E
Property Tax Assessment Appeals Boards

Operating Budget Analysis

Program Description

The Property Tax Assessment Appeals Boards (PTAAB) across the state hear appeals relating to the assessment of property. There is one board in each county and Baltimore City, all of which are supported by a central office and executive director. Each board has four or six members (three members and one or three alternates) who are appointed by the Governor for five-year terms. The first appeals of assessments are conducted by the State Department of Assessments and Taxation (SDAT), which also makes those initial assessments. PTAAB hear second-tier appeals from SDAT decisions, and PTAAB decisions are appealed to the Maryland Tax Court (MTC). Further appeals may be made through the judicial system.

PTAAB have the following goals:

- to conduct appeals in a timely and efficient manner; and
- to render fair and accurate decisions.

Performance Analysis: Managing for Results

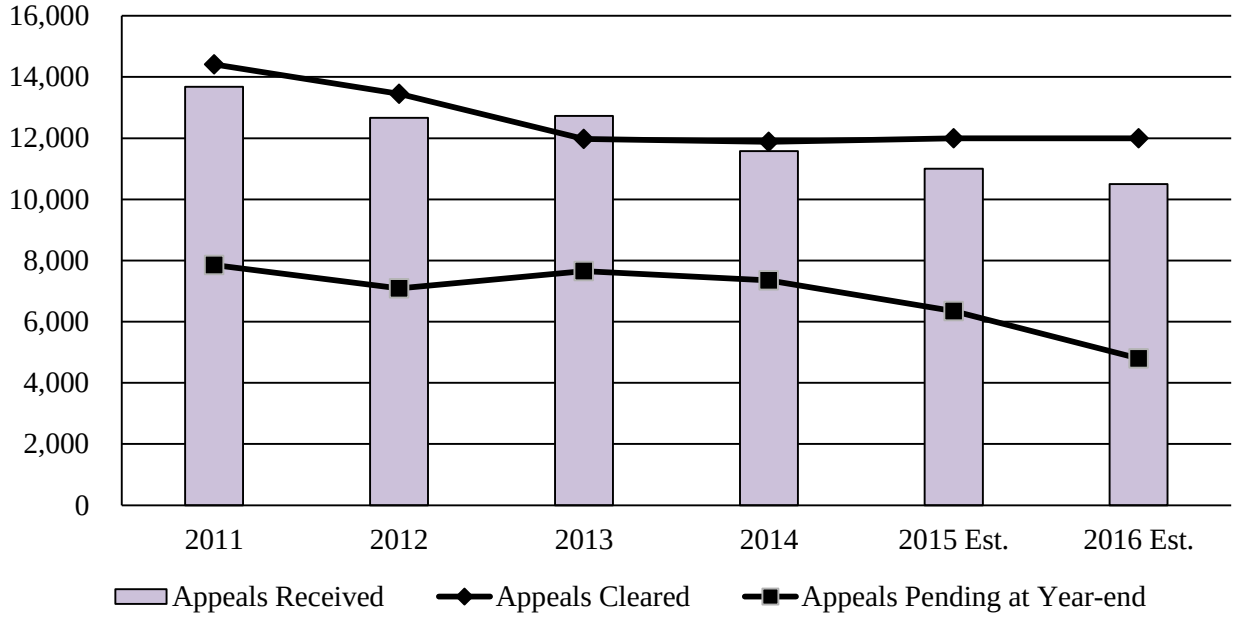
1. Decline in Caseloads Increases Clearance Rate

One of the primary goals of PTAAB is to conduct appeals in a timely and efficient fashion. As shown in **Exhibit 1**, PTAAB report that 1,150 fewer appeals were filed in calendar 2014, a 9% decrease. The number of cases cleared, however, held steady, resulting in an increase in clearance rate of 9 percentage points from 94% to 103% and reducing the total backlog by approximately 305 cases. Clearance rates dropped 12 percentage points from calendar 2012 to 2013, with PTAAB clearing 1,471 fewer cases. As the real estate market continues to improve and fewer property owners challenge property tax assessments, PTAAB anticipates that the number of new appeals will decline further.

2. Appeals to Maryland Tax Court Increase, but Reversal Rate Falls

The other primary goal for PTAAB is to render fair and accurate decisions, as measured by the percentage of decisions appealed to MTC and the percentage of those decisions that are reversed. As shown in **Exhibit 2**, 10% of PTAAB decisions were appealed to MTC in calendar 2014, up from 8% in calendar 2012 and 2013. Of those cases, though, only 11% were reversed by MTC. This is a significant drop from the 28% reversal rate in calendar 2013.

Exhibit 1
Efficiency Measures
Calendar 2011-2016 Est.



Source: Department of Budget and Management

Exhibit 2
Appeals of PTAAB Decisions to MTC
Calendar 2011-2016 Est.

	2011	2012	2013	2014	2015 Est.	2016 Est.
Appeals Filed with Tax Court	9%	8%	8%	10%	10%	10%
Appeals Reversed by Tax Court	10%	15%	28%	11%	20%	10%

MTC: Maryland Tax Court
PTAAB: Property Tax Assessment Appeals Boards

Source: Department of Budget and Management

Fiscal 2016 Actions

Cost Containment

The 2016 budget included a 2% across-the-board general fund reduction for State agencies as a cost containment measure. For this agency, that reduction totaled $22,000, which was distributed as follows: $8,000 in savings for a new photocopier contract, $7,000 for telephones, and $7,000 for in-state travel.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2017 allowance for PTAAB increases by $51,215 above the fiscal 2016 working appropriation. This increase is largely attributable to an increase in the agency's shared services allocation. The Governor's budget also includes an appropriation for employee increments totaling $8,865 in general funds for this agency. This funding and associated expenses are included in the budget of the Department of Budget and Management and will be distributed to each agency by budget amendment at the start of the fiscal year.

Exhibit 3
Proposed Budget
Property Tax Assessment Appeals Boards
($ in Thousands)

How Much It Grows:	General Fund	Total
Fiscal 2015 Actual	$1,022	$1,022
Fiscal 2016 Working Appropriation	1,002	1,002
Fiscal 2017 Allowance	1,053	1,053
Fiscal 2016-2017 Amount Change	$51	$51
Fiscal 2016-2017 Percent Change	5.1%	5.1%

Where It Goes:	
Personnel Expenses	
Compensation	$5
Employee retirement	4
Social Security	-3
Employee and retiree health insurance	-6
Other Changes	
State services assessment	48
New computers	4
Translation services for hearings	1

Where It Goes:	
Printing	-1
Office supplies	-2
Other	-1
Total	**$49**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $2,029 in general funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Personnel

Personnel expenditures increase by $1,016, including increases for compensation and employee retirement, which are offset by decreased payments for health insurance.

Other Changes

The other major adjustment to this agency's budget is the addition of a new shared services assessment for the statewide personnel system, which increases the budget by $48,316.

Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Property Tax Assessment Appeals Boards
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$1,060	$0	$0	$0	$1,060
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-21	0	0	0	-21
Budget Amendments	-2	0	0	0	-2
Reversions and Cancellations	-15	0	0	0	-15
Actual Expenditures	**$1,022**	**$0**	**$0**	**$0**	**$1,022**
Fiscal 2016					
Legislative Appropriation	$986	$0	$0	$0	$986
Budget Amendments	16	0	0	0	16
Working Appropriation	**$1,002**	**$0**	**$0**	**$0**	**$1,002**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

PTAAB finished fiscal 2015 $38,190 below its legislative appropriation. Cost containment reduced the appropriation by $21,349. A reduction of $9,342 for the Voluntary Separation Program was partially offset by a budget amendment adding $7,592 for the cost-of-living adjustment. Additionally, a total of $15,091 in unspent funds were reverted.

Fiscal 2016

In fiscal 2016, one budget amendment added $16,000 in general funds to restore employee salaries.

Object/Fund Difference Report
Property Tax Assessment Appeals Boards

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	8.00	8.00	8.00	0.00	0%
Total Positions	**8.00**	**8.00**	**8.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 854,385	$ 851,294	$ 854,339	$ 3,045	0.4%
02 Technical and Spec. Fees	0	190	1,190	1,000	526.3%
03 Communication	17,325	17,803	19,315	1,512	8.5%
04 Travel	9,783	8,501	9,783	1,282	15.1%
06 Fuel and Utilities	899	3,000	911	-2,089	-69.6%
07 Motor Vehicles	27,626	10,770	10,820	50	0.5%
08 Contractual Services	26,757	32,167	77,936	45,769	142.3%
09 Supplies and Materials	4,764	7,600	6,250	-1,350	-17.8%
10 Equipment – Replacement	9,878	300	4,050	3,750	1250.0%
13 Fixed Charges	70,251	70,254	70,529	275	0.4%
Total Objects	**$ 1,021,668**	**$ 1,001,879**	**$ 1,055,123**	**$ 53,244**	**5.3%**
Funds					
01 General Fund	$ 1,021,668	$ 1,001,879	$ 1,055,123	$ 53,244	5.3%
Total Funds	**$ 1,021,668**	**$ 1,001,879**	**$ 1,055,123**	**$ 53,244**	**5.3%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

F10A
Secretary
Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$8,448	$9,073	$9,744	$671	7.4%
Deficiencies and Reductions	0	0	-19	-19	
Adjusted General Fund	**$8,448**	**$9,073**	**$9,724**	**$652**	**7.2%**
Special Fund	12,908	13,963	14,126	163	1.2%
Deficiencies and Reductions	0	0	-37	-37	
Adjusted Special Fund	**$12,908**	**$13,963**	**$14,089**	**$126**	**0.9%**
Reimbursable Fund	176	225	232	7	3.1%
Adjusted Reimbursable Fund	**$176**	**$225**	**$232**	**$7**	**3.1%**
Adjusted Grand Total	**$21,533**	**$23,261**	**$24,046**	**$785**	**3.4%**

- The fiscal 2017 allowance increases by $785,000, or 3.4%, over the fiscal 2016 working appropriation.

- General funds increase by a net $652,000, or 7.2%, including an across-the-board (ATB) reduction in health insurance. The largest increases in general fund expenditures are for personnel and shared human resources' services.

- Special funds increase by $126,000, or 0.9%, over the fiscal 2016 working appropriation. The largest increases in special fund expenditures are for contractual services for the Central Collection Unit (CCU), primarily for shared human resources' services and administrative hearings.

Note: Numbers may not sum to total due to rounding.

For further information contact: Laura M. Vykol Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	196.80	198.80	198.80	0.00
Contractual FTEs	11.00	9.00	9.00	0.00
Total Personnel	**207.80**	**207.80**	**207.80**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.19	2.11%
Positions and Percentage Vacant as of 12/31/15	13.00	6.54%

- There are no changes in regular or contractual positions in the fiscal 2017 allowance.
- Turnover expectancy is set at 2.1%, requiring 4.19 positions to be held vacant. As of December 31, 2015, 13.0 positions were vacant, or 6.5%, far exceeding the required vacancies.

Analysis in Brief

Major Trends

Capital Budget Performance Shows Improvement: The Office of Capital Budgeting strives for sound capital budget planning processes. Objectives have been established to ensure that at least 90% of State-owned capital projects are consistent with agency facilities master plans and have approved program plans. The agency met one objective while falling short of another in fiscal 2015 but has shown improvement in both categories.

Central Collection Unit Net Profit Declines: CCU is responsible for collecting delinquent claims, debts, and accounts owed to the State except for taxes, child support, and unemployment contributions and overpayments. Typical debts include Motor Vehicle Administration fines, student tuition and fees, and restitution for damage to State property, among others. From fiscal 2012 to 2015, net agency profit decreased by $3.3 million, or 40.7%. This decrease in net profits is expected to continue because CCU operating expenditures include the cash flow for the major information technology business system replacement; agency net profit should increase after the upgrade is completed.

Issues

Across-the-board Reductions in Fiscal 2015 and 2016: As part of budget balancing actions for both the fiscal 2015 and 2016 budgets, Governor Martin J. O'Malley and Governor Lawrence J. Hogan, Jr. adopted 2% ATB reductions to agency operating budgets, which reduced general funds by $112.8 million and $118.0 million, respectively. **The Department of Budget and Management (DBM) should comment on the agencies that received fiscal 2016 deficiencies and describe how it was determined which agencies should have the required reduction restored.**

Board of Public Works Transparency Act of 2016: The Board of Public Works (BPW) Transparency Act of 2016, HB 368 and SB 370 of the 2016 session, would require the Secretary of Budget and Management to provide public notice of at least 10 consecutive days before BPW may approve a reduction of appropriations proposed by the Governor. **The Department of Legislative Services (DLS) requests that the department comment on the impact that the legislation will have on operations and the Administration's ability to balance the budget.**

Large Specific Reversions in Fiscal 2016 Create Uncertainty: According to Section 2 of the fiscal 2017 budget bill, annual budget bill language, the Secretary of Budget and Management is authorized to allot appropriations throughout the year (*e.g.*, monthly, quarterly, *etc.*). Using this authority, the Administration's plan for fiscal 2016 assumes $303.7 million in specific reversions and $30.0 million in estimated agency reversions. This creates budgeting uncertainty as the only option is to wait and see if these reversions actually occur at the end of the fiscal year. **DLS recommends amending Section 2 of the fiscal 2017 budget bill to limit the amount of appropriations that can be placed into contingency reserve to only those items restricted by the General Assembly. Additionally, DLS recommends adding budget bill language that requires DBM to allocate ATB**

reductions to positions or funding and requires DBM to withdraw appropriations by deficiency that are deemed in excess of typical $30.0 million agency reversions in order to increase transparency.

Recommended Actions

1. Increase turnover.
2. Amend Section 2 to limit appropriations that can be placed into contingency reserve to items restricted by the General Assembly.
3. Amend Section 17 adding a tracking structure necessary for legislative audits and disallowing transfers to other purposes.
4. Add a section requiring a long-term forecast.
5. Add a section applying the across-the-board Executive Branch reductions to higher education.
6. Add a section requiring monthly reporting on the State's workers' compensation account held by the Chesapeake Employers' Insurance Company.
7. Add a section requiring reporting on federal funds received by the State.
8. Add a section defining the usage of federal funds in the budget.
9. Add a section requiring indirect cost recovery reporting.
10. Add a section requiring a consistent presentation of budget data and organizational charts.
11. Add a section requiring reporting on interagency agreements and approval by the Department of Budget and Management.
12. Add a section defining the budget amendment process.
13. Add a section defining maintenance of accounting systems.
14. Add a section limiting salary payments to Executive Branch nominees rejected by the Senate.

Updates

Fiscal 2015 Report on Higher Education Interagency Agreements Submitted: Annual budget bill language requires DBM to submit a report to the budget committees that contains information on all

interagency agreements with higher education. This report was submitted as required on December 1, 2015.

Regulatory Reform Commission 2015 Report: On July 9, 2015, the Governor signed an executive order constituting the Maryland Regulatory Reform Commission. The goals of the commission are to work with the business community to identify issues relating to State government regulation and to recommend solutions to reform business regulations in the State. A report was submitted in December 2015 that summarized initial findings and recommendations of the commission.

F10A

Secretary

Department of Budget and Management

Operating Budget Analysis

Program Description

The Department of Budget and Management (DBM) is responsible for managing the expenditure of State resources. DBM's programs are described below:

- **Executive Direction** manages the department. It includes executive staff, Attorneys General, and the Equal Employment Opportunity Program.

- **Division of Finance and Administration** is responsible for the accounting, budgeting, payroll, and purchasing functions of the department.

- **Central Collection Unit** (CCU) collects delinquent debts, claims, and accounts due to State government.

- **Division of Procurement Policy and Administration** provides centralized review and approval or rejection of procurement of services for Executive Branch agencies. The administration also procures vehicles and manages State fleet operations.

- **Office of Budget Analysis** analyzes State agency programs, expenditures, revenues, and performance. The office recommends funding allocations and develops the operating budget with legal requirements and the Administration's directions.

- **Office of Capital Budgeting** develops an annual capital budget, prepares a five-year *Capital Improvement Program,* and reviews the master plans of State agencies.

DBM also has an Office of Personnel Services and Benefits (F10A02), which provides State personnel policy direction and support. This budget and related issues are discussed in a separate analysis.

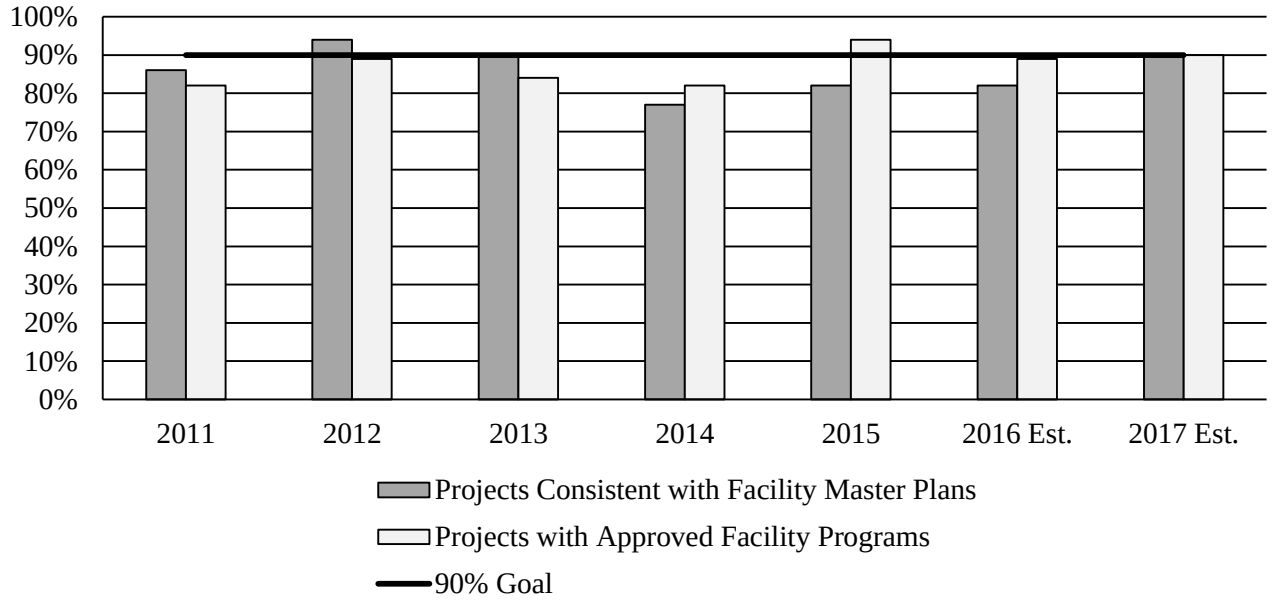
Performance Analysis: Managing for Results

1. Capital Budget Performance Shows Improvement

The Office of Capital Budgeting reports two objectives as part of its goal to ensure that capital projects included in the budget are consistent with sound planning practices. Under the first objective, the office seeks to have 90% of State-owned capital projects be consistent with agency facilities master

plans. The second objective is that 90% of State-owned capital projects included in the budget bill have approved facility programs. **Exhibit 1** shows that DBM did exceed the 90% goal for projects with approved facility programs in fiscal 2015 but fell short of the mark, despite improvement, in projects consistent with facility master plans.

Exhibit 1
Office of Capital Budgeting
State-owned Capital Projects Consistent with Facilities Master Plans and Projects with Approved Facility Programs
Fiscal 2011-2017 Est.



Source: Governor's Budget Books, Fiscal 2012-2016; Department of Budget and Management

In fiscal 2014, only 77% of projects were consistent with facility master plans. DBM attributed this percentage to projects included for funding while several agencies were developing new or revised facility master plans, as well as to accommodate emergency projects. In fiscal 2015, the percent of State-owned projects in the capital budget consistent with facility master plans increased to 82%, which is still below the 90% goal but shows improvement.

Projects with approved facility programs exceeded the 90% goal in fiscal 2015 with 94% of State-owned capital projects having approved facility programs. This is a substantial increase from fiscal 2014 when only 82% of State-owned capital projects had approved facility programs. Section 3-602 of the State Finance and Procurement Article states that capital projects must have an

approved Part 1 program prior to authorization of funds for design and an approved Part 2 program prior to authorization of capital funds. Projects without approved program plans can receive authorizations in the capital bill with the stipulation that no funds can be expended until the program plans are approved.

2. Central Collection Unit Net Profit Declines

CCU is responsible for collecting delinquent claims, debts, and accounts owed to the State except for taxes, child support, and unemployment contributions and overpayments. Typical debts include Motor Vehicle Administration fines, student tuition and fees, and restitution for damage to State property, among others. **Exhibit 2** illustrates collection trend activity from fiscal 2012 to 2017. In previous Managing for Results submissions, the dollar value of debt collected and the percent outstanding of the total debt were provided, but in fiscal 2017, these measures have been replaced with new measures, such as the agency's net profit (*i.e.*, the amount left over from collection fees recovered on gross collections after operating expenses are paid). According to DBM, the old measures were not valid, short-term indicators of performance; the new metrics provide the ability to be indicators of success or flag a problem with collections.

Exhibit 2
Central Collection Unit Collection Activity
Fiscal 2012-2017 Est.

Year	Dollar Value of Debt Collected	% of Outstanding Total Collected	Annual % Change in Dollars Collected	Agency Net Profit*	Annual % Change in Net Profit
2012	$125,717,129	47.5%	-6.9%	$8,187,638	
2013	138,492,905	46.9%	10.2%	5,798,710	-29.2%
2014	134,590,503	46.0%	-2.8%	5,519,901	-4.8%
2015	140,338,214	48.4%	4.3%	4,851,628	-12.1%
2016 Est.	142,000,000	46.0%	1.2%	2,295,000	-52.7%
2017 Est.	144,000,000	46.0%	1.4%	6,482,000	182.4%

*Agency net profit is the amount left over from collection fees recovered on gross collections after operating expenditures are paid.

Source: Governor's Budget Books, Fiscal 2014-2016; Department of Budget and Management

From fiscal 2012 to 2015, net agency profit decreased by $3.3 million, or 40.7%. This decrease in net profits is expected to continue as indicated by the $2.3 million net profit estimate, a decrease of $2.6 million, into fiscal 2016. Because CCU operating expenditures include the cash flow for the major information technology (IT) business system replacement, agency net profit should increase after the upgrade is completed. DBM states that the project was delayed when the decision was made to include the base telephone system in the scope of the project since the current system was at the end of its life cycle, but overall, the project continues to meet planned milestones. Details on this project are included in the Department of Information Technology analysis because it is funded from the Major IT Development Project Fund.

CCU's account inventory was expanded in fiscal 2015 with the expectation of receiving video tolling violations from the Maryland Transportation Authority (MDTA); however, MDTA did not begin submitting toll violations to CCU until November 2015 and did not submit its first file of Maryland toll violators until February 2016. CCU does anticipate continuous placements of at least 40,000 violations per month; however, MDTA determines the volume and timing of these placements.

Cost Containment

The Administration reduced agency budgets' general fund appropriations by 2% across-the-board (ATB) in fiscal 2016 as cost containment. The DBM – Secretary portion of this cut was $127,000 and met this reduction through the following:

- achieved salary savings during transition of the Administration ($58,000);
- abolished a contract position in the procurement unit ($49,000);
- reduced funds for outside consulting services ($15,000); and
- reduced funds for computer replacement ($5,000).

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2017 allowance increases by $785,000, or 3.4%, including a back of the bill reduction in health insurance. General funds increase overall by $652,000, or 7.2%. The largest increases in general fund expenditures are for personnel and shared human resources' services. Special funds increase overall by $126,000, or 0.9%. The largest increases in special fund expenditures are for contractual services for CCU, primarily for shared human resources' services and administrative hearings.

Exhibit 3
Proposed Budget
Department of Budget and Management – Secretary
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$8,448	$12,908	$176	$21,533
Fiscal 2016 Working Appropriation	9,073	13,963	225	23,261
Fiscal 2017 Allowance	9,724	14,089	232	24,046
Fiscal 2016-2017 Amount Change	$652	$126	$7	$785
Fiscal 2016-2017 Percent Change	7.2%	0.9%	3.1%	3.4%

Where It Goes:

Personnel Expenses	
Employees' retirement system	$299
Employee and retiree health insurance, including back of the bill reduction	231
Turnover adjustments	164
Central Collection Unit (CCU) performance bonuses renegotiated	-100
Salaries and other compensation	-185
Reclassification	-268
Other fringe benefit adjustments	-3
Other Changes	
Human resources shared services	356
Administrative hearings	99
Office of the Attorney General and retirement administrative fees	73
Software and server upgrades for the Capital Budget Information System	55
CCU vehicle purchase	19
Statewide personnel system allocation	14
Contractual health insurance	11
Other	20
Total	**$785**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an ATB reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $19,358 in general funds and $36,598 in special funds. There is an additional ATB reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Personnel

Personnel expenditures increase by $138,000 over the fiscal 2016 working appropriation. The largest personnel increases are in retirement ($299,000) and health insurance ($231,000), including the back of the bill reduction. Funding for turnover increases by $164,000, which lowers required turnover to 2.1%. Looking only at general fund positions, turnover is set at 2.2% in the fiscal 2017 allowance (*i.e.*, removing special fund positions from CCU from the calculation). From fiscal 2011 to the fiscal 2016 working appropriation, the average vacancy rate of general fund positions in DBM – Secretary has been 5.17%. **The Department of Legislative Services (DLS) recommends increasing turnover for general fund positions in fiscal 2017 to reflect average vacancies in the past five fiscal years.**

Elimination of funds for reclassification of employees decreases the fiscal 2017 allowance by $268,000 due to positions in CCU being reclassified in fiscal 2015 and 2016; this funding does not need to continue into fiscal 2017. Regular earnings decrease by $185,000 due to new employees filling vacant positions at base salaries. A renegotiation of CCU performance bonuses results in a decrease of $100,000.

Although not reflective in the DBM – Secretary fiscal 2017 budget, $274,241 in employee increments and associated expenses are expected to be distributed to the agency by budget amendment at the start of the fiscal year. Currently, increments for agencies are included in the DBM – Personnel budget.

Human Resources Shared Services

In fiscal 2016, DBM introduced a new human resources (HR) shared services initiative. DBM advises that the objective is to bring consistency to all HR-related activities throughout the employment life cycle and create efficiencies. DBM expects to realize cost savings as it refines the pool of individuals providing HR services, streamlines processes, and reduces the number of HR staff required; a more detailed write-up on HR shared services is provided in the fiscal 2017 DBM – Personnel operating analysis. The fiscal 2017 allowance shows an increase of $356,000 in DBM – Secretary's budget for HR shared services. HR shared services were already budgeted in DBM in prior years as these services have been provided by DBM's Office of Personnel Services and Benefits, but these costs are now accounted for under DBM's new HR shared initiatives.

Issues

1. Across-the-board Reductions in Fiscal 2015 and 2016

As part of budget balancing actions for both the fiscal 2015 and 2016 budgets, Governor Martin J. O'Malley and Governor Lawrence J. Hogan, Jr. adopted 2% ATB reductions to agency operating budgets, which reduced general funds by $112.8 million and $118.0 million, respectively.

Fiscal 2015

In January 2015, the Board of Public Works (BPW) approved a 2% ATB reduction resulting in a general fund reduction of $112.8 million, allocated across State agencies by a three-digit financial agency code. On February 20, 2015, a budget amendment was approved allocating reductions prorated across programs; reductions were primarily applied to contractual services and grants. At the fiscal 2015 closeout, departments transferred funds at the comptroller object and program level in order to meet required cuts. In the Department of Health and Mental Hygiene (DHMH), cuts were not intended to be applied to entitlement programs, but ultimately, these programs were reduced (*e.g.*, Medicaid and overattainment of federal funds in the Behavioral Health Administration provided $13.7 million in funds as part of DHMH's $27.2 million reduction).

Fiscal 2016

In conjunction with the fiscal 2016 allowance submitted in January 2015, the Governor's budget bill included an ATB provision (Section 19) to reduce agencies budgets by 2%, resulting in a reduction of $118.0 million in general funds. Fiscal 2016 budget bill language required DBM to submit a report providing a complete accounting of the 2% ATB reduction for fiscal 2016. The report requested a detailed allocation of reductions by agency and program, as well as the impact on the operations of each agency and program. A report was submitted September 1, 2015, and a budget amendment was approved September 21, 2015, to reallocate the reductions in the appropriate agency programs and comptroller objects. **Exhibit 4** shows the allocation of the 2% ATB reduction in fiscal 2016 by agency.

The largest reductions came from DHMH due to a Medicaid fund swap with rate stabilization special funds and managed care organization rate savings, a reduction in grants to higher education, and the Department of Public Safety and Correctional Services (DPSCS) due to favorable inmate trends and by holding positions vacant. Additionally, 284.5 positions were abolished, primarily in higher education (192.4 positions) and the Department of Human Resources (DHR) (82.0 positions).

Exhibit 4
Allocation of the 2% Fiscal 2016 Across-the-board Reduction by Agency

Agency	General Fund Reductions	Positions
Public Defender	$2,019,000	
Planning	267,000	2.00
Agriculture	513,000	2.00
Health and Mental Hygiene	27,215,000	6.00
Human Resources	6,888,000	82.00
Labor, Licensing, and Regulation	954,000	
Public Safety and Correctional Services	24,378,001	
Education	2,785,000	
Morgan State	1,754,000	20.00
University System of Maryland	25,457,000	172.35
Higher Education Commission	2,068,000	
Commerce*	1,084,000	
Juvenile Services	5,882,000	
State Police	5,226,000	
Other Agencies	11,502,000	
Grand Total	**$117,992,001**	**284.35**

*Department of Commerce was previously known as the Department of Business and Economic Development.

Source: Department of Budget and Management; Department of Legislative Services September 24, 2015 Budget Update to the Legislature

Several agencies were unable to absorb all or a portion of the 2% reduction without significantly impeding operations and/or services to the public. Agencies that received a fiscal 2016 deficiency to restore the 2% reduction, as identified by DLS, included:

- DPSCS, $8,541,172;
- Department of State Police, $5,226,000;
- Maryland Higher Education Commission, $1,664,078;
- Office of the Public Defender, $625,000;

- Maryland Stadium Authority, $270,758;
- Interagency Committee on School Construction, $38,000; and
- Maryland State Board of Contract Appeals, $14,000.

These deficiencies totaled $16,379,008.

Besides these restored fiscal 2016 appropriations, it is difficult to distinguish which reductions continued into the fiscal 2017 allowance. Some appropriations that were reduced were only partially reinstated, and inclusion of new spending makes comparison difficult. Overall, including deficiencies, general funds across the entire budget grow by 5.2% over the fiscal 2016 working appropriation. **DBM should comment on the agencies that received fiscal 2016 deficiencies and describe how it was determined which agencies should have the required reduction restored.**

2. Board of Public Works Transparency Act of 2016

With the exception of the Legislative and Judicial branches, K-12 education, debt service and the salaries for constitutional officers, and with approval of BPW, the Governor may reduce any appropriation during the fiscal year by up to 25% to address shortfalls in revenue and to maintain a balanced budget.

The BPW Transparency Act of 2016, HB 368 and SB 370 of the 2016 session, would require the Secretary of Budget and Management to provide public notice of at least 10 consecutive days before BPW may approve a reduction. While an attempt to provide greater transparency, this legislation will delay the Governor's ability to address revenue shortfalls. The legislation requires the Governor to provide notice to the Legislative Policy Committee, the Senate Budget and Taxation Committee, and the House Appropriations Committee. The notice must include (1) the name of the agency or program for which the appropriation is intended; (2) a brief narrative summary of the impact of the proposed reduction on the agency or program; (3) the amount of the proposed reduction in both dollar and percentage values; (4) the fund source of the appropriation affected; and (5) any projected reduction in the workforce as a result of the proposed reduction.

DLS requests that the department comment on the impact that the legislation will have on operations and the Administration's ability to balance the budget.

3. Large Specific Reversions in Fiscal 2016 Create Uncertainty

According to Section 2 of the fiscal 2017 budget bill, annual budget bill language, the Secretary of Budget and Management is authorized to allot appropriations throughout the year (*e.g.*, monthly, quarterly, *etc.*). Using this authority, the Administration's plan for fiscal 2016 assumes $303.7 million in specific reversions and $30.0 million in estimated reversions. The specific reversions include:

- $222.2 million in Medicaid related reversions;
- $21.4 million from the Dedicated Purpose Account;
- $19.4 million from DHR;
- $13.0 million in BPW pay-as-you-go funds;
- $12.9 million from the Maryland State Department of Education;
- $11.5 million from behavioral health;
- $3.0 million from the Department of Juvenile Services for Major IT projects; and
- $0.2 million for the shared services initiative.

The Administration also assumes $30 million in estimated agency reversions, which is the amount usually included in estimated reversions each year. This level of specified reversions is significant and unprecedented. Using reversions in this manner creates uncertainty because it leaves the fate of over $330 million in fund balance that is shown in both the fiscal 2016 and 2017 budgets subject to withholding funds through the closeout of the fiscal year rather than adjusting appropriations in advance.

DLS recommends amending Section 2 of the fiscal 2017 budget bill to limit the amount of appropriations that can be placed into contingency reserve to only those items restricted by the General Assembly. Additionally, DLS recommends adding budget bill language that requires DBM to allocate ATB reductions to positions or funding and requires DBM to withdraw appropriations by deficiency that are deemed in excess of typical $30 million agency reversions in order to increase transparency.

Recommended Actions

1. Add the following language:

   Provided that the general fund appropriation for the Department of Budget and Management (DBM) be reduced by $353,012 to increase turnover. The Secretary of DBM is authorized to allocate this reduction across the agency.

   Explanation: This action would increase turnover expectancy for general fund positions to reflect actual vacancies in recent fiscal years. The Secretary of the Department of Budget and Management (DBM) is authorized to allocate this reduction across the agency, including programs associated with the DBM Office of Personnel Services and Benefits.

2. Amend the following section:

   SECTION 2. AND BE IT FURTHER ENACTED, That in order to carry out the provisions of these appropriations the Secretary of the Department of Budget and Management (DBM) is authorized:

   (a) To allot all or any portion of the funds herein appropriated to the various departments, boards, commissions, officers, schools and institutions by monthly, quarterly or seasonal periods and by objects of expense~~ and may place any funds appropriated by not allotted in contingency reserve available for subsequent allotment. Upon the Secretary's own initiative or upon the request of the head of any State agency, the Secretary may authorize a change in the amount of funds so allotted~~.

   The Secretary shall, before the beginning of the fiscal year, file with the Comptroller of the Treasury a list limited to the appropriations restricted in this act, to be placed in contingency reserve~~ a schedule of allotments, if any~~. The Comptroller shall not authorize any expenditure or obligation in excess of the allotment made and any expenditure so made shall be illegal.

   ~~(b) To allot all or any portion of funds coming into the hands of any department, board, commission, officer, school and institution of the State, from sources not estimated or calculated upon in the budget.~~

   (b~~c~~) The Secretary of DBM is authorized to~~To~~ fix the number and classes of positions, including temporary and permanent positions, or person years of authorized employment for each agency, unit, or program thereof, not inconsistent with the Public General Laws in regard to classification of positions. The Secretary shall make such a determination before the beginning of the fiscal year and shall base them on the positions or person years of employment authorized in the budget as amended by approved budgetary position actions. No payment for salaries or wages nor any request for or certification of personnel shall be made

except in accordance with the Secretary's determinations. At any time during the fiscal year the Secretary may amend the number and classes of positions or person years of employment previously fixed by the Secretary; the Secretary may delegate all or part of this authority. The governing boards of public institutions of higher education shall have the authority to transfer positions between programs and campuses under each institutional board's jurisdiction without the approval of the Secretary, as provided in Section 15-105 of the Education Article.

(d) To prescribe procedures and forms for carrying out the above provisions.

Explanation: This language limits the amount of appropriations that can be placed into contingency reserve to only those items restricted by the General Assembly.

3. Amend the following section:

Section 17 Using Funds for Their Intended Purpose

SECTION 17. AND BE IT FURTHER ENACTED, That funds appropriated to the various State agency programs and subprograms in Comptroller Objects 0152 (Health Insurance), 0154 (Retirees Health Insurance Premiums), 0175 (Workers' Compensation), 0217 (Health Insurance), 0305 (DBM Paid Telecommunications), 0322 (Capital Lease Telecommunications), 0839 (HR Shared Services), 0874 (Office of Attorney General Administrative Fee), 0876 (DoIT IT Services Allocation), 0894 (State Personnel System Allocation), 0897 (Enterprise Budget System Allocation), and 1303 (rent paid to DGS) are to be utilized for their intended purposes only. ~~The expenditure or transfer of these funds for other purposes requires the prior approval of the Secretary of Budget and Management.~~ Notwithstanding any other provision of law, the Secretary of Budget and Management may transfer amounts appropriated in Comptroller Objects 0152, 0154, 0217, 0305, 0322, and 0876 between State departments and agencies by approved budget amendment in fiscal 2016 and fiscal 2017. All funds budgeted in or transferred to Comptroller Objects 0152 and 0154, and any funds restricted in this budget for use in the employee and retiree health insurance program that are unspent shall be credited to the fund as established in accordance with Section 2-516 of the State Personnel and Pensions Article of the Annotated Code of Maryland.

<u>Further provided that each agency that receives funding in this budget in any of the restricted Comptroller Objects listed within this section shall establish within the State's accounting system a structure of accounts to separately identify for each restricted Comptroller Object, by fund source, the legislative appropriation, monthly transactions, and final expenditures. It is the intent of the General Assembly that an accounting detail be established so that the Office of Legislative Audits may review the disposition of funds appropriated for each restricted Comptroller Object as part of each closeout audit to ensure that funds are used only for the purposes for which they are restricted and that unspent funds are reverted or canceled.</u>

Explanation: This amendment pertaining to restricted objects of expenditure is amended to disallow transfers to other purposes and makes it possible for the Office of Legislative Audits to track the disposition of funds in restricted statewide subobjects.

4. Add the following section:

Section XX Executive Long-term Forecast

SECTION XX. AND BE IT FURTHER ENACTED, That the Governor's budget books shall include a forecast of the impact of the Executive budget proposal on the long-term fiscal condition of the General Fund, the Transportation Trust Fund, and higher education Current Unrestricted Fund accounts. This forecast shall estimate aggregate revenues, expenditures, and fund balances in each account for the fiscal year last completed, the current year, the budget year, and four years thereafter. Expenditures shall be reported at such agency, program or unit levels, or categories as may be determined appropriate after consultation with the Department of Legislative Services. A statement of major assumptions underlying the forecast shall also be provided, including but not limited to general salary increases, inflation, and growth of caseloads in significant program areas.

Explanation: This annual language provides for the delivery of the Executive's general fund, transportation, and higher education forecasts and defines the conditions under which they are to be provided.

Information Request	**Author**	**Due Date**
Executive forecasts	Department of Budget and Management	With the submission of the Governor's fiscal 2018 budget books

5. Add the following section:

Section XX Across-the-board Reductions and Higher Education

SECTION XX. AND BE IT FURTHER ENACTED, That all across-the-board reductions applied to the Executive Branch, unless otherwise stated, shall apply to current unrestricted and general funds in the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College.

Explanation: This section explicitly applies reductions intended for the full Executive Branch to the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College, unless their exclusion is specifically stated.

6. Add the following section:

Section XX Chesapeake Employers' Insurance Company Fund Accounts

SECTION XX. AND BE IT FURTHER ENACTED, That the General Accounting Division of the Comptroller of Maryland shall establish a subsidiary ledger control account to debit all State agency funds budgeted under subobject 0175 (Workers' Compensation coverage) and to credit all payments disbursed to the Chesapeake Employers' Insurance Company (CEIC) via transmittal. The control account shall also record all funds withdrawn from CEIC and returned to the State and subsequently transferred to the General Fund. CEIC shall submit monthly reports to the Department of Legislative Services concerning the status of the account.

Explanation: This section provides continuation of a system to track workers' compensation payments to the CEIC Fund for payment of claims, current expenses, and funded liability for incurred losses by the State.

Information Request	**Author**	**Due Date**
Report on status of ledger control account	CEIC	Monthly beginning on July 1, 2016

7. Add the following section:

Section XX Reporting Federal Funds

SECTION XX. AND BE IT FURTHER ENACTED, That the Governor's budget books shall include a summary statement of federal revenues by major federal program sources supporting the federal appropriations made therein along with the major assumptions underpinning the federal fund estimates. The Department of Budget and Management (DBM) shall exercise due diligence in reporting this data and ensure that they are updated as appropriate to reflect ongoing congressional action on the federal budget. In addition, DBM shall provide to the Department of Legislative Services (DLS) data for the actual, current, and budget years listing the components of each federal fund appropriation by Catalog of Federal Domestic Assistance number or equivalent detail for programs not in the catalog. Data shall be provided in an electronic format subject to the concurrence of DLS.

Explanation: This annual language provides for consistent reporting of federal monies received by the State.

Information Request	Author	Due Date
Reporting components of each federal fund appropriation	DBM	With submission of the fiscal 2018 budget

8. Add the following section:

Section XX Federal Fund Spending

SECTION XX. AND BE IT FURTHER ENACTED, That in the expenditure of federal funds appropriated in this budget or subsequent to the enactment of this budget by the budget amendment process:

(1) State agencies shall administer these federal funds in a manner that recognizes that federal funds are taxpayer dollars that require prudent fiscal management, careful application to the purposes for which they are directed, and strict attention to budgetary and accounting procedures established for the administration of all public funds.

(2) For fiscal 2017, except with respect to capital appropriations, to the extent consistent with federal requirements:

(i) when expenditures or encumbrances may be charged to either State or federal fund sources, federal funds shall be charged before State funds are charged except that this policy does not apply to the Department of Human Resources with respect to federal funds to be carried forward into future years for child welfare or welfare reform activities;

(ii) when additional federal funds are sought or otherwise become available in the course of the fiscal year, agencies shall consider, in consultation with the Department of Budget and Management (DBM), whether opportunities exist to use these federal revenues to support existing operations rather than to expand programs or establish new ones; and

(iii) DBM shall take appropriate actions to effectively establish the provisions of this section as policies of the State with respect to the administration of federal funds by executive agencies.

Explanation: This annual language defines the policies under which federal funds shall be used in the State budget.

9. Add the following section:

Section XX Indirect Costs Report

SECTION XX. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall provide an annual report on indirect costs to the General Assembly in January 2017 as an appendix in the Governor's fiscal 2018 budget books. The report must detail by agency for the actual fiscal 2016 budget the amount of statewide indirect cost recovery received, the amount of statewide indirect cost recovery transferred to the General Fund, and the amount of indirect cost recovery retained for use by each agency. In addition, the report must list the most recently available federally approved statewide and internal agency cost-recovery rates. As part of the normal fiscal/compliance audit performed for each agency once every three years, the Office of Legislative Audits shall assess available information on the timeliness, completeness, and deposit history of indirect cost recoveries by State agencies. Further provided that for fiscal 2017, excluding the Maryland Department of Transportation, the amount of revenue received by each agency from any federal source for statewide cost recovery shall be transferred only to the General Fund and may not be retained in any clearing account or by any other means, nor may DBM or any other agency or entity approve exemptions to permit any agency to retain any portion of federal statewide cost recoveries.

Explanation: This is annual language that requires a report on indirect costs and disallows waivers of statewide cost recovery.

Information Request	**Author**	**Due Date**
Annual report on indirect costs	DBM	With the submission of the Governor's fiscal 2018 budget books

10. Add the following section:

Section XX Reporting on Budget Data and Organizational Charts

SECTION XX. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that all State departments, agencies, bureaus, commissions, boards, and other organizational units included in the State budget, including the Judiciary, shall prepare and submit items for the fiscal 2018 budget detailed by Comptroller subobject classification in accordance with instructions promulgated by the Comptroller of Maryland. The presentation of budget data in the State budget books shall include object, fund, and personnel data in the manner provided for in fiscal 2017 except as indicated elsewhere in this Act; however, this may not preclude the placement of additional information into the budget books. For actual fiscal 2016 spending, the fiscal 2017 working appropriation, and the fiscal 2018 allowance, the budget detail shall be available from the Department of Budget and Management (DBM) automated data system at the subobject level by subobject codes and classifications for all

agencies. To the extent possible, except for public higher education institutions, subobject expenditures shall be designated by fund for actual fiscal 2016 spending, the fiscal 2017 working appropriation, and the fiscal 2018 allowance. The agencies shall exercise due diligence in reporting this data and ensuring correspondence between reported position and expenditure data for the actual, current, and budget fiscal years. This data shall be made available on request and in a format subject to the concurrence of the Department of Legislative Services (DLS). Further, the expenditure of appropriations shall be reported and accounted for by the subobject classification in accordance with the instructions promulgated by the Comptroller of Maryland.

Further provided that due diligence shall be taken to accurately report full-time equivalent counts of contractual positions in the budget books. For the purpose of this count, contractual positions are defined as those individuals having an employee-employer relationship with the State. This count shall include those individuals in higher education institutions who meet this definition but are paid with additional assistance funds.

Further provided that DBM shall provide to DLS with the allowance for each department, unit, agency, office, and institution, a one-page organizational chart in Microsoft Word or Adobe PDF format that depicts the allocation of personnel across operational and administrative activities of the entity.

Further provided that for each across-the-board reduction to appropriations or positions in the Fiscal Year 2018 budget bill affecting fiscal 2017 or fiscal 2018, DBM shall allocate the reduction for each agency in a level of detail not less than the 3-digit R*Stars financial agency code and by each fund type.

Further provided that, for fiscal 2017, any appropriations approved in this Act that are determined to be in excess of the needs of any agency or program above the aggregate estimate of $30,000,000 in reversions may be withdrawn only through a deficiency appropriation in the Fiscal Year 2018 budget bill.

Explanation: This annual language provides for consistent reporting of fiscal 2016, 2017, and 2018 budget data and provides for the submission of department, unit, agency, office, and institutions' organizational charts to DLS with the allowance. **It also requires DBM to allocate across-the-board reductions to positions or funding, to ensure transparency in budget allocations approved by the General Assembly. It further requires that appropriations in fiscal 2017 that are deemed to be in excess of agency needs beyond the $30.0 million assumed in the budget be withdrawn by deficiency appropriation.**

Information Request	Author	Due Date
Reporting on budget data, agency organizational charts, ATB reductions, and reversions	DBM	With submission of the fiscal 2018 budget

11. Add the following section:

Section XX Interagency Agreements

SECTION XX. AND BE IT FURTHER ENACTED, That on or before August 1, 2016, each State agency and each public institution of higher education shall report to the Department of Budget and Management (DBM) any agreements in place for any part of fiscal 2016 between State agencies and any public institution of higher education involving potential expenditures in excess of $100,000 over the term of the agreement. Further provided that DBM shall provide direction and guidance to all State agencies and public institutions of higher education as to the procedures and specific elements of data to be reported with respect to these interagency agreements, to include at a minimum:

(1) a common code for each interagency agreement that specifically identifies each agreement and the fiscal year in which the agreement began;

(2) the starting date for each agreement;

(3) the ending date for each agreement;

(4) a total potential expenditure, or not-to-exceed dollar amount, for the services to be rendered over the term of the agreement by any public institution of higher education to any State agency;

(5) a description of the nature of the goods and services to be provided;

(6) the total number of personnel, both full-time and part-time, associated with the agreement;

(7) contact information for the agency and the public institution of higher education for the person(s) having direct oversight or knowledge of the agreement;

(8) the amount and rate of any indirect cost recovery or overhead charges assessed by the institution of higher education related to the agreement; and

(9) the justification submitted to DBM for indirect cost recovery rates greater than 20%.

Further provided that DBM shall submit a consolidated report to the budget committees and the Department of Legislative Services by December 1, 2016, that contains information on all agreements between State agencies and any public institution of higher education involving potential expenditures in excess of $100,000 that were in effect at any time during fiscal 2016.

Further provided that the Secretary of DBM shall review each current higher education interagency agreement in excess of $500,000 to determine why the services cannot be provided by the State agencies and is, therefore, appropriate for using higher education; ensure that agencies maintain documentation of all agreements, amendments, task orders, and invoices; ensure that the overhead charges and direct service costs are not excessive; and ensure that all work performed by higher education is documented. Further provided that no new higher education interagency agreement may be entered into during fiscal 2017 without prior approval of the Secretary of DBM.

Explanation: The language requires all State agencies and public institutions of higher education to report on all interagency agreements between State agencies and public institutions of higher education having a total potential expenditure over the term of the agreement in excess of $100,000. This applies only to agreements for the purchase of goods and/or services and does not apply to grants or space agreements between State agencies and public institutions of higher education. The report also requires DBM to report on the justification for any interagency agreement with an indirect cost recovery rate greater than 20%. Further, it requires that DBM submit a consolidated report on all agreements by December 1, 2016, to the budget committees and the Department of Legislative Services. Review of each existing agreement above $500,000 and approval of new agreements by the Secretary of DBM is also required.

Information Request	**Author**	**Due Date**
Consolidated report on all interagency agreements	DBM	December 1, 2016

12. Add the following section:

Section XX Budget Amendments

SECTION XX. AND BE IT FURTHER ENACTED, That any budget amendment to increase the total amount of special, federal, or higher education (current restricted and current unrestricted) fund appropriations, or to make reimbursable fund transfers from the Governor's Office of Crime Control and Prevention or the Maryland Emergency Management Agency, made in Section 1 of this Act shall be subject to the following restrictions:

(1) This section may not apply to budget amendments for the sole purpose of:

(i) appropriating funds available as a result of the award of federal disaster assistance; and

(ii) transferring funds from the State Reserve Fund – Economic Development Opportunities Fund for projects approved by the Legislative Policy Committee.

(2) Budget amendments increasing total appropriations in any fund account by $100,000 or more may not be approved by the Governor until:

(i) that amendment has been submitted to the Department of Legislative Services (DLS); and

(ii) the budget committees or the Legislative Policy Committee have considered the amendment or 45 days have elapsed from the date of submission of the amendment. Each amendment submitted to DLS shall include a statement of the amount, sources of funds and purposes of the amendment, and a summary of the impact on regular position or contractual full-time equivalent payroll requirements.

(3) Unless permitted by the budget bill or the accompanying supporting documentation or by any other authorizing legislation, and notwithstanding the provisions of Section 3-216 of the Transportation Article, a budget amendment may not:

(i) restore funds for items or purposes specifically denied by the General Assembly;

(ii) fund a capital project not authorized by the General Assembly provided, however, that subject to provisions of the Transportation Article, projects of the Maryland Department of Transportation (MDOT) shall be restricted as provided in Section 1 of this Act;

(iii) increase the scope of a capital project by an amount 7.5% or more over the approved estimate or 5.0% or more over the net square footage of the approved project until the amendment has been submitted to DLS, and the budget committees have considered and offered comment to the Governor or 45 days have elapsed from the date of submission of the amendment. This provision does not apply to MDOT; and

(iv) provide for the additional appropriation of special, federal, or higher education funds of more than $100,000 for the reclassification of a position or positions.

(4) A budget may not be amended to increase a federal fund appropriation by $100,000 or more unless documentation evidencing the increase in funds is provided with the

amendment and fund availability is certified by the Secretary of the Department of Budget and Management (DBM).

(5) No expenditure or contractual obligation of funds authorized by a proposed budget amendment may be made prior to approval of that amendment by the Governor.

(6) Notwithstanding the provisions of this section, any federal, special, or higher education fund appropriation may be increased by budget amendment upon a declaration by the Board of Public Works that the amendment is essential to maintaining public safety, health, or welfare, including protecting the environment or the economic welfare of the State.

(7) Budget amendments for new major information technology projects, as defined by Section 3A-301 and 3A-302 of the State Finance and Procurement Article, must include an Information Technology Project Request, as defined in Section 3A-308 of the State Finance and Procurement Article.

(8) Further provided that the fiscal 2017 appropriation detail as shown in the Governor's budget books submitted to the General Assembly in January 2017 and the supporting electronic detail may not include appropriations for budget amendments that have not been signed by the Governor, exclusive of the MDOT pay-as-you-go capital program.

(9) Further provided that it is the policy of the State to recognize and appropriate additional special, higher education, and federal revenues in the budget bill as approved by the General Assembly. Further provided that for the fiscal 2018 allowance, DBM shall continue policies and procedures to minimize reliance on budget amendments for appropriations that could be included in a deficiency appropriation.

Explanation: This annual language defines the process under which budget amendments may be used.

13. Add the following section:

Section XX Maintenance of Accounting Systems

SECTION XX. AND BE IT FURTHER ENACTED, That:

(1) The Secretary of the Department of Health and Mental Hygiene (DHMH) shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2016 in program M00Q01.03 Medical Care Provider Reimbursements have been disbursed for services provided in that fiscal year and shall prepare and submit the periodic reports required under this section for that program.

(2) The State Superintendent of Schools shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2016 to program R00A02.07 Students With Disabilities for Non-Public Placements have been disbursed for services provided in that fiscal year and to prepare periodic reports as required under this section for that program.

(3) The Secretary of the Department of Human Resources (DHR) shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2016 in program N00G00.01 Foster Care Maintenance Payments have been disbursed for services provided in that fiscal year, including detail on average monthly caseload, average monthly cost per case, and the total expended for each foster care program, and to prepare the periodic reports required under this section for that program.

(4) For the programs specified, reports must indicate total appropriations for fiscal 2016 and total disbursements for services provided during that fiscal year up through the last day of the second month preceding the date on which the report is to be submitted and a comparison to data applicable to those periods in the preceding fiscal year.

(5) Reports shall be submitted to the budget committees, the Department of Legislative Services, the Department of Budget and Management, and the Comptroller on November 1, 2016; March 1, 2017; and June 1, 2017.

(6) It is the intent of the General Assembly that general funds appropriated for fiscal 2016 to the programs specified that have not been disbursed within a reasonable period, not to exceed 12 months from the end of the fiscal year, shall revert.

Explanation: This annual language requires the maintenance of accounting systems for certain programs, states the intent of the General Assembly that general funds not disbursed be reverted, and requires reporting of disbursements by DHMH, the Maryland State Department of Education (MSDE), and the Department of Human Resources (DHR).

Information Request	Authors	Due Date
Report on appropriations and disbursements in M00Q01.03, R00A02.07, and N00G00.01	DHMH DHR MSDE	November 1, 2016 March 1, 2017 June 1, 2017

14. Add the following section:

Section XX Secretary's or Acting Secretary's Nomination and Salary

SECTION XX. AND BE IT FURTHER ENTACTED, That no funds in this budget may be expended to pay the salary of a Secretary or an Acting Secretary of any department whose nomination as Secretary has been rejected by the Senate or an Acting Secretary who was serving in that capacity prior to the 2016 session whose nomination for the Secretary position was not put forward and approved by the Senate during the 2016 session unless the Acting Secretary is appointed under Article II, Section 11 of the Maryland Constitution prior to July 1, 2016.

Explanation: This language ensures that the intentions of the General Assembly are reflected in the payment of executive salaries.

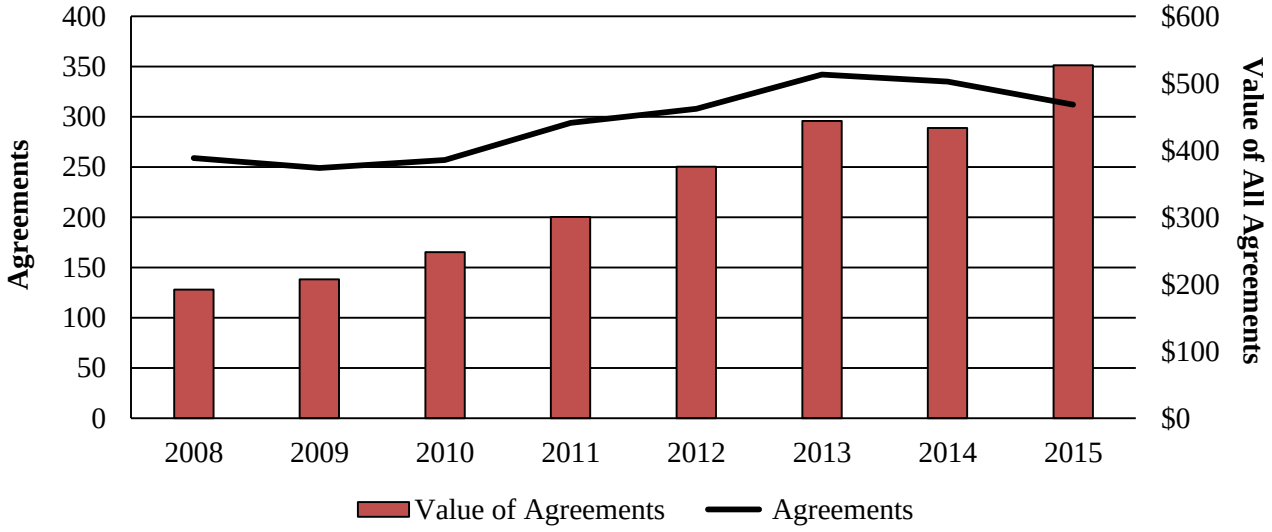
Updates

1. Fiscal 2015 Report on Higher Education Interagency Agreements Submitted

Interagency agreements are used by State agencies to obtain services from State institutions of higher education, such as IT assistance and training. These agreements can be beneficial to agencies as a means of tapping research, knowledge, and skills that can benefit and support operations and services. Interagency agreements are also exempt from certain State procurement laws and personnel laws and subject to indirect cost recovery and overhead charges. Annual budget bill language requires DBM to submit a report to the budget committees that contains information on all interagency agreements with higher education. This report was submitted as required on December 1, 2015.

The report DBM submits includes the length and value of each contract tied to a specific control number. In addition, due to recent revision in annual budget bill language, the report must include justification for cost recovery rates in excess of 20%. In fiscal 2015, there were 312 agreements with a total projected value of $527.1 million, which is a decrease of 23 agreements and an increase of $93.6 million in total projected value compared to the fiscal 2014 report. **Exhibit 5** shows the number and total dollar value of interagency agreements with higher education from fiscal 2008 to 2015.

Exhibit 5
Higher Education Interagency Agreements
Agreements and Dollar Value
Fiscal 2008-2015
($ in Millions)



Source: Department of Budget and Management

2. Regulatory Reform Commission 2015 Report

On July 9, 2015, the Governor signed Executive Order 01.01.2015.20 constituting the Maryland Regulatory Reform Commission. The goals of the commission are to work with the business community to identify issues relating to State government regulation and to recommend solutions to reform business regulations in the State. A report was submitted in December 2015 that summarized initial findings and recommendations of the commission.

The commission began preliminary work in August 2015 and held six public meetings in different regions across the State. Some of the overarching themes of the public meetings included (1) the State's technology was outdated; (2) customer service was severely lacking and is an impediment to progress; (3) permit and licensing requirements are confusing and unclear; (4) the regulatory environment is unpredictable and not very transparent; and (5) the emphasis seems to be on enforcement and penalties rather than assisting with compliance. The recommendations of the commission include the following:

- the Administration should take a comprehensive review of the State's government structure, regulatory environment, responsibilities, and functions with the goal of reorganizing State government to improve efficiency, accessibility, technology, customer service, and adaptability;

- the Administration should address overlapping regulatory authority and attempt to improve interagency communication;

- the Administration should establish customer service standards and a statewide Customer Service Operations Center to provide Maryland residents with a one-stop shop for inquiries and referrals;

- State agencies should maximize the use of electronic filings and report on their progress every six months;

- State agencies should consider utilizing a third-party certification and review process to improve efficiency and cost savings;

- the State should establish clear standards for agency communication, application guidelines, set a firm time limit for review completion, and ensure that reviews are sufficiently detailed to minimize unnecessary delays and frustrations;

- State agencies should conduct a comprehensive review of all continuing education requirements to examines if their obligations are consistent with industry standards in other states, whether they are meaningful, or if reduction or elimination of these requirements would pose a risk to the public; and

- a lead State agency should be designated to coordinate the entire State regulatory process for a customer instead of multiple agencies.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of Budget and Management – Secretary
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$8,674	$13,438	$0	$214	$22,326
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-229	-400	0	0	-629
Budget Amendments	274	69	0	0	344
Reversions and Cancellations	-271	-199	0	-38	-508
Actual Expenditures	**$8,448**	**$12,908**	**$0**	**$176**	**$21,533**
Fiscal 2016					
Legislative Appropriation	$8,936	$13,625	$0	$225	$22,786
Budget Amendments	137	338	0	0	475
Working Appropriation	**$9,073**	**$13,963**	**$0**	**$225**	**$23,261**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

DBM finished fiscal 2015 approximately $793,000 below its legislative appropriation. Cost containment amendments resulted in a decrease of $628,810 ($228,810 in general funds and $400,000 in special funds). DBM primarily reduced contractual services, postage, and equipment to meet cost containment reductions.

Budget amendments added approximately $344,000 to the fiscal 2015 budget. Funding for a cost-of-living adjustment increased the appropriation by $330,438 ($261,041 in general funds and $69,397 in special funds). An Annual Salary Review (ASR) to reclassify positions added $55,725 in general funds for DBM operating and capital budget analysts. A budget amendment for the Voluntary Separation Program decreased the budget by $35,000 in general funds.

Reversions and cancellations totaled approximately $508,000. Of this amount, $270,943 in general funds were reverted predominantly due to long-term vacancies of higher paid positions as a result of the change in Administration. Special fund cancellations totaled $198,966 as a result of lower than anticipated operating costs due to delay in the CCU taking over MDTA accounts. Reimbursable funds were canceled due to vacancies ($27,757) and a reimbursement from DPSCS for the Statewide Indirect Cost Allocation contract not being needed ($10,000).

Fiscal 2016

The fiscal 2016 working appropriation increases by approximately $475,000 over the legislative appropriation ($338,000 in special funds and $137,000 in general funds). This increase is due to budget amendments restoring salaries ($271,443), an ASR which increases CCU collection agents' salaries by one grade ($200,479), and a budget amendment to reallocate cost containment ($3,416).

Appendix 2

Audit Findings

Audit Period for Last Audit:	May 23, 2011 – July 14, 2014
Issue Date:	April 2015
Number of Findings:	2
Number of Repeat Findings:	2
% of Repeat Findings:	100%
Rating: (if applicable)	n/a

Finding 1: **CCU did not adequately pursue potential wage garnishments from debtors.**

Finding 2: **Controls over system access and sensitive personally identifiable information were not sufficient.**

*Bold denotes item repeated in full or part from preceding audit report.

Object/Fund Difference Report
Department of Budget and Management – Secretary

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	196.80	198.80	198.80	0.00	0%
02 Contractual	11.00	9.00	9.00	0.00	0%
Total Positions	**207.80**	**207.80**	**207.80**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 16,578,066	$ 18,384,429	$ 18,578,315	$ 193,886	1.1%
02 Technical and Spec. Fees	346,806	289,397	300,318	10,921	3.8%
03 Communication	921,940	1,056,018	1,061,704	5,686	0.5%
04 Travel	28,585	41,000	44,548	3,548	8.7%
07 Motor Vehicles	1,680	11,580	30,020	18,440	159.2%
08 Contractual Services	2,961,170	2,780,490	3,357,455	576,965	20.8%
09 Supplies and Materials	124,022	122,500	132,500	10,000	8.2%
10 Equipment – Replacement	65,296	70,450	75,700	5,250	7.5%
13 Fixed Charges	505,101	505,254	521,387	16,133	3.2%
Total Objects	**$ 21,532,666**	**$ 23,261,118**	**$ 24,101,947**	**$ 840,829**	**3.6%**
Funds					
01 General Fund	$ 8,448,190	$ 9,072,755	$ 9,743,696	$ 670,941	7.4%
03 Special Fund	12,908,446	13,963,256	14,126,067	162,811	1.2%
09 Reimbursable Fund	176,030	225,107	232,184	7,077	3.1%
Total Funds	**$ 21,532,666**	**$ 23,261,118**	**$ 24,101,947**	**$ 840,829**	**3.6%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Department of Budget and Management – Secretary

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Executive Direction	$ 1,793,382	$ 1,976,837	$ 2,259,941	$ 283,104	14.3%
02 Division of Finance and Administration	968,647	1,039,228	1,189,036	149,808	14.4%
03 Central Collection Unit	12,908,446	13,963,256	14,126,067	162,811	1.2%
04 Division of Procurement Policy and Administration	2,126,909	2,197,366	2,329,874	132,508	6.0%
01 Budget Analysis and Formulation	2,706,474	2,980,526	3,002,041	21,515	0.7%
01 Capital Budget Analysis and Formulation	1,028,808	1,103,905	1,194,988	91,083	8.3%
Total Expenditures	**$ 21,532,666**	**$ 23,261,118**	**$ 24,101,947**	**$ 840,829**	**3.6%**
General Fund	$ 8,448,190	$ 9,072,755	$ 9,743,696	$ 670,941	7.4%
Special Fund	12,908,446	13,963,256	14,126,067	162,811	1.2%
Total Appropriations	**$ 21,356,636**	**$ 23,036,011**	**$ 23,869,763**	**$ 833,752**	**3.6%**
Reimbursable Fund	$ 176,030	$ 225,107	$ 232,184	$ 7,077	3.1%
Total Funds	**$ 21,532,666**	**$ 23,261,118**	**$ 24,101,947**	**$ 840,829**	**3.6%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$6,540	$32,408	$94,865	$62,457	192.7%
Deficiencies and Reductions	0	2,402	-19	-2,422	
Adjusted General Fund	**$6,540**	**$34,811**	**$94,846**	**$60,035**	**172.5%**
Special Fund	0	5,575	15,649	10,073	180.7%
Deficiencies and Reductions	0	343	0	-343	
Adjusted Special Fund	**$0**	**$5,918**	**$15,649**	**$9,730**	**164.4%**
Federal Fund	0	3,261	8,791	5,530	169.6%
Adjusted Federal Fund	**$0**	**$3,261**	**$8,791**	**$5,530**	**169.6%**
Reimbursable Fund	7,451	8,071	10,021	1,949	24.2%
Adjusted Reimbursable Fund	**$7,451**	**$8,071**	**$10,021**	**$1,949**	**24.2%**
Adjusted Grand Total	**$13,991**	**$52,061**	**$129,306**	**$77,245**	**148.4%**

- The budget provides two deficiencies totaling $2.7 million; $2.5 million ($2.2 million in general funds and $0.3 million in special funds) for the State Law Enforcement Officers Labor Alliance and $0.2 million of general funds for shared services. **The Department of Legislative Service (DLS) recommends that these funds are contingent on SB 378 and HB 454, which remove the prohibition on increments.**

- After adjusting for deficiencies and an across-the-board reduction in fiscal 2017 health insurance costs, the allowance increases to $129.3 million, which is $77.2 million more than fiscal 2016.

- Most of the costs are attributable to the Department of Budget and Management's (DBM) statewide program, which has a $111.8 million budget that exceeds the fiscal 2016 working appropriation by $75.2 million.

Note: Numbers may not sum to total due to rounding.

For further information contact: Patrick S. Frank and Laura M. Vykol Phone: (410) 946-5530

- Funding for operations totals $17.5 million and exceeds fiscal 2016 by $2.0 million.

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	113.50	127.00	127.00	0.00
Contractual FTEs	2.46	0.70	3.20	2.50
Total Personnel	**115.96**	**127.70**	**130.20**	**2.50**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		2.67	2.10%	
Positions and Percentage Vacant as of 12/31/15		18.80	14.80%	

- From fiscal 2015 to 2016, 13.5 positions were added to the department's budget.

- The Division of Employee Benefits received 2.0 regular positions in the fiscal 2016 legislative appropriation to support new contractual health care analysis requirements and convert a long-time contractual full-time equivalent (FTE).

- An additional 11.5 positions were transferred from other agencies to support the human resources shared services initiative.

- DBM also received 2.0 additional contractual FTEs from other agencies to support the human resources shared services initiative.

Analysis in Brief

Major Trends

Personnel Transaction Tallies Reverse Recent Declines: From fiscal 2009 to 2012, there were declines in personnel transactions (such as hiring, reclassifications, and promotions). The decline began to reverse in fiscal 2013, and there were increases particularly for reclassifications. In fiscal 2014, appointments and reclassifications increased but other transactions tended to remain steady. In fiscal 2015, transfers, promotions, reclassifications, and retirements increased substantially.

Issues

Statewide Employee Compensation: Employee costs are 18.9% of State spending, which totals $42.3 billion. In fiscal 2017, employee costs increase by $329.7 million, or 4.1%. The largest increases are attributable to increments ($108.9 million), health insurance ($118.2 million), and pension ($100.2 million) costs. Since fiscal 2004, employee salaries have increased at an annual rate of 2.4% per year, while health insurance costs have increased at an annual rate of 3.9% and pension costs at an annual rate of 14.7%. The limited salary growth is attributable to years without general salary increases or merit pay increases. DBM has completed collective bargaining agreements with public safety unions that give them additional increments and general salary increases. Funds for the additional increment and general salary increase do not appear to be in the budget. **DBM should brief the committees on the negotiations. This should include a discussion of what concessions the public safety unions made to receive these salary enhancements from the State. The department should also discuss the cost of the additional increment and salary increase, and how this will be funded.** DBM was unable to reach any agreements with the other bargaining units. The budget includes increments in fiscal 2017 for the remaining employees but does not include a general salary increase. There are also no additional increments for employees that missed increments from fiscal 2009 to 2013 and in fiscal 2016. The budget prepared in fiscal 2017 was prepared under the best conditions any budget has been prepared since fiscal 2009; both fiscal 2016 and 2017 budgets have a structural surplus, and fiscal 2017 is expected to begin with $502.4 million fund balance. The most recent comparison of State salaries to local and federal government salaries was prepared in fiscal 2008. The study concluded that Maryland State salaries were 5.0% below average at the minimum pay level, and 3.0% below the average at the maximum level. **The department should brief the committees on its policies toward State employee salary increases. This should include a discussion of the economic conditions under which general salary increases are affordable and appropriate. DBM should also discuss the extent to which low salaries affect retention, productivity, and effectiveness.**

Statewide Position Changes: The Spending Affordability Committee (SAC) set a position cap of 80,831 regular full-time equivalents across State government for fiscal 2017. This year, the committee did not include any exemptions. The proposed budget includes 80,321 positions in fiscal 2017, net of an across-the-board reduction of 657 positions in Section 20 of the budget bill. This is below the SAC limit. **DLS recommends that the committees adopt narrative expressing intent that the fiscal 2018 budget bill include a full and complete accounting of positions and that the Administration**

refrain from abolishing unspecified positions through across-the-board reductions in the budget bill. To maximize savings and have a full and complete budget at the beginning of the fiscal year, DLS recommends that the General Assembly add language requiring that Section 20 position abolitions be made prior to the start of the fiscal year on July 1, 2016. DLS recommends language requiring approval of the position abolitions by the Board of Public Works and that the Governor submit a schedule of abolished positions to the budget committees by July 1, 2016, be added to Section 20.

Human Resources Shared Services: In fiscal 2016, DBM introduced a new human resources (HR) shared services initiative. DBM advises that the objective is to bring consistency to all HR-related activities throughout the employment life cycle. DBM expects to realize cost savings as it refines the pool of individuals providing HR services and streamlines processes. **DBM should be prepared to brief the committees on its new HR shared service initiative. The department should also prepare Managing for Results (MFR) indicators that measure how effectively DBM is providing HR services to State agencies.**

Supervisors to Supervised Employees Ratios in State Agencies: The fiscal 2016 *Joint Chairmen's Report* required that State agencies submit a report on the ratio of supervisors and managers to employees for agencies. DBM submitted a report that examined this issue and provided ratios for Executive Branch agencies. **DLS recommends that DBM examine the high number of 1:1 ratios. This should include determining where an increased use of the lead worker role is appropriate. DBM should also examine if salary levels are competitive and make improvements if they are not. A more aggressive use of Annual Salary Reviews may be effective if the Administration continues to be reluctant to provide general salary increases.**

Ongoing Hiring Freeze: The State has been operating under a hiring freeze to varying degrees since 2004. Based on February 2016 vacancy data, 772 positions were frozen. **DLS recommends that the committees adopt language requiring DBM to prepare a report on the hiring freeze that describes the administrative procedures and what positions are exempted. DBM should also develop MFR indicators that measure how long it takes to process hiring freeze exemption requests.**

No Plan to Address Unfunded Retiree Health or Workers' Compensation Liabilities: Certain State employees are eligible to receive health care benefits when they retire. These Other Postemployment Benefits (OPEB) pay benefits on an annual basis. This has resulted in an unfunded liability totaling $9.4 billion at the beginning of fiscal 2016. The State also provides benefits to employees injured at work. This unfunded liability totals $413 million. Prior to the recession of 2008, annual appropriations were made to reduce both unfunded liabilities. The State does not have a plan to fund these liabilities. **The department should be prepared to discuss plans to reduce the OPEB liability and fully fund the annual required contribution. The department should also be prepared to brief the committees on any plans to begin appropriating funds to reduce the unfunded workers' compensation liability.**

Statewide Personnel System Implementation Delays: Since January 2008, DBM has been working on replacing its Statewide Personnel System. The first phase of the project included recruiting, compensation, and performance management. Initially, the second phase included benefits administration, compensation, and timekeeping. The department has delayed the benefits administration, and this is now the third phase. The revised plan is to implement benefits administration in spring 2017, instead of late 2015. The total cost of the project has also increased. Last year, DBM reported that the total cost was $60.4 million. The updated total project cost is $72.3 million. **The department should be prepared to brief the committees on the status of the Statewide Personnel System.**

Missing Personnel Data: Section 7-121 of the State Finance and Procurement Article requires that the budget books include personnel data. The fiscal 2017 budget books did not include the required personnel data. **The Administration should be expected to include all required personnel data in the fiscal 2018 budget books.**

Employee and Retiree Health Insurance Account: The account closed with a substantial fund balance in fiscal 2014; however, due to increasing costs, the account closed with a negative fund balance in fiscal 2015 after accounting for expected accruals. Contributions increase in fiscal 2016 and 2017 in order to eliminate the deficit, and favorable trends in pharmacy rebates results in additional revenue. DLS is concerned that growth in payments in fiscal 2016 and 2017 is underestimated, which could result in a negative fund balance in fiscal 2017**. DBM should explain recent and predicted cost trends in health insurance spending in fiscal 2017 and whether funding is sufficient.**

New Health Plans and Wellness Program: In an effort to address escalating medical and prescription costs, DBM implemented a wellness program along with other plan changes beginning on January 1, 2015. The program includes the use of incentives and disincentives, education, and discounted resources to encourage employee wellness and reduce out-year costs. Based on initial feedback, fewer employees completed the required wellness activities than anticipated. As of January 2016, wellness requirements for calendar 2015 and 2016 have been extended and surcharges eliminated. **DBM should discuss the decision to waive surcharges in calendar 2016 and 2017, current plans to implement the wellness program and improve participation, and provide revised costs and savings estimates of the program given recent changes. DLS recommends DBM submit a report January 1, 2017, on the revised wellness program.**

Recommended Actions

		Funds
1.	Add language requesting a report on hiring freeze policy.	
2.	Add budget language requiring a report on fiscal 2016 closeout data for the Employee and Retiree Health Insurance Account.	

		Funds
3.	Add language to restrict funds pending a report on the department's human resources services consolidation.	
4.	Reduce higher education merit pay increase to reflect the statewide average.	$ 1,466,143
5.	Reduce appropriation for increments to reflect the 657 position reduction.	640,000
6.	Adopt committee narrative requesting that the Administration submit a full and complete accounting of positions in the fiscal 2018 budget bill.	
7.	Adopt committee narrative requesting the Department of Budget and Management to submit a report on the revised wellness program.	
8.	Amend Section 19 to reduce overbudgeted health care spending in the Legislative and Judicial branches.	
9.	Add language limiting the Administration's across-the-board position reduction to vacant positions.	
10.	Add language requiring the Administration to receive the Board of Public Works approval for across-the-board position reductions prior to the start of fiscal 2017.	
11.	Add a section for the annual "Rule of 100" limit on position creation.	
12.	Add a section for annual language requiring a report on State positions.	
13.	Add a section requiring annual language of all Executive Pay Plan reporting.	
14.	Add a section on annual language restricting the movement of employees into abolished positions.	
15.	Add a section requiring reporting of employee and retiree health insurance receipts and spending.	
	Total Reductions	**$ 2,106,143**

Updates

Impact of the Cadillac Tax: The Cadillac Tax is a 40% excise tax on employer-sponsored health coverage on the portion of total health insurance premiums that exceed $10,200 for individuals and $27,500 for a family. The Cadillac Tax was scheduled to take effect in calendar 2018, but has been delayed until calendar 2020.

F10A02

Personnel

Department of Budget and Management

Operating Budget Analysis

Program Description

The Office of Personnel Services and Benefits (OPSB) provides policy direction for the human resources (HR) system established by the State Personnel and Pensions Article through its oversight of the State Personnel Management System (SPMS). All positions in the Executive Branch of State government are in the SPMS, except for employees of higher education institutions and the Maryland Department of Transportation (MDOT). Positions in the Legislative and Judicial branches of State government are also outside of the SPMS.

OPSB administers State personnel policies and the health benefits program. Specific functions within OPSB include salary administration and classification, recruitment and examination, employee relations, employee benefits, and medical services. OPSB shares responsibility with State agencies for the administration of personnel functions through policy development, guidance, and interpretation. The health benefit program is funded by the Employee and Retiree Health Insurance Account.

Performance Analysis: Managing for Results

1. Personnel Transaction Tallies Reverse Recent Declines

OPSB's Managing for Results (MFR) measures deal with the statewide employee retention rate and settlement of grievance and disciplinary appeals. Data on activities of OPSB is available in quarterly data that the Department of Budget and Management (DBM) has provided to the Department of Legislative Services (DLS) regarding the various transactions overseen by the agency in the course of its duties as the central administrator of statewide personnel issues.

Exhibit 1 lists the major personnel transactions in the SPMS since fiscal 2009. The transactions involving hiring totals and career advancement figures are listed in the upper portion of the table and are followed below by those dealing with separation from State service. There are several trends to note about the career track figures. The macro trend is that there was more churning of the State workforce in fiscal 2015, more employees than in any of the previous six years.

- Appointments, or new hires, increased to over 4,100 in fiscal 2014 and 3,600 in fiscal 2015. This is still significantly lower than the peak levels before the recession and even fiscal 2009 (which saw the first declines of the recession) but hiring has recovered after the recession.

Exhibit 1
Personnel Activities for State Employees
As of June 30 of Each Year
Fiscal 2009-2016

	2009	2010	2011	2012	2013	2014	2015	2016
Career Track								
Hires and Rehires[1]	4,176	3,066	3,612	3,344	3,549	4,112	3,604	1,461
Transfers	365	269	285	224	399	311	792	462
Promotions	2,678	2,596	2,240	2,439	2,651	2,596	3,523	1,135
Reclassifications	1,130	1,410	1,522	221	729	1,036	2,104	1,669
Demotions	252	253	225	222	237	252	211	123
Separations								
Deceased	49	73	56	48	47	39	54	29
Failed to Report for Duty	45	27	28	28	30	38	42	8
Layoffs/Filled Position Abolition[2]	102	123	3	10	63	4	9	3
Leave of Absence	80	83	70	74	64	53	67	22
Resignations	1,767	1,626	1,838	1,669	1,805	1,780	2,028	1,220
Retired	1,146	1,474	1,797	992	1,170	1,112	1,764	690
Terminated	318	482	224	216	236	188	210	149
Terminated on Probation	133	87	118	93	96	89	108	49
Subtotal	***3,640***	***3,975***	***4,134***	***3,130***	***3,511***	***3,303***	***4,282***	***2,170***

[1] Prior to fiscal 2015, hires and rehires were tracked separately.
[2] Includes employees who had not vacated their positions prior to the abolition but may have done so after the position was designated for abolition, such as through retirement.

Note: Fiscal 2016 data is through December 31, 2015, and does not include the full year.

Source: Department of Budget and Management

- After declining in fiscal 2010 and 2011, promotions have recovered since fiscal 2011. There was a large increase in fiscal 2015.

- Reclassifications also spiked in fiscal 2015. More funding of Annual Salary Reviews (ASR) in fiscal 2015 and 2016 may somewhat increase reclassifications. To some extent, the higher reclassifications are attributable to the new Statewide Personnel System. Previously, reclassifications were processed through paperwork. The new system processes

reclassifications electronically. This has led the system to include vacant and filled positions as reclassifications, instead of only filled reclassifications.

As it relates to separations, the major trends were that:

- resignations were fairly consistent, ranging between 1,626 and 1,838 from fiscal 2009 to 2014, increasing to over 2,000 in fiscal 2015. Given the difficulty of finding alternative employment, it is not surprising that this number was low; and

- retirements have been uneven in recent years. Since fiscal 2009, retirements were higher in fiscal 2010, 2011, and 2015, which may be due to the fiscal 2010 Voluntary Separation Program (VSP), pension reform in the 2011 legislative session, and another VSP in fiscal 2015.

Fiscal 2016 Actions

Proposed Deficiency

The DBM personnel budget includes two deficiency appropriations in fiscal 2016: $2,527,977 ($2,185,060 in general funds and $342,917 in special funds) to increase salaries and benefits for employees in the State Law Enforcement Officers Labor Alliance (SLEOLA) and $217,340 in general funds to implement the HR shared services initiative. The details of SLEOLA and other union issues are discussed in Issue 1. The HR shared services initiative is discussed in Issue 3. **DLS recommends approving these deficiencies.**

Cost Containment

The fiscal 2016 budget bill included an across-the-board 2% reduction to spending in State agencies. DBM personnel was included in this reduction. To implement this, DBM deleted $200,000 supporting death benefits in the statewide program and increased turnover by $8,409 in Executive Direction, $35,000 in the Division of Classification and Salary, and $15,000 in the Division of Recruitment and Salary.

Proposed Budget

The fiscal 2017 allowance totals $129.3 million, which is $77.2 million more than the fiscal 2016 working appropriation, as seen in **Exhibit 2**. Most of the costs are attributable to the statewide program, which has a $111.8 million budget that exceeds the fiscal 2016 working appropriation by $75.2 million. Funding for operations totals $17.5 million and exceeds fiscal 2016 by $2.0 million. Funding changes include:

- adding $105.3 million for employee increments in the statewide program;

- removing $34.0 million in one-time health insurance premiums in the statewide program;
- adding $5.6 million to the statewide program for SLEOLA benefits and annualizing fiscal 2016 increments;
- reducing the statewide program $2.5 million by removing fiscal 2016 SLEOLA increments;
- adding approximately $918,000 to maintain the Benefits Administration System (BAS) an additional year; and
- providing an additional $222,000 for employee salaries, primarily to implement the HR shared services initiative.

Excluded from the exhibit are costs associated with employee increments for OPSB employees. Employee increments and associated fringe benefits are included in the budget of DBM. These funds, which total $168,564 ($107,420 in general funds and $61,144 in special funds), will be distributed to each agency by budget amendment for the start of the fiscal year.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $19,305 in general funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Exhibit 2
Proposed Budget
Department of Budget and Management – Personnel
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$6,540	$0	$0	$7,451	$13,991
Fiscal 2016 Working Appropriation	34,811	5,918	3,261	8,071	52,061
Fiscal 2017 Allowance	94,846	15,649	8,791	10,021	129,306
Fiscal 2016-2017 Amount Change	$60,035	$9,730	$5,530	$1,949	$77,245
Fiscal 2016-2017 Percent Change	172.5%	164.4%	169.6%	24.2%	148.4%

Where It Goes:

Personnel Expenses	
Additional salaries and wages	$222
Employee and retiree health insurance	323
Employee pensions	199
Reclassifications	-33
Accrued leave payout	-13
Workers' compensation premium assessment	-10
Turnover adjustments	118
Statewide Program	
State employee increments	105,312
Annual Salary Review	826
Annualize fiscal 2016 increments for SLEOLA employees	4,440
Fitness and education bonus for SLEOLA employees	493
Shift differential for SLEOLA employees	287
Uniform allowance for SLEOLA employees	425
SLEOLA employee deficiency	-2,528
Remove fiscal 2016 employee and retiree health insurance costs	-34,036
Agency Operations	
Extend maintenance for current Benefits Administration System (BAS)	800
Unexpected information technology equipment required to maintain BAS	118
Contractual full-time equivalents supporting shared human resources services	137
Health actuary contract	125
Postage at the Division of Employee Benefits	45
Other	-5
Total	**$77,245**

SLEOLA: State Law Enforcement Officers Labor Alliance

Note: Numbers may not sum to total due to rounding.

Issues

1. Statewide Employee Compensation

Exhibit 3 shows that the amount budgeted for employee salaries and benefits increases to $8.3 billion in fiscal 2017. Employee costs are 18.9% of State spending, which totals $42.3 billion. In fiscal 2017, employee costs increase by $329.7 million, or 4.1%. The largest increases are attributable to increment ($108.9 million), health insurance ($118.2 million), and pension ($100.2 million) costs.

Exhibit 3
Regular Employee Statewide Personnel Cost Changes
Fiscal 2016-2017
($ in Millions)

2016 Working Appropriation	**$7,993.6**
Statewide Salary Changes	
Increments and other compensation	$108.9
Annual Salary Review	0.8
Position-based Changes	
New full-time equivalent positions in the allowance	$23.6
Position abolitions	-42.9
Operational Expenditures	
Adjustments to turnover	$14.7
Reclassifications	-0.4
State Law Enforcement Labor Alliance salary and benefit increases	5.6
Overtime	20.2
Fringe Benefits	
Pension contributions	$100.2
Active and retired employee health insurance costs	118.2
Workers' compensation insurance	-4.1
Unemployment insurance	-0.2
Miscellaneous adjustments	-15.1
Fiscal 2017 Allowance	**$8,323.4**
Increase over fiscal 2016 working appropriation	$329.7
Percentage increase	4.1%

Note: Excludes nonbudgeted agencies and fiscal 2016 deficiency appropriations.

Source: Department of Budget and Management

Annual Salary Review

ASRs represent adjustments in the salaries of classifications that DBM and departmental staff have jointly targeted for improved compensation to facilitate the State's competition for qualified applicants in the labor market. These salary increases are proposed after DBM has reviewed State and non-State salaries for a particular classification and determined that the salary increase is appropriate. **Exhibit 4** shows that the Administration's fiscal 2017 budget includes approximately $826,000 in total funds and $540,000 in general fund ASRs.

Exhibit 4
Positions Adjusted through the Annual Salary Review Process

Agency	Description	General Funds	Special Funds	Federal Funds	Total Funds	Total Positions	Per Position
Statewide	Building Security Officer Step Increases	$323,987	$470	$9,977	$334,434	173	$1,933
DGS	DGS Procurement Officer One Grade Increase	150,265	0	0	150,265	18	8,348
DPSCS	Warrant Apprehension Job Series Salary Parity with Detectives	65,720	0	0	65,720	34	1,933
DHCD	Fiscal Staff Step Increases	0	229,748	45,949	275,697	27	10,211
Total		**$539,972**	**$230,218**	**$55,926**	**$826,116**	**252**	**$3,278**

DGS: Department of General Services
DHCD: Department of Housing and Community Development
DPSCS: Department of Public Safety and Correctional Services

Source: Department of Budget and Management

Since the budget was completed, DBM has proposed additional ASRs for polygraph operators at the Maryland State Police and the Department of Public Safety and Correctional Services (DPSCS). This is a two-grade increase of $73,051 in general funds.

Salary and Benefit History

In its *Annual Personnel Report*, DBM provides personnel cost data. This includes data about average employee salary and fringe benefits. The State offers fringe benefits such as health care and pension plans and is required to pay Social Security, unemployment insurance, and workers' compensation costs. From fiscal 2006 to 2009, the State provided up to $600 per year to match contributions to 401(k) type deferred compensation plans, but this has since been discontinued.

Exhibit 5 shows that fringe benefit costs have been increasing at a higher rate than salary costs. In fiscal 2004, fringe benefits were less than one quarter of the average employees' salary; by fiscal 2016, fringe benefits were almost one-third of employee costs. Pension contributions increased most substantially at a rate of 13% annually. Health insurance and other fringe benefit costs also increased at higher rates than salaries. The increasing pension costs were mitigated by increasing employees' share of the costs. Retirement contributions in the employees' and teachers' plans increased from 2% of salary in fiscal 2004 to 7% of salary[1]. State health insurance costs were mitigated by actions such as increasing the employee share of premium costs, increasing coinsurance costs, and increasing prescription drug deductibles.

Exhibit 5
Change in Direct Salary and Benefit Costs for the Average Employee
Fiscal 2004 and 2016

State Budgeted Compensation	2004	2016	Total Change	Annual Percent Change
Salary	$42,505	$55,164	$12,659	2.2%
Health Insurance Premium	6,483	9,863	3,380	3.6%
Pension Contributions	2,067	9,312	7,245	13.4%
Other Fringe Benefits	3,832	5,234	1,402	2.6%
Total	**$54,887**	**$79,573**	**$24,686**	**3.1%**
Benefit Share of Total Cost	22.6%	30.7%		

Source: Department of Budget and Management Annual Personnel Reports

The average employee salary increased from approximately $42,500 in fiscal 2004 to $55,200 in fiscal 2016. Although the trend was for salaries to increase, this was not always the case. For example, average salaries decreased in fiscal 2010 and 2011, due to employee furloughs. From fiscal 2009 to 2013, salaries remained constant.

[1] Employee contributions were increased to 3% in fiscal 2007, 4% in fiscal 2008, 5% in fiscal 2009, and 7% in fiscal 2012.

From fiscal 2014 to 2015, the average annual salary increased from $50,700 to $55,275, which is 9%. Such a large increase is quite unusual and could be influenced by two factors:

- ***Change in Methodology:*** Prior to fiscal 2015, this average was provided by the Department of Information Technology (DoIT). Beginning with fiscal 2015, DBM used the new Statewide Personnel System to compute the average salary. Under the DBM methodology, hourly, daily, temporary, and contractual employees were excluded. Including them may have systematically underestimated the average salary. Using data that DLS receives every July from DBM, DLS estimated average salaries for fiscal 2014 and 2015. Using the current methodology, DLS estimates that the average salary in July 2014 was $53,659 and that the average salary in July 2015 was $55,429. The 2015 estimate is close to the DBM estimate, while the fiscal 2014 estimate is quite a bit higher. This suggests that a change in methodology did have some effect on the increase; and

- ***Actions Taken to Increase Salary:*** After years without any general salary increases or merit increases, State employees received salary increases. From fiscal 2014 to 2015, factors that raised salaries include a 2% general salary increase, receiving increments as scheduled without delay, ASRs affecting approximately 2,000 employees, and a new civilian pilot salary schedule that established a minimum entry salary of $70,000 for 70 employees.

Although changes in the methodology for computing average salary may exaggerate recent salary increases, this should not have too much effect on the slope from fiscal 2004 to 2014. During that period, salary changes are consistent with salary actions taken. **Exhibit 6** shows that State employees did not receive any general salary increases or increments in fiscal 2003, 2004, 2010, or 2011. A one-time $750 bonus was received in fiscal 2012. These were periods of little or no salary growth. Increments and general salary increases were received in fiscal 2005 to 2009, as well as fiscal 2014 and 2015.

Collective Bargaining

Approximately 27,000 State employees, excluding higher education employees, were covered by collective bargaining as of April 1, 2014. While most Executive Branch employees have collective bargaining rights, management service employees, special appointees, the Governor's personal staff, and elected officials do not. Generally, employees of all Executive Branch agencies have collective bargaining rights. Certain Maryland Transit Administration (MTA) employees also have binding arbitration. Except for higher education employees, covered employees are divided into 10 bargaining units. The State Labor Relations Board conducts the elections in which employees choose their exclusive bargaining representative. **Exhibit 7** contains a list of the bargaining units and their exclusive representatives.

Exhibit 6
Permanent Employee Statewide Salary Actions
Fiscal 2003-2017

Fiscal Year	Date of General Salary Increase	General Salary Increase	Increments
2003	July 1, 2002	None	None
2004	July 1, 2003	None	None
2005	July 1, 2004	$752	On time
2006	July 1, 2005	1.5%	On time
2007	July 1, 2006	2.0% with $900 Floor and $1,400 Ceiling	On time
2008	July 1, 2007	2.0%	On time
2009[1]	July 1, 2008	2.0%	On time
2010[2]	July 1, 2009	None	None
2011[2]	July 1, 2010	None	None
2012	July 1, 2011	$750 One-time Bonus	None
2013	January 1, 2013	2.0%	None
2014	January 1, 2014	3.0%	April 1, 2014
2015	January 1, 2015	2.0%	On time
2016	July 1, 2015	None	None
2017	July 1, 2016	None	On time

Temporary statewide salary actions:

[1] 2- to 5-day furlough.
[2] 3- to 10-day furlough.

Source: Department of Budget and Management

Exhibit 7
Bargaining Units and Representatives
As of April 2, 2014

Unit	Title	Exclusive Representative	Employees	Expiration Dates
A	Labor and Trades	American Federation of State, County, and Municipal Employees (AFSCME)	727	December 31, 2017
B	Administrative, Technical, and Clerical	AFSCME	3,751	December 31, 2017
C	Regulatory, Inspection, and Licensure	AFSCME	592	December 31, 2017
D	Health and Human Service Nonprofessionals	AFSCME	1,680	December 31, 2017
E	Health Care Professionals	AFT – Healthcare Maryland	1,703	December 31, 2017
F	Social and Human Service Professionals	AFSCME	3,769	December 31, 2017
G	Engineering, Scientific, and Administrative Professionals	Maryland Professional Employees Council	3,700	December 31, 2017
H	Public Safety and Security	AFSCME/Teamsters	9,912	December 31, 2017
H	Baltimore/Washington International Airport Fire Fighters (I.A.F.F.)	International Airport Professional Firefighters Local 1742 I.A.F.F., AFL-CIO, CLC	64	June 30, 2017
I	Sworn Police Officers	State Law Enforcement Officers Labor Alliance	1,705	June 30, 2019
J	Maryland Transportation Authority Sworn Officers	Maryland Transportation Authority Police Lodge #34	449	June 30, 2019
	Total		**28,052**	

AFL-CIO: American Federation of Labor and Congress of Industrial Organizations
CLC: Canadian Labor Congress

Sources: Department of Budget and Management; Maryland Department of Transportation

DBM represents the State in negotiations with each unit's bargaining representative. These negotiations may include any matters relating to wages, hours, and terms and conditions of employment. The Governor is not required to negotiate any matter that is inconsistent with State law;

however, the Governor can negotiate items that require a statutory change or an appropriation as long as the parties understand that the item cannot become effective until the General Assembly takes action. The General Assembly, however, is not bound by the agreement. The collective bargaining statute does not provide for binding arbitration; instead, the State and bargaining representatives must meet and confer about negotiable terms. However, if no agreement is reached for the next fiscal year by October 25, a fact finder may be appointed.

After negotiations have concluded, a Memorandum of Understanding (MOU) is prepared that delineates all agreements the bargaining parties have reached. Upon approval by the Governor and a majority of the employees in the bargaining unit, the terms of the memorandum are agreed upon. The MOU may be effective for a period of one to three years.

The statute also prohibits certain activities. Employees may not strike nor may the State engage in a lockout. If a strike or a lockout occurs or appears imminent, the State or an employee organization may petition the circuit court for relief.

DBM Reaches Agreement with Three Public Safety Unions

DBM has reached agreement with SLEOLA, which bargains for sworn police officers. The agreement provides for regular increments, beginning with fiscal 2016, a general salary increase in fiscal 2017, and provides step increases for officers employed in the recent four years (fiscal 2010 to 2013) in which State employees did not receive step increases. DBM estimates that the agreement will require an additional $2.5 million in fiscal 2016 and $5.7 million in fiscal 2017. DBM advises that the contract includes the following:

- three-year contract from July 1, 2016, to June 30, 2019;
- increments in fiscal 2016 and 2017;
- one step for all who missed steps on January 1, 2017;
- one step for all who missed steps on January 1, 2018;
- increased starting salary for police officer scale to $36,800;
- one grade increase for DPSCS officers Warrant Apprehension Unit;
- no shift differential would be paid for any hours that are designated as a scheduled day shift, so that all hours worked from 2:00 p.m. to 7:00 a.m. qualify for shift differential;
- 2% general salary increase in fiscal 2017; and

- limited reopener language, which allows the union and State to negotiate again depending on economic conditions.

DBM also reached agreements with Baltimore/Washington International Thurgood Marshall Airport's (BWI Marshall Airport) firefighters and Maryland Transportation Authority (MDTA) sworn officers' unions. Though not identical, the MDTA agreement shares some similarities with the SLEOLA agreement. Both of these agreements receive increments and a 2% general salary increase in fiscal 2017. They also give extra increments to officers that missed them in fiscal 2017 and 2018. The BWI Marshall Airport agreement is less generous. The firefighters will not be receiving a general salary increase. They did receive an extra increment in fiscal 2017. Their contract ends at the end of fiscal 2017, so it is unclear what fiscal 2018 will bring. **DBM should brief the committees on the negotiations. This should include a discussion of what concessions the public safety unions made to receive these salary enhancements from the State.**

Funds for the additional fiscal 2017 increment and general salary increase do not appear to be in the budget. **The department should also discuss the cost of the additional increment and salary increase, and how this will be funded.**

No Agreements Reached Between DBM and the Other Bargaining Units

DBM was unable to reach any agreements with the other bargaining units. The budget includes increments in fiscal 2017 for the remaining employees but does not include a general salary increase. There are also no additional increments for employees that missed increments from fiscal 2009 to 2013 and in fiscal 2016. The budget in fiscal 2017 was prepared under the best conditions that any budget has been prepared since fiscal 2009; both fiscal 2016 and 2017 budgets have a structural surplus, and fiscal 2017 is expected to begin with a $502.4 million fund balance.

The most recent comparison of State salaries to local and federal government salaries was prepared in fiscal 2008. The report examined benchmark classifications covering 45,000 State employees. These were compared to State employees in seven neighboring states (including Ohio, North Carolina, and New Jersey), local jurisdictions (including the District of Columbia), and the federal Social Security Administration and Department of Health and Human Services. The study concluded that Maryland State salaries were 5% below average at the minimum pay level and 3% below the average at the maximum level. Anecdotal evidence suggests that the disparity is higher in central Maryland. As we have seen, State salaries have been flat in many years since calendar 2008, at a time while other public employees, such as the federal government, offered general salary increases.

The department should brief the committees on its policies toward State employee salary increases. This should include a discussion of the economic conditions under which general salary increases are affordable and appropriate. DBM should also discuss the extent to which low salaries affect retention, productivity, and effectiveness.

2. Statewide Position Changes

The Spending Affordability Committee (SAC) set a position cap of 80,831 regular full-time equivalents (FTE) across State government for fiscal 2017. The committee did not include any exemptions this year. The proposed budget includes 80,321, which is below the SAC limit. The number is net of an across-the-board abolition of 657 positions in Section 20 of the budget bill.

Statewide Position Overview

Exhibit 8 provides a summary of the position changes from the fiscal 2016 legislative appropriation to the fiscal 2017 allowance. In total, the allowance includes 80,321 positions, a decrease of 519 positions from the fiscal 2016 legislative appropriation. In fiscal 2016, higher education institutions used their flex personnel autonomy, as defined by Chapters 239 and 273 of 2004, to create 281 positions. Also, 11 positions were created by the Board of Public Works (BPW) during fiscal 2016. This includes 5 foreclosure mediation and health benefits positions at the Office of Administrative Hearings, 2 positions to support the Public Information Act at the Office of the Attorney General (OAG), 2 positions to create an Office of Public Access at BPW, 1 position to implement the Maryland Solicitations Act at the Secretary of State, and 1 director at the Behavioral Health Administration to support medication-assisted treatment for prescription drugs and opioids.

The fiscal 2016 budget included a 2% across-the-board reduction to agency budgets that abolished 278 positions. The largest reduction was in higher education, where 187 positions were abolished. Other agencies losing positions were the Department of Human Resources (DHR) that lost 82 vacant positions and the Department of Health and Mental Hygiene (DHMH) that lost 6 vacant positions at the Holly Center.

Specific agencies also lost positions early in fiscal 2016 through targeted actions. The Department of Commerce receives services from the Maryland Technology Development Corporation (TEDCO) making 6 positions no longer necessary. Corresponding positions were created by TEDCO, but since TEDCO is a nonbudgeted agency, these are not State-controlled positions. The Department of Housing and Community Development also lost 6 positions to trim costs. The budget also includes a deficiency appropriation for 40 MTA positions supporting the BaltimoreLink initiative.

The fiscal 2017 allowance includes 330 new positions. Notable increases include 90 new positions at MTA to support the BaltimoreLink initiative, 58 federally funded contractual conversions in DHMH's Prevention and Health Promotion Administration, 34 positions at the Judiciary for judges and their staff, 34 positions in the Maryland State Department of Education for the Charles H. Hickey, Jr. School and the Library for the Blind, 28 State Highway Administration positions supporting capital planning, 20 contractual conversions at the Department of Natural Resources (DNR), 18 positions at the Motor Vehicle Administration (MVA) to move the Maryland Highway Safety Office from the University of Baltimore into MVA, 13 positons for the lottery to provide oversight for the Prince George's County casino, and 11 contractual conversions for the Maryland School for the Deaf.

Exhibit 8
Regular Position Changes
Fiscal 2016 Legislative Appropriation to Fiscal 2017 Allowance

Department/Service Area	2016 Leg. Approp.	BPW/ Flex Adjust.	Cost Contain.	Abolish	Transfer	Def.	2016 Work. Approp.	Transfer	Abolish	New	2017 Allow.
Health and Human Services											
Health and Mental Hygiene	6,363	-5	-6	0	1	0	6,353	-3	-129	62	6,283
Human Resources	6,442	0	-82	-1	0	0	6,360	-2	-21	0	6,337
Juvenile Services	2,055	0	0	0	0	0	2,055	-2	-2	0	2,051
Subtotal	***14,860***	***-5***	***-88***	***-1***	***1***	***0***	***14,768***	***-7***	***-152***	***62***	***14,672***
Public Safety											
Public Safety and Correctional Services	11,025	0	0	0	0	0	11,025	-8	-3	0	11,014
Police and Fire Marshal	2,438	0	0	0	0	0	2,438	-1	-1	0	2,436
Subtotal	***13,463***	***0***	***0***	***0***	***0***	***0***	***13,463***	***-9***	***-4***	***0***	***13,450***
Transportation	**9,086**	**1**	**0**	**-1**	**0**	**40**	**9,126**	**0**	**-3**	**136**	**9,259**
Other Executive											
Legal (Excluding Judiciary)	1,498	0	0	0	3	0	1,501	0	-18	1	1,484
Executive and Administrative Control	1,631	8	-2	0	-11	0	1,626	-4	-21	11	1,613
Financial and Revenue Administration	2,117	1	0	0	1	0	2,119	0	0	13	2,132
Budget and Management and DoIT	448	0	0	0	12	0	460	22	-1	0	480
Retirement	216	0	0	0	-3	0	213	0	0	2	215

Department/Service Area	2016 Leg. Approp.	BPW/ Flex Adjust.	Cost Contain.	Abolish	Transfer	Def.	2016 Work. Approp.	Transfer	Abolish	New	2017 Allow.
General Services	578	0	0	0	0	0	578	0	0	4	582
Natural Resources	1,321	0	0	0	0	0	1,321	0	0	20	1,341
Agriculture	382	0	-2	0	0	0	380	0	-4	0	376
Labor, Licensing, and Regulation	1,603	0	0	0	0	0	1,603	2	-16	0	1,589
MSDE and Other Education	1,940	0	0	0	0	0	1,940	-4	0	45	1,981
Housing and Community Development	343	0	0	-6	0	0	337	0	0	2	339
Department of Commerce	217	0	0	-6	-3	0	208	0	-2	0	206
Environment	939	0	0	0	0	0	939	0	-5	0	934
Subtotal	***13,232***	***9***	***-4***	***-12***	***-1***	***0***	***13,223***	***16***	***-66***	***98***	***13,271***
Section 20 Position Abolition									-657		-657
Executive Branch Subtotal	***50,640***	***5***	***-92***	***-14***	***0***	***40***	***50,579***	***0***	***-882***	***296***	***49,994***
Higher Education	25,537	281	-187	0	0	0	25,632	0	-1	0	25,631
Judiciary	3,914	0	0	0	0	0	3,914	0	0	34	3,948
Legislature	749	0	0	0	0	0	749	0	0	0	749
Grand Total	**80,840**	**286**	**-278**	**-14**	**0**	**40**	**80,874**	**0**	**-883**	**330**	**80,321**

BPW: Board of Public Works
Def.: fiscal 2016 deficiency
DoIT: Department of Information Technology
MSDE: Maryland State Department of Education

Note: Numbers may not sum to total due to rounding.

Source: Department of Budget and Management; Department of Legislative Services

The fiscal 2017 allowance also abolishes 226 specific positions, most of which (129) are in DHMH to privatize dietary and possibly housekeeping services. Other abolitions include 21 at DHR related to information technology consolidation and unused vacant positions, 16 vacant unemployment insurance positions at the Department of Labor, Licensing, and Regulation (DLLR), and 15 vacant public defender intake specialists.

Fiscal 2017 personnel actions include abolishing filled positions, as shown in **Exhibit 9**.

Exhibit 9
Filled Abolished Positions
Fiscal 2017

Agency	Position Description	Position Count
IAC	Agency would like to move the position into a vacant position, but no positions are vacant	1
MDA	Plant Protection and Weed Control program is eliminated, and all positions are filed	4
MDE	1 Science Services Administration, 1 regulatory compliance engineer-architect in the Land Management Administration, as well as 2 computer specialists and 1 administrator in the information technology office	5
DHMH	Springfield Hospital Center dietary positions	51
DHMH	RICA – Gildner dietary positions	12
DHMH	Closing the Renal Dialysis Unit at the Western Maryland Hospital Center	2.5
DHMH	Western Hospital Center 1 X-ray services position and 1 therapeutic recreator	2
Total		**77.5**

DHMH: Department of Health and Mental Hygiene
IAC: Interagency Committee on School Construction
MDA: Maryland Department of Agriculture
MDE: Maryland Department of the Environment
RICA: Regional Institute for Children and Adolescents

Source: Interagency Committee on School Construction; Maryland Department of Agriculture; Maryland Department of the Environment; Department of Health and Mental Hygiene

Voluntary Separation Program

The Administration's fiscal 2016 budget plan included a VSP with a goal to abolish 500 Executive Branch positions, resulting in $7.5 million in savings in fiscal 2015 and $30 million in fiscal 2016 general fund savings. If 500 positions would not be not abolished by the VSP, the Administration would reach the 500-position target by abolishing vacant positions. The plan excluded the Legislative and Judicial branches. Higher education was not covered but was authorized to create similar programs, if desired. The VSP included the following features:

- the program is voluntary for employees;
- agencies determine which positions would be eliminated;
- eliminated positions will not be replaced;
- employees receive a one-time payment of $15,000 and $200 for every year of service;
- employees accepted into the VSP agree not to seek or accept State or contractor employment for 18 months following their separation; and
- a number of employees, such as agency heads, direct care employees, and police officers, are not eligible.

A similar plan was proposed in 2010. The 2010 VSP proposed to eliminate 1,000 positions in fiscal 2011. BPW eliminated 656 budgeted Executive Branch positions and another 11 positions at the nonbudgeted MDTA. DBM estimated that the severance costs totaled $21.5 million, including $11.0 million in general funds. Salary savings totaled $39.3 million, of which $19.1 million was in general funds.

In September 2015, DBM reported the results of the VSP to the budget committees. The program abolished 468 positions, including 10 nonbudgeted positions at MDTA and 7 positions at the Baltimore City Community College (BCCC), the only higher education institution to participate. An additional 48 vacant positions were abolished to meet the 500-position abolition minimum, resulting in a total of 516 abolished positions. **Appendix** 4 shows abolitions by department and service area.

Exhibit 10 shows that the VSP yielded $7.5 million in fiscal 2015 savings but required $7.7 million in expenditures, for a net cost of $0.2 million.

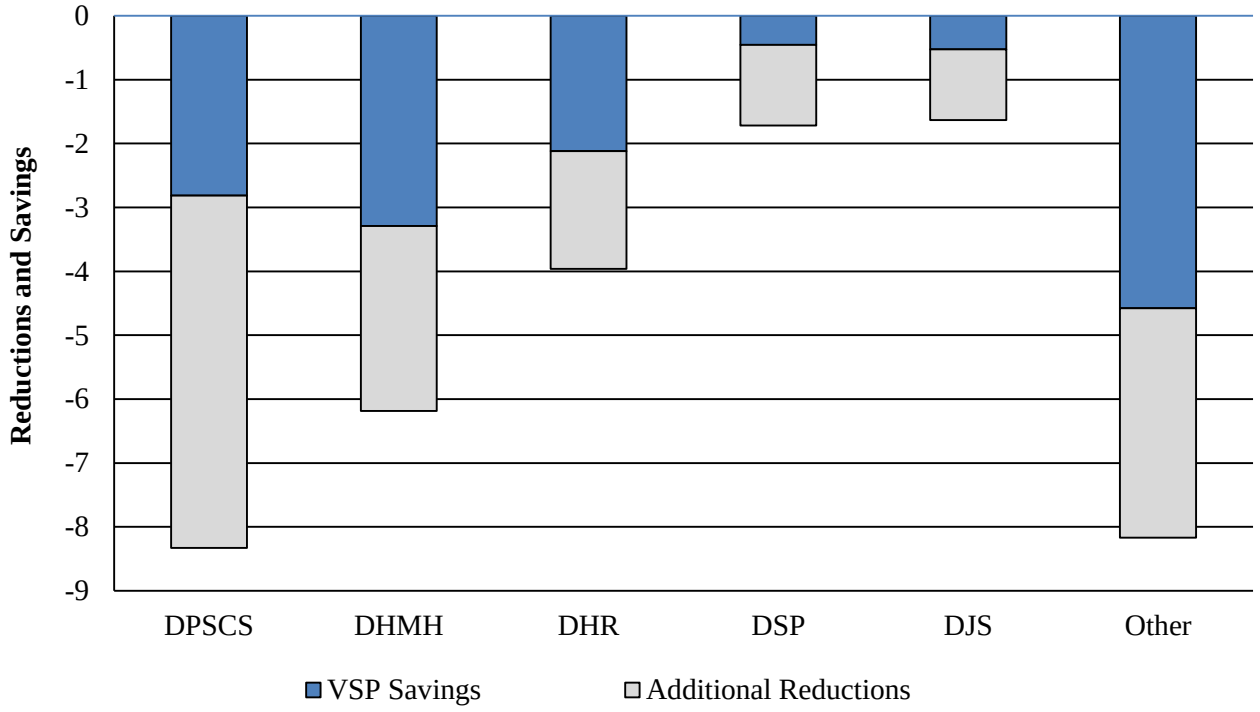
Exhibit 10
Voluntary Separation Program
Fiscal 2015 Costs and Savings

	General Funds
Savings	
VSP Position Abolition Savings	$2.5
Additional Reductions	5.0
Total Savings	**$7.5**
Expenditures	
Lump Sum Payment	$4.1
$200 Creditable Service Payouts	1.6
Leave Payout	2.1
Total Expenditures	**$7.7**
Net Savings	**-$0.2**

Source: Department of Budget and Management

Fiscal 2016 VSP savings total $13.8 million. To achieve $30.0 million in savings, State agency budgets were reduced an additional $16.2 million. **Exhibit 11** shows that almost half of the savings were generated in DPSCS and DHMH. Since these additional savings did not result in a decline in positions, DLS anticipates that savings are generated by keeping positions vacant, which is an increase to turnover expectancy. Consequently, the additional reductions are generally one-time reductions.

Exhibit 11
Fiscal 2016 Voluntary Separation Program Savings and Additional Reductions
($ in Millions)



DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources
DJS: Department of Juvenile Services
DPSCS: Department of Public Safety and Correctional Services
DSP: Department of State Police
VSP: Voluntary Separation Program

Source: Department of Budget and Management

Overview of Contractual Full-time Equivalents

Fiscal 2017 includes 9,446 contractual FTEs. Two-thirds of these FTEs are in higher education institutions. The number of contractual FTEs are 155 less than in fiscal 2016, as shown in **Exhibit 12**. The majority of the reductions are attributable to DLLR needing less employees to process unemployment insurance claims. Decreases in Executive Branch agencies are partially offset by increases in higher education institutions. Despite the reductions, the number of Executive Branch contractuals still exceeds the actual fiscal 2015 level by 106.

Exhibit 12
Contractual Full-time Equivalent Positions
Fiscal 2015 Actual to Fiscal 2017 Allowance

	2015 Actual	2016 Working Appropriation	2017 Allowance	2016-17 Change
Department/Service Area				
Health and Human Services				
Health and Mental Hygiene	385	440	429	-11
Human Resources	136	74	74	0
Juvenile Services	159	142	142	-1
Subtotal	***680***	***656***	***645***	***-11***
Public Safety				
Public Safety and Correctional Services	266	367	364	-3
Police and Fire Marshal	28	70	66	-4
Subtotal	***293***	***437***	***431***	***-6***
Transportation	**40**	**41**	**41**	**0**
Other Executive				
Legal (Excluding Judiciary)	42	61	50	-10
Executive and Administrative Control	210	193	184	-8
Financial and Revenue Administration	54	47	51	4
Budget and Management and DoIT	14	11	13	3
Retirement	16	10	10	0
General Services	24	25	24	-1
Natural Resources	361	447	423	-23
Agriculture	39	45	44	-1
Labor, Licensing, and Regulation	191	290	144	-146
MSDE and Other Education	295	295	271	-24
Housing and Community Development	51	71	72	1
Department of Commerce	18	18	20	2
Environment	28	60	41	-19
Subtotal	***1,342***	***1,570***	***1,346***	***-224***
Executive Branch Subtotal	**2,356**	**2,704**	**2,462**	**-241**
Higher Education	**7,006**	**6,568**	**6,650**	**83**
Judiciary	431	330	334	**4**
Grand Total	**9,793**	**9,601**	**9,446**	**-155**

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

Note: Numbers may not sum to total due to rounding.

Source: Department of Budget and Management

Administration's Fiscal 2017 Budget Includes another Round of Across-the-board Position Abolitions

Section 20 of the budget bill requires that the Governor abolish 657 regular positions in the Executive Branch. The *Budget Highlights* position summary excluded higher education institutions from this reduction. The Governor is also required to reduce general fund appropriations by at least $20 million and special fund appropriations by at least $5 million.

This is the third consecutive year in which unspecified reductions in positions are made. In fiscal 2015, there was the VSP, and fiscal 2016 included a 2% across-the-board reduction that abolished 278 positions. **DLS recommends that the committees adopt narrative that it is the intent of the committees that the fiscal 2018 budget bill include a full and complete accounting of positions and that the Administration refrain from abolishing unspecified positions through across-the-board reductions in the budget.**

Section 20 notes that the 657 position reductions are "inclusive of any legislative positions reductions." OAG advises that any specific position reductions made by the General Assembly can offset the 657-position reduction proposed by the Administration in Section 20. OAG also notes that the General Assembly could increase or decrease the required position reductions and may condition the types of positions that may be abolished. **Since there are approximately 4,500 vacant positions in State government, DLS recommends that the General Assembly amend the budget bill to limit the position abolitions to vacant positions.**

The section is silent on timing of these reductions. Presumably, the department can make the reductions at any time throughout the fiscal year. Also, delaying reductions delays savings and may force the department to make other unspecified reductions to achieve the required savings. **To maximize savings and have a full and complete budget at the beginning of the fiscal year, DLS recommends that the General Assembly add language requiring that Section 20 position abolitions be made prior to the start of the fiscal year on July 1, 2016, and that the Administration submit a schedule of abolitions by agency to the budget committees and DLS.**

Section 7-213 of the State Finance and Procurement Article is as follows:

7-213. Reductions.

(a) *Authorized* – Except as provided in subsection (b) of this section, with the approval of the Board of Public Works, the Governor may reduce, by not more than 25%, any appropriation:

(1) that the Governor considers unnecessary; or

(2) that is subject to budgetary reductions required under the budget bill as approved by the General Assembly.

DLS recommends that language requiring BPW approval be added to Section 20.

3. Human Resources Shared Services

In fiscal 2016, DBM introduced a new HR shared services initiative. DBM advises that the objective is to bring consistency to all HR-related activities throughout the employment life cycle, improve bench strength for many of the affected agencies that currently have one or more individuals who are performing personnel work along with other job duties, and expand available HR-related services to the staff of participating agencies, such as access to individuals within OPSB who can provide agency managers and supervisors with coaching and counseling skills, expert assistance with performance and conduct-related issues, and training on a wide variety of HR-related topics. DBM expects to realize cost savings as it refines the pool of individuals providing HR services and streamlines processes. DBM also expects to achieve cost savings by reducing the number of employees needed to provide HR-related services to the participating agencies and by reducing the number of high-grade HR positions, such as director and deputy director level positions. Generally, DBM's plan is to reduce the number of positions through attrition, although the department does recognize that some individuals may be underperforming.

After the initial start-up phase, DBM will measure success by user agency feedback on the level of service received, by the ability of staff members to address HR issues as these arise in their assigned agencies, and by the ability of HR staff to partner with their assigned agencies to meet their needs.

The shared services model requires DBM to provide a full array of HR services, so geographical accessibility is necessary. As such, the location of the agency was a key factor in selecting agencies. Since this is the first such consolidation in State government, DBM selected agencies that are not too large. DBM found that small to mid-size agencies (generally, those with less than 500 employees) had HR staffs that were not always fully dedicated to HR work (and may not be HR professionals), or who did not routinely engage in all aspects of HR work. This resulted in frequent relearning of processes and overall inefficiencies in the provision of services. **Exhibit 13** shows that 17 agencies with 982 employees are participating in the HR shared services initiative.

Exhibit 13
Agencies Participating in Human Resources Shared Service
Position Count in Fiscal 2017

Agency	Position Count
Department of Aging	48
State Archives	63
Commission on Civil Rights	34
Department of Disabilities	27

Agency	Position Count
Maryland Higher Education Commission	56
Maryland Institute for Emergency Medical Services Systems	95
Maryland Supplemental Retirement Plan	13
Maryland Tax Court	8
Office of the Peoples Counsel	19
Department of Planning	145
Property Tax Assessments Appeals Boards	8
Interagency Committee on School Construction	19
Public Service Commission	137
Office of the State Prosecutor	13
State Retirement and Pension System	202
Uninsured Employer's Fund	13
Department of Veterans Affairs	84
Total	**982**

Note: Total may not sum due to rounding.

Source: Department of Budget and Management

To implement this initiative, OPSB has received 11 regular full-time and 1 regular part-time position. The Division of Recruitment and Examination received 2 regular full-time positions, and the Division of Personnel Services received the remaining positions. **Exhibit 14** shows that total costs are expected to be $1.1 million.

Exhibit 14

Fiscal 2017 Personnel Costs for Additional Shared Services Positions

Division	Position	Position Count	Salary and Benefits	Average Salary
Personnel Services	HR Administrators	4.00	$449,718	$81,061
Personnel Services	HR Officers	5.50	504,799	63,202
Recruitment and Examination	HR Administrator	1.00	99,954	71,172
Recruitment and Examination	HR Officer	1.00	86,728	59,202
Total		**11.50**	**$1,141,199**	

HR: human resources

Source: Department of Budget and Management

OPSB does not receive new positions for HR shared services. Instead, positions are transferred from other agencies. **Exhibit 15** shows the affected agencies.

Exhibit 15
Agency Transferring Positions into the Office of Personnel Services and Benefits

Agency	Position Count	Total Funds	General Funds
Public Service Commission	2.00	$216,256	$0
Department of Aging	2.00	196,869	196,869
Commission on Civil Rights	0.50	52,311	52,311
Department of Planning	2.00	194,790	194,790
Maryland Institute for Emergency Medical Services Systems	1.00	85,968	0
State Archives	1.00	90,015	90,015
State Retirement Agency	3.00	304,991	0
Total	**11.50**	**$1,141,199**	**$533,985**

Source: Department of Budget and Management

At this point, DBM does not have any plans to add other agencies into HR shared services.

DLS has two concerns about HR shared services, specifically:

- ***Can the Quality of Services Be Measured?*** DBM advises that it will measure user agency feedback on the level of service received and an annual satisfaction survey that will begin after a stabilization period. The department should also develop measures for these new day-to-day support services that it will be providing and should report these measures with its MFR data provided in the budget. The concern is that service could be deteriorating, but the budget committees would be unaware because there are no reliable measures. How will DBM measure the quality of the services it provides?

- ***What Will Be Saved?*** DBM will receive a mix of general funds appropriated in its budget and reimbursable funds from other agencies. The department also anticipates that savings will be realized. However, DBM advises that savings estimates have not yet been prepared. The department should report on savings.

DBM should be prepared to brief the committees on its new HR shared service initiative. The department should also prepare MFR indicators that measure how effectively DBM is providing HR services to State agencies.

4. Supervisors to Supervised Employees Ratios in State Agencies

The fiscal 2016 *Joint Chairmen's Report* required that State agencies submit a report on the ratio of supervisors and managers to employees for agencies. DBM submitted a report that examined this issue and provided ratios for Executive Branch agencies. In addition, Morgan State University, St. Mary's College of Maryland, BCCC, MDOT, the Maryland Environmental Service, the Maryland Automobile Insurance Fund, and the Maryland Food Center Authority reported the ratio of supervisors and managers to employees but did not provide a qualitative assessment of these ratios. The University System of Maryland (USM) also provided a report on the ratio of supervisors and managers to employees. The report provides USM's perspective on this issue.

DBM's personnel system delineates the following positions:

- executive;
- director;
- manager;
- supervisor;
- lead;
- advanced;
- individual contributor; and
- board member.

In the DBM report, executive, director, manager, and supervisor positions are considered supervisory positions, and the remaining positions are considered nonsupervisory.

The report also calculated statewide average supervisor or manager to supervised employee ratios by the size of the agency. **Exhibit 16** shows that agencies have a wide variation in the ratios.

Exhibit 16
Supervisor/Manager to Supervised Employee Ratios by Agency Size

Agency Size	Average Ratio	Minimum Ratio	Maximum Ratio
1 to 100 employees	1:6	1:1	1:16
101 to 500 employees	1:21	1:2	1:114
501 to 1,000 employees	1:5	1:3	1:8
1,001 to 5,000 employees	1:7	1:5	1:10
5,001 or more employees	1:5	1:5	1:6

Source: Department of Budget and Management

The report identifies factors that lead to lower spans of control and lower supervisor and manager to supervised employee ratios. They include:

- highly complex work;
- different activities performed by supervised workers;
- low-degree of task certainty (as opposed to definite, clear, and simple rules);
- higher degree of risk in the work for the organization;
- high-degree of public scrutiny;
- high-degree of coordination required; and
- dispersed geographic location of employees.

The report also prepared five case studies. One agency in each of the five agency-size categories was chosen. Agencies examined were the Department of Veterans Affairs (DVA) with 83 employees, OAG with 275 employees, State Department of Assessments and Taxation (SDAT) with 623 employees, DNR with 2,034 employees, and DHMH with 11,113 employees.

DVA administers five major programs that include assisting veterans and their dependents obtain benefits from various programs, running a veterans' home, and operating cemeteries. The work of the programs is diverse, and there is a high level of scrutiny that suggests lower supervisor employee

ratios. Operations are statewide, which tends to further reduce the ratios. The ratio of supervisors and managers to supervised employees is 1:5. The ratio of supervisors to supervised employees is 1:6.

OAG acts as legal advisor and representative to State agencies. The nature of the work is complex, and there is a high-degree of risk and public scrutiny. The office staff is well trained and rules-driven, which suggests higher ratios. The ratio of supervisors and managers to supervised employees is 1:23. The ratio of supervisors to supervised employees is 1:122.

SDAT appraises the market rate of property in the State. DBM notes that over half of the employees in SDAT are at the lower end of the salary grades, and that may be a driving factor behind the low ratios. The ratio of supervisors and managers to supervised employees is 1:3. The ratio of supervisors to supervised employees is 1:5.

DNR coordinates natural resource activities, evaluates natural resource policies, plans, programs and practices, and administers three main programs: aquatic resources, land resources, and mission support. The department manages a police force that enforces conservation, boating, and criminal laws. The complexity of DNR's work is attributable to the heavy interplay between DNR and a variety of other jurisdictions, such as counties and the federal government. Employees are widely dispersed, and supervisors tend be heavily involved with daily operations. The department also employees a high number of contractual and seasonal workers. The ratio of supervisors and managers to supervised employees is 1:6. The ratio of supervisors to supervised employees is 1:14.

DHMH includes many programs and agencies with varied responsibilities. Some of the activities include promoting disease control and prevention, supporting substance abuse efforts, providing public services through local health departments, and operating hospitals and facilities with such a varied clientele as a maximum security mental hygiene facility, residential facilities for intellectually disabled individuals, and public laboratories. Many of the units within DHMH operate independently from other units. The complexity of the department's mission is compounded by layers of State and federal legal and regulatory requirements. Some programs have high levels of highly trained staff, while low-trained staff predominate in others. It is likely that supervisors to supervised employees ratios vary from program to program. Departmentwide, the ratio of supervisors and managers to supervised employees is 1:5. The ratio of supervisors to supervised employees is 1:7.

Issues

The report raises a number issues, including:

- ***Complexity of State Government:*** DBM notes that the "complexity of State operations makes the development of a one-size-fits-all supervisory ratio that applies across all agencies a difficult exercise." The agencies selected for case study provide examples of the differences in responsibilities of agencies. Even within small agencies, like DVA, the work can be quite different. This suggests that having one statewide ratio is not appropriate;

- ***High Number of 1:1 Supervisor and Manager to Supervised Employee:*** The report notes that there are approximately 255 1:1 supervisor to supervised employee ratios in DHMH and 86 in DNR (25% involve contractual or seasonal employees). This is a fairly high number, and the report does not provide details about why there are so many, what these employees do, or why they are necessary. One reason for this could be that these positions previously supervised more individuals, but after years of cost containment and position reductions, they have lost their staff. Another reason could be that they manage a number of complex contracts, which could be a managerial-level job, but do not manage other permanent employees;

- ***Underuse of Lead Worker:*** The high amount of 1:1 ratios may also be due to the underuse of the lead worker role. Anecdotally, there are a number instances in State government in which high-performing employees are promoted into supervisory positions in order to keep them. The work may not change much, but the salary and prestige does. The report notes that "we believe that by increasing the lead worker role, continued effective management of State operations is achievable;" and

- ***Low State Salaries:*** As previously mentioned, State salaries tend to be lower than other government salaries. State salaries have been flat in many years since calendar 2008, at a time while other public employees, such as the federal government, offered general salary increases. The high number of 1:1 ratios may reflect agencies attempts to address low pay by promoting more employees into higher paid supervisory positions.

DLS recommends that DBM examine the high number of 1:1 ratios. This should include determining where an increased use of the lead worker role is appropriate. DBM should also examine if salary levels are competitive and make improvements if they are not. A more aggressive use of ASRs may be effective if the Administration continues to be reluctant to provide general salary increases.

5. Ongoing Hiring Freeze

The State has been operating under varying degrees of a hiring freeze since October 2001. DBM exempts certain classifications from this hiring freeze. The most prominent are positions in 24/7 institutions and positions that generate revenues, like the Office of the Comptroller. While revenues were underattaining, the freeze kept positions vacant, which reduced spending. As currently structured, many agencies must request permission from DBM to fill positions.

Based on the February vacancy data, 772 out of approximately 4,500 positions were vacant. DLS recognizes that there are administrative reasons to occasionally freeze positions. For example, there may be legal requirements that the State keep certain positions open or certain positions may be abolished at the end of the fiscal year; so, DBM may want to keep agencies from filling the position. There may also be cases where agencies chronically overspend and additional control from DBM is necessary.

DLS has the following concerns about the State's current hiring freeze policies:

- ***The Freeze Is Inefficient:*** Freezing substantial numbers of positions limits agencies, adds more time to recruit and fill vacant positions, and thus makes it more difficult to meet their responsibilities;

- ***The Fiscal Crisis Is Over:*** During the Great Recession, the State had a structural deficit that exceeded $2 billion. These were difficult years, and cost containment was a priority. Fiscal 2016 and 2017 have a structural surplus. It is no longer necessary to aggressively contain agencies operations to limit spending;

- ***No Rules Regulate When to Begin or End a Freeze:*** This incarnation of the hiring freeze has been in operation at least since fiscal 2004. The freeze has become a management tool that has stayed with the State indefinitely in spite of changing economic conditions; and

- ***Unclear What Positions Are Exempted:*** While there are some guidelines about which positions are exempted, there are no clear rules. As such, it is unclear what kinds of positions are exempted.

DLS recommends that the committees adopt language requiring DBM to prepare a report on the hiring freeze that describes the administrative procedures and what positions are exempted. DBM should also develop MFR indicators that measure how long it takes to process hiring freeze exemption requests.

6. No Plan to Address Unfunded Retiree Health or Workers' Compensation Liabilities

Retiree health care and workers' compensation benefits are offered to State employees. Both of these accounts have liabilities. The accounts are essentially funded under a pay-as-you-go (PAYGO) approach. The State does not have a long-term plan to fund these liabilities. This issue examines each of these liabilities.

Retiree Health Insurance

Upon their retirement, eligible retired State employees are entitled to enroll and participate in any of the health insurance options provided by the State Employee and Retiree Health and Welfare Benefits Program. In effect, this entitles retired State employees to retain the same health coverage they had as active employees. In addition, active State employees accrue eligibility for a partial State subsidy of the cost of retiree health insurance coverage under the program.

In 2004, the Governmental Accounting Standards Board (GASB) released new standards that require the State to apply an accounting methodology similar to the one used for pension liabilities to account for retiree health benefits. GASB is an independent, nonprofit foundation that establishes

accounting standards for local and state governments. The new standards affect governmental accounting of Other Postemployment Benefits (OPEB), which are defined as postemployment benefits other than pensions. Under the standards incorporated into GASB's statements 43 and 45, the State must account for the cost of OPEB as they accrue to employees based on their employment with the State rather than on a PAYGO basis. Prior to the release of statements 43 and 45, almost all states, including Maryland, had accounted for OPEB on a PAYGO basis.

The standards require the State to conduct an actuarial valuation of its OPEB liability at least every two years. The valuations must determine the State's accrued OPEB liabilities, defined as the value of the retiree health benefits promised to current and retired employees based on their actual and projected employment with the State. Each valuation credits the State with the value of any assets (including PAYGO expenditures) deposited in an irrevocable OPEB trust for the purpose of funding its OPEB liabilities. The difference between the State's OPEB liability and its trust fund assets represents the unfunded actuarial accrued liability.

GASB allows governments to amortize the unfunded actuarial accrued liability over a period not exceeding 30 years. A combination of legislative changes, positive claims experience, and updated actuarial assumptions helped reduce the State's overall unfunded liability for OPEB by almost 50% from fiscal 2010 levels. Chapter 397 of 2011 altered eligibility for those retiree health benefits for State employees hired after June 30, 2011, and eliminated prescription drug coverage for all Medicare-eligible retirees beginning in fiscal 2020.

Exhibit 17 shows that these changes reduced the State's unfunded liability for those benefits from $15.9 billion in fiscal 2010 to $9.5 billion in fiscal 2011. The unfunded liability dropped again to $8.1 billion in fiscal 2013 due to positive claims experience and updated actuarial assumptions. Increases in unfunded liabilities in fiscal 2014 and 2015 can be attributed to multiple factors, including negative claims experience, a decrease in the rate used to discount liabilities, and recognition of the excise tax that will likely be assessed under the federal Affordable Care Act (ACA), beginning in fiscal 2020.

The exhibit also shows that the annual required contribution (ARC) necessary to pay off the State's liabilities over 25 years dropped to below $600 million in fiscal 2014 and 2015, and then increased to $635 million in fiscal 2015. The drop was due to positive claims experience and updated actuarial assumptions. Increases in the ARC are expected in the out-years.

Exhibit 17
State Retiree Health Liabilities and Required Contributions
Fiscal 2010-2015
($ in Millions)

	2010	2011	2012	2013	2014	2015
OPEB Actuarial Liability	$16,099	$9,732	$9,825	$8,344	$8,964	$9,644
Actuarial Value of Assets	183	196	209	223	250	275
Unfunded OPEB Liability	**$15,915**	**$9,536**	**$9,617**	**$8,121**	**$8,714**	**$9,368**
Normal Cost	$583	$323	$274	$229	$224	$249
Amortization Payment	642	381	382	347	350	385
Annual Required Contribution	**$1,225**	**$704**	**$656**	**$576**	**$574**	**$635**

OPEB: Other Postemployment Benefits

Source: The Segal Group, Inc.

Under GASB accounting standards, the State's net OPEB obligation (NOO) that is reported on its financial statements reflects the cumulative effect of underfunded ARCs and interest charges on the unfunded balances. The State has been calculating the NOO since GASB standards were implemented in fiscal 2008. Fiscal 2015 ended with a $4.1 billion NOO.[2] **Appendix 5** shows the net OPEB obligation since fiscal 2008.

Chapter 466 of 2004 established the Post-retirement Health Benefits Trust Fund. Funds were appropriated in fiscal 2007, 2008, and 2009. There have been no appropriations since $51.1 million was deposited in fiscal 2009. At the end of fiscal 2015, the fund's balance was $275.3 million.

This unfunded liability has not escaped the attention of the credit rating agencies. For example, Moody's July 2015 rating noted that, while the State has "established a trust fund to accumulate assets to offset accrued OPEB liabilities, it does not regularly contribute to it and instead pays for current benefits on an annual basis." This comment was repeated from previous ratings.

The department should be prepared to discuss plans to reduce the OPEB liability and fully fund the ARC.

[2] The $4.1 million unfunded liability is identified in the State's *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015*, in note 16, on pages 105 to 109.

Workers' Compensation

The State of Maryland provides workers' compensation benefits if the harm suffered by the employee was by an accidental personal injury arising out-of-the-course and in-the-course of covered employment. An employee has the responsibility of filing a claim with the Workers' Compensation Commission. If the accidental personal injury causes a disability for more than three days or death, the employer is required to report the accident to the commission. The State's third-party administrator for workplace injuries is the Injured Workers' Insurance Fund (IWIF) that is part of the Chesapeake Employers' Insurance Company (CEIC). Chapter 570 of 2012 converted IWIF from an independent State entity to a statutorily created, private, nonprofit, nonstock, workers' compensation insurer. The legislation allowed employees to remain IWIF employees or elect to become CEIC employees. At the time, 321 employees chose to remain with IWIF, which still administers the State's self-insured workers' compensation account for State employees. For compensable injuries, workers' compensation benefits include wage replacement, medical treatment, death and funeral costs, and vocational rehabilitation expenses. Wage replacement benefits are based on the employee's average weekly wage, which is generally capped by the State average weekly wage and on the type of injury as prescribed in statute.

From fiscal 1999 to 2003, $20 million was appropriated into this fund annually. Chapter 203 of 2003 (the Budget Reconciliation and Financing Act) transferred $75 million from IWIF into the general fund. The State has not made any appropriations to reduce the unfunded liability since fiscal 2003.

Claims can be paid in full or they can be paid over a period of years. Claims that are due in subsequent years are a liability that the State will need to pay. If the State does not appropriate funds into an account, the liabilities are unfunded liabilities. DBM advises that, at the end of fiscal 2015, the total unfunded liability is $417.9 million and that the discounted[3] liability is $294.6 million. The account includes $4.8 million, so the unfunded liability is $413.1 million. **The department should also be prepared to brief the committees on any plans to begin appropriating funds to reduce the unfunded workers' compensation liability.**

7. Statewide Personnel System Implementation Delays

Since January 2008, DBM has been working on replacing its Statewide Personnel System. The prior system was developed in 1975. It served State agencies with 600 core users, who managed personnel activities for approximately 48,000 employees, as well as benefits of 250,000 combined employees, retirees, and dependents with millions of transactions processed annually.

[3] DBM advises that the actuarial report from Deloitte Consulting notes that the "outstanding liabilities and the offsetting recoverables have been discounted at a rate of return of 4%. The discounted reserves are based on selected ultimate losses and recoverables and the appropriate loss payout patterns based on historical State Account experience."

The first phase of the project included recruiting, human resources, compensation, and performance management. A cloud application was chosen, and the vendor is Workday. The total cost of implementing the new personnel system is $72 million, of which $53 million has been spent through fiscal 2015. In November 2014, the first phase of the new Statewide Personnel System was implemented. There were no reports of major problems.

Initially, the second phase included benefits administration, compensation, and timekeeping. The department has delayed the benefits administration to the third phase. The second phase (timekeeping and compensation) will be going live in March 2016. DBM will not be running parallel systems. The plan is to begin with DoIT and DBM in March 2016 and then launch the remainder of the agencies in April.

DBM advises that key lessons learned from implementing the first phase was to begin the knowledge transfer while the system is being designed. State subject matter experts, such as the leadership of the Employee Benefits Division, can then better align training materials to the various employees performing the operational tasks. Also, a train-the-trainer approach will be used for the Agency Benefits Coordinators (ABCs). Training will be scheduled for one-and-a-half months for a total of 1,400 trainees. Training for the second phase will support:

- benefits division super users (two days of instructor-led training);
- ABCs (one day of instructor-led training);
- HR coordinators (two hours of instructor-led training); and
- HR partners (two hours of web-based training).

Benefits Administration System Delays

The benefits administration implementation has been delayed. The revised plan is to implement the benefits administration in spring 2017, instead of late 2015. Workday reported serious performance issues at the time of system testing, which required more time to address. Workday reported performance issues because of its overall module design and the State of Maryland's configuration complexity. For example, the State system has unique legal requirements that are complicated and difficult to adopt to the Workday product. The State's project team has been working with the Workday product team to resolve these performance issues. The team meets biweekly to keep the project on this new schedule.

DBM advises that delaying the system requires the State to maintain its current BAS longer. The vendor, MS Technologies, Inc., will receive an additional $2.2 million over the two years to make upgrades. The upgrades include fixing a May 2015 audit issue. The audit notes that DBM inappropriately stored personally identifiable information (PII), such as Social Security numbers, full names, and dates of birth, in clear text in BAS.

The total cost of the project has also increased. Last year, DBM reported that the total cost was $60.4 million. The updated total project cost is $72.3 million.

The department should be prepared to brief the committees on the status of the Statewide Personnel System.

Personnel and Vacancy Data Inaccuracies

The new system does seem to have some growing pains. The January vacancy data received by DLS from the personnel system included numerous inaccuracies. In a number of agencies, vacant positions are missing or filled positions are grouped with vacant positions. There seem to be problems determining which positions are regular and are eligible to receive pension benefits and which positions are contractual or per diem positions that do not receive pension benefits. For example, the Department of Labor, Licensing, and Regulation included over 20 per diem positions among its regular positions. Other problems include missing data in key fields. Keeping correct vacancy data is critical when making managerial decisions. **DLS recommends that DBM review its processes and make improvements to the quality of the personnel data in the new Statewide Personnel System.**

8. Missing Personnel Data

Section 7-121 of the State Finance and Procurement Article requires that the budget books include personnel data. The section is as follows:

7-121. Operating expenses of State units.

(a) *Budget books requirements* – The budget books shall contain a section that, by unit of the State government, sets forth, for each program or purpose of that unit:

(1) the total number of officers and employees and the number in each job classification:

(i) authorized in the State budget for the last full fiscal year and the current fiscal year; and

(ii) requested for the next fiscal year;

(2) the total amount for salaries of officers and employees and the amount for salaries of each job classification:

(i) spent during the last full fiscal year;

(ii) authorized in the State budget for the current fiscal year; and

(iii) requested for the next fiscal year;

The fiscal 2017 budget books did not include the required personnel data. **The Administration should include all required personnel data in the fiscal 2018 budget books.**

9. Employee and Retiree Health Insurance Account

Due to plan changes in fiscal 2012, the Employee and Retiree Health Insurance Account closed with substantial fund balances in fiscal 2013 and 2014. As a result, contributions required of State agencies, employees, and retirees were lowered in fiscal 2014 and 2015 to work down this fund balance; however, at the same time, claims paid by the State exceeded projections. By the end of fiscal 2015, the account closed with a negative fund balance after accounting for unpaid liabilities.

To address the deficit, required State agency, employee, and retiree contributions in fiscal 2016 and 2017 increase overall by 19.6% and 6.9%, respectively. Favorable trends in pharmacy rebates also result in additional revenue, starting in fiscal 2015 when rebates and recoveries increased by $20.0 million to a total of $81.4 million; rebates increase to $104.0 million in fiscal 2016 and are anticipated to stay at this raised level in fiscal 2017. As a result of both increased contributions and rebates, the Administration predicts a positive fund balance of $6.3 million in fiscal 2017 after deducting unpaid liabilities.

Health Care Expenditures Continue to Rise

Two trends are prevalent in health insurance: costs have continued to rise, and the State has needed to shift more costs to employees and retirees in an attempt to control health insurance spending. Rising costs, predominately medical and prescription, have required plan changes and increased contributions to allow receipts to keep pace with payments. After plan changes in fiscal 2012 reduced medical expenses (which now include mental health costs) to $824 million, medical costs experienced an annual growth rate of 4.9% from fiscal 2013 to 2015, amounting to $906 million in fiscal 2015. **Exhibit 18** shows that the account began fiscal 2015 with a $215 million balance and ended with a balance of $60 million as expenditures outstripped receipts. Each fiscal year includes an estimate of costs that are incurred but not received (IBNR) – these are services that are rendered in one fiscal year and the provider is not reimbursed until the following fiscal year. When IBNR costs are included, fiscal 2015 closed with a negative $46 million fund balance.

Despite greater use of generic medications by plan members, prescription drug costs have increased substantially in recent years. From fiscal 2013 to 2015, prescription costs for the State increased by $117 million, experiencing an annual growth rate of 15.7%. DBM is expecting this trend to continue, as evident in fiscal 2016 and 2017 where prescription drug costs show an increase of $58 million (12.4%) and $68 million (13.0%), respectively. Rising costs of prescriptions is a nationwide trend due to price increases and utilization of expensive specialty drugs, such as treatment for Hepatitis C that can cost $100,000 or more per patient. Medications for treatment of chronic illnesses, such as diabetes and high cholesterol, also top the charts as cost drivers for the State.

DBM assumed a 2.7% growth rate in fiscal 2016 and 2017 for medical costs, which is the lower range of inflation proposed by the actuary Segal, rather than actual growth in expenditures in recent

years. DLS is concerned that this growth estimate is optimistic. **Exhibit 19** adjusts the health account forecast to include a revised growth rate of 4.9% in fiscal 2016 and 2017 for medical costs based on actual growth from fiscal 2012 to 2015.

Exhibit 18
Employee and Retiree Health Insurance Account
Fiscal 2015-2017
($ in Millions)

	2015 Actual	2016 Working	2017 Allowance
Beginning Balance	**$215.4**	**$60.0**	**$78.4**
Expenditures			
DBM – Personnel Administrative Cost	**$19.0**	**$17.5**	**$17.5**
Payments of Claims			
Medical	$906.3	$930.8	$956.1
Prescription	463.4	521.1	588.9
Dental	46.9	49.7	49.7
Contractual Employee Claims	0.0	11.0	11.0
Payments to Providers	**$1,416.7**	**$1,512.6**	**$1,605.7**
% Growth in Payments	*7.9%*	*6.8%*	*6.2%*
Receipts			
State Agencies	$958.5	$1,166.7	$1,248.4
Employee Contributions	162.0	178.2	189.4
Retiree Contributions	78.4	88.6	94.2
Contractual – State Agencies	0.0	7.3	16.5
Contractual – Employees	0.0	3.7	4.1
Prescription Rebates, Recoveries, and Other	81.4	104.0	104.0
Total Receipts	**$1,280.3**	**$1,548.5**	**$1,656.6**
% Growth in Receipts	*2.6%*	*20.9%*	*7.0%*
Ending Balance	**$60.0**	**$78.4**	**$111.8**
Estimated Incurred but Not Received Bills	**-$105.5**	**-$105.5**	**-$105.5**
Reserve for Future Provider Payments	**-$45.5**	**-$27.1**	**$6.3**

DBM: Department of Budget and Management

Note: Mental health costs are consolidated within medical costs.

Source: Department of Budget and Management

Exhibit 19
Employee and Retiree Health Insurance Account
Department of Legislative Services' Assumptions
Fiscal 2015-2017
($ in Millions)

	2015 Actual	2016 Working	2017 Allowance
Beginning Balance	**$215.4**	**$60.0**	**$58.5**
Expenditures			
DBM – Personnel Administrative Cost	**$19.0**	**$17.5**	**$17.5**
Payments of Claims			
Medical	$906.3	$950.7	$997.3
Prescription	463.4	521.1	588.9
Dental	46.9	49.7	49.7
Contractual Employee Claims	0.0	11.0	11.0
Payments to Providers	**$1,416.7**	**$1,532.5**	**$1,646.9**
% Growth in Payments	*7.9%*	*8.2%*	*7.5%*
Receipts			
State Agencies	$958.5	$1,166.7	$1,248.4
Employee Contributions	162.0	178.2	189.4
Retiree Contributions	78.4	88.6	94.2
Contractual – State Agencies	0.0	7.3	16.5
Contractual – Employees	0.0	3.7	4.1
Prescription Rebates, Recoveries, and Other	81.4	104.0	104.0
Total Receipts	**$1,280.3**	**$1,548.5**	**$1,656.6**
% Growth in Receipts	*2.6%*	*20.9%*	*7.0%*
Ending Balance	**$60.0**	**$58.5**	**$50.7**
Estimated Incurred but Not Received Bills	**-$105.5**	**-$105.5**	**-$105.5**
Reserve for Future Provider Payments	**-$45.5**	**-$47.0**	**-$54.8**

DBM: Department of Budget and Management

Note: Mental health costs are consolidated within medical costs.

Source: Department of Budget and Management

Using the revised assumptions, the health account shows negative fund balances of $47.0 million and $55.0 million after deducting IBNR in fiscal 2016 and 2017, respectively. Contributions will need to be increased in order to address the deficit left after taking into account IBNR expenses should costs come in higher than what DBM is assuming.

DBM should explain recent and predicted cost trends in health insurance spending in fiscal 2017 and discuss whether funding is sufficient.

Eligible Contractual Employees Receive Health Care Coverage

The ACA requires large employers to provide affordable health insurance to employees that work at least 30 hours per week or 130 hours per month, or be subject to a penalty. As a result, contractual employees of the State became eligible for the alternative subsidy of 75% of the premium for medical and prescription drug coverage effective January 1, 2015; other benefits, such as dental insurance, are unsubsidized. Maryland had been offering all employees health care benefits prior to the ACA, but only permanent part-time employees working at least 50% (generally 20 hours per week) were offered subsidized benefits; employees working less than 20 hours per week were offered unsubsidized benefits.

As of January 1, 2016, DBM has a total of 1,459 contractual employees enrolled and receiving the alternative subsidy. Costs and receipts associated with contractual employees appear on the forecast beginning in fiscal 2016. DBM is unable to distinguish contractual costs from regular employee costs, so costs in fiscal 2016 and 2017 are estimates. DBM currently estimates contractual employee claims at $11.0 million in fiscal 2016 and 2017.

10. New Health Plans and Wellness Program

In an effort to address escalating medical and prescription costs, DBM implemented a new wellness program along with other plan changes beginning January 1, 2015. The wellness program was intended to be phased in over a six-year period and includes the use of incentives and disincentives, education, and discounted resources to encourage employee wellness and reduce out-year costs. Completing wellness requirements each year would result in waived Primary Care Physician (PCP) copays. Failure to complete requirements would result in an annual premium or surcharge.

Wellness requirements in calendar 2015 included (1) designating a PCP; (2) completing an annual health risk assessment online; and (3) obtaining a signature from the PCP indicating that the risk assessment results were reviewed. Requirements in calendar 2016 are the same as calendar 2015, plus employees would have to complete recommended age- and gender-specific biometric screenings, participate in nutrition or weight management education, and engage in the disease management program if identified to participate in order to avoid a surcharge. However, as of January 2016, wellness requirements for calendar 2015 and 2016 have been extended and surcharges waived through calendar 2017, making required screenings, education, and disease management voluntary activities. Employees who completed calendar 2015 requirements will continue to receive waived PCP copays

and will not be required to complete calendar 2016 activities. Additionally, employees can choose to take the State's health risk assessment or an assessment from their own medical plan.

Based on initial feedback, fewer employees completed the required wellness activities than anticipated. As of September 1, 2015, over 25,000 individuals had completed all the requirements of the wellness plan for calendar 2015, or approximately 27.8% of eligible members. Generally, wellness plans that use incentives to increase participation, such as the State's wellness plan, have a median participation of 40.0% of members according to the Rand Corporation's April 2015 report on workplace wellness programs.

Under the initial wellness plan, failure to complete wellness plan requirements in the prior year would result in an annual premium or surcharge starting in calendar 2016. In calendar 2016, the surcharge would have been $50 for the entire year for failure to complete calendar 2015 requirements (*i.e.*, designating a primary care physician and completing an annual health risk assessment). In calendar 2017, the surcharge would have been $75 for the entire year for failure to complete the same requirements as calendar 2015 as well as not completing recommended age/gender specific biometric screenings and nutrition or weight management education. For those eligible for the disease management program, failure to complete the aforementioned requirements and actively participate in the disease management program would have resulted in a $250 surcharge for the entire year in calendar 2016 and $375 in calendar 2017. By waiving the surcharge for calendar 2016 and 2017, DBM is choosing not to collect on potentially $3.2 million and $4.7 million in surcharge revenue, respectively (not including additional revenue from identified participants not engaging with the disease management program, which cannot be estimated without more information). At the same time, the State is paying the cost of waived copays for the 25,000 individuals who have completed the wellness program requirements in calendar 2015 and will continue to do so for individuals who complete requirements in calendar 2016.

DBM should discuss the decision to waive surcharges in calendar 2016 and 2017, current plans to implement the wellness program and improve participation, and provide revised costs and savings estimate of the program given recent changes. DLS recommends that DBM submit a report by January 1, 2017, on the revised wellness program. The report should include the following information:

- **revised program plan information, including requirements and surcharges;**
- **estimated costs and savings of the program for calendar 2016 and 2017;**
- **total cost of waived copays for individuals who completed requirements during calendar 2015 and the first nine months of calendar 2016;**
- **number of individuals who completed the requirements by September 30, 2016;**

- **number of individuals identified for the disease management program by September 30, 2016; and**

- **a detailed estimate of revenue lost due to waived surcharges in calendar 2016.**

Recommended Actions

1. Add the following language to the general fund appropriation:

   , provided that $250,000 of this appropriation made for the purpose of the Executive Direction program may not be expended until the Department of Budget and Management (DBM) submits a report to the budget committees on statewide hiring freeze policies. The report should discuss hiring freeze procedures, positions subject to the freeze, the rationale for maintaining the freeze during favorable economic times, and how long it takes to process vacant positions subject to the freeze. DBM should also develop managing for results indicators that measure how long it takes to process positions subject to the hiring freeze. The report shall be submitted by September 2, 2016, and the budget committees shall have 45 days to review and comment from the receipt of the report. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

   Explanation: The State has been under varying degrees of a hiring freeze since at least fiscal 2004. Based on February 2016 vacancy data, 772 positions were frozen. The language requires DBM to prepare a report that develops a statewide position freeze policy. The report should address hiring freeze procedures, which positions are frozen, and how long it takes to process vacant positions subject to the freeze. DBM should also develop managing for results indicators that measure how long it takes to process positions subject to the hiring freeze.

Information Request	**Author**	**Due Date**
Hiring freeze policy report	DBM	September 2, 2016

2. Add the following language to the general fund appropriation:

   , provided that $100,000 of this appropriation may not be expended until the Department of Budget and Management develops a report on fiscal 2016 closeout of the Employee and Retiree Health Insurance Account. This report shall include the (1) closing fiscal 2016 fund balance; (2) actual provider payments due in the fiscal year; (3) State employee and retiree contributions; (4) an accounting of rebates, recoveries, and other costs; and (5) any closeout transactions processed after the fiscal year ended. The report shall be submitted to the budget committees by October 1, 2016. The budget committees shall have 45 days to review and comment following the receipt of the report. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund.

   Explanation: This annual budget bill language requires the Department of Budget and Management to submit a report with fiscal 2016 closeout data for the Employee and Retiree Health Insurance Account.

Information Request	Author	Due Date
Report requiring fiscal 2016 closeout data for the Employee and Retiree Health Insurance Account	Department of Budget and Management	October 1, 2016

3. Add the following language to the general fund appropriation:

, provided that $200,000 of this appropriation made for the purposes of funding the Division of Personnel Services may not be expended until the Department of Budget and Management (DBM) submits a report to the budget committees on its efforts to consolidate human resources services. The report should discuss which agencies are supported by DBM, the cost to DBM for supporting these agencies, costs saved or avoided, and how the quality of the support provided by DBM will be measured. The report shall be submitted by January 1, 2017, and the budget committees shall have 45 days to review and comment from the date of receipt. Funds restricted pending the receipt of the report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

Explanation: DBM is proposing a human resources (HR) shared services initiative. By fiscal 2017, DBM will be providing all HR services for approximately 1,000 employees in 17 agencies. The department should provide a status report on the progress made. The report should discuss which agencies are supported by DBM, the cost to DBM for supporting these agencies, costs saved or avoided, and how the quality of the support provided by DBM will be measured. This report should be submitted to the budget committees by January 1 2017.

Information Request	Author	Due Date
HR shared services report	DBM	January 1, 2017

	Amount Reduction	
4. The statewide program allowance includes $40.3 million for merit-based salary increases at the University System of Maryland (USM) and Morgan State University (MSU). The increase is 2.5% of the salary base. Insofar as the State average for salary increments is 2.4%, the appropriation for increments at USM and MSU is reduced to reflect the State's average.	$ 1,466,143	GF

5.	Reduce appropriation for increments to reflect the 657 position reduction. The statewide program includes $57 million for merit increments in fiscal 2017. Section 20 of the budget bill eliminates 657 positions. This is a little over 1% of the Executive Branch workforce. The reduction adjusts the appropriation to reflect the reduction in positions. This reduction is adjusted so that the appropriations include sufficient funding for increments and the $73,000 for the polygraph positions Annual Salary Review (ASR) salary adjustments in the Department of Public Safety and Correctional Services and the Maryland State Police. These increments were approved after the budget was completed and are not included in the appropriation for ASRs.	440,000 90,000 110,000	GF SF FF

6. Adopt the following narrative:

Full and Complete Personnel Plan: The committees are concerned that this is the third consecutive year in which unspecified reductions in positions are made in the budget bill as introduced. This impedes transparency for citizens, legislators, and agency heads trying to determine the adequacy of each agency's personnel complement. In fiscal 2015, there was the Voluntary Separation Program, and fiscal 2016 included a 2% across-the-board reduction that abolished 278 positions. It is the intent of the committees that in the fiscal 2018 budget bill, the Administration should include a full and complete accounting of positions and that the Administration refrain from abolishing unspecified positions through across-the-board sections in the budget bill.

7. Adopt the following narrative:

Revised Wellness Program: It is the intent of the budget committees that the Department of Budget and Management (DBM) submit a report to the committees by January 1, 2017, on the revised wellness program. The report should include the following information:

- revised program plan information, including requirements and surcharges;
- estimated costs and savings of the program for calendar 2016 and 2017;
- total cost of waived copays for individuals who completed requirements during calendar 2015 and the first nine months of calendar 2016;
- number of individuals who completed requirements by September 30, 2016;

- number of individuals identified for the disease management program by September 30, 2016; and

- a detailed estimate of revenue lost due to waived surcharges in calendar 2016.

Information Request	**Author**	**Due Date**
Report on the revised wellness program	DBM	January 1, 2017

8. Add the following section:

SECTION 19. AND BE IT FURTHER ENACTED, That for fiscal 2017 funding for health insurance shall be reduced by ~~$17,531,823~~ $19,042,897 in Executive Branch agencies to reflect health insurance savings due to a revised collections estimate. Funding for this purpose shall be reduced in Comptroller Object 0154 (Retirees Health Insurance) within Executive Branch agencies in fiscal 2017 by the following amounts in accordance with a schedule determined by the Governor:

	Agency	General Funds
B75	General Assembly of Maryland	222,983
C00	Judiciary	1,209,001
C80	Office of the Public Defender	263,021
C81	Office of the Attorney General	43,536
C82	State Prosecutor	2,586
C85	Maryland Tax Court	1,854
D05	Board of Public Works (BPW)	2,717
D10	Executive Department – Governor	19,811
D11	Office of the Deaf and Hard of Hearing	863
D12	Department of Disabilities	4,121
D15	Boards and Commissions	20,556
D16	Secretary of State	4,486
D17	Historic St. Mary's City Commission	7,454
D18	Governor's Office for Children	5,112
D25	BPW – Interagency Committee for School Construction	7,575
D26	Department of Aging	7,618
D27	Maryland Commission on Civil Rights	8,098
D38	State Board of Elections	6,445
D40	Department of Planning	35,360
D50	Military Department	26,700
D55	Department of Veterans Affairs	13,293
D60	Maryland State Archives	6,468
E00	Comptroller of Maryland	232,043

E20	State Treasurer's Office	6,997
E50	Department of Assessments and Taxation	86,694
E75	Maryland Lottery and Gaming Control Agency	36,294
E80	Property Tax Assessment Appeals Board	2,029
F10	Department of Budget and Management	38,663
F50	Department of Information Technology	29,068
H00	Department of General Services	69,222
K00	Department of Natural Resources	144,850
L00	Department of Agriculture	75,273
M00	Department of Health and Mental Hygiene	1,424,451
N00	Department of Human Resources	871,985
P00	Department of Labor, Licensing, and Regulation	72,985
Q00	Department of Public Safety and Correctional Services	3,260,505
R00	State Department of Education	124,955
R15	Maryland Public Broadcasting Commission	20,069
R62	Maryland Higher Education Commission	6,883
R75	Support for State Operated Institutions of Higher Education	3,835,064
R99	Maryland School for the Deaf	91,119
T00	Department of Commerce	48,934
U00	Department of the Environment	81,574
V00	Department of Juvenile Services	575,868
W00	Department of State Police	610,389
Total General Funds		~~12,233,588~~
		13,665,572

	Agency	Special Funds
C00	Judiciary	79,090
C81	Office of the Attorney General	17,478
C90	Public Service Commission	40,214
C91	Office of the People's Counsel	7,039
C94	Subsequent Injury Fund	5,036
C96	Uninsured Employers Fund	4,558
C98	Workers' Compensation Commission	35,040
D12	Department of Disabilities	366
D13	Maryland Energy Administration	5,707
D15	Boards and Commissions	263
D16	Secretary of State	1,718
D17	Historic St. Mary's City Commission	1,368
D26	Department of Aging	798
D38	State Board of Elections	556
D40	Department of Planning	2,617
D53	Maryland Institute for Emergency Medical Services Systems	27,590

D55	Department of Veterans Affairs	1,802
D60	Maryland State Archives	9,909
D78	Maryland Health Benefit Exchange	13,086
D80	Maryland Insurance Administration	78,214
D90	Canal Place Preservation and Development Authority	386
E00	Comptroller of Maryland	45,148
E20	State Treasurer's Office	756
E50	Department of Assessments and Taxation	94,335
E75	Maryland Lottery and Gaming Control Agency	39,686
F10	Department of Budget and Management	36,598
F50	Department of Information Technology	1,853
G20	State Retirement Agency	43,266
G50	Teachers and State Employees Supplemental Retirement Plans	4,348
H00	Department of General Services	2,337
J00	Department of Transportation	1,842,652
K00	Department of Natural Resources	203,033
L00	Department of Agriculture	31,338
M00	Department of Health and Mental Hygiene	132,440
N00	Department of Human Resources	25,722
P00	Department of Labor, Licensing, and Regulation	82,890
Q00	Department of Public Safety and Correctional Services	78,308
R00	State Department of Education	7,596
R15	Maryland Public Broadcasting Commission	23,772
R62	Maryland Higher Education Commission	1,165
S00	Department of Housing and Community Development	70,408
T00	Department of Commerce	14,670
U00	Department of the Environment	126,696
W00	Department of State Police	148,943
	Total Special Funds	~~3,311,705~~
		3,390,795

	Agency	Federal Funds
C81	Office of the Attorney General	9,013
C90	Public Service Commission	1,244
D12	Department of Disabilities	3,058
D13	Maryland Energy Administration	1,125
D15	Boards and Commissions	5,977
D26	Department of Aging	5,057
D27	Maryland Commission on Civil Rights	2,025
D40	Department of Planning	2,725
D50	Military Department	48,497

D55	Department of Veterans Affairs	2,253
D78	Maryland Health Benefit Exchange	9,984
D80	Maryland Insurance Administration	1,346
H00	Department of General Services	1,260
J00	Department of Transportation	264
K00	Department of Natural Resources	28,479
L00	Department of Agriculture	3,976
M00	Department of Health and Mental Hygiene	251,138
N00	Department of Human Resources	873,521
P00	Department of Labor, Licensing, and Regulation	282,858
Q00	Department of Public Safety and Correctional Services	65,485
R00	State Department of Education	281,098
R15	Maryland Public Broadcasting Commission	1,235
R62	Maryland Higher Education Commission	456
R99	Maryland School for the Deaf	1,860
S00	Department of Housing and Community Development	24,957
T00	Department of Commerce	2,162
U00	Department of the Environment	70,976
V00	Department of Juvenile Services	4,501
	Total Federal Funds	1,986,530

	Agency	Current Unrestricted Funds
R13	Morgan State University	183,701
R30	University System of Maryland	3,651,363
	Total Current Unrestricted Funds	3,835,064
	Less: General Funds in Higher Education	3,835,064
	Net Current Unrestricted Funds	– 0 –

Explanation: The Administration cannot reduce the legislature or Judiciary's budgets. This action applies the State employee and retiree health insurance reductions to those budgets.

9. Amend the following section:

SECTION 20. AND BE IT FURTHER ENACTED, That the Governor shall abolish 657 vacant regular full-time equivalent positions, inclusive of any legislative position reductions, and reduce general funds of $20,000,000 and special funds of $5,000,000 in fiscal 2017. Positions and funding for this purpose shall be reduced within Executive Branch agencies in fiscal 2017 in accordance with a schedule determined by the Governor.

Explanation: The amendment requires that abolished positions be vacant. As introduced, the Governor may abolish filled positions.

10. Amend the following section:

Further provided that the Administration shall have the Board of Public Works approve the position abolitions before July 1, 2016. The Administration shall also provide a list of abolished positions to the budget committees and the Department of Legislative Services.

Explanation: This requires the Administration to abolish the positions before the start of fiscal 2017. It also requires the Administration to provide a list of abolished positions to the budget committees and Department of Legislative Services.

Information Request	**Author**	**Due Date**
Report on abolished positions	DBM	Prior to July 1, 2016

11. Add the following section:

Section XX The "Rule of 100"

SECTION XX. AND BE IT FURTHER ENACTED, That the Board of Public Works (BPW), in exercising its authority to create additional positions pursuant to Section 7-236 of the State Finance and Procurement Article, may authorize during the fiscal year no more than 100 positions in excess of the total number of authorized State positions on July 1, 2016, as determined by the Secretary of the Department of Budget and Management (DBM). Provided, however, that if the imposition of this ceiling causes undue hardship in any department, agency, board, or commission, additional positions may be created for that affected unit to the extent that positions authorized by the General Assembly for the fiscal year are abolished in that unit or in other units of State government. It is further provided that the limit of 100 does not apply to any position that may be created in conformance with specific manpower statutes that may be enacted by the State or federal government nor to any positions created to implement block grant actions or to implement a program reflecting fundamental changes in federal/State relationships. Notwithstanding anything contained in this section, BPW may authorize additional positions to

meet public emergencies resulting from an act of God and violent acts of man that are necessary to protect the health and safety of the people of Maryland.

BPW may authorize the creation of additional positions within the Executive Branch provided that 1.25 full-time equivalent contractual positions are abolished for each regular position authorized and that there be no increase in agency funds in the current budget and the next two subsequent budgets as the result of this action. It is the intent of the General Assembly that priority is given to converting individuals that have been in contractual positions for at least two years. Any position created by this method may not be counted within the limitation of 100 under this section.

The numerical limitation on the creation of positions by BPW established in this section may not apply to positions entirely supported by funds from federal or other non-State sources so long as both the appointing authority for the position and the Secretary of Budget and Management certify for each position created under this exception that:

(1) funds are available from non-State sources for each position established under this exception;

(2) any positions created will be abolished in the event that non-State funds are no longer available.

The Secretary of DBM shall certify and report to the General Assembly by June 30, 2017, the status of positions created with non-State funding sources during fiscal 2013 through 2017 under this provision as remaining, authorized, or abolished due to the discontinuation of funds.

Explanation: This annual language, the Rule of 100, limits the number of positions that may be added after the beginning of the fiscal year to 100 and provides for exceptions to the limit.

Information Request	**Author**	**Due Date**
Certification of the status of positions created with the non-State funding sources during fiscal 2013 through 2017	DBM	June 30, 2017

12. Add the following section:

Section XX Annual Report on Authorized Positions

SECTION XX. AND BE IT FURTHER ENACTED, That immediately following the close of fiscal 2016, the Secretary of the Department of Budget and Management (DBM) shall determine the total number of full-time equivalent (FTE) positions that are authorized as of the last day of fiscal 2016 and on the first day of fiscal 2017. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2016 and 2017, including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self-supported activities, and the Maryland Correctional Enterprises.

DBM shall also prepare a report during fiscal 2017 for the budget committees upon creation of regular FTE positions through Board of Public Works action and upon transfer or abolition of positions. This report shall also be provided as an appendix in the fiscal 2018 Governor's budget books. It shall note, at the program level:

(1) where regular FTE positions have been abolished;

(2) where regular FTE positions have been created;

(3) from where and to where regular FTE positions have been transferred; and

(4) where any other adjustments have been made.

Provision of contractual FTE position information in the same fashion as reported in the appendices of the fiscal 2018 Governor's budget books shall also be provided.

Explanation: This is annual language providing reporting requirements for regular and contractual State positions.

Information Request	**Author**	**Due Date**
Total number of FTEs on June 30 and July 1, 2016	DBM	July 14, 2016
Report on the creation, transfer, or abolition of regular positions	DBM	As needed

13. Add the following section:

Section XX Annual Executive Pay Plan Report

SECTION XX. AND BE IT FURTHER ENACTED, That the Department of Budget and Management and the Maryland Department of Transportation are required to submit to the Department of Legislative Services (DLS) Office of Policy Analysis:

(1) a report in Excel format listing the grade, salary, title, and incumbent of each position in the Executive Pay Plan (EPP) as of July 15, 2016; October 15, 2016; January 15, 2017; and April 15, 2017; and

(2) detail on any lump-sum increases given to employees paid on the EPP subsequent to the previous quarterly report.

Flat-rate employees on the EPP shall be included in these reports. Each position in the report shall be assigned a unique identifier that describes the program to which the position is assigned for budget purposes and corresponds to the manner of identification of positions within the budget data provided annually to the DLS Office of Policy Analysis.

Explanation: Legislation adopted during the 2000 session altered the structure of the EPP to give the Governor flexibility to compensate executives at appropriate levels within broad salary bands established for their positions, without reference to a rigid schedule of steps, and through other compensation methods such as a flat rate salary. These reports fulfill a requirement for documentation of any specific recruitment, retention, or other issues that warrant a pay increase.

Information Request	**Authors**	**Due Date**
Report of all EPP positions	Department of Budget and Management Maryland Department of Transportation	July 15, 2016; October 15, 2016; January 15, 2017; and April 15, 2017

14. Add the following section:

Section XX Positions Abolished in the Budget

SECTION XX. AND BE IT FURTHER ENACTED, That no position identification number assigned to a position abolished in this budget may be reassigned to a job or function different from that to which it was assigned when the budget was submitted to the General Assembly. Incumbents in positions abolished may continue State employment in another position.

Explanation: This language prevents employees from being moved into positions abolished in the budget. It also allows that incumbents in abolished positions may continue State employment in another position.

15. Add the following section:

Section XX Annual Report on Health Insurance Receipts and Spending

SECTION XX. AND BE IT FURTHER ENACTED, That the Secretary of the Department of Budget and Management shall include as an appendix in the fiscal 2018 Governor's budget books an accounting of the fiscal 2016 actual, fiscal 2017 working appropriation, and fiscal 2018 estimated revenues and expenditures associated with the employees' and retirees' health plan. The data in this report should be consistent with the data submitted to the budget data submitted to the Department of Legislative Services. This accounting shall include:

(1) any health plan receipts received from State agencies, employees, and retirees, as well as prescription rebates or recoveries, or audit recoveries, and other miscellaneous recoveries;

(2) any premium, capitated, or claims expenditures paid on behalf of State employees and retirees for any health, mental health, dental, or prescription plan, as well as any administrative costs not covered by these plans; and

(3) any balance remaining and held in reserve for future provider payments.

Explanation: This language provides an accounting of the health plan revenues received and expenditures made on behalf of State employees and retirees. The language proposes that the language in the report be consistent with the budget data submitted with the budget bill.

Information Request	**Author**	**Due Date**
Accounting of the employee and retiree health plan revenues and expenditures	DBM	With submission of the Governor's fiscal 2018 budget books

Total Reductions	**$ 2,106,143**
Total General Fund Reductions	**$ 1,906,143**
Total Special Fund Reductions	**$ 90,000**
Total Federal Fund Reductions	**$ 110,000**

Updates

1. Impact of the Cadillac Tax

The Cadillac Tax is an excise tax established by the ACA. The Cadillac Tax is a tax of 40% on health plans whose value is more than $10,200 for individual coverage and $27,500 for a family; the tax only applies to the amounts that exceed the threshold. Originally, the Cadillac Tax was scheduled to take effect beginning in calendar 2018, but on December 18, 2015, Congress passed, and the President signed, a two-year delay, until calendar 2020. The December 2015 change also makes the tax deductible for employers who pay it.

According to DBM, assuming an annual growth of 5.5% in the cost of health care, the cost of the excise tax will fall within the following ranges over the first three years of implementation:

- calendar 2020 – $7.9 million to $8.2 million;
- calendar 2021 – $12.4 million to $12.7 million; and
- calendar 2022 – $16.7 million to $17.1 million.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of Budget and Management – Personnel
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$69,121	$14,991	$9,369	$7,553	$101,033
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-19,567	0	0	0	-19,567
Budget Amendments	-41,369	-8,058	-4,940	0	-54,367
Reversions and Cancellations	-1,645	-6,933	-4,429	-102	-13,109
Actual Expenditures	**$6,540**	**$0**	**$0**	**$7,451**	**$13,991**
Fiscal 2016					
Legislative Appropriation	$32,387	$5,775	$3,261	$8,071	$49,494
Budget Amendments	21	-200	0	0	-178
Working Appropriation	**$32,408**	**$5,575**	**$3,261**	**$8,071**	**$49,316**

Note: Numbers may not sum to total due to rounding.

Fiscal 2015

Fiscal 2015 appropriations totaled $101.0 million, which includes $69.1 million in general funds. The largest appropriations were $86.6 million ($62.3 million in general funds) for the statewide program. All funds appropriated into the statewide program were either canceled or transferred to other agencies.

General fund appropriations, which totaled $69.1 million, were reduced $19.6 million in two cost containment actions. In July 2014, $19.4 million in funds supporting health insurance were canceled and the budget was reduced 2%, which is approximately $169,000, in January 2015. The department transferred $41.4 million in general funds out of the agency's budget, including:

- $37.7 million from the statewide program to provide salary increases for State employees;
- $3.6 million from the statewide program to provide salary increases to specified classifications identified through the ASR process; and
- $100,000 reduced to reflect reductions in the VSP.

General fund reversions total $1.6 million, of which:

- approximately $852,000 were from the health account appropriation in the statewide program;
- $150,000 were from the death benefits appropriation in the statewide program;
- approximately $484,000 were from salary increases appropriated into the statewide program; and
- approximately $159,000 in the various administrative programs by keeping positions vacant.

Special fund appropriations totaled $15.0 million, all of which is in the statewide program. The department transferred $8.0 million to support the general salary increase and approximately $96,000 to support ASRs. Cancellations totaled $6.9 million – $6.6 million in health account appropriations and approximately $353,000 appropriated for the general salary increase.

Federal fund appropriations totaled $9.4 million, all of which is in the statewide program. The department transferred $4.9 million to support the general salary increase and approximately $51,000 to support ASRs. Cancellations totaled $4.4 million, $4.3 million in health account appropriations and approximately $95,000 appropriated for salary increases.

Fiscal 2016

The fiscal 2016 legislative appropriation included $49.5 million for DBM personnel. To date, -$178,451 in budget amendments have been processed, including:

- adding $114,557 in general funds to offset a proposed 2% reduction to employee salaries;
- reducing general funds by $3,416 for the 2% across-the-board cost containment action applied to all agencies; and
- reducing the statewide program by $89,713 in general funds and $200,879 in special funds consistent with the ASRs appropriated in the budget of State agencies.

Appendix 2

Audit Findings

Audit Period for Last Audit:	November 3, 2010 – April 15, 2014
Issue Date:	May 2015
Number of Findings:	5
Number of Repeat Findings:	2
% of Repeat Findings:	20%

Finding 1: **The auditor advises that controls were not adequate over the payment of administrative fees for health care and prescription drug programs. Specifically, a supervisor in the Employee Benefits Division calculated the monthly administrative fees and forwarded the calculations, which were not subject to independent review, to a subordinate who entered the payments into the Financial Management Information System. DBM responded that this is now reviewed by the fiscal director. DBM also paid invoices for administrative fees without verifying the counts to independent documentation. DBM responded that these are now compared to the BAS.**

Finding 2: DBM did not adequately pursue and resolve results from an independent audit of the prescription drug program. The audit found that the contractor owes the State $1.5 million. The contractor disputed the charges in a September 2013 letter to DBM. After a regularly scheduled rebidding, a new contractor was awarded the prescription drug contract in May 2012. The auditor advises that no further action was taken by DBM. DBM responded that it mailed a letter in April 2015 and that their Attorney General will review the contractor's response.

Finding 3: DBM had not established a formal policy to ensure the timely initiation and completion of participant eligibility review. According to DBM's records, the combined review of fiscal 2010 and 2011 was not completed until November 2013, and fiscal 2012 was not completed until October 2014. Improper payments from fiscal 2010 to 2012 totaled $3.5 million. DBM responded that it will complete eligibility reviews within one year and that the written policy will be updated. The auditor also found that DBM did not submit delinquent payments to the State Central Collection Unit (CCU) in a timely manner. DBM advises that it has agreed with CCU to provide two notices after 45 days and 90 days delinquent and then submit to CCU 90 days after the first notice.

Finding 4: DBM inappropriately stored PII, such as Social Security numbers, full names, and dates of birth, in clear text in BAS. DBM responded that this should be migrated to a new system in fiscal 2015, which has been delayed to fiscal 2017.

Finding 5: **The auditor advises that prescription drug rebates and premium payment collections were recorded in a manual log but not verified. These payments primarily relate to local governments for their covered employees. DBM advises that there now is an automated master log that is reviewed weekly.**

*Bold denotes item repeated in full or part from preceding audit report.

Major Information Technology Projects

Department of Information Technology
Statewide Personnel System

Project Status	Implementation.	**New/Ongoing Project:**	Ongoing.
Project Description:	The project includes modules such as recruiting, human resources, compensation, performance management, employee self-service, benefits administration, and timekeeping. The first phase has been deployed. The second phase includes timekeeping and payroll. There is now a third phase for benefits management.		
Project Business Goals:	The system should modernize an antiquated legacy system (from 1975), enable automated personnel-related reporting and business analysis, provide centralized data management, reduce administrative redundancies, and provide web-based employee self-service. A successful system will provide faster processing times, increased efficiencies, and robust current and historical reporting.		
Estimated Total Project Cost:	$72,266,446	**Estimated Planning Project Cost:**	$11,309,909
Project Start Date:	January 2008	**Projected Completion Date:**	June 2017
Schedule Status:	The benefits module was initially scheduled for October 2015, but due to vendor (Workday) product performance issues, benefits functionality is now scheduled to be implemented as phase III that will go live in March 2017.		
Cost Status:	Costs increased due to benefits module delays.		
Scope Status:	No changes in scope are projected.		
Project Management Oversight Status:	Because the Department of Information Technology is the implementing and oversight agency, the project poses some unique challenges. To address this, project managers have been procured.		
Identifiable Risks:	Risk concerns include user interface (almost all State agencies will be using the system), the organizational culture (the current system has been in place for more than 30 years), and the availability of staff with the skills necessary to manage the system when it is implemented.		
Additional Comments:	Project status is discussed in the Department of Budget and Management Personnel analysis.		

Fiscal Year Funding ($ in Thousands)	**Prior Years**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Balance to Complete**	**Total**
Professional and Outside Services	$52,719.2	$13,168.6	$6,378.6	$0.0	$0.0	$0.0	$0.0	$72,266.4
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	$0.0
Total Funding	**$52,719.2**	**$13,168.6**	**$6,378.6**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$72,266.4**

Appendix 4

Voluntary Separation Program – Positions Abolished by Department

Department/Service Area	VSP	Vacancies	Total	As Percent of Workforce
Health and Human Services				
Health and Mental Hygiene	72	4	76	1.2%
Human Resources	67	0	67	1.0%
Juvenile Services	7	0	7	0.3%
Subtotal	***146***	***4***	***150***	***1.0%***
Public Safety				
Public Safety and Correctional Services	42	16	58	0.5%
Police and Fire Marshal	8	0	8	0.3%
Subtotal	***50***	***16***	***66***	*0.5%*
Transportation[1]	**98**	**0**	**98**	**1.1%**
Other Executive				
Legal (Excluding Judiciary)	15	0	15	1.0%
Executive and Administrative Control	14	2	16	1.0%
Financial and Revenue Administration	19	0	19	0.9%
Budget and Management and DoIT	9	1	10	2.2%
Retirement	0	0	0	0.0%
General Services	7	0	7	1.2%
Natural Resources	8	0	8	0.6%
Agriculture	2	0	2	0.5%
Labor, Licensing, and Regulation	37	0	37	2.3%
MSDE and Other Education	21	25	46	2.3%
Housing and Community Development	2	0	2	0.6%
Business and Economic Development	4	0	4	1.8%
Environment	19	0	19	2.0%
Subtotal	***157***	***28***	***185***	***1.4%***
Executive Branch Subtotal	***451***	***48***	***499***	***1.0%***
Higher Education[2]	**7**	**0**	**7**	**1.6%**
Maryland Transportation Authority	**10**	**0**	**10**	**0.6%**
Total	**468**	**48**	**516**	**1.0%**

DoIT: Department of Information Technology
MSDE: Maryland State Department of Education
VSP: Voluntary Separation Program

[1] Excludes 10 nonbudgeted positions in the Maryland Transportation Authority.
[2] Baltimore City Community College.

Appendix 5

Maryland's Net OPEB Obligation
Fiscal 2008-2015
($ in Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015
Beginning NOO	n/a	$696	$1,478	$2,336	$3,199	$3,532	$3,787	$3,965
Adjusted ARC	1,086	$,119	1,127	1,135	581	498	420	419
Interest on NOO	0	30	64	101	138	150	161	188
Annual OPEB Cost	**$1,086**	**$1,149**	**$1,191**	**$1,235**	**$719**	**$640**	**$580**	**$608**
PAYGO costs	271	315	336	369	386	393	403	450
Pre-funding	119	51	0	0	0	0	0	0
Annual Payments	**$390**	**$367**	**$336**	**$369**	**$386**	**$393**	**$403**	**$450**
End-of-year NOO	**$696**	**$1,478**	**$2,333**	**$3,199**	**$3,532**	**$3,787**	**$3,965**	**$4,123**

ARC: annual required contribution
NOO: net Other Postemployment Benefits obligation
OPEB: Other Postemployment Benefits
PAYGO: pay-as-you-go

Note: Numbers may not sum to total due to rounding.

Source: The Segal Group, Inc.

Object/Fund Difference Report
Department of Budget and Management – Personnel

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	113.50	127.00	127.00	0.00	0%
02 Contractual	2.46	0.70	3.20	2.50	357.1%
Total Positions	**115.96**	**127.70**	**130.20**	**2.50**	**2.0%**
Objects					
01 Salaries and Wages	$ 9,595,098	$ 40,162,694	$ 123,932,582	$ 83,769,888	208.6%
02 Technical and Spec. Fees	135,643	5,022,357	144,681	-4,877,676	-97.1%
03 Communication	347,641	282,667	328,200	45,533	16.1%
04 Travel	13,272	20,000	20,300	300	1.5%
08 Contractual Services	3,684,556	3,595,911	4,541,728	945,817	26.3%
09 Supplies and Materials	30,814	35,000	35,000	0	0%
10 Equipment – Replacement	4,231	8,800	130,406	121,606	1381.9%
13 Fixed Charges	179,597	188,300	192,343	4,043	2.1%
Total Objects	**$ 13,990,852**	**$ 49,315,729**	**$ 129,325,240**	**$ 80,009,511**	**162.2%**
Funds					
01 General Fund	$ 6,540,308	$ 32,408,457	$ 94,865,290	$ 62,456,833	192.7%
03 Special Fund	0	5,575,288	15,648,523	10,073,235	180.7%
05 Federal Fund	0	3,260,852	8,790,813	5,529,961	169.6%
09 Reimbursable Fund	7,450,544	8,071,132	10,020,614	1,949,482	24.2%
Total Funds	**$ 13,990,852**	**$ 49,315,729**	**$ 129,325,240**	**$ 80,009,511**	**162.2%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Department of Budget and Management – Personnel

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Executive Direction	$ 2,019,204	$ 2,135,242	$ 2,515,234	$ 379,992	17.8%
02 Division of Employee Benefits	7,148,796	7,649,305	8,401,378	752,073	9.8%
04 Division of Employee Relations	1,572,291	1,750,988	2,664,417	913,429	52.2%
06 Division of Classification and Salary	1,876,613	2,315,308	2,451,610	136,302	5.9%
07 Division of Recruitment and Examination	1,373,948	1,428,746	1,510,577	81,831	5.7%
08 Statewide Expenses	0	34,036,140	111,782,024	77,745,884	228.4%
Total Expenditures	**$ 13,990,852**	**$ 49,315,729**	**$ 129,325,240**	**$ 80,009,511**	**162.2%**
General Fund	$ 6,540,308	$ 32,408,457	$ 94,865,290	$ 62,456,833	192.7%
Special Fund	0	5,575,288	15,648,523	10,073,235	180.7%
Federal Fund	0	3,260,852	8,790,813	5,529,961	169.6%
Total Appropriations	**$ 6,540,308**	**$ 41,244,597**	**$ 119,304,626**	**$ 78,060,029**	**189.3%**
Reimbursable Fund	$ 7,450,544	$ 8,071,132	$ 10,020,614	$ 1,949,482	24.2%
Total Funds	**$ 13,990,852**	**$ 49,315,729**	**$ 129,325,240**	**$ 80,009,511**	**162.2%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

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Department of Information Technology

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$39,141	$47,651	$43,281	-$4,370	-9.2%
Deficiencies and Reductions	0	0	-29	-29	
Adjusted General Fund	**$39,141**	**$47,651**	**$43,252**	**-$4,399**	**-9.2%**
Special Fund	8,434	10,989	26,024	15,035	136.8%
Deficiencies and Reductions	0	0	-2	-2	
Adjusted Special Fund	**$8,434**	**$10,989**	**$26,022**	**$15,033**	**136.8%**
Federal Fund	582	632	397	-235	-37.2%
Adjusted Federal Fund	**$582**	**$632**	**$397**	**-$235**	**-37.2%**
Reimbursable Fund	51,036	57,392	62,518	5,126	8.9%
Adjusted Reimbursable Fund	**$51,036**	**$57,392**	**$62,518**	**$5,126**	**8.9%**
Adjusted Grand Total	**$99,193**	**$116,664**	**$132,189**	**$15,526**	**13.3%**

- After adjusting for the across-the-board health insurance reduction, total costs increase by $15.5 million in fiscal 2017.

- Operations account for $2.8 million of the increase while major information technology (IT) projects account for the remaining $12.7 million in additional costs.

Note: Numbers may not sum to total due to rounding.

For further information contact: Patrick S. Frank Phone: (410) 946-5530

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	136.00	134.00	154.60	20.60
Contractual FTEs	0.80	1.00	1.00	0.00
Total Personnel	**136.80**	**135.00**	**155.60**	**20.60**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		8.10	6.09%	
Positions and Percentage Vacant as of 12/31/15		16.00	11.94%	

- Fiscal 2017 regular positions increase by a total of 20.6 positions.
- A total of 21.6 positions are being transferred into the department from other agencies to support consolidated IT services.
- The department also lost an assistant director in the Networks Division that had been vacant since September 2014.

Analysis in Brief

Major Trends

Oversight of Major IT Projects: The Department of Information Technology (DoIT) oversees State agency major IT projects. Since fiscal 2009, measures established to judge project success suggest that progress is being made as more projects remain on schedule and on budget. The number of projects whose costs deviated from the baseline scope or cost increased to 20% in fiscal 2015.

State Agency Support: The department also supports systems used by State agencies, such as telecommunications systems, wireless networks, a data network, and statewide financial and personnel systems. Surveys suggest that the service provided is perceived to be satisfactory. No surveys have been taken in the last year. DoIT has implemented new software that asks individuals to rate their satisfaction after a service has been provided.

Web Systems Indicators in Transition: The Internet is essential in engaging citizens and providing services. In fiscal 2013, agencies transferred regular positions and funds into the department to support web services. DoIT also contracts with a private vendor to develop web services. The department has not developed any indicators that show progress toward offering more services on the Internet.

Issues

Statewide Consolidation of Information Technology Support Operations: A major initiative is for DoIT to adopt an "enterprise model" for day-to-day agency IT operations. The objective is for DoIT to provide these services for all cabinet-level agencies. The DoIT expectation is that this will reduce costs and improve services. DoIT provided these services for some agencies prior to when this new initiative begun. At the end of fiscal 2015, approximately 1,300 positions were served by DoIT. This increases to 10,900 at the end of fiscal 2017. **The department should be prepared to brief the budget committees on its initiative to expand the support services that it is offering to State agencies. DLS also recommends that the General Assembly adopt language requiring DoIT to report on the progress of its initiative to expand the number of agencies to whom the department provides IT support services.**

Cybersecurity Audits Detect Weaknesses: Cybersecurity is a major concern for the State. The media is routinely reporting cybersecurity breaches, and many incidents are unreported. Audits have found weaknesses in State procedures. Chapter 358 of 2015 established the Maryland Cybersecurity Council to work with federal agencies, businesses, and cybersecurity experts to improve the State's response to cybersecurity threats. **The department should be prepared to brief the committees on its role in the Maryland Cybersecurity Council.** In recent years, the department has made efforts to identify weaknesses and make improvements. **In spite of all the training, increased resources, and improved policies, audits still reveal critical security weaknesses. The department should brief the committees on how it plans to address these weaknesses.**

Election System – Changing Plans: The State Board of Elections (SBE) is developing a new voting system that should be operational for the 2016 elections. On Thursday, February 4, 2016, the board unanimously voted to use paper ballots instead of the election machines at the April 2016 primary election. The DoIT mission is to assist agencies as they develop major IT projects so that projects are on time and on budget. **The department should be prepared to brief the committees on its role in supporting the SBE voting system project. This should include a discussion of problems identified and actions taken to fix problems.**

Recommended Actions

		Funds
1.	Delete implementation funds for the Department of Human Resources' Automated Financial System major information technology project.	$ 1,000,000
2.	Defer funding for the State Board of Elections' Agency Election Management System Modernization Project.	578,906
3.	Add language to restrict funds pending a report on the department's statewide information technology consolidation.	
	Total Reductions	**$ 1,578,906**

Updates

Internet Advertising Policy Adopted in Response to an Information Request in the Joint Chairmen's Report: DoIT has adopted the same policies as the federal government with respect to Internet advertising. These policies prohibit nongovernment advertising and political campaign information.

Response to Request in the Joint Chairmen's Report to Provide an Update of Personnel Actions: The department notes that vacancies are down and some key positions have been filled.

F50
Department of Information Technology

Operating Budget Analysis

Program Description

Chapter 9 of 2008 created the Department of Information Technology (DoIT). The department contains the following divisions:

- **State Chief of Information Technology –** responsible for executive direction.

- **Enterprise Information Systems (EIS)** – responsibilities include developing statewide infrastructure and security standards. EIS also provides a range of services for the Office of the Governor, the Department of Budget and Management (DBM), the Department of General Services (DGS), and the Maryland Emergency Management Agency (MEMA).

- **Application Systems Management (ASM)** – responsibilities include the operating mainframe computer agency-based accounting, purchasing, budgeting, personnel, and asset management systems, such as the Financial Management Information System (FMIS).

- **Networks** – responsible for operating networkMaryland, the State's data network, and the State's telecommunications and wireless systems.

- **Strategic Planning** – responsible for the oversight of information technology (IT) procurement, project management, and policies and planning.

- **Major Information Technology Projects** – development of major IT projects.

- **Web Systems** – operates the State web portal as well as developing and administering web standards and procedures.

- **Telecommunications Access of Maryland (TAM)** – provides telecommunications relay service for Maryland's hearing and speech disabled citizens. The program also provides assistance telephone equipment for financially qualifying citizens with a variety of needs.

The department administers the Major Information Technology Development Project Fund (MITDPF). This is a nonlapsing fund that supports large IT initiatives as defined in Sections 3A-301 and 3A-302 of the State Finance and Procurement Article. Major Information Technology Development Projects are projects that meet one or more of the following criteria:

- the estimated total cost of development equals or exceeds $1 million;

- the project is undertaken to support a critical business function associated with the public health, education, safety, or financial well-being of the citizens of Maryland; or

- the Secretary of DoIT determines that the project requires the special attention and consideration given to a major IT development project.

Description of Systems Development Life Cycle Methodology

A key component of the DoIT mission is to provide oversight for the State's major IT systems development. The need to develop safe, secure, and reliable systems is heightened by an increasing dependence on technology to provide services, develop products, administer programs, and perform management functions. To establish procedures and practices for IT project development, the department has implemented the Systems Development Life Cycle (SDLC) methodology. It is used for all major IT projects.

The SDLC methodology provides IT project managers with the tools to help them implement systems that satisfy agency objectives. The documentation requires that executive leadership, functional managers, and users sign-off on the requirements and implementation of the system.

The SDLC methodology is a two-step approval process for major IT projects. Initially, an agency submits a Project Planning Request. After the requirements analysis has been completed and a project has completed all of the planning required through Phase Four of the SDLC (Requirements Analysis), including a baseline budget and schedule, the agency may submit a Project Implementation Request and begin designing and developing the project when the request is approved. **Exhibit 1** identifies the SDLC phases.

Exhibit 1
Systems Development Life Cycle Phases

Phase	Description
Project Planning Request	
Initiation	Management determines that a system may be necessary. Significant assumptions and constraints are identified. A project team is formed. A Concept Proposal identifies the needs and opportunities to improve business functions. The Information Technology Project Request, which is the formal budget request, is prepared.
System Concept Development	This phase begins when the Concept Proposal has been formally approved by the agency Chief Information Officer. The project team analyzes needs, risks, and alternatives. The System Boundary Document (that limits the scope) and Risk Management Plan are prepared. The agency decides to proceed into the next life cycle phase, continue additional conceptual phase activities, or terminate.

Phase	Description
Planning	The Project Management Plan (PMP) is developed in this phase. (The plan documents the project scope, tasks, schedule, resources, and interrelationships with other projects. The plan includes an acquisition planning section to show how all government human resources, contractor support services, hardware, software, and telecommunications capabilities are acquired during the life of the project.) The internal management, engineering, business management, and contract management processes that will be used by the project office for all subsequent life cycle phases are also determined in the phase.
Requirements Analysis	This phase begins when the PMP is approved. The key product developed in this phase is the Functional Requirements Document (FRD). This is a user-oriented document that includes business process descriptions, a logical model that describes the fundamental processes and data needs, an analysis of business activities and data, an analysis to define the interaction between the business activities and business data, and a detailed analysis of the current technical architecture, application software, and data to ensure that limitations or unique requirements have not been overlooked. A Test and Evaluation Master Plan is also prepared. **The baseline is typically prepared at the end of this phase.**
Project Implementation Request	
Design	The objective of the Design Phase is to transform the detailed, defined requirements into complete, detailed specifications for the system to guide the work of the Development Phase. Tasks include beginning the maintenance manual, user manual, training manual, and contingency plan. Ideally, the project's tasks are divided into two-week segments.
Development	The programming of the system occurs in this phase. Although much of the activity in this phase addresses the computer programs that make up the system, this phase also puts in place the hardware, software, and communications equipment.
Integration and Test	The objective of this phase is to determine if the developed system satisfies the requirements defined in the FRD. This includes system, security, and acceptance testing.
Implementation	The system is installed and made operational.
Operation and Maintenance	The system is in use. As problems are detected, needs occur, or software is upgraded, the system is updated.
Disposition	This is implemented to either eliminate a large part of a system or, in most cases, close down a system and end the life cycle process.

Source: Department of Information Technology, January 2016

Performance Analysis: Managing for Results

The DoIT Managing for Results (MFR) data reflect the mission of the office, providing statewide IT oversight as well as operating/overseeing the operation of statewide information systems and networks.

1. Oversight of Major IT Projects

A major responsibility with long-term statewide implications is the DoIT review of major IT projects that are planned and implemented in State agencies. The department has a series of output measures that examine the extent to which major IT projects remain on schedule, on scope, and on budget.

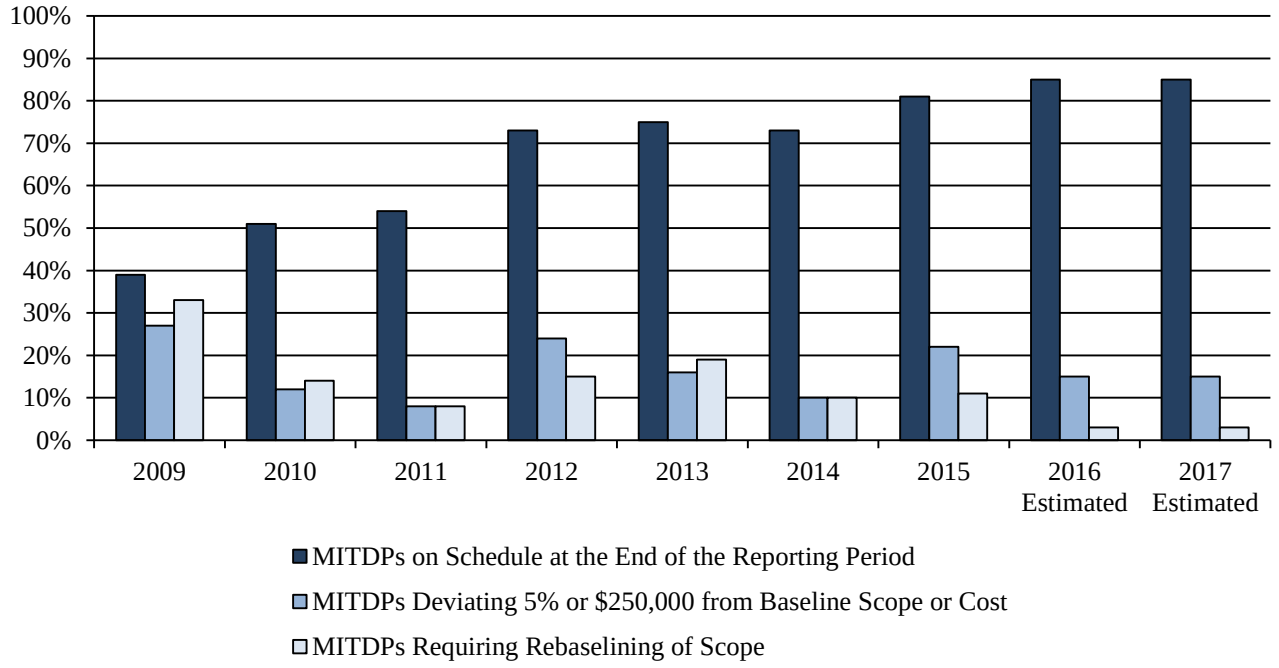
Exhibit 2 shows that the number of projects that were on schedule at the end of the fiscal year increased markedly from fiscal 2009 to 2012, from 39% in fiscal 2009 to 73% in fiscal 2012. Since then, the number of on schedule projects has ranged from 73% in fiscal 2014 to 81% in fiscal 2015.

Progress was also made with projects that need changes to the scope in the project's baseline. The number of projects with a rebaselined[1] scope declined from 33% in fiscal 2009 to 14% in fiscal 2010. Since fiscal 2010, the range has ranged between 8% and 19%.

Though the percentage of projects deviating from costs (either 5% or $250,000) has tended to decline, the swings are more pronounced than projects with changes in scope. Since reaching its nadir of 8% in fiscal 2011, the percent of cost changes increased to 24% in fiscal 2012, then declined to 10% in fiscal 2014, and increased to 22% in fiscal 2015. Recognizing that costs changes are inevitable, DoIT projects that the cost of 15% of projects will change. This is consistent with the average from fiscal 2010 to 2014, which is 14%.

[1] A baseline can be prepared for the scope, schedule, or budget. It is the initial measurement that a project team manages and holds accountable. Deviation from the baseline in any of those areas is likely to result in a compensating action to get back into alignment with the baseline. For instance, if a project begins to slip from its baseline schedule, to get back on track, the project manager may need to add more resources or reduce the scope. Either of these actions could cause a baseline problem in the scope or cost areas. At that point, an effort is made to determine, according to the Project Management Plan (prepared in Phase 3, planning), how to mitigate risks that cause scope, schedule, or cost risks and then to establish a plan of action in the event that a risk becomes an issue. If circumstances make it necessary or desirable to establish a new baseline of cost, schedule, or scope, the process by which this is achieved is referred to as rebaselining.

Exhibit 2
Major Information Technology Project Planning Performance Measures
Fiscal 2009-2017 Estimated



MITDP: Major Information Technology Development Project

Source: Department of Information Technology

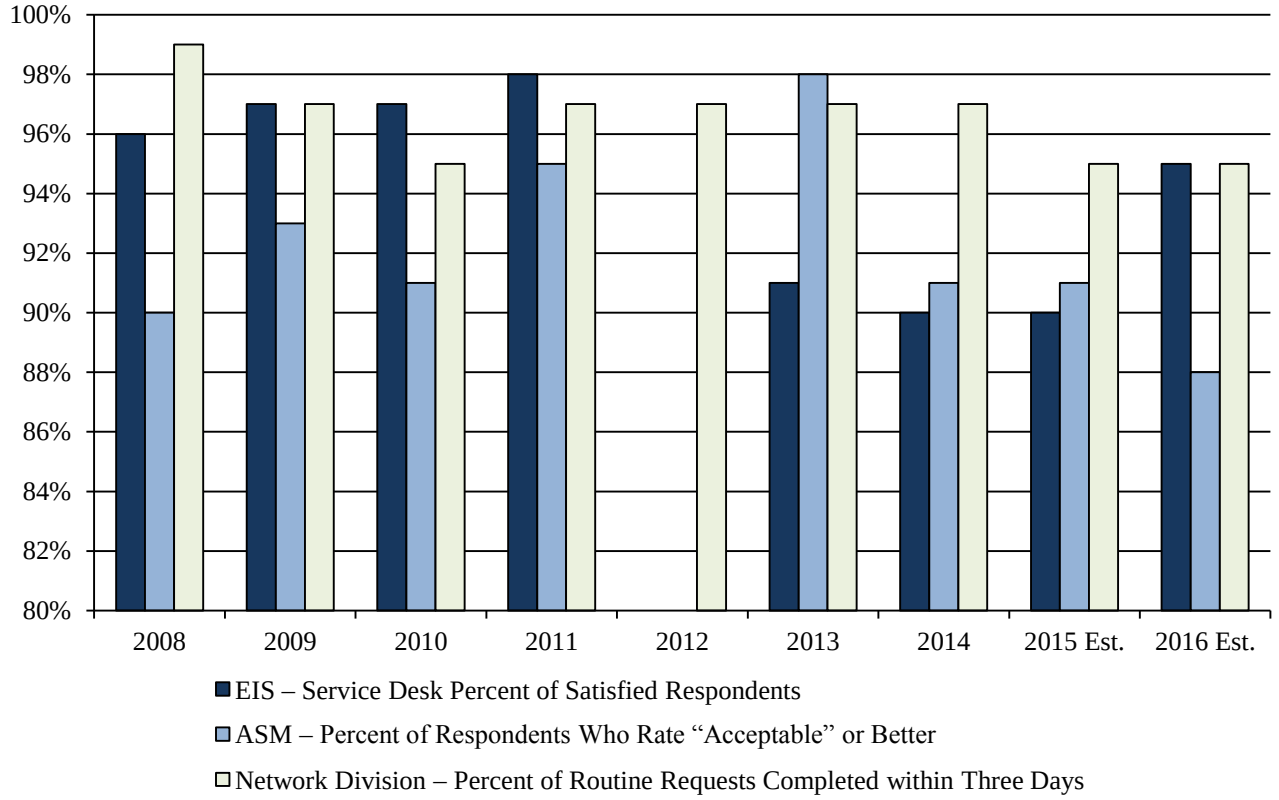
2. State Agency Support

DoIT supports systems that State agencies use. EIS operates a help desk and the local area networks in Annapolis and Baltimore. The department supports IT operations in a number of agencies, including the Governor's Office, MEMA, and DGS. ASM operates the FMIS, which supports the agency-based financial systems, and human resources systems, such as the new Statewide Personnel System. The Networks Division operates telephone systems, networkMaryland, and the State's wireless system. The department's MFR initiative also measures the effectiveness of these services.

DoIT has not conducted satisfaction surveys in the past year, so there is not any new data available this year. In place of the surveys, the department advises that it recently launched a new tool. The tool is linked with service tickets and asks individuals to rate their experience. This new data should be available next year. The most recent data that is available, is included in this analysis.

Exhibit 3 shows that from fiscal 2008 to 2011, at least 96% of EIS help desk respondents rated the service favorable. There was no survey in fiscal 2012, and the favorable rating dropped to 91% in fiscal 2013. The drop is attributable to a change in the survey. Beginning in fiscal 2013, the choices were expanded to include "neutral." DoIT advises that 7% of respondents chose "neutral." In fiscal 2014, the number of satisfied responses dropped to 90%.

Exhibit 3
Agency Support Systems Performance Indicators
Fiscal 2008-2016 Est.



ASM: Applications Systems Management
EIS: Enterprise Information Systems

Note: No EIS survey was prepared in fiscal 2012 due to resources being reassigned to Google email implementation.

Source: Department of Information Technology, January 2016

Since fiscal 2008, over 90% of ASM respondents rated their systems acceptable or better. With respect to the Networks Division, at least 95% of its routine requests for voice services have been completed within three days. Routine requests include adding, disconnecting, moving, and removing telephone lines and voice mailboxes.

3. Web Systems Indicators in Transition

The State's IT master plan identifies the Internet as essential in engaging citizens and providing services. Web services are one of the strategies by which higher standards can be realized. The objective is to use these resources for projects that "improve the delivery of services to citizens and visitors as well as the business processes of the State." The Internet has become ubiquitous, and there are growing expectations from citizens that services are to be provided online.

In fiscal 2013, 8 regular positions and approximately $1 million from other State agencies were transferred into the DoIT budget as part of a centralized IT support initiative. Specific initiatives include:

- expanding State government's presence by using standard development and design tools. This involves developing templates for agencies to use, expanding Geographic Information Systems (GIS), and providing multimedia services such as video services;

- improving the form of content delivered and measuring the success. This includes developing social media portals for agency public information officers, improving usability so that users can find what they need, and adopting web statistics that allow for common measurement tools, surveys, and forms to track usage and interests;

- developing efficiencies through shared platforms, procedures, and service levels. This involves providing common development tools and a code library, as well as assisting agencies with configuration of websites and applications; and

- improving collaboration and training, which includes skills training and quarterly meetings of web managers.

DoIT advises that agencies will still be responsible for the content on their websites. The DoIT role will be to develop standards and provide resources for agencies. **The department should brief the committees on the progress made since the transfer of these positions.**

Missing from the measures is any indication of the quality of Maryland.gov. There are numerous factors that contribute to a good website, including accessibility, navigation, content, security, speed, accuracy, and currency (up-to-date data). **In addition to providing resources for agency websites, the department should direct some of its MFR efforts to developing indicators that measure the quality of State websites.**

DoIT has made efforts to expand the number of services offered on the Internet. In August 2011, the Board of Public Works approved a master contract with NICUSA, Inc. (NIC) to develop websites, online services, and secure payment processing applications for State agencies. NIC has been developing eGovernment applications for over a decade and is developing them for at least 24 states. The State is not charged for this service; NIC generates revenues by implementing some commercially valuable services and pooling these revenues to support other applications. NIC advises

that nonrevenue generating applications account for approximately 80% of applications. Maryland State agencies have begun developing applications with NIC, such as the Department of Commerce's Central Business Licensing and Registration portal, the Motor Vehicle Administration's (MVA) Android Driver Practice Exam, and the MEMA Maryland Prepares application.

This contract provides the State an opportunity to expand web services. But from the MFR data, it is unclear to what extent the State is expanding the number of services offered on the Internet. The web systems programs have a vision of "providing citizens with easy access to Maryland government data and State agencies with secure and reliable statewide web applications."

Every two years the Center for Digital Government, the research and advisory arm of *Government Technology* magazine, evaluates state governments' ability to improve internal processes and better serve citizens. In the 2014 survey, Utah received an A grade. In Utah, the "public expects to be able to interact with their government using new convenient technologies." The report notes that Utah now offers over 1,100 online services. Maryland's grade was a B. Positive comments were that Maryland is implementing a new Public Safety Communication System and has an Open Data Council. But it it is unclear how many services Maryland offers.

Fiscal 2016 Actions

Cost Containment

Like other agencies, DoIT was subject to a 2% across-the-board cost containment reduction. The amount applied to the department was $1.3 million. **Exhibit 4** shows that most of these reductions affected major IT projects. The Medicaid Enterprise Restructuring Project was suspended and the funds were no longer needed. Contracted work was also reduced.

Exhibit 4
Allocation of Fiscal 2016 2% Across-the-board Reductions

Description	Amount
Major IT project reduction to Medicaid Enterprise Restructuring Project	$823,731
Reduce major IT project review contracts	250,000
Reduce GIS contracts for development support	100,000
Reduce maintenance services supporting enterprise and web services	86,269
Reduce Financial Management Information System support	50,000
Total	**$1,310,000**

GIS: Geographic Information System
IT: information technology

Source: Department of Budget and Management

Proposed Budget

The fiscal 2017 allowance proposes $132.2 million in spending. The largest fund sources are reimbursable funds ($62.5 million) and general funds ($43.3 million). **Exhibit 5** shows that the fiscal 2017 allowance is $15.5 million more than the fiscal 2016 working appropriation. A large and volatile share of the budget is funding for major IT projects, which total $67.4 million in fiscal 2017. Cash flow requirements for these projects change substantially from year to year. The fiscal 2017 major IT project spending is $12.7 million more than budgeted in fiscal 2016. Costs for departmental operations increase by $2.8 million.

Excluded from the exhibit are costs associated with employee increments. Employee increments and associated fringe benefits are included in the budget of DBM. These funds, which total $206,287, will be distributed to each agency by budget amendment for the start of the fiscal year.

Exhibit 5
Proposed Budget
Department of Information Technology
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$39,141	$8,434	$582	$51,036	$99,193
Fiscal 2016 Working Appropriation	47,651	10,989	632	57,392	116,664
Fiscal 2017 Allowance	43,252	26,022	397	62,518	132,189
Fiscal 2016-2017 Amount Change	-$4,399	$15,033	-$235	$5,126	$15,526
Fiscal 2016-2017 Percent Change	-9.2%	136.8%	-37.2%	8.9%	13.3%

Where It Goes:	
Personnel Expenses	
21.6 positions transferred from other agencies	$1,774
Abolished transferred position	-94
Realign personnel spending to reflect salary changes and reduce one-time funds for reclassifications	-556
Pension costs	247
Employee and retiree health insurance	303
Turnover adjustments	-145
Other fringe benefit adjustments	-4
Operating Contracts	
Network Division maintenance and consulting contracts	1,326

Where It Goes:	
Google software applications	946
Major IT project consulting services	658
NetworkMaryland and wireless service contracts	306
New capital budget system maintenance contract	126
Google migration	-900
Reduce State application systems contract to reflect fiscal 2015 actual costs	-453
Telecommunications Access of Maryland	
New tablet program at Telecommunications Access of Maryland	529
Telecommunications Access of Maryland service contract	-1,441
Maryland Accessible Telecommunications program purchases	-270
Operating Costs	
Annapolis Data Center charges	300
Electricity cost for wireless activities in the Networks Division	210
Department of Information Technology Major IT Projects	
Statewide Personnel System	2,256
Enterprise Budget System	1,914
Central Collection Unit system modernization	-1,298
Major Information Technology Development Project Fund	
State agency major IT projects	9,861
Other changes	-69
Total	**$15,526**

IT: information technology

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $29,068 in general funds and $1,853 in special funds. There is an additional across-the-board reduction to abolish vacant positions statewide, but the amounts have not been allocated by agency.

Personnel

DoIT is consolidating statewide IT operations. Ultimately, all cabinet level agencies will be included. Though not required to be included, some other agencies (State Department of Assessment and Taxation, for example), may choose to be included in the consolidation.

To support this effort, 21 regular positions and 1 part-time position were transferred into DoIT. These positions are supported with general funds. **Exhibit 6** lists the transferred positions. Issue 1 provides an overview of the consolidation.

Exhibit 6
Positions Transferred into the Department of Information Technology

Title	Position Count	Salary and Fringe Benefits
Administrators	2.00	$168,953
Computer Information Services Specialist	2.00	145,715
Computer Network Specialists	5.00	419,205
Computer Network Specialists Manager	1.00	85,201
Computer Network Specialists Supervisor	1.00	97,062
Computer Operators	2.00	117,024
Database Specialist	1.00	77,029
Database Specialist Supervisor	1.00	80,961
Information Technology (IT) Assistant Director	1.00	129,195
IT Functional Analyst	3.00	235,048
IT Programmer	0.60	61,099
IT Programmer Analyst Lead	1.00	77,029
IT Systems Technical Specialist	1.00	80,961
Total	**21.60**	**$1,774,482**

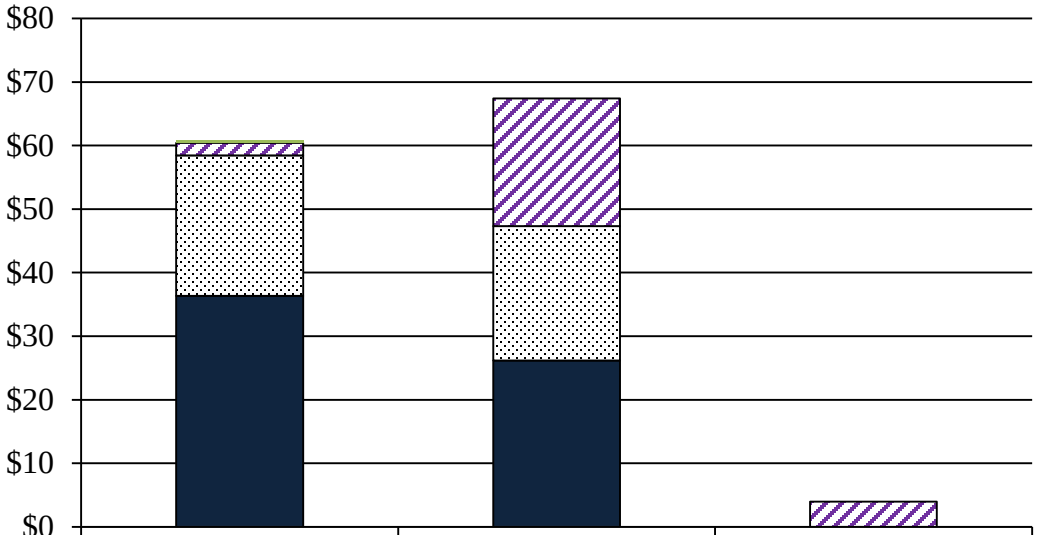
Sources: Department of Budget and Management; Department of Information Technology

In May 2015, DoIT also lost 4 positions through the Voluntary Separation Program (VSP). One position was lost in the Applications Systems Management, Enterprise Information Systems, Networks Division, and Web Systems. Fiscal 2015 salaries for the positions totaled approximately $281,000.

Operations and Project Spending

DoIT activities can be divided into three distinct functions: TAM provides telecommunications relay service for Maryland's hearing and speech disabled citizens; Major IT Projects provides oversight for State agencies developing major IT projects; and Operations supports the ongoing telecommunication and IT services in State agencies. **Exhibit 7** shows that the largest share of the DoIT appropriation supports major IT projects, which receive $67.4 million in total funds, which is 51.0% of spending. Operations are supported by $60.8 million, 46.0%, of spending. Another $4.0 million (3.0% of spending) supports TAM.

Exhibit 7
Spending by Purpose and Fund
Fiscal 2017
($ in Millions)



	Operations	Major IT Projects	TAM
Federal Funds	$0.4	$0.0	$0.0
Special Funds	2.0	20.1	4.0
General Funds	22.1	21.2	0.0
Reimbursable Funds	36.3	26.2	0.0

IT: information technology
TAM: Telecommunications Access of Maryland

Note: Adjusted to reflect reductions proposed by in the Governor's budget plan.

Source: Department of Budget and Management

Major IT Development Project Fund and Major IT Project Expenditures

Chapters 467 and 468 of 2002 created the MITDPF. The fund replaced the Information Technology Investment Fund; required all general funds appropriated for major IT projects to be held in the fund; and enhanced the oversight role of DoIT (known then as the Office of Information Technology) in approving projects from the fund.

MITDPF Funded Projects

Exhibit 8 shows fund transactions for the MITDPF for fiscal 2014 through the proposed budget in fiscal 2017. Fiscal 2017 includes a $21.2 million general fund appropriation, $18.2 million in special fund appropriations, and $0.3 million in interest earnings.

Exhibit 8
Major Information Technology Development Project Fund Data
Fiscal 2014-2017

	2014	2015	2016	2017
Opening Fund Balance	**$27,232,042**	**$31,269,245**	**$32,730,531**	**$0**
Revenues				
General Fund	$20,100,566	$21,668,423	$28,493,336	$21,158,248
Special Fund – Investment Interest	431,186	563,358	300,000	300,000
Special Fund – Appropriations	673,818	6,950,963	0	18,217,128
Cost Containment		-433,368	-823,731	
Total Available Revenues	**$48,437,612**	**$60,018,621**	**$60,700,136**	**$39,675,376**
Expenditures				
Transferred to Agencies	-$17,168,367	-$27,288,090		
Fiscal 2015 Obligations				
Anticipated Transfers			-$60,700,136	-$39,375,376
End-of-year Fund Balance	**$31,269,245**	**$32,730,531**	**$0**	**$300,000**

Source: Department of Legislative Services; Department of Information Technology; Department of Budget and Management

The special fund appropriations includes $14.7 million from reallocated projects, as seen in **Exhibit 9**. The largest source is $12.7 million from the Medicaid Enterprise Restructuring Project. The project's objective was to replace the legacy Maryland Medicaid Information System. By fiscal 2016, costs totaled $186.0 million, including $25.0 million in general funds. There were concerns about the project for a number of years. The Department of Health and Mental Hygiene (DHMH) issued multiple cure notices. The vendor was unable to remediate them. The project was suspended in August 2014. Early in the second quarter of fiscal 2016, the project was ended. These unspent funds

are being reappropriated for other projects. DoIT advises that $3.9 million of State funds was spent on the project, and the Attorney General's office is reviewing the State's options. There is an issue about the project in the Medicaid analysis.

Exhibit 9
Special Funds from Canceled Projects
($ in Thousands)

Project	Amount
The DHMH Medicaid Enterprise Restructuring Project	$12,737
The GOC State Children, Youth, and Families Information System	398
The SDAT Assessment Administration and Valuation System	55
The DHMH Electronic Vital Records System	90
The DPSCS Offender Case Management System	240
Department of Human Resources' Cares Changes	175
Department of Human Resources' Enterprise Content Management	606
Maryland Higher Education Commission's Student Financial Aid System	19
Department of State Police's E-911	131
Project Oversight	286
Total	**$14,736**

DHMH: Department of Health and Mental Hygiene
DPSCS: Department of Public Safety and Correctional Services
GOC: Governor's Office for Children
SDAT: State Department of Assessments and Taxation

Source: Department of Information Technology

Another canceled project is the Governor's Office for Children's (GOC) State Children, Youth and Families Information System project. Concerns had been raised about the project's slow progress. GOC advised that finishing the project required another $3 million in appropriations. There were also concerns that this was insufficient to fix all issues with the current system. The new executive director ended the project. Unspent funds are reappropriated. Based on DoIT documents, DLS estimates that approximately $300,000 was spent on this project.

Fiscal 2016 appropriations are detailed in **Exhibit 10**. The fiscal 2017 allowance includes funding for four new projects, the State Board of Election's (SBE) Agency Election Management System, the DHMH Computerized Hospital Record and Information System, the DHMH Medicaid

Management Information System, and the Department of Public Safety and Correctional Services' (DPSCS) Computerized Criminal History Replacement Phase II.

Exhibit 10

Major Information Technology Development Project Fund

Projects Receiving New Fiscal 2017 Funding (Excluding Carryover Project Funding)

Agency	Project Name	Project Description	MITDPF Funding	Comment
Ongoing Projects				
Comptroller	Integrated Tax System	Replace current State of Maryland Tax, Computer Aided Collection System, and other systems. Objective is to integrate systems to simplify taxpayer compliance as well as improving reporting for office staff.	$13,200,000 [1]	Currently, the project is attempting to get a new project manager on board, which has delayed the project. The project is expected to begin implementation in fiscal 2017. Project includes some high-risk factors, such as interdependencies (needs to be compatible with different systems), organizational culture (resistance to change), and implementation (complicated requires high level of coordination). **DLS recommends approval.**
State Board of Elections (SBE)	New Voting System Replacement Project	Replace an aging voting system that has reached the manufacturer's useful life.	5,040,956	The project is being implemented and is scheduled to be operational for the 2016 primary elections. SBE entered into a lease for the equipment in December 2014. DoIT advises that there have been delays in completing documentation, training staff, and upgrading to pollbook software. **DLS recommends approval.**
DHMH	Long-term Services and Support Tracking System	Implement a system to track long-term care services as well as develop a standardized assessment and in-home services verification tool.	2,936,037	The appropriation supports development, integration and testing, operation and maintenance, and oversight costs. The transition from operations and maintenance vendors was delayed from December 2015 to January 2016. The scope has increased to include the Developmental Disabilities Administration and testing components, adding $1.5 million to general funds and $30.5 million to federal funds. The State is receiving $12.5 million in federal funds in fiscal 2017. The project is generally considered low risk. **DLS recommends approval.**
DHR	Automated Financial System	Replace the fiscal system that tracks payments, maintains transaction history, generates reports,	1,245,000	Project is still in the planning phase. The DHR fiscal 2017 appropriation also includes $1,127,532 in federal funds. The documents show integration beginning in May 2018, yet

Agency	Project Name	Project Description	MITDPF Funding	Comment
		and produces data for other systems. The new system will interface with the Internet. The system is widely used by local offices.		$2 million in funds are requested in fiscal 2017. **DLS recommends reducing the appropriation by $1.0 million so that the funding corresponds with the project schedule.**
Department of State Police (DSP)	Public Safety Communication System	Purchase radios for the 700-MHz communication system.	9,506,391 [1]	Purchase of radios for DHMH, DJS, Comptroller, DSP, and DNR. **DLS recommends approval.**
DSP	Automated Licensing and Registration Tracking System	Automate and streamline the process by which a citizen requests approval to purchase a firearm.	2,100,000	The project is generally low- or medium-risk, the exception is organizational culture. Since this project will result in a shift from a paper to an electronic process, detailed training and new procedures are expected. This is the last appropriation for development; next year's appropriation is for operations. The project is on schedule. **DLS recommends approval.**
MDE	Permit Tracking System Modernization	Enhance permit tracking by adding a component that allows access through the Internet.	1,490,000	MDE advises that the system is expected to use proven technology, which reduces risk. An objective is to reduce the burden on industry and enhance regulatory customer service. This is the last appropriation. The project is on schedule. **DLS recommends approval.**
Subtotal			***$35,518,384***	
New Projects				
SBE	Agency Election Management System Modernization Project	Replace legacy ballot system that was developed in 1985. Integrate the new system with the new voting system and other systems, such as voter and candidate systems. Subject matter experts and project managers should be procured early in fiscal 2017.	$578,906	The current system vendor's sole source contract expires in December 2016. The current system is poorly documented and difficult to maintain. Concerns are obtaining resources (subject matter experts will be required and may be difficult to procure on time), custom software may need to be developed (which can complicate development and add to costs), aging legacy systems are often difficult to replace (organization may be slow to adapt), and the schedule is tight (must be ready for 2018 statewide primary elections). **DLS recommends deferring this project and deleting the funds.**
DHMH	Statewide Electronic Health Records System	Replace a legacy Computerized Hospital Record and Information System. The current system is over 25 years old. The goal is to procure a COTS	550,000	The current system's deficiencies include the inability to process electronic records (including doctor's care instructions), inability to access the web, need for additional software to access other hospitals' systems, and outdated operating systems.

Agency	Project Name	Project Description	MITDPF Funding	Comment
		product. Reviewing available products should begin spring 2016.		High risks include interdependencies (interfaces with numerous hospitals and agencies), organizational culture (new web system to replace long-established system), and flexibility (COTS and agency will need to adapt). **DLS recommends approval.**
DHMH	Medicaid Management Information System	Update Medicaid Systems.	2,592,086 [1]	The Medicaid Enterprise Restructuring Project (MERP) was ended early in the second quarter of fiscal 2016. MERP was intended to replace the existing legacy MMIS system. The proposed funding is for a series of mandated changes to the existing MMIS system as well as two upgrades: a data warehouse capacity and improved case management tracking. **DLS recommends approval.**
DPSCS	Computerized Criminal History Replacement	Replace the 30-year-old Identification Index and Arrest Disposition Reporting Systems. The project is early in development with work beginning in fiscal 2016. The goal is to find a COTS product.	136,000	Concerns about the current systems are that the technology is antiquated, so it is difficult to recruit staff to maintain the systems and that it is becoming increasingly difficult to provide adequate criminal history and background check data to law enforcement agencies. At this point, it is unclear what solutions are available, so it is difficult to assess risks, but any new system is likely to require retraining and changes in organizational practices. **DLS recommends approval.**
Subtotal			***$3,856,992***	
Total Fiscal 2017 Allowance			**$39,375,376**	
Fund Sources				
General Funds			$21,158,248	
Special Funds			18,217,128	
Total Funds			**$39,375,376**	

COTS: commercial off the shelf
DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources
DJS: Department of Juvenile Services
DLS: Department of Legislative Services
DNR: Department of Natural Resources
DoIT: Department of Information Technology
DPSCS: Department of Public Safety and Correctional Services
MDE: Maryland Department of the Environment
MMIS: Medicaid Management Information System II

[1] Supported with special funds.

Source: Department of Legislative Services; Department of Information Technology; Department of Budget and Management

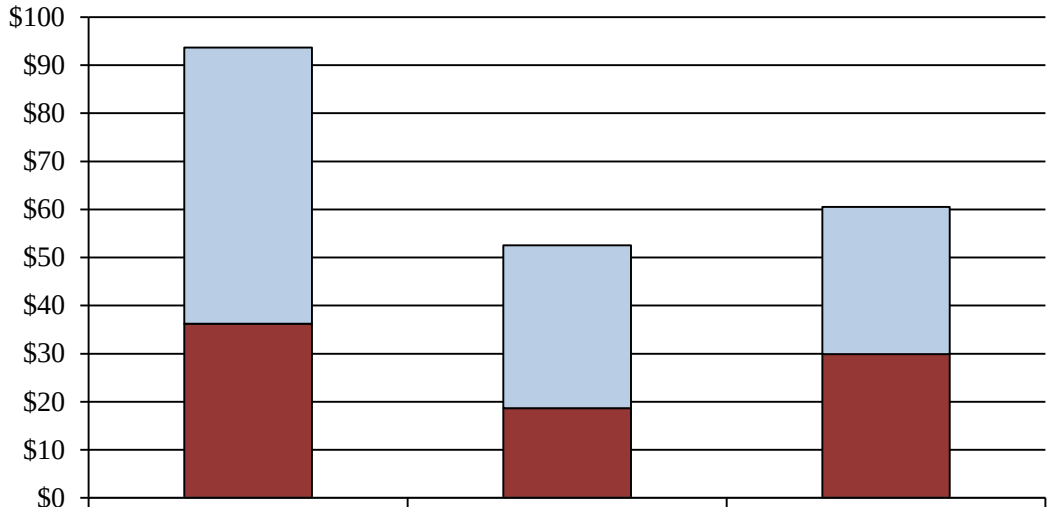
MITDPF Out-year Commitments

Major IT projects require substantial financial commitments and require years to complete. The department has developed the SDLC methodology to guide the planning process. This process produces documents that support the planning process and estimate out-year costs. In the Budget Highlights of the Governor's budget books, the department provides a list of all projects that have received appropriations. Costs are based on the current projects that are being planned. As new projects are approved out-year costs could increase.

Exhibit 11 shows the expected out-year costs of projects that are in the SDLC. In fiscal 2018, $93 million in total appropriations and $36 million in general fund appropriations are expected. This amount is consistent with previous projections. These costs include the following projects with substantial commitments in fiscal 2018:

- Department of Labor, Licensing, and Regulations' Unemployment Insurance modernization estimates $23.6 million in federal fund costs and $0.5 million in special fund costs;
- Integrated Tax System expects $22.0 million in total costs and $13.2 million in general fund costs;
- Enterprise Budget System anticipates $10.9 million in total costs and $7.8 million in general fund costs;
- Long-term Support and Services Tracking requires $10.6 million total costs and $2.1 million in general funds;
- Voting System Replacement Project anticipates $7.4 million in total costs, of which $3.7 million is general fund costs; and
- Statewide Personnel System anticipates $6.4 million in total fund costs and $5.3 million in general fund costs.

Exhibit 11
Major Information Technology Development Project Fund
Projected Out-year Expenditures
Fiscal 2018-2020
($ in Millions)



	2018	2019	2020
Nongeneral Fund Costs	$57	$34	$31
General Fund Costs	36	19	30

General Fund Costs Nongeneral Fund Costs

Note: This excludes transportation and higher education projects.

Source: Department of Legislative Services; Department of Budget and Management; Department of Information Technology

There are also a number of projects that are being planned whose total project costs have not been estimated. These projects have not progressed far enough in the planning process to have estimated implementation costs. As agencies complete the planning process and implement these projects, out-year costs are also expected to increase. **Exhibit 12** lists planning projects whose total project costs have not been identified.

Exhibit 12
Planning Projects
All Funds
($ in Thousands)

		Prior Funds	2017	2018	Remainder to Complete	GF Share
SBE	Election Management System	$0	$1,158	$1,550	$783	50%
DJS	ASSIST	n/a	0	0	0	n/a
BCCC	Enterprise Resource Planning System	2,584	3,571	3,766	2,660	0%
Lottery	Central Monitoring and Control System	100	50	24,000	48,000	0%
DLLR	Unemployment Insurance Modernization	22,705	23,048	24,058	10,129	0%
MIA	Enterprise Complaint Tracking System	2,195	355	0	0	0%
DPSCS	MCE ERPIP	1,740	1,500	550	275	0%
Total		**$29,324**	**$29,681**	**$53,925**	**$61,847**	

ASSIST: Automated Statewide Support and Information System Tools
BCCC: Baltimore City Community College
DJS: Department of Juvenile Services
DLLR: Department of Labor, Licensing, and Regulation
DPSCS: Department of Public Safety and Correctional Services
GF: general funds
MIA: Maryland Insurance Administration
MCE: Maryland Correctional Enterprises
ERPIP: Enterprise Resource Planning Implementation Project
SBE: State Board of Elections
UI: Unemployment Insurance

Source: Department of Information Technology, January 2016

Issues

1. Statewide Consolidation of Information Technology Support Operations

The major initiative in the DoIT budget is to adopt an "enterprise model" for day-to-day agency IT operations. The kinds of services that DoIT will support include Internet connections, application software, security, help desk, servers, and hardware. DoIT advises that it will be keeping staff near the agencies that it supports so that someone does not need to be dispatched every time there is a problem. The objective is for DoIT to provide these services for all cabinet-level agencies. The DoIT expectation is that this will reduce costs and improve services.

DoIT provided these services for some agencies prior to this new initiative was begun. Over the years, DoIT slowly added to the agencies that it was serving. Significantly, DGS was added in fiscal 2015. **Exhibit 13** shows that by the end of fiscal 2015, almost 1,300 employees were supported by DoIT.

Exhibit 13
Agency Information Technology Support Consolidation Schedule

Agency	Number of Employees
Previously Consolidated Agencies	
Governor's Office	85
Office of Minority Affairs	10
Governor's Office of Community Initiatives	26
Governor's Grants Office	3
Governor's Office for Children	16
Ethics Commission	12
Banneker – Douglass Museum	4
Department of General Services	582
Department of Budget and Management	326
Department of Information Technology	155
Maryland Emergency Management Agency	61
Subtotal	***1,277***
Agencies to Consolidate in Fiscal 2016	
Department of Aging	48
Department of Assessments and Taxation	615
Department of Disabilities	27

Agency	Number of Employees
Maryland Energy Administration	30
Secretary of State	25
Maryland Higher Education Administration	56
Office of Deaf and Hard of Hearing	3
Office of State's Prosecutor	13
Department of Veterans Affairs	84
Department of Agriculture	376
Department of Juvenile Services	2,051
Department of Natural Resources	1,341
Office of Crime Control and Prevention	38
Subtotal	***4,706***
Agencies to Consolidate in Fiscal 2017	
Department of Commerce	206
State Department of Education	1,447
Department of the Environment	934
Department of Housing and Community Development	339
Department of Labor, Licensing, and Regulation	1,589
Military Department	243
Department of Planning	145
Subtotal	***4,903***
Agencies to Consolidate after Fiscal 2017	
Department of Health and Mental Hygiene	6,283
Department of Human Resources	6,337
Department of Public Safety and Correctional Services	11,014
Department of State Police	2,436
Department of Transportation	9,259
Subtotal	***35,329***
Less: Positions Abolished by Section 20	-657
Total	**45,558**

Source: Department of Information Technology

To provide additional services, 21 regular full-time and one regular part-time IT positions are transferred into DoIT from other agencies in fiscal 2017. **Exhibit 14** lists which agencies donated positions. Interestingly, one agency transferring positions (Interagency Committee on Public School Construction) will not be participating in the consolidation efforts and some other agencies (such as DPSCS, DHMH, and the Department of Human Resources (DHR)) will not have services consolidated until after fiscal 2017.

Exhibit 14
Transferred Positions

Agency	Number
Department of Information Technology	21.60
Secretary of State	-1.00
Interagency Committee on Public School Construction	-1.00
Department of Aging	-2.00
Department of Health and Mental Hygiene	-4.60
Department of Human Resources	-2.00
Department of Public Safety and Correctional Services	-4.00
Department of Planning	-1.00
Higher Education Commission	-1.00
Department of Juvenile Services	-2.00
Maryland State Police	-1.00
Maryland Department of the Environment	-2.00

Source: Department of Information Technology

While this new initiative has the potential to reduce costs and improve services, there are a number of unanswered questions, including:

- ***Is This Initiative Getting Too Big, Too Soon:*** At the end of fiscal 2015, approximately 1,300 positions were served by DoIT. This increases to 6,000 at the end of fiscal 2015 and 10,900 at the end of fiscal 2017. In two years, the number of positions served will be 8.5 times larger. This is a substantial increase in operations that could go through some growing pains. The concern is that such a rapid expansion could lead to a deterioration of services and a slower approach may be more effective. How will DoIT ensure that service is maintained? Will DoIT add agencies more slowly if the quality of service deteriorates?

- ***Can Quality Be Measured:*** Through its service desk, DoIT now automatically sends those served, a satisfaction rating survey. The department should also develop measures for these new day-to-day support services that it will be providing and should report these measures with its MFR data provided in the budget. The concern is that service could be deteriorating, but we are unaware because there are no reliable measures. How will DoIT measure the quality of the services it provides?

- ***Will High Vacancies Cause Problems:*** DoIT has had vacancy rates in excess of 15% in recent years. In January 2016, the vacancy rate is 12%. How will the department keep vacancies down to maintain services?

- ***What Will This Cost and What Will Be Saved:*** DoIT anticipates that it will receive a mix of general funds appropriated in its budget and reimbursable funds from other agencies. The department also anticipates that savings will be realized. However, DoIT advises that cost and savings estimates have not yet been prepared. When will we know the costs and savings associated with this project?

The department should be prepared to brief the budget committees on its initiative to expand the support services that it is offering to State agencies. DLS also recommends that the General Assembly adopt language requiring DoIT to report on the progress of its initiative to expand the number of agencies to whom the department provides IT support services.

2. Cybersecurity Audits Detect Weaknesses

Cybersecurity is a major concern for the State. The media is routinely reporting cybersecurity breaches, and many incidents are unreported. In recent years, the State has made efforts to identify weaknesses and make improvements. These include scrutinizing practices in audits and requesting improved performance measures.

Office of Legislative Audits Reviews Data Security

In September 2012, the Office of Legislative Audits (OLA) released an audit of State *Information System Data Security*. The audit had two objectives:

- to evaluate State law and the DoIT 2010 *Information Security Policy* against best practices as well as the federal government and other states' policies; and

- to assess compliance with certain aspects of the DoIT policy by selected State agencies.

OLA reviewed DoIT policies and practices from May to December 2011. It also reviewed and tested the policies and practices of the Comptroller of Maryland, DHMH, DHR, DPSCS, and MVA. These are all agencies with substantial amounts of confidential information.

The audit identified the following 12 findings:

- current State law governing protections for personal identifiable information did not apply to State agencies;
- DoIT did not have a formal process to enforce its security policy;
- DoIT needs to be more responsive to emerging technologies;
- DoIT could improve guidance to help agencies address security issues;
- DoIT had not developed recommended practices for implementing data loss prevention solutions;
- State agencies did not consistently document security categorization;
- lack of agency-specific security policies in some agencies;
- risk management policies were not fully implemented;
- security awareness training was not always provided;
- data on portable devices was not always properly protected;
- agencies were in various stages of implementing data loss prevention tools and techniques; and
- agencies had varied practices in implementing vulnerability scanning and penetration testing.

Budget Committees Express Intent to Improve Cybersecurity Indicators

In the 2014 *Joint Chairmen's Report* (JCR), DoIT was asked to develop MFR cybersecurity indicators. In its MFR submission, the department has added the goal that it "provide leadership and support to state agencies in the areas of cybersecurity policy, risk and vulnerability assessment, technology implementation, awareness training and incident response." As requested, the department also added five performance measures. **Exhibit 15** shows the initial measures and the targets from fiscal 2015 to 2017.

Exhibit 15
Cybersecurity Performance Indicators
Fiscal 2015-2017

	Actual 2015	Est. 2016	Est. 2017
Employees Compliant with Cybersecurity Awareness Training Program	90%	90%	90%
Agencies with Vulnerability Assessment, Penetration Test, or Audit	20	20	18
Certified Security Information Professionals Employed by the State	1	1	1

Source: Department of Information Technology

Maryland General Assembly Establishes the Maryland Cybersecurity Council

Chapter 358 of 2015 establishes the Maryland Cybersecurity Council. This council was the successor to the now defunct Maryland Commission on Cybersecurity Innovation and Excellence. The council must consist of several executive department secretaries and directors (or their designees), as well as representatives appointed by the Attorney General from businesses and companies around the State. In addition to the required members of the council, the President of the Senate and the Speaker of the House of Delegates may each appoint 2 legislative members to serve on the council. Finally, the Attorney General must also invite, as appropriate, specified directors and secretaries of federal security agencies to serve on the council. The council must be chaired by the Attorney General or the Attorney General's designee. A member of the council may not receive compensation as a member of the council but is entitled to reimbursement for standard travel expenses. University of Maryland University College provides staff for the council.

The Maryland Cybersecurity Council works with the National Institute of Standards and Technology[2] (NIST), as well as other federal agencies, private-sector businesses, and private cybersecurity experts to:

- for critical infrastructure not covered by federal law or Executive Order 13636, review and conduct risk assessments to determine which local infrastructure sectors are at the greatest risk of cyber attacks and need the most enhanced cybersecurity measures;

- use federal guidance to identify categories of critical infrastructure as critical cyber infrastructure if cyber damage or unauthorized cyber access to the infrastructure could result in catastrophic consequences;

[2] NIST is an agency within the U.S. Department of Commerce that supports scientific research.

- assist infrastructure entities that are not covered by the executive order in complying with federal cybersecurity guidelines;

- assist private-sector cybersecurity businesses in adopting, adapting, and implementing the NIST cybersecurity framework of standards and practices;

- examine inconsistencies between State and federal laws regarding cybersecurity; recommend a comprehensive State strategic plan to ensure a coordinated and adaptable response to and recovery from cybersecurity attacks; and

- recommend any legislative changes considered necessary by the council to address cybersecurity issues.

The department should be prepared to brief the committee on its role in the Maryland Cybersecurity Council.

Department's Efforts to Enhance Its Cybersecurity Program

In calendar 2013, DoIT agreed to make security a greater priority. When the cybersecurity audit was released in fall 2012, DoIT had a few resources allocated, and none dedicated directly to cybersecurity. In response, DoIT added positions dedicated to cybersecurity and procured contractors. State positions include the director, a chief information security officer, and a security engineer. The contractors are primarily focused on statewide cybersecurity, with DoIT providing daily management and execution of day-to-day system and data security functions for DoIT, DBM, and other agencies under the DoIT umbrella.

In summer 2013, the Governor created a statewide Director of Cybersecurity. The director has created a statewide cybersecurity advisory forum comprised of a dozen chief information officers from small, medium, and large agencies to review policy and assist with security matters across State government. One recent product of this group was the implementation of a systematic framework on how to classify, and when to report, cybersecurity incidents. As part of the summer 2013 agency IT master planning process, an annex was created and distributed in which agencies were required to self-assess their compliance, with evidence, to State security controls as delineated in policy. The information gathered was compiled and assessed by the Director of Cybersecurity, thereby allowing agencies to be measured against overall compliance to policy as well as against each other. This served as a baseline exercise. The DoIT security team is in the process of preparing and conducting a follow-up exercise that will allow agencies to more comprehensively demonstrate that they comply with State policy, validate that they possess documented security plans, and quantify the gains made from the initial baseline.

Recognizing that the "insider" threat is the most prevalent cyber risk in State government, the State implemented a monthly, modularized cybersecurity training and awareness program in September 2013 for all Executive Branch employees. The department's MFR indicator shows that 90% of employees are compliant with this training.

The new Administration also recognizes the importance of enhanced cybersecurity efforts. In its fiscal 2016 strategic plan, DoIT lists cybersecurity as its first strategic goal. The department has adopted performance measures and developed strategies. A performance measure is to double the number of firewalls through the use of Security-as-a-Service contracts. DoIT has also developed the following strategies:

- establish a cybersecurity office;
- restructure agency chief information model so that DoIT has authority over strategic direction of IT implementations;
- establish risk-based policies and procedures that prioritize controls, assess risks, track mitigation, and adapt to changing threats;
- establish enterprise visibility into statewide IT assets, systems, capabilities, and data;
- establish enterprise risk and security assessments, incident response, and reporting capabilities; and
- collaborate with industry leaders and partner with commercial vendors to deliver products and services.

Recent Audit Findings

OLA continues to review cybersecurity in its audits. **Exhibit 16** lists all the agencies with cybersecurity audit findings in audits released since January 2015.

Exhibit 16
Cybersecurity Audit Findings
Audits Released Since January 2015

Agency	Report Date	Number of Findings
DPSCS – Information Technology and Communications Division	1/6/16	3
Department of State Police	11/23/15	3
DPSCS – Office of the Secretary	11/18/15	2
Maryland Health Benefit Exchange	10/2/15	4
Office of the Governor	9/4/15	1
USM – University College	6/8/15	2
DBM – Office of Personnel Services and Benefits	5/19/15	1

Agency	Report Date	Number of Findings
USM – University of Maryland, College Park (not data center)	5/11/15	1
USM	5/6/15	2
Salisbury University	5/6/15	3
Department of Budget and Management	4/17/15	1
State Lottery and Gaming Control Agency	4/14/15	3
Comptroller Information Technology Division Annapolis Data Center	3/31/15	3
DLLR – Division of Unemployment Insurance	2/27/15	2
DHMH – Office of the Secretary	2/19/15	4
Department of the Environment	1/6/15	1

DBM: Department of Budget and Management
DHMH: Department of Health and Mental Hygiene
DLLR: Department of Labor, Licensing, and Regulation
DPSCS: Department of Public Safety and Correctional Services
USM: University System of Maryland

Source: Office of Legislative Audits, February 2016

Exhibit 17 lists the number of findings in each type of finding. The conclusion is that there is room to improve.

Exhibit 17
Number of Audit Instances
Audits Released Since January 2015

Type of Audit Finding	Instances
Personal Identifiable Information	8
Log/Monitor Security Events	7
Firewall	5
Intrusion Detection Prevention System Problems	4
Virtual Private Network Access Problems	1
Windows XP Still Used	1
Administration Rights[(1)]	6
Software Not Updated	5
Service Organization Controls Review Was Not Performed or Obtained	2

Type of Audit Finding	Instances
Password Controls	4
Unnecessary User/File Access	10
Excessive Network Level Access	2
Backup files problems	1
Disaster Recovery Plan	1
Anti-malware	5
Data Loss Prevention	1

(1) Users had unnecessary administrative rights on their local computers.

Source: Office of Legislative Audits, February 2016

In spite of all the training, increased resources, and improved policies, audits still reveal critical security weaknesses. The department should brief the committees on how it plans to address these weaknesses.

3. Election System – Changing Plans

SBE is developing a new voting system that should be operational for the 2016 elections. The initial IT project request was prepared in September 2012. The system has been tested, and SBE advised that deficiencies were being corrected. In November 2015, DoIT expressed the following concerns about this project:

- the implementation contractor is not being held to the performance standards set in the contract;
- the recently held mock election was not an "end to end" test that reflects a true election;
- numerous hardware and software issues continue to mount; as of today there are 86 open issues;
- there remain uncertainties around the ability of the system to function at full capacity;
- manual workarounds to key software functionalities will likely be required;
- the same day registration component was removed from the mock election and has still not been tested;

- SBE is reluctant to consider contingency planning, which must be implemented no later than December 1, 2015;

- no verification of the security has been completed or even scheduled;

- distribution of the new voting system to all counties remains incomplete; and

- process and procedural documentation is missing or inaccurate.

In early session briefings, SBE did not express any concerns about deficiencies that could affect the system operation in the April primary or November general elections. However, on February 4, 2016, the board unanimously voted to use paper ballots, instead of the election machines at the April 2016 primary election. The key issues seems to be that all of the candidates do not fit on one screen in races with large numbers of candidates. SBE attempted to fix the issue by requiring that voters view all of the candidates on multiple screens before casting a vote; however, SBE found issues with how the touch screen system handled returning to a previous page, which could not be rectified in time for the primary election.

The DoIT mission is to assist agencies as they develop major IT projects so that projects are on time and on budget. This project is clearly not on time. **The department should be prepared to brief the committees on its role in supporting the SBE voting system project. This should include a discussion of problems identified and actions taken to fix problems.**

Recommended Actions

		Amount Reduction	
1.	Delete implementation funds for the Department of Human Resources' Automated Financial System major information technology project. The project schedule shows implementation occurring in fiscal 2018. Funding is provided in fiscal 2017. Consistent with the schedule, it is recommended that funds supporting implementation be deleted.	$ 1,000,000	GF
2.	Defer funding for the State Board of Elections' (SBE) Agency Election Management System Modernization Project. The board is currently implementing its election system. Problems have been detected that the board believes cannot be overcome before the primary election. In February 2016, the board unanimously voted to use paper ballots, instead of the touch screen machines, in the April 2016 primary election. There are concerns about funding a second project before the first project is completed. The agencies' resources are stretched as it works on the project. The agency will need to focus resources on the primary and general elections. The project request notes that "the availability of the SBE subject matter experts are a concern due to their priorities and responsibilities of supporting the 2016 Presidential election cycle and the implementation of the new voting system."	578,906	GF

3. Add the following language to the general fund appropriation:

<u>, provided that $500,000 of this appropriation made for the purposes of funding the State Chief of Information Technology may not be expended until the Department of Information Technology (DoIT) submits a report to the budget committees on its efforts to consolidate information technology services. The report should discuss which agencies are supported by DoIT, the cost to DoIT for supporting these agencies, costs saved or avoided, and how the quality of the support provided by DoIT will be measured. The report shall be submitted by January 1, 2017, and the budget committees shall have 45 days to review and comment. Funds restricted pending the receipt of the report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.</u>

Explanation: The Administration is increasing the number of State agencies whose IT services are supported by DoIT. The number of employees supported by DoIT is expected to increase from approximately 1,300 in fiscal 2015 to 10,900 in fiscal 2017. Eventually, 45,600 positions will be supported by DoIT. The department should provide a status report on the progress made. The report should discuss which agencies are supported by DoIT, the cost to DoIT for supporting these agencies, costs saved or avoided, and how the quality of the support provided by DoIT will be measured. This report should be submitted to the budget committees by January 1, 2017.

Information Request	**Author**	**Due Date**
Report on the department's statewide information technology consolidation	DoIT	January 1, 2017

Total General Fund Reductions **$ 1,578,906**

Updates

1. Internet Advertising Policy Adopted in Response to an Information Request in the *Joint Chairmen's Report*

Background Information

DoIT has been tasked with reporting to the legislature on statewide Internet advertising policies. This was in response to the State Department of Assessments and Taxation (SDAT) advertisements. SDAT entered into an agreement with Towson University's Office of Information Services. Under the agreement, the university hosts and markets the SDAT website for commercial advertising sales that generate revenues.

DoIT Response

DoIT has determined that all executive agency websites should be built upon common templates and exist within a common domain naming convention that easily and reliably identifies the site as part of the State of Maryland Enterprise. Specifically, all agency sites should reside within the "maryland.gov" domain space. The U.S. General Services Administration (GSA) develops the policies that regulate the use of .gov domains: (https://www.dotgov.gov/portal/web/dotgov/program-guidelines). These policies prohibit nongovernment advertising and political campaign information. DoIT has been delegated as the administrative authority for the maryland.gov subdomain by GSA, and reviews all requests for maryland.gov subdomains.

The SDAT Website

DoIT concurs with the GSA policy of prohibiting State websites from displaying nongovernment advertisements. In support of this policy, the department worked with SDAT in fall 2015 to remove all advertisements from its websites. As a result, DoIT approved the use of dat.maryland.gov.

Additional Policies

As DoIT has determined that executive agencies will exclusively use the domain maryland.gov and are required to follow GSA policies, there is no need to develop strategies for private advertising. If GSA modifies it stance on advertising, the department will reevaluate as needed.

2. Response to Request in the *Joint Chairmen's Report* to Provide an Update of Personnel Actions

The fiscal 2016 JCR required that DoIT provide an update on personnel actions. DoIT advises that, as of November 2015:

- the department had 17 vacancies, 2 of which were newly created positions;
- had reclassified 3 vacant positions to better match them with market compensation realities; and
- filled 2 crucial positions, the statewide chief information security officer and the Director of Statewide Interoperable Communications.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of Information Technology
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$40,622	$8,260	$969	$52,045	$101,895
Deficiency Appropriation	0	1,155	0	0	1,155
Cost Containment	-1,540	0	0	0	-1,540
Budget Amendments	83	4,064	0	3,926	8,072
Reversions and Cancellations	-24	-5,046	-387	-4,934	-10,390
Actual Expenditures	**$39,141**	**$8,434**	**$582**	**$51,036**	**$99,193**
Fiscal 2016					
Legislative Appropriation	$47,507	$10,981	$632	$57,392	$116,512
Budget Amendments	144	8	0	0	152
Working Appropriation	**$47,651**	**$10,989**	**$632**	**$57,392**	**$116,664**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

Spending in fiscal 2015 totaled $99.2 million. This is $2.7 million less than appropriated by the General Assembly in the fiscal 2015 budget bill. A special fund deficiency appropriation added $1.2 million in major IT project expenditures. The funds supported the new voting system project. Cost containment reduced general funds by $1.5 million. Specific actions include reducing:

- major IT projects, primarily 700 MHz equipment purchases, by $433,368;
- general departmental costs, such as maintaining vacancies by $372,708;
- GIS and cybersecurity by $300,000;
- telecommunications equipment leases by $244,000;
- software maintenance by $184,000; and
- the Maryland Time System by $5,769.

Budget amendments added a net total of $8.1 million. Adjustments included:

- $2,225,000 in additional special funds to construct four towers in Hagerstown and Hereford;
- $1,835,000 in additional special funds for an AT&T audit settlement ($570,000) and a Verizon audit settlement ($1,265,000);
- $1,500,000 in additional reimbursable funds to support the workload in the Networks Division;
- $1,450,000 in additional reimbursable funds for the Enterprise Budget System major IT project;
- $975,677 in additional reimbursable funds to provide IT support for DGS;
- $90,909 in additional general funds consistent with Section 17 of the budget bill;
- $80,000 reduction in general funds for positions lost through the VSP; and
- $71,641 in additional general funds and $4,149 in special funds for a 2% salary increase.

Fiscal 2015 cancellations and reversions totaled $10.4 million. The most significant cancellations and reversions include approximately:

- $22,000 in general funds for the Networks Division's personnel and other operating costs;
- $2.1 million in special funds for major IT projects, much of which is 700 MHz equipment;
- $2.0 million in special funds supporting TAM, a large share of which is for a tablet program that was delayed;
- $407,000 in special funds supporting the Central Collection Unit modernization project;
- $1.9 million in reimbursable funds for major IT projects;
- $1.0 million in reimbursable funds supporting the Networks Division's personnel and other operating costs; and
- $813,000 in reimbursable funds for major IT project oversight.

Fiscal 2016

To date, expenditures have increased by $152,000 ($144,000 in general funds and $8,000 in special funds. The funds were transferred through budget amendment 001-16, which restored a 2% salary reduction proposed by the Administration in its initial budget submittal.

Major Information Technology Projects

Department of Information Technology
Statewide Personnel System

Project Status	Implementation.	**New/Ongoing Project:**	Ongoing.
Project Description:	The project includes modules such as recruiting, human resources, compensation, performance management, employee self-service, benefits administration, and timekeeping. The first phase has been deployed. The second phase includes timekeeping and payroll. There is now a third phase for benefits management.		
Project Business Goals:	The system should modernize an antiquated legacy system (from 1975), enable automated personnel-related reporting and business analysis, provide centralized data management, reduce administrative redundancies, and provide web-based employee self-service. A successful system will provide faster processing times, increased efficiencies, and robust current and historical reporting.		
Estimated Total Project Cost:	$72,266,446	**Estimated Planning Project Cost:**	$11,309,909
Project Start Date:	January 2008	**Projected Completion Date:**	June 2017
Schedule Status:	The benefits module was initially scheduled for October 2015, but due to vendor (Workday) product performance issues, benefits functionality is now scheduled to be implemented as phase III that will go-live in March 2017.		
Cost Status:	Costs increased due to benefits module delays.		
Scope Status:	No changes in scope are projected.		
Project Management Oversight Status:	Because the Department of Information Technology is the implementing and oversight agency, the project poses some unique challenges. To address this, project managers have been procured.		
Identifiable Risks:	Risk concerns include user interface (almost all State agencies will be using the system), the organizational culture (the current system has been in place for more than 30 years), and the availability of staff with the skills necessary to manage the system when it is implemented.		
Additional Comments:	Project status is discussed in the Department of Budget and Management Personnel analysis.		

Fiscal Year Funding ($ in Thousands)	**Prior Years**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Balance to Complete**	**Total**
Professional and Outside Services	$52,719.2	$13,168.6	$6,378.6	$0.0	$0.0	$0.0	$0.0	$72,266.4
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	$0.0
Total Funding	**$52,719.2**	**$13,168.6**	**$6,378.6**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$72,266.4**

Major Information Technology Projects

Department of Information Technology
Enterprise Budget System

Project Status	Planning.	**New/Ongoing Project:**	Ongoing.
Project Description:	Replace Hands on Budget Office (HOBO), the Department of Budget and Management's (DBM) legacy budget system.		
Project Business Goals:	Goals are to replace the State legacy budget system that is in danger of failing due to antiquated technology that is difficult to staff with skills needed to support, and streamline and improve efficiency of budget preparation, analysis, and approval.		
Estimated Total Project Cost:	$37,050,000	**Estimated Planning Project Cost:**	$2,038,182
Project Start Date:	March 2013	**Projected Completion Date:**	n/a
Schedule Status:	This project is in the Requirements Analysis phase. The project management team was replaced in April 2015. The project team held focus groups and brainstorming sessions with agency budget officers across the State. Upcoming project activities include the continued support of the procurement process (including the Request for Proposal response evaluations) and starting the analysis of the current data availability and data quality of the core HOBO system and major interface systems.		
Cost Status:	The total cost estimate of $37.1 million has not changed since last year. Planning costs are estimated at $2.0 million.		
Scope Status:	Scope has not changed.		
Project Management Oversight Status:	Because the Department of Information Technology is the implementing and oversight agency, the project poses some unique challenges. To address this, project managers have been procured.		
Identifiable Risks:	Interdependencies with other projects are a high risk since the project will need to interface with personnel and financial systems, which are being replaced. There are concerns about resource availability, since DBM staff may be occupied at certain times of the budget cycle.		
Additional Comments:	n/a.		

Fiscal Year Funding ($ in Thousands)	**Prior Years**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Balance to Complete**	**Total**
Professional and Outside Services	$13,136.4	$13,000.0	$10,913.6	$0.0	$0.0	$0.0	$0.0	$37,050.0
Total Funding	**$13,136.4**	**$13,000.0**	**$10,913.6**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$37,050.0**

Major Information Technology Projects

Department of Information Technology
Central Collection Unit Systems Modernization

Project Status	Implementation.	**New/Ongoing Project:**	Ongoing.
Project Description:	Replace legacy Columbia Ultimate Business System, which is the system used to support the Central Collection Unit's (CCU) activities. The project's scope has been expanded to include comprehensive review processes and systems. The first part of the process involves the core debt collection software. The second part integrates the core system with other systems, such as document management, interactive voice response, payment processing, and other systems.		
Project Business Goals:	Provide direct support for collection activities to maximize debt collections. CCU expects to achieve the following quantifiable goals one year after implementation: a 15% to 20% increase in net profits on debt accounts; a 15% to 20% increase of debt accounts collected; and a 5% to 10% decrease in the cost of printing and mailing.		
Estimated Total Project Cost:	$17,490,965	**Estimated Planning Project Cost:**	$8,521,983
Project Start Date:	August 2008	**Projected Completion Date:**	August 2017
Schedule Status:	The Executive Steering Committee approved the team's recommendation to perform implementation services internally. Technical progress has included software upgrades and completion of three steps of configuration for the commercial off the shelf software consisting of base, workflow, and business rules configuration. The State will issue a new Request for Proposal to provide a complete Contact Center (telephony) solution that will impact cost and schedule of the project.		
Cost Status:	Overall, estimated total project costs have not changed since last year; however, increased funding for additional project resources is pending.		
Scope Status:	The scope of the project has increased to include an externally hosted dedicated telephony system.		
Project Management Oversight Status:	Because the Department of Information Technology is the implementing and oversight agency, the project poses some unique challenges. To address this, project managers have been procured.		
Identifiable Risks:	Major risks are interdependencies (over 400 agencies refer debt), technical (CCU has a unique mission, such as intercepting State or federal taxes, and the uniqueness of the mission complicates development), and organizational culture (current system is over 20 years old).		
Additional Comments:	None		

Fiscal Year Funding ($ in Thousands)	**Prior Years**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Balance to Complete**	**Total**
Personnel Services	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Professional and Outside Services	15,616.0	1,875.0	0.0	0.0	0.0	0.0	0.0	17,490.1
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	**$15,616.0**	**$1,875.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$17,490.1**

Object/Fund Difference Report
Department of Information Technology

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	136.00	134.00	154.60	20.60	15.4%
02 Contractual	0.80	1.00	1.00	0.00	0%
Total Positions	**136.80**	**135.00**	**155.60**	**20.60**	**15.3%**
Objects					
01 Salaries and Wages	$ 13,315,902	$ 14,566,345	$ 16,122,516	$ 1,556,171	10.7%
02 Technical and Spec. Fees	53,160	48,123	48,123	0	0%
03 Communication	9,625,000	8,299,123	8,858,067	558,944	6.7%
04 Travel	103,057	83,243	87,376	4,133	5.0%
06 Fuel and Utilities	12,459	16,000	211,000	195,000	1218.8%
07 Motor Vehicles	22,527	6,840	4,410	-2,430	-35.5%
08 Contractual Services	74,165,366	83,503,070	95,814,459	12,311,389	14.7%
09 Supplies and Materials	144,280	48,600	96,175	47,575	97.9%
10 Equipment – Replacement	641,699	9,228,196	10,090,117	861,921	9.3%
11 Equipment – Additional	677,391	400,000	400,000	0	0%
12 Grants, Subsidies, and Contributions	0	29,948	0	-29,948	-100.0%
13 Fixed Charges	341,215	434,317	488,076	53,759	12.4%
14 Land and Structures	90,703	0	0	0	0.0%
Total Objects	**$ 99,192,759**	**$ 116,663,805**	**$ 132,220,319**	**$ 15,556,514**	**13.3%**
Funds					
01 General Fund	$ 39,140,974	$ 47,650,962	$ 43,281,410	-$ 4,369,552	-9.2%
03 Special Fund	8,433,592	10,988,833	26,023,772	15,034,939	136.8%
05 Federal Fund	581,805	632,267	397,075	-235,192	-37.2%
09 Reimbursable Fund	51,036,388	57,391,743	62,518,062	5,126,319	8.9%
Total Funds	**$ 99,192,759**	**$ 116,663,805**	**$ 132,220,319**	**$ 15,556,514**	**13.3%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Department of Information Technology

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
0A Major Information Technology Development Project Fund	$ 21,235,055	$ 29,514,147	$ 39,375,376	$ 9,861,229	33.4%
0B Office of Information Technology	77,957,704	87,149,658	92,844,943	5,695,285	6.5%
Total Expenditures	**$ 99,192,759**	**$ 116,663,805**	**$ 132,220,319**	**$ 15,556,514**	**13.3%**
General Fund	$ 39,140,974	$ 47,650,962	$ 43,281,410	-$ 4,369,552	-9.2%
Special Fund	8,433,592	10,988,833	26,023,772	15,034,939	136.8%
Federal Fund	581,805	632,267	397,075	-235,192	-37.2%
Total Appropriations	**$ 48,156,371**	**$ 59,272,062**	**$ 69,702,257**	**$ 10,430,195**	**17.6%**
Reimbursable Fund	$ 51,036,388	$ 57,391,743	$ 62,518,062	$ 5,126,319	8.9%
Total Funds	**$ 99,192,759**	**$ 116,663,805**	**$ 132,220,319**	**$ 15,556,514**	**13.3%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

G20J01
State Retirement Agency

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$17,704	$18,273	$20,698	$2,424	13.3%
Deficiencies and Reductions	0	0	-43	-43	
Adjusted Special Fund	**$17,704**	**$18,273**	**$20,654**	**$2,381**	**13.0%**
Reimbursable Fund	9,642	9,839	10,786	947	9.6%
Deficiencies and Reductions	0	0	0	0	
Adjusted Reimbursable Fund	**$9,642**	**$9,839**	**$10,786**	**$947**	**9.6%**
Adjusted Grand Total	**$27,346**	**$28,113**	**$31,441**	**$3,328**	**11.8%**

- Overall, the State Retirement Agency (SRA) fiscal 2017 budget grows by 11.8% over fiscal 2016 levels, after accounting for an across-the-board reduction of $43,266 for overbudgeted employee health insurance costs.

- The largest single increase over the fiscal 2016 working appropriation is $1.57 million for an anticipated increase in fees for custodial banking services when the contract for those services is rebid as of January 2017; this represents nearly half of the $3.3 million increase in the agency's allowance.

Note: Numbers may not sum to total due to rounding.

For further information contact: Michael C. Rubenstein Phone: (410) 946-5510

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	192.00	200.00	202.00	2.00
Contractual FTEs	15.50	9.50	9.50	0.00
Total Personnel	**207.50**	**209.50**	**211.50**	**2.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	10.02	5.01%
Positions and Percentage Vacant as of 12/31/15	27.00	13.50%

- The fiscal 2016 working appropriation of 200 full-time equivalent (FTE) regular positions reflects the reassignment of 3 human resource positions to the Department of Budget and Management for shared personnel services, which occurred early in fiscal 2016.

- The fiscal 2017 allowance includes 2 new retirement benefit specialist positions in the Member Services unit.

- Vacancy data provided for this analysis does not include 4 regular positions in the Information Services unit that were approved in the fiscal 2016 budget bill but have not yet been filled; this is discussed in greater detail in the Issues section of this analysis. Therefore, the total number of vacancies is 31, which is 21 vacancies in excess of the 10 vacancies necessary to meet the turnover allowance.

- Of the 31 vacancies, 19 have been vacant for fewer than four months, and 17 have either been filled this month or are in various stages of recruitment or selection, including some of the recent vacancies.

Analysis in Brief

Major Trends

Is This the Year That the System Is Rewarded for Its Asset Allocation?: The investment program is unlikely to reach its 7.55% target return in fiscal 2016 due to global financial troubles, but it may perform better than many of its peers.

Call Center's Struggles Reach Unprecedented Levels: The call center failed to achieve its performance goals for almost all of fiscal 2015. **The Department of Legislative Services (DLS) recommends deleting 1 of 2 new retirement specialist positions.**

Issues

Efforts to Address Information Technology Workload Hit Snags: SRA has been unable to fill new information technology (IT) positions to address a backlog in agency projects. **DLS recommends reducing funding for IT contractors and reassessing IT staffing.**

Report on Alternatives to Board of Trustees Elections Is Delayed: The agency's report includes three options for reducing or eliminating costs associated with trustee elections. **DLS recommends a reduction of $137,500 contingent on enactment of legislation.**

Recommended Actions

		Funds	Positions
1.	Reduce funding for information technology contractors.	$ 190,000	
2.	Reduce funding for postage.	250,000	
3.	Reduce funding for equipment.	100,000	
4.	Delete 1 retirement benefits specialist I (new position).	48,693	1.0
5.	Delete funding for trustee election services.	137,500	
	Total Reductions	**$ 726,193**	**1.0**

Updates

The Department of Legislative Services' Review of Disability Benefits Recommends Numerous Changes: DLS completed its comprehensive review of disability benefits provided by the system and recommended numerous changes to the process and benefit structure.

Contributions by Local School Boards Are Still Higher Than the Original Forecast, but Less Than Last Year's Prediction: Total contributions by local school boards in fiscal 2017 increase by $25 million over fiscal 2016 levels.

Actuarial Stress Test Confirms Risks of Poor Investment Performance: Funding discipline is key to weathering the storm of low investment returns.

G20J01
State Retirement Agency

Operating Budget Analysis

Program Description

The State Retirement Agency (SRA), under the direction of the 15-member Board of Trustees for the State Retirement and Pension System (SRPS), is responsible for administering the State's retirement and pension systems. The board-appointed executive director is responsible for policy development, legislation, and legal affairs.

The agency has identified four fundamental goals for its operation:

- to prudently invest system assets in a well-diversified manner that optimizes long-term returns while controlling risk through excellence in the execution of the investment objectives and strategies of the system;

- to effectively communicate with all retirement plan participants to inform them about the benefits provided by the system and to educate them about planning and preparing for all aspects of their defined benefit system;

- to pay all retirement allowances provided by State pension law to the system's retirees and their beneficiaries in an accurate and timely manner; and

- to efficiently collect the required employer and employee contribution necessary to fund the system.

An administrative charge to all employers for whom the agency administers retiree benefits provides the revenue to fund the agency. In proportion to total system membership, administrative charge revenue from State agencies pays for roughly one-third (34%) of agency operations, and revenue from local employers pays for the remaining two-thirds (66%). Based on the Governor's allowance, participating employers will pay approximately $163 per member in fiscal 2017, a $16 increase over fiscal 2016; however, the final per-member fee is based on the budget enacted by the General Assembly. Reimbursable fund revenues represent State agency payments for administrative costs, and special fund revenues represent administrative payments by local school boards and participating governmental units.

As of June 30, 2015, the system's assets totaled $45.83 billion, an increase of about $420 million from the end of fiscal 2014.

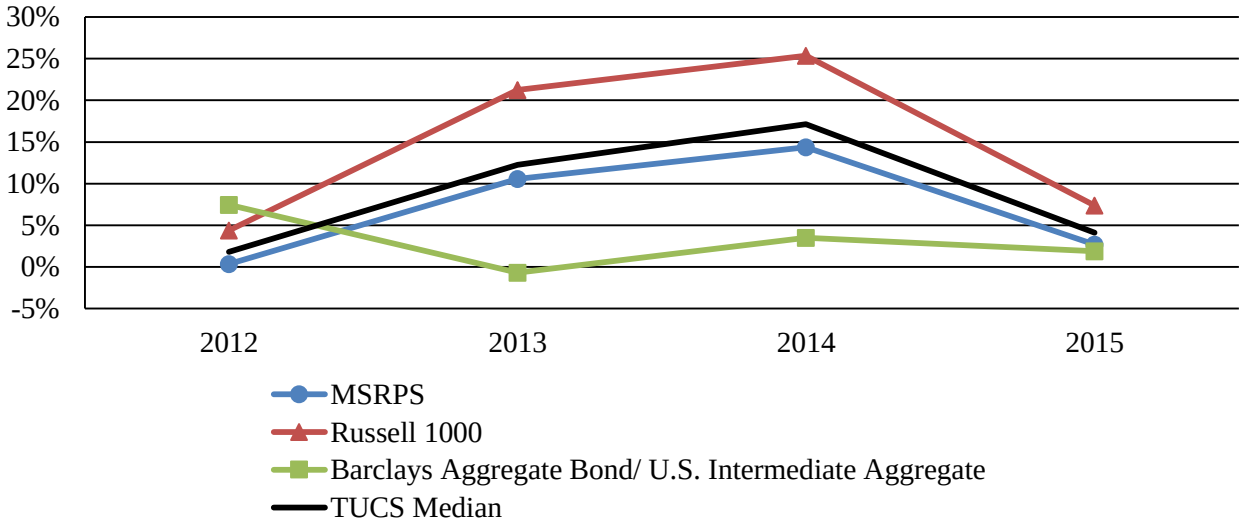
Performance Analysis: Managing for Results

1. Is This the Year That the System Is Rewarded For Its Asset Allocation?

With a fiscal year-end return of 2.68% net of fees, the SRPS' investment program had mixed results in fiscal 2015. On the positive side, it outperformed its custom weighted benchmark by 181 basis points, indicating that active management provided significant added value to the portfolio. However, weak financial markets in virtually all sectors prevented the program from attaining the target return of 7.55% for the first time since fiscal 2012, and the fund continued to underperform virtually all other comparable public pension funds.

Exhibit 1 shows that for the past four years, the SRPS fund has generally underperformed U.S. equities and outperformed U.S. fixed income. This is to be expected in a diversified portfolio in years when equities are relatively strong and fixed income is weak. However, the system's allocation to public equities is substantially below that of its peers, so it has consistently underperformed them. In each of the last four years, also shown in Exhibit 1, the program's performance has been below the median for the Trust Universe Comparison Service (TUCS), which includes approximately 30 public pension funds of comparable size. Indeed, it has typically been at or near the bottom of the TUCS rankings.

Exhibit 1
Pension Fund and Benchmark Returns
Fiscal 2012-2015



MSRPS: Maryland State Retirement and Pension System
TUCS: Trust Universe Comparison Service

Source: State Street Bank, Wilshire

The significant correction in both domestic and international public equity markets that began in November 2015 and accelerated in January 2016 may finally justify the system's underweight in public equities. Just prior to the financial crisis of 2008, the SRPS board adopted a new asset allocation that began the underweight to equities as a means to reduce the volatility of returns, and then expanded the underweight in the wake of the crisis. The Department of Legislative Services (DLS) supported the new asset allocation for several years, particularly because of the risk that rising interest rates would weaken equity markets. As the years progressed, however, interest rates did not rise, and public equities led the recovery of domestic financial markets. It became evident that the system was not fully reaping the benefits of rising equities, and the board resisted calls from DLS to modestly increase its allocation to public equities. Recently, however, the board did approve a higher allocation to emerging market equities, raising the overall equity target from 35% to 37%. Finally, the 2015 *Joint Chairmen's Report* (JCR) required the board to retain a third-party expert to conduct a review of its asset allocation and make recommendations for possible adjustments.

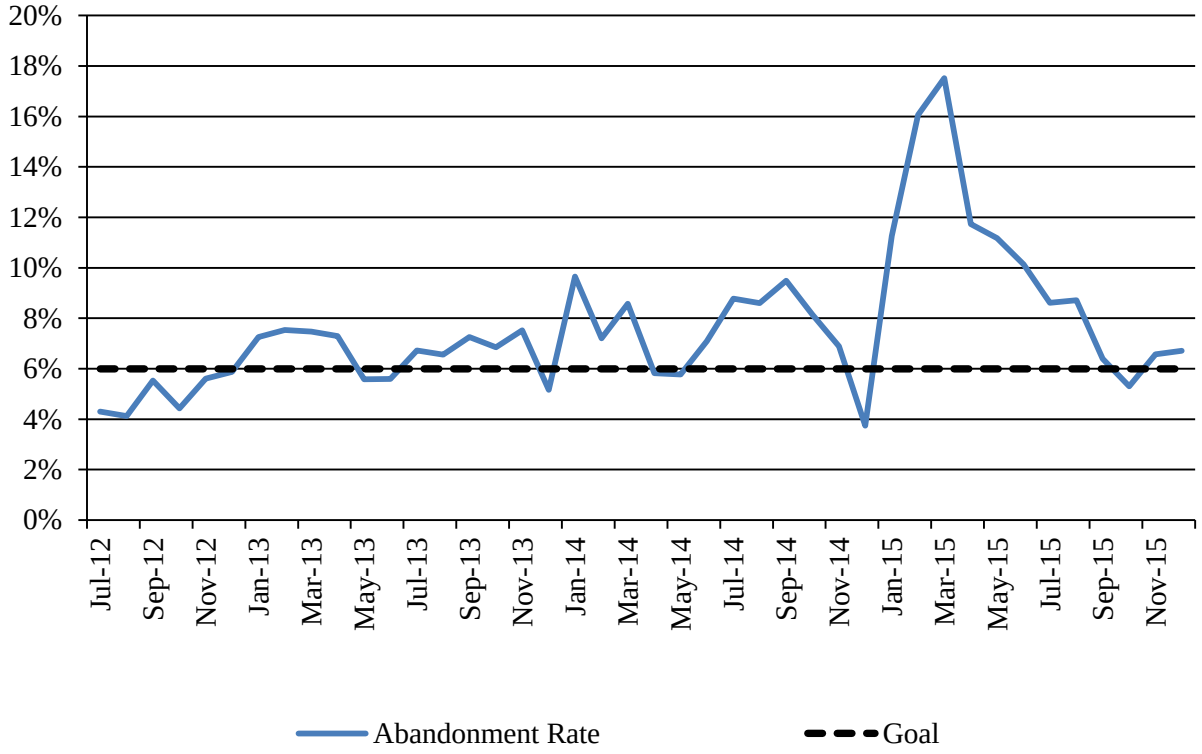
The resulting analysis by NEPC, LLC generally endorses the system's current asset allocation. It describes the allocation as "robust and well diversified…and providing a long term expected return of 7.51% over 30 years." It confirms that the system is substantially underweighing equities compared with its peers (37.0% vs. 54.0%), but generally views this as consistent with best practices. It further notes that recent increases to emerging market equities and long-term Treasuries contribute positively to the investment program's risk profile and projected returns. NEPC's analysis does recommend several minor adjustments to the system's asset allocation, most notably greater exposure to international equities and expansion of private debt and risk parity strategies.

One significantly positive conclusion from the NEPC analysis is that the system has "less reliance on equity market risk" than its peers. Although its exposure to equity market risk is greater than its allocation of assets to equity markets (prompting the recommendation to expand risk parity strategies), the comparatively low equity risk should provide some insulation from the recent equity market correction and generate returns that are comparatively higher than peers with higher public equity allocations. **The Board of Trustees and SRA are asked to comment on the findings from the NEPC analysis, and to discuss the prospects for fiscal year returns, particularly the probability of improved comparative returns.**

2. Call Center's Struggles Reach Unprecedented Levels

Multiple factors caused the performance of SRA's call center to deteriorate to levels not seen in recent years. The call center failed to meet its key performance targets for most of fiscal 2015, as shown in **Exhibits 2** and **3**. The unit's targets are that fewer than 6% of calls will be abandoned by callers and that the wait time for a counselor to answer a call will not exceed 1:45 minutes. As the exhibits show, the call center achieved each of those goals in just one month of fiscal 2015. Moreover, the percentage of dropped calls exceeded 10% for six straight months beginning in January 2015, and wait times exceeded three minutes for five straight months, also beginning in January.

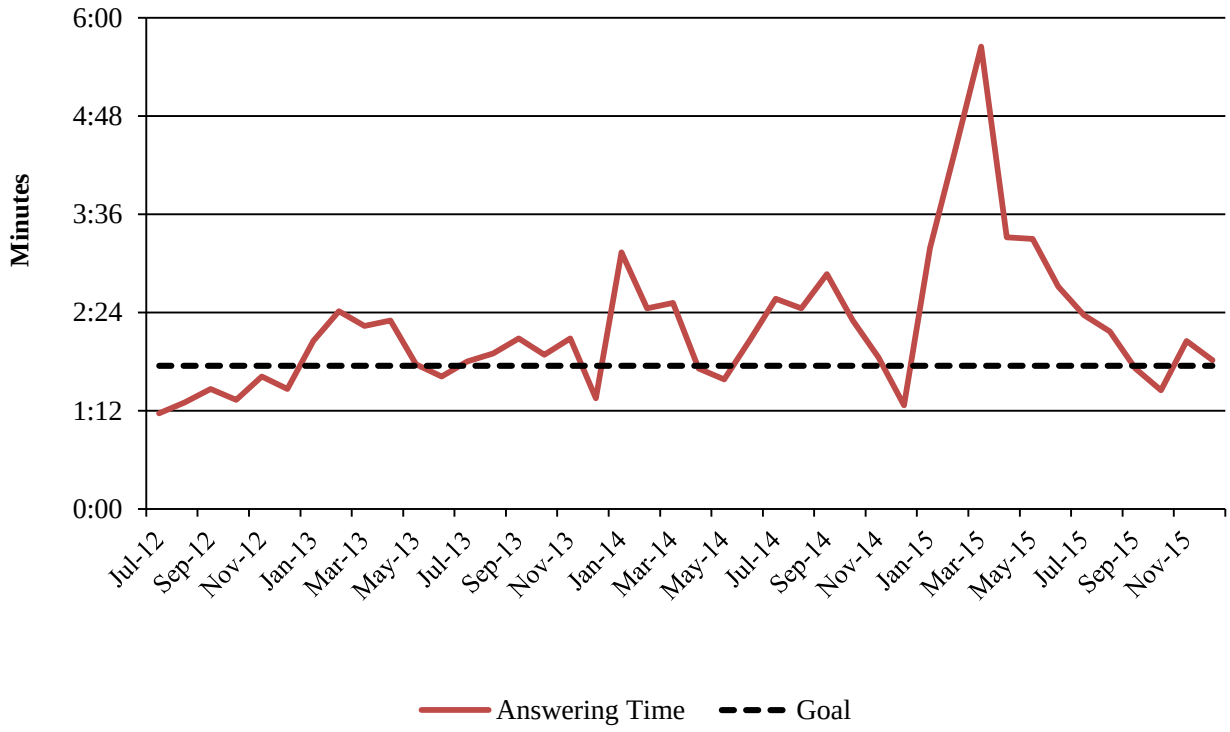
Exhibit 2
SRPS Member Services Call Abandonment Rate
July 2012 - December 2015



SRPS: State Retirement and Pension System

Source: State Retirement Agency

Exhibit 3
SRPS Member Services Call Answering Time
July 2012 - December 2015

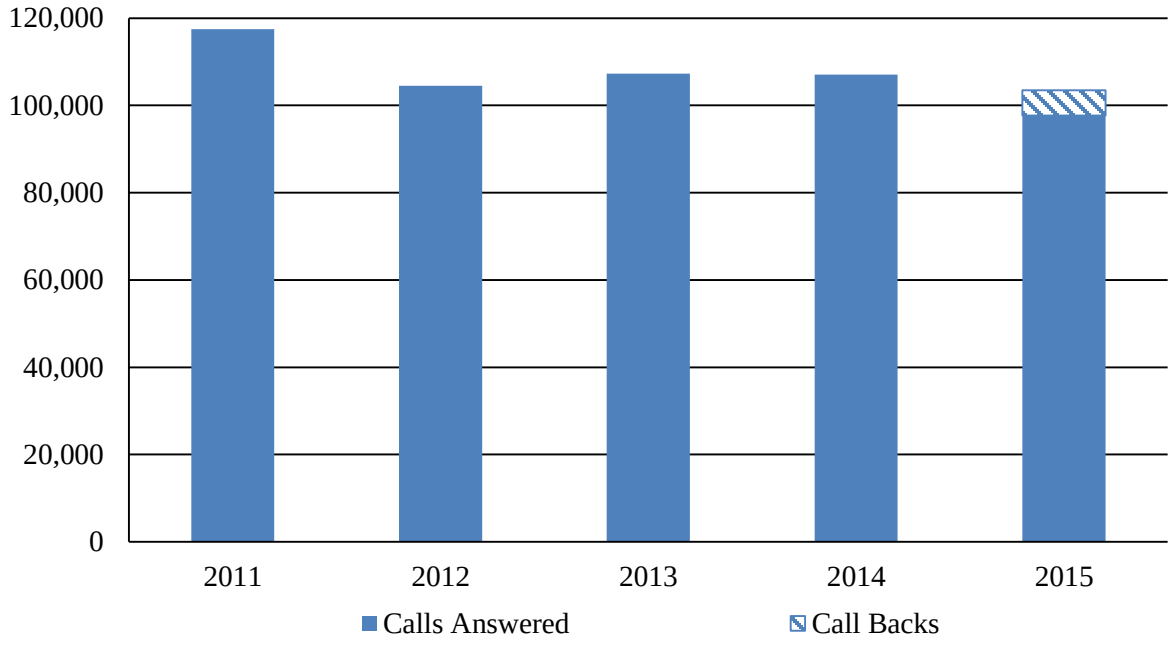


SRPS: State Retirement and Pension System

Source: State Retirement Agency

Exhibit 4 shows that call volume is not the reason for the call center's struggles in fiscal 2015. In fact, even after accounting for callbacks, a feature of the agency's new phone system, call volume in fiscal 2015 was below that of the prior two fiscal years and significantly below that of fiscal 2011. Yet, the call center's performance in fiscal 2015 was substantially worse than in those prior years. Three factors other than call volume contributed to the poor performance: the Voluntary Separation Program (VSP), defective phone lines, and counselor turnover. As these issues have been addressed, the call center's performance has improved noticeably. It still was unable to meet its targets in most of the early months of fiscal 2016, but the gaps between the goals and actual performance have narrowed substantially.

Exhibit 4
SRPS Call Center Volume
Fiscal 2011-2015



SRPS: State Retirement and Pension System

Note: Exhibit includes only calls handled by counselors; additional calls are handled by an automated system.

Source: State Retirement Agency

Beginning in January 2015, the agency fielded a high volume of requests for benefit estimates from employees considering taking advantage of the Administration's VSP. This prompted the agency to reassign a number of counselors away from answering telephone inquiries to address the VSP requests. Second, after hearing numerous complaints that phone calls were being dropped, the agency determined that some of the phone lines coming into the system were defective. The problem has been addressed with Verizon. Finally, the agency continues to experience turnover among the benefit counselor positions. Although the positions were fully staffed in January 2015, several vacancies occurred subsequently, with 3 positions still vacant as of December 31, 2015, and an additional vacancy occurring in January 2016. Nevertheless, in the absence of external factors such as VSP and bad phone lines, the call center is very close to achieving its performance goals, and the absence of a growing call volume does not justify the addition of 2 benefit specialists. **Therefore, DLS recommends cutting 1 new benefit specialist position, leaving 1 of the new positions in place to help the call center meet its performance goals more regularly.**

Proposed Budget

As shown in **Exhibit 5**, the increase of $1.57 million for custodial banking is prompted in part by the growth in the number of managers in the system's investment portfolio. The current custodial banking contract dates to January 2008, when the system had fewer than 100 external managers and only a small number in alternative classes (it now has more than 300, with a substantial number of those in alternative asset classes). Research on the market rate for comparable services indicates that fees for custodial banking services for a portfolio as large and complex as the system's portfolio may be as high as $4.0 million, compared with $900,000 for the current contract. The additional allowance covers one-half year of the new contract, which will take effect January 2017.

Additional funds for retirement benefit specialists ($114,199) and information technology (IT) contractors ($380,000) are discussed elsewhere in this analysis. The allowance also includes $137,500 for election services, as terms for two elected members of the board expire in fiscal 2017, and $86,000 for contracted rent increases.

Exhibit 5
Proposed Budget
State Retirement Agency
($ in Thousands)

How Much It Grows:	Special Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$17,704	$9,642	$27,346
Fiscal 2016 Working Appropriation	18,273	9,839	28,113
Fiscal 2017 Allowance	20,654	10,786	31,441
Fiscal 2016-2017 Amount Change	$2,381	$947	$3,328
Fiscal 2016-2017 Percent Change	13.0%	9.6%	11.8%

Where It Goes:

Personnel Expenses

New positions	$114
Increments and other compensation	-222
Employee and retiree health insurance	514
Workers' compensation premium assessment	3
Turnover adjustments	91
Retirement	328
Other fringe benefit adjustments	-20

Where It Goes	
Other Changes	
Custodial banking services	1,570
Programming and data entry contracts	396
Shared human resource services allocation	175
Board election services	138
New software	122
Rent	86
Postage	65
Travel	40
Contractual human resources position transferred	-41
Actuarial services	-45
Other	15
Total	**$3,328**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $43,266 in special funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Issues

1. Efforts to Address Information Technology Workload Hit Snags

SRA is experiencing a growing backlog of IT projects. In fiscal 2016, it had to reprogram its system to accommodate the State's new Wellness Program to allow for possible deductions and/or incentive payments to retiree checks based on their compliance with the program's requirements. This was an unplanned initiative that caused delays to other agency priorities, most notably the implementation of Phase II of the Maryland Pension Administration System (MPAS). Ongoing changes to the tax code and the board's recent decision to update option and annuity factors used to calculate retiree benefits also compete for IT resources, along with other internal initiatives to incorporate business practices into MPAS that are not fully automated. Currently, most of the operation and maintenance of MPAS is carried out by 5 outside contractors, with the contract allowing up to 7 contractors.

Partly as a way to address the backlog, but also to reduce reliance on outside contractors for critical agency functions, the agency devised a plan last year to reduce the number of contractors by 2 individuals and convert the funding for those positions into 4 regular positions, for a net gain of 2 IT staff at no additional cost to the agency. SRA has twice recruited for the 4 new positions, but has received only one application. As a result, it has maintained the current complement of 5 contractors, and briefly increased it to 7 to complete a time-sensitive project.

The Governor's allowance includes $380,000 to add 2 additional IT contractors to begin to address the backlog of IT projects, thereby raising the number of contractors to the full amount allowed by the operations and maintenance contract. However, the agency advises that it has been working closely with the Department of Budget and Management to expand its recruitment process for the new regular positions, and it remains hopeful that it can eventually fill the new positions. Given that it still has six months until the beginning of the fiscal year to fill those positions, it seems premature to provide funding for 2 additional contractors when the agency may be able to substantially address its needs by filling existing positions. **Therefore, DLS recommends cutting the new allocation in half, to $190,000, leaving funding for 1 additional contractor as a contingency in the event that the new positions are not filled. DLS further recommends that the entire complement of IT staff be reassessed prior to fiscal 2018.**

2. Report on Alternatives to Board of Trustees Elections Is Delayed

The 2014 JCR requested a report from the agency by December 1, 2014, on possible alternatives to holding elections for the five individuals who represent active and retired members on the Board of Trustees. The 2014 DLS analysis found that the elections are expensive to run and have extremely low participation rates, typically under 10%. The report was to include information on whether other state pension boards include member and retiree representatives and how they are selected. SRA requested and was granted an extension to January 31, 2015, to complete the report.

SRA delivered the report on January 28, 2016 (*i.e.*, one year late). The report notes that since fiscal 2000, fewer than half of the vacancies among the elected members of the board have been filled by contested elections. In 14 of 24 instances in which a vacancy occurred, the vacancy was filled by a direct appointment to the board as a result of the individual running unopposed, with 10 vacancies being filled by a contested election. The average voter participation rate in those 10 elections was about 13%, with several recent elections having participation rates under 7%. The costs of the three most recent contested elections held by the board were $130,000, $122,000, and $193,000, the latter costing more because two notices were mailed to voters in an effort to increase participation.

The report includes four options for consideration by the General Assembly, which are:

- do nothing;
- reduce the costs of elections by eliminating or reducing the need for outside vendors and paper mailings;
- require the Governor to appoint employee and retiree representatives from lists provided by exclusive representatives or organizations representing the members; or
- require the board to appoint employee and retiree representatives through an open screening process developed by the board.

DLS notes that options 2 through 4 would reduce or eliminate agency expenditures for the conduct of contested elections. The fiscal 2017 allowance includes $137,500 for trustee election services for two scheduled elections and additional funding for postage to distribute notices and ballots for the elections. Had the agency submitted the report timely, the Joint Committee on Pensions (JCP) could have considered these options and possibly introduced legislation in the current session to implement one of the alternative selection methods outlined in the report, potentially saving as much as $200,000. Nevertheless, there may still be interest in enacting legislation during this session to implement one of the board's recommendations and obviate the need for elections to be held in fiscal 2017. **Therefore, DLS recommends a reduction of $137,500 that is contingent on the enactment of legislation that repeals trustee elections in fiscal 2017.**

Recommended Actions

		Amount Reduction		Position Reduction
1.	Reduce funding for information technology (IT) contractors. Allows for 1 new operations and maintenance IT contractor (instead of 2) as a contingency in the event that the agency cannot fill existing vacant IT positions.	$ 190,000	SF	
2.	Reduce funding for postage; the agency used surplus funds in fiscal 2015 to prepay postage.	250,000	SF	
3.	Reduce funding for equipment; the agency used surplus funds in fiscal 2015 to purchase additional equipment.	100,000	SF	
4.	Delete 1 retirement benefits specialist I (new position). The call volume and performance in the agency's call center warrants the addition of 1, not 2, new specialists.	48,693	SF	1.0
5.	Delete funding for trustee election services vendor, contingent on the enactment of legislation that repeals elections for members of the Board of Trustees.	137,500	SF	
	Total Special Fund Reductions	**$ 726,193**		**1.0**

Updates

1. Department of Legislative Services' Review of Disability Benefits Recommends Numerous Changes

The 2015 JCR asked DLS, working with SRA, to review the process used to award disability benefits and the benefits provided in comparison to those provided by other states. DLS completed the review and reported its findings and recommendations to JCP in October 2015. Among the key findings from the review were:

- The SRA process for reviewing applications for disability benefits is rigorous and multi-layered, relying heavily on assessments by medical professionals. During the course of the DLS review, the board voted to eliminate exceptions hearings that allow applicants to appeal the recommendations of the Office of Administrative Hearings (OAH) directly to the board. Therefore, OAH will have final decision making authority with regard to disability appeals, subject to judicial review by the circuit court.

- At least 90% of applications for disability benefits were approved by the board in each of the last five fiscal years. This includes applications for accidental or special disability that were granted ordinary disability benefits.

- Maryland has the highest percentage of disability retirees of the 50 states (11.67% of all retirees).

- Maryland has the twelfth highest average disability payment ($20,670) of the 50 states.

- The structure of disability benefits in Maryland is generally consistent with that of other states, except that only 6 states project years of service for the calculation of ordinary disability benefits to normal retirement age.

JCP considered 12 recommendations made by DLS. Several of the recommendations do not require legislative action because they can be handled administratively. Among the key recommendations accepted by JCP, and for which it will sponsor legislation, are:

- reducing from four to two the number of years following the end of paid employment during which a member can apply for ordinary disability;

- raising the small procurement cap from $25,000 to $50,000, only for independent medical evaluations requested by the agency;

- for the calculation of ordinary disability benefits, projecting service credit to first eligibility for retirement rather than normal retirement age;

- authorizing SRA to review the disability status of a retiree and suspend benefits if it finds that the individual is no longer disabled; and

- making these changes effective for applications for disability benefits submitted on or after July 1, 2016.

Among the recommendations not accepted by JCP were:

- raising the vesting requirement for ordinary disability benefits from 5 to 10 years;

- repealing the annuity of accumulated contributions for accidental and special disability retirees; and

- adopting a two-tiered process for ordinary disability benefits, providing a temporary benefit for two years and then a permanent benefit if the incapacity meets specified criteria.

2. Contributions by Local School Boards Are Still Higher Than the Original Forecast, but Less Than Last Year's Prediction

Fiscal 2017 represents the first year that local school boards must contribute 100.0% of the actual pension normal cost for their employees who are members of the Teachers' Retirement System or the Teachers' Pension System (TRS/TPS). During the 2012 legislative session, when the local contributions were phased in over five years, the SRPS actuary projected the normal cost rate for TRS/TPS to be 4.05% in fiscal 2017 (**Exhibit 6**). As recently as the 2015 session, it was projected to be 5.05%, with the higher figure largely due to changes in actuarial assumptions adopted by the board shortly after the 2012 session. As shown in Exhibit 6, however, the actual normal cost rate for fiscal 2017 is 4.56%, which is substantially less than the rate predicted in calendar 2015, but still higher than the original forecast. The reduction in the normal cost from the prediction in calendar 2015 is driven largely by higher than expected turnover among teachers, resulting in more new TRS/TPS members being hired under the new, less generous, benefit structure.

With a normal cost rate of 4.56%, pension contributions by local school boards total $279.8 million in fiscal 2017, which is $30.5 million higher than the original forecast and $25.0 million more than they paid in fiscal 2016. However, it is $26.2 million less than was predicted during the 2015 session. **Appendix 2** contains a breakdown of the increased costs in fiscal 2017 for each county. Local variation in the effect of the increased normal cost stems from differences in salary growth among local school boards.

Exhibit 6
Projected Local Share of Teacher Pension Costs

	2012 Projection	2015 Projection	Current Projection
TCS Normal Cost			
Fiscal 2017	4.05%	5.05%	4.56%
Pension Contributions			
Fiscal 2016 School Boards	$254,754,588		
Fiscal 2017 School Boards	$249,299,915	$305,944,058	$279,751,007

TCS: Teachers' Combined Systems

Source: State Retirement Agency; Department of Legislative Services

3. Actuarial Stress Test Confirms Risks of Poor Investment Performance

In response to a request from the chairmen of the Senate Budget and Taxation Committee and the Senate Pensions Subcommittee, the General Assembly's consulting actuary completed a stress test of the SRPS financial position. The stress test projected 30-year financial positions based on (1) the system's assumed rate of investment return, (2) annual rates of investment return that are 3 percentage points above and below the assumed rate, and (3) employer contributions totaling only 80% of the actuarially determined contribution (ADC) each year. The analysis yielded six scenarios, three with 100% funding of the ADC at each of the three investment return levels, and three with 80% funding of the ADC at each of the investment return levels.

Overall, the stress test demonstrated the critical role that investment returns play in achieving funding stability, but they also point to the importance of maintaining funding discipline even in difficult times. In three of the six scenarios, including the baseline scenario of 100.0% funding and a 7.55% investment return, the maximum employer contribution rate is achieved within the next two fiscal years. However, in both scenarios with a 4.55% investment return, the system fails to achieve the 80.0% funded level, much less full funding. Yet, even in the worst investment scenarios, the system never reaches insolvency as long as contributions are held at or close to the ADC level.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
State Retirement Agency
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$18,062	$0	$9,862	$27,924
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	99	0	54	153
Reversions and Cancellations	0	-458	0	-274	-732
Actual Expenditures	**$0**	**$17,704**	**$0**	**$9,642**	**$27,346**
Fiscal 2016					
Legislative Appropriation	$0	$18,075	$0	$9,839	$27,915
Budget Amendments	0	198	0	0	198
Working Appropriation	**$0**	**$18,273**	**$0**	**$9,839**	**$28,113**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The distribution of centrally budgeted funds for a 2% employee cost-of-living adjustment beginning January 1, 2015, increased expenditures of special funds by $99,373 and reimbursable funds by $53,777, for a total increase of $153,150.

The terms of a renegotiated lease resulted in lower than expected rent payments. In addition, two procurements expected to be completed in fiscal 2015 were deferred to fiscal 2016. Together, these two factors were largely responsible for an unspent balance of $732,000 at the end of fiscal 2015.

Fiscal 2016

The restoration of a 2% employee salary adjustment authorized by the fiscal 2016 budget bill increased expenditures of special funds by $198,000.

Appendix 2

Local Share of Projected Increase in Teacher Pension Payments

Fiscal 2017

County	2012 Projection	2016 Projection	Difference
Allegany	$2,714,289	$2,763,242	$48,953
Anne Arundel	20,969,486	23,751,648	2,782,163
Baltimore City	23,576,930	24,959,627	1,382,696
Baltimore	28,745,445	31,600,022	2,854,577
Calvert	5,173,986	5,326,003	152,017
Caroline	1,448,482	1,644,635	196,153
Carroll	7,308,290	7,460,180	151,890
Cecil	4,487,780	4,865,193	377,413
Charles	7,181,921	7,971,354	789,433
Dorchester	1,197,820	1,386,542	188,722
Frederick	10,752,240	12,112,802	1,360,562
Garrett	1,212,728	1,177,020	-35,707
Harford	10,088,656	10,170,828	82,171
Howard	17,917,902	21,295,257	3,377,355
Kent	668,012	657,556	-10,456
Montgomery	49,674,917	58,672,664	8,997,747
Prince George's	35,676,071	41,195,463	5,519,393
Queen Anne's	2,016,962	2,277,138	260,176
St. Mary's	4,534,994	4,781,065	246,070
Somerset	875,955	995,816	119,861
Talbot	1,146,578	1,279,527	132,949
Washington	5,645,009	6,334,809	689,800
Wicomico	3,965,581	4,543,143	577,562
Worcester	2,319,881	2,529,473	209,592
Total	**$249,299,915**	**$279,751,007**	**$30,451,092**

Source: State Retirement Agency; Department of Legislative Services

Object/Fund Difference Report
State Retirement Agency

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	192.00	200.00	202.00	2.00	1.0%
02 Contractual	15.50	9.50	9.50	0.00	0%
Total Positions	**207.50**	**209.50**	**211.50**	**2.00**	**1.0%**
Objects					
01 Salaries and Wages	$ 17,995,769	$ 19,493,001	$ 20,344,077	$ 851,076	4.4%
02 Technical and Spec. Fees	845,498	766,009	758,362	-7,647	-1.0%
03 Communication	842,906	540,628	634,779	94,151	17.4%
04 Travel	124,180	134,215	174,245	40,030	29.8%
07 Motor Vehicles	148,544	137,248	136,540	-708	-0.5%
08 Contractual Services	4,703,367	4,500,329	6,821,267	2,320,938	51.6%
09 Supplies and Materials	154,507	175,338	152,565	-22,773	-13.0%
10 Equipment – Replacement	625,215	154,163	150,200	-3,963	-2.6%
11 Equipment – Additional	93,256	66,148	60,300	-5,848	-8.8%
12 Grants, Subsidies, and Contributions	383,301	382,426	382,426	0	0%
13 Fixed Charges	1,429,125	1,763,216	1,869,246	106,030	6.0%
Total Objects	**$ 27,345,668**	**$ 28,112,721**	**$ 31,484,007**	**$ 3,371,286**	**12.0%**
Funds					
03 Special Fund	$ 17,703,845	$ 18,273,497	$ 20,697,587	$ 2,424,090	13.3%
09 Reimbursable Fund	9,641,823	9,839,224	10,786,420	947,196	9.6%
Total Funds	**$ 27,345,668**	**$ 28,112,721**	**$ 31,484,007**	**$ 3,371,286**	**12.0%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

G50L00
Maryland Supplemental Retirement Plans

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$1,666	$1,674	$1,773	$99	5.9%
Deficiencies and Reductions	0	0	-4	-4	
Adjusted Special Fund	**$1,666**	**$1,674**	**$1,769**	**$95**	**5.7%**
Adjusted Grand Total	**$1,666**	**$1,674**	**$1,769**	**$95**	**5.7%**

- The fiscal 2017 allowance increases by $95,000 overall, or 5.7%, over the working appropriation, including a back of the bill reduction in health insurance. The primary driver of the increase is personnel, particularly health insurance and retirement costs.

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	13.00	13.00	13.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**13.00**	**13.00**	**13.00**	**0.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		0.31	2.42%	
Positions and Percentage Vacant as of 12/31/15		n/a	n/a	

- This agency's staffing configuration for fiscal 2017 remains unchanged.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Membership Participation Experiences First Growth Since Fiscal 2008: From fiscal 2009 to 2013, membership participation in the Maryland Supplemental Retirement Plans (MSRP) declined. In fiscal 2014, minor growth in membership began and continued in fiscal 2015, where membership grew by 1.4%.

Investment Returns Remain Close to Plan Benchmarks: Over the past six fiscal years, MSRP investment returns have remained very close to benchmark indices, generally equaling or outperforming in most categories each fiscal year. **The Department of Legislative Services (DLS) recommends that the agency discuss the reasons for the underperformance of the funds shown, particularly Goldman Sachs Large Cap Value and T. Rowe Price Mid-Cap Value funds, and whether any changes are planned to the menu of investment options.**

Issues

Reinstituting the State Match Could Improve Employees' Retirement Savings: Although total membership in MSRP has remained fairly constant as a percentage of eligible employees, the proportion of members who actively defer compensation to their plans has consistently dropped in recent years. Restoration of the employer match in the past resulted in a noticeable increase in the number of employees making deferrals. **DLS recommends that the agency discuss the role that a match might play in encouraging members to save for retirement.**

Calendar 2016 Fee Holiday Uncertain: At the November 2015 MSRP Board meeting, the board adopted a four-month Board Asset Fee Holiday that, if markets remain consistent, would begin on March 31, 2016. At the January 2016 MSRP Board meeting, preliminary indications show that plans' assets were down about 6.0% year-to-date. Further decreases in plan assets may not support the full four-month holiday, and close monitoring will continue before announcing a fee holiday. **MSRP should update the committees to the extent possible on potential fee holidays in calendar 2016. Also, MSRP should comment on whether the .05% board asset fee is appropriate given fee holidays over the past three fiscal years to use up fund balances, even with the recent downturn in invested assets.**

Recommended Actions

1. Concur with Governor's allowance.

G50L00
Maryland Supplemental Retirement Plans

Operating Budget Analysis

Program Description

Title 35 of the State Personnel and Pensions Article established the Teachers' and State Employees' Supplemental Retirement Plans and a board of trustees to administer them. The board of trustees has the responsibility of administering the State's:

- Deferred Compensation Program pursuant to Internal Revenue Code (IRC) Section 457;
- Tax-deferred Annuity Program for Educational Employees under IRC Section 403(b);
- Savings and Investment Program under IRC Section 410(k); and
- Employer Matching Plan under IRC Section 401(a).

The Maryland Supplemental Retirement Plans (MSRP) staff provides education programs and support information to State employees and human resources personnel in State agencies. These efforts are designed to create awareness among State employees of the need and mechanisms available to save for their own retirement. Staff also supports the board's work in selecting investment options and overseeing the operation.

MSRP finances operations through a fee imposed on members' accounts based on a percentage of assets in the plans and a flat-rate monthly charge. For fiscal 2016, the board fee is composed of two parts: a fee of 0.05% of assets and a monthly per account charge of $0.50 on every account with at least $500 in the 401(k), 457(b), and 403(b) plans; there is no $0.50 charge on 401(a) match plan accounts. In addition, the board contracts with Nationwide Retirement Solutions, Inc., (Nationwide) for administration of all four plans. The Nationwide contract, renewed for five years as of January 1, 2013, provides for a management fee of 0.09% of assets. The reported total participant fee includes the $0.50 charge on specified accounts, plus up to 0.14% of assets on an annual basis.

Performance Analysis: Managing for Results

1. Membership Participation Experiences First Growth Since Fiscal 2008

As shown in **Exhibit 1**, total participation in the retirement savings plans offered by MSRP declined gradually from fiscal 2009 to 2013. The decline likely reflected a decrease in the number of eligible employees due to the contraction in the size of the State workforce rather than a decrease in interest in saving for retirement. This is demonstrated by the fact that the percentage of eligible

participants remained fairly constant throughout that period despite the decline in participating members. In fiscal 2014, minor growth in membership began and continued in fiscal 2015, where membership grew by 1.4%; MSRP membership has not experienced growth since fiscal 2008. MSRP believes membership growth is the result of a combination of greater efforts to increase knowledge and make enrollment easier and more available to State employees, and favorable market conditions and pay increases. The Governor's allowance does include step increases for fiscal 2017, thus it is possible that the number of participants may continue to increase slightly.

Exhibit 1
Maryland Supplemental Retirement Plan Participation
Fiscal 2007-2015

Year	Members	% Change	% of Eligible State Employees
2007	60,477		75%
2008	61,362	1.5%	73%
2009	61,202	-0.3%	75%
2010	60,188	-1.7%	75%
2011	58,993	-2.0%	75%
2012	58,121	-1.5%	76%
2013	57,477	-1.1%	74%
2014	57,486	0.0%	74%
2015	58,311	1.4%	74%

Source: Maryland Supplemental Retirement Plans

2. Investment Returns Remain Close to Plan Benchmarks

As shown in **Exhibit 2**, except for the one-year return, MSRP options outperformed or tied benchmarks in fiscal 2015.

Exhibit 2
MSRP Average Rates of Return
Fiscal 2010-2015

	1 Year	3 Year	5 Year	10 Year
Annual Average Rates of Return as of June 30, 2015				
MSRP Options	3.6%	13.0%	12.6%	7.6%
Benchmark Indices	3.8%	12.7%	12.6%	7.0%
Annual Average Rates of Return as of June 30, 2014				
MSRP Options	20.6%	11.8%	15.3%	8.2%
Benchmark Indices	19.8%	11.9%	15.2%	7.6%
Annual Average Rates of Return as of June 30, 2013				
MSRP Options	16.5%	13.8%	6.5%	8.3%
Benchmark Indices	16.3%	14.0%	6.1%	7.7%
Annual Average Rates of Return as of June 30, 2012				
MSRP Options	-0.7%	13.4%	1.5%	7.1%
Benchmark Indices	0.6%	13.2%	0.9%	6.0%
Annual Average Rates of Return as of June 30, 2011				
MSRP Options	26.9%	5.3%	5.0%	6.5%
Benchmark Indices	26.3%	4.3%	4.0%	5.0%
Annual Average Rates of Return as of June 30, 2010				
MSRP Options	16.3%	-5.9%	2.2%	3.7%
Benchmark Indices	15.2%	-6.6%	1.3%	2.0%

MSRP: Maryland Supplemental Retirement Plans

Note: State fiscal years end on June 30. For instance, the annual average rate of return as of June 30, 2010, is associated with the end of fiscal 2010.

Source: Maryland Supplemental Retirement Plans

Compared to plan benchmarks, MSRP options generally outperformed plan benchmarks from fiscal 2010 to 2015. There were four years in which MSRP options underperformed in a single category compared to plan benchmarks; in those years, investment returns only underperformed by a range of -0.1% to -1.3%.

Exhibit 3 compares MSRP investment performance with benchmark indices as of September 2015. The Morgan Stanley Institutional Trust was removed from the performance watch list in March 2014 but did not perform well enough to be retained. The board selected the Janus Enterprise Fund, which is a Mid Cap Growth type fund, to replace Morgan Stanley in July 2015. The Growth Fund of America was also removed from the watch list in September 2013 and recovered enough to perform like its peers and so was retained. Additionally, the board approved the closure of three investment options in February 2015: Vanguard Large Cap Value, Vanguard Small Cap Value Index Fund, and Vanguard Small Cap Growth Index Fund. The board decided to open a new fund on January 16, 2015: the Vanguard Small Cap Index Fund.

Exhibit 3

MSRP Investment Performance Compared with Benchmark Indices

As of September 2015

	One Year	Three Year	Five Year
Bond Funds			
PIMCO Total Return Fund	×	×	✓
Balanced Fund			
Fidelity Puritan Fund	×	✓	✓
Large Cap Stock Funds			
Parnassus Core Equity	✓	✓	✓
American Century Equity Growth	×	×	✓
American Funds Growth	×	✓	×
Goldman Sachs Large Cap Value	×	×	×
Mid Cap Stock Funds			
Janus Enterprise N	✓	✓	
T. Rowe Price Mid Cap Value	×	×	×
Small Cap Stock Fund			
T. Rowe Price Small Cap Stock	×	✓	✓
International Stock Fund			
American Funds Euro Pacific Growth	✓	✓	✓
Other			
T. Rowe Price Retirement Income	✓	✓	✓

✓ Fund Equaled or Beat Benchmark Index × Fund Underperformed Benchmark Index

MSRP: Maryland Supplemental Retirement Plans

Source: Segal Advisors

The Department of Legislative Services (DLS) recommends that the agency discuss the reasons for the underperformance of the funds shown, particularly Goldman Sachs Large Cap Value and T. Rowe Price Mid Cap Value funds, and whether any changes are planned to the menu of investment options.

Proposed Budget

As shown in **Exhibit 4,** the fiscal 2017 allowance increases by $95,000 overall, or 5.7%, over the working appropriation, including a back of the bill reduction in health insurance. The primary driver of the increase is personnel, specifically health insurance and retirement costs.

Exhibit 4
Proposed Budget
Maryland Supplemental Retirement Plans
($ in Thousands)

How Much It Grows:	Special Fund	Total
Fiscal 2015 Actual	$1,666	$1,666
Fiscal 2016 Working Appropriation	1,674	1,674
Fiscal 2017 Allowance	1,769	1,769
Fiscal 2016-2017 Amount Change	$95	$95
Fiscal 2016-2017 Percent Change	5.7%	5.7%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance, including a back of the bill reduction	$61
Employees' retirement system	26
Salaries and other compensation	-4
Turnover adjustments	-3
Other fringe benefit adjustments	1

Where It Goes:	
Other Changes	
Shared human resources services	15
Shared assistant Attorney General position	8
New audit contract	6
Office equipment and rent	5
Five-year contract for investment consultant services to the MSRP Board	-25
Other fringe benefit adjustments	5
Total	**$95**

MSRP: Maryland Supplemental Retirement Plans

Note: Numbers may not sum to total due to rounding.

Personnel Expenditures

Personnel expenses increase overall by $81,000. Health insurance increases by $61,000, including an across-the-board reduction of $4,348 in special funds included in the fiscal 2017 budget bill based on a revised estimate of the amount of funding needed. Employees' retirement systems increase by $26,000. Regular earnings and turnover expectancy decrease by $7,000 combined.

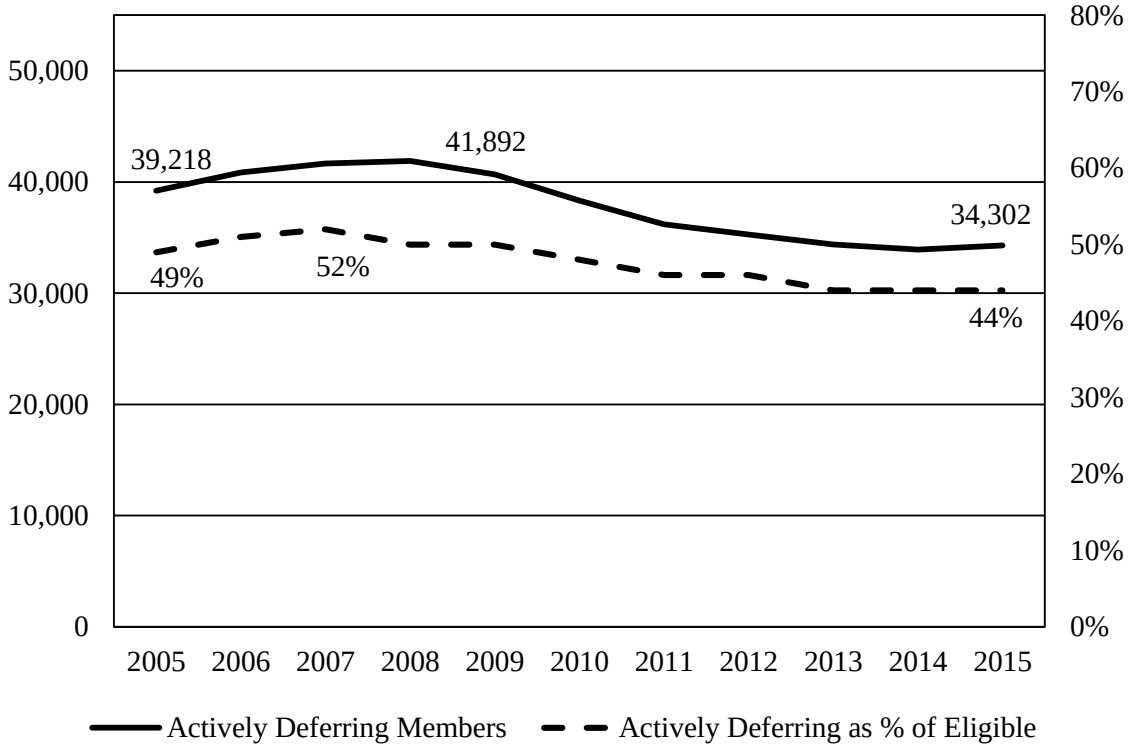
Although not reflective in the MSRP fiscal 2017 budget, $13,974 in employee increments and associated expenses are expected to be distributed to the agency by budget amendment at the start of the fiscal year. Currently, increments for agencies are included in the Department of Budget and Management's budget. There is also an across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Issues

1. Reinstituting the State Match Could Improve Employees' Retirement Savings

Although total membership in MSRP has remained fairly constant as a percentage of eligible employees, the proportion of members who actively defer compensation to their plans has consistently dropped in recent years. **Exhibit 5** shows that both the number and percentage of eligible employees deferring to their plans has dropped steadily, especially since the employer matching contribution up to $600 was eliminated from the budget in fiscal 2010; fiscal 2015 shows a slight increase in deferring members from a low in fiscal 2014.

Exhibit 5
Maryland Supplemental Retirement Plans
Members Actively Making Deferrals
Fiscal 2005-2015



Source: Maryland Supplemental Retirement Plans

After being suspended in fiscal 2004 and 2005, Exhibit 5 shows that when the match was restored in fiscal 2006 it had a discernible positive effect on the number and percentage of members actively deferring to their supplemental plans. Chapter 484 of 2010 (the Budget Reconciliation and Financing Act) eliminated the statutory requirement for a $600 match, making it a discretionary item in the annual budget, and the match has not been funded at any level since the funding mandate was eliminated. During the 2011 session, retirement benefits were reduced for employees hired after June 30, 2011. As a result, newer employees will have to save even more of their compensation in order to receive comparable income when they retire, but fewer rather than more of them appear to be actively saving. Due to the greater burden on new State employees to save for retirement and the overall lack of active participation in supplemental retirement plans by State employees, the return of the State match may help employees prepare for a secure retirement given reductions in State benefits.

DLS recommends that the agency discuss the role that a match might play in encouraging members to save for retirement.

2. Calendar 2016 Fee Holiday Uncertain

In recent fiscal years, a run up in financial markets and a windfall payment from a legal settlement agreement caused MSRP revenues to increase at a much faster pace than its expenditures. This created substantial fund balances well in excess of the board's target of 25% of its operating expenses, as shown in **Exhibit 6**. The board responded with fee holidays that affected revenues from fiscal 2013 to 2015. Even with the fee holiday, the fund balance remained slightly above the 25% target at the conclusion of fiscal 2015.

Exhibit 6
Assets and Participants' Fees and Agency Operating Budgets
Fiscal 2013-2016 Est.

	2013[1]	2014	2015	2016 Est.[3]
Invested Assets ($ in Billions)	$2.91	$3.31	$3.40	$3.05
Plan Administrator Fees	**$3,376,326**	**$3,093,325**	**$3,291,519**	**$2,745,000**
As Percent of Assets	0.116%	0.093%	0.097%	0.090%
Board Asset Fee	1,009,786	922,149	1,107,118	1,525,000
As Percent of Assets[2]	0.03%	0.03%	0.03%	0.05%
$0.50 Monthly Charge per Account	362,996	360,230	359,090	362,656
One-time Settlement Revenue	599,457		13,660	
Total Board Revenue	**$1,972,239**	**$1,282,379**	**$1,479,868**	**$1,887,656**
Operating Expenses	$1,501,897	$1,521,864	$1,666,333	$1,673,956
Carryover Balance	$852,998	$613,513	$427,048	$640,748
Carryover Balance as Percent of Operating Expenses	56.8%	40.3%	25.6%	38.3%

[1] Management fee of 0.116% represents 0.14% management fee for first six months of the fiscal year under expired contract, and 0.09% for the final six months of the fiscal year under new contract that took effect January 1, 2013. Board asset fee remains 0.05% of assets.
[2] In fiscal 2013, 2014, and 2015, fee holidays have resulted in revenues being less than 0.05%.
[3] Fiscal 2016 invested assets as of February 8, 2016. The Board Asset Fee could be lower than .05% if a fee holiday is implemented to reduce the carryover balance.

Source: Maryland Supplemental Retirement Plans; Department of Legislative Services

At the November 2015 MSRP Board meeting, the board adopted a four-month Board Asset Fee Holiday that, if markets remain consistent, would begin on March 31, 2016. However, at the January 2016 MSRP Board meeting, preliminary indications show that the plans' assets were down about 6% year-to-date. On December 31, 2015, invested assets were $3.32 billion but as of February 8, 2016, assets dipped to $3.05 billion, a $270 million drop, which is reflected in Exhibit 6 for fiscal 2016. Further decreases in plan assets may not support the full four-month holiday and close monitoring will continue before announcing a fee holiday. Currently, Exhibit 6 does not reflect fee holidays in fiscal 2016 and the estimated carryover balance is 38.3% of operating expenses. MSRP feels a fee holiday to bring down that balance is likely, but it is uncertain how long the holiday will be. **MSRP should update the committees to the extent possible on potential fee holidays in calendar 2016. Also, MSRP should comment on whether the .05% board asset fee is appropriate given fee holidays over the past three fiscal years to use up fund balances, even with the recent downturn in invested assets.**

Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland Supplemental Retirement Plans
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$1,627	$0	$0	$1,627
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	40	0	0	40
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	**$0**	**$1,667**	**$0**	**$0**	**$1,667**
Fiscal 2016					
Legislative Appropriation	$0	$1,655	$0	$0	$1,655
Budget Amendments	0	19	0	0	19
Working Appropriation	**$0**	**$1,674**	**$0**	**$0**	**$1,674**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 appropriation increased by approximately $40,000 due to increased costs to replace an assistant Attorney General position ($30,000) and a 2% cost-of-living adjustment beginning January 1, 2015 ($10,000).

Fiscal 2016

The special fund appropriation in fiscal 2016 increases by about $19,000 based on the distribution of funds to restore employee salaries, per Section 48 of the fiscal 2016 budget.

Object/Fund Difference Report
Maryland Supplemental Retirement Plans

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	13.00	13.00	13.00	0.00	0%
Total Positions	**13.00**	**13.00**	**13.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 1,185,030	$ 1,176,654	$ 1,261,593	$ 84,939	7.2%
02 Technical and Spec. Fees	0	3,850	3,850	0	0%
03 Communication	25,141	21,514	24,344	2,830	13.2%
04 Travel	21,587	20,074	21,074	1,000	5.0%
07 Motor Vehicles	10,500	11,760	11,760	0	0%
08 Contractual Services	273,187	283,042	288,071	5,029	1.8%
09 Supplies and Materials	11,836	12,000	12,408	408	3.4%
10 Equipment – Replacement	0	3,300	3,500	200	6.1%
11 Equipment – Additional	3,641	3,500	5,976	2,476	70.7%
13 Fixed Charges	135,411	138,262	140,870	2,608	1.9%
Total Objects	**$ 1,666,333**	**$ 1,673,956**	**$ 1,773,446**	**$ 99,490**	**5.9%**
Funds					
03 Special Fund	$ 1,666,333	$ 1,673,956	$ 1,773,446	$ 99,490	5.9%
Total Funds	**$ 1,666,333**	**$ 1,673,956**	**$ 1,773,446**	**$ 99,490**	**5.9%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

H00
Department of General Services

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$61,007	$60,681	$67,610	$6,929	11.4%
Deficiencies and Reductions	0	3,783	-69	-3,852	
Adjusted General Fund	**$61,007**	**$64,464**	**$67,541**	**$3,077**	**4.8%**
Special Fund	2,828	4,215	4,513	298	7.1%
Deficiencies and Reductions	0	0	-2	-2	
Adjusted Special Fund	**$2,828**	**$4,215**	**$4,510**	**$295**	**7.0%**
Federal Fund	1,189	1,271	1,296	25	1.9%
Deficiencies and Reductions	0	0	-1	-1	
Adjusted Federal Fund	**$1,189**	**$1,271**	**$1,294**	**$23**	**1.8%**
Reimbursable Fund	28,181	28,186	28,665	479	1.7%
Adjusted Reimbursable Fund	**$28,181**	**$28,186**	**$28,665**	**$479**	**1.7%**
Adjusted Grand Total	**$93,205**	**$98,136**	**$102,011**	**$3,875**	**3.9%**

- The Department of General Services (DGS) has four fiscal 2016 general fund deficiency appropriations: $2,387,569 to support State agency moving costs and facilities maintenance in the Crownsville complex, $46,621 for security positions in the Crownsville complex, $911,683 for security upgrades at State-owned complexes, and $436,963 to fund lease obligations for non-DGS rent charges.

- The fiscal 2017 allowance increases by approximately $3.9 million, or 3.9%, compared to the fiscal 2016 working appropriation after adjusting for deficiencies and accounting for the across-the-board health insurance reduction.

Note: Numbers may not sum to total due to rounding.

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- General funds increase by approximately $3.1 million, or 4.8%, largely due to a $2.5 million increase in the statewide Critical Maintenance Program. Personnel expenditures increase by $1.2 million.

- Special funds increase by $295,305, or 7.0%, above the working appropriation, due to an increase in Strategic Energy Investment Fund funding to support vendor services for energy initiatives.

- Federal funds increase by $24,731, or 1.9%, and reimbursable funds from State agencies served by the department increase by $479,014, or 1.7%.

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	577.50	577.50	581.50	4.00
Contractual FTEs	24.27	24.68	23.88	-0.80
Total Personnel	**601.77**	**602.18**	**605.38**	**3.20**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		37.54	6.50%	
Positions and Percentage Vacant as of 12/31/15		51.00	8.83%	

- The Administration's fiscal 2017 personnel allowance increased by 4.0 regular positions over the fiscal 2016 working appropriation. All of the positions were added to the department's Office of Facilities Planning, Design and Construction to support the increased funding for the statewide Critical Maintenance Program.

- The department's fiscal 2017 budgeted turnover rate on existing positions is 6.50%, which requires 37.54 positions to remain vacant throughout the year to meet its turnover expectancy. As of December 31, 2015, 51.0 positions were vacant. **DGS should discuss the impact that the high vacancy rate has had on its ability to perform its core services and discuss its plan to fill vacant positions.**

Analysis in Brief

Major Trends

Energy Consumption and Reductions: DGS reports that energy consumption in fiscal 2015 by all State agencies was 6% less than the fiscal 2008 consumption baseline. While the reported measures reflect some success with energy reduction, the department has not met the State's energy reduction goal of 15%. **DGS should comment on the suitability of the 2008 consumption baseline and whether another year's data might offer a more reliable baseline to measure the State's success.**

Minority Business Enterprise Participation: Fiscal 2015 marks the fourth straight year that the department has not met the Minority Business Enterprise (MBE) participation goal for total procurement dollars awarded. The goal was 25% through fiscal 2012 and 29% through fiscal 2015. **DGS should comment on the department's plans to achieve the State's MBE participation goal and whether the 29% target is attainable in light of the removal of nonprofit organizations from MBE certification.**

Critical Maintenance Backlog: DGS reports a declining critical maintenance backlog. The fiscal 2017 allowance increases the critical maintenance funding level by $2.5 million, providing a total of $7.5 million to further reduce the backlog. **DGS should discuss its ability to support the appropriation increase and further reduce the critical maintenance backlog.**

Issues

Facilities Conditions Assessment Program: DGS reports that the current method for conducting and reporting assessments of facility conditions is deficient, resulting in poor maintenance, missed repairs, and an increase in emergency project requests. **DGS should comment on the quality of the most recent assessment reports received, identifying whether these reports properly assessed facility conditions. The Department of Legislative Services (DLS) recommends that language be added to the budget restricting $500,000 of the Facilities Critical Maintenance appropriation and allocating these funds to establish an assessment program within the department's Office of Facilities Planning, Design and Construction. This would include the intent that the Governor create 7 new positions for this purpose.**

Inadequate Funding: While the adjusted 2017 allowance for DGS increases over the working appropriation by nearly $3.9 million, mostly accounted for by the increases in the statewide Critical Maintenance Program and in aid to political subdivisions, the department continues to be underfunded by the State. **DLS has concerns that the department lacks the funding necessary to accomplish many of the programmatic responsibilities it has been assigned by the State.**

Recommended Actions

		Funds
1.	Add budget bill language to restrict $500,000 from the statewide Critical Maintenance Program.	
2.	Reduce double budgeted funds.	$ 426,098
	Total Reductions	**$ 426,098**

Updates

Energy Conservation Report: Committee narrative in the 2015 *Joint Chairmen's Report* requested that DGS submit a report outlining the State's energy conservation efforts. The agency submitted the report in November 2015. This update examines the four energy reduction strategies employed by the department.

Repeat Audit Findings: Fiscal 2016 budget bill language restricted $200,000 of the department's administrative appropriation until DGS corrected the actions identified by the Office of Legislative Audits (OLA), and OLA submitted a report to the budget committees determining that each repeat finding was corrected. As of this writing, OLA has not submitted certification that DGS has corrected the repeat audit findings. As a result, the funds continue to be withheld.

H00
Department of General Services

Operating Budget Analysis

Program Description

The Department of General Services (DGS) serves Maryland and its citizens by supporting other State agencies in achieving their missions. The department performs a variety of functions, including planning, design, and construction management; facilities maintenance; procurement of goods and services; receipt and distribution of excess property; the provision of real estate services; and operation of the Maryland Capitol Police. DGS uses the following goals to guide it's Managing for Results (MFR) reporting:

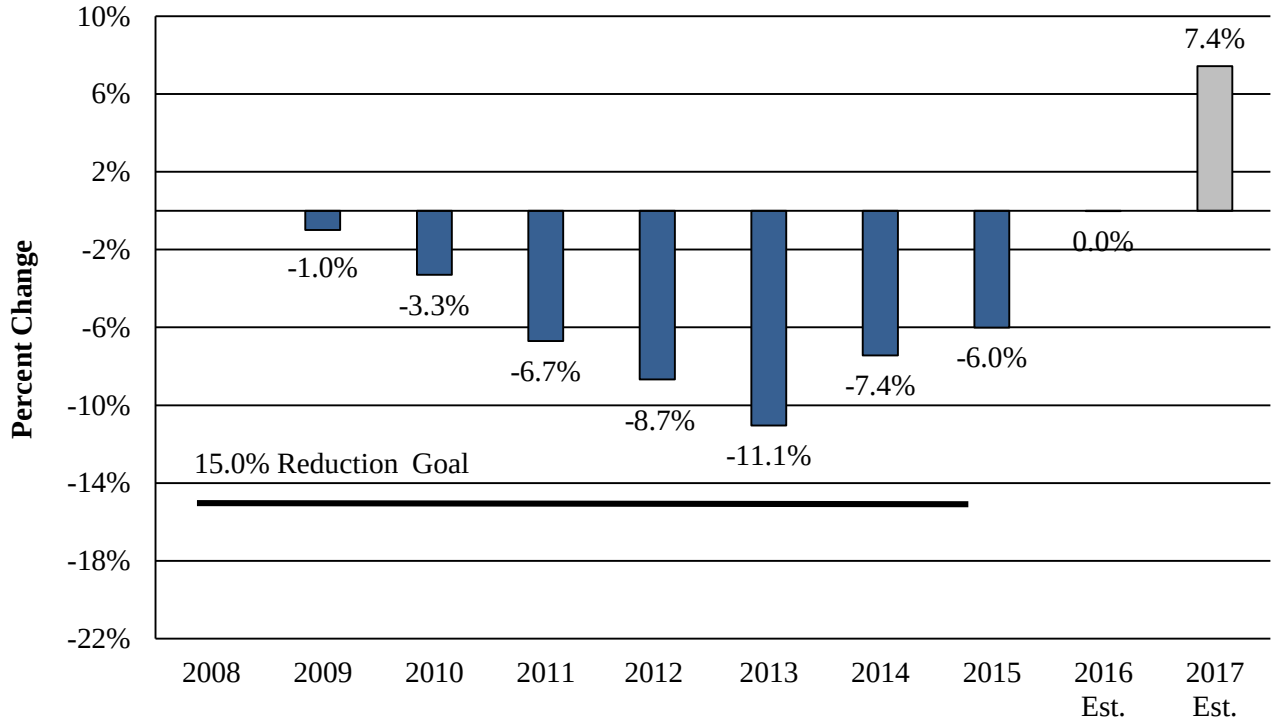
- operate efficiently and effectively;
- manage departmental projects efficiently;
- provide timely and accurate management information;
- achieve responsible asset management;
- provide best value for customer agencies and taxpayers; and
- carry out social, economic, and other responsibilities as a State agency.

Performance Analysis: Managing for Results

1. Energy Consumption and Reductions

The Maryland Office of Energy Performance and Conservation within DGS is responsible for implementing part of the EmPOWER Maryland initiative. This initiative, established by Chapter 131 of 2008, among other provisions, sets forth a goal to reduce State government energy consumption by 15% by fiscal 2015. **Exhibit 1** shows the annual percentage reduction against the 2008 consumption baseline. While the reported measures reflect some success with energy reduction, the department has not met the State's energy reduction goal of 15%. In addition, as shown in Exhibit 1, DGS reports that energy consumption is expected to increase with fiscal 2016 and 2017 projections increasing above the 2008 consumption baseline. **DGS should comment on why energy consumption is expected to increase and on the suitability of the 2008 consumption baseline and whether another year's data might offer a more reliable baseline to measure the State's success.**

Exhibit 1
Energy Consumption Reduction Compared to 2008 Baseline
Fiscal 2008-2017 Est.



Source: Department of General Services; Governor's Budget Books, Fiscal 2009-2016; Department of Budget and Management, Fiscal 2017

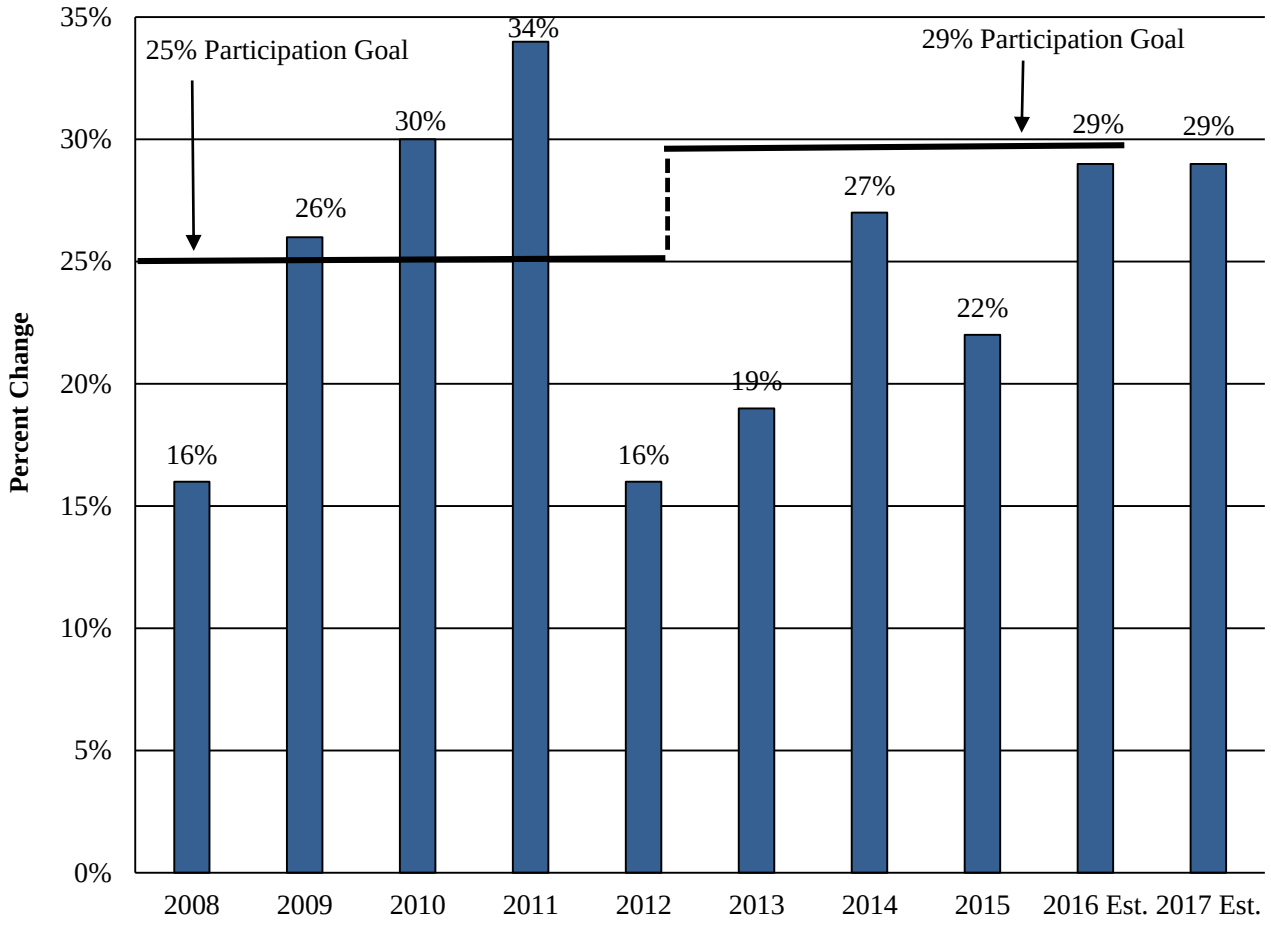
2. Minority Business Enterprise Participation

Exhibit 2 shows the department's MFR performance data regarding its objective to annually meet or exceed a 29% Minority Business Enterprise (MBE) participation rate for the department's total procurement dollars. As shown in the exhibit, the MBE participation goal of 29% was increased from 25% in fiscal 2013 by the Governor's Office of Minority Affairs.

DGS awarded nearly $166 million in prime and subcontracting awards, with approximately $36 million awarded to small, minority- and women-owned businesses in fiscal 2015. When measured as a percent of total procurement dollars, payments to minority businesses reflect a drop of 5 percentage points below the previous year, from 27% in fiscal 2014 to 22% in fiscal 2015, marking the fourth straight year the department has not met the MBE participation goal.

Additionally, Chapters 343 and 605 of 2013 removed not-for-profit entities that promote the interests of physically and mentally disabled individuals from the definition of MBE and exempted specified contracts with them from the calculation of MBE participation rates, which is expected to reduce the department's MBE utilization further in future MFR reports. **DGS should comment on the department's plans to achieve the State's MBE participation goal and whether the 29% target is attainable in light of the removal of nonprofit organizations from MBE certification.**

Exhibit 2
MBE Participation as Percent of Total Procurement Dollars
Fiscal 2008-2017 Est.



MBE: Minority Business Enterprise

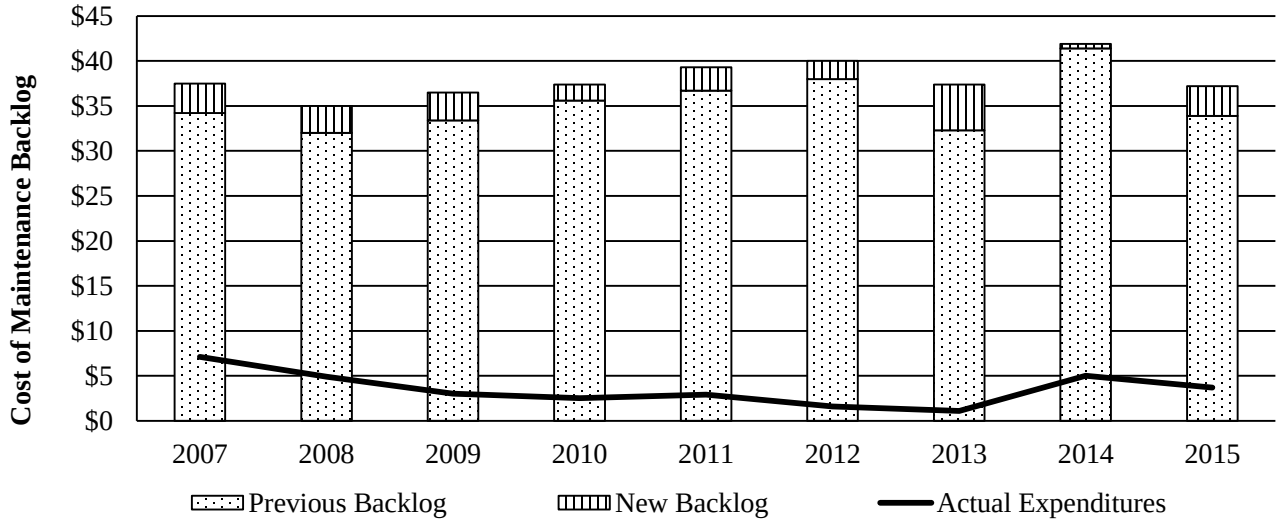
Source: Department of General Services; Governor's Budget Books, Fiscal 2009-2016; Department of Budget and Management, Fiscal 2017

3. Critical Maintenance Backlog

Pursuant to Sections 4-407 and 4-408 of the State Finance and Procurement Article, the department is required to establish and supervise a comprehensive and continuing program of maintenance and repair of all public improvements. The DGS maintenance of State facilities efforts include both critical maintenance projects under $100,000, funded through the operating budget, and facilities renewal projects above $100,000, funded through the capital budget. Budget shortfalls in previous years caused the State to scale back on facilities maintenance and renewal funding. As a result, the critical maintenance backlog had grown to approximately $42 million by fiscal 2014. Beginning in fiscal 2014, and subsequently through fiscal 2016, the State increased the allowance to $5 million due to concern expressed by the budget committees that deferring critical maintenance will eventually lead to increasing project costs and further deterioration of the State's assets.

As shown in **Exhibit 3**, DGS reports that the critical maintenance backlog has been reduced by approximately $4.0 million, or 11%. DGS reports that much of the reduction, approximately 90 projects totaling $3.7 million, is the result of awarded contracts in fiscal 2015. The remaining reduction is due to facility closings and canceled projects.

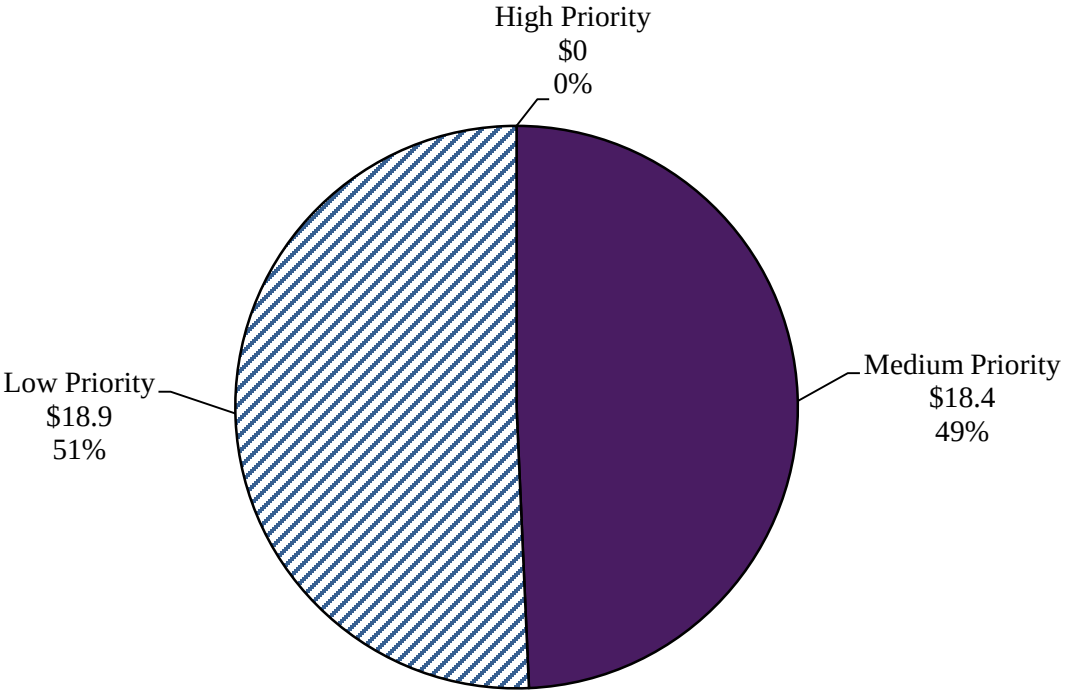
Exhibit 3
Critical Maintenance Backlog
Fiscal 2007-2015
($ in Millions)



Source: Department of General Services; Governor's Budget Books, Fiscal 2009-2016; Department of Budget and Management, Fiscal 2017

Exhibit 3 also shows approximately $3.3 million in additional critical maintenance requests, represented as a New Backlog in Exhibit 3, which reflect a total of 70 new projects that DGS must address. Generally, projects are discovered by agencies when they perform annual self-assessments, at which time DGS requires the agency to submit justifications as to why the maintenance request should be supported by the statewide Critical Maintenance Fund. Once approved by DGS, requests are added to the maintenance backlog and classified with a priority level of low, medium, or high and are finally undertaken as funds are available. **Exhibit 4** provides the priority detail of the department's critical maintenance backlog as of February 2, 2016. As shown, approximately 49% of the critical maintenance backlog is classified as medium priority level.

Exhibit 4
Critical Maintenance Backlog Rating
Fiscal 2015
($ in Millions)



Source: Department of General Services

The fiscal 2017 allowance increases the critical maintenance funding level by $2.5 million, providing a total of $7.5 million to further reduce the backlog. The appropriation represents the largest that DGS has received and may present some implementation challenges, although 4 new positions were added in the fiscal 2017 allowance to support implementation. **DGS should discuss its ability to support the appropriation increase and further reduce the critical maintenance backlog.**

Fiscal 2016 Actions

Two categories of actions impact the DGS fiscal 2016 budget: proposed deficiencies and a 2% across-the-board reduction.

Proposed Deficiency

The Governor has submitted four fiscal 2016 deficiency appropriations, totaling $3,782,836. Of the four deficiency appropriations, three reflect one-time costs and would supplement the appropriation by $2,871,153, while the other deficiency of $911,683 to upgrade security features at State-owned complexes will continue with an allowance in the Administration's fiscal 2017 budget.

- **Facilities Operations and Maintenance** – A deficiency appropriation of $2,387,569 would provide funds for State agency moving costs and facilities maintenance in the Crownsville complex, which is undergoing necessary renovations for State use.

- **Facilities Security –** A second deficiency relating to the use of the complex includes a deficiency of $46,621 to support new security positions.

- **Facilities Operations and Maintenance** – A deficiency of $436,963 is necessary to provide funds to fulfill lease obligations for non-DGS rent charges.

Cost Containment

The fiscal 2016 budget contained an across-the-board general reduction for all State agencies, which resulted in a 2% across-the-board general fund reduction for DGS, totaling approximately $1,270,000. To accommodate this reduction, DGS reduced contractual support to the Secretary ($31,117), reduced security overtime ($12,000), reduced the number of electronic devices, such as cell phones for department staff ($25,000), switched to generic brands for supplies and reduced janitorial supplies ($52,000), implemented energy efficient procedures ($332,000), and refinanced the 2005 bond series that funded the Calvert Street Parking Project ($817,623).

Proposed Budget

As shown in **Exhibit 5**, the fiscal 2017 allowance for DGS increases by approximately $3.9 million, or 3.9%, over the current year appropriation. This increase accounts for the fiscal 2016 deficiency appropriations, as well as the fiscal 2017 across-the-board reduction for health insurance.

Exhibit 5
Proposed Budget
Department of General Services
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$61,007	$2,828	$1,189	$28,181	$93,205
Fiscal2016 Working Appropriation	64,464	4,215	1,271	28,186	98,136
Fiscal 2017 Allowance	67,541	4,510	1,294	28,665	102,011
Fiscal 2016-2017 Amount Change	$3,077	$295	$23	$479	$3,875
Fiscal 2016-2017 Percent Change	4.8%	7.0%	1.8%	1.7%	3.9%

Where It Goes:

Personnel Expenses	
Employee retirement	$585
Employee and retiree health insurance	423
New positions	367
Turnover adjustments	201
Overtime	41
Workers' compensation	40
Regular earnings	-450
Other fringe benefit adjustments	19
Facilities Operations and Maintenance	
Flood mitigation grant to Annapolis	1,000
Contractual – janitorial services	828
Fuel	313
Contractual – building repairs	301
Contractual – security services	132
Contractual – trash disposal	93
Contractual – grounds and maintenance	31
Loan repayment – energy conservation efforts	-650
Procurement and Logistics	
Capital lease payment	-146
Facilities Planning, Design and Construction	
Statewide Critical Maintenance Program	2,500

Where It Goes:	
Agencywide	
Contractual – Energy performance contracts	685
Contractual – Towson Courthouse	261
Other	185
Supplies – building and households	138
Supplies – housekeeping	59
Supplies – office	49
Contractual – Annapolis bus service	41
Contractual – Nancy Grasmick Building	16
Insurance coverage	-108
Paid telecommunications	-208
One-time deficiencies	-2,871
Total	**$3,875**

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $69,222 in general funds, $2,337 in special funds, and $1,260 in federal funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Personnel and Full-time Equivalents

Personnel expenses increase by a net of $1,227,048, once adjusted for fiscal 2016 deficiencies and the fiscal 2017 across-the-board insurance reduction. Increases of $585,000 for the employee retirement system, $423,000 for employee and retiree health insurance, $367,000 for new positions, and $201,000 for turnover adjustments are offset by a decrease of $450,000 in regular earnings. The allowance for the Department of Budget and Management (DBM) also includes funding for employee increments, totaling $643,743. General funds of $553,547, special funds of $10,100, and reimbursable funds of $80,096 will be transferred by budget amendment to DGS to allocate the funding.

Other Changes

Overall, the nonpersonnel-related fiscal 2017 adjusted allowance increases by $2,647,924. While changes are noted by objects of expenditure, the areas of change are grouped to follow programmatic funding and routine, agencywide operations.

Programmatic Funding

The programmatic funding changes in the fiscal 2017 adjusted allowance are as follows.

- **Facilities Operations and Maintenance –** The most significant changes within this program include the $1,000,000 increase for a grant to Annapolis in support of its flood mitigation project and a combined $1.4 million increase for contractual services, which reflect a variety of increasing costs related to janitorial, maintenance, and security service contracts. A 3% cost escalation for fuel-related costs requires an increase of $313,498, while the final payment of debt service in fiscal 2016 to pay off the Energy Performance Contract for the Baltimore Central Plant provides a decrease of $650,419.

- **Procurement and Logistics –** The only significant change within this program reflects the final payment of the capital lease payments for the Fuel Management System, providing for a reduction of $146,472 below the fiscal 2016 appropriation.

- **Facilities Planning, Design and Construction –** The only significant change within this program reflects the $2.5 million increase of funding support for the statewide Critical Maintenance Program.

- **Agencywide –** Several changes occur throughout the agency that are not significant to any single program. An increase in contractual services of approximately $1.0 million is due to a variety of contracts managed by DGS, including the Annapolis bus service contract, the management contract for the Nancy Grasmick building, energy performance contracts, and the contract to maintain the Towson Courthouse. The total $246,623 increase in supplies will support building and household supplies used to maintain 54 of the facilities managed by the department, which includes such items as repair parts, lumber, electrical, plumbing, and restroom supplies. Two assigned costs by DBM reduced the allowance for telecommunications and insurance coverage paid to the State Treasurer's Office by $207,937 and $107,715, respectively.

Issues

1. Facilities Conditions Assessment Program

Under the direction of DGS, and pursuant to Section 4-407 of the State Procurement and Finance Article, each unit of the State government is to carry out a regular maintenance and repair program for the facilities under its responsibility. Additionally, for DGS owned and supported facilities, each unit is to provide an annual assessment of the condition of its facilities to the DGS Maintenance Engineering Division (MED). Though each unit attempts to follow the policies and standards established by DGS, there are deficiencies in the condition assessments that, in large part, result in unplanned, emergency project requests.

According to DGS, there were 162 unplanned projects in fiscal 2015 that required the department to source contractors through the emergency procurement method, which significantly increases the State's expenditure on repairs; *i.e.*, unlike the preferred competitive procurement processes for planned repairs, the emergency procurement method reduces price competition as emergencies require immediate resolution to avoid serious damage to public health, safety, or welfare.

DGS reports that most emergency requests are a result of assessments that fail to identify preventative maintenance needs and properly prioritize repairs, which would have otherwise been noticed with a comprehensive and accurate assessment of facilities. Such assessments require technical expertise, including electrical, plumbing, mechanical, and roofing competencies that are not fully represented by the department's technical staff within MED or by the agencies conducting the self-assessments.

Prior to 1993, maintenance projects were identified by a DGS assessment team that inspected all State facilities under DGS control and evaluated the facility maintenance program of each agency. One advantage of this approach was that DGS could prioritize funding across all State agencies, based on the most important and urgent needs. Due to the constrained fiscal environment in the early 1990s, DGS eliminated the assessment team and, as is current practice, relies on agencies to submit a report regarding their facility conditions and maintenance program.

DGS should comment on the quality of the most recent assessment reports received, identifying whether these reports properly assessed facility conditions. The Department of Legislative Services (DLS) recommends that language be added to the budget restricting $500,000 of the facilities critical maintenance appropriation and allocating these funds to establish an assessment program within the department's Office of Facilities Planning, Design and Construction. This would include the intent that the Governor create an additional 7 new positions for this purpose.

2. Inadequate Funding

DGS operates to help facilitate efficiency and effectiveness throughout State government, with the bulk of its workload comprised of assisting or overseeing other State agencies as they procure goods and services, manage real estate, renovate existing or design new facilities, operate fleet vehicles efficiently, maintain fuel inventories, and work in clean and safe workplaces. In addition to the direct support provided to other State agencies, DGS serves as the lead agency for a variety of statewide initiatives, including the responsibility to reduce energy consumption at State-owned and -leased facilities, to manage eMaryland Marketplace (eMM), and to increase State contract opportunities for small and minority-owned businesses.

In short, DGS provides a variety of professional and technical services to support the work of the State, and it does so with less than 1% of the overall General Fund of the State budget. While the adjusted 2017 allowance for DGS increases over the working appropriation by nearly $3.9 million, mostly accounted for by the increases in the statewide Critical Maintenance Program and in aid to political subdivisions, the department continues to be underfunded by the State. **DLS has concerns that the department lacks the funding necessary to accomplish many of the programmatic responsibilities it has been assigned by the State.**

The following is a general overview of the department's core programs, with examples of inadequate funding or functions that would benefit the State if funding were increased.

- **Office of Facilities Operation and Maintenance:** This office provides for the operation, maintenance, and physical safety of 60 facilities for which the department is responsible. The responsibility requires both preventative and routine maintenance, the supply of materials and equipment, general improvements and upkeep, and the provision of 24-hour security at approximately 6.5 million square feet of buildings, 120.0 acres of landscaped grounds, and 66.5 acres of parking lots.

  In order to provide these services, the department contracts much of the work. According to DGS, service contracts generally increase 2% to 3%, requiring the department to request a deficiency appropriation. During fiscal 2015, for example, many of the service contracts expired, and the department had to solicit new ones. Due to inflationary factors and recent wage rate increases, the cost to perform these services increased, which required the State to provide a deficiency appropriation for fiscal 2016.

- **Office of Procurement and Logistics (OPL):** OPL manages the centralized procurement of certain goods and services for State agencies, including the procurement of contracts for design and construction of certain State facilities. OPL also oversees the State's automated fuel management program, printing and graphic services, and manages State records, inventories, and surplus property.

Within its capacity to manage the State's records of capital projects, DGS continues to utilize an AS-400 database system developed for DGS in the 1980s. DGS reports that this system is being updated through the Department of Information Technology.

Finally, OPL also administers the State's online procurement system, otherwise known as the eMM. The system was supposed to interface with the State's Financial Management Information System (FMIS), allowing for seamless electronic integration of invoicing, payment processing, and purchase orders, but as of this writing it continues to serve the State only as an underused messaging board for advertising solicitations, receiving bids, and announcing awards. A recent audit by the Office of Legislative Audits (OLA) (see Update 2) found that 10 of 11 agencies reviewed for the audit did not use eMM to receive bids, despite having the capability. DGS reports that a number of shortcomings reduce activity, including terminology challenges between bidders and procurement officers and an interface that is not user friendly. **Though DGS is not responsible for many of the inefficiencies surrounding eMM, DLS has concerns that, due to a lack of funding, the department has not incorporated greater use of the electronic procurement system. DGS should comment as to whether OPL is adequately funded to maximize the State's use of the eMM portal, notwithstanding its suitability to interface with FMIS.**

- **Office of Real Estate Management:** While the Department of Planning is the repository for information on real property owned by the State, as provided in Section 5-504 of the State Finance and Procurement Article, the Office of Real Estate Management within DGS manages the facility and real property needs of State agencies. As such, the department has a fiduciary responsibility to ensure the most efficient use of property, avoiding, for example, paying rent for space when State-owned properties might be underutilized or vacant. DGS reports that it does have an inventory of owned and leased spaces, but that it does not have real time access to full-time equivalent counts and total occupancy costs per location, owned or leased. **DLS is concerned that without this data, DGS is not able to execute its portfolio management responsibility in the most efficient way possible. DGS should comment on the opportunities for cost savings and improved portfolio management practices that would develop from an electronic asset management system.**

- **Office of Facilities Planning, Design and Construction:** This office manages projects statewide, supervises and coordinates contract awards related to the planning, design, and construction of State public improvements, and reviews public school projects through the Public School Construction Program. The primary area where this office has continued to lack adequate funding is within its responsibility to manage the critical maintenance backlog. The lack of adequate funding has been a concern of the budget committees for many years, since deferring critical maintenance eventually leads to increasing project costs and further deterioration of the State's assets. See Issue 1 for more detail.

Recommended Actions

1. Add the following language to the general fund appropriation:

   , provided that $500,000 of this appropriation made for the purpose of the statewide Critical Maintenance Program may not be expended for that purpose but instead may only be used to establish a facilities conditions assessment program within the department's Office of Facilities Planning, Design and Construction. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund.

   Further provided it is the intent of the General Assembly that the Governor shall create 7 new positions for the department through the Board of Public Works with the restricted funds.

   Explanation: Inadequate self-assessments of facilities lead to poor maintenance of the State's assets. Eventually, the poor maintenance and deferment lead to an increase in emergency project requests, thereby increasing the State's facility maintenance cost.

		Amount Reduction	
2.	Reduce the allowance for the Energy Projects and Services within the Office of Facilities Planning, Design and Construction because the increase was double budgeted by the Department of Budget and Management.	$ 426,098	SF
	Total Special Fund Reductions	**$ 426,098**	

Updates

1. Energy Conservation Report

The Maryland Office of Energy Performance and Conservation is responsible for implementing the State Building Energy Efficiency and Conservation Act of 2006, which requires the development of an energy use index and the setting of energy savings goals for every State agency. Additionally, the office is partly responsible for implementing the EmPOWER Maryland Energy Efficiency Act of 2008, which established a State goal of achieving a 15% reduction in both per capita electricity consumption and per capita peak demand, based on 2008 electricity consumption data, by the end of calendar year 2015. DGS reports that it has been pursuing four specific strategies to reduce energy consumption by 15% below the 2008 baseline:

- energy tracking;
- energy performance contracts;
- alternative energy; and
- Statewide energy purchasing.

Energy Tracking

In order to manage the State's energy cost and consumption, DGS has implemented an online, statewide utility database that hosts all State government utility accounts, including accounts for electricity, gas, water, heating fuel, steam, sewer, propane, and chilled water, allowing the department to:

- observe and manage utility consumption;
- confirm accurate billing from suppliers;
- plan, implement, and verify energy reduction efforts for all State agencies; and
- utilize aggregated data for energy analysis and energy trending.

DGS reports that the database currently includes more than one million invoices for 22,000 State utility accounts, covering 58 State facilities. Population of the database is approximately 91% complete, and DGS verifies the completeness and accuracy of the database against DBM's utility expenditure data.

Additionally, DGS has extended a Memorandum of Understanding that allows the department to support all State agencies in developing and completing agency-specific energy plans. As of this

writing, 23 completed plans have been executed, with 10 additional plans in various stages of completion.

Energy Performance Contracts

Most of the State's energy-related facility upgrades are performed through Energy Performance Contracts (EPC). An EPC is an agreement between the State and an energy service company to make energy efficient capital improvements. The type of energy saving upgrades executed through an EPC include replacing or retrofitting boilers, furnaces, air conditioning units, windows, and lighting fixtures. DGS reports that there are currently 21 EPCs managed by the department with an approximate value of $204 million, saving the State approximately $21.3 million annually.

Alternative Energy

As part of its electricity purchasing portfolio, DGS will enter into Power Purchase Agreements (PPA) for alternative, or renewable energy. These agreements support energy reduction in two ways, namely by arranging for the State to purchase renewable energy resources without the cost of investing into the system and by replacing the State's future energy consumption with the new electricity provided by the renewable energy source. There are PPAs in place at four DGS managed facilities:

- Tawes State Office Complex (4 buildings);
- John R. Hargrove, Sr. District Court and Multi-Service Center;
- Elkton District Court and Multi-Service Center; and
- Ellicott City District Court and Multi-Service Center.

Energy Purchasing Strategy

DGS has developed a statewide purchasing strategy that encompasses all of State government, including the University System of Maryland, thereby leveraging the full purchasing power of the State to save on energy costs. According to the department, approximately 67% of the State's electricity load is purchased through a hedging strategy and managed by a portfolio manager. The manager is responsible for purchasing blocks of electricity throughout the year to supply the State with nearly one billion kilowatt hours of electricity annually. The remaining load is purchased through an online reverse energy auction. In a reverse auction, electricity suppliers place bids to satisfy the State's energy needs. DGS reports that the two purchasing methods – block purchasing and reverse auctions – saved the State approximately $6.3 million in fiscal 2015.

2. Repeat Audit Findings

In November 2014, OLA released a compliance audit for OPL in DGS. The audit covered the period beginning July 1, 2009, and ending August 19, 2012. OPL findings ranged from the procurement of the statewide fuel management contract, use of the eMM, procurement and oversight of statewide purchasing transactions, and the proper inventory controls on State owned materials and equipment. Of the 13 findings, 4 were repeated from the previous audit. The repeat audit findings were that:

- OPL did not document its assertion that it was in the best interest of the State to participate in certain Intergovernmental Cooperative Purchasing Agreements;
- OPL did not publish the fair market prices of goods and services from the Maryland Correctional Enterprises and the Blind Industries and Services of Maryland as required;
- proper internal control was not established over statewide purchasing transactions; and
- OPL did not maintain adequate accountability and control over DGS's equipment.

To satisfactorily resolve these findings, language in the fiscal 2016 budget bill restricted $200,000 of the department's administrative appropriation until DGS corrected the actions and until OLA submitted to the budget committees a report determining that each repeat finding was corrected. As of this writing, OLA has not provided a report showing that DGS has taken corrective action.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of General Services
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$62,323	$3,092	$1,185	$29,285	$95,885
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-1,430	0	0	0	-1,430
Budget Amendments	215	10	4	72	300
Reversions and Cancellations	-100	-274	0	-1,176	-1,550
Actual Expenditures	**$61,007**	**$2,828**	**$1,189**	**$28,181**	**$93,205**
Fiscal 2016					
Legislative Appropriation	$60,119	$3,283	$1,263	$28,186	$92,851
Budget Amendments	562	932	8	0	1,502
Working Appropriation	**$60,681**	**$4,215**	**$1,271**	**$28,186**	**$94,353**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

General fund expenditures for DGS totaled $61.0 million in fiscal 2015, reflecting a decrease of approximately $1.3 million when compared to the legislative appropriation. Cost containment measures reduced the general fund appropriation by approximately $1.4 million, while budget amendments related to the cost-of-living adjustment (COLA) and the employee Voluntary Separation Program increased the appropriation by $214,570. A reversion of $100,000 further decreased the general fund appropriation, which reflects the loss of restricted funds for failing to address repeat findings by OLA.

A cancellation of $274,000, somewhat offset by the addition of $9,600 from the COLA, reduced the fiscal 2015 special fund appropriation by $264,000.

The fiscal 2015 federal fund appropriation increased by $4,013 due to the COLA.

The department's fiscal 2015 reimbursable fund expenditures were approximately $1.1 million lower than the legislative appropriation. Reimbursable funds increased by $72,000 through an amendment that transferred funds to support the cost of a consultant who evaluated the participation of not-for-profit entities in State procurement. This increase was significantly offset, however, by cancellations of approximately $1.2 million.

Fiscal 2016

The DGS general, special, and federal appropriations increased by a total of $588,000 ($562,000 in general funds, $18,000 in special funds, and $8,000 in federal funds) to restore funds for employee salaries, per Section 48 of the fiscal 2016 budget bill.

The department's special fund appropriation was further increased by $914,195, as a result of the Maryland Energy Administration's decision to continue providing Strategic Energy Investment funds to support the department's involvement with the Roadmap to Maryland State Agency Energy Efficiency.

Object/Fund Difference Report
Department of General Services

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	577.50	577.50	581.50	4.00	0.7%
02 Contractual	24.27	24.68	23.88	-0.80	-3.2%
Total Positions	**601.77**	**602.18**	**605.38**	**3.20**	**0.5%**
Objects					
01 Salaries and Wages	$ 43,049,377	$ 44,205,103	$ 45,544,152	$ 1,339,049	3.0%
02 Technical and Spec. Fees	1,267,769	1,067,590	1,086,812	19,222	1.8%
03 Communication	1,073,086	1,101,204	901,301	-199,903	-18.2%
04 Travel	49,248	27,062	23,623	-3,439	-12.7%
06 Fuel and Utilities	16,871,601	17,099,531	16,751,652	-347,879	-2.0%
07 Motor Vehicles	1,163,323	1,230,656	1,279,951	49,295	4.0%
08 Contractual Services	17,808,084	17,912,912	20,283,795	2,370,883	13.2%
09 Supplies and Materials	1,450,363	968,904	1,287,007	318,103	32.8%
10 Equipment – Replacement	41,299	72,000	911,683	839,683	1166.2%
11 Equipment – Additional	347,831	293,818	146,228	-147,590	-50.2%
12 Grants, Subsidies, and Contributions	367,000	300,000	1,300,000	1,000,000	333.3%
13 Fixed Charges	4,147,289	4,085,726	4,023,232	-62,494	-1.5%
14 Land and Structures	5,568,958	5,988,343	8,544,040	2,555,697	42.7%
Total Objects	**$ 93,205,228**	**$ 94,352,849**	**$ 102,083,476**	**$ 7,730,627**	**8.2%**
Funds					
01 General Fund	$ 61,006,955	$ 60,680,822	$ 67,610,062	$ 6,929,240	11.4%
03 Special Fund	2,828,267	4,214,990	4,512,632	297,642	7.1%
05 Federal Fund	1,189,493	1,270,853	1,295,584	24,731	1.9%
09 Reimbursable Fund	28,180,513	28,186,184	28,665,198	479,014	1.7%
Total Funds	**$ 93,205,228**	**$ 94,352,849**	**$ 102,083,476**	**$ 7,730,627**	**8.2%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Department of General Services

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
0A Department of General Services	$ 4,921,598	$ 3,853,735	$ 3,745,896	-$ 107,839	-2.8%
0B Office of Facilities Security	12,580,169	12,257,104	13,871,488	1,614,384	13.2%
0C Office of Facilities Operation and Management	53,479,918	52,276,744	55,022,461	2,745,717	5.3%
0D Office of Services and Logistics	6,972,605	7,911,821	7,636,477	-275,344	-3.5%
0E Office of Real Estate	2,531,932	2,530,134	2,620,220	90,086	3.6%
0G Office of Facilities Planning, Design and Construction	12,719,006	15,523,311	19,186,934	3,663,623	23.6%
Total Expenditures	**$ 93,205,228**	**$ 94,352,849**	**$ 102,083,476**	**$ 7,730,627**	**8.2%**
General Fund	$ 61,006,955	$ 60,680,822	$ 67,610,062	$ 6,929,240	11.4%
Special Fund	2,828,267	4,214,990	4,512,632	297,642	7.1%
Federal Fund	1,189,493	1,270,853	1,295,584	24,731	1.9%
Total Appropriations	**$ 65,024,715**	**$ 66,166,665**	**$ 73,418,278**	**$ 7,251,613**	**11.0%**
Reimbursable Fund	$ 28,180,513	$ 28,186,184	$ 28,665,198	$ 479,014	1.7%
Total Funds	**$ 93,205,228**	**$ 94,352,849**	**$ 102,083,476**	**$ 7,730,627**	**8.2%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Maryland Department of Transportation
Fiscal 2017 Budget Overview

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

February 2016

For further information contact: Steven D. McCulloch Phone: (410) 946-5530

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Maryland Department of Transportation
Fiscal 2017 Budget Overview

Analysis in Brief

Issues

Long-term Federal Surface Transportation Reauthorization Passed: At the end of calendar 2015, Congress passed, and the President signed, the Fixing America's Surface Transportation Act of 2015 (FAST Act) providing federal funding levels for surface transportation programs for federal fiscal 2016 through 2020 and establishing new freight funding programs. **The Maryland Department of Transportation should comment on how the funding certainty provided by the FAST Act will affect capital planning, how it intends to utilize National Highway Freight Program formula funding, and if and for which project(s) it intends to seek funding under the new Nationally Significant Freight and Highway Projects discretionary grants program.**

Scoring System for Transportation Capital Project Selection Could Ensure Greater Focus on Economic Benefits: Maryland's ability to fund its transportation capital program falls short of identified needs. In addition, current statutory requirements do not ensure that the transportation projects funded by the State will generate the greatest return on investment in terms of easing congestion or stimulating economic growth. A priority setting process that uses a cost-benefit analysis may help the State select transportation projects that yield the greatest benefit possible. **The Secretary should comment on how the greater emphasis on economic outcomes could be incorporated in development of the *Consolidated Transportation Program*.**

Recommended Actions

1. Add annual budget bill language requiring notification of capital budget changes.

2. Add annual budget bill language establishing a position cap.

3. Adopt committee narrative expressing the intent that the Maryland Department of Transportation use the five-year average annual increase when forecasting operating expenses.

Transportation Trust Fund Overview

The Transportation Trust Fund (TTF) is a nonlapsing special fund that provides funding for transportation. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. The Maryland Department of Transportation (MDOT) issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration (MTA), the Motor Vehicle Administration (MVA), the Maryland Port Administration, and the Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures.

The tax and fee revenues include motor fuel taxes, rental car sales taxes, titling taxes, vehicle registration fees, a portion of the corporate income tax, and other miscellaneous motor vehicle fees. A portion of these revenues are credited to the Gasoline and Motor Vehicle Revenue Account (GMVRA). Of the revenues deposited into the GMVRA, distributions are made to local jurisdictions and the TTF. The funds retained by the TTF support the capital program, debt service, and operating costs.

Fiscal 2015 TTF Revenue Closeout

As shown in **Exhibit 1**, the TTF ended fiscal 2015 with a fund balance of $269 million, an amount of $169 million higher than the $100 million projected ending balance. The higher fund balance is the net effect of a lower level of expenditures ($79 million) combined with higher than expected revenue attainment ($90 million).

Spending was a net of $79 million less than estimated. Increases related to a bond refunding, winter maintenance, and other department operations were offset by decreased capital spending, the majority of which was due to suspended spending on the Red and Purple Line transit projects as they were being reevaluated.

Nonbond-related revenues exceeded projections by a net $131 million. Bond sales were $89 million below projections reflecting reduced cash flow needs and receipt of $48 million in bond premiums.

Exhibit 1
Fiscal 2015 Transportation Trust Fund Closeout
State Funds Only
($ in Millions)

	Projected	Actual	Variance
Starting Fund Balance	**$255**	**$255**	**$0**
Revenues			
Motor Fuel Taxes	$877	$924	$47
Titling Taxes	786	796	10
Corporate Income Tax	164	166	2
Sales Tax – Rental Vehicles	32	31	-1
Registrations, and Miscellaneous MVA Fees	659	667	8
MDOT Operating Revenues (MAA, MPA, and MTA)	407	414	7
Other Receipts and Adjustments	56	114	58
Bond Proceeds and Premiums	490	449	-41
Total Revenues	**$3,471**	**$3,561**	**$90**
Uses of Funds			
MDOT Operating Expenditures	$1,711	$1,770	$59
MDOT Capital Expenditures	1,467	1,299	-168
MDOT Debt Service	220	248	28
Highway User Revenues	167	172	5
Other Expenditures	61	58	-3
Total Expenditures	**$3,626**	**$3,547**	**-$79**
Final Ending Fund Balance	**$100**	**$269**	**$169**

MAA: Maryland Aviation Administration
MDOT: Maryland Department of Transportation
MPA: Maryland Port Administration
MTA: Maryland Transit Administration
MVA: Motor Vehicle Administration

Note: Totals may not sum due to rounding.

Source: Maryland Department of Transportation

Fiscal 2016 Year-to-date Revenue Receipts

Fiscal 2016 attainment for three of the TTF's largest revenue sources are exceeding projections based on five-year average attainment rates. With collections recorded through November 2015, motor fuel tax revenues were $15.1 million higher than expected, motor vehicle titling revenues were $6.0 million higher, and motor vehicle registration revenues were up by $5.1 million. Should attainment continue at the level experienced to date, combined collections could exceed estimates by $74.0 million for all of fiscal 2016.

Fiscal 2016 through 2021 Revenues

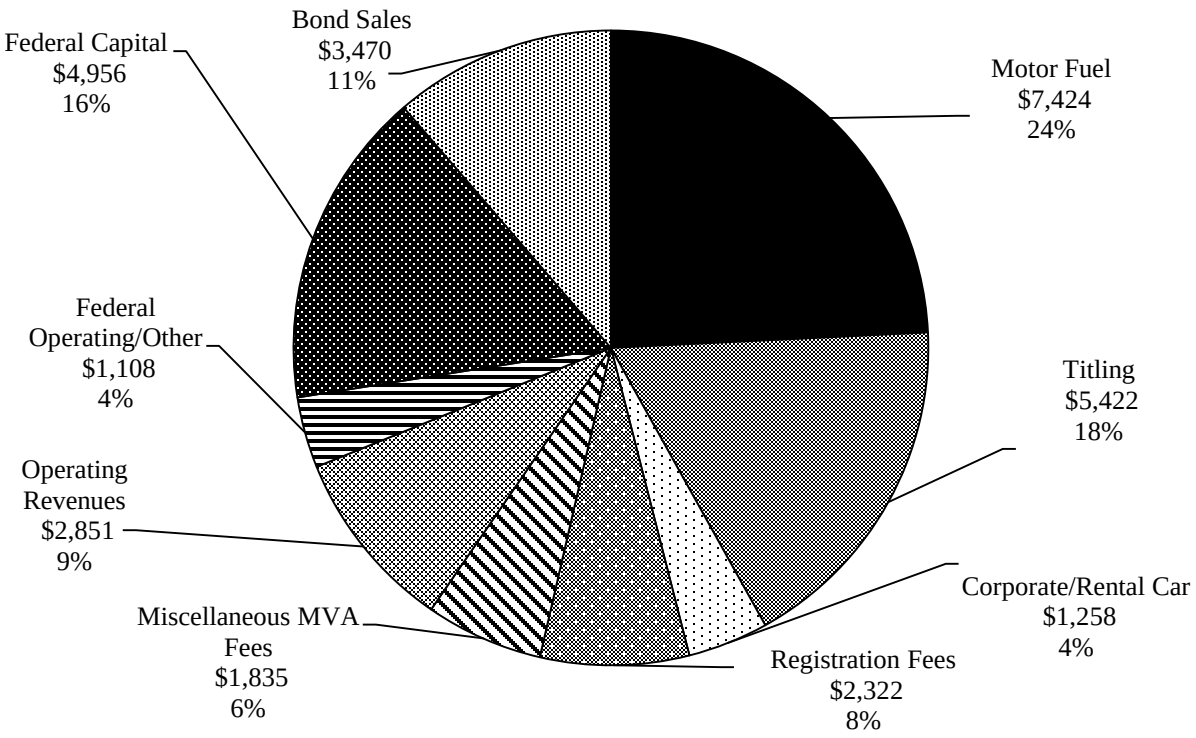
Exhibit 2 shows that the TTF's largest revenue sources in the fiscal 2016 to 2021 forecast period are the motor fuel tax, titling tax, federal capital aid, and bond sale revenues, which collectively represent 69.4% of all projected revenues. Because the U.S. Congress failed to pass Internet sales tax legislation by December 1, 2015, the sales and use tax equivalent rate on the sale of gasoline increased from 3.0% to 4.0% effective January 1, 2016, and will increase to 5.0% effective July 1, 2016. Rather, the TTF would have begun receiving a portion of the general sales tax. The two provisions were estimated to result in equivalent amounts of revenue to the TTF.

MDOT is projecting that $3.5 billion in bonds will be sold to support the capital program, representing 11.3% of projected revenues.

Revenue Risks

A large downside revenue risk in the six-year forecast is the motor fuel average price per gallon, which is currently lower than the estimate upon which the fiscal 2017 forecast is based. The fiscal 2017 sales and use tax equivalent, the portion of the motor fuel tax that is based on the average cost per gallon, is based on an average price per gallon *excluding federal and State taxes* of $2.23. According to data from the Bureau of Revenue Estimates, the average daily price of regular gasoline in Maryland, net of State and federal taxes, for the six-month period ending December 31, 2015, was $1.88. If this lower price is used to calculate the sales and use tax equivalent for fiscal 2017, revenues decrease by $58.3 million from the current estimate of $362.9 million for this portion of motor fuel tax revenues. Increased sales of gasoline due to lower prices would help offset some portion of the decrease in the sales and use tax equivalent revenues. Should gasoline prices remain at current levels for several years, the revenue loss would be greater relative to the current forecast.

Exhibit 2
Transportation Trust Fund
State-sourced Revenues and Federal Funds
Fiscal 2016-2021
($ in Millions)



Total Revenues = $30.6 Billion

MVA: Motor Vehicle Administration

Source: Maryland Department of Transportation, Fiscal 2016-2021 *Transportation Trust Fund Forecast*

Six-year Transportation Trust Fund Forecast Summary

Exhibit 3 shows the TTF forecast summary, including the fiscal 2015 actual and the fiscal 2016 to 2021 projections. It reflects the decision of MDOT to increase the target closing balance from the $100 million level that it used for many years to $125 million for fiscal 2016 to 2018 and to $150 million thereafter. The increased fund balance will accommodate working cash-flow requirements during the year.

Exhibit 3
Transportation Trust Fund Forecast Summary
Fiscal 2015-2021
($ in Millions)

	Fiscal Year							
	Actual 2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total 2016-21**
Opening Fund Balance	**$255**	**$269**	**$125**	**$125**	**$125**	**$150**	**$150**	
Closing Fund Balance	**$269**	**$125**	**$125**	**$125**	**$150**	**$150**	**$150**	
Net Revenues								
Taxes and Fees	$2,353	$2,538	$2,676	$2,764	$2,867	$2,924	$2,999	$16,769
Operating and Miscellaneous	618	602	593	717	729	628	690	3,959
Subtotal	***$2,972***	***$3,140***	***$3,269***	***$3,481***	***$3,596***	***$3,552***	***$3,689***	***$20,728***
Bond Proceeds	401	450	685	860	565	465	445	3,470
Bond Premiums	49	0	0	0	0	0	0	0
Fund Balance Increase/Use	-15	144	0	0	-25	0	0	119
Total Net Revenues	**$3,407**	**$3,735**	**$3,954**	**$4,341**	**$4,136**	**$4,017**	**$4,134**	**$24,317**
Expenditures								
Debt Service	$248	$264	$310	$354	$344	$341	$402	$2,014
Operating Budget	1,860	1,863	1,923	1,992	2,040	2,108	2,159	12,085
State Capital	1,299	1,608	1,721	1,995	1,752	1,569	1,574	10,218
Total Expenditures	**$3,407**	**$3,735**	**$3,954**	**$4,341**	**$4,136**	**$4,017**	**$4,134**	**$24,317**
Debt								
Debt Outstanding	$2,020	$2,296	$2,774	$3,412	$3,786	$4,076	$4,296	
Debt Coverage – Net Income	3.0	3.4	3.7	3.4	3.3	3.2	3.0	
Local Highway User Revenue	**$172**	**$176**	**$177**	**$179**	**$183**	**$184**	**$187**	**$1,087**
Capital Summary								
State Capital\HUR Capital	$1,299	$1,608	$1,721	$1,995	$1,752	$1,569	$1,574	$10,218
Net Federal Capital (Cash Flow)	742	771	1,086	978	771	644	706	4,956
Total Capital Expenditures	**$2,041**	**$2,379**	**$2,807**	**$2,973**	**$2,523**	**$2,213**	**$2,280**	**$15,174**
GARVEE Debt Service	$87	$87	$87	$87	$87	$51	$0	$401

GARVEE: Grant Anticipation Revenue Vehicle
HUR: Highway User Revenues

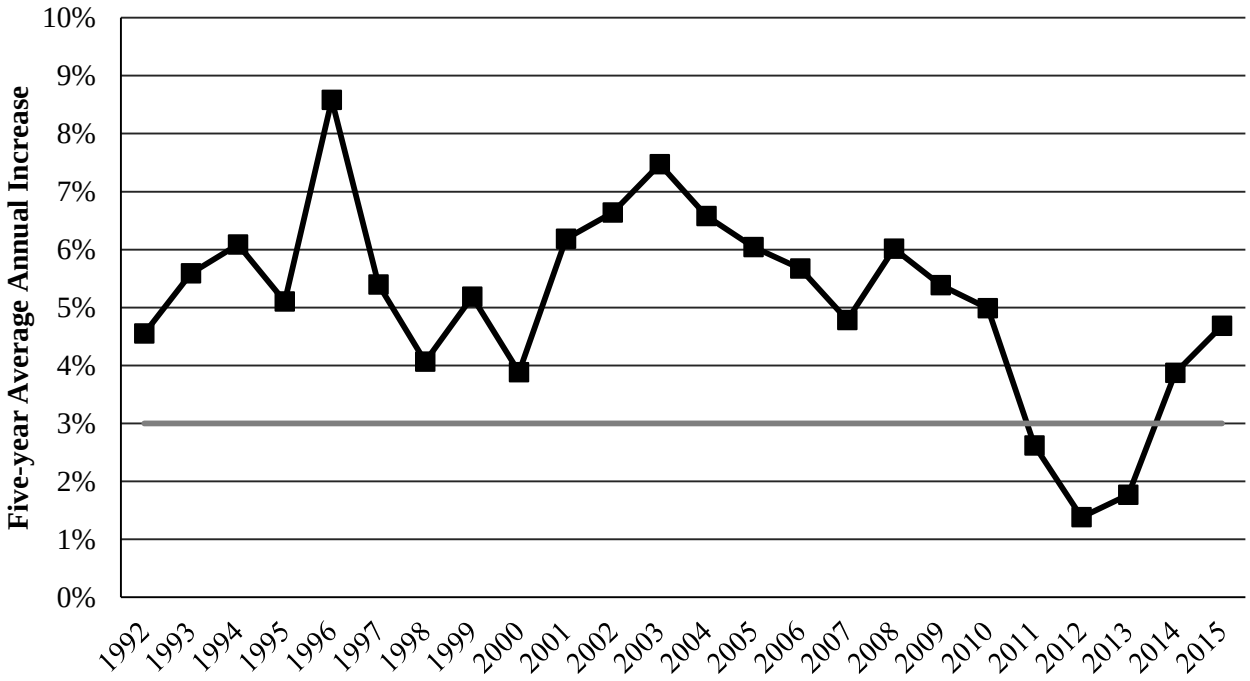
Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2016

Revenues are used first to pay debt service and then to cover the department's operating expenses. Remaining revenues are used for the capital program, which is also funded through the sale of bonds and with federal capital aid. Over the six-year forecast period, bond proceeds are projected to cover almost 23% of all capital expenditures. The projected issuance of debt will increase the amount of debt from the $2.02 billion outstanding at the end of fiscal 2015, to almost $4.30 billion by the end of fiscal 2021. Bond covenants require MDOT to maintain a net income to debt service ratio of at least 2.0 and the department has an administrative policy to maintain a ratio of no less than 2.5. As shown in Exhibit 3, the debt service coverage ratio grows from 3.0 in fiscal 2015 to a forecast period high of 3.7 in fiscal 2017 and then declines to 3.0 by fiscal 2021.

Operating Budget Forecast Understates Likely Spending Levels

For fiscal 2016 to 2021, the average annual increase in departmental operating expenses included in the MDOT forecast is 2.99%. As shown in **Exhibit 4**, the five-year average annual increase has only dipped below 3.00% three times since fiscal 1992 and those five-year averages encompass the year prior to and years of the Great Recession. The median five-year average annual increase for this period is 5.30%, and the mean five-year average annual increases is 5.10%.

Exhibit 4
Maryland Department of Transportation
Operating Expenses – Five-year Average Annual Change
For Five-year Periods Ending Fiscal 1992-2015



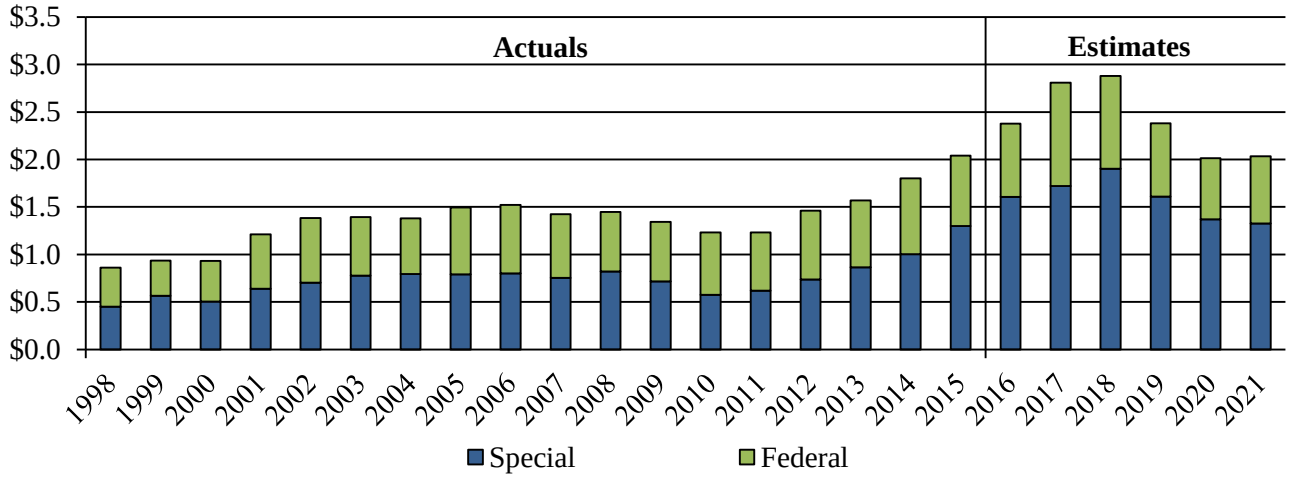
Source: Maryland Department of Transportation, *Transportation Trust Fund Forecasts*, 1989-2016

Underestimating the level of operating expenses results in capital spending levels that are overstated, since operating expenses and debt service are deducted from available revenues to determine the amounts available for the capital program. Should operating expenses increase at the median rate of the five-year average annual increases going back to 1992, the amount available for capital program spending would be $679 million less than in the MDOT forecast. While MDOT is making efforts to reduce operational spending – it self-imposed a 2% cost containment effort for fiscal 2016 in response to the 2% across-the-board reduction applied to general fund agencies – cost controls have been imposed in the past, which are unsustainable over time. An inquiry as part of the fiscal 2017 baseline budget process revealed that none of the fiscal 2016 cost containment actions being taken were of an ongoing nature that could be carried into future year. This suggests that while MDOT may constrain budget growth for a year or two, deferred expenses will eventually be incurred. **To encourage truth in forecasting, committee narrative is included in the recommended action section of this analysis that would state the intent that MDOT use the five-year average annual increase for the period ending with the most recent complete fiscal year to calculate out-year operating expenses. For the current TTF forecast this would be 4.7% and would reduce the amount available for the capital program by $492 million.**

Capital Spending Trends

Exhibit 5 shows the level of planned capital spending compared with past years. Combined special and federal capital spending exceeded $2 billion for the first time in fiscal 2015 and is projected to continue to increase each year through fiscal 2018, when it is projected to reach nearly $2.9 billion, exclusive of the proposed Highway User Revenue (HUR) capital grant.

Exhibit 5
Capital Spending Trends
Fiscal 1998-2021
($ in Billions)

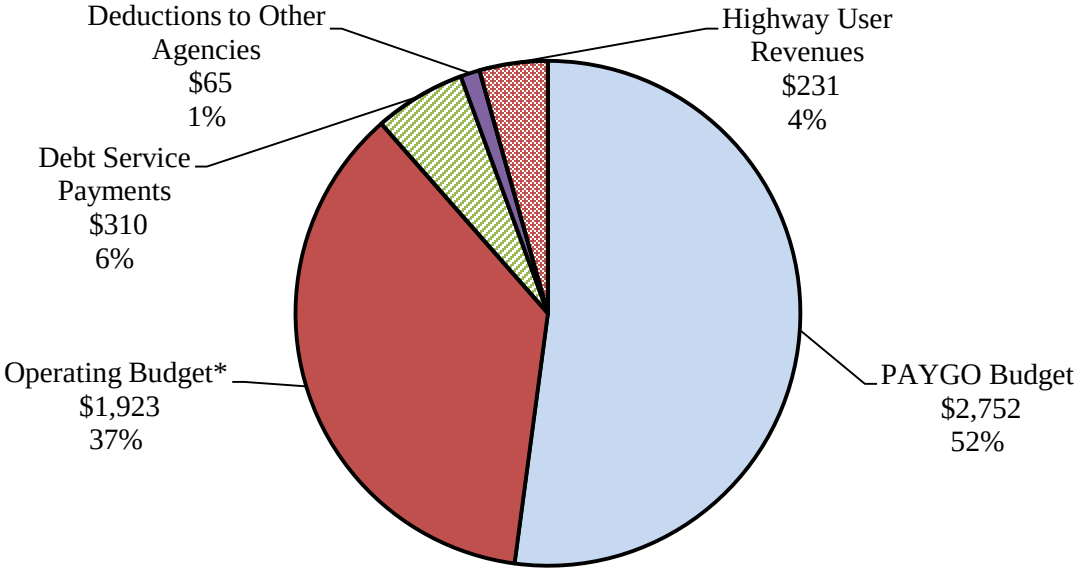


Source: Maryland Department of Transportation; Department of Legislative Services

Budget Overview

Exhibit 6 shows all expenditures from the TTF by category in fiscal 2017. The pay-as-you-go (PAYGO) capital program comprises just over half the spending, and the operating budgets of the modes accounts for a further 37% of total spending. The remainder of TTF expenditures go toward debt service on Consolidated Transportation Bonds (CTB), the share of the HURs distributed to counties and municipalities, and deductions to other State agencies.

Exhibit 6
Fiscal 2017 Transportation Trust Fund Uses
Total Spending: $5.3 Billion
($ in Millions)



PAYGO: pay-as-you-go

Note: The chart includes special funds from the Transportation Trust Fund and federal funds only. It excludes $258 million in other funding for the capital program. For illustrative purposes, other funding can include the Maryland Transportation Authority, passenger facility charges, customer facility changes, local county participation, pass through federal funding for the Washington Metropolitan Area Transit Authority, and funding from the Transportation Security Administration.

Note: The $54 million capital grant to local governments is included in the Highway User Revenues slice and deducted from the PAYGO Budget slice.

* Includes $10 million for contingencies and $2 million for BaltimoreLink to be added by budget amendment.

Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2016

Proposed Budget

Exhibit 7 shows the operating and PAYGO capital budgets for the modal administrations along with amounts budgeted for debt service and local highway user grants from the fiscal 2015 actuals through the 2017 allowance. For all three years, the capital grants to local governments have been added to the Local Highway User Grants line and subtracted from the capital budget for the Secretary's office. Fiscal 2016 includes deficiency appropriations, which add positions to MTA for the BaltimoreLink initiative. The fiscal 2017 amounts have been adjusted to reflect back of the bill reductions totaling $1.8 million ($1,842,652 million in special funds and $264 in federal funds), which reduce the amount budgeted for health insurance. Funds for employee salary step increases are included in the Department of Budget and Management (DBM) budget, and will be distributed to agencies by budget amendment and are therefore not included in the amounts shown in Exhibit 7. MDOT will receive an additional $6.9 million special funds and an estimated $628,000 federal funds when the salary step funding is distributed.

MDOT's total fiscal 2017 allowance increases $503.5 million, or 10.7%, compared to the fiscal 2016 working appropriation. Almost 80.0% of the increase is attributable to increases in the capital budget ($401.0 million). The remaining changes in descending order are the operating budget ($38.6 million), local aid ($36.7 million), and debt service ($27.2 million). Total special fund spending increases $188.0 million, or 4.9%, compared to the fiscal 2016 working appropriation, while federal funds increase by $315.5 million, or 36.4%. It should be noted that the fiscal 2016 working appropriation does not reflect all known changes from the legislative appropriation due to timing issues associated with submitting the budget for publication with the fiscal 2017 allowance. For example, debt service is currently projected at $264.0 million in fiscal 2016, a reduction due to lower bond sales. Final numbers will be calculated in the budget closeout and reported as actuals with the submission of the fiscal 2018 budget.

Exhibit 7
Transportation Budget Overview
Fiscal 2015-2017

	Actuals 2015	Working App. 2016[1]	Allowance 2017[2]	$ Change 2016-2017	% Change 2016-17
Operating					
Secretary's Office	$75,339,237	$83,050,799	$82,967,093	-$83,706	-0.1%
WMATA	284,843,793	320,422,000	323,422,000	3,000,000	0.9%
State Highway Administration	301,487,654	262,030,859	271,203,458	9,172,599	3.5%
Port Administration	47,867,305	50,978,579	51,502,302	523,723	1.0%
Motor Vehicle Administration	194,887,065	204,678,138	206,501,591	1,823,453	0.9%
Maryland Transit Administration	767,008,964	763,837,194	787,911,461	24,074,267	3.2%
Aviation Administration	188,090,075	186,903,130	187,015,023	111,893	0.1%
Subtotal	***$1,859,524,093***	***$1,871,900,699***	***$1,910,522,928***	***$38,622,229***	***2.1%***
Debt Service	**$248,347,697**	**$282,666,738**	**$309,911,986**	**$27,245,248**	**9.6%**
Local Highway User Grants	**$187,695,128**	**$194,304,256**	**$231,006,625**	**$36,702,369**	**18.9%**
Capital					
Secretary's Office	$33,678,447	$79,027,542	$90,178,487	$11,150,945	14.1%
WMATA	157,119,828	130,715,000	153,567,000	22,852,000	17.5%
State Highway Administration	1,166,922,309	1,402,838,000	1,566,650,051	163,812,051	11.7%
Port Administration	88,877,571	121,241,000	116,892,843	-4,348,157	-3.6%
Motor Vehicle Administration	20,620,351	23,240,000	29,593,692	6,353,692	27.3%
Maryland Transit Administration	434,285,426	439,357,000	675,273,203	235,916,203	53.7%
Aviation Administration	123,397,584	155,271,000	120,488,188	-34,782,812	-22.4%
Subtotal	***$2,024,901,516***	***$2,351,689,542***	***$2,752,643,464***	***$400,953,922***	***17.0%***
Total of All Funds					
Special Fund	$3,487,823,393	$3,831,755,225	$4,019,734,478	$187,979,253	4.9%
Federal Fund	831,688,192	867,906,010	1,183,450,525	315,544,515	36.4%
Reimbursable Fund	956,849	900,000	900,000	0	0.0%
Grand Total	**$4,320,468,434**	**$4,700,561,235**	**$5,204,085,003**	**$503,523,768**	**10.7%**

WMATA: Washington Metropolitan Area Transit Authority

[1] Includes deficiencies.
[2] Adjusted to reflect reductions made to health insurance funding in Section 19 of the budget bill.

Note: Capital grants to local governments have been added to the Local Highway User Grants line and subtracted from the capital line for the Secretary's Office.

Source: Maryland State Budget

Operating Budget Analysis

MDOT's operating allowance includes expenditures for each of the modes, as well as debt service and local aid through HURs. The fiscal 2017 allowance totals almost $2.5 billion, an increase of $102.6 million compared to the fiscal 2016 working appropriation. Almost 80% of the operating allowance is used for the operating budgets of each of the modes.

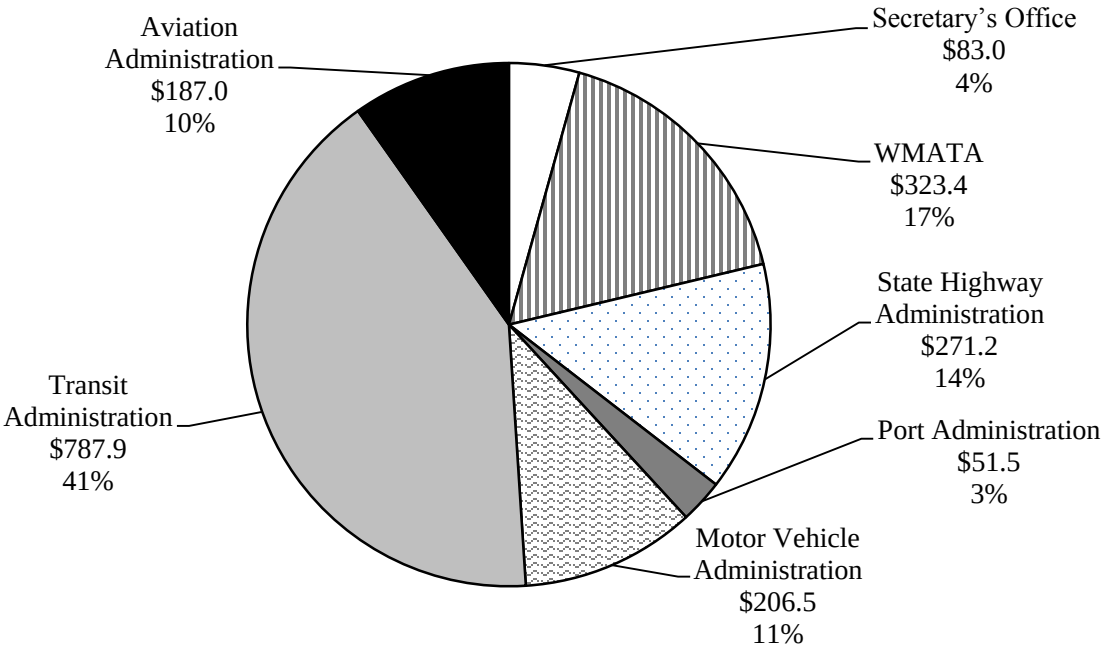
Fiscal 2017 Proposed Budget

Operating Programs

The fiscal 2017 allowance for the modal operating budgets, adjusted to reflect the back of the bill reductions for health insurance, totals $1.9 billion, an increase of $38.6 million, or 2.1%, over the fiscal 2016 working appropriation. The largest increase in dollar terms is for MTA, which increases $24.1 million, or 3.2%. Other large increases occur in the Maryland State Highway Administration (SHA) ($9.2 million or 3.5%), and the Washington Metropolitan Area Transit Authority (WMATA) ($3.0 million or 0.9%). The factors leading to these increases will be discussed in the budget analysis for each of the modes.

Exhibit 8 shows fiscal 2017 operating budget allowances by mode and provides the percentage of total operating spending that the budget for each mode represents. Combined MTA and WMATA transit spending represents the largest share of the MDOT operating budget, at 58.2%.

Exhibit 8
Fiscal 2017 Operating Budget Allowance by Mode
Total Spending: $1.9 Billion
($ in Millions)



WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland State Budget Books, Fiscal 2017, Volume 1

Back of the Bill Reductions

Section 19 of the fiscal 2017 budget bill makes reductions to remove overbudgeted amounts for health insurance subsidies. This section reduces the MDOT budget by $1.8 million.

Employee Salary Increments

As indicated earlier, funds for salary step increases are budgeted in DBM and will be distributed to agencies via budget amendment. For MDOT, this distribution will comprise $6,932,086 in special funds and $627,941 in federal funds for a total of $7,560,027.

Personnel

As shown in **Exhibit 9**, the fiscal 2017 allowance contains 9,258.5 regular positions that is 173.0 more than in the fiscal 2016 working appropriation. Contractual full-time equivalents remain

unchanged at 40.7 between fiscal 2016 and 2017. New positions are being added in SHA (27.0) due to the increased capital program, in MVA (17.0) to convert the Highway Safety function from a contract with the University of Baltimore to an in-house operation, and in MTA (129.0) as part of the BaltimoreLink transit initiative.

Exhibit 9
Regular and Contractual Full-time Equivalents
Operating and Capital Programs
Fiscal 2015-2017

	2015	Working 2016	Allowance 2017	Change 2016-17	% Change 2016-17
Regular Positions					
Secretary's Office	298.5	299.5	299.5	0.0	0.0%
State Highway Administration	3,036.5	3,036.5	3,063.5	27.0	0.9%
Port Administration	219.0	219.0	219.0	0.0	0.0%
Motor Vehicle Administration	1,712.5	1,712.5	1,729.5	17.0	1.0%
Transit Administration	3,318.5	3,317.5	3,446.5	129.0	3.9%
Aviation Administration	500.5	500.5	500.5	0.0	0.0%
Subtotal	***9,085.5***	***9,085.5***	***9,258.5***	***173.0***	***1.9%***
Contractual Positions					
Secretary's Office	6.0	6.0	6.0	0.0	0.0%
State Highway Administration	17.0	17.0	17.0	0.0	0.0%
Port Administration	0.7	1.2	1.2	0.0	0.0%
Motor Vehicle Administration	0.0	0.0	0.0	0.0	n/a
Transit Administration	16.0	16.0	16.0	0.0	0.0%
Aviation Administration	0.5	0.5	0.5	0.0	0.0%
Subtotal	***40.2***	***40.7***	***40.7***	***0.0***	***0.0%***

Source: Department of Budget and Management

Debt Service

The fiscal 2017 allowance for debt service payments is $309.9 million, an increase of $27.2 million, or 9.6%, from the fiscal 2016 working appropriation. The increase is the result of established debt service schedules for previously issued bonds and the planned issuance of $685.0 million in new debt in fiscal 2017.

At the end of fiscal 2017, CTB debt outstanding is expected to total $2.8 billion, which remains below the statutory cap of $4.5 billion. The MDOT forecast indicates that bond coverage ratios will be adequate throughout the forecast period.

Local Highway User Revenues

HUR are derived from a portion of tax and fee revenues that are deposited into the GMVRA and subsequently distributed among the TTF, Baltimore City, counties, and municipalities. The local share of HUR in fiscal 2017 is $177.4 million, a $1.1 million increase over fiscal 2016. In addition to the HUR distribution, local governments received a $25.0 million capital grant in fiscal 2016, and the fiscal 2017 allowance contains a capital grant of $53.6 million. The combined HUR and capital grant amount in fiscal 2017 equals 12.5% of estimated HUR revenues.

Exhibit 10 provides a summary of HUR and local capital grant distributions for fiscal 2016 and 2017.

Exhibit 10
Distribution of Highway User Revenues and Local Transportation Capital Grants
Fiscal 2016-2017

	Percent Share	Fiscal 2016	Fiscal 2017
Highway User Revenues			
MDOT	90.4%	$1,660,577,488	$1,670,639,912
Local Share	9.6%	176,344,512	177,413,088
Total HUR	**100.0%**	**$1,836,922,000**	**$1,848,053,000**
HUR Local Distribution			
Baltimore City	7.7%	$141,442,994	$142,300,081
Counties	1.5%	27,553,830	27,720,795
Municipalities	0.4%	7,347,688	7,392,212
Total	**9.6%**	**$176,344,512**	**$177,413,088**
Local Transportation Capital Grants			
Baltimore City		$2,000,000	$5,544,159
Counties		4,000,000	27,720,795
Municipalities		19,000,000	20,328,583
Total		**$25,000,000**	**$53,593,537**
Total Local HUR and Capital Grants		**$201,344,512**	**$231,006,625**

MDOT: Maryland Department of Transportation
HUR: Highway User Revenues

Source: Maryland State Budget Books, Fiscal 2017, Volume 1

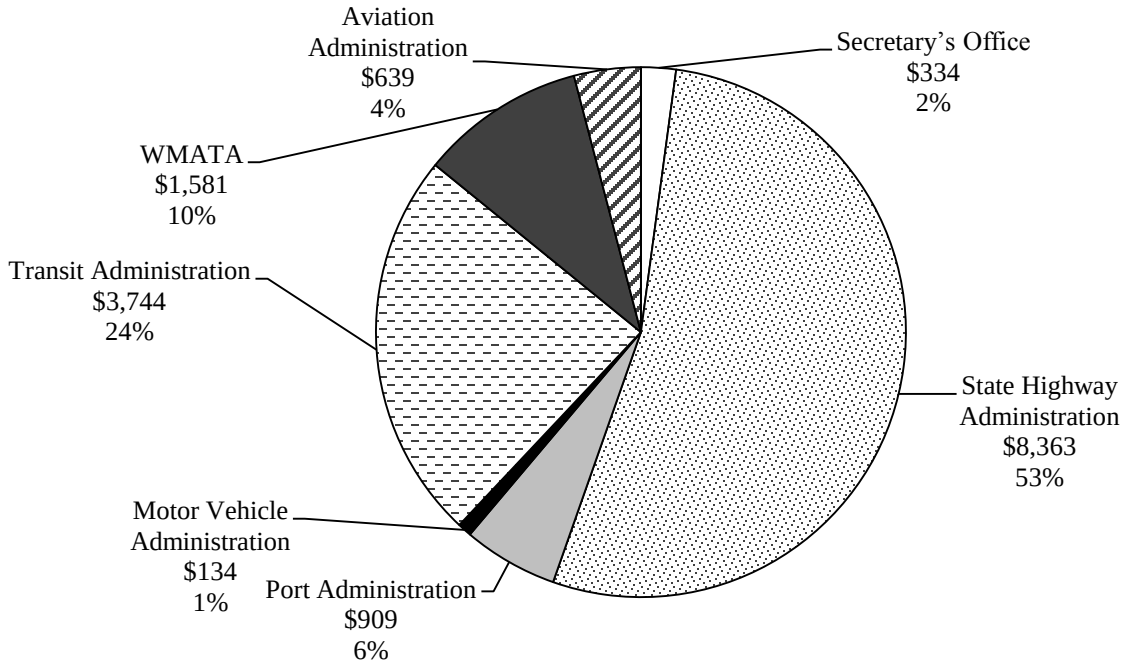
PAYGO Capital Budget Analysis

The *Consolidated Transportation Program* (CTP) is issued annually and is posted on the MDOT website. The CTP provides a description of major projects proposed by MDOT for development and evaluation or construction over the next six-year period.

Fiscal 2016 through 2021 CTP

The fiscal 2016 through 2021 CTP totals $15.7 billion for projects supported by State, federal, and other funds. This is a decrease of approximately $137.0 million from the fiscal 2015 through 2020 CTP. **Exhibit 11** shows the funding level for each mode over the current six-year period. SHA accounts for over half the capital program, at 53%. Transit, including MTA and WMATA, accounts for 34% of spending.

Exhibit 11
Proposed Six-year Capital Funding by Mode
Fiscal 2016-2021
($ in Millions)



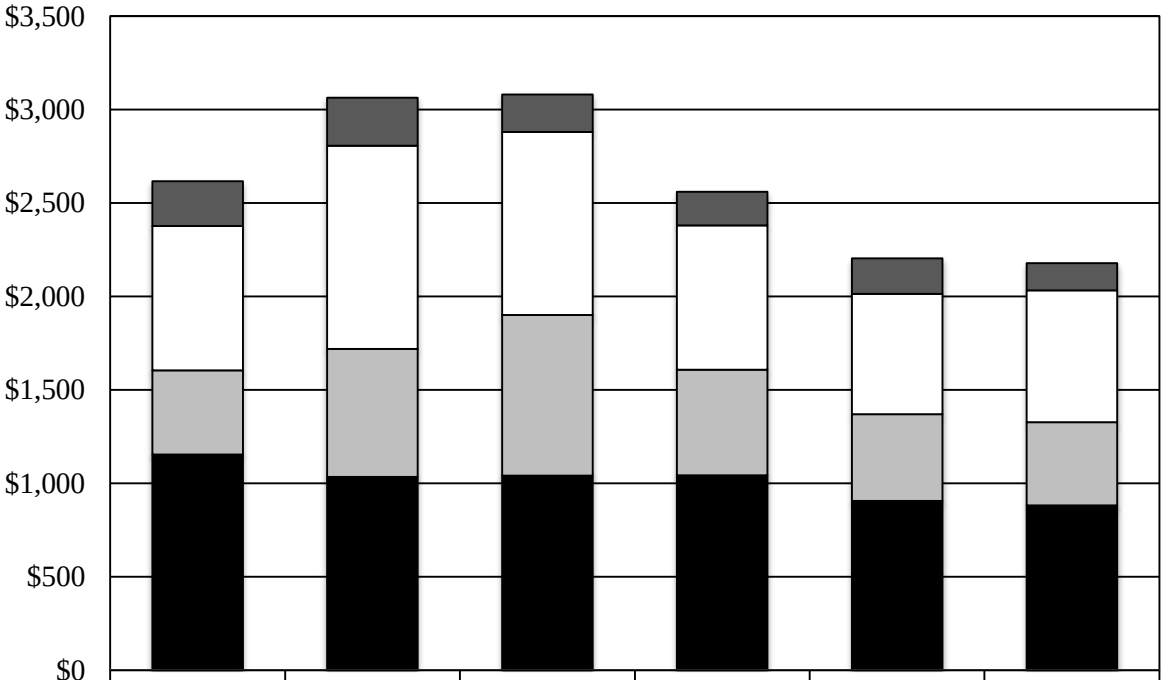
Total Spending: $15.7 Billion

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland State Budget Books, Fiscal 2017, Volume 1

Exhibit 12 shows the level of special, federal, and other funds for each year of the capital program. Special funds, including bond funds, make up the largest share of the capital program at 60.7%. Federal funds comprise the next largest funding source at 31.6%.

Exhibit 12
Proposed Capital Funding by Year and Source
Fiscal 2016-2021
($ in Millions)



	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Other	$240.4	$256.8	$201.0	$180.0	$189.4	$146.2
Federal Funds	771.4	1,086.2	978.3	771.2	644.1	705.5
Bond Funds	450.0	685.0	860.0	565.0	465.0	445.0
Special Funds	1,155.3	1,035.6	1,042.3	1,044.0	905.9	882.4

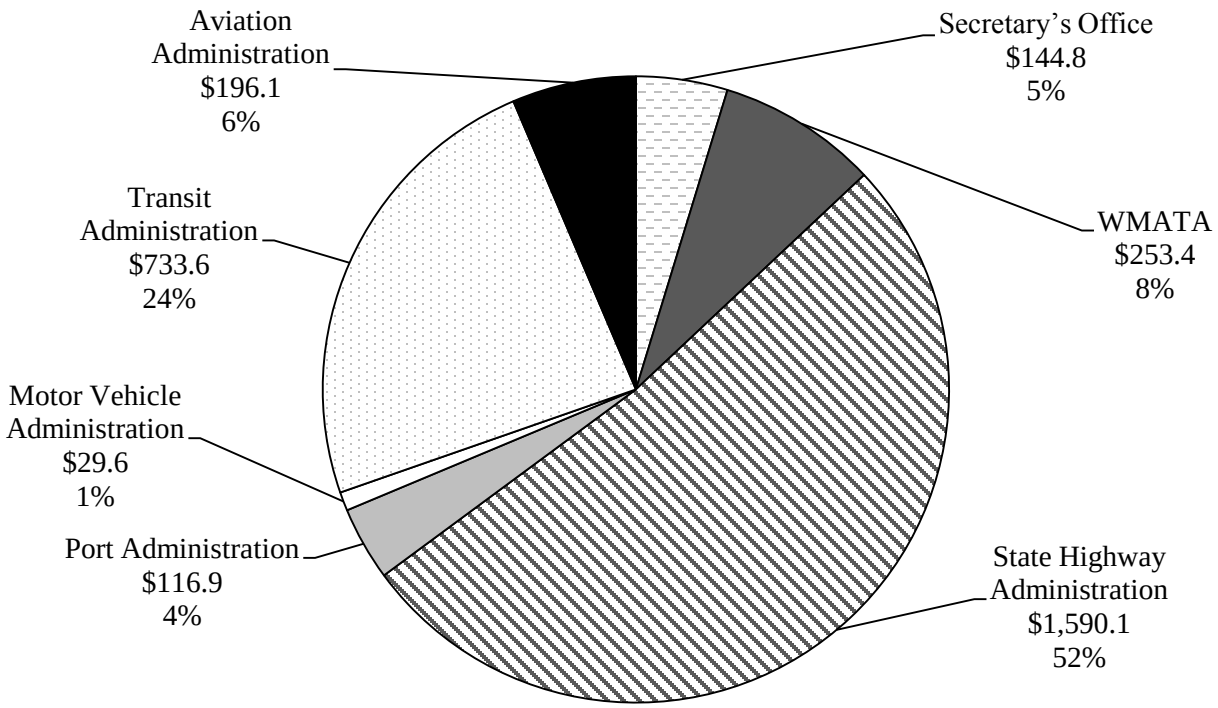
Source: Maryland Department of Transportation, *2016-2021 Consolidated Transportation Program*

Fiscal 2017 Capital Budget

Exhibit 13 shows the MDOT fiscal 2017 capital budget by mode. Including other funds that do not flow through the MDOT budget, the fiscal 2017 capital spending is projected at just under $3.1 billion representing an increase of $448.6 million, or 17.1%, increase over planned capital

spending for the current year. Federal funds increase by almost $315.0 million (40.8%), while special and other funds increase by $115.3 million (7.2%) and $18.4 million (7.7%) respectively.

Exhibit 13
Fiscal 2017 Capital Funding by Mode
($ in Millions)



Total Spending: $3.1 Billion

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, *2016-2021 Consolidated Transportation Program*

Other Funds

The 2016 through 2021 CTP includes $257.8 million in other funds for fiscal 2017 as shown in **Exhibit 14**. This funding comprises passenger facility charges and customer facility charges for projects at the Baltimore/Washington International Thurgood Marshall Airport and county participation in projects for MTA and SHA.

Exhibit 14
Fiscal 2017 Other Funds
($ in Thousands)

Project	Other Source	2017 Funding
Runway Safety Area/Pavement Management Program	Passenger Facility Charges	$27,854
D/E Concourses Connector	Passenger Facility Charges	33,329
Consolidated Rental Car Facility	Customer Facility Charges	2,739
Loading Bridge Replacement Program	Passenger Facility Charges	4,091
Concourse B Ticket Counters	Passenger Facility Charges	7,000
Permanent Noise Monitoring System Replacement	Passenger Facility Charges	578
Subtotal – Maryland Aviation Administration Other Funds		***$75,591***
Purple Line	Montgomery/Prince George's	$16,600
Purple Line Associated Projects	Montgomery County	40,728
LOTS Elderly and Disabled Nonprofit Services	Local Governments	945
LOTS Baltimore City Harbor Connector	Baltimore City	17
LOTS Transportation Development Plan	Local Governments	49
Subtotal – Maryland Transit Administration Other Funds		***$58,339***
Canton Railroad Grant	Canton Railroad Company	$987
Subtotal – The Secretary's Office Other Funds		***$987***
WMATA Federal Funding	Federal Government	$99,870
Subtotal – WMATA Other Funds		***$99,870***
MD 140 Reisterstown Road, Garrison View	Baltimore	$2,653
US 40, South Philadelphia Boulevard	Harford	983
MD 97 Georgia Avenue, 16th Street	Montgomery	287
MD 586 Multi-Modal Transit Study	Montgomery	1,480
MD 355 Rockville Pike Maple Avenue	Montgomery	5,509
MD 97 Brookeville Bypass	Montgomery	1,950
MD 5 Branch Avenue, MD 373, and Brandywine	WSSC	1,832
War of 1812 Archaeological/Historical Study in Bladensburg	National Park service	2
I-81, Maryland Veterans Memorial Highway	West Virginia	8,297
Subtotal – State Highway Administration Other Funds		***$22,993***
Total – Other Funds		**$257,780**

LOTS: locally operated transit systems
WMATA: Washington Metropolitan Area Transit Authority
WSSC: Washington Suburban Sanitary Commission

Source: Maryland Department of Transportation

Issues

1. Long-term Federal Surface Transportation Reauthorization Passed

On December 4, 2015, President Barack H. Obama signed the Fixing America's Surface Transportation Act of 2015 (FAST Act) providing federal funding levels for surface transportation programs for federal fiscal 2016 through 2020 and transferring $70.0 billion in federal general funds and $0.3 billion in the Leaking Underground Storage Tank (LUST) program funds into the Highway Trust Fund (HTF) to ensure its solvency through federal fiscal 2020. This is the first reauthorization bill in over 10 years that provides long-term funding certainty for states.

Highway Funding

The FAST Act provides for an average annual increase in highway funding of 2.8% from federal fiscal 2015 through 2020. Maryland's apportionment will increase by approximately 5.1% to $609.6 million in federal fiscal 2016, from the current $580.0 million. Funding then increases by just over 2.0% per year, with Maryland scheduled to receive $665.5 million in the final fiscal year under the Act. MDOT projects that SHA will receive an increase of nearly $208.0 million over the six-year authorization period.

New Highway Programs – Freight

The FAST Act creates two new programs to help state and local governments plan and fund freight mobility projects:

- **National Highway Freight Program** – A new formula freight program to provide funding to states for freight projects on the National Highway Freight Network (NHFN). States with over 2% of the total mileage on the NHFN must spend certain proportions of their funding within certain corridors. States with less than 2% (Maryland included) can spend their apportionments on any part of the NHFN within the state. Maryland is scheduled to receive $17.4 million in funding in federal fiscal 2016, increasing to $22.8 million by federal fiscal 2020.

- **Nationally Significant Freight and Highway Projects** – A new discretionary grant program for the Secretary of the U.S. Department of Transportation to select projects of national or regional significance. Applicants can be states or groups of states, Metropolitan Planning Organizations, municipal governments, special purpose districts, federal land agencies, Indian tribes, or combinations thereof. Projects must be highway freight projects on the NHFN with a total project cost that exceeds $100 million (with 10% of funding reserved for projects below $100 million). The FAST Act provides $800 million for this program in federal fiscal 2016 with $50 million increases each year through federal fiscal 2020.

Transit Funding

Maryland's share of formula funding will be $240.1 million in federal fiscal 2016, and will grow at an average annual rate of 2.2% over the five-year authorization period ending at an apportionment of $256.6 million in federal fiscal 2020. Transit programs remain largely unchanged under the FAST Act although the Act reinstates the Bus and Bus Facility discretionary funding program with a five-year authorization of $1.5 billion. MDOT indicates that all transit funding in Maryland is expected to increase by approximately $25.0 million over the six-year authorization period to support both State-run and locally operated transit systems.

Federal Highway Trust Fund Status

As indicated above, general fund and LUST program balance transfers totaling $70.3 billion are made in the FAST Act, bringing the total general fund transfers since federal fiscal 2008 to $139.9 billion and total LUST program transfers to $3.7 billion. The funding offsets or "pay fors" in the FAST Act are unrelated to transportation and do nothing to address the structural imbalance between ongoing HTF revenues, provided largely through the 18.4 cent federal gas tax, and ongoing spending. The largest funding offset is a $53.3 billion transfer from the Federal Reserve surplus account funded through payments by Federal Reserve member banks. This will make the next surface transportation reauthorization process more difficult because the purchasing power of the federal gas tax will have been eroded by an additional five years.

MDOT should comment on how the funding certainty provided by the FAST Act will affect capital planning, how it intends to utilize NHFP formula funding, and if and for which project(s) it intends to seek funding under the new Nationally Significant Freight and Highway Projects discretionary grants program.

2. Scoring System for Transportation Capital Project Selection Could Ensure Greater Focus on Economic Benefits

Background

The amount of funding that would be needed for all desired transportation projects that meet the eligibility requirements set forth in statute is far in excess of available funding. The CTP aligns transportation capital spending with the estimated resources that will be available over the six-year forecast period. MDOT and ultimately the Governor, has wide latitude in deciding which projects to include in the CTP and which to defer. A change in Administrations can lead to very different funding decisions as has been demonstrated with the shift away from mass transit and toward road and highway funding announced by the current Administration.

Current statutory requirements related to adding projects to the CTP require that each project:

- support local government land use plans and goals; and

- address State transportation goals as identified in the State's long-range transportation planning document – the Maryland Transportation Plan.

Statutory requirements do not, however, ensure that the funded projects will generate the greatest return on investment in terms of easing congestion and stimulating economic growth. What is lacking in the CTP development process is a scoring system that would help identify the projects that should receive the highest funding priority.

Balancing Transportation-related Economic Challenges

While most transportation capital projects can be said to support economic activity, some projects have tremendous potential in this respect while others are much more limited. Two examples help illustrate this point. First, the Port of Baltimore, one of Maryland's largest economic engines, is hampered by the inability to double-stack shipping containers on railcars because the antiquated Howard Street tunnel is not big enough. The inability to double-stack containers impedes Maryland's ability to compete for shipping business. Second, continued development of the Great Seneca Science Corridor, a major high-tech employment center planned in Montgomery County, is dependent on progress in construction of the Corridor Cities Transitway, which is designed to ensure adequate transit access and help alleviate and prevent unacceptable levels of road congestion in the I-270 corridor.

Maryland's economy would be greatly improved by replacing the Howard Street Tunnel and by constructing the Corridor Cities Transitway. The cost for each of these projects is large. However, if all projects were evaluated and ranked based on a cost-benefit basis for inclusion in the CTP, these two projects would likely be highly ranked and funded sooner than currently planned.

Priority Setting Processes – Other States

North Carolina, Virginia, and Washington have all enacted laws establishing project priority setting processes to more effectively guide transportation investment decisions and increase transparency in how projects are selected for funding. A key component of these processes is the use of a cost-benefit analysis approach to determine which investments will yield the greatest economic and other desired outcomes.

Conclusion

Despite the transportation revenue increases passed in 2013, Maryland's ability to fund its transportation capital program falls well short of identified needs. This makes it important that the projects that are funded yield the greatest benefit possible. Developing a data-driven, cost-benefit approach to project selection would help ensure that outcome. **The committees may wish to consider legislation modifying the project selection process to give greater emphasis on economic outcomes. The Secretary should comment on how the greater emphasis on economic outcomes could be incorporated in development of the CTP.**

Recommended Actions

1. Add the following language:

Provided that it is the intent of the General Assembly that projects and funding levels appropriated for capital projects, as well as total estimated project costs within the Consolidated Transportation Program, shall be expended in accordance with the plan approved during the legislative session. The department shall prepare a report to notify the budget committees of the proposed changes in the event that the department modifies the program to:

(1) add a new project to the construction program or development and evaluation program meeting the definition of a "major project" under Section 2-103.1 of the Transportation Article that was not previously contained within a plan reviewed in a prior year by the General Assembly and will result in the need to expend funds in the current budget year; or

(2) change the scope of a project in the construction program or development and evaluation program meeting the definition of a "major project" under Section 2-103.1 of the Transportation Article that will result in an increase of more than 10% or $1,000,000, whichever is greater, in the total project costs as reviewed by the General Assembly during a prior session.

For each change, the report shall identify the project title, justification for adding the new project or modifying the scope of the existing project, current year funding levels, and the total project cost as approved by the General Assembly during the prior session compared with the proposed current year funding and total project cost estimate resulting from the project addition or change in scope.

Further provided that notification of project additions, as outlined in paragraph (1) above; changes in the scope of a project, as outlined in paragraph (2) above; or moving projects from the development and evaluation program to the construction program, shall be made to the General Assembly 45 days prior to the expenditure of funds or the submission of any contract for approval to the Board of Public Works.

Explanation: This annual budget bill language requires the department to notify the budget committees of proposed changes to the transportation capital program that will add a new project that was not in the fiscal 2016 through 2021 *Consolidated Transportation Program* (CTP) or will increase a total project's cost by more than 10%, or $1 million, due to a change in scope. Reports are to be submitted with the draft and final versions of the CTP, with each using the 2016 session CTP as the basis for comparison. In addition, notification is required as needed throughout the budget year, if certain changes to projects are made.

Information Request	Authors	Due Date
Capital budget changes from one CTP version to the next	Maryland Department of Transportation	With draft CTP With final CTP
Capital budget changes throughout the year	Maryland Department of Transportation	45 days prior to the expenditure of funds or seeking Board of Public Works approval

2. Add the following language:

The Maryland Department of Transportation (MDOT) may not expend funds on any job or position of employment approved in this budget in excess of x,xxx.x positions and xx.x contractual full-time equivalents paid through special payments payroll (defined as the quotient of the sum of the hours worked by all such employees in the fiscal year divided by 2,080 hours) of the total authorized amount established in the budget for MDOT at any one time during fiscal 2017. The level of contractual full-time equivalents may be exceeded only if MDOT notifies the budget committees of the need and justification for additional contractual personnel due to:

(1) business growth at the Helen Delich Bentley Port of Baltimore or Baltimore/Washington International Thurgood Marshall Airport, which demands additional personnel; or

(2) emergency needs that must be met, such as transit security or highway maintenance.

The Secretary shall use the authority under Sections 2-101 and 2-102 of the Transportation Article to implement this provision. However, any authorized job or position to be filled above the regular position ceiling approved by the Board of Public Works shall count against the Rule of xx imposed by the General Assembly. The establishment of new jobs or positions of employment not authorized in the fiscal 2017 budget shall be subject to Section 7-236 of the State Finance and Procurement Article and the Rule of xx.

Explanation: This annual budget bill language establishes a position ceiling for MDOT each year to limit growth in regular positions and contractual full-time equivalents.

Information Request	Author	Due Date
Need for additional regular or contractual positions	MDOT	As needed

3. Adopt the following narrative:

Truth in Forecasting: The committees are concerned that the 2.99% average annual increase in departmental operating expenses that the Maryland Department of Transportation (MDOT) used in its fiscal 2016 through 2021 Transportation Trust Fund (TTF) forecast understates the amount of operating expenses likely to be incurred over the forecast period and, as a consequent, leads to an overestimate of the level of funding that will be available during the forecast period to support the capital program. The committees note that in past 24 years that the 5-year average annual increase in departmental operating expenses has only dipped three times below 3.00% and those instances covered the years of the Great Recession. It is therefore the intent of the committees that the out-year estimates of departmental operating expenses that MDOT incorporates in TTF forecasts be inflated, at a minimum, by a rate equal to the 5-year average annual increase in operating expenses experienced during the period ending with the most recently completed fiscal year.

J00A01
The Secretary's Office
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$67,373	$74,144	$74,151	$7	
Deficiencies and Reductions	0	0	-90	-90	
Adjusted Special Fund	**$67,373**	**$74,144**	**$74,061**	**-$84**	**-0.1%**
Federal Fund	7,966	8,906	8,906	0	
Adjusted Federal Fund	**$7,966**	**$8,906**	**$8,906**	**$0**	**0.0%**
Adjusted Grand Total	**$75,339**	**$83,051**	**$82,967**	**-$84**	**-0.1%**

- The fiscal 2017 allowance is $84,000 less than the current year working appropriation, a decrease of 0.1%.
- Section 19 reduces special funds for health insurance for the Secretary's Office (TSO) by $90,345.

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2015	Fiscal 2016		Fiscal 2017
	Actual	Legislative	Working	Allowance
Special	$46,389	$73,456	$77,108	$92,223
Federal	3,289	38,807	26,920	51,554
Total	**$49,678**	**$112,263**	**$104,028**	**$143,777**

Note: Numbers may not sum to total due to rounding.

For further information contact: Steven D. McCulloch Phone: (410) 946-5530

- The fiscal 2016 working appropriation is $8.2 million lower than the legislative appropriation. Some of the largest changes include:
    - reductions for development and evaluation of the Baltimore and Potomac Tunnel (-$7.8 million) and the Susquehanna River Bridge (-$3.0 million);
    - a reduction in the construction program to the Virginia Manor Road Relocation project (-$2.2 million); and
    - an increase in funding for system preservation and minor projects funding ($4.8 million).
- The fiscal 2017 allowance increases $39.7 million over the current year working appropriation. Some of the larger changes include:
    - an increase in system preservation and minor project funding ($21.6 million);
    - an increase for development and evaluation of the Baltimore and Potomac Tunnel ($20.1 million) and the Susquehanna River Bridge ($3.8 million); and
    - removal of funding from the construction program for the Virginia Manor Road Relocated project due to completion of this phase of the project (-$3.8 million).

Operating and PAYGO Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Operating Budget Positions	282.50	283.50	283.50	0.00
Regular PAYGO Budget Positions	16.00	16.00	16.00	0.00
Total Regular Positions	**298.50**	**299.50**	**299.50**	**0.00**
Operating Budget FTEs	5.00	5.00	6.00	1.00
PAYGO Budget FTEs	1.00	1.00	0.00	-1.00
Total FTEs	**6.00**	**6.00**	**6.00**	**0.00**
Total Personnel	**304.50**	**305.50**	**305.50**	**0.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		17.97	6.00%	
Positions and Percentage Vacant as of 12/31/15		29.00	9.68%	

- The number of regular positions and contractual full-time equivalents (FTE) does not change between the fiscal 2016 working appropriation and the fiscal 2017 allowance although 1 FTE moves from the pay-as-you-go budget to the operating budget in fiscal 2017.

- As of January 1, 2016, there were 29 vacant positions for a vacancy rate of 9.68%. Budgeted turnover in the fiscal 2017 allowance is 6.0%, which will require that an average of almost 18 positions remain vacant the entire year.

Analysis in Brief

Major Trends

Productivity and Quality – Recruit and Retain Quality Employees: Although the departmentwide vacancy rate decreased in January 2016 compared to a year earlier, there were actually 8.5 fewer filled positions. The vacancy rate dropped because there were 98.0 fewer authorized positions on January 1, 2016, than a year earlier due to the loss of positions through the Voluntary Separation Program.

Preserve and Enhance the Transportation System: One of the goals of TSO is to maintain Maryland's transportation network in a state of good repair. As part of this effort, one objective for this goal is that the system preservation should be adequately funded at no less than $850 million. This goal has been achieved three time in the fiscal 2008 to 2015 period with projections that the goal will be met in both fiscal 2016 and 2017.

Issues

Local Transportation Capital Grants Proposed in Lieu of Changing Distribution Formula for Highway User Revenues: The decision by the Administration to increase transportation aid to local governments through capital grants in lieu of changing the Highway User Revenues (HUR) distribution formula in statute raises several issues. **To ensure adequate oversite by the General Assembly, it is recommended that language be added to the budget bill, making the appropriation of this local transportation aid contingent on enactment of legislation modifying the HUR formula and authorizing transfer of the appropriation to the operating program of the State Highway Administration to be distributed pursuant to changes made by that legislation.**

Paratransit Pilot Programs Ending – Evaluation to Follow: The final two pilot projects implemented in Montgomery and Prince George's counties to determine if alternative delivery models for paratransit services can improve service and reduce costs are scheduled to conclude by March 2016. **Committee narrative is included in the Recommended Actions section of this analysis requesting the Maryland Department of Transportation (MDOT) to report on its analysis of the pilot projects and whether it intends to implement any new service delivery model(s) for paratransit services as a result.**

Operating Budget Recommended Actions

1. Add annual budget bill language restricting operating grants-in-aid funding.

2. Adopt committee narrative requesting a report on the evaluation of paratransit pilot projects.

PAYGO Budget Recommended Actions

1. Add annual budget bill language limiting system preservation and minor project funding to the projects identified in the Consolidated Transportation Program.

2. Add budget bill language authorizing, contingent on enactment of legislation, the transfer for funds for local capital grants to the State Highway Administration for distribution through the Highway User Revenues formula.

Updates

Transit-oriented Development – Project Updates: The Office of Real Estate in TSO is responsible for disposing of excess land owned by MDOT as well as promoting development around transit stations. The Department of Legislative Services and MDOT developed an administrative process to provide for the reporting and oversight of transit-oriented development (TOD) projects. Pursuant to that process, MDOT submitted a report in September 2015 providing the status of TOD projects.

Budget Analysis

Program Description

The Secretary's Office (TSO) provides overall policy direction, management, and administrative support to the Maryland Department of Transportation (MDOT). Units within the office provide support in the areas of finance, procurement, engineering, audits, administrative services, planning and capital programming, human resources, and Minority Business Enterprise (MBE) certification. Executive staff support is also provided for management services, public affairs, the general counsel's office, and policy and governmental relations. Within TSO, the Office of Transportation Technology Services provides centralized computing, network, infrastructure, and general information technology services for MDOT. TSO also makes grants to various entities for transportation-related purposes.

Performance Analysis: Managing for Results

1. Productivity and Quality – Recruit and Retain Quality Employees

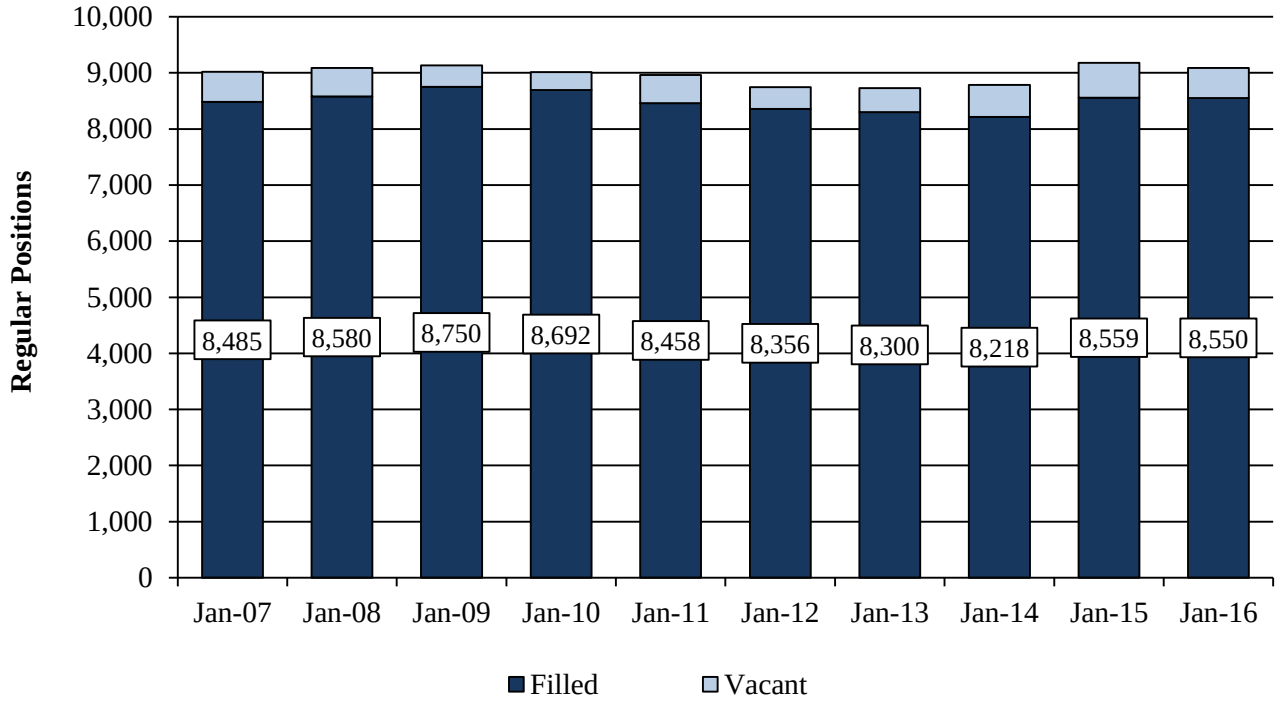
One of the MDOT departmentwide goals has been to recruit and retain quality employees. **Exhibit 1** shows the number of filled and vacant positions for all modes on January 1 of each year from 2007 to 2016. While the vacancy rate for the department decreased from 6.8% in January 2015 to 5.9% in January 2016, the actual number of filled positions fell by 8.5 over this period. The vacancy rate declined because there were 98.0 fewer authorized positions on January 1, 2016, than a year earlier due to the loss of positions through the Voluntary Separation Program.

2. Preserve and Enhance the Transportation System

Another TSO goal is to maintain Maryland's transportation network in a state of good repair. One objective for this goal is that system preservation should be adequately funded at no less than $850 million. As shown in **Exhibit 2**, this goal has been achieved three time in the fiscal 2008 to 2015 period with projections that the goal will be met in both fiscal 2016 and 2017.

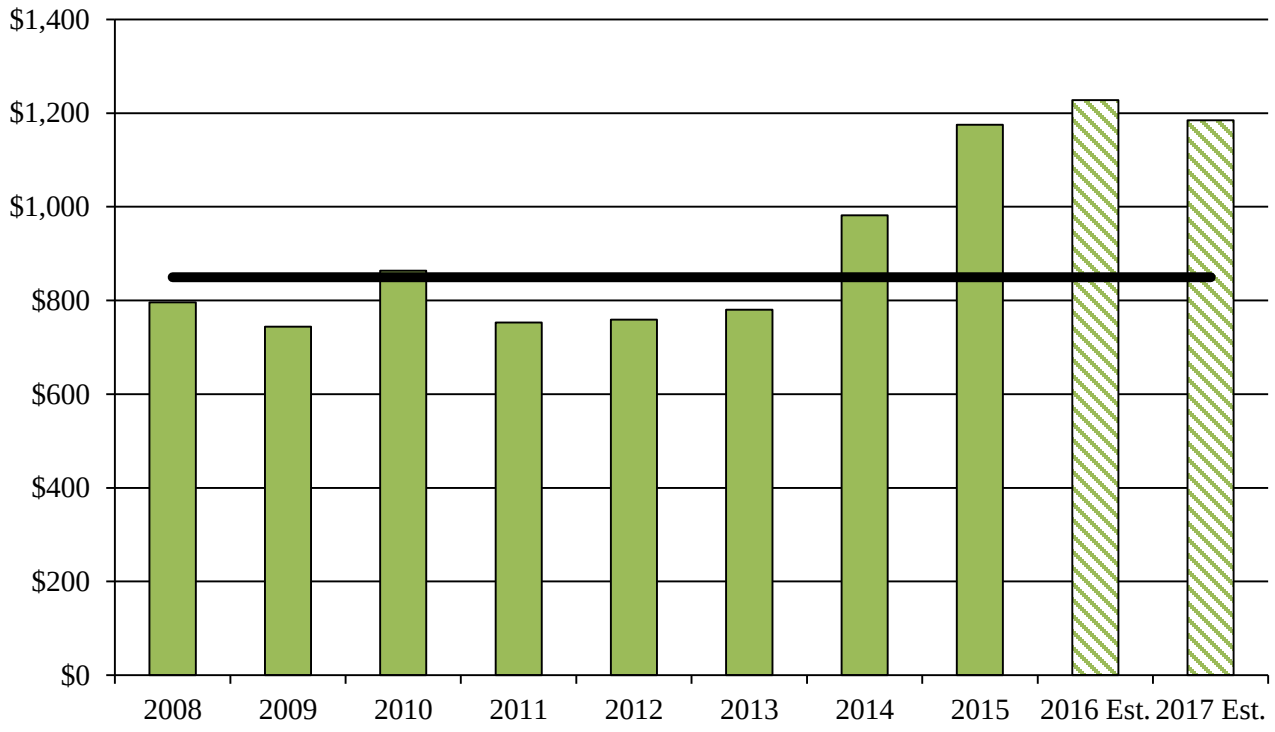
In the remaining years of the forecast period of the *Consolidated Transportation Program* (CTP), system preservation funding is projected at an average annual amount of $947 million, which is sufficient to meet the goal.

Exhibit 1
Departmentwide Filled and Vacant Positions
On January 1, 2007-2016



Source: Maryland Department of Transportation

Exhibit 2
System Preservation Funding
Fiscal 2008-2017 Est.
($ in Millions)



Source: Department Budget and Management

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2017 operating allowance for TSO decreases by a net $84,000 from the current year working appropriation. Increases in personnel expenses and cost allocation items are more than offset by decreases in departmental operating expenses and in the operating grants-in-aid program.

Exhibit 3
Proposed Budget
MDOT – The Secretary's Office
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2015 Actual	$67,373	$7,966	$75,339
Fiscal 2016 Working Appropriation	74,144	8,906	83,051
Fiscal 2017 Allowance	74,061	8,906	82,967
Fiscal 2016-2017 Amount Change	-$84	$0	-$84
Fiscal 2016-2017 Percent Change	-0.1%		-0.1%

Where It Goes:

Personnel Expenses	
Employee retirement system	$538
Employee and retiree health insurance	321
Accrued leave payouts	76
Workers' compensation premium assessment	46
Turnover adjustments	-234
Reset vacant positions to base	-469
Other fringe benefit adjustments	-3
Departmental Administration	
Applications software purchase	324
Headquarters facilities management contractual services	84
Telephone	61
Planning and capital programming contractual full-time equivalent (FTE)	45
Community service contractual services and materials	28
Educational grants	18
Information technology procurement contractual FTE increase	16
Legal, financial, and business publications subscriptions	8
Supplies	-4
Gasoline	-10
Cell phone expenditures	-11
Washington Suburban Transit Commission operations support (rent, staff, *etc.*)	-12
Rent	-27
Utilities	-55
Data processing training contracts	-58
Financial management information system maintenance contract	-135

Where It Goes:	
Attorney General's Office contract and civil litigation unit support	-142
Contractual support for IBM mainframe	-746
Cost Allocations	
Department of Budget and Management paid telecommunications	149
Retirement administrative fee	101
Department of Information Technology services allocation	98
Office of the Attorney General administrative fee	15
Insurance coverage paid to the State Treasurer's Office	3
Operating Grants-in-aid	
Baltimore City payment in lieu of taxes	-106
Other	-3
Total	**-$84**

MDOT: Maryland Department of Transportation

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $90,345 in special funds. There is an additional across-the-board reduction to abolish vacant positions statewide, but the amounts have not been allocated by agency.

Operating Grants-in-aid

Operating grants-in-aid decreased by $105,552 from the fiscal 2016 level. Net payments in lieu of taxes to Baltimore City decline by this amount due to the sale of Pier 1 and 6 – Clinton Street ($80,000); the expiration of the agreement for Hawkins Point ($27,318); partially offset by increases in the Point Breeze and North Locus Point payments ($1,104 and $662, respectively). **Exhibit 4** provides a summary of the operating grants-in-aid for fiscal 2017.

Exhibit 4
Recipients of Operating Grants-in-aid
Fiscal 2017

Grant Recipient	Special Funds	Federal Funds	Total Funds
Cumberland MPO	$9,584	$76,675	$86,259
Lexington Park MPO	11,373	90,978	102,351
Salisbury MPO	14,196	113,567	127,763
Hagerstown MPO	23,608	188,866	212,474
Baltimore MPO	565,887	4,527,095	5,092,982
Wilmington MPO	11,336	90,684	102,020
Washington MPO	477,318	3,818,544	4,295,862
Tri-county Planning Organization	50,000	0	50,000
Commerce (to Support the Appalachian Regional Commission)	155,000	0	155,000
Maryland Department of Planning	258,000	0	258,000
Payments in Lieu of Taxes	1,013,153	0	1,013,153
Baltimore City – Marine Fire Suppression Services	1,399,940	0	1,399,940
Total	**$3,989,395**	**$8,906,409**	**$12,895,804**

Commerce: Department of Commerce
MPO: Metropolitan Planning Organizations

Source: Maryland Department of Transportation

PAYGO Capital Program

Program Description

The TSO capital program has historically consisted of projects that support the preservation of the MDOT headquarters systems and air quality initiatives in the Baltimore/Washington metropolitan areas. TSO provides capital grants to public and private entities for transportation-related purposes.

Fiscal 2016 to 2021 *Consolidated Transportation Program*

The fiscal 2016 to 2021 capital program for TSO totals $334.0 million, a $53.3 million increase from the prior year's six-year capital program. An increase in funding for system preservation and minor projects of $62.2 million is partially offset by decreases in funding for major projects ($5.6 million), the development and evaluation program ($2.3 million), and capital salaries and wages ($1.0 million) over the six-year period.

Fiscal 2017 Capital Allowance

The fiscal 2017 allowance for the TSO capital program totals $144.7 million, an increase of $40.7 million over the current year working appropriation. **Exhibit 5** shows the fiscal 2017 capital for TSO, by project and program, along with estimated total project costs and six-year funding included in the CTP.

Exhibit 5
The Secretary's Office PAYGO Capital Allowance
Fiscal 2017
($ in Millions)

Jurisdiction	Project Description	2017	Total Cost	Six-year Total
Projects				
Statewide	D&E: New B&P Tunnel (HSIPR)	$38.7	$60.0	$57.3
Statewide	D&E: Susquehanna River Bridge Replacement (HSIPR)	10.8	22.0	17.8
Subtotal – Projects		***$49.6***	***$82.0***	***$75.2***
Programs				
Statewide	System Preservation and Minor Projects	$86.2	n/a	$194.1
Statewide	Transportation Emissions Reduction Program	3.8	n/a	24.0
Statewide	Bikeways Network Program	3.1	n/a	14.2
Statewide	Capital Salaries	2.0	n/a	12.1
Subtotal – Programs		***$95.1***		***$244.5***
Total – Projects and Programs		**$144.7**	**$82.0**	**$319.6**

B&P: Baltimore and Potomac
D&E: development and evaluation
HSIPR: High Speed Intercity Passenger Rail Program
PAYGO: pay-as-you-go

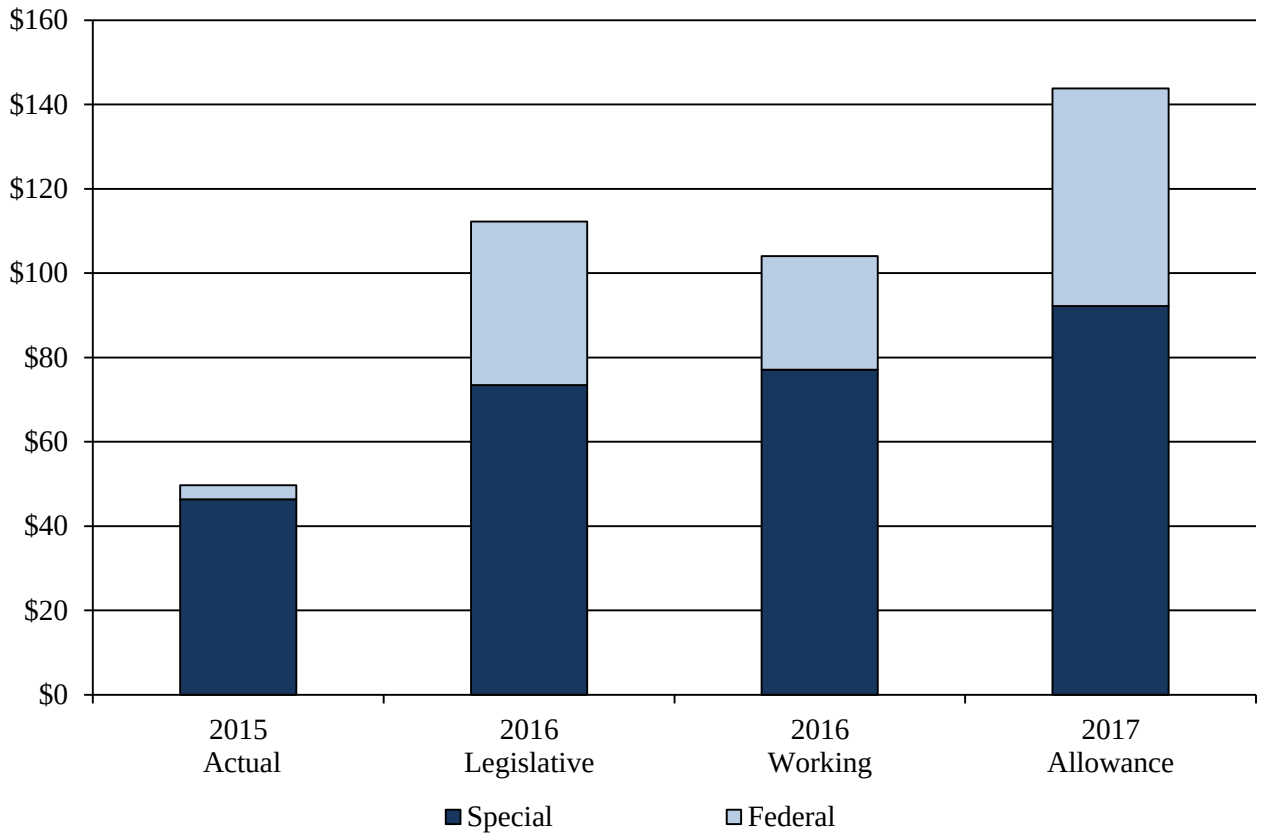
Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Fiscal 2016 and 2017 Cash Flow Analysis

Exhibit 6 shows the changes in TSO capital appropriations for fiscal 2015 through the fiscal 2017 allowance and includes both the fiscal 2016 legislative and working appropriations. The fiscal 2016 working appropriation of $104.0 million is $54.4 million higher than the actual level of capital spending in fiscal 2015 and $8.2 million lower than the fiscal 2016 legislative appropriation. The fiscal 2017 allowance is $39.7 million higher than the fiscal 2016 working appropriation.

Exhibit 6
Cash Flow Changes
Fiscal 2015-2017



Source: Maryland State Budget, Fiscal 2017

Cash Flow Analysis – Fiscal 2016 Changes

Exhibit 7 shows the changes between the fiscal 2016 legislative and working appropriations. Increased funding for system preservation and minor projects ($4.8 million) is more than offset by decreases in funding for major projects (-$3.1 million) and the development and evaluation program (-$10.8 million).

Exhibit 7
Cash Flow Changes
Fiscal 2016 Legislative to Working Appropriations
($ in Thousands)

Major Projects		**-$3,110**
Virginia Manor Road Relocated, Old Gunpowder Road to Ritz Road	-$2,221	
Bikeways Network Program	-629	
Transportation Emission Reduction Program	-260	
Development and Evaluation Projects		**-$10,783**
Susquehanna River Bridge (HSIPR)	-$3,000	
Baltimore and Potomac Tunnel (HSIPR)	-7,783	
System Preservation and Minor Projects		**$4,800**
Total Change		**-$9,093**

HSIPR: High Speed Intercity Passenger Rail

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Some of the larger changes in system preservation and minor projects between the legislative and working appropriations comprise:

- $9.0 million Grants to Local Governments (increase);
- $7.5 million Public-private Partnership (P3) Stipend Payments (new);
- $1.6 million Data Loss Prevention (new);
- $1.3 million Maryland Bike Share Program (new);

- -$1.4 million Gmail – Google Docs (removed);
- -$1.4 million State Personnel System (reduced);
- -$1.5 million Transit-oriented Development (TOD) Implementation Projects (reduced);
- -$1.5 million Mainframe Redundant Array of Independent Disks Replacement (removed);
- -$1.9 million MBE 2015 Disparity Study (reduced);
- -$2.5 million TOD State Center Grant (removed); and
- -$3.0 million Intermodal Rail Incentive Program (removed).

Cash Flow Analysis – Fiscal 2016 to 2017 Changes

Exhibit 8 shows the changes between the fiscal 2016 working appropriation and the fiscal 2017 allowance. Small reductions in funding for major projects (-$4.8 million) and capital salaries and wages (-$100,000) are more than offset by increases in funding for the development and evaluation program ($24.0 million) and system preservation and minor projects ($21.6 million).

Exhibit 8
Cash Flow Changes
Fiscal 2016 Working Appropriation to Fiscal 2017 Allowance
($ in Thousands)

Major Projects		**-$4,788**
Transportation Emission Reduction Program	-$220	
Bikeways Network Program	-763	
Virginia Manor Road Relocated, Old Gunpowder Road to Ritz Road	-3,805	
Development and Evaluation Projects		**$23,986**
Susquehanna River Bridge (High Speed Intercity Passenger Rail (HSIPR))	$3,846	
Baltimore and Potomac Tunnel (HSIPR)	20,140	
System Preservation and Minor Projects		**$21,600**
Capital Salaries and Wages		**-$100**
Total Change		**$40,698**

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Some of the larger changes in system preservation and minor projects between the working appropriation and the allowance comprise:

- $28.6 million Grants to Local Governments (increased);
- $3.7 million Canton Railroad Grant (new);
- $3.0 million Port of Baltimore Incentive Pilot Program (new);
- $2.9 million Department Information Technology Preservation and Improvement (new);
- $1.4 million Capital Program Management System Replacement (increased);
- -$1.0 million I-95/Forestville Road Improvement Grant (reduced);
- -$1.3 million Maryland Bike Share Program (removed);
- -$1.6 million Data Loss Prevention (removed);
- -$2.2 million Piscataway Drive Grant (removed); and
- -$7.5 million P3 Stipend Payments (removed).

Issues

1. Local Transportation Capital Grants Proposed in Lieu of Changing Distribution Formula for Highway User Revenues

The Governor has stated his goal on many occasions to phase in an increase in the share of Highway User Revenues (HUR) going to local governments from the current statutory level of 9.6% to 30.0% to match the level local governments had been receiving prior to the change in the local aid formula made in the 2010 session. Legislation submitted by the Administration during the 2015 session would have increased the share of HUR going to local governments in fiscal 2017 to 12.5% and increased the local share each year thereafter by 2.5 percentage points until it reached 30.0% in fiscal 2024, but it failed to pass. The fiscal 2017 budget, as introduced, provides $53.6 million for capital grants to local governments which, when combined with local HUR in the operating budget, is equal to 12.5% of total HUR. The MDOT six-year Transportation Trust Fund (TTF) forecast reserves the funding necessary to continue increasing aid going to local government, but the CTP does not include the funding beyond fiscal 2017.

Issues

Increasing transportation aid to local governments through capital grants rather than a change in the statutory formula raises several issues.

- **Lack of Transparency** – As a discretionary grant, the Administration will decide year to year whether or not to provide funding and how the funds will be distributed. Although the total amount planned for capital grants is indicated in the MDOT TTF forecast, the county/ municipal/Baltimore City split will not be known until the budget is introduced each year.

- **Limited Oversight of Spending** – Local governments are required to report annually to MDOT on how HUR funds are spent, and MDOT is required to submit an annual summary report on this spending to the General Assembly. Capital grants are not subject to the same requirements.

- **Inadequate Information in the CTP** – Despite the significant amount of funding to be distributed as capital grants, the CTP does not have a Project Information Sheet providing six-year information on the grant program. Instead, there is a single line in the TSO minor projects list indicating the amount for fiscal 2017. A grant program of this magnitude should have better documentation in the CTP.

- **TTF Resources Are Oversubscribed in the MDOT Forecast** – Many of the assumptions that MDOT used in constructing the fiscal 2016 to 2021 TTF forecast result in overly optimistic estimates of resources available for the capital program and for increases in local aid over the six-year period:

    - general fund support for Watershed Implementation Plan projects ($200 million);

- removal of revenue reserve as a hedge against revenue under attainment ($197 million); and

- understatement of departmental operating expenses ($300 million - $1.1 billion).

- **No Policy Input from the General Assembly** – The decision on the appropriate level of local transportation aid, and how such aid should be divided among the local jurisdictions, are policy considerations that are rightly the purview of the General Assembly.

To ensure adequate oversight by the General Assembly, it is recommended that language be added to the budget bill making the appropriation of this local transportation aid contingent on enactment of legislation modifying the HUR formula and authorizing transfer of the appropriation to the operating program of the State Highway Administration (SHA) to be distributed pursuant to changes made by that legislation. Suggested language is included in the Recommended Actions section of this analysis.

2. Paratransit Pilot Programs Ending – Evaluation to Follow

The Washington Metropolitan Area Transit Authority (WMATA), through its MetroAccess service, is required by law to provide transit services to people that are eligible for paratransit under the Americans with Disabilities Act (ADA). However, it is not well suited to serve every individual with disabilities in the Washington, DC metro area. Because of strict ADA regulations, MetroAccess must meet broad service requirements that create inefficiencies, limit the quality of service, and make operations extremely expensive. Maryland pays for MetroAccess services for its residents as part of the operating grant provided to WMATA each year. Beginning in fiscal 2014, WMATA and MDOT started pilot projects in Montgomery and Prince George's counties to see if better paratransit service could be provided to a subset of the MetroAccess client population at a lower cost. The last two of these pilots are scheduled to conclude in February and March of 2016. Upon conclusion, MDOT will evaluate the results and determine if the alternate service delivery methods used in the pilots could be employed on an ongoing basis. **Committee narrative is included in the Recommended Actions section of this analysis requesting MDOT to report on its analysis of the pilot projects and whether it intends to implement any new service delivery model(s) for paratransit services as a result.**

Operating Budget Recommended Actions

1. Add the following language to the special fund appropriation:

   , provided that no more than $3,989,395 of this appropriation may be expended for operating grants-in-aid, except for:

   (1) any additional special funds necessary to match unanticipated federal fund attainments; or

   (2) any proposed increase either to provide funds for a new grantee or to expand funds for an existing grantee.

   Further provided that no expenditures in excess of $3,989,395 may occur unless the department provides notification to the budget committees to justify the need for additional expenditures due to either item (1) or (2) above, and the committees provide review and comment or 45 days elapse from the date such notification is provided to the committees.

   Explanation: This annual language caps the level of special funds provided for operating grants-in-aid. The cap may be increased to match unanticipated federal dollars or to provide new or expanded grant funding upon notification to the budget committees.

Information Request	**Author**	**Due Date**
Explanation of need for additional special funds for operating grants-in-aid	Maryland Department of Transportation	45 days prior to expenditure

2. Adopt the following narrative:

   Coordinated Alternative to Paratransit Service Pilot Project Evaluation: The Maryland Department of Transportation (MDOT), in coordination with the Washington Metropolitan Area Transit Authority (WMATA) and various human service providers, has implemented a pilot project to test alternative service delivery models for customers of the WMATA MetroAccess paratransit services. The hope is that alternative transportation services can be provided at a lower cost for certain MetroAccess subset populations. The budget committees request that MDOT report the results of its evaluation of the pilot program including the service improvements realized and potential cost savings achieved. The report should also include a discussion of the broader paratransit policy challenges and what role, if any, a future alternative service could play in addressing the growth projections for MetroAccess services.

Information Request	Author	Due Date
Report on the evaluation of paratransit pilot projects	MDOT	December 1, 2016

PAYGO Budget Recommended Actions

1. Add the following language to the special fund appropriation:

   Further provided that no funds may be expended by the Secretary's Office for any system preservation or minor project with a total project cost in excess of $500,000 that is not currently included in the fiscal 2016-2021 Consolidated Transportation Program except as outlined below:

   (1) the Secretary shall notify the budget committees of any proposed system preservation or minor project with a total project cost in excess of $500,000, including the need and justification for the project, and its total cost; and

   (2) the budget committees shall have 45 days to review and comment on the proposed system preservation or minor project.

   Explanation: This language provides legislative oversight of grants exceeding $500,000 that are not listed in the current Consolidated Transportation Program.

Information Request	**Author**	**Due Date**
Notification of the intent to fund a capital grant exceeding $500,000 that is not listed in the current Consolidated Transportation Plan	Maryland Department of Transportation	45 days prior to expenditure

2. Add the following language to the special fund appropriation:

   Further provided that $53,593,537 of this appropriation made for the purpose of providing transportation grants to local governments may not be expended for that purpose but instead is authorized to be transferred by budget amendment to the operating program of the State Highway Administration program J00B01.05 County and Municipality Funds to be distributed as a portion of the local share of Highway User Revenues. This authorization to transfer funds is contingent upon the enactment of legislation increasing the local share of Highway User Revenues. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall be cancelled.

   Explanation: This language prohibits funds included for capital transportation grants to local governments from being expended for that purpose but authorizes the transfer to the State Highway Administration to be distributed to local governments contingent upon the enactment of legislation increasing the local share of Highway User Revenues. Enactment of legislation ensures that the policy issues related to local aid are considered by the General Assembly.

Updates

1. Transit-oriented Development – Project Updates

Background

The Office of Real Estate in TSO is responsible for disposing of excess land owned by MDOT as well as promoting development around transit stations. TOD projects are intended to create high density, livable, and walkable neighborhoods around transit stations. Chapter 122 of 2008 codified the department's TOD activities and allowed the Secretary to designate a TOD with other State agencies and local governments or multi-county agencies with land use and planning responsibility for the relevant area. The 2016 to 2021 CTP includes $985,000 in fiscal 2017 for TOD implementation.

Project Overview

The Department of Legislative Services and MDOT developed an administrative process to provide for the reporting and oversight of TOD projects. Pursuant to the agreed upon process, MDOT submits an annual report providing an update on active TOD projects. The September 2015 MDOT report highlighted a number of TOD projects. Following is a summary of those projects.

Projects at MDOT-owned Stations

- **Savage Maryland Area Regional Commuter Station:** MDOT sold a 9.2-acre portion of a 12.7-acre MDOT surface parking lot for mixed-use development. MDOT received $3.3 million for the land, and the developer has constructed a 696-space Maryland Area Regional Commuter (MARC) commuter parking garage on the MDOT-retained property. Private development will include 416 residential units, 17,000 square feet (sq. ft.) of retail space, 100,000 sq. ft. of office space, structured parking garages, and a 150-room hotel.

    - ***Expected Actions in Fiscal 2016:*** Beginning of construction of the first phase of private development.

- **Owings Mills Baltimore Metro Station:** In July 2005, the Board of Public Works (BPW) approved a development agreement that provided for the construction of a mixed-use development in several phases on 43 acres of MDOT-owned land adjacent to the metro station, which had been in use as surface parking. Under the agreement, the developer pays ground rent payments to MDOT, and the developer was also required to construct two parking garages, both of which have been completed and are in operation. MDOT contributed $15.1 million, and Baltimore County committed $13.1 million for the project. MDOT does not anticipate any additional State funding. The county completed the construction of a new community college facility and county library in 2013. In 2013 the developer also completed construction of phase 1 residential and retail buildings.

- ***Expected Actions in Fiscal 2016:*** Ongoing construction for the private component of the project.

- **State Center Complex:** State Center is a Planned Urban Development/TOD on 21.8 acres of land owned by the State in Baltimore City. A Master Development Agreement (MDA) approved by BPW in 2009 provides the framework for the development of the entire campus in phases, to include a mix of residential, office, and retail uses. Phase 1 of the project approved by BPW was to contain 630,000 sq. ft. of office space located in three buildings; 150 residential units; 95,000 sq. ft. of retail including a grocery anchor; and a 928-space underground parking garage. State tenant agencies were proposed to be the Department of Health and Mental Hygiene, the Department of Information Technology (DoIT), the Maryland Department of Planning, and the Maryland Transit Administration (MTA).

  The project was placed on hold in 2011 following a lawsuit filed by downtown business owners claiming, among other issues, that the project did not follow proper State procurement procedures. Following resolution of the lawsuit in early 2014 in favor of the State, project planning resumed on the project.

  In 2014, the developer sought approvals for changes to the Phase 1 program, which included eliminating 60,000 sq. ft. of retail space including the grocery anchor, eliminating 130 residential units, reducing the size of the garage to 580 spaces, and potentially adding a private school. The Department of General Services (DGS) and MDOT then began the process to consider these changes. In October 2014, MDOT provided notice of a change of scope of the garage project, as well as notice of the intent of DGS to present amendments to the MDA to BPW. The MDA amendment was not presented to BPW, and the developer has apparently reconsidered its desire to resize the garage. The project has not moved forward as the State awaits various deliverables from the developer.

  - ***Expected Actions in Fiscal 2016:*** Continuation of efforts to verify the Phase 1 Development Plan.

- **Odenton MARC Station:** A mixed-use project on 33 acres of MDOT parking lots and adjacent county-owned land is envisioned. A development team for the project was selected in September 2007 by MDOT and Anne Arundel County and given an exclusive negotiating privilege to pursue an MDA for a mixed-use TOD. Since then, the project has been in the pre-development phase with the parties exploring development concepts and project feasibility. The county council has approved $9.55 million in Tax-increment Financing (TIF), creation of an Area TIF District, and designation of the TOD District as the area within one-half mile of the Odenton MARC station. MDOT has also committed $9.55 million to match the county TIF to fund the shared commuter garage and related infrastructure. The parties are working to refine the project concept and the parking and financing plans for both the public and private development.

- ***Expected Actions in Fiscal 2016:*** Continued negotiations. The parties expect to execute an MDA in fiscal 2016.

- **Laurel MARC Station:** The TOD site consists of 4.9 acres of MDOT-owned surface parking lots. In 2009, MDOT issued a Request for Proposals (RFP) and selected a developer for an Exclusive Negotiating Privilege. MDOT is considering a $1.0 million contribution toward construction of a 258-space garage to be constructed to MTA standards. Laurel is considering a $4.0 million TIF to support the project.

  - ***Expected Actions in Fiscal 2016:*** Development on the MDA.

- **Reisterstown Plaza Metro:** The TOD site consisted of 35 acres of MDOT-owned surface parking lots and open space. MDOT negotiated an agreement with the federal General Services Administration (GSA) to dispose of an 11.3-acre portion of the site for the construction of a new Social Security Administration (SSA) office building. BPW approved the disposition of the land at its August 26, 2009 meeting. GSA entered into an agreement with a private developer who will own the property, construct a 538,000-sq. ft. rentable building and a 1,076-space parking garage on the property, and lease it back to the federal government for the use of SSA. Construction was completed in early 2014.

  - ***Expected Actions in Fiscal 2016:*** MDOT is considering the issuance of an RFP for development of remaining portions of the site. It is also evaluating the nearby Rodgers Avenue Metro Station for possible designation as a TOD and issuance of an RFP for development of that site.

- **Aberdeen:** The Aberdeen TOD area includes properties identified in the Aberdeen TOD Master Plan adopted by Aberdeen in 2012. The MDOT property holdings are limited in the area. Therefore, the MDOT focus has been on providing technical assistance. MDOT does not anticipate entering into a development agreement at Aberdeen.

  - ***Expected Actions in Fiscal 2016:*** The city and county expect to continue efforts to find developers for the area around the MARC station.

- **Westport Light Rail Station in Baltimore City:** This is a privately financed project, and MDOT does not own any significant property in the area. MDOT approved a $310,000 grant as a match to a $516,000 federal grant received by Baltimore City to provide support for pedestrian access improvements to the station. Those improvements have been completed.

  - ***Expected Actions in Fiscal 2016:*** No further action is anticipated.

- **White Flint Metro Station in Montgomery County:** In March 2012, the Montgomery County Executive and MDOT jointly designated the White Flint Metro Station as a TOD. The TOD area includes properties located within the Montgomery County White Flint Sector Plan that are also within one-half mile of the existing and planned entrances to White Flint Metro Station.

The White Flint Sector Plan is a land-use plan to increase density surrounding the White Flint Metro Station and increase the transit mode share of the area. On June 6, 2012, BPW approved the sale of 3.7 acres of excess State property for $23.5 million. MDOT received $2.2 million in funds from the sale and dedicated $21.3 million of the proceeds to fund construction of a parking garage at the North Bethesda Conference Center. The garage is under final design with construction start expected in early summer 2016. Negotiations with WMATA in the fiscal 2016 budget process resulted in an agreement for WMATA to provide three-minute headway service from White Flint to Shady Grove beginning in summer 2018. This will be double the current level of service and should make the White Flint site more attractive for development.

- ***Expected Actions in Fiscal 2016:*** On January 7, 2014, BPW approved the sale of approximately three acres of excess property owned by SHA in the TOD area to Montgomery County for a police/fire station and senior housing. Design work has begun on these facilities with construction start anticipated in fiscal 2020. Additionally, SHA is developing a traffic management plan for the White Flint Bicycle Pedestrian Priority Area that will identify improvements to bicycle and pedestrian safety access.

- **New Carrollton Metro Station:** During fiscal 2011, WMATA and MDOT approved an agreement to jointly issue a Request for Quotation to identify a team to plan and develop a TOD project on 23 acres of WMATA property and 16 acres of adjacent MTA-owned property at the New Carrollton Metro/MARC Station. A developer was selected in February 2011. WMATA executed a Joint Development Agreement (JDA) with the development team in December 2012 addressing the WMATA property. MDOT and the developer have suspended discussions on the terms and conditions of a MDA for the State-owned land, because the developer has determined that Phase I of the project will be located entirely on WMATA-owned property.

  - ***Expected Actions in Fiscal 2016:*** The JDA calls for closing on the first phase of the WMATA property by the end of calendar 2016 with construction to follow. MDOT and the developer will be discussing a form of agreement that will enable the developer to exhibit control of the State-owned property for potential Phase II development.

Projects at WMATA-owned Stations

The MDOT report also includes TOD projects at WMATA-owned stations. The following is an update of those projects in which MDOT is in a supporting role.

- **Greenbelt Metro Station:** TOD has been contemplated at the Greenbelt Metro Station for many years. In 2014, GSA announced that the site was one of three under consideration for a new 21,000,000 sq. ft. Federal Bureau of Investigation (FBI) headquarters. The site currently has a partial interchange from I-95/I-495. A full movement interchange has been identified as a need. This project has undergone SHA project planning in the past. This project is moved from the development and evaluation program to the construction program in the 2016 to 2021 CTP.

- ***Expected Actions in Fiscal 2016:*** MDOT will continue to advance infrastructure planning and funding strategies for the proposed FBI relocation. GSA is expected to release the RFP before the end of January. The RFP will be issued to up to five pre-selected development teams. Those teams will be bidding on developing the FBI consolidated Headquarters at one of the short-list sites: the Greenbelt Metro, the former Landover Mall and/or the GSA site near the Springfield Metro. The final decision by the developer and the selection of the site will be sometime prior to the end of 2016.

- **Branch Avenue Metro Station:** WMATA owns 33 acres at the WMATA Branch Avenue Metro Station. Recently, MDOT has been working with WMATA and Prince George's County to attract a federal office as an anchor tenant. The WMATA board of directors approved an addendum to a 2012 Memorandum of Understanding between WMATA and GSA to encourage GSA to locate federal agencies on WMATA-owned properties adjacent to Metro stations. This could result in the relocation of a large federal agency to this site. In May 2014, WMATA authorized a no-cost transfer of 3 acres of WMATA property at the station to SHA in order to enhance station access. That same month, SHA broke ground on a $47.0 million set of access improvements to the station scheduled to be substantially complete in fiscal 2017. On September 25, 2014, the Maryland Economic Development Corporation, in cooperation with MDOT, WMATA, and Prince George's County, submitted a response to a request for expressions of interest by GSA to provide development services for a 535,000 sq. ft. federal office building on the site.

  - ***Expected Actions in Fiscal 2016:*** MDOT anticipates that WMATA and the county will continue with predevelopment planning to support planned development.

- **Naylor Road Metro Station:** WMATA owns 10 acres of surface parking at the Naylor Road Metro Station, and TOD predevelopment activities are underway for the WMATA site. A solicitation is not expected in the near-term. SHA initiated a Community Safety and Enhancement Program (CSEP) project on MD 5 in the station area to improve pedestrian and bicycle access and to support future growth. The final 2016 to 2021 CTP includes $9.9 million for this project.

  - ***Expected Actions in Fiscal 2016:*** SHA construction of the CSEP project has begun with completion anticipated in fall 2016.

- **Wheaton Metro Station:** During fiscal 2010, Montgomery County and WMATA entered into an agreement to jointly solicit for a development team to develop a TOD on 8.2 acres of properties owned by WMATA and Montgomery County surrounding the station. A developer was selected. However, a feasible plan was not developed, and the process was terminated. In June 2013, Montgomery County issued a new RFP seeking proposals for plans to redevelop Wheaton that include a new headquarters for the Montgomery County Planning Department, public parking, a town square, and residential and/or retail space. The county is working with

its selected developer to create a mixed-use project. The WMATA property is not included in the project.

- ***Expected Actions in Fiscal 2016:*** MDOT participation is uncertain due to the project scope.

- **Shady Grove Metro Station:** Montgomery County is considering redevelopment of 90 acres of county property next to the Shady Grove Metro Station as a TOD. A master plan developer has been selected for the site, and in September 2011, the county and the developer presented the preliminary plan for the county site. The county is also considering a proposal to locate a 6,500-seat arena for entertainment and sporting events. The increased frequency of metro service, discussed above, should also make the Shady Grove TOD more attractive for development.

  - ***Expected Actions in Fiscal 2016:*** MDOT expects to continue coordination with Montgomery County and WMATA on the arena project and adjacent county development.

- **Twinbrook Metro Station:** In 2002, WMATA initiated a TOD joint development project for its 26.3-acre site at the Twinbrook Metro Station. It entered into a JDA with a developer to build a TOD project on the site in six stages. WMATA signed a ground lease in 2008 for the first phase consisting of 279 apartment units and 15,500 sq. ft. of retail shops. This is now completed. The developer held a ribbon-cutting (opening) for Phase 1B, the Terano apartment complex, with 214 apartments and 18,000 sq. ft. of retail, on September 30, 2015.

  - ***Expected Actions in Fiscal 2016:*** WMATA and the developer continue to explore strategies to support completion of the project. The developer is expected to complete the replacement parking facility and commence the second phase.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – The Secretary's Office
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$74,913	$8,906	$0	$83,819
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	252	0	0	252
Reversions and Cancellations	0	-7,792	-940	0	-8,732
Actual Expenditures	**$0**	**$67,373**	**$7,966**	**$0**	**$75,339**
Fiscal 2016					
Legislative Appropriation	$0	$73,764	$8,906	$0	$82,671
Budget Amendments	0	380	0	0	380
Working Appropriation	**$0**	**$74,144**	**$8,906**	**$0**	**$83,051**

MDOT: Maryland Department of Transportation

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 budget for TSO closed out $8.5 million lower than the legislative appropriation. An increase in special funds added by budget amendment for the general salary increase ($251,906) was more than offset by year-end cancellations as follows:

- Year-end cancelations totaled $8,731,646:
    - Department of Budget and Management-controlled telecommunications allocation ($2,347,000 in special funds);
    - lower than budgeted spending on salaries due to higher than budgeted turnover and the loss of seven positions as part of the Voluntary Separation Program ($1,450,060 in special funds);
    - unexpended operating grants-in-aid primarily to Metropolitan Planning Organizations ($747,704 in special funds and $939,921 in federal funds);
    - unexpended funds budgeted for the Coordinated Alternative Paratransit Services pilot project ($977,000 in special funds);
    - DoIT allocation ($912,000 in special funds);
    - Statewide personnel system allocation ($310,000 in special funds);
    - Software licenses and maintenance support ($536,000 in special funds); and
    - Information technology contractual services ($512,000 in special funds).

Fiscal 2016

The fiscal 2016 appropriation increased by $380,225 for the restoration of salaries.

Appendix 2

Audit Findings

Audit Period for Last Audit:	July 5, 2011 – January 15, 2015
Issue Date:	February 2016
Number of Findings:	3
Number of Repeat Findings:	0
% of Repeat Findings:	n/a
Rating: (if applicable)	n/a

Finding 1: MDOT did not establish an adequate process to verify that WMATA operating and capital grant award amounts were properly calculated, and had not audited the grants provided beyond fiscal 2009. The department concurred with the finding and related recommendations.

Finding 2: MDOT did not always comply with State procurement regulations with respect to bidding requirements and publishing contract awards. MDOT also awarded contracts in amounts substantially higher than could be supported by the related bids. The department concurred with the finding and related recommendations.

Finding 3: MDOT did not monitor employment agreements with two individuals. As a result, payments to one individual exceeded the contract amount by $142,000. Payments totaling $249,000 were made for services provided by the other individual after the agreement had expired. The department concurred with the finding and related recommendations.

Object/Fund Difference Report
Maryland Department of Transportation – The Secretary's Office

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	282.50	283.50	283.50	0.00	0%
02 Contractual	5.00	5.00	6.00	1.00	20.0%
Total Positions	**287.50**	**288.50**	**289.50**	**1.00**	**0.3%**
Objects					
01 Salaries and Wages	$ 28,084,952	$ 29,805,994	$ 30,171,612	$ 365,618	1.2%
02 Technical and Spec. Fees	209,780	262,136	322,888	60,752	23.2%
03 Communication	1,128,183	4,004,240	4,204,454	200,214	5.0%
04 Travel	179,807	193,906	190,682	-3,224	-1.7%
06 Fuel and Utilities	299,493	372,643	317,628	-55,015	-14.8%
07 Motor Vehicles	126,132	72,902	63,933	-8,969	-12.3%
08 Contractual Services	29,250,806	31,987,002	31,541,440	-445,562	-1.4%
09 Supplies and Materials	203,387	225,770	221,670	-4,100	-1.8%
10 Equipment – Replacement	3,952	2,100	2,100	0	0%
11 Equipment – Additional	6,109	8,900	8,900	0	0%
12 Grants, Subsidies, and Contributions	12,865,045	13,104,356	13,016,304	-88,052	-0.7%
13 Fixed Charges	2,981,591	3,010,850	2,995,827	-15,023	-0.5%
Total Objects	**$ 75,339,237**	**$ 83,050,799**	**$ 83,057,438**	**$ 6,639**	**0%**
Funds					
03 Special Fund	$ 67,372,749	$ 74,144,390	$ 74,151,029	$ 6,639	0%
05 Federal Fund	7,966,488	8,906,409	8,906,409	0	0%
Total Funds	**$ 75,339,237**	**$ 83,050,799**	**$ 83,057,438**	**$ 6,639**	**0%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Maryland Department of Transportation – The Secretary's Office

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Executive Direction	$ 26,312,149	$ 28,169,788	$ 28,150,579	-$ 19,209	-0.1%
02 Operating Grants-in-aid	12,741,954	13,001,356	12,895,804	-105,552	-0.8%
03 Facilities and Capital Equipment	46,456,001	103,768,589	143,470,778	39,702,189	38.3%
07 Office of Transportation Technology Services	36,285,134	41,879,655	42,011,055	131,400	0.3%
08 Major Information Technology Development Projects	3,222,446	258,953	306,318	47,365	18.3%
Total Expenditures	**$ 125,017,684**	**$ 187,078,341**	**$ 226,834,534**	**$ 39,756,193**	**21.3%**
Special Fund	$ 113,761,981	$ 151,251,932	$ 166,374,125	$ 15,122,193	10.0%
Federal Fund	11,255,703	35,826,409	60,460,409	24,634,000	68.8%
Total Appropriations	**$ 125,017,684**	**$ 187,078,341**	**$ 226,834,534**	**$ 39,756,193**	**21.3%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 5

Budget Amendments for Fiscal 2016
Maryland Department of Transportation
The Secretary's Office – Operating

Status	Amendment	Fund	Justification
Approved	$380,225	Special	2% salary restoration.
Pending	25,786	Special	Realign Workers' Compensation charges.

Source: Maryland Department of Transportation

Appendix 6

Budget Amendments for Fiscal 2016
Maryland Department of Transportation
The Secretary's Office – Capital

Status	Amendment	Fund	Justification
Approved	$26,757	Special	2% salary restoration.
Pending	3,625,210	Special	Adjusts the amended appropriation to agree with the final fiscal 2016 to 2021 *Consolidated Transportation Program*.
	-11,887,000	Federal	
	-$8,261,790	**Total**	

Source: Maryland Department of Transportation

J00A0104

Washington Metropolitan Area Transit Authority

Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$284,844	$320,422	$323,422	$3,000	0.9%
Deficiencies and Reductions	0	0	0	0	
Adjusted Special Fund	**$284,844**	**$320,422**	**$323,422**	**$3,000**	**0.9%**
Adjusted Grand Total	**$284,844**	**$320,422**	**$323,422**	**$3,000**	**0.9%**

- The fiscal 2017 allowance increases by $3 million (0.9%) from the current year working appropriation. This appropriation represents Maryland's share of the operating subsidy to the Washington Metropolitan Area Transit Authority (WMATA).

- Based on WMATA's proposed fiscal 2017 budget, Maryland's share of the operating subsidy is projected at $321.5 million or $1.9 million less than the fiscal 2017 allowance. If the WMATA budget as approved remains less than the allowance, the excess amount will cancel at the end of the fiscal year.

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2015	Fiscal 2016		Fiscal 2017
	Actual	Legislative	Working	Allowance
Special	$157,120	$132,091	$130,715	$153,567
Total	**$157,120**	**$132,091**	**$130,715**	**$153,567**

Note: Numbers may not sum to total due to rounding.

For further information contact: Steven D. McCulloch Phone: (410) 946-5530

- The fiscal 2016 working appropriation is $1,376,000 lower than the legislative appropriation and reflects the Maryland share of the estimated level of capital spending to occur in fiscal 2016.

- The fiscal 2017 allowance of $153.6 million is an increase of $22.9 million over the current year working appropriation and represents the estimated cash flow needs for Maryland's share of the WMATA fiscal 2017 capital program.

Analysis in Brief

Major Trends

Ridership: Ridership in fiscal 2015 increased by almost a million trips over the prior year but was still substantially lower than in fiscal 2012.

System Performance Measures: Relative to fiscal 2014, revenue miles and operating cost per passenger trip both increased for Metrorail while the number of passengers per revenue mile and operating cost per revenue mile both decreased. For Metrobus, both revenue miles and passengers per revenue mile decreased compared to fiscal 2014 and operating cost per revenue mile and per passenger trip increased.

Farebox Recoveries: The fiscal 2011 to 2015 systemwide five-year average farebox recovery rate was 48%. Farebox recovery increased in fiscal 2015 compared to the prior year for Metrorail and MetroAccess and remained unchanged for Metrobus.

Issues

Safety Concerns Lead to Direct Federal Transit Administration Oversight of the Safety of WMATA Rail System: Following a series of incidents the Federal Transit Administration (FTA) initiated a Safety Management Inspection to comprehensively examine WMATA's safety practices and procedures and on October 9, 2015, FTA assumed direct oversight of the safety of the WMATA rail system from the Tri-state Oversight Committee, the body responsible for ensuring the safe operations of the transit system. FTA direct oversight of the safety of the WMATA rail system will continue until a State Safety Oversight Agency that complies with federal regulations is established. **The Maryland Department of Transportation should brief the committee on the status of efforts to develop compact legislation establishing the new State Safety Oversight Agency.**

Progress Made in Resolving Financial Management Issues but Restrictions on Drawdown of Federal Grant Funds Remain in Place: An FTA Financial Management Oversight (FMO) audit of WMATA identified material weaknesses and deficiencies in internal controls, and concluded that WMATA did not maintain effective internal control over its compliance with FTA's financial management system requirements. As a result, beginning March 2014, FTA required WMATA to manually submit comprehensive documentation in support of draws on its federal grants instead of

using the automated electronic application FTA grantees normally use to request payments from their grant awards. WMATA has submitted documentation on all FMO corrective action plan items and is working to meet all deliverable expectations of the Testing and Validation Plan to allow FTA to verify that WMATA's internal controls and processes support proper grant reimbursements. **WMATA should brief the committees on when it expects the Testing and Validation phase to be complete and when it expects to be able to resume use of the FTA automated electronic grant drawdown system.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

PAYGO Budget Recommended Actions

		Funds
1.	Reduce funding for capital grant to reflect the Maryland share of the Washington Metropolitan Area Transit Authority's fiscal 2017 proposed budget.	$ 26,000,000
	Total Reductions	**$ 26,000,000**

J00A0104

Washington Metropolitan Area Transit Authority

Maryland Department of Transportation

Budget Analysis

Program Description

The Washington Metropolitan Area Transit Authority (WMATA) operates the second largest rail transit system and the fifth largest bus network in the United States. WMATA was created in 1967 by an interstate compact in which Maryland, Virginia, and Washington, DC participate. Subsequently, two federal representatives were added to the Board of Directors (board). Each signatory jurisdiction provides two directors to WMATA's eight-member board. Construction of WMATA's 103-mile Metrorail system began in 1969 and was completed in 2001. In 2004, the system was expanded to 86 stations and 106 miles with the opening of the Blue Line extension to Largo Town Center and the New York Avenue\Florida Avenue\Gallaudet University station on the Red Line. In 2009, construction started on a 23.1-mile rail extension to Dulles, Virginia dubbed the Silver Line. The first 11.6 miles with 5 stations opened in July 2014. Construction of the second phase, consisting of 11.5 miles and 6 stations, is scheduled for completion in calendar 2019. The system now serves 26 stations in Maryland.

Maryland provides an annual operating grant to the Washington Suburban Transit Commission (WSTC) through the Maryland Department of Transportation's (MDOT) Secretary's Office budget. WSTC authorizes MDOT to provide funding to WMATA for the operation of the Metrorail, Metrobus, and MetroAccess programs. These operating grants are based on numerous factors, including miles of service, number of stations, number of passengers, and population density in each jurisdiction and are offset by the fare revenues generated by each service.

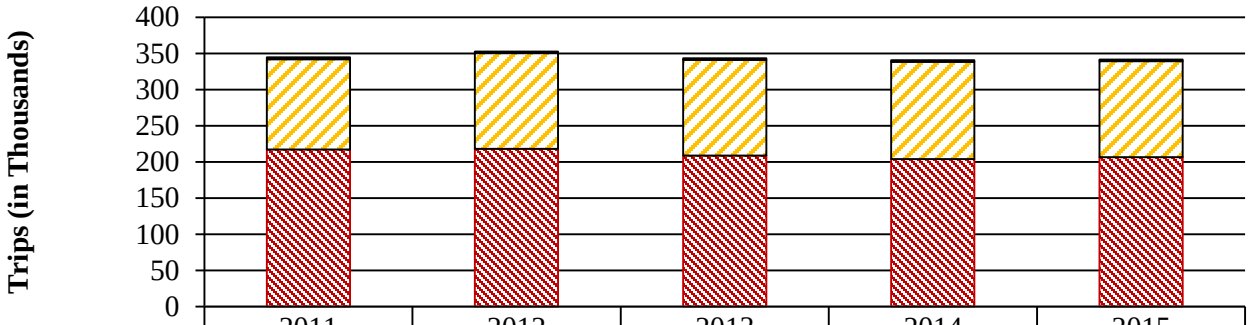
WMATA's mission is to ensure the best in safe, reliable, cost-effective, and responsive transit services by promoting regional mobility and contributing toward the social, economic, and environmental well-being of our community.

Performance Analysis: Managing for Results

1. Ridership

Exhibit 1 shows ridership for the WMATA system from fiscal 2011 to 2015. Ridership in fiscal 2015 increased by almost a million trips over the prior year but was still substantially lower than in fiscal 2012. A decline of 1.5 million trips on Metrobus was more than offset by the 2.3 million increase in Metrorail trips.

Exhibit 1
WMATA Annual Ridership
Fiscal 2011-2015
(Trips in Thousands)



	2011	2012	2013	2014	2015
MetroAccess	2,336	2,083	2,033	2,126	2,240
Metrobus	125,089	132,195	132,065	134,408	132,900
Metrorail	217,053	218,244	208,969	204,067	206,400

WMATA: Washington Metropolitan Area Transit Authority

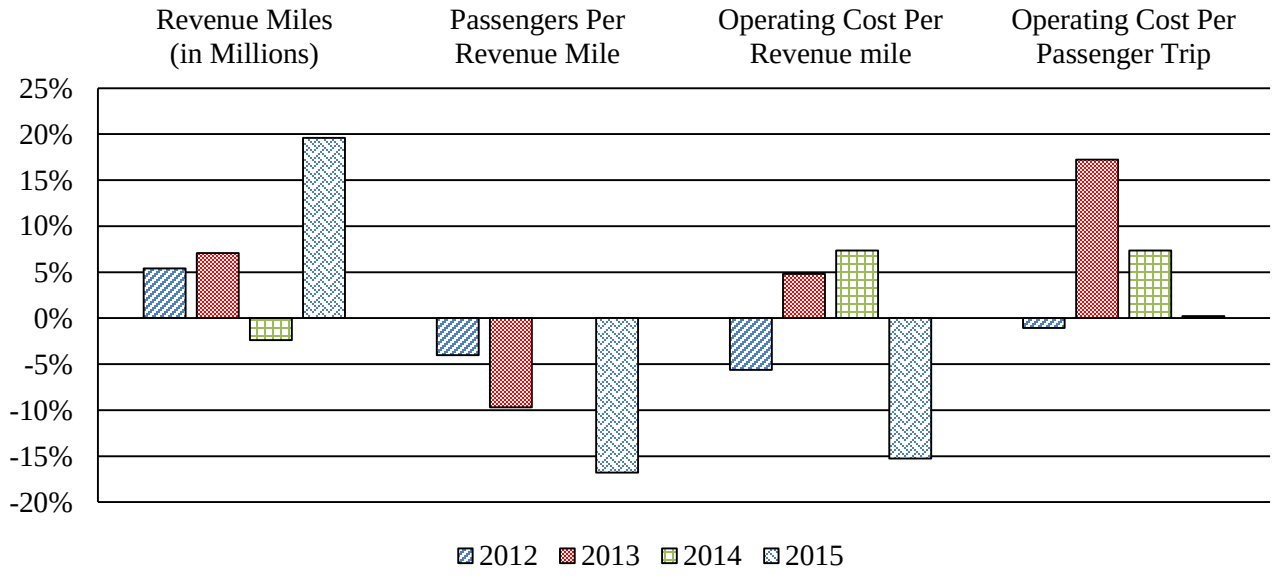
Source: Department of Budget and Management

2. System Performance Measures

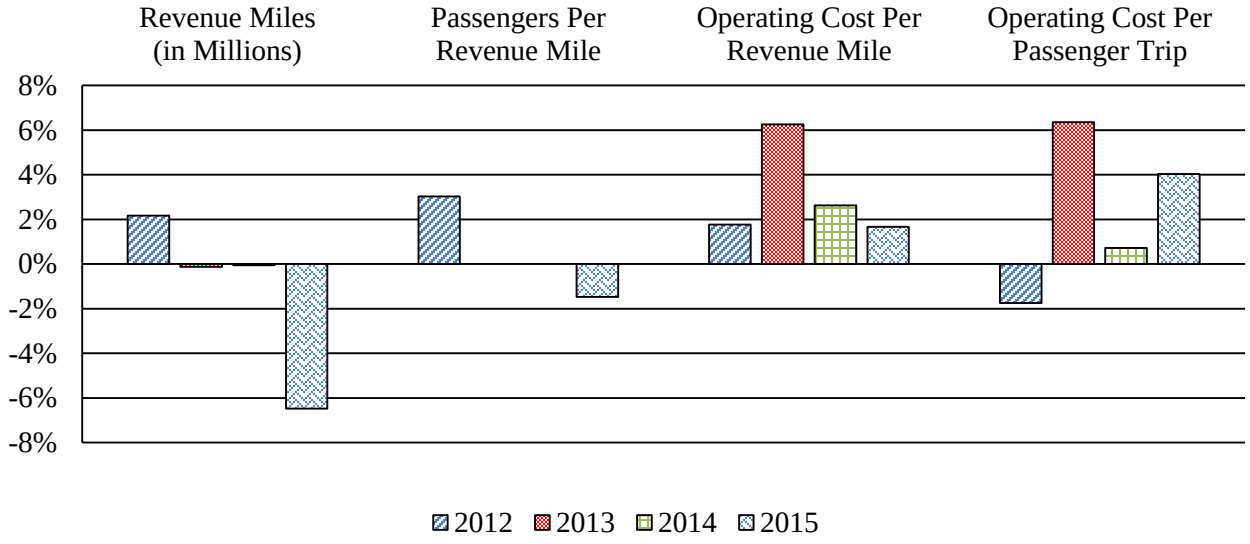
One method of measuring the performance of transit systems is to look at the relationship between the service provided and used, as measured by revenue miles and passenger trips, relative to expenditures. **Exhibit 2** shows the percent change from the prior year for revenue miles, passengers per revenue mile, operating cost per revenue mile, and operating cost per passenger trip for both Metrorail and Metrobus service for fiscal 2012 through 2015.

Exhibit 2
Metrorail and Metrobus Performance Measures
Percent Change from the Prior Year
Fiscal 2012-2015

Metrorail



Metrobus



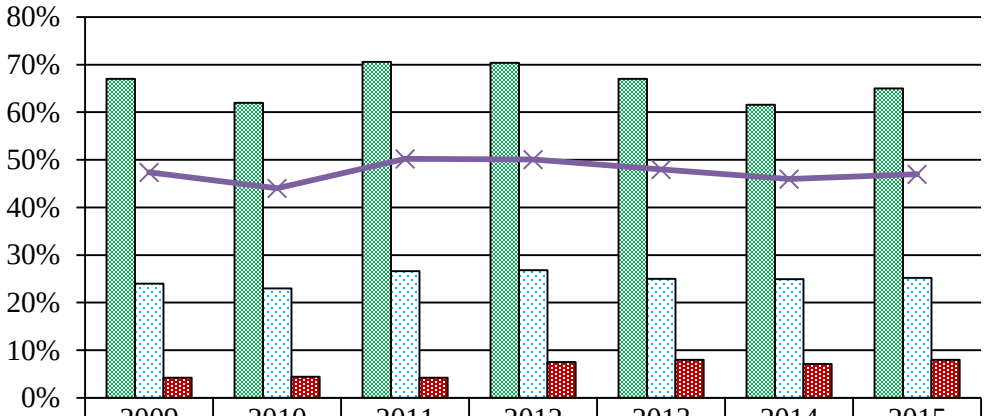
Source: Department of Budget and Management

For Metrorail, relative to fiscal 2014, revenue miles and operating cost per passenger trip both increased while the number of passengers per revenue mile and operating cost per revenue mile both decreased. For Metrobus, both revenue miles and passengers per revenue mile decreased compared to fiscal 2014 and operating cost per revenue mile and per passenger trip increased.

3. Farebox Recoveries

Exhibit 3 provides information on WMATA's farebox recovery ratio from fiscal 2009 to 2015. The fiscal 2011 to 2015 systemwide five-year average farebox recovery rate was 48%. Farebox recovery increased in fiscal 2015 compared to the prior year for Metrorail and MetroAccess and remained unchanged for Metrobus.

Exhibit 3
WMATA Farebox Recovery Rates
Fiscal 2009-2015



	2009	2010	2011	2012	2013	2014	2015
Metrorail	67%	62%	71%	70%	67%	62%	65%
Metrobus	24%	23%	27%	27%	25%	25%	25%
MetroAccess	4%	4%	4%	8%	8%	7%	8%
WMATA Systemwide	47%	44%	50%	50%	48%	46%	47%

WMATA: Washington Metropolitan Area Transit Authority

Source: Department of Budget and Management

Proposed Budget

Expenditures

WMATA's proposed fiscal 2017 operating budget totals $1,735.3 million, a decrease of $78.7 million or 4.3% from the approved fiscal 2016 budget. The majority of the decrease is achieved by shifting expenses that qualify under Federal Transit Administration (FTA) guidelines for federal grant spending related to preventative maintenance and heavy rail overhaul to the capital budget.

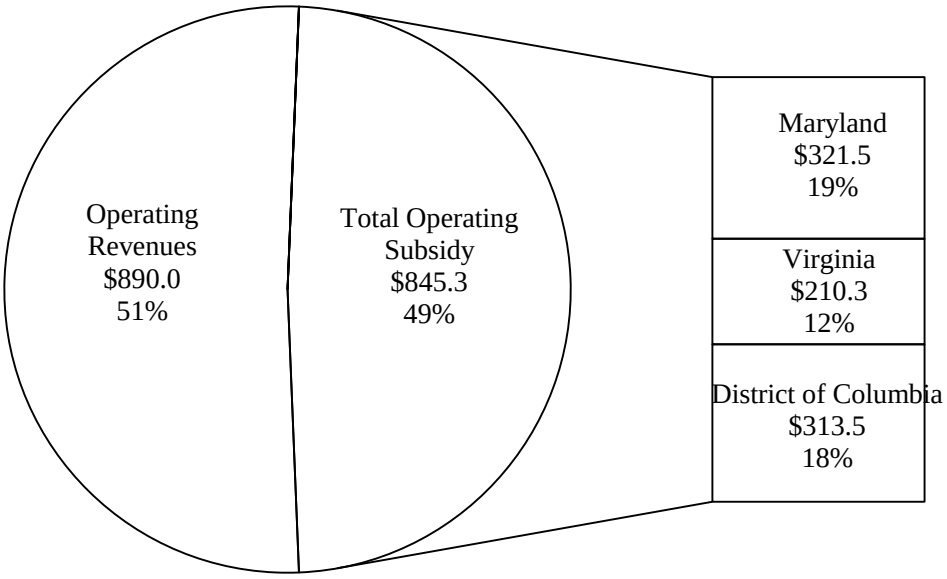
The proposed budget assumes no increase in fares, no reduction in service, and no net increase in support from Maryland, Virginia, and the District of Columbia, although the Maryland share increases by $3 million. It includes 62 new positions required to implement the corrective action plan items identified by the federal Safety Management Inspection (SMI) (see Issue 1).

Costs are constrained in the fiscal 2017 budget through assumed implementation of findings from the WMATA Board of Director's efficiency work plan ($20.0 million) reductions in retirement costs associated with the new employee retirement contribution requirements ($4.5 million) and not including a contribution to the Other Postemployement Benefits Trust ($11.0 million). The retirement savings amount represents savings across the entire agency – operating and capital.

Revenues

WMATA's operations are funded through operating revenues and subsidies provided by Maryland, Virginia, and the District of Columbia. **Exhibit 4** shows that 51.0% of the operating budget will be supported by WMATA's operating revenues. Passenger revenue, in particular Metrorail, accounts for approximately 86.0% of all operating revenue. Projected fiscal 2017 operating revenues decline by over 4.6% from the current year. WMATA attributes the decrease in passenger revenue to a number of factors including lower gas prices, stagnant federal employment in the region, increased teleworking, and the reduced service reliability over the past year.

Exhibit 4
WMATA Proposed Fiscal 2017 Revenues
($ in Millions)



Total Revenues = $1.7 Billion

WMATA: Washington Metropolitan Area Transit Authority

Note: Excludes debt service.

Source: Washington Metropolitan Area Transit Authority, *Proposed Fiscal 2017 Budget*

The local subsidy fills the gap between operating revenues and expenditures. In fiscal 2017, the local subsidy supports 49% of operating spending. The local subsidy is projected to remain unchanged from the current year as shown in **Exhibit 5**.

Exhibit 5
WMATA Operating Budget Resources
Maryland Operating Subsidy
Fiscal 2014-2017
($ in Millions)

	2014	2015	2016	2017	$ Change 2016-2017	% Change 2016-2017
Revenue	$853.4	$907.2	$938.0	$890.0	-$48.0	-5.1%
Local Subsidy	755.4	723.4	845.3	845.3	0.0	0.0%
Preventive Maintenance/Other	30.7	30.7	30.7	0.0	-30.7	-100.0%
Total	**$1,639.6**	**$1,661.2**	**$1,814.0**	**$1,735.3**	**-$78.7**	**-4.3%**
Maryland Share of Operating Subsidy						
Maryland Budget	$268.3	$284.8	$320.4	$323.4	$3.0	0.9%
WMATA Projection				321.5	$1.1	0.3%
Maryland Surplus/(Shortfall)				1.9		

WMATA: Washington Metropolitan Area Transit Authority

Note: Numbers may not sum due to rounding. Excludes debt service.

Source: Washington Metropolitan Area Transit Authority; Maryland State Budget; Department of Legislative Services

Exhibit 5 also shows that the amount included in the Maryland budget for WMATA operations is $1.9 million more than the estimated requirement based on WMATA's proposed budget. If the amount appropriated is greater than needed, the difference will cancel at the year-end closeout. Conversely, if a greater contribution is required based on the budget as approved by the WMATA Board, MDOT will submit a budget amendment to add additional funds. **Appendix 4** provides an estimated allocation of the State operating and capital subsidies by local jurisdiction.

PAYGO Capital Program

Program Description

MDOT's Office of the Secretary provides a grant to support WMATA's capital program including the design, construction, and rehabilitation of the Metrorail and Metrobus systems. General parameters on capital funding levels are established in a six-year Capital Funding Agreement developed through negotiations between WMATA and its local funding partners. The current agreement expires June 30, 2016.

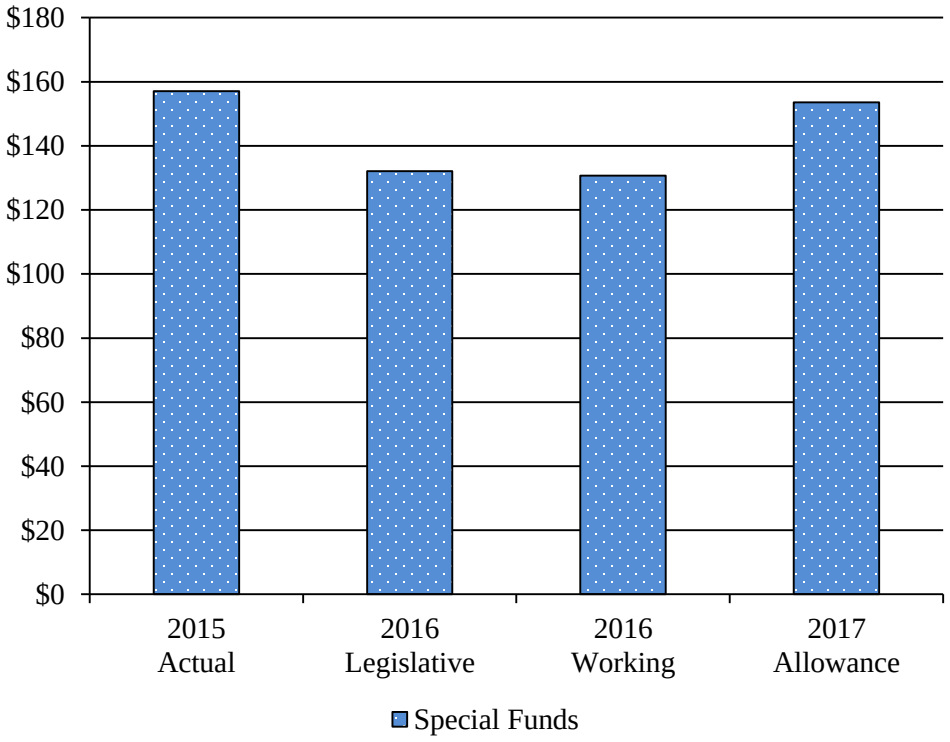
Fiscal 2016 to 2021 *Consolidated Transportation Program*

Total six-year spending programmed for the WMATA capital grant in the Maryland *Consolidated Transportation Program* (CIP) is $963.4 million. The majority of this funding is focused on safety, infrastructure rehabilitation and replacement, and maintaining the system in a state of good repair.

Fiscal 2016 and 2017 Cash Flow Analysis

As shown in **Exhibit 6**, the fiscal 2016 working appropriation decreased by $1.4 million from the legislative appropriation reflecting the fiscal 2016 WMATA capital budget as approved. The fiscal 2017 allowance increases by $22.9 million over the current year working appropriation reflecting projected cash flow needs in the coming year.

Exhibit 6
Cash Flow Changes
Fiscal 2015-2017
($ in Millions)

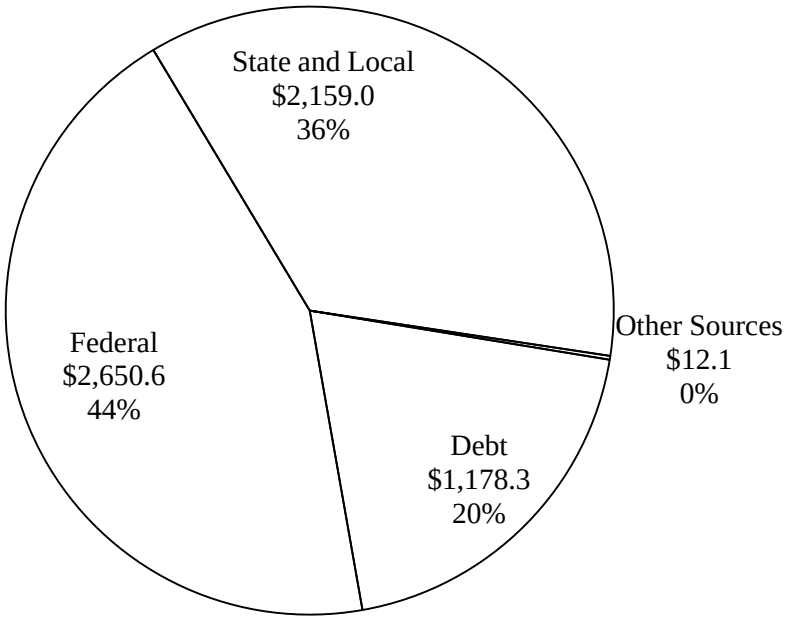


Source: Maryland State Budget, Fiscal 2017

WMATA Six-year Capital Program

WMATA's fiscal 2017 through 2022 CIP totals $6 billion. As shown in **Exhibit 7**, federal funds comprise 44% of planned funding; State and local contributions comprise 36%; and debt and other sources comprise the remaining 20%.

Exhibit 7
WMATA Six-year Capital Program
Fiscal 2017-2022
($ in Millions)



WMATA: Washington Metropolitan Area Transit Authority

Source: Washington Metropolitan Area Transit Authority, Fiscal 2017 Proposed Budget

The six-year CIP proposes more than $1 billion in safety-related funding including full funding of all current National Transportation Safety Board (NTSB) recommendations and FTA SMI requirements. The proposed fiscal 2017 budget includes $302 million for safety-related projects including:

- continuation of the replacement of 300 1000-series railcars with the new 7000-series;

- completion of design work for the above ground elements of the new 700-megahertz radio system and completion of installation of cable trays along the Red Line;

- completion of the project to replace all Generation 2 track circuits in the rail system (an NTSB recommendation and an SMI corrective action);

- installation of event recorders and reliability improvements to the Vehicle Monitoring Systems on legacy fleets; and

- development of automated processes to record maintenance and inspection activities for tunnel ventilation systems, drainage pumping stations, and other critical systems.

The CIP also proposes almost $5 billion to repair and replace assets to bring them into a state of good repair including:

- ongoing rehabilitation and replacement of track and rail structures;

- replacement, rehabilitation, and repair of railcars (in addition to the NTSB-directed replacement of the 1000-series railcars);

    - replacement of 4000-series railcars (100);

    - replacement of 5000-series railcars (192);

    - purchase of additional 7000-series railcars (28); and

    - initiation of the replacement of the 2000/3000-series railcars;

- continuation of scheduled railcar preventative maintenance and component replacement;

- replacement, rehabilitation, and repair of buses;

    - replacement of approximately 85 buses per year;

    - rehabilitation of approximately 100 buses per year; and

    - continuous scheduled preventative maintenance on the entire bus fleet;

- procurement of approximately 175 MetroAccess vehicles per year;

- replacement, rehabilitation, and repair of escalators and elevators;

  - replacement of approximately 96 escalators;
  - rehabilitation of approximately 144 escalators; and
  - rehabilitation of approximately 104 elevators;
- replacement/refurbishment of fare gates and fareboxes; and
- commencement of phase two of the Red Line rehabilitation effort and completion of the Orange/Blue line rehabilitation effort.

In fiscal 2017, $825 million is proposed for state of good repair projects including:

- continued rail line rehabilitation on the Orange/Blue Lines;
- increased funding for the railcar rehabilitation program to rebuild railcar components to improve reliability;
- continued rehabilitation of Alexandria, Brentwood, and New Carrollton rail yards;
- full rehabilitation of 12 Metro stations and smaller scale rehabilitations of another 12 Metro stations;
- replacement of 22 escalators and rehabilitation of an additional 10 escalators;
- rehabilitation of 15 elevators;
- replacement of 150 buses and rehabilitation of another 100 buses;
- advance replacement of Southern Avenue and Royal Street bus garages with new facilities at Andrews Federal Campus and Cinder Bed Road; and
- commencement of the implementation phase of fare collection equipment replacement/refurbishment.

Fiscal 2017 Capital Program

WMATA's proposed fiscal 2017 capital program totals $1.1 billion. **Exhibit 8** shows planned spending by category.

Exhibit 8
Fiscal 2017 Capital Spending by Category
($ in Millions)

Category	
Vehicles/Vehicle Parts	$497.7
Rail System Infrastructure Rehabilitation	86.7
Maintenance Facilities	120.4
Systems and Technology	139.2
Track and Structures	77.6
Passenger Facilities	124.8
Maintenance Equipment	55.0
Other Facilities	5.6
Project Management and Support	21.2
Total	**$1,128.2**

Source: Washington Metropolitan Area Transit Authority, Fiscal 2017 Proposed Budget

Exhibit 9 shows the total funding by source for WMATA's fiscal 2017 capital program along with the amount Maryland is expected to contribute based on the proposed budget. The variance between the Maryland contribution assumed in WMATA's CIP and the amount included in the Maryland fiscal 2017 allowance will be reconciled based on the WMATA budget as approved by its Board of Directors and will reflect the cash flow needs as the year progresses. Should the full amount of funding included in the Maryland budget not be required, remaining funds will cancel at the year-end closeout. Conversely, should additional funding be required, MDOT would add funds by budget amendment.

Exhibit 9
Sources of Funding for the Fiscal 2017 Capital Program
($ in Millions)

	Total	Maryland
Federal		
Federal formula programs	$285.6	
Federal Passenger Rail Investment and Improvement Act	170.0	
Resiliency grant	12.2	
Other federal grants	1.7	
Subtotal – Federal	***$469.5***	
State and Local		
Federal formula programs match	$71.4	$24.8
Federal Passenger Rail Investment and Improvement Act match	148.5	49.5
State and Local carry-over	21.5	7.2
System performance (locally funded only)	118.1	41.1
Other State and local	0.2	
Subtotal – State and Local	***$359.6***	***$122.6***
Other Sources		
Insurance Proceeds	$2.5	
Miscellaneous	4.1	
Subtotal – Other Sources	***$6.6***	
Planned long-term financing	$287.7	
Metro 2025 (locally funded only)	5.0	$1.67
Total	**$1,128.3**	**$124.2**
Maryland fiscal 2016 allowance for WMATA capital grant		$153.6
Variance		29.3

WMATA: Washington Metropolitan Area Transit Authority

Note: Numbers may not sum due to rounding. The WMATA proposed fiscal 2017 budget document shows a lump sum for the Maryland contribution of matching funds for the federal formula programs and for the locally funded system performance funding. The allocation shown above is based on Maryland's percentage of total local funding for these items.

Source: Washington Metropolitan Area Transit Authority, Fiscal 2017 Proposed Budget; Department of Legislative Services

Issues

1. Safety Concerns Lead to Direct Federal Transit Administration Oversight of the Safety of WMATA Rail System

Over the last decade, WMATA has had several serious accidents including the June 22, 2009 collision of two Red Line trains near Fort Totten station in which 9 people were killed and 52 other people were injured and the January 12, 2015 Yellow Line train incident near L'Enfant Plaza station in which an electrical fire filled the tunnel with smoke which sickened scores of riders one of whom died.

Following the Yellow Line incident, FTA initiated an SMI to comprehensively examine WMATA's safety practices and procedures. On June 17, 2015, FTA reported the results of the SMI and issued Safety Directive 15-1 requiring WMATA to address the SMI findings. The Safety Directive identified 91 corrective actions (78 related to Metrorail, 13 related to Metrobus) that WMATA needed to take to resolve the safety findings. In September 2015, FTA approved the Corrective Action Plan submitted by WMATA to address the SMI findings.

Further safety lapses, including the August 6, 2015 early morning derailment of an empty train on its way to the start of revenue service, led FTA to announce on October 9, 2015, in Safety Directive 16-1, that it was assuming direct oversight of the safety of the WMATA rail system from the Tri-state Oversight Committee (TOC), the body responsible for ensuring the safe operations of the transit system. It also issued Safety Directive 16-2 requiring WMATA to take corrective action to resolve open safety findings (some dating to 2008) previously issued by TOC.

Tri-state Oversight Committee

TOC was established in 1997 through a Memorandum of Understanding among the District of Columbia, State of Maryland, and Commonwealth of Virginia to comply with an FTA regulation requiring states with a defined rail transit system not under the jurisdiction of the Federal Railroad Administration to develop and maintain a State Safety Oversight (SSO) agency.

The FTA regulation required SSO agencies to develop a program standard for the transit system's safety and security plans; approve these plans; investigate accidents and hazardous conditions; require the transit system to develop corrective action plans to address safety deficiencies; approve the corrective action plans; and conduct independent reviews of the implementation of the safety and security plans on at least a triennial basis. SSO agencies, however, have no authority under FTA regulations to enforce their findings with fines, civil actions, or other penalties. This lack of enforcement ability resulted in numerous TSO safety findings remaining open for years.

MAP-21 Increases State Oversight Responsibilities

In order to strengthen state oversight of transit safety, provisions were included in the federal Moving Ahead for Progress in the 21st Century Act (MAP-21) of 2012 directing states to establish an

SSO agency that is legally and financially independent of the rail transit agency it oversees, and one that has investigative and enforcement authority to ensure its safety findings are addressed. The states are required to be in compliance with these provisions within three years of publication of final regulations (expected in early 2016 according to FTA).

Metro Safety Commission under Development

In early 2010, Maryland, Virginia, and the District of Columbia published a white paper outlining potential issues that would need to be addressed to establish a Metro Safety Committee (MSC). In early 2014, the Governors and Mayor signed a letter providing that the jurisdictions would move forward with creation of the MSC to replace the TOC. The work plan for this effort was approved by FTA in May 2014.

In response to increasing pressure from the U.S. Department of Transportation (USDOT) and FTA, the three jurisdictions designated executive level staff in the summer of 2015 to negotiate key issues and initiate the drafting of potential compact legislation. This executive policy group requested legal support services through the Washington Metropolitan Council of Governments (COG), which serves as the administrative agent for federal grant funds authorized for the SSO program. COG is procuring the requested services through a Request for Proposal. These services are expected to commence by the end of February 2016.

By letter dated February 8, 2016, FTA notified the three jurisdictions that TOC's SSO program was inadequate and that within one year the jurisdictions must receive FTA certification of a new SSO program compliant with federal regulations or face potential withholding of federal transit capital grant funds. MDOT advises this could equate to a reduction of up to $8.2 million. By a separate letter, also dated February 8, 2016, USDOT Secretary Anthony Foxx expressed disappointment that the three jurisdictions would not be pursuing final legislation during 2016 to establish a federally compliant SSO agency. In remarks to the COG Board in November 2015, the FTA Acting Administrator noted that states do not need to wait for publication of the final regulations relating to MAP-21 compliant SSO agencies since they will be substantially the same as the proposed regulations.

Under the current schedule for establishing the MSC, the District of Columbia would consider the compact legislation in June 2016 with Maryland and Virginia following suit in early 2017. This schedule will not meet the one-year FTA deadline.

Conclusion

FTA direct oversight of the safety of the WMATA rail system will continue until MSC is established. The one-year deadline imposed by FTA makes it clear that the federal government does not wish to provide this oversight any longer than necessary. **MDOT should brief the committee on the status of efforts to develop compact legislation establishing the MSC.**

2. Progress Made in Resolving Financial Management Issues but Restrictions on Drawdown of Federal Grant Funds Remain in Place

An FTA Financial Management Oversight (FMO) audit of WMATA identified material weaknesses and deficiencies in internal controls, and concluded that WMATA did not maintain effective internal control over its compliance with FTA's financial management system requirements. As a result, beginning March 2014, FTA required WMATA to manually submit comprehensive documentation in support of draws on its federal grants instead of using the automated electronic application FTA grantees normally use to request payments from their grant awards. As a result of this change, WMATA experienced cash flow difficulties which led it to rely on a series of short-term debt instruments.

As of June 30, 2015, WMATA had submitted documentation on all 65 FMO corrective action plan items. FTA has indicated that the items would remain open, and the manual drawdown procedures would remain in place, until FTA verifies that WMATA's internal controls and processes support proper grant reimbursements. To that end, on September 30, 2015, FTA provided to WMATA a Testing and Validation Plan. WMATA reported that as of December 31, 2015, it continued to work with FTA and the FMO Contractor to timely meet all deliverable expectations of the Testing and Validation Plan with the next set of deliverables due to FTA in March 2016.

WMATA should brief the committees on when it expects the Testing and Validation phase to be complete and when it expects to be able to resume use of the FTA automated electronic grant drawdown system.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

PAYGO Budget Recommended Actions

		Amount Reduction	
1.	Reduce funding for capital grant to reflect the Maryland share of the Washington Metropolitan Area Transit Authority's fiscal 2017 proposed budget.	$ 26,000,000	SF
	Total Special Fund Reductions	**$ 26,000,000**	

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – Washington Metropolitan Area Transit Authority
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$285,621	$0	$0	$285,621
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-777	0	0	-777
Actual Expenditures	**$0**	**$284,844**	**$0**	**$0**	**$284,844**
Fiscal 2016					
Legislative Appropriation	$0	$320,422	$0	$0	$320,422
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$320,422**	**$0**	**$0**	**$320,422**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 budget for the WMATA operating grant closed out $777,207 lower than the legislative appropriation due to an audit adjustment to funding from a prior year ($709,000) and use of an available balance from prior years ($68,207).

Fiscal 2016

The fiscal 2016 legislative appropriation remains unchanged.

Fiscal Summary
MDOT– Washington Metropolitan Area Transit Authority – Operating Budget

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
04 Washington Metropolitan Area Transit – Operating	$ 284,843,793	$ 320,422,000	$ 323,422,000	$ 3,000,000	0.9%
05 Washington Metropolitan Area Transit – Capital	157,119,828	130,715,000	153,567,000	22,852,000	17.5%
Total Expenditures	**$ 441,963,621**	**$ 451,137,000**	**$ 476,989,000**	**$ 25,852,000**	**5.7%**
Special Fund	$ 441,963,621	$ 451,137,000	$ 476,989,000	$ 25,852,000	5.7%
Total Appropriations	**$ 441,963,621**	**$ 451,137,000**	**$ 476,989,000**	**$ 25,852,000**	**5.7%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 3

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Washington Metropolitan Area Transit Authority – Capital

Status	Amendment	Fund	Justification
Pending	-$1,376,000	Special	Adjusts the grant to WMATA to reflect the Maryland share of the estimated level of capital spending.

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation

Appendix 4

Maryland's WMATA Operating and Capital Subsidies Allocated by Jurisdiction

WMATA Proposed Fiscal 2017 Budget

($ in Millions)

	Montgomery County	Prince George's County	Total
Operating Subsidy			
Metrobus Operating Subsidy			
Regional bus subsidy	$57.7	$69.0	$126.7
Non-regional bus subsidy	9.6	23.8	33.4
Subtotal – Metrobus Operating Subsidy	***$67.3***	***$92.8***	***$160.1***
Metrorail Operating Subsidy			
Base allocation	$44.9	$39.6	$84.5
Max fare subsidy	3.2	1.5	4.7
Subtotal – Metrorail Operating Subsidy	***$48.1***	***$41.1***	***$89.2***
MetroAccess Subsidy	$22.9	$49.4	$72.3
Total Operating Subsidy	**$138.3**	**$183.3**	**$321.5**
Capital Subsidy			
Formula Match and System Performance	$32.3	$33.6	$65.9
Passenger Rail Investment and Improvement Act[1]	24.5	32.2	56.7
Metro 2025 Investment[1]	0.7	1.0	1.7
Debt Service	4.9	5.5	10.5
Total Capital Subsidy	**$62.4**	**$72.3**	**$134.8**
Grand Total Subsidy – Operating and Capital	**$200.7**	**$255.6**	**$456.3**

WMATA: Washington Metropolitan Area Transit Authority

[1]WMATA allocates these matching funds to Maryland as a lump sum. The allocations shown here are calculated using the proportionate amounts of the operating subsidy for each county.

Note: Numbers may not sum due to rounding. The State of Maryland pays the entire operating and capital subsidies to WMATA. These allocations show the share of the subsidies based on the facilities located in each county.

Source: Washington Metropolitan Area Transit Authority; Department of Legislative Services

J00A04
Debt Service Requirements
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$248,348	$282,667	$309,912	$27,245	9.6%
Adjusted Special Fund	**$248,348**	**$282,667**	**$309,912**	**$27,245**	**9.6%**
Adjusted Grand Total	**$248,348**	**$282,667**	**$309,912**	**$27,245**	**9.6%**

- The fiscal 2017 allowance for debt service payments on Consolidated Transportation Bonds (CTB) totals $309.9 million, an increase of $27.2 million (9.6%) compared to the fiscal 2016 working appropriation. The fiscal 2016 working appropriation is overstated, however, because it has not been adjusted to reflect the smaller bond issuances in fiscal 2015 and 2016 than had been assumed when the fiscal 2016 budget was approved. Based on the actual amount of debt issued in fiscal 2015 and the lower projected level of issuances for fiscal 2016, debt service payments in fiscal 2016 will be $264.4 million.

- The Maryland Department of Transportation's (MDOT) financial forecast shows that it plans to issue $450.0 million of debt in fiscal 2016 (down from the $875.0 million level projected when the budget was approved) and $685.0 million in fiscal 2017. Debt outstanding at the end of fiscal 2017 is projected at $2.8 billion. Nontraditional debt outstanding at the end of fiscal 2017 is projected at $609.6 million.

Note: Numbers may not sum to total due to rounding.

For further information contact: Steven D. McCulloch Phone: (410) 946-5530

Analysis in Brief

Major Trends

Debt Service Coverage Ratios Remain Above Minimum Requirements: The ability of MDOT to issue debt is limited by the statutory debt outstanding limit of $4.5 billion and two bond resolution provisions, which require annual net income and pledged taxes in the prior year to be at least 2.0 times greater than the maximum level of future debt service payments on outstanding debt. The department's two coverage ratios are projected to be 5.8 for the pledged taxes test and 3.7 for the net income test in fiscal 2017. By fiscal 2021, the last year of the forecast period, the net income ratio is projected at 3.0, and debt outstanding is projected at $4.3 billion. **The use of capital grants to increase local transportation aid, however, skews the net income debt coverage ratio test. If local aid capital grant funding is not included in the net income estimates, the net income coverage ratio falls to 2.6 in fiscal 2021 much closer to the MDOT administrative minimum debt service coverage level than is showing in the MDOT forecast.**

Issues

Debt Service Taking Bigger Bite of the Transportation Revenue Pie: Debt service coverage ratios imposed under bond covenants do not ensure the affordability of transportation debt vis-à-vis transportation revenues. **Committee narrative requesting MDOT to work with the Capital Debt Affordability Committee to develop affordability criteria specific to CTB debt is included in the recommended action section of this analysis.**

Operating Budget Recommended Actions

1. Add annual budget bill language establishing the debt outstanding limit for Consolidated Transportation Bonds.

2. Add annual budget bill language requiring reports on nontraditional debt.

3. Add annual budget bill language establishing the debt outstanding limit for nontraditional debt.

4. Adopt committee narrative requesting the Maryland Department of Transportation to work with the Capital Debt Affordability Committee to develop Consolidated Transportation Bond-specific affordability criteria.

J00A04
Debt Service Requirements
Maryland Department of Transportation

Budget Analysis

Program Description

Consolidated Transportation Bonds

The Maryland Department of Transportation (MDOT) issues 15-year Consolidated Transportation Bonds (CTB), which are tax-supported debt. Bond proceeds are dedicated for construction projects. Revenues from taxes and fees and other funding sources are combined in the Transportation Trust Fund (TTF) to pay debt service and operating budget requirements and to support the capital program. Debt service on CTBs is payable solely from the TTF.

Nontraditional Debt

MDOT also uses nontraditional debt, which is any debt instrument that is not a CTB or a Grant Anticipation Revenue Vehicle (GARVEE) bond. This includes, but is not limited to, Certificates of Participation (COP); debt backed by customer facility charges, passenger facility charges, or other revenues; and debt issued by the Maryland Economic Development Corporation (MEDCO), the Maryland Transportation Authority (MDTA), or any other third party on behalf of MDOT.

Proposed Budget

The fiscal 2017 allowance for CTB debt service is $309.9 million, an increase of $27.2 million (9.6%) from the fiscal 2016 working appropriation. The fiscal 2016 working appropriation is overstated, however, because it has not been adjusted to reflect the smaller bond issuance in fiscal 2015 ($401.0 million, down from the $490.0 million level projected when the budget was passed) and the reduction in planned issuances for fiscal 2016 ($450.0 million, down from the $875.0 million level projected when the budget was passed). Adjusting for the lower level of fiscal 2016 debt service, the fiscal 2017 allowance increases by $45.5 million (17.2%) over the current year.

Debt Service Coverage Ratios Remain Above Minimum Requirements

State law and agency debt practices limit CTB issuances with three criteria: a debt outstanding limit and two coverage tests. The debt outstanding limit is set in statute at $4.5 billion. The statute further requires the General Assembly to establish in the budget for each fiscal year the maximum outstanding aggregate amount of these bonds at the end of the fiscal year, which may not exceed the overall statutory limit. The statutory limit is periodically increased to reflect the revenue growth and potential of the TTF and was last increased in the 2013 session. CTBs are included within the State debt affordability limits, and the level of debt service and debt outstanding are, therefore, evaluated annually by the Capital Debt Affordability Committee.

The two coverage tests are established in the department's bond resolutions and require that annual net income and pledged taxes from the prior year each equal at least 2.0 times the maximum level of future debt service payments on all CTBs outstanding and to be issued. The department has adopted a management practice that requires minimum coverages of 2.5 times maximum future debt service. The net income coverage test is the ratio of all the prior year's income (excluding federal capital, bond proceeds, and third-party reimbursements) minus prior year operating expenses, debt service payments, deductions for nontransportation agencies, and local transportation aid to maximum annual future debt service and typically is the limiting coverage ratio. The pledged taxes coverage test measures annual net revenues from vehicle excise, motor fuel, rental car sales, and corporate income taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service. If either of these coverage ratios fall below the 2.0 times level, the department is prohibited under its bond covenants from issuing additional debt until the ratios are once again at the minimum 2.0 times level.

Projected CTB issuances in fiscal 2016 will increase the total amount of debt outstanding to almost $2.3 billion, and the debt service coverage ratios in fiscal 2016 are estimated to be 5.7 times for pledged taxes and 3.4 times for the net revenues test. In fiscal 2017, the level of debt outstanding is expected to increase to almost $2.8 billion, with the pledged taxes coverage ratio improving to 5.8 times, and the net income ratio improving to 3.7 times maximum future annual debt service. In fiscal 2021, the final year of the current forecast, the net income to maximum annual debt service is expected to be 3.0, and the pledged taxes are projected at 4.8 times maximum annual debt service. Debt outstanding will total almost $4.3 billion in fiscal 2021.

Local Transportation Capital Grants Skew Debt Service Coverage Tests

The Governor has stated his goal on many occasions to phase-in an increase in the share of Highway User Revenues (HUR) going to local governments from the current statutory level of 9.6% to 30.0% to match the level local governments had been receiving prior to the change in the local aid formula made in the 2010 session. Legislation submitted by the Administration during the 2015 session would have increased the local share of HUR to 12.5% in fiscal 2017 and increased each year thereafter by 2.5 percentage points until the local share reached 30.0% in fiscal 2024, but it failed to pass. The fiscal 2017 budget as introduced provides a $53.6 million capital grant to local governments which, when combined with local HUR in the operating budget, is equal to 12.5% of total HUR. The capital grant does not require legislation to implement. One consequence of providing local transportation aid through a capital grant, however, is that it makes the debt service coverage ratios higher than they would be were the additional local funds provided through the HUR formula because the funds are not deducted from net income but rather flow first to the department. If the increased local share of HUR were to be provided through the statutory formula instead of as capital grants, the net income to debt service ratio in fiscal 2021 would fall to 2.6 – much closer to the MDOT administrative minimum debt service coverage level than is showing in the MDOT forecast. **MDOT should comment on whether the effect providing local aid through capital grants has on the debt service coverage ratio calculations was considered as part of the decision to provide local aid via capital grants, whether it believes bondholders will view this change as an attempt to circumvent debt service coverage requirements established in bond covenants, and whether it has considered revising its debt**

service coverage calculations to remove capital aid to locals from the net income amounts used to calculate coverage ratios.

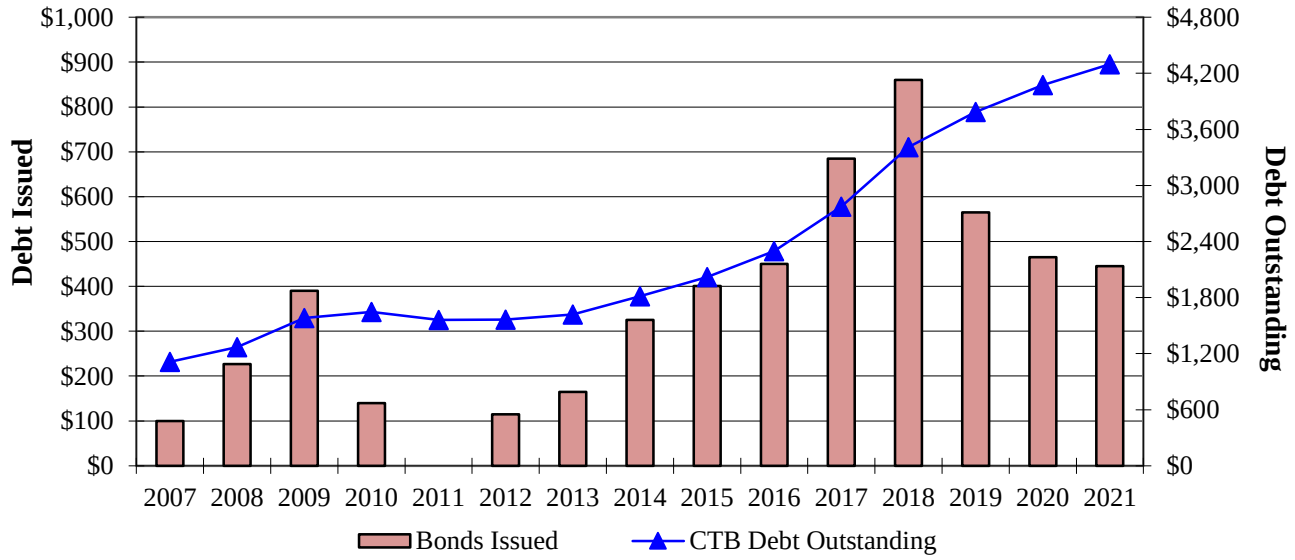
Based on current revenue and debt issuance projections, CTB debt levels meet both the statutory limit on maximum debt outstanding and the pledged taxes and net income to maximum annual debt service ratios set forth in bond resolutions for the entire six-year period of the forecast. If the local aid capital grant funding is subtracted from the amount going to the department, the debt service coverage ratios still meet the minimum set forth in bond resolutions. As minimum debt service coverage levels are approached, revenue underattainment and higher than projected operating expenses become bigger risk factors in a possible breach of the debt service coverage ratios.

Section 3-202 of the Transportation Article requires the General Assembly to establish the maximum amount of CTB debt in the budget that may be outstanding at the end of each fiscal year. It is recommended that the limit for fiscal 2017 be set at $2.77 billion. Language is included in the Recommended Actions section of this analysis to implement this recommendation.

Historical Trends in CTB Debt

Exhibit 1 shows annual new CTB issuances and net debt outstanding from fiscal 2007 to 2021.

Exhibit 1
Bond Sales and Debt Outstanding
Fiscal 2007-2015 Actual and Fiscal 2016-2021 Estimated
($ in Millions)



CTB: Consolidated Transportation Bonds

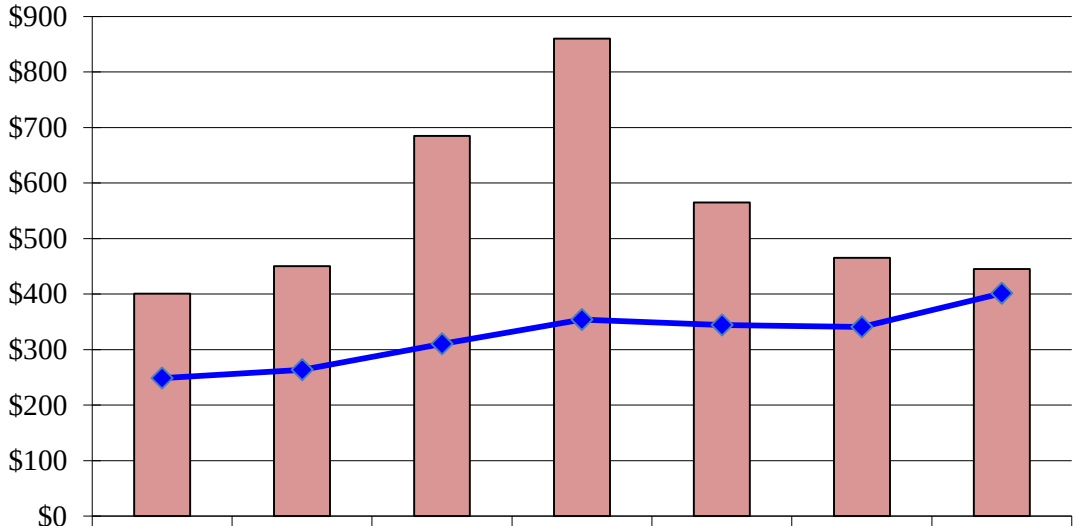
Source: Maryland Department of Transportation

The limit on debt outstanding was increased during the 2007 special session to $2.6 billion, made possible by revenue increases passed in that session. To maintain capital spending during the recession, the department chose to increase the amount of debt it issued in fiscal 2008 and 2009 compared to the amount it had issued during the preceding three years. From fiscal 2010 to 2013, the department issued smaller amounts of debt, relying instead on higher than expected fund balances and using cash to support the capital program. At the 2013 session, gas tax and farebox revenue increases were passed with the gas tax revenues being phased in over three years. At the same time, the limit on debt outstanding was increased to $4.5 billion. MDOT added $4.4 billion in new capital projects to the six-year capital program, which required an increased reliance on debt issuances due to the scheduled phase-in of the revenue increase.

CTB Debt Outlook

As **Exhibit 2** shows, new CTB debt issuances totaling $450 million in fiscal 2016 and $685 million in fiscal 2017 are planned. Issuance levels are projected to increase again in fiscal 2018 to $860 million and then decline through the final three years of the forecast. The projected increases in issuances naturally leads to increasing levels of debt outstanding and debt service costs.

Exhibit 2
Debt Service Payments and Bond Issuances
Fiscal 2015 Actual Data and Fiscal 2016-2021 Estimated Data
($ in Millions)



	2015	2016	2017	2018	2019	2020	2021
Bonds Issued	401	450	685	860	565	465	445
Debt Service	248	264	310	354	344	341	402

Source: Maryland Department of Transportation

The fiscal 2016 to 2021 MDOT forecast includes projected debt issuances totaling $3.47 billion, $120 million less than projected in the prior six-year forecast. Debt outstanding is projected to more than double between fiscal 2015 and 2021 to $4.3 billion, and debt service grows by almost 62% during this period to $402 million in fiscal 2021. **Appendix 3** shows debt service and debt outstanding by fiscal year for current CTB debt (debt outstanding as of December 31, 2015).

As shown in **Exhibit 3**, however, MDOT does not usually end up issuing as much debt as forecasted. Actual debt issued was less than originally projected for 15 out of 20 MDOT forecasts from fiscal 1991 to 2010. The trend from fiscal 2008 to 2010, however, was of actual issuance levels getting closer to projected levels.

Nontraditional Debt

In addition to CTBs, the department uses nontraditional debt. Nontraditional debt is any instrument that is not a CTB or a GARVEE bond. This includes, but is not limited to, COPs; debt backed by customer facility charges, passenger facility charges, or other revenues; and debt issued by MEDCO, MDTA, or any other third party on behalf of MDOT.

Exhibit 4 shows that the department currently has 11 nontraditional debt issuances outstanding with 1 additional issuance planned. Combined, these issuances are projected to have $609.6 million in unpaid principal outstanding at the end of fiscal 2017, not including the $35.0 million planned issuance. The planned issuance is for the construction of a parking garage at the proposed State Center development. MEDCO will issue the debt for the State Center garage with the debt service to be paid by parking revenues and the TTF. **Appendix 4** shows debt service and debt outstanding by fiscal year for current nontraditional debt (debt outstanding as of December 31, 2015).

The General Assembly began placing limits on COPs in fiscal 2002 and then all of the MDOT nontraditional debt in fiscal 2005. The limits on nontraditional debt are established in the same manner as the limits placed on CTBs. The General Assembly limits the amount of nontraditional debt outstanding to the amount proposed by the department during the legislative session. If the agency finds that circumstances warrant additional issuances, the department must report to the budget committees on any proposed debt and provide the committees with 45 days to review and comment on the proposal. **It is recommended that the General Assembly continue the policy of limiting total nontraditional debt outstanding and that the amount of debt outstanding at the end of fiscal 2017 be limited to $609.6 million.**

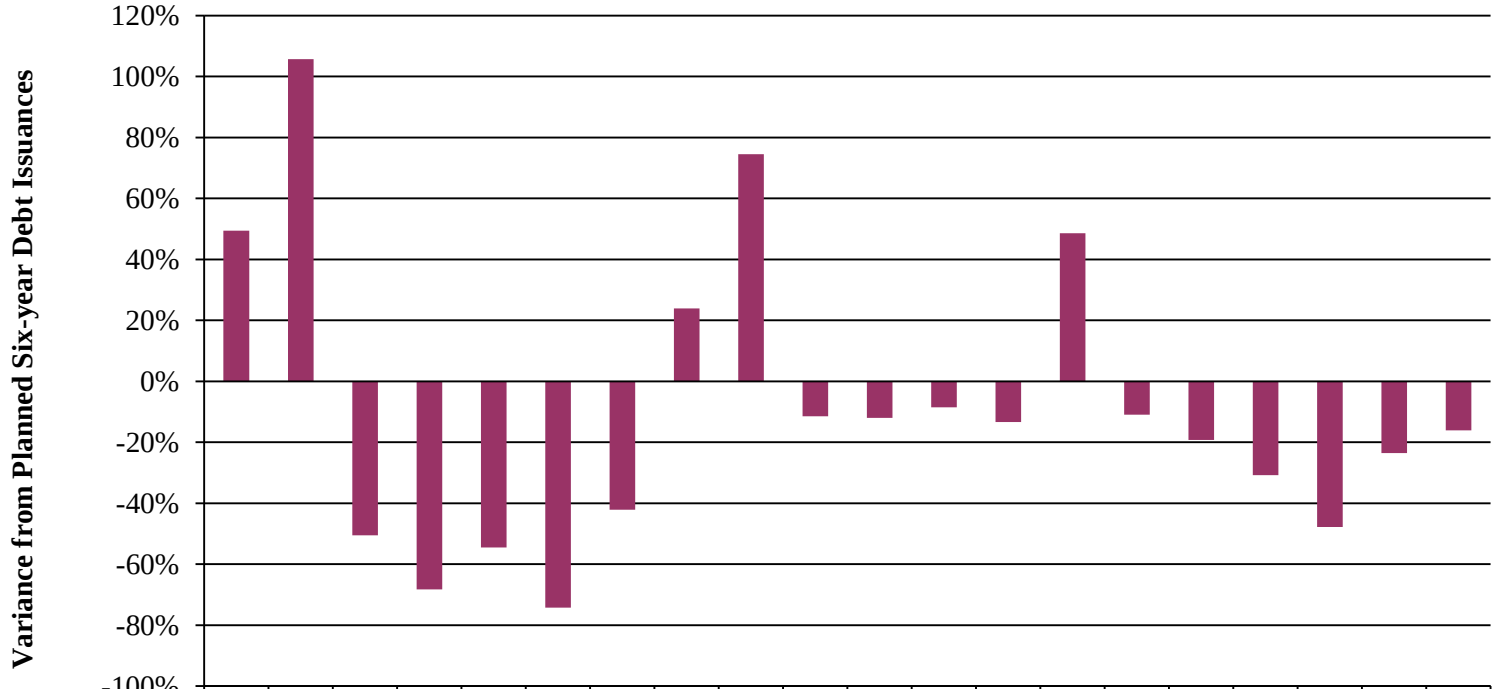
The General Assembly annually requires that MDOT report to the budget committees on nontraditional debt when it releases its September and January forecasts. Specifically, the language requires that MDOT report on the outstanding and proposed issuances, debt service costs, and annual debt outstanding. The report should cover the current fiscal year and the following 10 fiscal years. **It is recommended that the General Assembly again require that the department report on the costs of nontraditional debt when it releases its September and January forecasts.**

Exhibit 3

Variance from Six-year Planned Debt Issuance Level

MDOT Six-year Forecasts: 1991-2010

($ in Millions)



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Variance from Planned	49%	106%	-51%	-68%	-55%	-74%	-42%	24%	75%	-11%	-12%	-9%	-13%	49%	-11%	-19%	-31%	-48%	-24%	-16%
Six-year Planned Issuances	415	175	485	520	440	485	475	460	510	1,005	1,040	1,110	1,260	765	1,075	1,185	1,405	1,985	1,485	1,365
Actual Six-year Issuances	620	360	240	165	200	125	275	570	890	890	915	1,015	1,092	1,137	957	957	972	1,037	1,135	1,146

MDOT: Maryland Department of Transportation

Source: Maryland Department of Transportation

Exhibit 4
Nontraditional Debt Outstanding and Debt Service Payments
($ in Thousands)

Year Issued and Maturity	Principal Outstanding (06/30/17)	Fiscal 2017 Debt Service Payment	Purpose
Certificates of Participation			
2010-2025	$11,280	$1,670	Expand Pier B and a de-icing facility at the Baltimore/Washington International (BWI) Thurgood Marshall Airport.
2010-2025	8,695	1,161	Construction of a parking garage at Maryland Area Regional Commuter Amtrak station near BWI Marshall Airport.
2004-2016*	0	1,222	Purchase buses for parking garage shuttle operations at BWI Marshall Airport.
2006-2024*	14,645	2,372	Construction of a paper shed at South Locust Point.
Subtotal	***$34,620***	***$6,424***	
Maryland Transportation Authority Revenue Bonds			
2012-2027	$136,900	$18,558	Construction of Elm Road parking garage near BWI Marshall Airport, roadway improvements, enhanced pedestrian access, and upgrading of utility plants. Bonds backed by parking fees.
2002-2032	87,830	8,971	Construction of consolidated rental car facility at BWI Marshall Airport. Bonds back by customer facility charge of $3.25 per vehicle rental per day.
2012-2032	41,535	4,008	Passenger Facility Charge revenue bonds to construct B/C concourse connector.
2012-2027/32	112,910	10,139	Passenger Facility Charge to complete Runway Safety Area and Pavement Management Program improvements.
2014-2034	36,535	2,956	Passenger Facility Charge revenue bonds to construct D/E concourse connector.
Subtotal	***$415,710***	***$44,631***	

Year Issued and Maturity	Principal Outstanding (06/30/17)	Fiscal 2017 Debt Service Payment	Purpose
Maryland Economic Development Corporation Debt			
2002-2022*	$12,385	$2,792	Construction of new Maryland Department of Transportation headquarters building.
2012-2030	146,915	14,774	Construction of a new 11-gate Concourse A and reconstruction of a portion of Concourse B at BWI Marshall Airport.
Subtotal	***$159,300***	***$17,566***	
Total – Issued Debt	**$609,630**	**$68,622**	
Pending TBD	$35,000	$0	Construction of a parking garage at State Center.
Total – Issued and Pending	**$644,630**	**$68,622**	

TBD: to be determined

*State tax-supported debt.

Source: Maryland Department of Transportation

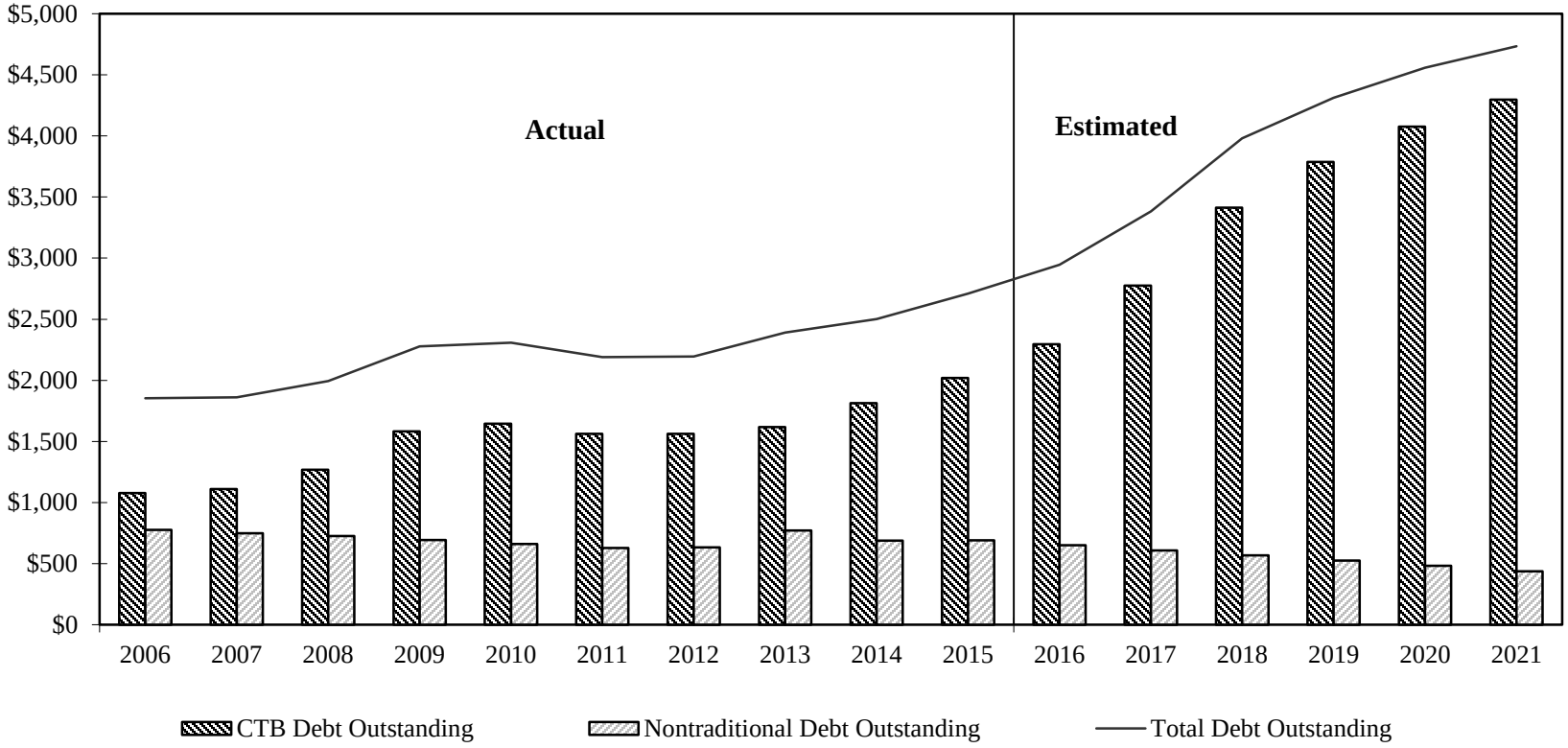
Total Debt Outstanding

Exhibit 5 shows that MDOT total debt outstanding from all sources was $1.9 billion in fiscal 2006 and is projected to increase to $4.7 billion by fiscal 2021. Debt outstanding from nontraditional debt is expected to total just over 9% of all debt in fiscal 2021.

Grant Anticipation Revenue Vehicles

GARVEEs are transportation bonds that are issued by states and public authorities that are backed by future federal aid highway and transit appropriations. While the source of funds used to repay GARVEE issuances originates with the federal government, the federal government's agreement to the use of its funds in this manner does not constitute any obligation on the part of the federal government to make these funds available. If for any reason federal appropriations are not made as anticipated, the obligation to repay GARVEEs falls entirely to the State agency or authority that issued them. To increase the GARVEE bond rating and reduce borrowing costs, the State pledges TTF revenues should federal appropriations be insufficient to pay GARVEE debt service. Since paying the debt is an obligation of the State, and TTF revenues have been pledged, GARVEE bonds are considered State debt.

Exhibit 5
Total Transportation Debt Outstanding
Fiscal 2006-2021
($ in Millions)



CTB: Consolidated Transportation Bonds

Source: Maryland Department of Transportation; Department of Legislative Services

Chapters 471 and 472 of 2005 authorized the use of GARVEE bonds for the InterCounty Connector (ICC) project. The law stipulates that the State may issue no more than $750.0 million in GARVEE bonds, and that bond maturity may not exceed 12 years after date of issue. MDTA issued $325.0 million in GARVEE bonds on May 22, 2007, with a net premium of $16.9 million to support construction of the ICC. A second GARVEE debt issuance of $425.0 million was issued on December 11, 2008, with a net premium of $17.7 million. GARVEE debt service payments are $87.5 million from fiscal 2010 to 2019 and $51.4 million in fiscal 2020, the last year of debt service payments.

Issues

1. Debt Service Taking Bigger Bite of the Transportation Revenue Pie

Under Maryland's debt affordability process, one criteria used to ensure that debt remains affordable is that debt service on tax-supported debt should not exceed 8.0% of revenues. CTB debt is considered tax-supported, and MDOT revenues are included in the State's debt affordability calculations, thus ensuring that total State tax-supported debt remains affordable. The affordability of CTB debt vis-à-vis TTF revenues is not similarly limited. The heavy reliance on debt to fund the transportation capital program is causing debt service to take an ever larger share of transportation revenues. In fiscal 2015, debt service equaled 8.4% of net MDOT revenues, already above the level used for all State tax-supported debt. With the large bond issuances planned for the next few years, debt service as a percent of net revenues is projected to increase and will consume almost 11.0% of net TTF revenues in fiscal 2021. Furthermore, in fiscal 2021, MDOT expects to issue $445 million to support the capital program but will need to pay $402 million in debt service.

While the debt service coverage ratios do limit the amount of CTB debt MDOT can issue, they do not ensure that the debt is affordable. Indeed, a net-income to debt service ratio of 2.0 (the minimum allowed under bond covenants) would mean that debt service is consuming an amount equal to half the net revenues from the prior year. With out-year coverage ratios approaching minimum levels required under bond covenants and potentially breaching the MDOT administrative policy minimum (depending on how local transportation aid capital grants are treated), development of affordability criteria specific to CTB debt is advisable. Furthermore, this effort is given greater weight by the fact that total State tax-supported debt is approaching the affordability limits and increasing levels of transportation debt may limit the State's ability to address capital needs in other areas. **Committee narrative requesting MDOT to work with the Capital Debt Affordability Committee to develop affordability criteria specific to CTB debt is included in the recommended action section of this analysis.**

Operating Budget Recommended Actions

1. Add the following language:

   Consolidated Transportation Bonds may be issued in any amount provided that the aggregate outstanding and unpaid balance of these bonds and bonds of prior issues may not exceed $2,773,900,000 as of June 30, 2017. Further provided that the amount paid for debt service shall be reduced by any proceeds generated from net bond sale premiums, provided that those revenues are recognized by the department and reflected in the Transportation Trust Fund forecast. Further provided that the appropriation for debt service shall be reduced by any proceeds generated from net bond sale premiums. To achieve this reduction, the Maryland Department of Transportation (MDOT) may either use the proceeds from the net premium to reduce the size of the bond issuance and/or apply the proceeds from the net premium to eligible debt service.

   Explanation: Section 3-202 of the Transportation Article requires the General Assembly to establish the maximum debt outstanding each year in the budget bill. The level will be based on outstanding debt as of June 30, 2016, plus projected debt issued during fiscal 2017 in support of the transportation capital program.

2. Add the following language:

   MDOT shall submit with its annual September and January financial forecasts information on:

   (1) anticipated and actual nontraditional debt outstanding as of June 30 of each year; and

   (2) anticipated and actual debt service payments for each outstanding nontraditional debt issuance from fiscal 2016 through 2026.

   Nontraditional debt is defined as any debt instrument that is not a Consolidated Transportation Bond or a Grant Anticipation Revenue Vehicle bond; such debt includes, but is not limited to, Certificates of Participation, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by the Maryland Economic Development Corporation or any other third party on behalf of MDOT.

   Explanation: The General Assembly is interested in monitoring the use of nontraditional debt by MDOT. The information requested provides the budget committees with additional information on the usage and annual costs of nontraditional debt.

Information Request	**Author**	**Due Date**
Nontraditional debt outstanding and anticipated debt service payments	MDOT	With the September forecast

Nontraditional debt outstanding and anticipated debt service payments	MDOT	With the January forecast

3. Add the following language:

The total aggregate outstanding and unpaid principal balance of nontraditional debt, defined as any debt instrument that is not a Consolidated Transportation Bond or a Grant Anticipation Revenue Vehicle bond issued by MDOT, may not exceed $609,630,000 as of June 30, 2017. Provided, however, that in addition to the limit established under this provision, MDOT may increase the aggregate outstanding unpaid and principal balance of nontraditional debt so long as:

(1) MDOT provides notice to the Senate Budget and Taxation Committee and the House Appropriations Committee stating the specific reason for the additional issuance and providing specific information regarding the proposed issuance, including information specifying the total amount of nontraditional debt that would be outstanding on June 30, 2017, and the total amount by which the fiscal 2017 debt service payment for all nontraditional debt would increase following the additional issuance; and

(2) the Senate Budget and Taxation Committee and the House Appropriations Committee have 45 days to review and comment on the proposed additional issuance before the publication of a preliminary official statement. The Senate Budget and Taxation Committee and the House Appropriations Committee may hold a public hearing to discuss the proposed increase and shall signal their intent to hold a hearing within 45 days of receiving notice from MDOT.

Explanation: This language limits the amount of nontraditional debt outstanding at the end of fiscal 2017 to the total amount that is projected to be outstanding from all previous nontraditional debt issuances as of June 30, 2016. The language allows MDOT to increase the amount of nontraditional debt outstanding in fiscal 2017 by providing notification to the budget committees regarding the reason that the additional issuances are required. Any plan to issue debt for the State Center Project would require notification under this language.

Information Request	**Author**	**Due Date**
Justification for increasing nontraditional debt outstanding	MDOT	45 days prior to publication of a preliminary official statement

4. Adopt the following narrative:

Consolidated Transportation Bond Debt Affordability Criteria: The committees are concerned about the increasing share of Transportation Trust Fund (TTF) revenues being consumed by debt service payments on Consolidated Transportation Bond (CTB) debt. By fiscal 2021, the end of the current TTF forecast period, debt service is projected to require almost 11.0% of net TTF revenues. Furthermore, in fiscal 2021, the TTF forecast anticipates that debt service will equal an amount equivalent to over 90.0% of projected bond issuances. Given that CTB debt is part of total State tax-supported debt and total State tax-supported debt is approaching the State's affordability limits, it is desirable that CTB-specific affordability criteria be developed. The committees therefore request that the Maryland Department of Transportation (MDOT) work with the Capital Debt Affordability Committee (CDAC) to develop affordability criteria that may be used to ensure CTB debt remains affordable vis-à-vis TTF resources. MDOT should submit a report to the committees detailing the recommended affordability criteria developed through this effort by December 1, 2016.

Information Request	**Authors**	**Due Date**
Report on recommended affordability criteria	MDOT CDAC	December 1, 2016

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – Debt Service Requirements
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$255,370	$0	$0	$255,370
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-7,022	0	0	-7,022
Actual Expenditures	**$0**	**$248,348**	**$0**	**$0**	**$248,348**
Fiscal 2016					
Legislative Appropriation	$0	$282,667	$0	$0	$282,667
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$282,667**	**$0**	**$0**	**$282,667**

MDOT: Maryland Department of Transportation

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding

Fiscal 2015

Fiscal 2015 expenditures were $7,022,216 lower than the legislative appropriation due to a $130 million reduction in the amount of debt issued compared with the estimate upon which the budget was based; interest savings resulting from issuing some debt in the spring instead of all debt in the fall sale; and use of Build America Bond subsidy funds to partially offset debt service costs.

Fiscal 2016

The fiscal 2016 legislative appropriation remains unchanged.

Object/Fund Difference Report
MDOT – Debt Service Requirements

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Objects					
13 Fixed Charges	$ 248,347,697	$ 282,666,738	$ 309,911,986	$ 27,245,248	9.6%
Total Objects	**$ 248,347,697**	**$ 282,666,738**	**$ 309,911,986**	**$ 27,245,248**	**9.6%**
Funds					
03 Special Fund	$ 248,347,697	$ 282,666,738	$ 309,911,986	$ 27,245,248	9.6%
Total Funds	**$ 248,347,697**	**$ 282,666,738**	**$ 309,911,986**	**$ 27,245,248**	**9.6%**

MDOT: Maryland Department of Transportation

Note: The fiscal 2016 appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 3

Consolidated Transportation Bonds
Debt Service and Debt Outstanding
On Debt Outstanding as of December 31, 2015

Fiscal Year	Debt Service	Debt Outstanding at End of Fiscal Year
2016	$264,357,924	$2,146,085,000
2017	300,632,136	1,938,900,000
2018	305,197,261	1,717,190,000
2019	272,367,036	1,517,780,000
2020	233,704,086	1,347,530,000
2021	241,193,736	1,161,605,000
2022	234,987,611	973,050,000
2023	228,648,436	783,220,000
2024	162,355,524	651,180,000
2025	148,144,049	527,315,000
2026	129,446,636	416,645,000
2027	130,117,444	301,345,000
2028	118,865,750	193,030,000
2029	102,684,738	96,470,000
2030	70,124,619	29,230,000
2031	29,668,450	0

Source: Maryland Department of Transportation

Appendix 4

Nontraditional Debt
Debt Service and Debt Outstanding
On Debt Outstanding as of December 31, 2015

Fiscal Year	Debt Service	Debt Outstanding at End of Fiscal Year
2016	$68,744,961	$650,370,000
2017	68,621,554	609,630,000
2018	67,056,435	568,955,000
2019	66,975,780	526,710,000
2020	66,978,501	482,695,000
2021	65,971,954	437,815,000
2022	65,452,518	391,660,000
2023	62,274,440	346,780,000
2024	62,285,720	300,015,000
2025	59,726,252	253,870,000
2026	57,985,628	207,525,000
2027	56,815,090	160,405,000
2028	39,403,050	128,665,000
2029	39,388,333	95,475,000
2030	39,406,983	60,710,000
2031	25,710,749	38,000,000
2032	25,716,726	14,075,000
2033	11,740,591	2,840,000
2034	2,953,600	0

Source: Maryland Department of Transportation

J00B01
State Highway Administration
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$461,826	$416,798	$433,728	$16,931	4.1%
Deficiencies and Reductions	0	0	-406	-406	
Adjusted Special Fund	**$461,826**	**$416,798**	**$433,323**	**$16,525**	**4.0%**
Federal Fund	11,357	14,537	15,294	756	5.2%
Adjusted Federal Fund	**$11,357**	**$14,537**	**$15,294**	**$756**	**5.2%**
Adjusted Grand Total	**$473,183**	**$431,335**	**$448,617**	**$17,281**	**4.0%**

- Factoring in the back of the bill reduction, which reduces health insurance funding for the State Highway Administration by $405,780 ($405,740 special funds, $40 federal funds), the fiscal 2017 allowance grows by $17.3 million (4.0%) over the current year working appropriation.

- Nearly 47% of the increase is due to an increase in the local Highway User Revenues appropriation.

For further information contact: Steven D. McCulloch Phone: (410) 946-5530

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2015	Fiscal 2016		Fiscal 2017
	Actual	**Legislative**	**Working**	**Allowance**
Special	$646,727	$866,515	$824,921	$1,002,484
Federal	$520,195	$524,860	$577,917	$564,634
Total	**$1,166,922**	**$1,391,375**	**$1,402,838**	**$1,567,118**

- The fiscal 2016 working appropriation is $11.5 million higher than the legislative appropriation comprising a special fund decrease of $41.6 million, which is more than offset by an increase in federal funds of $53.1 million.

- The fiscal 2017 allowance increases $164.3 million compared to the current year working appropriation. Special funds increase by $177.6 million in the allowance while federal funds decrease by $13.3 million.

Operating and PAYGO Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Operating Budget Positions	1,530.00	1,530.00	1,531.00	1.00
Regular PAYGO Budget Positions	1,506.50	1,506.50	1,532.50	26.00
Total Regular Positions	**3,036.50**	**3,036.50**	**3,063.50**	**27.00**
Operating Budget FTEs	3.00	5.00	5.00	0.00
PAYGO Budget FTEs	14.00	12.00	12.00	0.00
Total FTEs	**17.00**	**17.00**	**17.00**	**0.00**
Total Personnel	**3,053.50**	**3,053.50**	**3,080.50**	**27.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		157.16	5.13%	
Positions and Percentage Vacant as of 12/31/15		234.00	7.71%	

- The allowance includes 26 additional capital positions reflecting the significant increase in highway capital spending and 1 additional operating position to assist in the oversight of operations in the seven engineering districts carried out through the Office of the Deputy Administrator for Operations and to oversee the system preservation programs for that office.

- The number of contractual full-time equivalents remains unchanged between the working appropriation and allowance.

Analysis in Brief

Major Trends

Safety and Security: Preliminary data for calendar 2014 indicate that both the number of fatalities and the fatality rate (fatalities per 100 million miles driven) were lower than the previous year.

Congestion: The percent of vehicle miles traveled in congested conditions during the evening peak hour remained unchanged at 16% between calendar 2013 and 2014 for arterial roads, but congestion worsened for freeways and expressways increasing from 24% to 27% between these two years.

System Preservation and Maintenance – Structurally Deficient Bridges: The number of bridges maintained by the State Highway Administration (SHA) that were rated "structurally deficient" decreased to 69 as of April 15, 2015, from 81 the prior year.

System Preservation and Maintenance – Highway Maintenance Condition: SHA met its goal of improving/maintaining at least 84% of the highway network in an overall preferred maintenance condition five times since calendar 2006 but has not met this goal in the past three years. **SHA should discuss the challenges that have prevented it from achieving the goal for this objective, particularly the marked deterioration in performance in calendar 2015.**

Issues

Transportation Watershed Implementation Plan Funding a De Facto Transportation Trust Fund Responsibility: Circumstances have changed since general fund/general obligation bond funding for SHA Watershed Implementation Plan projects was mandated by Chapter 429 of 2013. **It is recommended that language be added to the budget bill expressing the intent that this funding mandated in statute should be provided by the Transportation Trust Fund.**

Certain Local Government Uniform Financial Reports Not Submitted: Two municipalities have failed to submit audit reports and Uniform Financial Reports (UFR) for multiple years. **It is recommended that State transportation aid funding under the Highway User Revenues program be suspended until the jurisdictions submit delinquent annual audit reports and UFRs. Suggested language is included in the Recommended Actions section of this analysis for consideration.**

Operating Budget Recommended Actions

1. Add budget bill language expressing intent that mandated funding for transportation-related Watershed Implementation Plan projects be provided through the Transportation Trust Fund.

2. Add language restricting transportation aid to municipalities delinquent on submitting required audits and Uniform Financial Reports

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

J00B01

State Highway Administration

Maryland Department of Transportation

Budget Analysis

Program Description

The State Highway Administration (SHA) is responsible for over 5,200 miles of interstate, primary and secondary roads, and over 2,500 bridges. SHA employees plan, design, build, and maintain these roads and bridges to safety and performance standards, while paying attention to social, ecological, and economic concerns.

SHA employs personnel in seven engineering districts throughout the State and at its Baltimore City headquarters. Each district encompasses a number of adjacent counties, with a district office serving as its headquarters. There is at least one maintenance facility in each county. The districts are responsible for the management of highway and bridge construction contracts and maintenance functions such as pavement repairs, bridge repairs, snow removal, roadside management, equipment maintenance, and traffic engineering operations.

SHA attempts to manage traffic and congestion through the Coordinated Highways Action Response Team (CHART) program. CHART provides information about traffic conditions and clears incidents on major roadways.

The highway safety program funds the Motor Carrier Division. The Motor Carrier Division manages the State's enforcement of truck weight and age limits by inspecting drivers, trucks, and cargo, as well as auditing carriers.

The administration shares the key goals identified by the Maryland Department of Transportation:

- safety and security;
- system preservation;
- quality of service;
- environmental stewardship;
- community vitality; and
- economic prosperity.

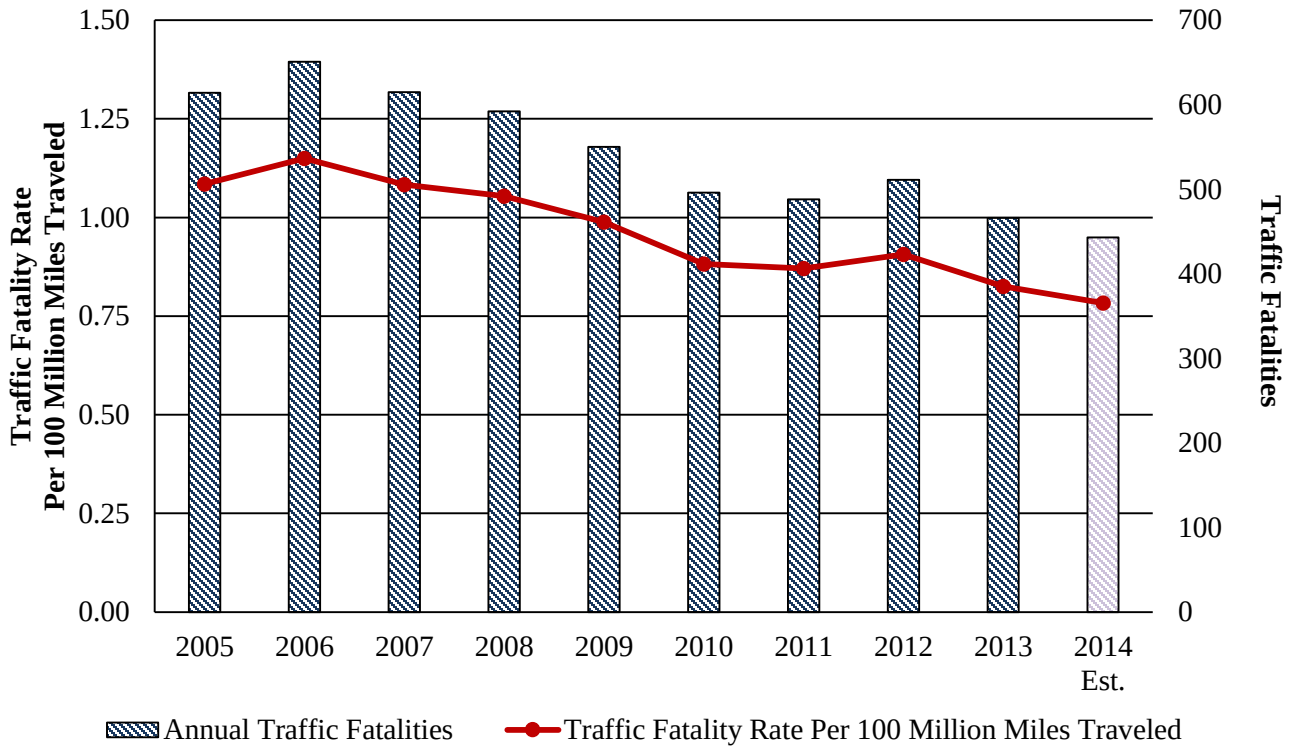
Performance Analysis: Managing for Results

SHA provides Managing for Results performance measures that relate to its mission and goals. The mission of SHA is to "provide a safe, well-maintained, reliable highway system that enables mobility choices for all customers and supports Maryland's communities, economy, and environment."

1. Safety and Security

One objective of the SHA safety and security goal is to reduce the annual number of traffic-related fatalities to 387 or fewer by the end of calendar 2020. **Exhibit 1** shows the number of traffic fatalities and the traffic fatality rate by calendar year for calendar 2005 through 2014 estimated. Since calendar 2006, both the annual number of fatalities and the fatality rate have been on a downward trend.

Exhibit 1
Highway Miles Traveled Compared to Fatalities
Calendar 2005-2014 Est.

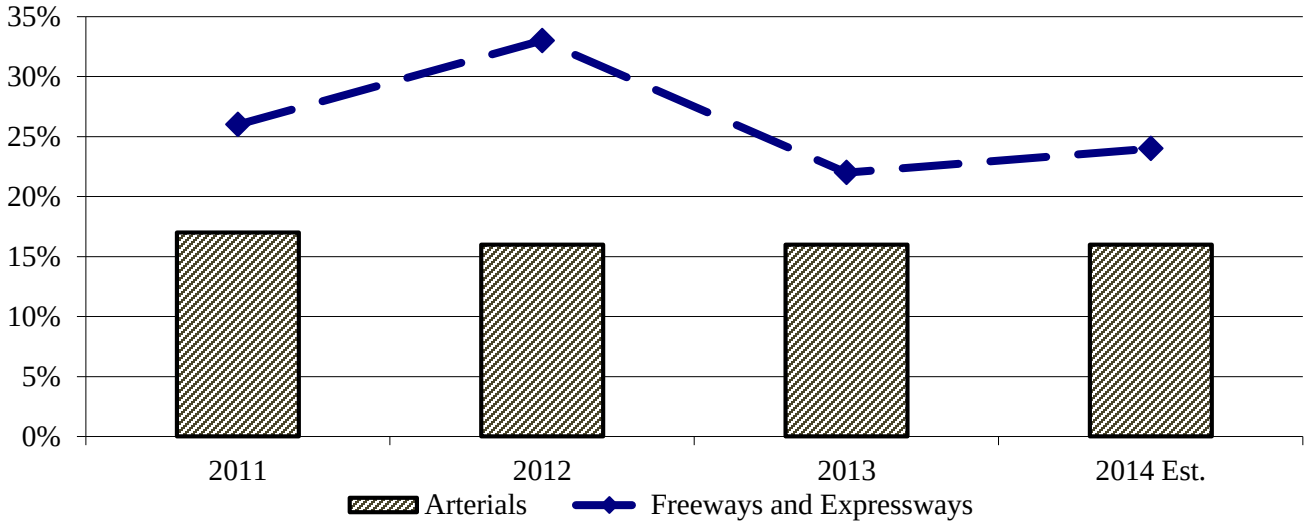


Source: Department of Budget and Management; State Highway Administration

2. Congestion

In recent years, the Washington, DC and Baltimore metropolitan regions have been rated as having some of the highest levels of roadway congestion in the country. **Exhibit 2** shows the percent of vehicle miles traveled in congested conditions during the evening peak hour on Maryland's highways, expressways, and arterial roads. SHA began reporting this measure with the fiscal 2015 allowance. According to the limited data available, congestion on arterial roads remained unchanged at 16% between calendar 2012 and 2014. Freeway congestion improved in calendar 2013, falling to 22% from 33% the prior year, but worsened in calendar 2014 to 24%.

Exhibit 2
Percent of VMT in Congested Conditions during Evening Peak Hour
Calendar 2011-2014 Est.



VMT: vehicle miles traveled

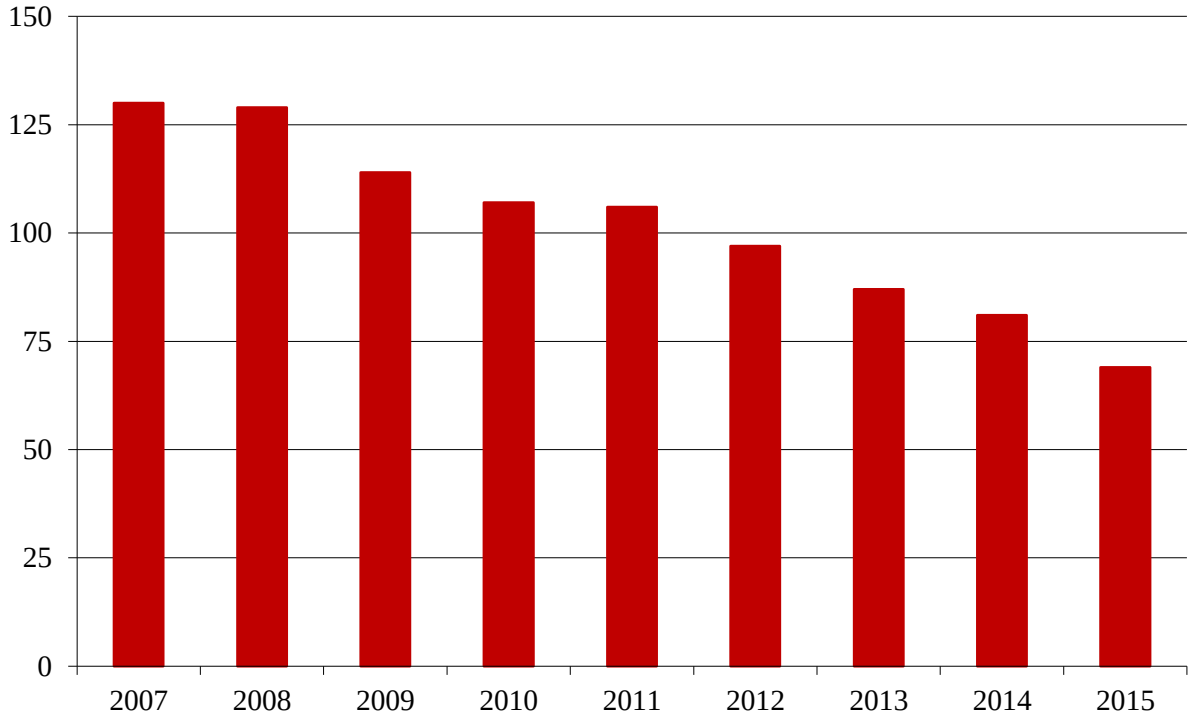
Source: Department of Budget and Management; State Highway Administration

3. System Preservation and Maintenance – Structurally Deficient Bridges

One objective under the SHA goal of system preservation and maintenance is to "maintain all bridges along the State Highway Network, including those identified as weight restricted and structurally deficient, so that there is no adverse effect on their safe use by emergency vehicles, school buses, and vehicles serving the economy of an area." **Exhibit 3** shows a steady decline in the

number of structurally deficient bridges since calendar 2007. As of April 15, 2015, there were 69 bridges reported as structurally deficient.

Exhibit 3
Structurally Deficient Bridges in the State Highway Network
As of April 15, 2015
Calendar 2007-2015

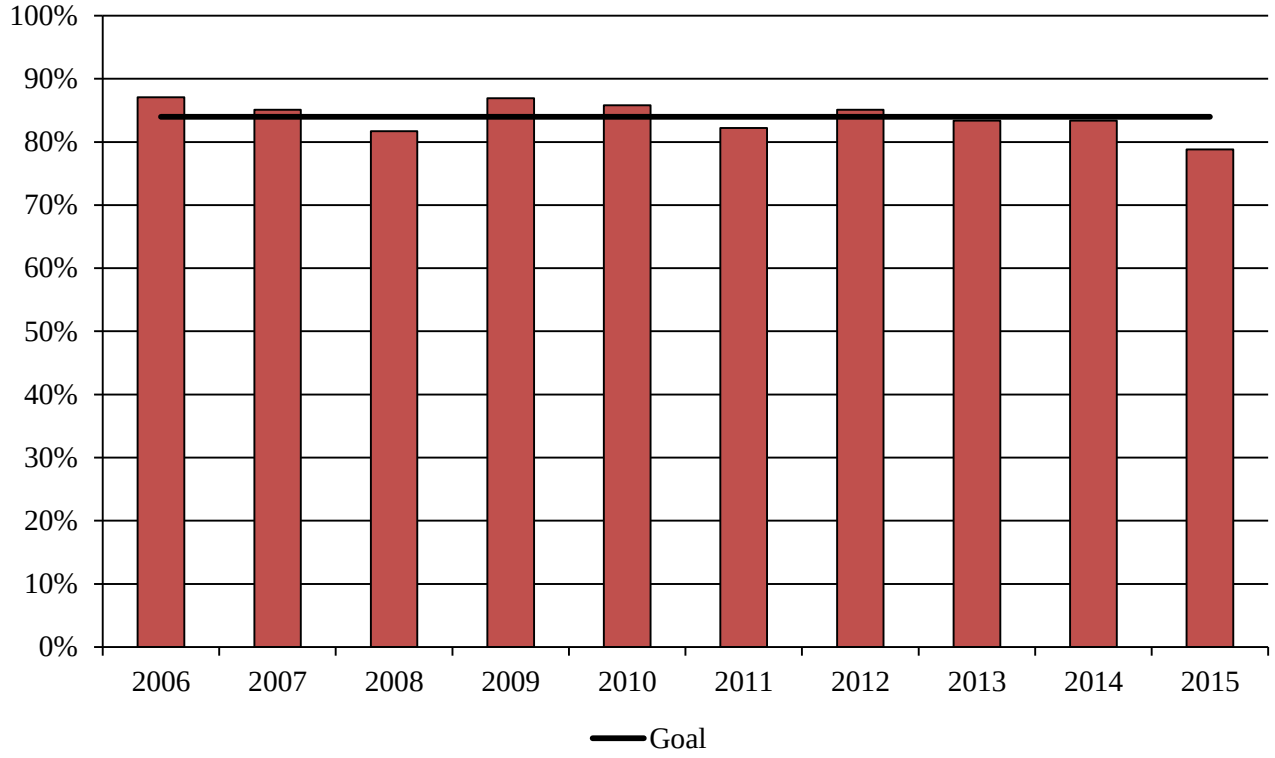


Source: State Highway Administration

4. System Preservation and Maintenance – Highway Maintenance Condition

Another objective of the system preservation and maintenance goal is to improve/maintain 84% of the highway network in an overall preferred maintenance condition. As shown in **Exhibit 4**, SHA met this goal five times since calendar 2006 but has not met the goal in the past three years. **SHA should discuss the challenges that have prevented it from achieving the goal for this objective, particularly the marked deterioration in performance in calendar 2015.**

Exhibit 4
Highway Network in Overall Preferred Maintenance Condition
Calendar 2006-2015



Source: Department of Budget and Management; State Highway Administration

Proposed Budget

As shown in **Exhibit 5**, the fiscal 2017 allowance increases by $17.3 million over the current year working appropriation. Personnel expenses increase by a net $4.1 million, driven primarily by employee and retiree health insurance contributions and retirement system costs. Not included in the SHA operating budget are employee increments and associated fringe benefit expenses. Funds for these expenses are included in the budget of the Department of Budget and Management and will be distributed to agencies for the start of the fiscal year. For SHA, this will equate to $1,270,241 in special funds and an estimated $115,065 in federal funds. Operations increase by a net $5.1 million with snow removal accounting for the largest increase. Local aid through the Highway User Revenue (HUR) formula increases by $8.1 million due to increased revenue estimates.

Exhibit 5
Proposed Budget
MDOT – State Highway Administration
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2015 Actual	$461,826	$11,357	$473,183
Fiscal 2016 Working Appropriation	416,798	14,537	431,335
Fiscal 2017 Allowance	433,323	15,294	448,617
Fiscal 2016-2017 Amount Change	$16,525	$756	$17,281
Fiscal 2016-2017 Percent Change	4.0%	5.2%	4.0%

Where It Goes:

Personnel Expenses	
Employee and retiree health insurance	$2,303
Employee' Retirement System	1,959
Overtime, shift differential and additional assistance	638
Workers' compensation premium assessment	128
Accrued leave payouts	59
Turnover adjustments	-125
New hires salaries reset to base	-916
Other fringe benefit adjustments	47
Operations	
Winter maintenance expenses – nonpersonnel	4,336
Engineering contractual services – bridge repair	760
Non-data processing other contractual services based on three-year history	750
Vehicle maintenance and repair	650
Telephone – increased VOIP system use	604
Technical services for CHART	549
Miscellaneous supplies based on three-year history	400
Replacement engineering equipment	278
Sign and signal supplies and materials based on three-year history	220
Miscellaneous professional and technical services	170
Insurance coverage through the State Treasurer's Office	153
Drawbridge operations	120
Parts for equipment repairs based on three-year history	106
Equipment repairs and maintenance	100

Where It Goes:	
Temporary clerical support	84
Bituminous material/concrete/cement based on three-year history	74
Materials inspection technical services	65
Engineering contractual services – highway safety	50
Grant to American Association of State Highway and Transportation Officials	48
Vehicle insurance coverage	39
Computer maintenance contractual services	39
Winter jackets and shoes based on three-year history	35
Office supplies based on three-year history	31
Small tools based on three-year history	30
Equipment rental	29
Additional office furniture and equipment	28
Energy conservation loan repayment	27
Steel/iron/aluminum/wire based on three-year history	16
Two contractual FTEs converted to higher job classifications	15
Fuel – oil/miscellaneous	-17
Applications software maintenance	-17
Highway beautification supplies based on three-year history	-20
Maryland Automated Accident Reporting System grant to Maryland State Police	-66
Fuel – natural gas/propane	-143
Inmate labor contractual services based on three-year history	-200
Additional engineering equipment	-551
Motor vehicles – gas and oil	-989
Building maintenance contractual services based on maintenance plan	-1,182
Electricity usage	-1,481
Grants	
Highway User Revenues – local share	8,109
Other Changes	-61
Total	**$17,281**

CHART: Coordinated Highways Action Response Team
FTE: full-time equivalent
VOIP: voice over Internet protocol

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. The SHA share of these reductions is $405,740 in special funds and $40 in federal funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Winter Maintenance/Snow Removal

Budget bill language added to the SHA fiscal 2010 budget indicated intent of the General Assembly that SHA increase the amount budgeted for snow removal by $5.0 million each year until the budgeted amount reflected the rolling five-year average of actual snow removal expenditures. The fiscal 2017 allowance complies with this directive. It includes $61.0 million for snow removal efforts – a $5.0 million increase over the $56.0 million included in the current year budget. The five-year average of snow removal expenditures through fiscal 2015 is $87.9 million.

Highway User Revenues

The formula-based HUR for local governments in the fiscal 2017 allowance is $8.1 million higher than the $169.3 million included in the fiscal 2016 working appropriation. Based on current revenue estimates, however, the fiscal 2016 local share has increased by $7.0 million since the budget was passed. The additional funds will be added by budget amendment at the end of the fiscal year and will reflect actual revenue attainment.

In addition to the formula-based HUR, local governments received an additional $25 million in local transportation aid funding through a capital grant in the Secretary's Office budget in fiscal 2016, and the fiscal 2017 allowance includes capital grant funding of $53.6 million. **Exhibit 6** shows the HUR and capital grant funding for fiscal 2016 and 2017. **Exhibit 7** provides by county the fiscal 2017 allocations of both the HUR and capital grant funding for the counties, municipalities and Baltimore City.

Exhibit 6
Local Transportation Aid
Formula-based Highway User Revenues and Capital Grants
Fiscal 2016-2017

	2016	2017	Change
Formula-based Highway User			
Baltimore City	$141,442,994	$142,300,081	$857,087
Counties	27,553,830	27,720,795	166,965
Municipalities	7,347,688	7,392,212	44,524
Subtotal	***$176,344,512***	***$177,413,088***	***$1,068,576***
Capital Grant			
Baltimore City	$2,000,000	$5,544,159	$3,544,159
Counties	4,000,000	27,720,795	23,720,795
Municipalities	19,000,000	20,328,583	1,328,583
Subtotal	***$25,000,000***	***$53,593,537***	***$28,593,537***
Total Local Transportation Aid			
Baltimore City	$143,442,994	$147,844,240	$4,401,246
Counties	31,553,830	55,441,590	23,887,760
Municipalities	26,347,688	27,720,795	1,373,107
Total	**$201,344,512**	**$231,006,625**	**$29,662,113**

Source: Maryland State Budget

Exhibit 7
Highway User Revenues and Capital Grant Allocations
Fiscal 2017

	Counties			Municipalities		
	HUR	**Capital Grant**	**Total**	**HUR**	**Capital Grant**	**Total**
Allegany	$478,127	$478,127	$956,254	$368,120	$1,012,331	$1,380,451
Anne Arundel	2,963,724	2,963,724	5,927,448	317,408	872,871	1,190,279
Baltimore	4,179,019	4,179,019	8,358,038	0	0	0
Calvert	637,459	637,459	1,274,917	94,477	259,813	354,290
Caroline	402,727	402,727	805,454	134,645	370,274	504,919
Carroll	1,133,428	1,133,428	2,266,855	433,159	1,191,188	1,624,347
Cecil	654,271	654,271	1,308,542	211,847	582,579	794,426
Charles	966,044	966,044	1,932,089	120,144	330,397	450,541
Dorchester	445,765	445,765	891,531	154,668	425,337	580,005
Frederick	1,367,275	1,367,275	2,734,551	814,797	2,240,691	3,055,487
Garrett	535,669	535,669	1,071,338	120,174	330,480	450,654
Harford	1,398,820	1,398,820	2,797,639	362,745	997,549	1,360,294
Howard	1,605,565	1,605,565	3,211,129	0	0	0
Kent	228,849	228,849	457,698	78,351	215,465	293,815
Montgomery	3,742,245	3,742,245	7,484,491	1,194,804	3,285,710	4,480,513
Prince George's	2,981,478	2,981,478	5,962,955	1,506,452	4,142,742	5,649,194
Queen Anne's	534,879	534,879	1,069,757	51,782	142,401	194,183
St. Mary's	788,796	788,796	1,577,593	32,929	90,554	123,482
Somerset	282,263	282,263	564,526	54,888	150,942	205,830
Talbot	327,919	327,919	655,837	210,065	577,680	787,745
Washington	887,702	887,702	1,775,404	477,605	1,313,413	1,791,017
Wicomico	659,258	659,258	1,318,516	413,894	1,138,208	1,552,101
Worcester	519,513	519,513	1,039,026	239,258	657,961	897,219
Total	**$27,720,795**	**$27,720,795**	**$55,441,590**	**$7,392,212**	**$20,328,583**	**$27,720,795**
Baltimore City	**$142,300,081**	**$5,544,159**	**$147,844,240**			

HUR: Highway User Revenues

Source: Maryland State Budget; Department of Legislative Services

PAYGO Capital Program

Program Description

The State System Construction program provides funds for the capital program of SHA. Financing is available from current revenues, federal aid, and bond proceeds for construction and reconstruction projects on the State highway system, program-related planning and research, acquisition of major capital equipment, and all other capital expenditures. Funding is also provided for local capital programs through the State Aid in Lieu of Federal Aid program and various federal grants, including bridge replacement and rehabilitation and the national highway system.

The *Consolidated Transportation Program* (CTP) includes a development and evaluation program (D&E) and a construction program. Generally, projects are first added to the D&E program, at which stage they are evaluated by planners and engineers, and rights-of-way may be purchased. SHA also prepares draft and final environmental impact statements for projects in the D&E program. These studies examine alternatives which include a no-build option and a number of different alignments. Spending on a project while in the D&E program is usually less than 15% of the total project cost. When SHA wants to move a project forward, it is moved into the construction program.

Fiscal 2016 to 2021 *Consolidated Transportation Program*

The fiscal 2016 to 2021 six-year capital program for SHA totals $8.4 billion, an increase of $1.2 billion compared to the prior six-year program. Increases for major projects ($929.8 million) and safety, congestion relief and community enhancements ($434 million) account for the majority of the six-year increase. **Exhibit 8** compares six-year programmed funding levels by category between the current and previous CTPs.

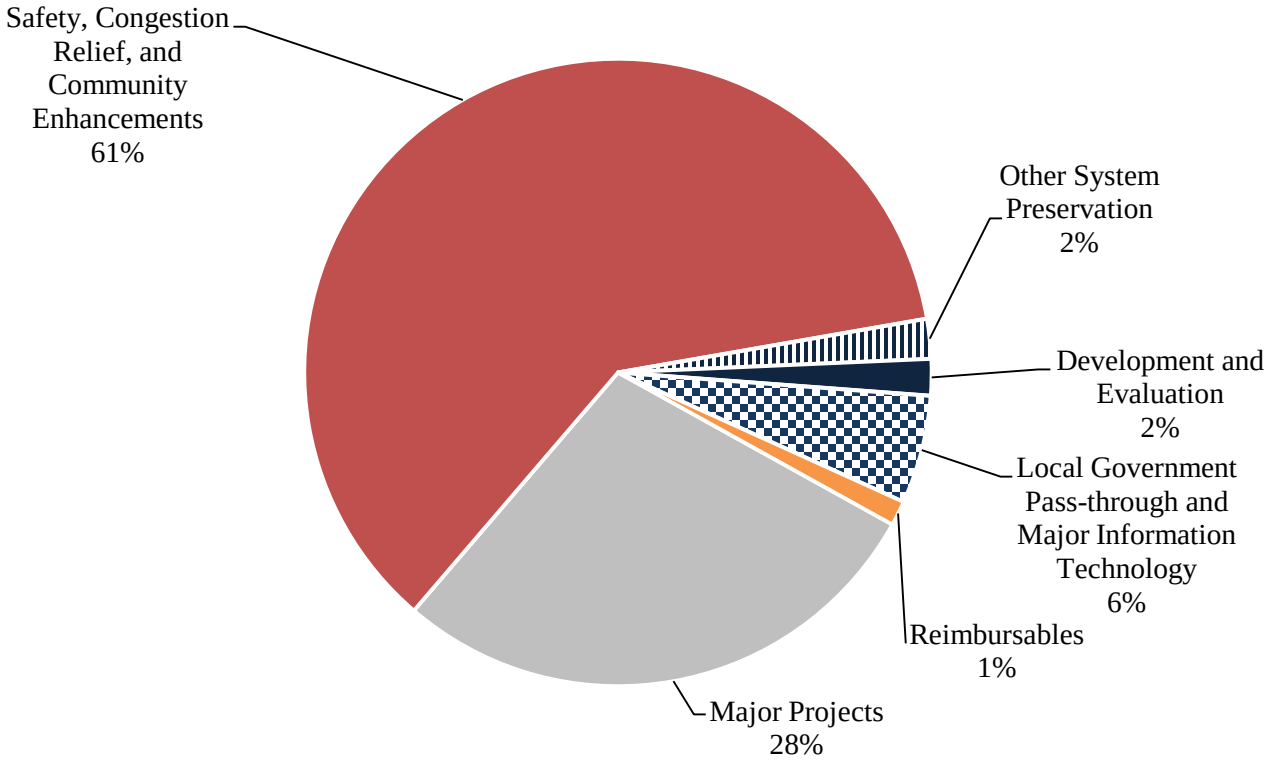
Exhibit 8
State Highway Administration Six-year Capital Program by Category
Fiscal 2015-2010 vs. Fiscal 2016-2021
($ in Millions)

Category	2015-2020	2016-2021	Change
Major Projects	$1,430.7	$2,360.5	$929.8
Safety, Congestion Relief, Community Enhancements	4,665.5	5,099.5	434.0
Development and Evaluation Program	394.3	171.9	-222.4
Other System Preservation	242.5	157.1	-85.4
Pass-through funding to local governments and major information technology funding	456.0	467.6	11.6
Reimbursable	0.0	107.0	107.0
Total	**$7,189.0**	**$8,363.6**	**$1,174.6**

Source: Maryland Department of Transportation, 2015-2020 and 2016-2021 *Consolidated Transportation Programs*

Exhibit 9 shows programmed funding by category in the fiscal 2016 through 2021 program. Safety, congestion relief, and community enhancement projects account for the majority of funding at 61% followed by major projects at 28%.

Exhibit 9
Funding by Category – All Funds
Fiscal 2016-2021



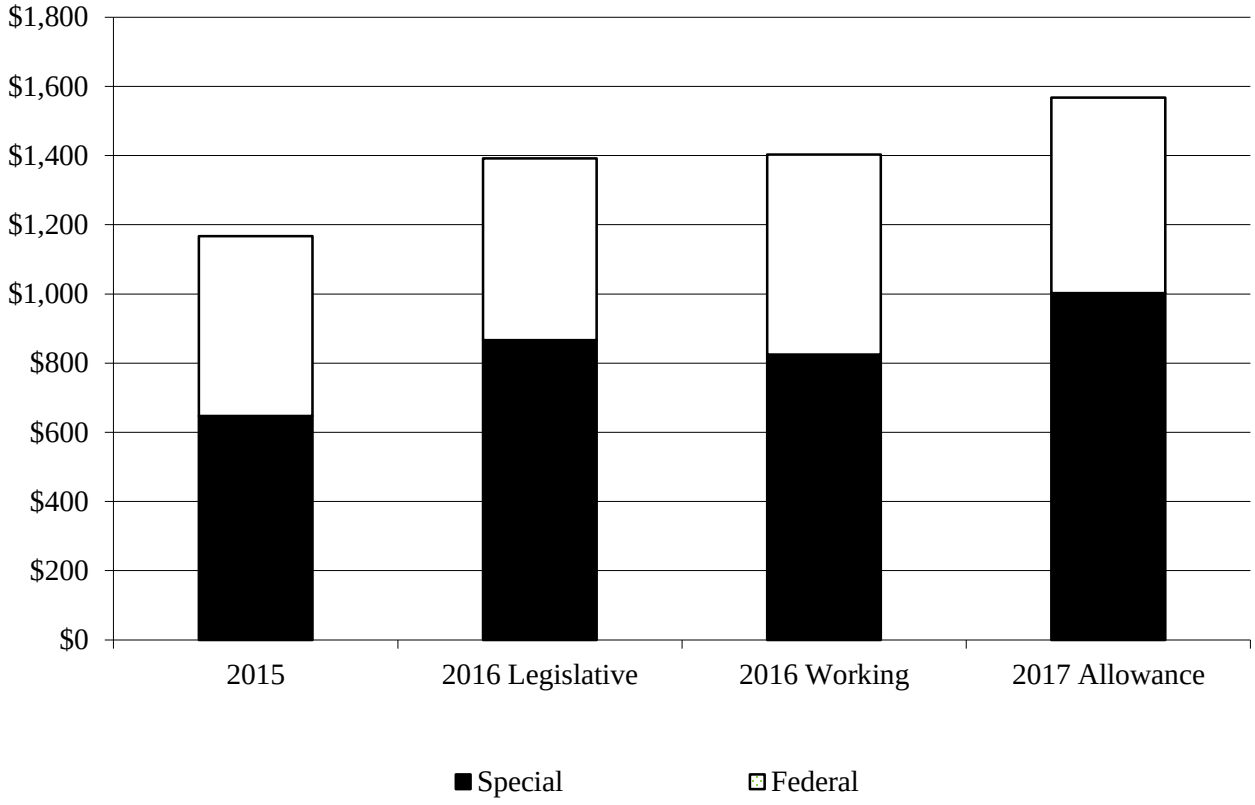
Total: $8.4 Billion

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Programs*

Fiscal 2016 and 2017 Cash Flow Analysis

Exhibit 10 shows the cash flow changes in the SHA capital program from fiscal 2015 through the 2017 allowance. The fiscal 2016 working allowance is a net $11.5 million higher than the legislative appropriation comprising a $41.6 million decrease in special funds more than offset by an increase of $53.1 million in federal funds. Changes in spending categories also occurred between the legislative and working appropriations, the largest of which were an increase of $82.7 million for safety, congestion relief and community enhancements projects, and a $61.7 million decrease in the D&E program.

Exhibit 10
Cash Flow Changes
Fiscal 2015-2017



Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

The fiscal 2017 allowance increases by $164.3 million over the current year working appropriation with special funds increasing by $177.6 million and federal funds decreasing by $13.3 million. The majority of the increase occurs in funding for major projects, which increases by $149.8 million between the current year and the allowance.

Exhibit 11 provides a summary of the large construction projects in the CTP for fiscal 2017.

Exhibit 11
Major Construction Projects
Funded in Fiscal 2017
($ in Thousands)

County	Project	2017	Total Cost	Six-year Spending	Notes
Allegany	MD 47, Barrelville Road, replace bridge over North Branch.	$3,046	$6,890	$5,459	1
Anne Arundel	MD 175, Annapolis Road, construct intersection capacity improvements at Mapes Road/Charter Oaks Boulevard and Reece Road to include construction of a new security fence and tree buffer along Fort Meade's property.	5,123	18,917	13,537	
Anne Arundel	MD 175, Annapolis Road, widen MD 175 from Disney Road to Reece Road, from the existing two lane roadway to a six lane roadway. Bicycle and pedestrian facilities will be provided.	15,166	45,680	44,798	
Anne Arundel	MD 175, Annapolis Road, widen MD 175 from National Business Parkway to McCarron Court from two lanes to six lanes and reconfigure ramps at the MD 295 interchange to create signalized left turns at MD 175.	6,980	111,389	70,190	2
Anne Arundel	US 50, John Hanson Highway, ease congestion on US 50 from MD 70 to MD 2 northbound by restriping lanes on the Severn River/Pearl Harbor Memorial Bridge to accommodate an additional eastbound travel lane.	1,830	26,566	25,733	2
Baltimore	I-695, Baltimore Beltway, from US 40 to MD 144 improve the mobility and safety on I-695 by widening the roadway to provide a fourth lane on the outer loop.	14,778	102,661	87,877	
Baltimore	I-695, Baltimore Beltway, replacement of bridges on I-695 Inner Loop over Benson Ave. and over Leeds Ave., US 1, AMTRAK and Herbert Run to include the realignment of the access to the I-695 on-ramp from Leeds Ave. to US 1.	15,791	50,466	39,662	

County	Project	2017	Total Cost	Six-year Spending	Notes
Baltimore	I-695, Baltimore Beltway, provide a continuous auxiliary lane on both the Inner and Outer Loops of I-695 between MD 41 (Perring Parkway) and MD 147 (Harford Road).	9,283	33,491	19,842	
Baltimore	I-83, Harrisburg Expressway, replace bridge over Padonia Road.	412	10,941	10,805	1
Baltimore	MD 137, Mount Carmel Road, replace bridge over I-83.	1,040	4,799	4,460	1
Baltimore	MD 140, Reisterstown Road, widen northbound MD 140 from Painters Mill Road to Garrison View Road (Phase 1) to accommodate an additional third travel lane and a bicycle-compatible shoulder.	5,353	17,715	14,818	2
Baltimore	MD 295, Baltimore Washington Parkway, construct noise wall on MD 295, from I-895 to north of Daisy Avenue to benefit the Riverview/Baltimore Highlands Community.	2,542	11,681	9,437	
Baltimore	US 40, Pulaski Highway, replace bridges over Little Gunpowder Falls and bridges over Big Gunpowder Falls.	3,950	12,436	11,529	1
Calvert	MD 2/4, Solomons Island Road, widen to a six-lane divided highway with auxiliary lanes from Fox Run Boulevard to Commerce Lane. This is Phase 2 of a five-phase project to upgrade MD 2/4 from north of Stoakley Road to south of MD 765A.	9,681	29,683	27,772	2
Calvert	MD 261, Bayside Road, replace bridge over Fishing Creek. This project will include bicycle and pedestrian accommodations as appropriate.	11,779	27,596	21,599	
Caroline	MD 331, Dover Road, replace bridge over Choptank River. The new span will be located south of the existing roadway and provide a 50-foot river clearance. Shoulders will accommodate bicycles and pedestrians.	14,237	61,369	44,756	

County	Project	2017	Total Cost	Six-year Spending	Notes
Caroline	MD 404, Shore Highway, upgrade existing MD 404 from west of MD 309 to Cemetery Road (Phase 1B). Bicycle and pedstrian accommodations will be included where appropriate.	7,124	31,228	15,630	
Caroline/ Queen Anne's/ Talbot	MD 404, Shore Highway, upgrade existing MD 404 to a 4 lane divided highway with access controls from US 50 to MD 309 and west of Hillsboro Road to Holly Road. Bicycle and pedestrian accommodations will be included where appropriate.	54,899	160,477	154,041	2
Carroll	MD 30 Business Main Street, streetscape improvements from North Woods Trail to CSX Railroad (Hampstead Streetscape). Bicycle and pedestrian facilities will be provided.	6,033	24,306	20,784	
Carroll	MD 86, Lineboro Road, replace bridge over South Branch of Gunpowder Falls.	1,300	6,219	6,048	1
Cecil	MD 222, N. Main Street, replace bridge over Rock Run. The project will include shoulders and sidewalks to accommodate bicycles and pedestrians.	1,459	4,621	3,788	1
Cecil	MD 272, Mauldin Ave, replace bridge over Amtrak. Shoulders and sidewalks will accommodate bicycles and pedestrians.	6,762	20,189	15,218	
Dorchester	Maintenance Facility in Cambridge, replace the maintenance facility in Cambridge.	1,165	24,105	16,827	
Frederick	MD 140, Main Street, replace bridge over Flat Run.	3,839	6,243	5,352	1
Frederick	MD 180, Jefferson Pike, urban reconstruction of MD 180, from north of I-70 to structure 10140 including additional structural capacity over US 15/US 340.	1,700	31,000	31,000	1
Frederick	MD 355, Urbana Pike, replace bridge over CSXT railroad.	1,195	6,853	5,802	1
Frederick	MD 355, Urbana Pike, replace bridge over Bennett Creek.	2,080	9,161	8,691	1

County	Project	2017	Total Cost	Six-year Spending	Notes
Frederick	MD 85, Buckeystown Pike, widen to a multilane divided highway from Crestwood Boulevard/Shockley Drive to Spectrum Drive including MD 85 interchange reconstruction at I-270 and I-270 dual bridges replacement.	17,580	118,067	112,426	2
Frederick	US 15, Catoctin Mountain Highway, construct a grade-separated interchange and park-and-ride lot at Monocacy Boulevard. This project will include appropriate bicycle and pedestrian facilities.	15,434	60,309	41,138	
Frederick	US 15, Catoctin Mountain Highway, replace bridge over MD 26.	4,155	6,626	6,408	1
Frederick	US 40 ALT, Old National Pike, construct roadway improvements including upgrades to pedestrian/bicyclist facilities, resurfacing, curb and gutter, and storm water management improvements from Ivy Hill Drive to Middletown Parkway.	3,483	14,554	12,058	1
Garrett	US 219, Chestnut Ridge Road, Upgrade and/or relocate a portion US 219 north of I-68.	1,750	90,000	90,000	1
Harford	MD 22, Aberdeen Thruway, intersection improvements at Beards Hill Road.	6,192	16,504	12,431	
Harford	MD 22, Aberdeen Thruway, intersection improvements at MD 462 (Paradise Road).	5,255	19,776	12,436	
Harford	US 40, Pulaski Highway, Construct intersection improvements on US 40 at the MD 7/MD 159 (Phase 2).	5,946	19,244	18,092	
Howard	I-95, Construct a noise wall along I-95, from the Montgomery Road overpass to the I-895 interchange.	6,446	12,768	11,452	1
Howard	MD 32, Patuxent Freeway, construct capacity and safety improvements along MD 32 from north of Linden Church Road to I-70.	3,389	113,515	106,973	2
Howard	MD 32, Sykesville Road, widen MD 32 from MD 108 to Linden Church Road from two lanes to a four lane divided roadway.	5,112	33,000	33,000	2

County	Project	2017	Total Cost	Six-year Spending	Notes
Howard	US 29, Columbia Pike, widen the northbound section of US 29 from Seneca Drive to MD 175 (Phase 1B) from 2 to 3 lanes.	7,537	35,068	18,218	
Montgomery	I-270, Eisenhower Highway, construct a new I-270 interchange at Watkins Mill Road. Bicycle and pedestrian improvements will be included as appropriate.	8,908	129,469	122,116	
Montgomery	I-270, Eisenhower Highway, pilot implementation of active traffic management and innovative congestion mitigation tools to reduce congestion on I-270, including the east and west spurs.	6,949	100,000	100,000	1
Montgomery	I-495, Capital Beltway, resurface I-495 from I-270Y to Seminary Road (Inner Loop).	6,891	10,697	10,427	1
Montgomery	MD 185, Connecticut Avenue, construct intersection improvements on MD 185 at Jones Bridge Road (Phase 3). Bicycle and pedestrian facilities will be provided where appropriate.	2,169	15,035	14,368	
Montgomery	MD 193, University Boulevard, replace bridge over I-495.	1,216	11,349	3,421	
Montgomery	MD 195, Carroll Avenue, replace bridge over Sligo Creek and Sligo Creek Parkway.	5,663	12,151	10,898	1
Montgomery	MD 355, Frederick Road, replace bridge over Little Bennett Creek.	1,420	5,151	4,825	1
Montgomery	MD 355, Rockville Pike, construct intersection improvements including upgrades to pedestrian/bicyclist facilities, resurfacing, and geometric improvements from Woodmont Avenue/Glenbrook Parkway to South Wood Road/South Drive.	1,409	4,299	4,299	
Montgomery	MD 355, Rockville Pike, construct intersection improvements on MD 355 at Cedar Lane (Phase 1 and 2). Bicycle and pedestrian facilities will be provided where appropriate.	1,969	16,059	6,334	

County	Project	2017	Total Cost	Six-year Spending	Notes
Montgomery	MD 97, Georgia Avenue, construct a two-lane highway from south of Brookeville, near Gold Mine Road, to north of Brookeville. Shoulders will accommodate bicycles.	10,860	42,768	38,972	
Montgomery	MD 97, Georgia Avenue, construct new MD 97 interchange at Randolph Road. Sidewalks will be included where appropriate. Wide curb lanes will accommodate bicycles.	17,826	77,324	38,648	
Prince George's	I-95, Capital Beltway, resurface I-95 from I-495 (Capital Beltway) to MD 212.	5,265	13,004	12,601	1
Prince George's	I-95/I-495, Capital Beltway, construct a full interchange along I-95/I-495 at the Greenbelt Metro Station.	2,050	152,106	148,126	2
Prince George's	I-95/I-495, Capital Beltway, Phase 2 Access improvements from MD 5 (Branch Avenue) and I-95/I-495 to the Branch Avenue Metro Station including improvements to the Access Road, pedestrian bridge, and the County Roads (Auth Road, Auth Place and Auth Way).	12,112	48,174	25,113	
Prince George's	I-95/I-495, Capital Beltway, Replace bridges over Suitland Road.	17,546	33,546	32,705	1
Prince George's	MD 210, Indian Head Highway, construct a new interchange at MD 210 and Kerby Hill Road/Livingston Road. Bicycles and pedestrians will be accommodated where appropriate.	24,897	116,216	106,286	
Prince George's	MD 337, Allentown Road, construct intersection improvements at MD 337 (Allentown Road) at Suitland Road and I-95/I-495 NB off Ramp. Bicycle and pedestrian access will be provided where appropriate.	1,949	6,177	5,450	
Prince George's	MD 4, Pennsylvania Avenue, construct a new interchange at MD 4 and Suitland Parkway. Bicycles and pedestrians will be accommodated where appropriate.	23,011	136,870	119,921	

County	Project	2017	Total Cost	Six-year Spending	Notes
Prince George's	MD 4, Pennsylvania Avenue, construct raised curb along southbound MD 4, a 10 foot hiker/biker trail along northbound MD 4, on-road bicycle accommodations and other traffic calming measures from Forestville Road to MD 458.	10,034	26,686	23,064	
Prince George's	MD 5, Branch Avenue, construct a new interchange at MD 5, MD 373 and Brandywine Road Relocated. This project also includes a park and ride lot. Bicycle and pedestrian access will be included where appropriate.	12,752	65,824	57,648	
Prince George's	MD 500, Queens Chapel Road, construct landscaped median with sidewalk and crosswalk improvements from MD 208 (Hamilton Street) to MD 410 (East-West Highway/Adelphi Road).	2,998	10,423	6,362	
Prince George's	US 1, Baltimore Avenue, reconstruct US 1 from College Avenue to MD 193 (Segment 1). Bicycle and pedestrian facilities will be included where appropriate.	3,500	56,079	41,994	2
Prince George's	US 50, John Hanson Highway, construct safety and resurfacing improvements on US 50 from south of Lottsford Vista Road to Anne Arundel County Line (westbound).	6,623	12,929	12,675	1
Prince George's	US 50, John Hanson Highway, construct safety and resurfacing improvements on US 50 from west of Lottsford Vista Road to Anne Arundel County Line (eastbound).	990	10,514	10,329	
Queen Anne's	MD 404, Shore Highway, upgrade existing MD 404 from west of MD 309 to Cemetery Road (Phase 1B). Bicycle and pedestrian accommodations will be included where appropriate.	7,124	31,228	15,630	

County	Project	2017	Total Cost	Six-year Spending	Notes
Queen Anne's	US 301, Blue Star Memorial Highway, construct a new interchange at MD 304. Shoulders on MD 304 will accommodate bicycles and pedestrians. J-turns at the intersection of US 301 and MD 305 are also being constructed as a part of the project.	16,616	44,212	32,387	
St. Mary's	MD 5, Point Lookout Road, intersection improvements at MD 5 (Point Lookout Road) and Moakley Street/Abell Street.	2,669	13,709	9,578	2
St. Mary's	MD 5, Point Lookout Road, upgrade and widen MD 5 to provide shoulders from south of Camp Brown Road to the Ranger Station.	1,569	19,600	18,194	2
Talbot	MD 331, Dover Road, replace bridge over Choptank River. The new span will be located south of the existing roadway and provide a 50-foot river clearance. Shoulders will accommodate bicycles and pedestrians.	14,237	61,369	44,756	
Washington	I-81, Maryland Veterans Memorial Highway, Widen to six lanes and reconstruct I-81 between the Potomac River/West Virginia State Line and MD 63/MD 68 (1.1 miles), including widening and rehabilitating dual bridges over the Potomac River.	20,350	96,067	94,571	
Wicomico	MD 349, Nanticoke Road, replace bridge over Windsor Creek. Project will include bicycle and pedestrian accommodations where appropriate.	1,962	3,801	3,486	1
Worcester	US 113, Worcester Highway, upgrade existing US 113 as a 4 lane divided highway, including access controls from north of MD 365, Public Landing Road, to Five Mile Branch. Bicycle and pedestrian accommodations will be included where appropriate.	6,871	86,409	79,391	2

County	Project	2017	Total Cost	Six-year Spending	Notes
Worcester	US 113, Worcester Highway, Upgrade existing US 113 as a 4 lane divided highway, Massey Branch to Five Mile Branch (Phase 3) (4.6 miles). Bicycle and pedestrian accommodations will be included where appropriate.	20,274	50,392	43,070	
Statewide	Coordinated Highway Action Response Team, install advanced traffic management system and advanced traffic information system technologies on Interstate highways and arterials statewide.	21,700	439,554	104,900	
Statewide	Sidewalk Program, provide matching funds for the construction of sidewalks adjacent to State highways. Fifty percent of project costs will be required from local and municipal project sponsors.	5,500	80,671	30,200	
Statewide	Sound Barrier Program, implement retrofit sound barrier projects that meet eligibility criteria.	12,300	378,283	37,500	
Statewide	Total Maximum Daily Load (TMDL), plan/design/construct storm water controls/alternative water quality improvement strategies in Phase I and II Counties to meet the US Environmental Protection Agency's Chesapeake Bay TMDL.	74,000	712,200	587,600	
Total		**$685,005**	**$4,566,458**	**$3,267,932**	

Note 1: Project added to the construction program in this *Consolidated Transportation Program*.
Note 2: Project moved from the development and evaluation program to the construction program in this *Consolidated Transportation Program*.

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Issues

1. Transportation Watershed Implementation Plan Funding a *De Facto* Transportation Trust Fund Responsibility

The Transportation Infrastructure Investment Act of 2013 (Chapter 429) established mandated funding levels for SHA Watershed Implementation Plan (WIP) projects for fiscal 2015 through 2019 totaling $395 million over the five-year period. This mandate was established to reduce the burden on the Transportation Trust Fund (TTF) of complying with the Environmental Protection Agency's Chesapeake Bay Total Maximum Daily Load (TMDL) requirements by the year 2025 at a time when the TTF was expected to support a large expansion in the transportation construction program including two major light rail transit projects. The change in Administrations and cancellation of the Baltimore Red Line project have led to different priorities in general fund and general obligation bond spending. For fiscal 2016, the Administration sought to make the mandated WIP spending solely a TTF responsibility through a provision in the Budget Reconciliation and Financing Act of 2015. For fiscal 2017, the Administration is simply interpreting the statute as satisfied by TTF spending. The amount for TMDL projects included in the SHA capital appropriation in the budget as introduced is $11 million less than the $85 million mandated for fiscal 2017. Supplemental Budget No. 2 adds the $11 million. **Given the changed circumstances since the mandate was passed and in recognition that TMDL funding has become a *de facto* TTF responsibility, it is recommended that language be added to the budget bill expressing the intent that the TMDL funding mandated in statute should be provided by the TTF. Proposed language is included in the recommended action section of this analysis for consideration by the committees.**

2. Certain Local Government Uniform Financial Reports Not Submitted

Municipalities are required by Local Government Article, Sections 16-304 and 16-306 of the Annotated Code of Maryland to file a Uniform Financial Report (UFR) and an audit report on or before October 31 of each year following the end of the fiscal year. Failure to submit an audit report or UFR by the required date may result in certain State funds being withheld. Two municipalities have not submitted the required documentation for multiple years. The Town of Deer Park, located in Garrett County, has not submitted an audit report or UFR for fiscal 2013, 2014, or 2015. The Town of Marydel, located in Caroline County, has not submitted an UFR for fiscal 2012, nor an audit report and UFR for fiscal 2013, 2014, or 2015.

The annual audit and uniform financial reports contain information that is integral to the analysis that the Department of Legislative Services (DLS) provides annually to the General Assembly. For example, these reports aid in analyzing the financial standing of the local governments with relation to State aid, grant programs, and local legislation. Delinquency of reporting significantly hinders ability of DLS to provide this information in a timely manner. Delinquency of reporting also hinders the ability of citizens who reside in the affected local jurisdictions to review the financial data themselves and hold their local governments accountable. **It is recommended that State transportation aid funding under the Highway User Revenues program be suspended until the jurisdictions submit**

delinquent annual audit reports and UFRs. Suggested language is included in the Recommended Actions section of this analysis for consideration.

Operating Budget Recommended Actions

1. Add the following language:

   It is the intent of the General Assembly that the funding for transportation-related Watershed Implementation Plan projects mandated by Section 8-613.3 of the Transportation Article be provided through appropriation from the Transportation Trust Fund.

   Explanation: The intent behind the funding mandate established through passage of the Transportation Infrastructure Investment Act of 2013 (Chapter 429) was to reduce the burden on the Transportation Trust Fund (TTF) of complying with the Environmental Protection Agency's Chesapeake Bay Total Maximum Daily Load (TMDL) requirements by the year 2025. This was done by providing a portion of the funding for State Highway Administration TMDL projects from either the General Fund or from general obligation bond proceeds at a time when the TTF was expected to fund a large expansion in the transportation capital program including two major light rail transit projects. Since the mandate was established, one of the light rail transit projects has been cancelled and the Administration has indicated its desire that TMDL funding be the responsibility of the TTF. This language indicates that the General Assembly concurs with that statutory interpretation.

2. Add the following language to the special fund appropriation:

   , provided that $5,845 of this appropriation made for the purpose of providing transportation aid to the Town of Deer Park in Garrett County may not be expended until the town has submitted audit reports and Uniform Financial Reports as required under Sections 16-304 and 16-306 of the Local Government Article for fiscal years 2013, 2014 and 2015. Funds restricted pending the receipt of these documents may not be transferred by budget amendment or otherwise to any other purpose and shall be cancelled.

   Further provided that $1,633 of this appropriation made for the purpose of providing transportation aid to Caroline County on behalf of Marydel may not be expended until the town has submitted audit reports and Uniform Financial Reports as required under Sections 16-304 and 16-306 of the Local Government Article for fiscal years 2012, 2013, 2014 and 2015. Funds restricted pending the receipt of these documents may not be transferred by budget amendment or otherwise to any other purpose and shall be cancelled.

   Explanation: This language restricts transportation aid to municipalities that have not submitted audit and financial reports required in statute until the required documents have been submitted for all delinquent years.

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – State Highway Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$403,655	$13,165	$0	$416,819
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	58,319	1,169	0	59,488
Reversions and Cancellations	0	-148	-2,977	0	-3,125
Actual Expenditures	**$0**	**$461,826**	**$11,357**	**$0**	**$473,183**
Fiscal 2016					
Legislative Appropriation	$0	$415,609	$14,452	$0	$430,061
Budget Amendments	0	1,189	85	0	1,274
Working Appropriation	**$0**	**$416,798**	**$14,537**	**$0**	**$431,335**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 budget for SHA closed out $56.4 million higher than the legislative appropriation. Increases by budget amendment were partially offset by year-end cancellations as follows:

- Budget amendments added $59,488,092:
    - additional winter maintenance ($55,168,500 special funds);
    - additional HUR due to greater than estimated revenue attainment ($2,009,000 special funds);
    - additional funding for the CHART highway management system ($1,118,230 federal funds);
    - general salary increase ($769,778 special, $51,026 federal);
    - reimbursable accident coverage ($742,000 special funds); and
    - equipment purchases identified as capital (-$370,442 special).
- Year-end special and federal fund cancellations totaled $3,124,671:
    - CHART equipment purchases not made and three projects transferred from the capital program too late for expenditure within the fiscal year ($1,996,895 federal); and
    - invoices from subrecipients of Safe Route to School Program and Motor Carrier Program funding were not received in time to process during fiscal 2015 ($147,448 special, $980,266 federal).

Fiscal 2016

The fiscal 2016 working appropriation is $1,274,211 ($1,188,844 special, $85,367 federal) higher than the legislative appropriation representing restoration of the 2% salary reduction.

Object/Fund Difference Report
MDOT – State Highway Administration

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	1,530.00	1,530.00	1,531.00	1.00	0.1%
02 Contractual	3.00	5.00	5.00	0.00	0%
Total Positions	**1,533.00**	**1,535.00**	**1,536.00**	**1.00**	**0.1%**
Objects					
01 Salaries and Wages	$ 114,258,367	$ 116,129,019	$ 120,628,194	$ 4,499,175	3.9%
02 Technical and Spec. Fees	5,535,567	4,051,720	5,139,090	1,087,370	26.8%
03 Communication	1,875,439	2,072,000	2,672,800	600,800	29.0%
04 Travel	710,651	611,350	716,165	104,815	17.1%
06 Fuel and Utilities	10,962,949	13,098,894	11,474,951	-1,623,943	-12.4%
07 Motor Vehicles	16,947,617	15,893,114	15,697,717	-195,397	-1.2%
08 Contractual Services	103,598,964	79,248,760	82,525,342	3,276,582	4.1%
09 Supplies and Materials	44,049,125	24,996,731	27,035,750	2,039,019	8.2%
10 Equipment – Replacement	220,109	168,726	436,251	267,525	158.6%
11 Equipment – Additional	216,898	615,849	92,577	-523,272	-85.0%
12 Grants, Subsidies, and Contributions	174,398,849	174,057,876	182,065,198	8,007,322	4.6%
13 Fixed Charges	408,247	387,676	538,291	150,615	38.9%
14 Land and Structures	0	3,400	0	-3,400	-100.0%
Total Objects	**$ 473,182,782**	**$ 431,335,115**	**$ 449,022,326**	**$ 17,687,211**	**4.1%**
Funds					
03 Special Fund	$ 461,825,949	$ 416,797,625	$ 433,728,350	$ 16,930,725	4.1%
05 Federal Fund	11,356,833	14,537,490	15,293,976	756,486	5.2%
Total Funds	**$ 473,182,782**	**$ 431,335,115**	**$ 449,022,326**	**$ 17,687,211**	**4.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
MDOT – State Highway Administration

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 State System Construction and Equipment	$ 1,087,020,065	$ 1,323,040,000	$ 1,488,950,000	$ 165,910,000	12.5%
02 State System Maintenance	292,468,189	251,607,346	261,057,367	9,450,021	3.8%
03 County and Municipality Capital Funds	71,651,336	70,750,000	70,700,000	-50,000	-0.1%
04 Highway Safety Operating Program	9,019,465	10,423,513	10,551,871	128,358	1.2%
05 County and Municipality Funds	171,695,128	169,304,256	177,413,088	8,108,832	4.8%
08 Major IT Development Projects	8,250,908	9,048,000	7,468,000	-1,580,000	-17.5%
Total Expenditures	**$ 1,640,105,091**	**$ 1,834,173,115**	**$ 2,016,140,326**	**$ 181,967,211**	**9.9%**
Special Fund	$ 1,108,553,247	$ 1,241,718,625	$ 1,436,212,350	$ 194,493,725	15.7%
Federal Fund	531,551,844	592,454,490	579,927,976	-12,526,514	-2.1%
Total Appropriations	**$ 1,640,105,091**	**$ 1,834,173,115**	**$ 2,016,140,326**	**$ 181,967,211**	**9.9%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 4

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
State Highway Administration – Operating

Status	Amendment	Fund	Justification
Approved	$1,188,844	Special	Restoration of the 2% salary reduction.
	85,367	Federal	
	$1,274,211	**Total**	
Pending	-$16,016	Special	Realign Office of Administrative Hearings and Workers' Compensation costs among departmental modes.

Source: Maryland Department of Transportation

Appendix 5

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
State Highway Administration – Capital

Status	Amendment	Fund	Justification
Approved	$1,235,644	Special	Restoration of the 2% salary reduction.
	643,811	Federal	
	$1,879,455	**Total**	
Pending	$320,238	Special	Realign Office of Administrative Hearings and Workers' Compensation costs among departmental modes.
Pending	-$42,829,408	Special	Adjust the amended appropriation to agree with the final fiscal 2016-2021 *Consolidated Transportation Program*.
	52,412,832	Federal	
	$9,583,424	**Total**	

Source: Maryland Department of Transportation

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Maryland Port Administration
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$47,867	$50,979	$51,562	$584	1.1%
Deficiencies and Reductions	0	0	-60	-60	
Adjusted Special Fund	**$47,867**	**$50,979**	**$51,502**	**$524**	**1.0%**
Adjusted Grand Total	**$47,867**	**$50,979**	**$51,502**	**$524**	**1.0%**

- The fiscal 2017 allowance increases by $523,723, or 1.0%. The largest change is a $500,000 operating grant for Pride, Inc., which operates the Pride of Baltimore II, a replica of an 1812-era topsail schooner privateer.

- Personnel costs increased by $337,601, largely due to health insurance and retirement system contributions.

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2015	Fiscal 2016		Fiscal 2017
	Actual	Legislative	Working	Allowance
Special	$87,773	$155,334	$118,645	$110,222
Federal	1,105	4,049	2,596	6,683
Total	**$88,878**	**$159,383**	**$121,241**	**$116,905**

Note: Numbers may not sum to total due to rounding.

For further information contact: Jason A. Kramer Phone: (410) 946-5530

- The fiscal 2016 working appropriation is $38.1 million lower than the legislative appropriation, primarily due to reduced spending on dredging projects.

- The fiscal 2017 allowance decreases by $4.3 million, with $20.3 million increasing in the Dredge Material Placement and Monitoring program offset by a $14.3 million reduction due to the fiscal 2016 purchase of the Intermodal Container Transfer Facility (ICTF) and a $7.0 million reduction in minor system preservation projects.

Operating and PAYGO Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Operating Budget Positions	182.00	182.00	182.00	0.00
Regular PAYGO Budget Positions	37.00	37.00	37.00	0.00
Total Regular Positions	**219.00**	**219.00**	**219.00**	**0.00**
Operating Budget FTEs	0.70	0.70	0.70	0.00
PAYGO Budget FTEs	0.00	0.50	0.50	0.00
Total FTEs	**0.70**	**1.20**	**1.20**	**0.00**
Total Personnel	**219.70**	**220.20**	**220.20**	**0.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		10.91	4.98%	
Positions and Percentage Vacant as of 1/1/16		20.00	9.08%	

- The fiscal 2017 personnel allowance remains unchanged compared to the fiscal 2016 working appropriation.

- The fiscal 2017 budgeted turnover rate is 4.98%, requiring 10.91 vacant positions. There were 20.0 vacant positions on January 1, 2016, for a turnover rate of 9.08%.

Analysis in Brief

Major Trends

Foreign Cargo Volumes at the Port Increase: Cargo tonnage at the Helen Delich Bentley Port of Baltimore (Port) increased by an estimated 12.4% to 33 million short tons in calendar 2015, and the Port's market share increased to 15.3% of major north Atlantic ports.

General Cargo Tonnage Continues to Grow: Following a substantial decline in general cargo volumes in fiscal 2009 and a smaller decline in fiscal 2010, general cargo tonnage rebounded in fiscal 2011 and 2012. Since then, slow growth has continued, with 9.6 million tons handled in fiscal 2014 and 9.7 million tons in fiscal 2015.

Cruises in Maryland: In fiscal 2015, the Port had 75 homeport cruises and 350,000 passengers, declines of 24.2% and 22.7%, respectively, from the prior year. The decline is due to Carnival Pride diverting to Tampa for five months, which deprived Baltimore of about 20 cruises.

Net Operating Income Declines: The Maryland Port Administration's (MPA) net operating income is expected to decline in fiscal 2017 by $3.3 million from the fiscal 2016 estimate.

Issues

Port Not Able to Take Full Advantage of Unique Deep Water Access: While the Port hosts the most efficient East Coast container terminal and has deep water access needed for the next generation of post-Panamax ships, the lack of direct rail access for double-stack containers is a major impediment to expanding the Port's container business. **The Department of Legislative Services recommends MPA comment on its readiness for post-Panamax ships and on the status of a study MPA is undertaking on the economic impact of adding double-stack rail capacity to the Port.**

MPA Sells Cranes to Ports America Chesapeake: MPA is selling five maritime cranes at Dundalk Marine Terminal for $425,000 to Ports America Chesapeake (PAC), which will rehabilitate and maintain the cranes. MPA will lose associated revenue but will also reduce operating costs. Due to the investment by PAC in the Dundalk cranes, Atlantic Container Line/Grimaldi Group agreed to a 20-year agreement that guarantees 70 vessel calls per year, 250,000 tons of roll on/roll off cargo, and lease of land and shed space. **MPA should comment on the sale and what it means for the future of the existing public-private partnership (P3) agreement, PAC's involvement at the Port, and the potential for an extended or new P3 agreement.**

Tradepoint Atlantic Requests State Aid: Tradepoint Atlantic, the developer and owner of Sparrows Point, has proposed a tax credit for increasing the volume of business at the Port. **MPA should comment on the proposed tax credit or any other incentives or aid to Tradepoint Atlantic.**

Operating Budget Recommended Actions

		Funds
1.	Delete special funds intended for an operating grant to Pride, Inc.	$ 500,000
2.	Adopt narrative that it is the committees' intent that the 2017 to 2022 Consolidated Transportation Program be modified to reflect any costs associated with adding double-stack container rail access to the Helen Delich Bentley Port of Baltimore.	
	Total Reductions	**$ 500,000**

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Search for Dredging Capacity: One of the major long-term issues confronting the Port is the need for more dredged placement capacity for both harbor and Chesapeake Bay materials. The most promising space previously being considered, Coke Point on Sparrows Point, is no longer a priority due to a lack of interest from the current property owners, Tradepoint Atlantic. The loss of Coke Point has led MPA to shift its focus to an expansion onto land that MPA owns at the Cox Creek dredged materials site, which could begin accepting dredged material in 2018.

Maryland Transportation Authority Sells ICTF to MPA: MPA purchased ICTF from the Maryland Transportation Authority in January for $14.2 million.

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Maryland Port Administration

Maryland Department of Transportation

Budget Analysis

Program Description

The Maryland Port Administration (MPA) functions under Title 6 of the Transportation Article of the Annotated Code of Maryland. Through its efforts to increase waterborne commerce, MPA promotes the economic well-being of the State of Maryland and manages the State-owned facilities at the Helen Delich Bentley Port of Baltimore (Port). The State-owned property at or related to the Port includes the Dundalk Marine Terminal, the North Locust Point and South Locust Point marine terminals, Hawkins Point, the World Trade Center, Hart-Miller Island, Cox Creek, Fairfield Terminal, the Masonville Auto Facility, and the Seagirt Marine Terminal. Activities include developing, marketing, maintaining, and stewarding the State's port facilities; improving access channels and dredging berths; developing and promoting international and domestic waterborne trade by promoting cargoes and economic expansion in the State; and providing services to the maritime community, such as developing dredged material placement sites.

To pursue its mission of stimulating the flow of waterborne commerce through the ports of the State of Maryland in a manner that provides economic benefit to the citizens of the State, MPA has identified the following key goals:

- maximize cargo throughput, terminal efficiency, and the economic benefit generated by the Port;
- operate MPA to ensure revenue enhancements and to optimize operating expenses;
- preserve and enhance the Port's infrastructure to maintain cargo capacities, while ensuring adequate security and environmental stewardship; and
- maintain and improve the shipping channels for safe, unimpeded access to the Port.

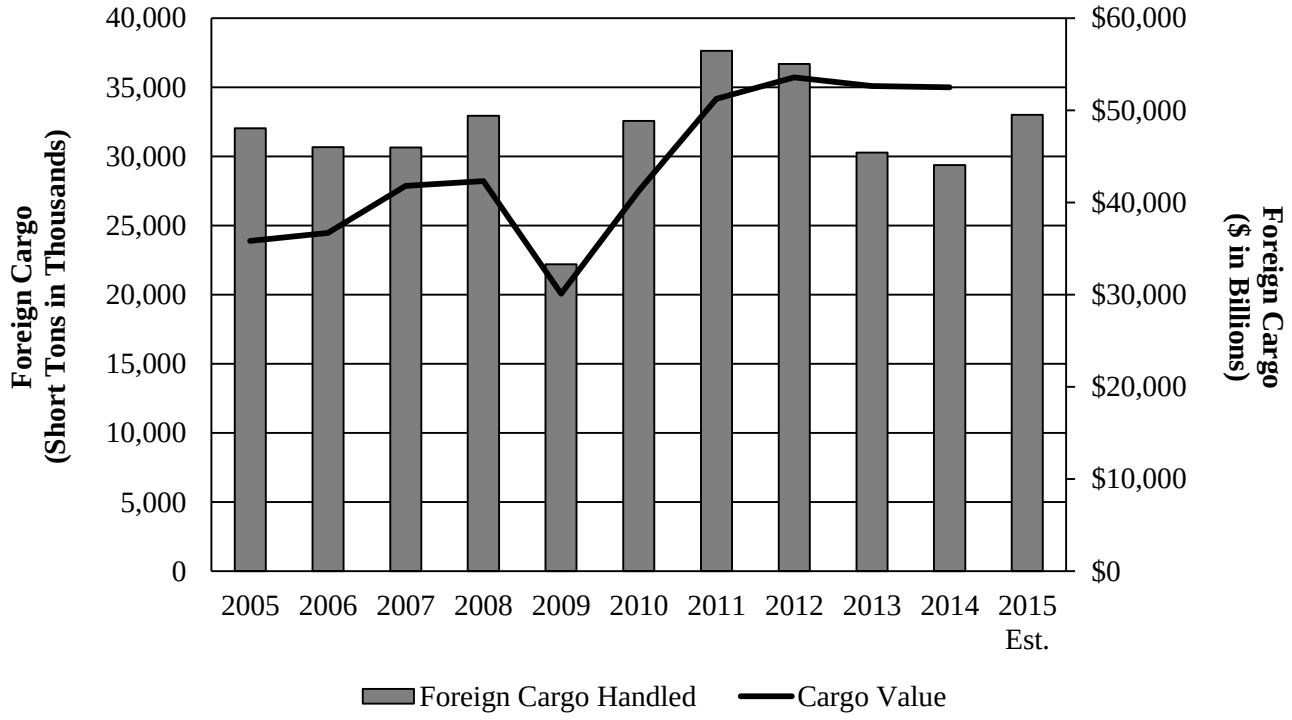
Performance Analysis: Managing for Results

1. Foreign Cargo Volumes at the Port Increase

The Port is a vast industrial complex that encompasses 45 miles of shoreline and 3,403 waterfront acres. It includes seven public cargo terminals and a cruise terminal owned by MPA, as well as more than 25 privately owned marine facilities within the Port. Unlike many State entities,

the Port operates in a highly competitive market, with direct competition not only from private industry but also from other ports up and down the east coast, as well as some Canadian ports. The Port handles about 2.1% of the nation's foreign waterborne commerce, and about 15.3% of the foreign cargo flowing through mid-Atlantic ports. As shown in **Exhibit 1,** cargo tonnage at the Port increased in calendar 2015 by an estimated 12.4% to 33 million short tons from the prior year.

Exhibit 1
Total Foreign Cargo Handled and Cargo Value
Helen Delich Bentley Port of Baltimore
Calendar 2005-2015 Est.



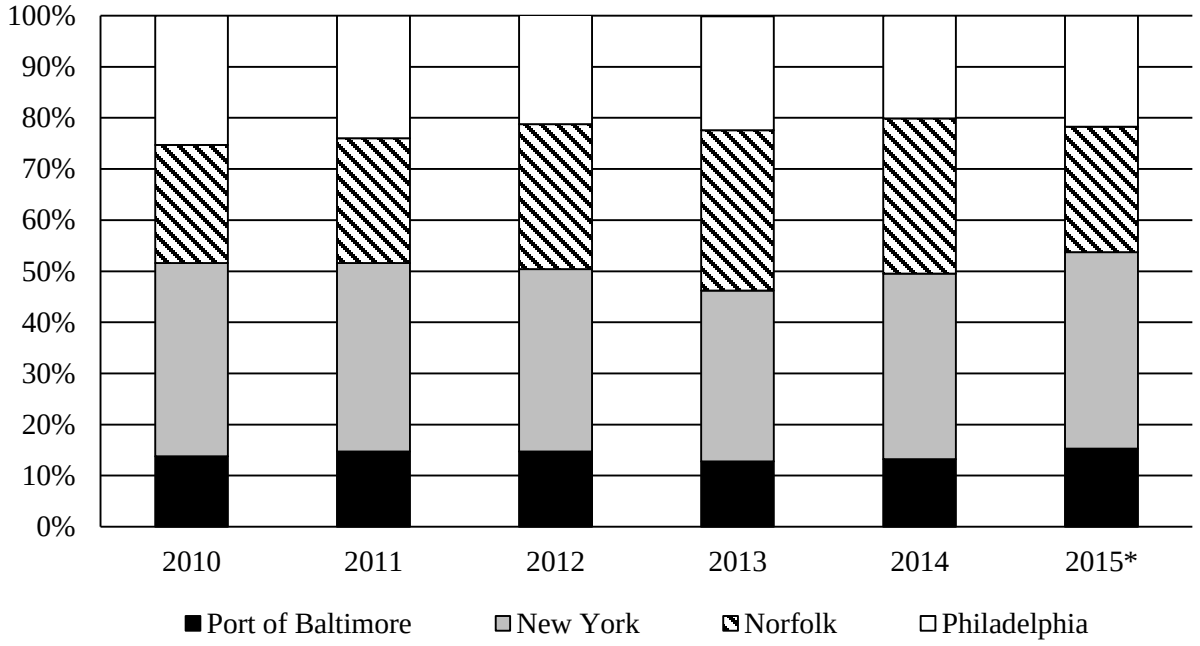
Note: Includes both public and private terminals. Estimate for 2015 cargo value is not yet available.

Source: Maryland Port Administration, *Foreign Commerce Statistical Report*, 2014

In calendar 2014, the Port ranked thirteenth among all U.S. ports for total foreign cargo handled and ninth among all U.S. ports in terms of the total dollar value of that cargo.

The Port competes with other East Coast ports, especially ports in Norfolk, Philadelphia, and New York. As shown in **Exhibit 2**, the Port held 15.3% of that market through the first nine months of calendar 2015, up from 13.2% in 2014, and highest in the past five years.

Exhibit 2
Market Share, Major North American Ports
Calendar 2010-2015



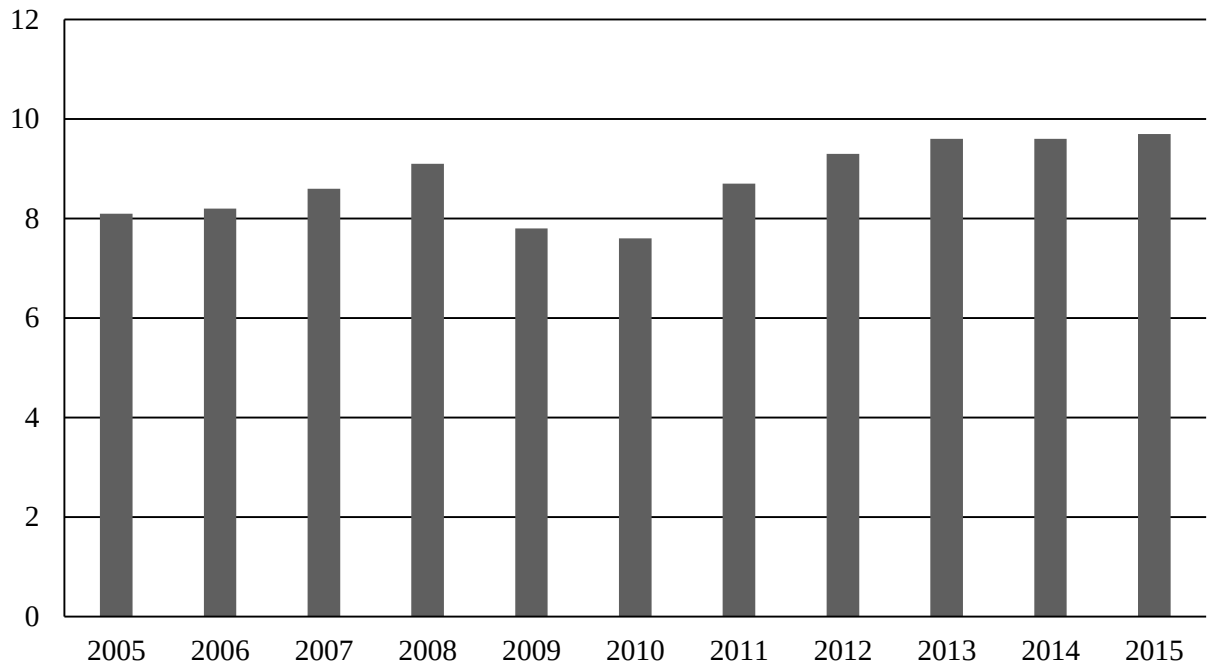
*Calendar 2015 is for first nine months of the year.

Source: Maryland Port Administration

2. General Cargo Tonnage Continues to Grow

Nearly all general cargo that moves through the Port is handled at the terminals owned by MPA. General cargo is defined as containers, automobiles, forest products, and roll on/roll off (Ro/Ro). Ro/Ro includes construction and farm equipment, as well as other cargo that is driven on or off a ship, excluding automobiles. Following a substantial decline in general cargo volumes in fiscal 2009 and a smaller decline in fiscal 2010, general cargo tonnage rebounded in fiscal 2011 and 2012, as shown in **Exhibit 3**. Since then, slow growth has continued, with 9.6 million tons handled in fiscal 2014 and 9.7 million tons in fiscal 2015.

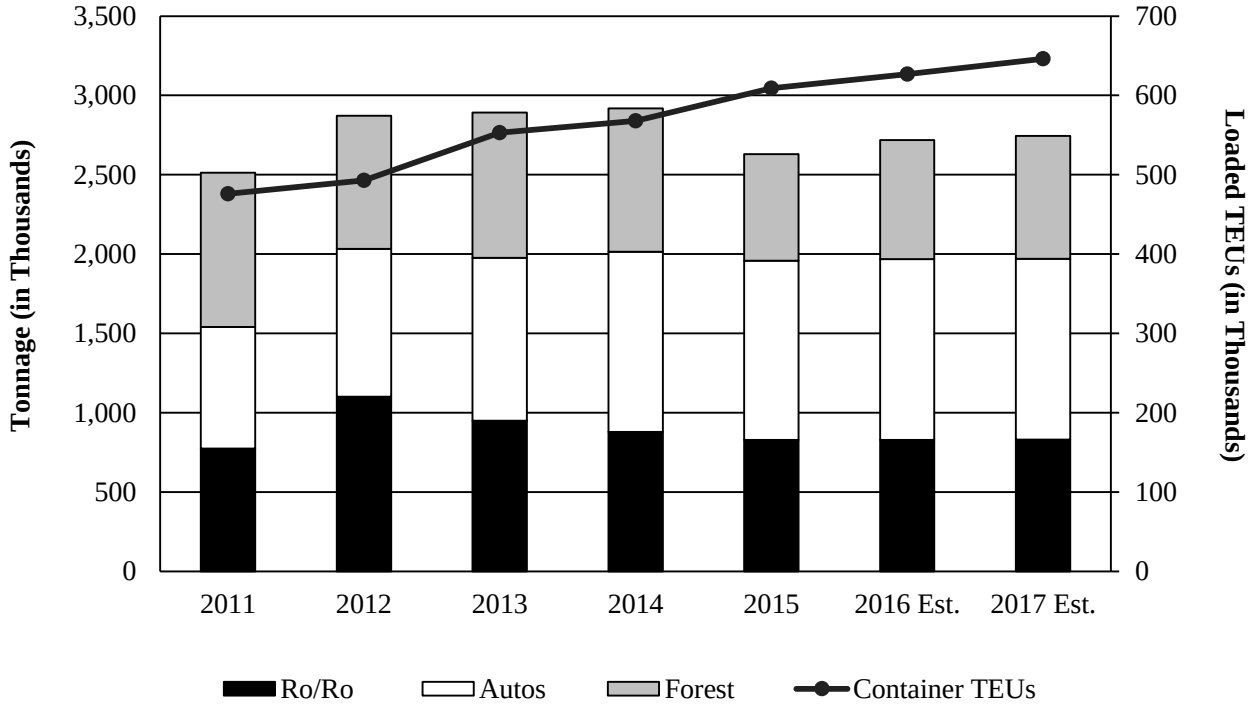
Exhibit 3
Total General Cargo Tonnage at State-owned Facilities
Fiscal 2005-2015
(Tons in Millions)



Source: Maryland Port Administration

Exhibit 4 provides data on selected general cargo commodities handled at the Port. The amount of forest products declined by 25.7% in fiscal 2015 due to the departure of a major wood pulp account from the Port to Philadelphia. Fiscal 2015 saw the third straight year of declines in Ro/Ro cargo, after peaking in fiscal 2012 when the global economy was recovering from the Great Recession. Additionally, a weak mining industry has led to a decline in equipment shipments, and a strong U.S. dollar made U.S.-made equipment more expensive to purchase in Europe. In recent years, decreases in those areas had been offset by strong growth in automobile shipments; however, automobiles declined slightly in fiscal 2015 with no growth expected in fiscal 2016 and 2017. The Port continues to see steady growth in containers handled and expects nearly 650,000 20-foot equivalent units in fiscal 2017.

Exhibit 4
Cargo Volume by Type
Fiscal 2011-2017 Est.



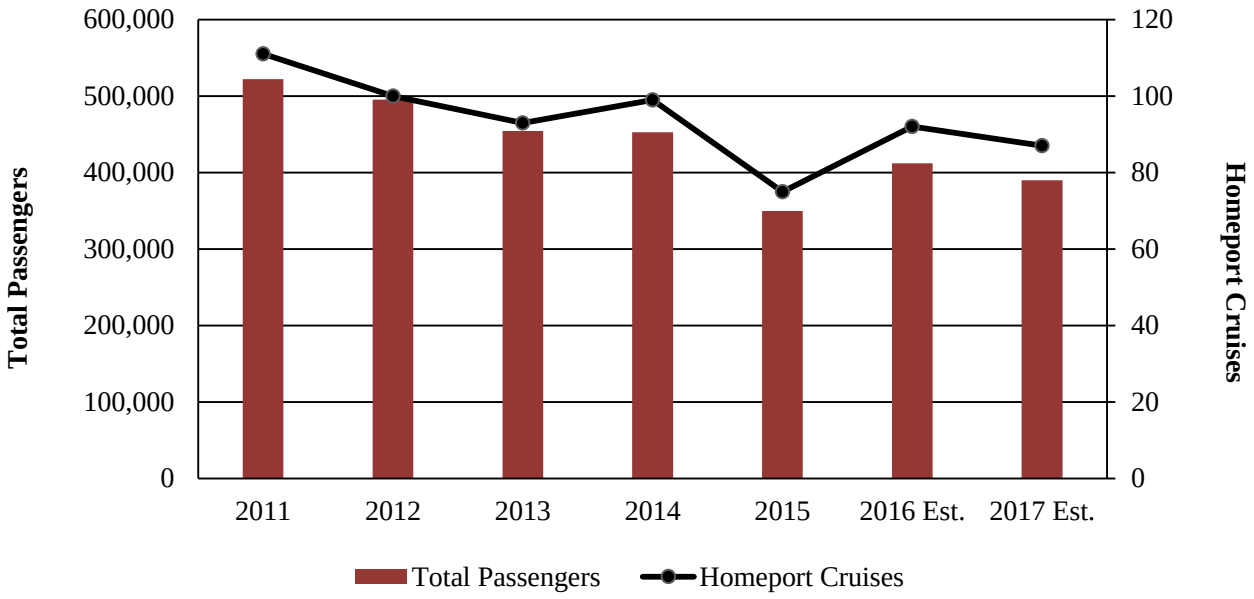
Ro/Ro: roll on/roll off
TEUs: 20-foot equivalent unit (an industry standard for measuring containers)

Source: Maryland Port Administration

3. Cruises in Maryland

In addition to handling cargo, the Port is also involved in the cruise ship business. **Exhibit 5** shows the total number of homeport cruises and passengers that utilized the Port's cruise terminal. A new terminal opened in 2006.

Exhibit 5
Cruise Ship Operations
Fiscal 2011-2017 Est.



Source: Maryland Port Administration

In fiscal 2015, the Port had 75 homeport cruises and 350,000 passengers, declines of 24.2% and 22.7%, respectively, from fiscal 2014. The decline is due to Carnival Pride diverting to Tampa for five months, which deprived Baltimore of about 20 cruises. The Port estimates a rebound in fiscal 2016, as both Carnival Pride and Royal Caribbean have requested berthing on a year-round basis. Operating income from operating the cruise ship site is expected to be $6.0 million in fiscal 2016.

4. Net Operating Income Declines

Unlike most other State agencies that rely solely on the State for all support, MPA receives revenues that help to offset its expenditures. Its profitability determines how much the Transportation Trust Fund must provide as a subsidy. As shown in **Exhibit 6**, net operating income falls to a loss of

$2.8 million, a decline of $3.3 million compared to fiscal 2016. The driver of this change is a $3 million grant in The Secretary's Office for the Intermodal Rail Incentive Program, which is designed to provide incentives to ocean carriers to ship containers through the Seagirt Intermodal Container Transfer Facility (ICTF).

Exhibit 6
Special Fund Revenues and Expenses
Fiscal 2014-2017 Allowance
($ in Thousands)

	2014	2015	Working Approp. 2016	Allowance 2017	$ Change 2016-17	% Change 2016-17
Operating Revenue	**$52,841**	**$49,759**	**$49,565**	**$49,714**	**$149**	**0.3%**
Total Operating Expenses[1]	47,792	50,299	53,497	56,975	3,478	6.5%
Total Exclusions[2]	-4,542	-4,605	-4,421	-4,447	-26	0.6%
Net Operating Expenses	**$43,250**	**$45,694**	**$49,076**	**$52,528**	**$3,452**	**7.0%**
Net Operating Income	**$9,591**	**$4,065**	**$489**	**-$2,814**	**-$3,303**	**-675.5%**
Capital Expenditures[3]	**$76,551**	**$87,773**	**$118,645**	**$110,222**	**-$8,423**	**-7.1%**
Net Income/Loss	**-$66,960**	**-$83,708**	**-$118,156**	**-$113,036**	**$5,120**	**-4.3%**

[1] Includes the following expenses paid by the Maryland Department of Transportation: $1.4 million per year for Baltimore City Fire Suppression and payments in lieu of taxes in the amount of $888,000 in fiscal 2014, $1.0 million in fiscal 2015, $1.1 million in fiscal 2016, and $1.0 million in fiscal 2017. Also included is a $3 million grant from The Secretary's Office in fiscal 2017 for the Intermodal Rail Incentive Program for container shipper incentives at the Seagirt Intermodal Container Transfer facility. Fiscal 2017 is adjusted for across-the-board and contingent reductions.

[2] Excluded expenditures include payments to the Maryland Transportation Authority for Masonville, certificates of participation debt service payments, and certain capital equipment.

[3] Includes special fund capital allowance.

Source: Maryland Port Administration

It is important to note that in looking at MPA capital expenditures in a business manner, consideration should be given to the fact that capital expenditures are often paid for in a single year, or over multiple years, but depreciation over the life of the asset does not take place, meaning that revenues and capital expenditures would not match in a year-to-year comparison.

Fiscal 2016 Actions

Cost Containment

While the Maryland Department of Transportation (MDOT) was not subject to the fiscal 2016 across-the-board 2% reduction, it did list areas in which costs could be reduced by that amount. MPA said it would reduce operating expenditures by $618,960 in special funds, with approximately half of the reduction coming from reduced security costs, and the rest from several other cost saving actions. Rather than amending the working appropriation, MDOT will cancel funds at the end of fiscal 2016.

Proposed Budget

As shown in **Exhibit 7**, the fiscal 2017 allowance increases by $523,723, or 1.0%, in special funds.

Grant to Pride of Baltimore II

The fiscal 2017 allowance includes a $500,000 operating grant to Pride Inc., which owns and operates the Pride of Baltimore II, a replica of an 1812-era topsail schooner privateer. The ship travels to dozens of ports each year and conducts deck tours, sailing charters, youth programs, and private events. The funds will be used for administration, overhead, operation, and maintenance for Pride and for the Pride of Baltimore II. Pride requested State assistance as it has struggled to sustain operations; the State most recently provided an operating grant to Pride in fiscal 2008 for $164,000. In an announcement, the Governor noted that he expected to provide three years of support. As this is a grant for operations, it is not clear what would change in Pride's situation in three years that would end its need for State support. It is also not clear how this grant would further the MPA goal of promoting the capabilities and resources of the Port.

Other Changes

Other large fiscal 2017 allowance changes compared to fiscal 2016 include:

- a $414,860 increase to reflect expected increases in stormwater maintenance activities;
- a $267,833 increase primarily to reflect previous spending levels for fire protection services;
- a $449,148 decrease for private insurance and a $113,853 increase in payments to the State insurance system; and
- a $268,450 decrease for security services due to coverage changes.

Exhibit 7
Proposed Budget
MDOT – Maryland Port Administration
($ in Thousands)

How Much It Grows:	Special Fund	Total
Fiscal 2015 Actual	$47,867	$47,867
Fiscal 2016 Working Appropriation	50,979	50,979
Fiscal 2017 Allowance	51,502	51,502
Fiscal 2016-2017 Amount Change	$524	$524
Fiscal 2016-2017 Percent Change	1.0%	1.0%

Where It Goes:	
Personnel Expenses	
Increments and other compensation	$31
Social Security contributions	-31
Employee and retiree health insurance	239
Retirement system contributions	173
Unemployment and workers' compensation premium assessments	-79
Turnover adjustments	4
Other Changes	
Pride of Baltimore II operating grant	500
Increased stormwater maintenance activities	415
Fire protections services to reflect previous spending levels	268
Insurance to the State Treasurer's Office (STO)	114
Road repair services to reflect previous spending levels	100
Advertising to reflect previous spending levels	97
Natural gas and propane	85
In-state travel and training	59
Gas and oil	-117
Supplies and materials	-127
Outside consulting services	-140
Safety expenditures moved to other contractual services	-150
Electricity	-208
Security services due to changes to coverage area	-268
Non-STO insurance	-449
Other	8
Total	**$524**

Note: Numbers may not sum to total due to rounding.

PAYGO Capital Program

Program Description

The MPA pay-as-you-go capital program identifies and manages projects and funding for Port facilities that provide increased capacity for existing cargo and promote the shipment of new cargo. Current projects focus on improving and modernizing existing State capital facilities, developing new facilities, and supporting the improvement of shipping channels through dredging activities conducted in cooperation with the U.S. Army Corps of Engineers.

Fiscal 2016 to 2021 *Consolidated Transportation Program*

The MPA total capital program from fiscal 2016 to 2021 totals $879.5 million, a decrease of $56.5 million compared to the fiscal 2015 to 2020 *Consolidated Transportation Program* (CTP). Funding for projects in the fiscal 2016 to 2021 CTP is largely devoted to dredging and system preservation projects.

Fiscal 2016 and 2017 Cash Flow Analysis

Exhibit 8 shows that the fiscal 2016 working appropriation decreased by $38.1 million compared to the legislative appropriation. The major changes include:

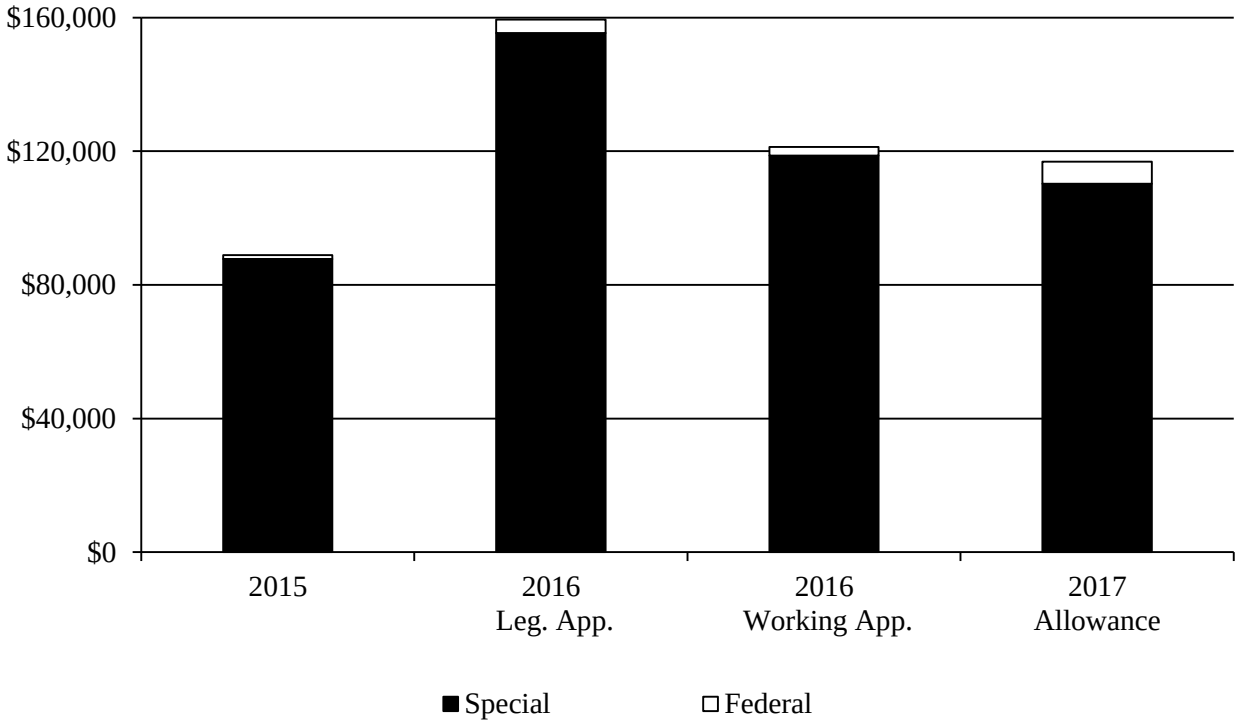
- a $39.5 million reduction for dredging projects;
- an increase of $14.3 million for the purchase of ICTF; and
- a $12.1 decrease across all other projects.

The fiscal 2017 allowance is $4.3 million less than the working appropriation. A $20.3 million increase in the Dredge Material Placement and Monitoring program is offset by a $14.3 million reduction due to the one-time expenditure for the purchase of ICTF and a $7.0 million reduction in minor system preservation projects.

Fiscal 2017 Capital Allowance

Exhibit 9 shows the fiscal 2017 capital allowance for MPA by project and program along with estimated total project costs and six-year funding included in the CTP. The dredging programs total $445.7 million, or 49.0%, of the CTP. Other large programs include the berth reconstruction at Dundalk Marine Terminal ($60.2 million) and chrome ore remediation ($45.1 million).

Exhibit 8
Cash Flow Changes
Fiscal 2015-2017 Allowance
($ in Thousands)



Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Exhibit 9
Maryland Port Administration Pay-as-you-go Capital Allowance
Fiscal 2017
($ in Thousands)

Jurisdiction	Project Description	2017	Total Cost	Six-year Total
Projects				
Baltimore City	Reconstruction of Berths at Dundalk Marine Terminal	$5,161	$95,074	$60,174
Baltimore City	Chrome Ore Processing Residue Remediation	3,890	79,969	45,119
Baltimore County	Hart-Miller Island Related Projects	4,201	105,427	32,781
Baltimore City	Port of Baltimore Export Expansion Project	11,021	42,857	29,614
Baltimore City	Marine Terminal Property Acquisition	0	30,043	21,501
Cecil	Pearce Creek Waterline Project	3,684	14,184	14,184
Baltimore City	South Locust Point Cruise Terminal	585	6,331	4,976
Baltimore City	Terminal Security Program	374	45,385	2,093
Baltimore City	Masonville Vessel Berth Construction	0	23,203	0
Subtotal – Projects		***$28,916***	***$442,473***	***$210,442***
Programs				
Statewide	Dredge Material Placement and Monitoring	$51,862	$782,570	$383,154
Statewide	Dredge Material Management Program	9,851	149,294	62,538
Statewide	System Preservation and Minor Projects	21,500	n/a	223,400
Statewide	Capital Salaries	4,800	n/a	29,900
Subtotal – Programs		***$88,013***	***$931,864***	***$698,992***
Total – Projects and Programs		**$116,929**	**$1,374,337**	**$909,434**

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Issues

1. Port Not Able to Take Full Advantage of Unique Deep Water Access

The container business is both large and growing at the Port, and increasing the container business is an important MPA goal. Measured by the number of containers loaded and unloaded per hour while a ship is at the berth, Seagirt Marine Terminal is the top East Coast container terminal and the third most productive in the country, based on 2014 data. The Port is also one of only four ports on the East Coast that has a depth able to accommodate post-Panamax ships that will soon begin traveling through the expanded Panama Canal. Despite being well-positioned to take advantage of this new business, several factors will limit the Port's ability to take full advantage.

The primary limiter is the lack of ability to double-stack containers on rail cars leaving the Port, due to the lack of vertical clearances along the CSX Transportation rail network, with the Howard Street tunnel being the main impediment. A 2015 Moody's Analytics report noted that despite the Port's deep water access, the inferior rail infrastructure connecting to the Port puts it at a competitive disadvantage to other Ports. For a long-term solution, MDOT continues to work with the Federal Railroad Administration (FRA), Amtrak, Baltimore City, and Norfolk Southern to focus on the Baltimore and Potomac (B&P) Tunnel, which connects Penn Station and the West Baltimore Maryland Area Regional Commuter Station. Following public hearings held in January 2016, FRA will choose a design alternative and complete the planning process in 2017. In addition to the B&P Tunnel, several other clearances and connections would also need to be established. In the short-term, MPA is focused on operational efficiencies and incentive programs for shippers in an effort to increase container volumes at the Port.

Much further from the Port, delays in raising the Bayonne Bridge between New York and New Jersey will also limit the number of post-Panamax ships calling East Coast ports. The bridge currently is not high enough to allow post-Panamax ships into three of the largest Port of New York/New Jersey terminals. It is unlikely that ocean carriers would send ships to East Coast ports if the New York/New Jersey facilities are unavailable.

These factors will limit Port container business even though the Port itself is prepared for the new era of post-Panamax ships. It is difficult to estimate the total impact of the lack of double-stack access, but the Port is aware of vessel operators that made calls to the Port in the past and would likely return in the event double-stack access is added. **The Department of Legislative Services (DLS) recommends MPA comment on its readiness for post-Panamax ships and on the status of a study that MPA is undertaking on the economic impact of adding double-stack rail capacity to the Port. DLS also recommends that the department modify its CTP to reserve funds necessary to this endeavor.**

2. MPA Sells Cranes to Ports America Chesapeake

MPA is selling five maritime cranes at Dundalk Marine Terminal for $425,000 to Ports America Chesapeake (PAC), which will rehabilitate and maintain the cranes. PAC and MPA are party to a public-private partnership (P3) at the Seagirt Marine Terminal, which is adjacent to Dundalk. As part of the sale, PAC will provide capital funding to maintain and rehabilitate the cranes up to current industry standards. While MPA will lose a revenue stream due to the sale, the administration believes that benefits associated with the sale outweigh the losses.

The cranes, manufactured between 1977 and 1996, are at the end of their useful lives, and do not meet current industry standards. Prior to selling the cranes, MPA could have either refurbished or replaced the cranes. The cost of refurbishment is estimated by MPA at approximately $4.75 million, while replacement of the cranes would cost an estimated $60.0 million, plus $2.5 million for demolition and removal of the existing cranes. With the sale of the cranes to PAC, MPA will lose between $400,000 and $600,000 in annual revenue; MPA will save approximately $122,000 annually in fuel, parts, and supply costs, as well as $282,000 in wages and benefits. In addition, due to the investment by PAC in the Dundalk cranes, Atlantic Container Line/Grimaldi Group, a large container and Ro/Ro customer, agreed to a 20-year agreement that guarantees 70 vessel calls per year, 250,000 tons of Ro/Ro cargo, and lease of land and shed space.

As noted earlier, PAC is in a P3 with MPA at Seagirt Marine Terminal. Part of that agreement precludes MPA from leasing, operating, or permitting third parties to operate container terminals on State property, and that only Ports America Baltimore (PAB) (a PAC affiliate) may conduct container operations at Dundalk. In addition to limiting the benefits to MPA of investing in the cranes at Dundalk, it also limited potential buyers of the cranes to either PAC or PAB. Two firms conducted appraisals of the cranes and provided estimated sales values of $350,000 and $425,000.

This sale marks a growth in the footprint of PAC at the Port, as PAC now has a major presence at the Port's two largest container and Ro/Ro terminals. **MPA should comment on the sale and what it means for the future of the existing P3 agreement, PAC's involvement at the Port, and the potential for an extended or new P3 agreement.**

3. Tradepoint Atlantic Requests State Aid

The redevelopment of Sparrows Point continues to progress, as the owners, Tradepoint Atlantic, recently announced plans for a new, 300,000-square-foot FedEx distribution center on its land. The site's location near highway and rail access, as well as access to the Port's deep water channels, provides many redevelopment opportunities including both long- and short-term potential to attract marine-related businesses.

The developer, however, still sees a need for State incentives in the form of an extension of the One Maryland Tax Credit and improvements to infrastructure on and around Sparrows Point. Another incentive proposed by Tradepoint Atlantic related to the Port is a tax credit for increasing the volume

of business at the Port. **MPA should comment on the proposed tax credit or any other incentives or aid to Tradepoint Atlantic.**

Operating Budget Recommended Actions

		Amount Reduction	
1.	Delete special funds intended for an operating grant to Pride, Inc., which operates the Pride of Baltimore II schooner. The grant does not fit with the Maryland Port Administration's mission of promoting the Port of Baltimore.	$ 500,000	SF

2. Adopt the following narrative:

Funds for Double-stack Access Should Be Included in the Consolidated Transportation Program: The budget committees are concerned about the lack of funds programmed in the Consolidated Transportation Program (CTP) to address efforts to add double-stack container rail access to the Helen Delich Bentley Port of Baltimore. It is the intent of the committees that the 2017 to 2022 CTP reserve funds necessary for this endeavor.

Total Special Fund Reductions **$ 500,000**

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Search for Dredging Capacity

One of the major long-term issues confronting the Port is the need for more dredged placement capacity for both harbor and Chesapeake Bay materials. While capacity exists for maintenance dredging of harbor channels for about 15 to 20 years, there is little capacity to enhance or expand channels to meet business demands. The most promising space previously being considered, Coke Point on Sparrows Point, is no longer a priority due to a lack of interest from the current property owners, Tradepoint Atlantic.

The loss of Coke Point has led MPA to shift its focus to an expansion onto land that MPA owns at the Cox Creek dredged materials site, which could begin accepting dredged material in 2018. The Cox Creek site is just south of the Francis Scott Key Bridge on the western shore of the Patapsco River. MPA is also exploring expanding the site by purchasing adjacent property. Achieving both expansions would add nearly 19.5 million cubic yards of capacity, approximately what would have been available at Coke Point. MPA is also testing several nontraditional dredged material capacity recovery methods at its existing sites.

The expansion of Poplar Island is the focus for expanding capacity for bay materials. When completed, a vertical expansion to raise the height of one portion of the island, as well as adding several upland cells, would add 28 million cubic yards of capacity for bay material. Longer term, the next step is a future Mid-Chesapeake Bay Island Ecosystem Restoration Project – James Island and Barren Island. When completed, the project would add more than 90 million cubic yards of capacity.

2. Maryland Transportation Authority Sells ICTF to MPA

MPA purchased ICTF from the Maryland Transportation Authority (MDTA) in January 2016 for $14.2 million. ICTF, which is adjacent to the Seagirt Marine Terminal, is an on-dock rail facility used to transfer container cargo between rail and ocean vessels working at the terminal.

MDTA built ICTF in the late 1980s along with the Seagirt Marine Terminal for $204.0 million. From fiscal 1991 to 2010, MPA made annual payments to MDTA for use of the facilities and to repay MDTA's investment. In 2010, MDTA sold Seagirt to MPA for $140.0 million as part of the administration's P3 with PAC. Since then, MPA has received approximately $2.4 million per year from leasing the ICTF. An appraisal determined the value of the property to be $17.6 million, slightly higher than the $14.2 million sale price. The sale price, although lower than the assessment, approximately matches what MPA would have received from use of the property over the six-year term of the CTP. MDTA agreed with MPA that the facility best matched the maritime focus of MPA.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – Maryland Port Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$48,592	$0	$0	$48,592
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	149	0	0	149
Reversions and Cancellations	0	-874	0	0	-874
Actual Expenditures	**$0**	**$47,867**	**$0**	**$0**	**$47,867**
Fiscal 2016					
Legislative Appropriation	$0	$50,752	$0	$0	$50,752
Budget Amendments	0	227	0	0	227
Working Appropriation	**$0**	**$50,979**	**$0**	**$0**	**$50,979**

MDOT: Maryland Department of Transportation

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

MPA finished fiscal 2015 approximately $725,000 below its legislative appropriation. An amendment increased the appropriation by $148,891 for the cost-of-living adjustment. The Administration cancelled approximately $874,000 in special funds for the following reasons:

- reduced costs for health insurance and retirement ($133,000);
- legal contingencies ($300,000); and
- security services ($441,000).

Fiscal 2016

The fiscal 2016 appropriation increased by $226,896 for the restoration of salaries.

Object/Fund Difference Report
Maryland Department of Transportation – Maryland Port Administration

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	182.00	182.00	182.00	0.00	0%
02 Contractual	0.70	0.70	0.70	0.00	0%
Total Positions	**182.70**	**182.70**	**182.70**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 18,267,387	$ 18,947,102	$ 19,344,489	$ 397,387	2.1%
02 Technical and Spec. Fees	-107,616	429,431	429,431	0	0%
03 Communication	323,674	314,305	317,305	3,000	1.0%
04 Travel	371,989	348,169	406,967	58,798	16.9%
06 Fuel and Utilities	6,233,628	6,432,649	6,356,107	-76,542	-1.2%
07 Motor Vehicles	1,038,235	1,058,446	949,429	-109,017	-10.3%
08 Contractual Services	14,543,006	15,537,319	15,401,579	-135,740	-0.9%
09 Supplies and Materials	1,037,506	1,169,445	1,042,215	-127,230	-10.9%
10 Equipment – Replacement	234,813	341,725	281,725	-60,000	-17.6%
11 Equipment – Additional	153,125	101,025	153,125	52,100	51.6%
12 Grants, Subsidies, and Contributions	25,000	25,000	525,000	500,000	2000.0%
13 Fixed Charges	4,814,683	5,466,663	5,182,556	-284,107	-5.2%
14 Land and Structures	931,875	807,300	1,172,160	364,860	45.2%
Total Objects	**$ 47,867,305**	**$ 50,978,579**	**$ 51,562,088**	**$ 583,509**	**1.1%**
Funds					
03 Special Fund	$ 47,867,305	$ 50,978,579	$ 51,562,088	$ 583,509	1.1%
Total Funds	**$ 47,867,305**	**$ 50,978,579**	**$ 51,562,088**	**$ 583,509**	**1.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
Maryland Department of Transportation – Maryland Port Administration

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
2010 Port Operations	$ 47,867,305	$ 50,978,579	$ 51,562,088	$ 583,509	1.1%
2020 Port Facilities and Capital Equipment	88,877,571	121,241,000	116,904,997	-4,336,003	-3.6%
Total Expenditures	**$ 136,744,876**	**$ 172,219,579**	**$ 168,467,085**	**-$ 3,752,494**	**-2.2%**
Special Fund	$ 135,640,311	$ 169,623,579	$ 161,784,085	-$ 7,839,494	-4.6%
Federal Fund	1,104,565	2,596,000	6,683,000	4,087,000	157.4%
Total Appropriations	**$ 136,744,876**	**$ 172,219,579**	**$ 168,467,085**	**-$ 3,752,494**	**-2.2%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 4

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Maryland Port Administration – Operating

Status	Amendment	Fund	Justification
Approved	$226,896	Special	Salary increase.
Pending	51,189	Special	Realign Office of Administrative Hearings and Workers' Compensation costs across the Maryland Department of Transportation.

Source: Maryland Department of Transportation

Appendix 5

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Maryland Port Administration – Capital

Status	Amendment	Fund	Justification
Approved	$57,792	Special	Salary increase.
Pending	5,670	Special	Realign Office of Administrative Hearings and Workers' Compensation costs across the Maryland Department of Transportation.
Pending	-36,746,758 -1,453,000 **-$38,199,758**	Special Federal **Total**	Amend the working appropriation to reflect the fiscal 2016 to 2021 *Consolidated Transportation Program.*

Source: Maryland Department of Transportation

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Motor Vehicle Administration
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$183,233	$190,813	$193,176	$2,363	1.2%
Deficiencies and Reductions	0	0	-469	-469	
Adjusted Special Fund	**$183,233**	**$190,813**	**$192,707**	**$1,894**	**1.0%**
Federal Fund	10,697	12,965	12,894	-71	-0.5%
Adjusted Federal Fund	**$10,697**	**$12,965**	**$12,894**	**-$71**	**-0.5%**
Reimbursable Fund	957	900	900	0	
Adjusted Reimbursable Fund	**$957**	**$900**	**$900**	**$0**	**0.0%**
Adjusted Grand Total	**$194,887**	**$204,678**	**$206,502**	**$1,823**	**0.9%**

- The fiscal 2017 allowance increases by $1.8 million, or 0.9%, largely due to an increase in special funds.
- Personnel costs increase by $1.3 million due to a shift of 18 regular positions that administer the Maryland Highway Safety Office (MHSO) from the University of Baltimore (UB) to the Motor Vehicle Administration (MVA).

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2015	Fiscal 2016		Fiscal 2017
	Actual	Legislative	Working	Allowance
Special	$19,625	$26,642	$21,788	$29,493
Federal	995	574	1,452	103
Total	**$20,620**	**$27,216**	**$23,240**	**$29,596**

Note: Numbers may not sum to total due to rounding.

For further information contact: Jason A. Kramer Phone: (410) 946-5530

- The fiscal 2016 working appropriation is approximately $4.0 million less than the legislative appropriation largely due to decreases in system preservation minor project costs.

- The fiscal 2017 allowance increases by $6.4 million due to increases in system preservation minor project costs and cash flow changes for Project Core.

Operating and PAYGO Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Operating Budget Positions	1,712.50	1,712.50	1,729.50	17.00
Regular PAYGO Budget Positions	0.00	0.00	0.00	0.00
Total Regular Positions	**1,712.50**	**1,712.50**	**1,729.50**	**17.00**
Operating Budget FTEs	0.00	0.00	0.00	0.00
PAYGO Budget FTEs	0.00	0.00	0.00	0.00
Total FTEs	**0.00**	**0.00**	**0.00**	**0.00**
Total Personnel	**1,712.50**	**1,712.50**	**1,729.50**	**17.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		51.35	3.00%	
Positions and Percentage Vacant as of 12/31/15		76.00	4.44%	

- The fiscal 2017 personnel allowance increases by 17.0 positions due to the movement of 18.0 regular positions for the MHSO from UB to MVA. There was also a 1.0 information technology (IT) position abolished.

- The budgeted turnover rate is 3.0%, which requires 51.35 vacancies in fiscal 2017. As of January 1, 2015, there were 76.0 unfilled positions, for a vacancy rate of 4.39%.

Analysis in Brief

Major Trends

Efficient and Effective Business Practices: Since fiscal 2000, MVA has made significant IT investments to increase the number of alternative transactions as a way to reduce customer wait times and improve the customer experience. The department has developed a goal that 40% of all transactions should be completed through alternative means, or alternative service delivery (ASD). In fiscal 2014, MVA met its goal of performing 40% of transactions by ASD transactions. The goal has been increased to 62%. A new method of determining MVA's cost per transactions leads to costs per transaction in recent years ranging from $14.89 in fiscal 2012 to a high of $17.16 in fiscal 2014, higher than its previously stated goal of $14.00. This goal has also been revised to $16.00 per transaction.

Exemplary Customer Service: Visit times at MVA were reduced by 5.5 minutes in fiscal 2015 compared to the prior year. In fiscal 2014, MVA implemented the Wait Time Reduction Program in an effort to significantly reduce wait times, which is the time from when a customer gets a ticket until the customer is called. The program added staff and converted counters at MVA locations in order to handle transactions with higher demand. Wait times dropped from 28.1 minutes in fiscal 2014 to 21.6 minutes in fiscal 2015.

Issues

Fee Reductions Reduce Transportation Trust Fund Revenue: As part of a broad action in 2015, the administration reduced fees for a variety of items, including new and used car dealer's licenses, manufacturer or distribution licenses, driving school certification and renewal, and vehicle salesperson's licenses. The estimated impact of all of the MVA fee reductions in fiscal 2017 is a loss of $306,376 in Transportation Trust Fund (TTF) revenue. In addition, HB 459 and SB 389 would reduce by half the fee for personalized license plates from $50 to $25. MVA estimates the revenue impact would be $2.1 million annually. **MVA should comment on the impact of the revenue reductions on the TTF and on the administration's cost recovery.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Driver's Test Wait Times Spike: The length of time prospective drivers had to wait to schedule a driver's road test skyrocketed from two weeks in 2013 to more than two months in 2015, largely due to the implementation of Chapter 309 of 2013, which authorized MVA to issue or renew driver's licenses and identification cards to people without a Social Security number or lawful status. Wait times have since returned to the levels seen prior to the enactment of Chapter 309.

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Motor Vehicle Administration

Maryland Department of Transportation

Budget Analysis

Program Description

The Motor Vehicle Administration (MVA) is responsible for supplying motor vehicle services to the citizens of Maryland. These services include:

- licensing all passenger and commercial drivers;
- registering and titling vehicles;
- issuing tags and permits for persons with a disability;
- providing photo identification cards for nondriver residents;
- regulating motor vehicle dealers, vehicle rental companies, and driver education schools;
- administering the compulsory insurance compliance program, Vehicle Emissions Inspection Program, and driver safety programs; and
- coordinating the State's highway safety efforts.

Performance Analysis: Managing for Results

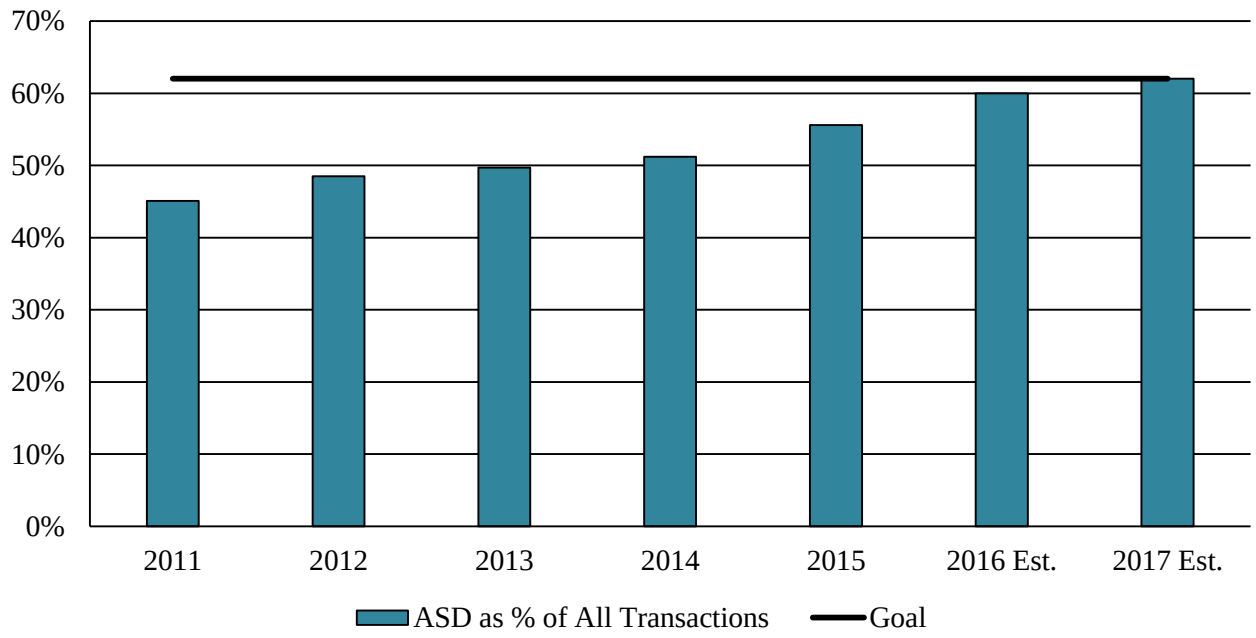
1. Efficient and Effective Business Practices

MVA's mission is to "…provide exemplary driver and vehicle services that promote Maryland's mobility and safety while enhancing process and product security." As part of the effort to accomplish this mission, one goal of MVA is to use efficient and effective business processes. One component of efficiency is the use of alternative service delivery (ASD) transactions – defined as transactions performed online, at MVA kiosks, by mail, or via the telephone call center.

Since fiscal 2000, MVA has made significant information technology (IT) investments to increase the number of alternative transactions as a way to reduce customer wait times and improve the customer experience. The department has developed a goal that 40.0% of all transactions should

be completed through alternative means, or ASD. MVA has revised its ASD calculations to count each stage of the titling process as one transaction, and not to count vision test transactions separately, instead, considering them part of the licensing process. This has inflated the ASD share by about 10 percentage points; in fiscal 2015, the fiscal 2014 ASD share was 40.0%, this year it is reported as 51.2%. MVA has revised its goal for the share of ASD transactions to 62.0%. As shown in **Exhibit 1**, about 56.0% of transactions were completed via ASD in fiscal 2015.

Exhibit 1
Motor Vehicle Administration
Alternative Service Delivery Transactions as Percent of All Transactions
Fiscal 2011-2017 Est.

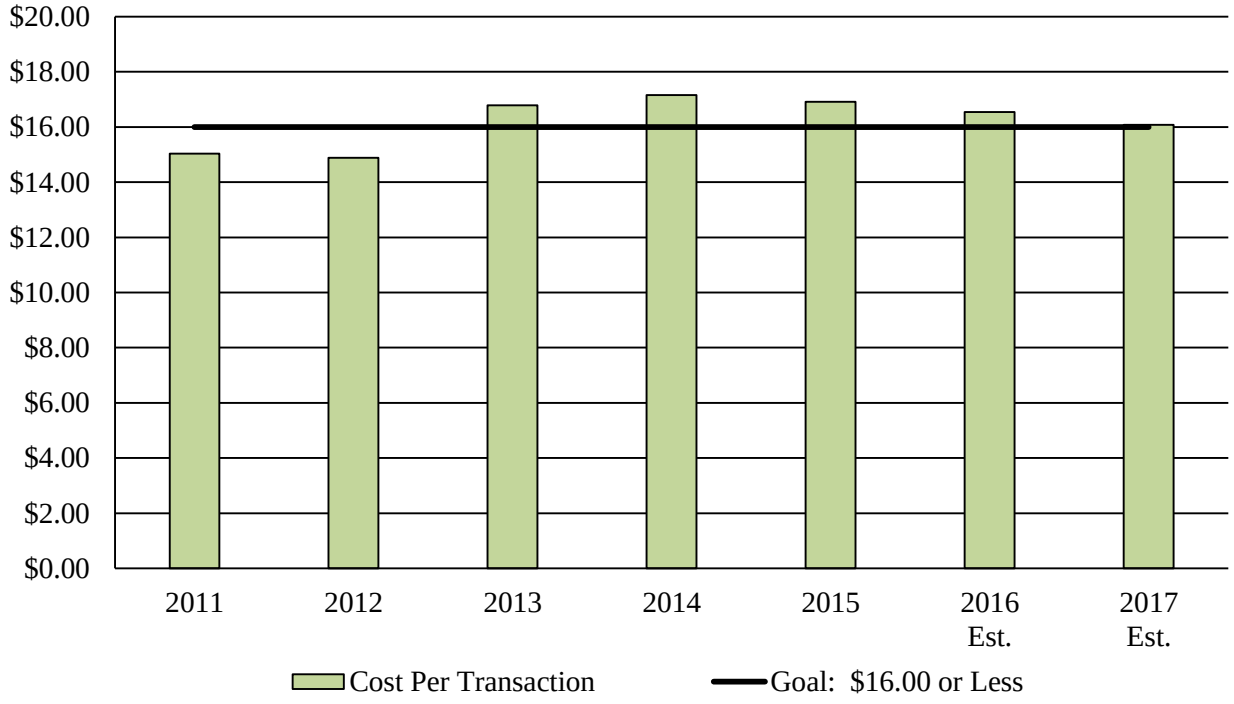


ASD: alternative service delivery

Source: Department of Budget and Management

The cost per transaction for MVA is another indicator of the efficiency and effectiveness of its business practices. MVA strives to reduce its cost per transaction through the use of better technology and operational practices. Its goal in this regard is to keep per transaction costs at or below $16.00. The administration's change in how it calculates transactions has also inflated its cost per transaction, as shown in **Exhibit 2**. Prior reporting by MVA showed costs per transaction below $14.00; however, the new method leads to costs per transaction in recent years ranging from $14.89 in fiscal 2012 to a high of $17.16 in fiscal 2014. In addition, MVA uses an inflation rate to adjust this data to 2016 dollars. MVA has revised its goal for the cost per transaction to $16.00.

Exhibit 2
Operating Cost Per Transaction
Fiscal 2011-2017 Est.



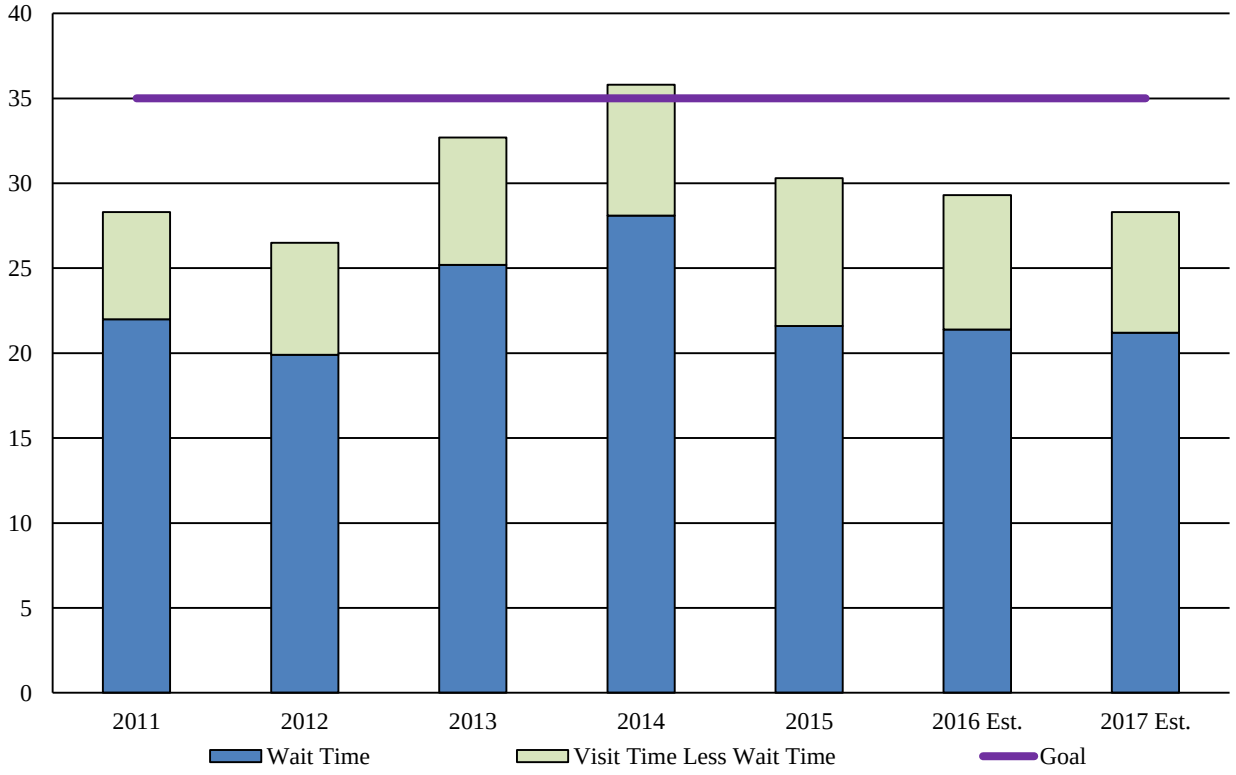
Note: Values in 2016 dollars.

Source: Motor Vehicle Administration

2. Exemplary Customer Service

One objective for meeting the goal of providing exemplary customer service is to keep the average customer visit time at MVA branch offices at 35 minutes or less, which MVA lowered from 40 minutes. **Exhibit 3** shows the performance for this measure for fiscal 2011 through 2017. Visit times were reduced by 5.5 minutes in fiscal 2015 compared to the prior year. In fiscal 2014, MVA implemented the Wait Time Reduction Program in an effort to significantly reduce wait times, which is the time from when a customer gets a ticket until the customer is called. The program added staff and converted counters at MVA locations in order to handle transactions with higher demand. Wait times dropped from 28.1 minutes in fiscal 2014 to 21.6 minutes in fiscal 2015.

Exhibit 3
Average Customer Visit Time
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

Fiscal 2016 Actions

Cost Containment

While the Maryland Department of Transportation (MDOT) was not subject to the fiscal 2016 across-the-board 2% reduction, it did list areas in which costs could be reduced by that amount. MVA said it would reduce operating expenditures by $1.3 million in special funds by reducing temporary employees, reducing advertising costs, and implementing a new inventory management system for license plates. Rather than amending the working appropriation, MDOT will cancel funds at the end of fiscal 2016.

Proposed Budget

As shown in **Exhibit 4**, the fiscal 2017 allowance increases by $1.8 million, or 0.9%.

Exhibit 4
Proposed Budget
MDOT – Motor Vehicle Administration
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$183,233	$10,697	$957	$194,887
Fiscal 2016 Working Appropriation	190,813	12,965	900	204,678
Fiscal 2017 Allowance	192,707	12,894	900	206,502
Fiscal 2016-2017 Amount Change	$1,894	-$71	$0	$1,823
Fiscal 2016-2017 Percent Change	1.0%	-0.5%	0.0%	0.9%

Where It Goes:	
Personnel Expenses	
Net cost of new positions	$23
Abolished/transferred positions	-104
Increments and other compensation	-2,953
Employee and retiree health insurance	1,442
Retirement and pension contributions	1,774
Social Security	-251
Unemployment and Workers' compensation premium assessment	69
Turnover adjustments	43
Other Changes	
Contractual services needed for increase in license plates	941
Increase in credit card fees due to increase use of alternative service methods	728
Increase in postage due to more customers receiving products by mail	567
Increase in maintenance costs, primarily snow removal and telephone maintenance	285
Computer software support	256
Security based on fiscal 2015 actuals	198
Data processing supplies and other supplies	87
Software purchases	46
Savings from merging two data systems	-101
Advertising regarding Chapter 309 of 2013 no longer needed	-286
Revised spending plan for computer maintenance	-317

Where It Goes:	
Electricity per DBM guidelines	-719
Other changes	95
Total	**$1,823**

DBM: Department of Budget and Management

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. The MVA share of these reductions is $468,565 in special funds and $10 in federal funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

18 Regular Positions Moved to MVA

Personnel costs increase by $1.3 million in fiscal 2017 compared to the prior year, with 18 new regular positions accounting for nearly all of that increase. The 18 regular positions are for MVA's Maryland Highway Safety Office (MHSO), which provides leadership for the State's highway safety program. The University of Baltimore (UB) previously housed MHSO through an interagency agreement. The positions provide administration and program management functions for programs provided throughout the State to over 160 grantees across all 23 counties and Baltimore City. The increase in personnel is offset by a similar decrease in spending on the agreement with UB.

Other Personnel Changes

Outside of the 18 new regular positions, other large changes include a $3 million reduction in salary increments and other compensation costs. This decrease is due to several factors. First, MVA eliminated 22 positions in fiscal 2015 via the Voluntary Separation Plan. While the positions were cut in fiscal 2015, MVA did not remove funding for the positions until the fiscal 2017 allowance. Additionally, MVA eliminated 44 temporary employees in fiscal 2016 and will eliminate another 26 in fiscal 2017. The Wait Time Reduction Program temporarily increased the number of temporary employees necessary as well as inflating overtime earnings.

The reduction in compensation costs is offset by a $1.4 million increase in health insurance costs and a $1.8 million increase in retirement costs. Not included in the MVA operating budget are employee increments and associated fringe benefit expenses. Funds for these expenses are included in the budget of the Department of Budget and Management and will be distributed to agencies for the start of the fiscal year. For MVA, this will equate to $1,698,401 in special funds.

PAYGO Capital Program

Program Description

The Facilities and Capital Equipment Program provides funds for new capital facilities, renovations to existing facilities, the development of major new IT systems, and the purchase of capital equipment.

Fiscal 2016 to 2021 *Consolidated Transportation Program*

The 2016 to 2021 six-year capital program for MVA totals $133.9 million, an $8.7 million increase over the prior year's six-year program, with much of the change driven by the Project Core IT project.

Fiscal 2017 Capital Allowance

The fiscal 2017 allowance for MVA's capital program totals $29.6 million, an increase of $6.4 million from the current year working appropriation. **Exhibit 5** shows the 2017 capital allowance for MVA by project and program along with estimated total project costs and six-year funding included in the *Consolidated Transportation Program*. Project Core, an effort to modernize MVA's IT structure, has been moved from the development and evaluation program to the construction program.

Fiscal 2016 and 2017 Cash Flow Analysis

Exhibit 6 shows the changes in MVA capital spending for fiscal 2015 through the 2017 allowance and includes both the fiscal 2016 legislative and working appropriations. Capital spending in the fiscal 2016 working appropriation is $4.0 million lower than in the legislative appropriation. The fiscal 2017 allowance is a $6.4 million increase from the fiscal 2016 working appropriation.

Exhibit 5
Motor Vehicle Administration PAYGO Capital Allowance
Fiscal 2017
($ in Thousands)

Jurisdiction	Project Description	2017	Total Cost	Six-year Total
Projects				
Statewide	Alternative Service Delivery System	$2,327	$28,757	$10,331
Statewide	Project Core	4,429	16,279	11,779
Statewide	REAL-ID Act	375	4,307	948
Subtotal – Projects		***$7,131***	***$49,343***	***$23,058***

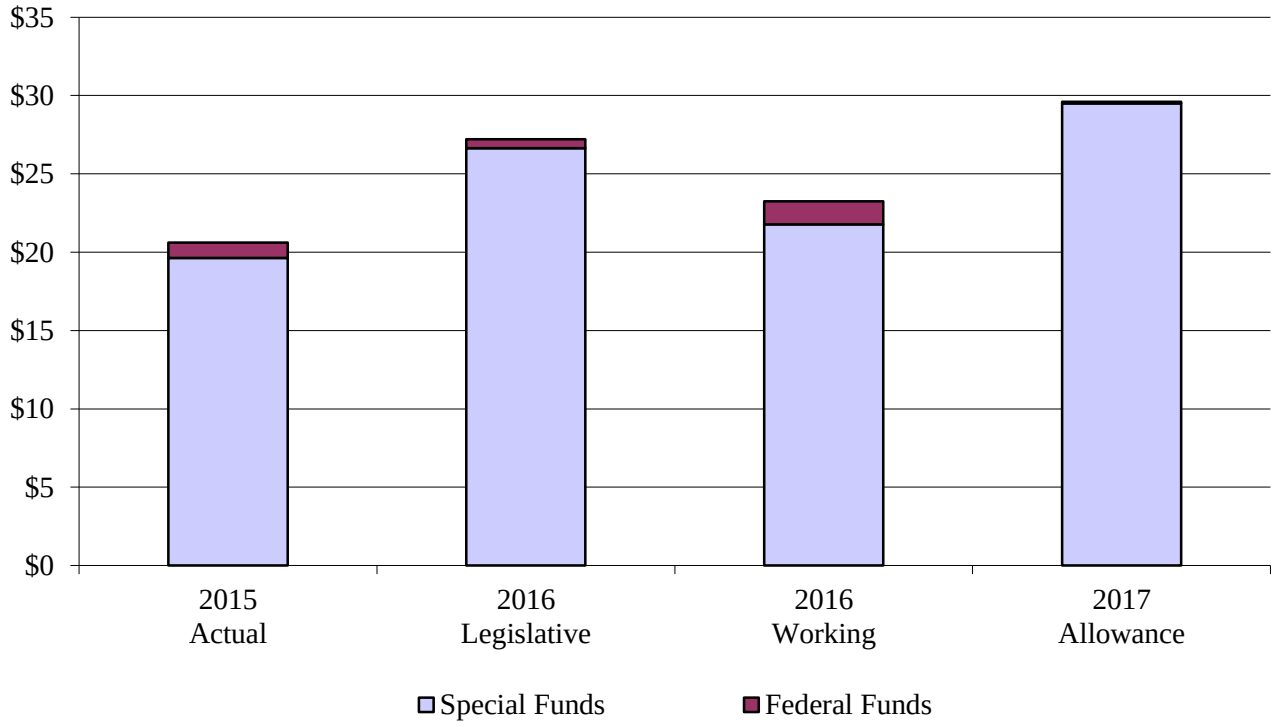
Jurisdiction	Project Description	2017	Total Cost	Six-year Total
Programs				
Statewide	System Preservation and Minor Projects	$21,300	n/a	$103,200
Statewide	Capital Salaries	1,200	n/a	7,600
Subtotal – Programs		***$22,500***	***n/a***	***$110,800***
Total – Projects and Programs		**$29,631**	**$49,343**	**$133,858**

PAYGO: pay-as-you-go

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, 2015-2020 *Consolidated Transportation Program*

Exhibit 6
Cash Flow Changes
Fiscal 2015-2017
($ in Millions)



Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Cash Flow Analysis – Fiscal 2016 Changes

As seen in **Exhibit 7,** the fiscal 2016 working appropriation decreases by $3.1 million for system preservation and minor projects compared to the fiscal 2016 legislative appropriation, $1.1 million for ASD Systems, and approximately $378,000 for the REAL-ID Act project. There was an approximately $500,000 increase in Project Core. The largest changes in system preservation and minor projects between the fiscal 2016 working appropriation and the fiscal 2016 allowance comprise:

- $2.8 million – Central Issuance of Licenses and Identification Cards (increase);
- $1.6 million – Network Switch System Preservation (increase);
- $1.9 million – Business Process Reengineering (decrease);
- $1.5 million – Computer Equipment System Preservation (decrease); and
- $1.2 million – Frederick Branch Renovation (decrease).

Exhibit 7
Cash Flow Changes
Fiscal 2016 Legislative to Working Appropriations
($ in Thousands)

Fiscal 2016 Legislative to Working		
Major Projects		**-$978**
Alternative Service Delivery Systems	-$1,100	
REAL-ID Act	-378	
Project Core	500	
System Preservation and Minor Projects		**-$3,100**
Total Change		**-$4,078**

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Cash Flow Analysis – Fiscal 2016 to 2017 Changes

As seen in **Exhibit 8,** the fiscal 2017 allowance increases by approximately $3.4 million for system preservation and minor projects compared to the fiscal 2016 working appropriation. Current initiatives in the ASD Systems project include an MVA website redesign and additional options for renewing and obtaining a driver license. Project Core's planning stage is nearing completion, with vendor proposals expected to be solicited later this year. The largest change in system preservation and minor projects between the fiscal 2016 legislative appropriation and fiscal 2017 was a $1.7 million increase for the Document Information and Workflow System project.

Exhibit 8
Cash Flow Changes
Fiscal 2016 Working to Fiscal 2017 Allowance
($ in Thousands)

Fiscal 2016 to 2017 Allowance		
Major Projects		**$3,041**
Alternative Service Delivery Systems	$1,158	
REAL-ID Act	54	
Project Core	1,829	
System Preservation and Minor Projects		**$3,400**
Total Change		**$6,441**

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Issues

1. Fee Reductions Reduce Transportation Trust Fund Revenue

As part of a broad action in fiscal 2015, the administration reduced fees for a variety of items, including new and used car dealer's licenses, manufacturer or distribution licenses, driving school certification and renewal, and vehicle salesperson's licenses. The estimated impact of all of the MVA fee reductions in fiscal 2017 is a loss of $306,376 in Transportation Trust Fund (TTF) revenue.

In addition, HB 459 and SB 389 would reduce by half the fee for personalized license plates from $50 to $25. MVA estimates that the revenue impact would be $2.1 million annually. Combined with the prior fee reductions, the total impact would by approximately $2.4 million per year. **MVA should comment on the impact of the revenue reductions on the TTF and on the administration's cost recovery.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Driver's Test Wait Times Spike

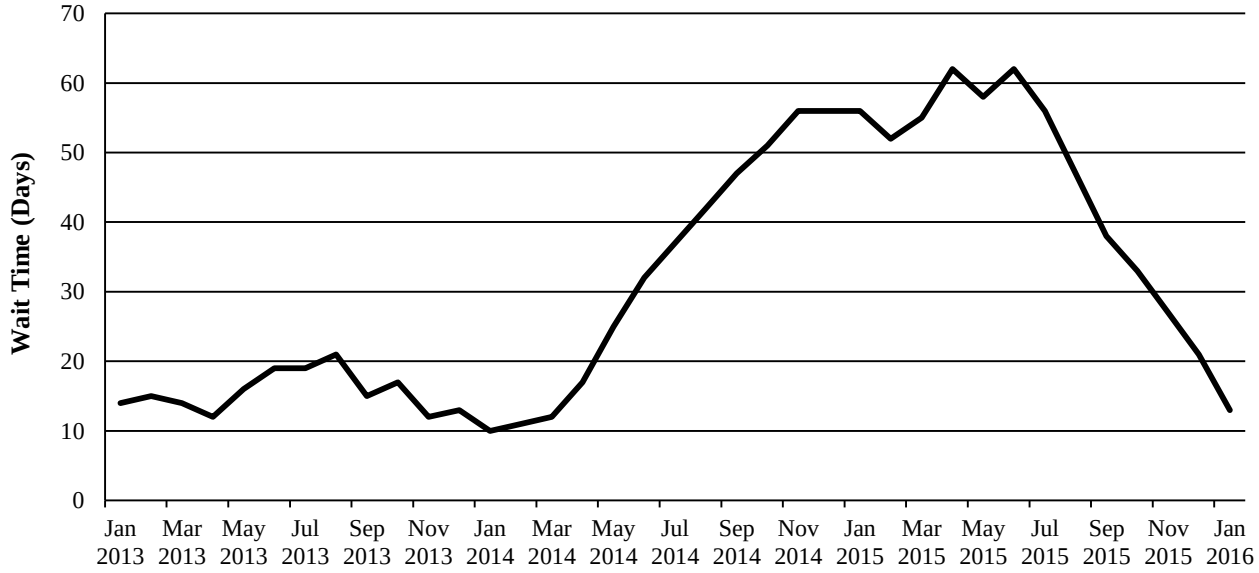
The length of time prospective drivers had to wait to schedule a driver's road test skyrocketed from two weeks in 2013 to more than two months in 2015, largely due to the implementation of Chapter 309 of 2013, which authorized MVA to issue or renew driver's licenses and identification cards to people without a Social Security number or lawful status.

In response to the problem, MVA made several changes.

- MVA increased the number of appointments offered by 26% from 4,364 per week in August 2014 to 5,907 per week in August 2015.
- The administration added staff to perform driver skill tests by reclassifying vacant positions to driver license agent positions.
- MVA increased the capacity of driving courses at three high-demand branches, allowing skill tests to be conducted simultaneously.

As shown in **Exhibit 9**, wait times have returned to the levels seen prior to the enactment of Chapter 309. In January 2016, the wait time was 13 days.

Exhibit 9
Driver's Test Wait Times
January 2013 to January 2016



Source: Maryland Motor Vehicle Administration

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – Motor Vehicle Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$182,167	$12,960	$0	$195,127
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	1,070	123	1,044	2,237
Reversions and Cancellations	0	-4	-2,386	-87	-2,477
Actual Expenditures	**$0**	**$183,233**	**$10,697**	**$957**	**$194,887**
Fiscal 2016					
Legislative Appropriation	$0	$189,358	$12,964	$900	$203,223
Budget Amendments	0	1,455	1	0	1,456
Working Appropriation	**$0**	**$190,813**	**$12,965**	**$900**	**$204,678**

MDOT: Maryland Department of Transportation

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

MVA closed out fiscal 2015 approximately $240,000 below its appropriation.

Special Funds: Special funds increased by $1.1 million over the legislative appropriation. Amendments increased the appropriation by $935,000 for the cost-of-living adjustment, $100,000 for MHSO to match reimbursable funds from the State Highway Administration (SHA), and $35,000 for higher than anticipated salaries and wages.

Federal Funds: Federal funds decreased by about $2.3 million from the legislative appropriation. An amendment increased the appropriation by $123,014 for higher than anticipated expenses on wages and contractual services. MVA canceled approximately $1.5 million due to lower than expected spending on highway safety grants and another $900,000 due to lower than expected spending on consultant contracts.

Reimbursable Funds: Reimbursable funds increased from zero legislative appropriation to approximately $957,000 in actual expenditures. An amendment from SHA to operate MHSO increased the appropriation by $900,000. MVA canceled $77,674 of that amount. Another amendment increased the appropriation by $144,244 for unreimbursed federal expenditures from federal highway safety grants.

Fiscal 2016

The fiscal 2016 appropriation increased by $1,454,764 in special funds and $822 in federal funds for the restoration of salaries.

Object/Fund Difference Report
MDOT – Motor Vehicle Administration

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	1,703.50	1,703.50	1,720.50	17.00	1.0%
Total Positions	**1,703.50**	**1,703.50**	**1,720.50**	**17.00**	**1.0%**
Objects					
01 Salaries and Wages	$ 116,805,452	$ 123,780,484	$ 125,579,381	$ 1,798,897	1.5%
02 Technical and Spec. Fees	1,710,704	1,782,116	1,796,127	14,011	0.8%
03 Communication	6,081,603	6,250,970	6,895,525	644,555	10.3%
04 Travel	160,005	186,338	168,553	-17,785	-9.5%
06 Fuel and Utilities	2,189,931	3,000,915	2,257,611	-743,304	-24.8%
07 Motor Vehicles	640,883	576,502	585,505	9,003	1.6%
08 Contractual Services	48,663,527	48,777,178	49,894,014	1,116,836	2.3%
09 Supplies and Materials	1,197,270	1,159,697	1,200,744	41,047	3.5%
10 Equipment – Replacement	16,097	32,607	62,607	30,000	92.0%
11 Equipment – Additional	29,844	24,852	54,059	29,207	117.5%
12 Grants, Subsidies, and Contributions	9,483,932	10,962,315	9,674,885	-1,287,430	-11.7%
13 Fixed Charges	7,907,817	8,144,164	8,801,155	656,991	8.1%
Total Objects	**$ 194,887,065**	**$ 204,678,138**	**$ 206,970,166**	**$ 2,292,028**	**1.1%**
Funds					
03 Special Fund	$ 183,232,772	$ 190,813,191	$ 193,175,926	$ 2,362,735	1.2%
05 Federal Fund	10,697,444	12,964,947	12,894,240	-70,707	-0.5%
09 Reimbursable Fund	956,849	900,000	900,000	0	0%
Total Funds	**$ 194,887,065**	**$ 204,678,138**	**$ 206,970,166**	**$ 2,292,028**	**1.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
MDOT – Motor Vehicle Administration

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Motor Vehicle Operations	$ 182,495,090	$ 189,829,711	$ 192,129,171	$ 2,299,460	1.2%
03 Facilities and Capital Equipment	18,060,351	20,640,000	25,167,155	4,527,155	21.9%
04 Maryland Highway Safety Office	12,391,975	14,848,427	14,840,995	-7,432	-0.1%
08 Major Information Technology Development Projects	2,560,000	2,600,000	4,429,000	1,829,000	70.3%
Total Expenditures	**$ 215,507,416**	**$ 227,918,138**	**$ 236,566,321**	**$ 8,648,183**	**3.8%**
Special Fund	$ 202,858,065	$ 212,601,191	$ 222,669,081	$ 10,067,890	4.7%
Federal Fund	11,692,502	14,416,947	12,997,240	-1,419,707	-9.8%
Total Appropriations	**$ 214,550,567**	**$ 227,018,138**	**$ 235,666,321**	**$ 8,648,183**	**3.8%**
Reimbursable Fund	$ 956,849	$ 900,000	$ 900,000	$ 0	0%
Total Funds	**$ 215,507,416**	**$ 227,918,138**	**$ 236,566,321**	**$ 8,648,183**	**3.8%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 4

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Motor Vehicle Administration – Operating

Status	Amendment	Fund	Justification
Approved	$1,446,174	Special	Salary restoration.
	822	Federal	
	$1,446,996	***Subtotal***	
Pending	$30,987	Special	Realign Office of Administrative Hearings and Workers' Compensation costs across the Maryland Department of Transportation.
	$1,477,983	**Total**	

Source: Maryland Department of Transportation

Appendix 5

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Motor Vehicle Administration – Capital

Status	Amendment	Fund	Justification
Approved	$22,705	Special	Salary restoration.
Pending	-38	Special	Realign Office of Administrative Hearings and Workers' Compensation costs across the Maryland Department of Transportation.
Pending	-4,867,820 878,000	Special Federal	Amend the working appropriation to reflect the fiscal 2016 to 2021 *Consolidated Transportation Program.*
	$3,989,820	***Subtotal***	
	-$4,012,487	**Total**	

Source: Maryland Department of Transportation

J00H01
Maryland Transit Administration
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$707,963	$703,773	$728,567	$24,794	3.5%
Deficiencies and Reductions	0	564	-156	-720	
Adjusted Special Fund	**$707,963**	**$704,337**	**$728,411**	**$24,074**	**3.4%**
Federal Fund	59,046	59,501	59,501	0	
Adjusted Federal Fund	**$59,046**	**$59,501**	**$59,501**	**$0**	**0.0%**
Adjusted Grand Total	**$767,009**	**$763,837**	**$787,911**	**$24,074**	**3.2%**

- The budget, as introduced, includes fiscal 2016 deficiency appropriations totaling $563,810 for the Maryland Transit Administration (MTA). The deficiencies support 40 new positions dedicated to the BaltimoreLink transit initiative.

- Section 19 reduces special funds for health insurance for MTA by 156,247.

- The fiscal 2017 MTA adjusted allowance is $24.1 million higher than the current year working appropriation with deficiencies included. Some of the larger changes comprise:

  - $8.1 million for personnel expenses;

  - $5.2 million for the BaltimoreLink transit initiative; and

  - $3.3 million for paratransit.

Note: Numbers may not sum to total due to rounding.

For further information contact: Steven D. McCulloch Phone: (410) 946-5530

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2015	Fiscal 2016		Fiscal 2017
	Actual	Legislative	Working	Allowance
Special	$249,930	$408,497	$299,236	$217,538
Federal	184,355	332,744	140,121	457,758
Total	**$434,285**	**$741,241**	**$439,357**	**$675,296**

- The fiscal 2016 working appropriation is $301.9 million lower than the legislative appropriation. This does not include "other funds," which do not flow through MTA's budget but which support some of MTA's capital projects. Special funds decrease by $109.3 million and federal funds decrease by $192.6 million. Some of the larger changes include:
    - -$23.1 million – Metro Railcar and Signal System Overhauls and Replacement;
    - -$30.3 million – Purple Line – Montgomery County Funded Projects;
    - -$106.2 million – Baltimore Red Line; and
    - -$150.0 million – Purple Line.
- The fiscal 2017 allowance increases by $235.9 million over the current year working appropriation, exclusive of other funds. A decrease of $81.7 million in special funds is more than offset by an increase of $317.6 million in federal funds. Some of the larger changes include:
    - $186.3 million – Purple Line;
    - $51.5 million – Bus Procurement;
    - $40.4 million – Purple Line – Montgomery County Funded Projects; and
    - -$19.0 million – Bus New Main Shop.

Operating and PAYGO Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Operating Budget Positions	3,226.50	3,225.50	3,354.50	129.00
Regular PAYGO Budget Positions	92.00	92.00	92.00	0.00
Total Regular Positions	**3,318.50**	**3,317.50**	**3,446.50**	**129.00**
Operating Budget FTEs	16.00	16.00	16.00	0.00
PAYGO Budget FTEs	0.00	0.00	0.00	0.00
Total FTEs	**16.00**	**16.00**	**16.00**	**0.00**
Total Personnel	**3,334.50**	**3,333.50**	**3,462.50**	**129.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		114.75	3.46%	
Positions and Percentage Vacant as of 12/31/15		149.00	4.49%	

- The fiscal 2017 allowance has 129.0 new regular positions comprising the addition of 130.0 positions related to the BaltimoreLink transit initiative offset by the abolition of 1.0 vacant position related to the consolidation of information technology functions in the Department of Information and Technology.

- Budgeted turnover in fiscal 2017 is 3.46%, which will require MTA to maintain the equivalent of 114.75 positions vacant the entire year. As of December 31, 2015, there were 149.0 vacant positions representing a vacancy rate of 4.49%.

- The number of full-time equivalent contractual positions remains unchanged.

Analysis in Brief

Major Trends

Boardings Increase in Fiscal 2015: For all modes of MTA service, there were 116 million boardings in fiscal 2015 representing a 1.8% increase over the prior year. Core bus services, which accounted for 67.8% of all boardings in fiscal 2015, increased by 3.8% over the prior year.

On-time Performance: Core bus service has not met its on-time goal since fiscal 2011, and Mobility service has not met its goal at any time during this period. The Maryland Area Regional Commuter (MARC) service met its goal only in fiscal 2012 and 2013, while Metro and light rail on-time performance met their goals for this entire period. **MTA should brief the committees on its recent changes in managing on-time performance and indicate if any improvements have been observed as a result.**

Farebox Recovery: The farebox recovery rate for the Baltimore area services decreased from 28% in fiscal 2014 to 25% in fiscal 2015. Fare increases that went into effect at the end of fiscal 2015 should result in an increase in the farebox recovery rate, although ridership numbers tend to drop in the year following an increase, which could offset some of the increase. The MARC farebox recovery rate, while still well above the 35% threshold, fell to 44% in fiscal 2015, down from 50% the prior year and continuing on a downward trend since fiscal 2012. **MTA should brief the committees on the factors contributing to the decline in the MARC farebox recovery rate and the steps being taken to reverse this trend.**

Performance Measures: While operating expenses per revenue vehicle mile increased for core bus, light rail, and Metro between fiscal 2014 and 2015, the projections for fiscal 2016 are for a marked decrease. **MTA should comment on the factors contributing to the forecasted decreases in operating expenses per revenue vehicle mile.**

Issues

BaltimoreLink Initiative Proposed to Improve Transit in the Baltimore Region: Cancellation of the Baltimore Red Line light rail project focused increased attention on existing transit services in the Baltimore metropolitan region and, in light of the fact that development of a major new transit system in place of the Red Line would take decades to complete, makes it imperative that these services address the transit needs of the region to the greatest extent possible. In response to this imperative, in October 2015, MTA announced the beginning of a $135 million, multi-phase initiative to improve transit services in the Baltimore region called BaltimoreLink.

Purple Line Update: After putting the Purple Line light rail project on hold in early 2015 in order to allow time for a review of the project, the Governor announced in June 2015 that the project would move forward. Bids were received in November 2015 with an announcement of the final agreement

expected in February or March 2016. **MTA should update the committees on the status of the Purple Line project, to the extent possible under procurement law.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Bus Real-time Information System Beta Test Results Reported: In response to committee narrative adopted during the 2015 session, MTA reported on the results of its beta test of a Global Positioning System real-time bus tracking application. The results indicate both the desire of the public for such a system and the need for MTA to modernize its bus equipment to effectively run such a system. MTA has initiated an equipment modernization procurement.

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Maryland Transit Administration

Maryland Department of Transportation

Budget Analysis

Program Description

The Maryland Department of Transportation (MDOT) supports transit in Maryland through the Maryland Transit Administration (MTA). MTA consists of the following operating budget programs:

- **Transit Administration** provides executive direction and support services for MTA.

- **Bus Operations** manages bus services in Baltimore City and surrounding counties. These services include the operation of fixed route and paratransit lines and contracts with commuter and paratransit service providers.

- **Rail Operations** includes the Baltimore Metro heavy rail line and the Baltimore area light rail line as well as the management of the Maryland Area Regional Commuter (MARC) contracts with Amtrak and Bombardier.

- **Statewide Operations** provides technical assistance and operating grants to local jurisdictions' transit services, including Montgomery County's "Ride-On," Prince George's County's "the Bus," and Baltimore City's "Charm City Circulator" services. Additionally, the program contracts with private carriers to operate commuter bus services throughout the State. Assistance is also provided to several short-line freight railroads to support the maintenance of State-owned rail lines.

MTA has identified the following goals:

- to provide outstanding service;

- to encourage transit ridership in Maryland;

- to use MTA resources efficiently and effectively and be accountable to the public, customers, and employees with performance measured against prior years; and

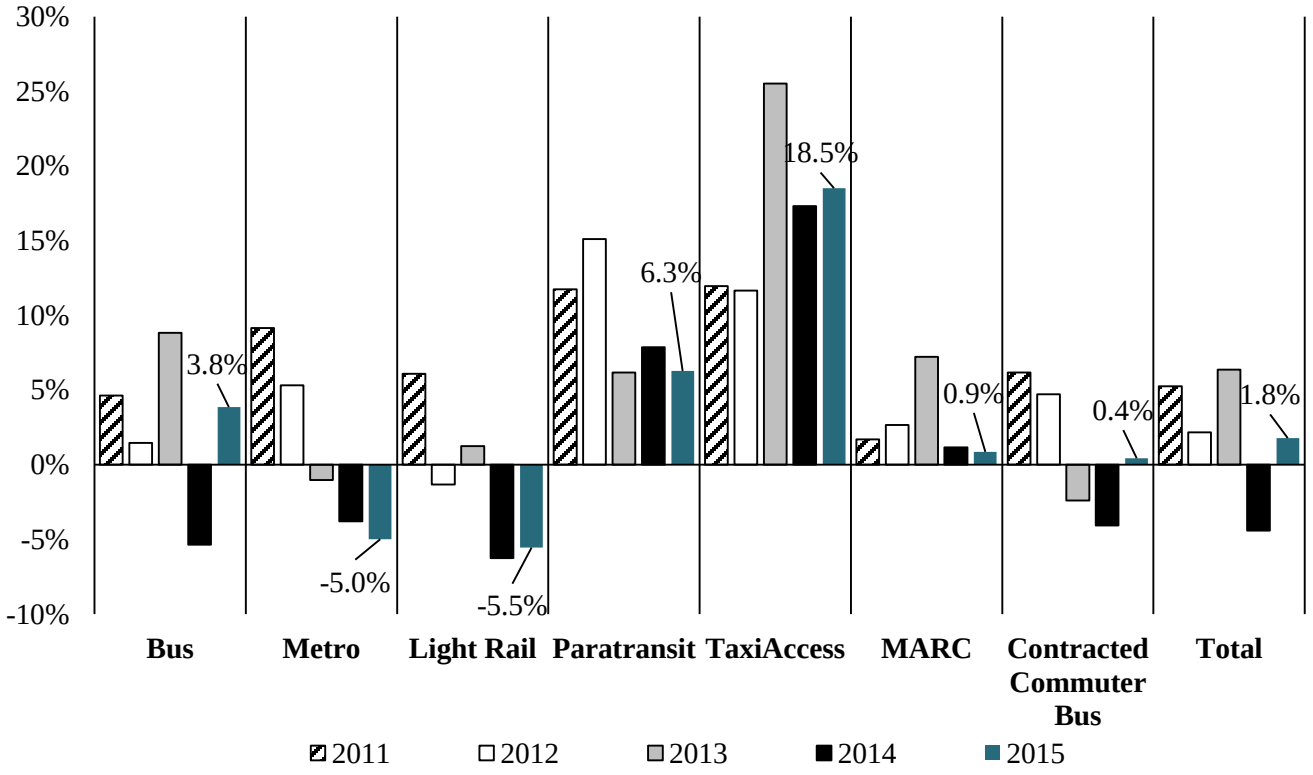
- to provide a safe environment for customers and employees.

Performance Analysis: Managing for Results

1. Boardings Increase in Fiscal 2015

MTA has a goal to encourage transit ridership. One method of measuring transit ridership is the number of boardings that occur during a specified period. For all modes of MTA service, there were 116 million boardings in fiscal 2015 representing a 1.8% increase over the prior year. **Exhibit 1** shows the percent change in boardings from the prior year for fiscal 2011 through 2015. Core bus services, which accounted for 67.8% of all boardings in fiscal 2015, increased by 3.8% over the prior year. Boardings were up for all services in fiscal 2015 except for Metro (-5.0%) and light rail (-5.5%). MARC and paratransit services are the only modes that increased in all five years.

Exhibit 1
Percent Change in MTA Boardings
Fiscal 2011-2015



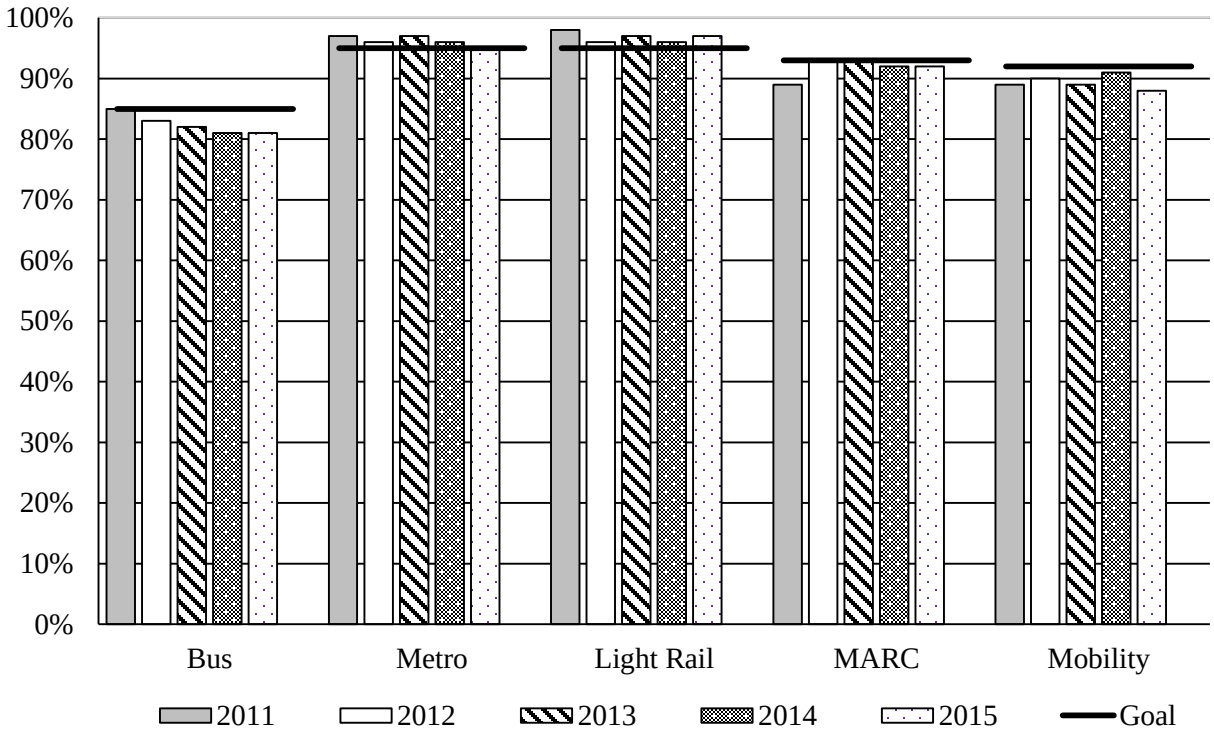
MARC: Maryland Area Regional Commuter MTA: Maryland Transit Administration

Source: Department of Budget and Management

2. On-time Performance

As part of its goal to provide outstanding service to customers, MTA attempts to provide high on-time performance with goals of 85% on-time performance for core bus service, 95% for Metro and light rail service, 93% for MARC service, and 92% for mobility services. **Exhibit 2** shows the percent of on-time service by mode for fiscal 2011 through 2015. Core bus service has not met is on-time goal since fiscal 2011, and Mobility service has not met its goal at any time during this period. MARC service met its goal only in fiscal 2012 and 2013, while Metro and light rail on-time performance met their goals for this entire period. MTA has recently implemented changes in the frequency in which on-time performance is reported to management in an effort to improve performance. **MTA should brief the committees on its recent changes in managing on-time performance and indicate if any improvements have been observed as a result.**

Exhibit 2
On-time Performance
Fiscal 2011-2015



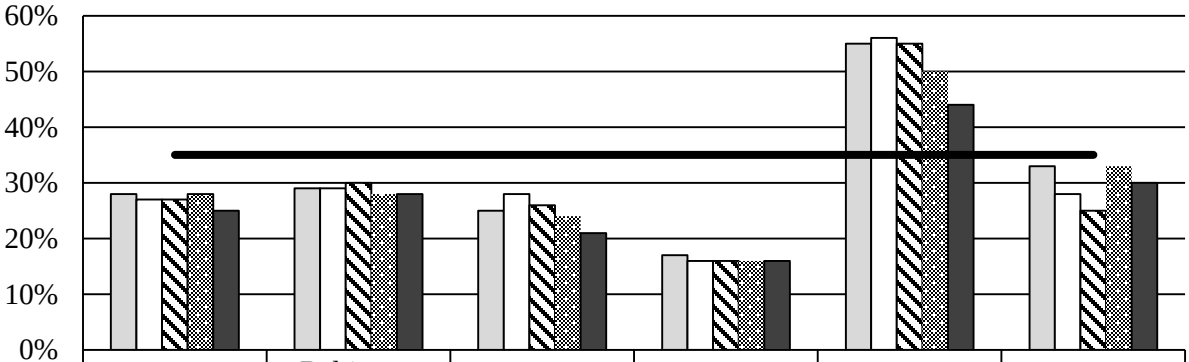
MARC: Maryland Area Regional Commuter

Source: Department of Budget and Management

3. Farebox Recovery

Section 7-208 of the Transportation Article sets the statutory farebox recovery rate at 35% for Baltimore area core services and MARC service. **Exhibit 3** shows the farebox recovery rates by mode of transit and for the Baltimore area services as a whole for fiscal 2011 through 2015. The farebox recovery rate for the Baltimore area services decreased from 28% in fiscal 2014 to 25% in fiscal 2015. Fare increases that went into effect at the end of fiscal 2015 should result in an increase in the farebox recovery rate although ridership numbers tend to drop in the year following an increase, which could offset some of the increase. The MARC farebox recovery rate, while still well above the 35% threshold, fell to 44% in fiscal 2015, down from 50% the prior year and continuing a downward trend since fiscal 2012. **MTA should brief the committees on the factors contributing to the decline in the MARC farebox recovery rate and the steps being taken to reverse this trend.**

Exhibit 3
Farebox Recovery Rates
Fiscal 2011-2015



	Baltimore Area Services	Baltimore Core/ Commuter Bus	Metro	Light Rail	MARC	Washington Commuter Bus
2011	28%	29%	25%	17%	55%	33%
2012	27%	29%	28%	16%	56%	28%
2013	27%	30%	26%	16%	55%	25%
2014	28%	28%	24%	16%	50%	33%
2015	25%	28%	21%	16%	44%	30%
Goal	35%	35%	35%	35%	35%	35%

MARC: Maryland Area Regional Commuter

Source: Department of Budget and Management

4. Performance Measures

Section 7-208 of the Transportation Article also requires MTA to develop performance goals for passenger trips per revenue vehicle mile, operating expenses per passenger trip, and operating expenses per revenue vehicle mile by transit mode. **Exhibit 4** shows the actual figures for fiscal 2014 and 2015 and the projections for fiscal 2016 and 2017. MTA's goals with respect to these measures are to minimize increases in operating costs per passenger and maximize passenger trips per revenue mile.

Exhibit 4
Performance Goals
Fiscal 2014-2017 Est.

	2014	2015 Est.	2015	2016 Est.	2017 Est.
Core Bus					
Passengers Per Revenue Vehicle Mile	3.80	3.30	3.92	3.85	3.89
Operating Expenses Per Passenger Trip	$3.52	$3.77	$3.48	$3.18	$3.15
Operating Expenses Per Revenue Vehicle Mile	$13.30	$12.41	$13.64	$12.23	$12.23
Light Rail					
Passengers Per Revenue Vehicle Mile	2.44	2.50	2.59	2.59	2.59
Operating Expenses Per Passenger Trip	$5.32	$4.95	$5.85	$4.74	$4.79
Operating Expenses Per Revenue Vehicle Mile	$12.98	$12.27	$15.11	$12.28	$12.40
Metro					
Passengers Per Revenue Mile	2.90	2.9	2.77	2.92	2.96
Operating Expenses Per Passenger Trip	$3.86	$3.81	$4.06	$3.15	$3.13
Operating Expenses Per Revenue Vehicle Mile	$11.18	$10.94	$11.25	$9.19	$9.28

Source: Department of Budget and Management

While operating expenses per revenue vehicle mile increased for all three services between fiscal 2014 and 2015, the projections for fiscal 2016 are for a marked decrease. The actual 2015 operating expenses per vehicle mile for core bus, light rail, and Metro were higher than the estimates provided last year by $1.23, $2.84, and $0.31, respectively. **MTA should comment on the factors contributing to the forecasted decreases in operating expenses per revenue vehicle mile.**

Peer Performance

MTA is required by statute to submit an annual report that compares MTA to other similar transit systems nationwide. MTA requested an extension to the December 1, 2015 report submission deadline, due to a delay in obtaining the federal data upon which the report is based. It has indicated that the report will be available before its budget hearings but after this analysis has gone to print. **MTA should brief the committees on how its performance compares to peer systems across the nation.**

Fiscal 2016 Actions

Proposed Deficiency

Special fund deficiency appropriations totaling $563,810 are included for MTA and fund 40 new positions related to the BaltimoreLink transit initiative. A turnover rate of 70% is applied to the new positions indicating an expectation that they will be filled for just more than the final third of fiscal 2016.

Proposed Budget

As shown in **Exhibit 5**, MTA's fiscal 2017 allowance is $24.1 million higher than the current year working appropriation. Personnel expenses increase by a net of $8.1 million driven primarily by new positions for the BaltimoreLink transit initiative and overtime expenses. Not included in MTA's operating budget is funding for employee increments and associated fringe benefit expenses. Funds for these expenses are included in the budget of the Department of Budget and Management and will be distributed to agencies for the start of the fiscal year. For MTA, this will equate to $772,803 in special funds and an estimated $70,004 in federal funds.

For nonpersonnel expenses, the BaltimoreLink transit initiative accounts for $5.2 million of the increase in the allowance followed by bus operations ($4.5 million), statewide operations ($3.3 million), and rail operations ($2.3 million), and transit administration ($619,000).

Exhibit 5
Proposed Budget
MDOT – Maryland Transit Administration
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2015 Actual	$707,963	$59,046	$767,009
Fiscal2016 Working Appropriation	704,337	59,501	763,837
Fiscal 2017 Allowance	728,411	59,501	787,911
Fiscal 2016-2017 Amount Change	$24,074	$0	$24,074
Fiscal 2016-2017 Percent Change	3.4%		3.2%

Where It Goes:	
Personnel Expenses	
New positions	$4,827
Overtime	4,516
Turnover adjustments	1,179
Employee/Law Enforcement Officer retirement systems	662
Employee and retiree health insurance	81
Abolished/transferred positions	-95
Vacant positions reset to base salary	-1,369
Workers' compensation premium assessment	-1,491
Other fringe benefit adjustments	-223
Transit Administration	
Promotional advertising contractual services	500
Management studies/consultant contractual services	100
Contractual health insurance – new	56
Office of the Attorney General allocated costs	12
Rent	-17
Office of Administrative Services allocated costs	-32
Bus Operations	
Paratransit anticipated increased demand	3,269
Baltimore commuter bus anticipated increased demand	604
Taxi Access anticipated increased demand	554
Electricity – new main shop	119

Where It Goes:	
Rail Operations	
Maryland Area Regional Commuter estimated contract increase	1,746
Maryland Area Regional Commuter third party contracts estimated escalation	586
BaltimoreLink Transit Initiative	
Bus operations – Baltimore commuter bus	1,983
Statewide program – ridesharing services	1,000
Statewide program – Charm City Circulator	1,000
Bus operations – advertising contractual services	974
Bus operations – vehicle maintenance and repair	174
Bus operations – diesel fuel	101
Statewide Operations	
Washington commuter bus anticipated increased demand	2,600
InterCounty Connector commuter bus anticipated increased demand	148
Montgomery County Ride On grant	500
Rail freight services	10
Total	**$24,074**

Note: Numbers may not sum to total due to rounding.

Potential Underfunding

It has been a long-term practice of MTA not to include funds for salary and benefit increases for its union workforce until a new contract has been executed. The labor contracts with all three of MTA's employee unions have expired. The contract with Amalgamated Transit Union Local 1300, MTA's largest employee union representing 2,291 operations and maintenance employees, expired on June 30, 2014. The contract with Office and Professional Employees International Union Local 2, representing 181 office employees expired on June 30, 2015. The contract with American Federation of State, County, and Municipal Employees Local 1859, representing 168 security personnel expired on December 31, 2015. At the option of either party, any labor dispute involving MTA and its unionized employees may be submitted to binding arbitration. MTA has submitted departmental legislation (SB 101, Maryland Transit Administration – Labor Relations – Resolution of Labor Disputes) which, if enacted as introduced, would eliminate binding arbitration.

In the past, labor agreements have included provision for pay and benefit increases to be paid retroactively. Assuming the new labor agreements continue this practice, both the fiscal 2016 and 2017 budgets are underfunded with respect to its salary account. **MTA should brief the committees on the status of negotiations with each of the unions, when new contracts are likely to be finalized, and the potential magnitude of additional funding that will be required in fiscal 2016 and 2017.**

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance to reflect a revised estimate of the amount of funding needed. MTA's share of these reductions is $156,247 in special funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

PAYGO Capital Program

Program Description

MTA's capital program provides funds to support the design, construction, rehabilitation, and acquisition of facilities and equipment for bus, rail, and statewide programs. The program also provides State and federal grants to local jurisdictions and nonprofit organizations to support the purchase of transit vehicles and the construction of transit facilities.

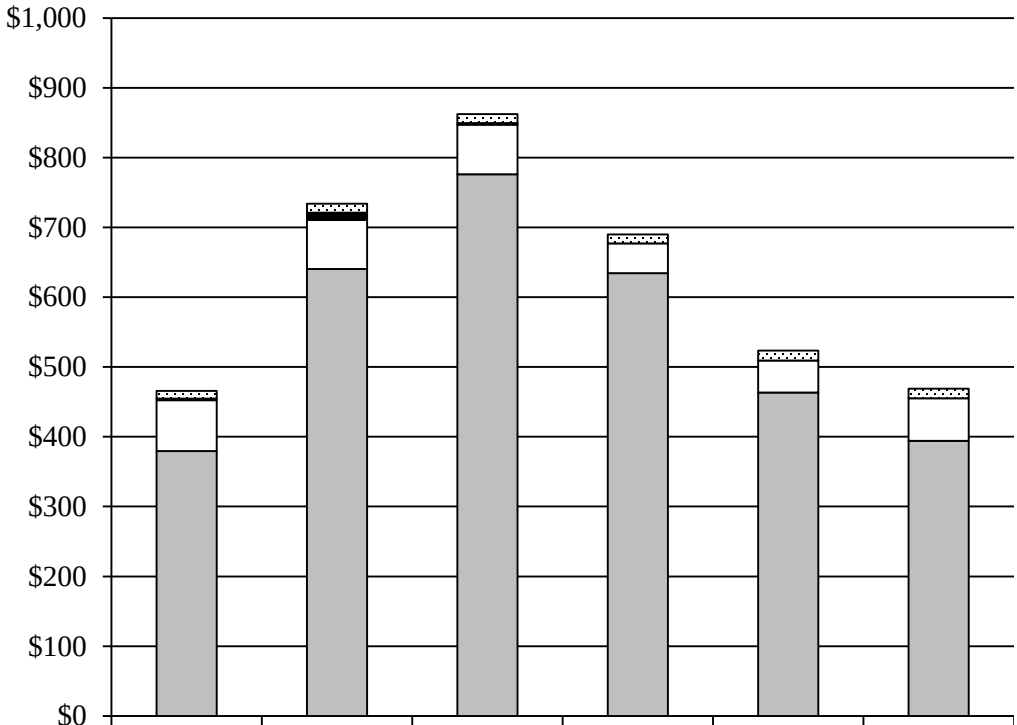
Fiscal 2016 to 2021 *Consolidated Transportation Program*

The fiscal 2016 to 2021 six-year capital program for MTA totals $3.7 billion (including "other funding" that does not flow through the State budget), a $1.3 billion decrease from the prior year's six-year program. Six-year funding decreases for major projects ($1.4 billion) while system preservation and minor project funding increases by $71.1 million. **Exhibit 6** shows the programmed spending by category for fiscal 2016 to 2021.

Fiscal 2017 PAYGO Capital Allowance

MTA's capital program for fiscal 2017, including other funds which do not flow through MTA's budget, totals $733.7 million, an increase of $267.9 million over the current year working appropriation. **Exhibit 7** shows the programmed fiscal 2017 capital spending by project and program along with the estimated total project costs and six-year funding included in the *Consolidated Transportation Program* (CTP).

Exhibit 6
Programmed Spending by Category
Fiscal 2016-2021
($ in Thousands)



	2016	2017	2018	2019	2020	2021
Capital Salaries, Wages, and Other	$11.2	$12.5	$13.0	$13.0	$14.0	$14.0
D&E Program	2.2	10.5	2.2	0.0	0.0	0.0
System Preservation Minor Projects	72.9	70.5	70.9	42.7	45.7	60.7
Major Projects	379.5	640.2	776.2	634.3	463.6	394.3
Total	$465.8	$733.7	$862.3	$690.0	$523.3	$469.0

D&E: development and evaluation

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Exhibit 7
Maryland Transit Administration PAYGO Capital
Fiscal 2017
($ in Millions)

Project/Program Title	2017	Total Cost	Six-year Total
Projects			
MARC Maintenance, Layover, and Storage Facility	$0.6	$84.4	$36.7
MARC Improvements on Camden, Brunswick, and Penn Lines	13.5	273.5	113.0
MARC Coaches – Overhauls and Replacement	7.7	218.0	57.6
MARC Locomotives – Overhauls and Replacements	14.5	73.5	73.0
MARC Positive Train Control	2.5	16.6	12.2
MARC BWI Station Upgrades and Repairs	0.5	13.3	9.6
Homeland Security	0.7	40.3	10.7
Freight Bridge Rehabilitation	1.7	25.0	9.7
Light Rail Vehicle Overhaul	33.0	196.3	136.6
Light Rail Safety Improvements	6.5	22.8	21.6
Metro Railcar and Signal System Overhauls and Replacement	18.1	601.4	497.4
Metro Safety Improvements	14.4	47.7	40.6
Kirk Bus Facility Replacement	8.5	152.4	102.7
Bus Communications Systems Upgrade	9.6	37.7	31.3
Bus Network Improvements	14.0	37.0	37.0
Southern Maryland Commuter Bus Initiative	0.1	20.3	4.0
Fare Collection System Enhancements and Equipment Preservation	4.4	61.4	57.5
Agencywide Roof Replacement Program	2.3	28.0	19.6
Agencywide Radio and Telecommunications Upgrade	2.0	28.7	28.7
Union Payroll System Procurement	1.2	12.0	11.6
Purple Line	349.0	1,462.2	1,196.3
Purple Line – Montgomery County Funded Projects	40.7	186.4	186.4
Corridor Cities Transitway	13.0	260.8	83.4
D&E: MARC Growth and Investment Plan	1.2	5.1	3.6
D&E: Southern Maryland Mass Transportation Analysis	1.6	6.2	3.3
D&E: MARC Northeast Maintenance Facility	7.7	12.2	7.9
Subtotal – Projects	***$569.0***	***$3,923.4***	***$2,792.2***

Project/Program Title	2017	Total Cost	Six-year Total
Programs			
System Preservation and Minor Projects	$70.5	n/a	$363.5
Bus Procurement	52.3	n/a	218.3
Mobility Vehicle Procurement	2.6	n/a	46.7
Locally Operated Transit Systems Capital Procurement Projects	17.1	n/a	118.3
Assistance to Private Nonprofit Agencies for the Transportation of the Elderly and Persons with Disabilities	2.7	n/a	25.4
Montgomery County Local Bus Program	5.3	n/a	35.6
Prince George's County Local Bus Program	1.5	n/a	5.0
Capital Salaries and Wages	12.5	n/a	77.7
Subtotal – Programs	***$164.6***	***$0.0***	***$890.5***
Total – Projects and Programs	**$733.7**	**$3,923.4**	**$3,682.7**

BWI: Baltimore-Washington International Thurgood Marshall Airport
D&E: development and evaluation
MARC: Maryland Area Regional Commuter
PAYGO: pay-as-you-go

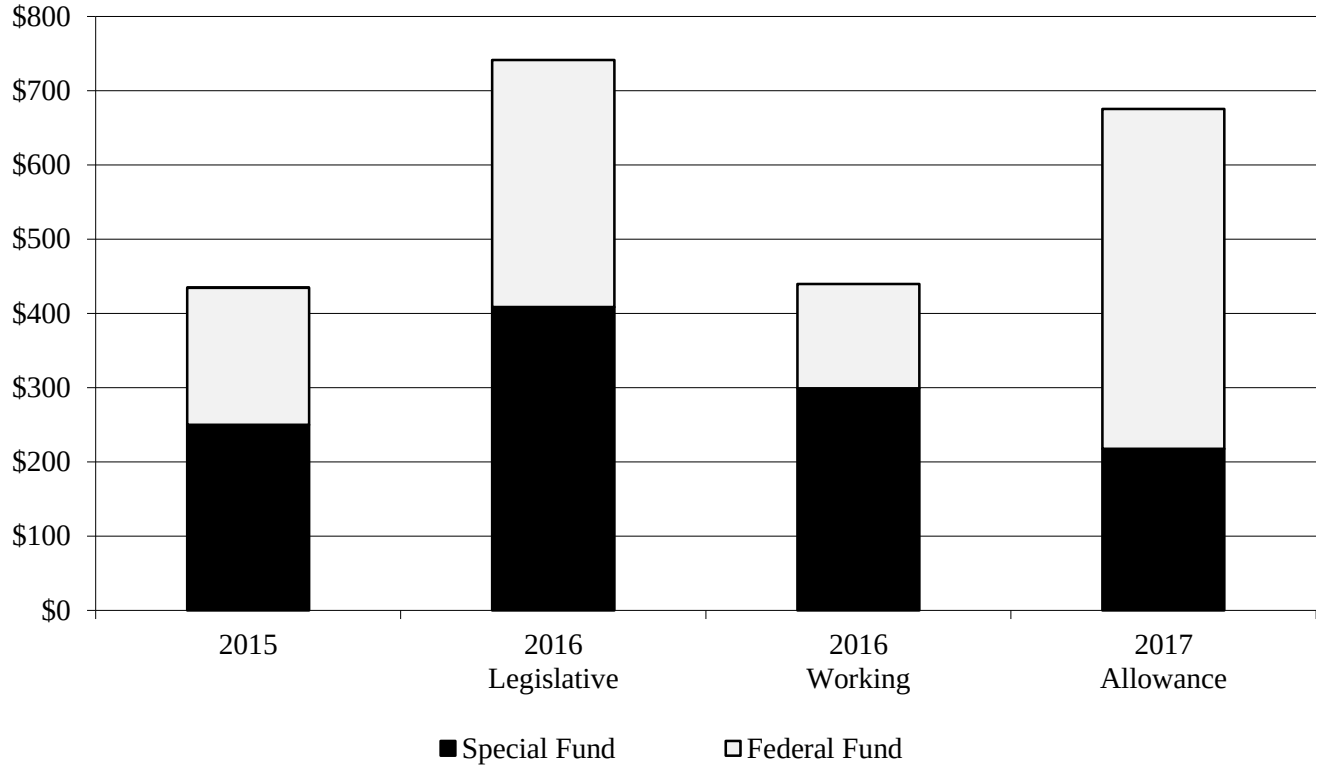
Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Fiscal 2016 and 2017 Cash Flow Analysis

Exhibit 8 shows the changes in MTA capital spending exclusive of nonbudgeted "other funds" for fiscal 2015 through the 2017 allowance and includes both the 2016 legislative and working appropriations. The fiscal 2016 working appropriation is $301.9 million lower than the legislative appropriation, and the fiscal 2017 allowance increases by $235.9 million compared to the working appropriation. If other funds are included, the fiscal 2016 working appropriation decreases by $309.2 million from the legislative appropriation, and the fiscal 2017 increase over the current year working appropriation grows to $269.7 million.

Exhibit 8
Cash Flow Changes
Fiscal 2015-2017



Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Cash Flow Analysis – Fiscal 2016 Changes

As seen in **Exhibit 9**, the net decrease of $309.2 million between the fiscal 2016 legislative and working appropriation comprises reductions in major projects (-$324.2 million), development and evaluation projects (-$6.2 million) and capital salaries and wages (-$1.8 million) partially offset by an increase in funding for system preservation and minor projects ($23.1 million).

Exhibit 9
Cash Flow Changes
Fiscal 2016 Legislative to Working Appropriations
($ in Thousands)

Projects		Change
Major Projects		**-$324,222**
Paul S. Sarbanes Transit Center	$16,846	
MARC Positive Train Control	9,009	
Homeland Security	7,988	
Metro Safety Improvements	6,536	
Takoma/Langley Park Transit Center (ARRA)	5,062	
Bus Network Improvements	5,000	
Montgomery County Local Bus Program	4,231	
Kirk Bus Facility Replacement	1,756	
Closed Circuit Television Improvements	1,231	
Southern Maryland Commuter Bus Initiative	1,057	
Locally Operated Transit Systems Capital Procurement Projects	491	
CAD/AVL Systems	486	
Central Control Center	469	
Light Rail Safety Improvements	320	
Agencywide Roof Replacement Program	313	
Agencywide Radio and Telecommunications Upgrade	300	
MARC West Baltimore Station Parking Expansion	115	
MARC BWI Station Upgrades and Repairs	-17	
Fare Collection System Enhancements and Equipment Preservation	-163	
Freight Bridge Rehabilitation	-472	
MARC Maintenance, Layover, and Storage Facility	-539	
Union Payroll System Procurement	-1,100	
Mobility Vehicle Procurement	-1,533	
MARC Improvements on Camden, Brunswick, and Penn Lines	-1,657	
Light Rail Vehicle Overhaul	-2,901	
Bus New Main Shop	-3,194	
MARC Locomotives – Overhauls and Replacements	-3,222	
Assistance to Private Nonprofit Agencies for the Transportation of the Elderly and Persons with Disabilities	-3,493	

Projects		**Change**
MARC Coaches – Overhauls and Replacement	-4,021	
Corridor Cities Transitway	-15,199	
Bus Communications Systems Upgrade	-18,985	
Bus Procurement	-19,329	
Metro Railcar and Signal System Overhauls and Replacement	-23,071	
Purple Line – Montgomery County Funded Projects	-30,281	
Baltimore Red Line	-106,223	
Purple Line	-150,032	
Development and Evaluation Projects		**-$6,225**
MARC Northeast Maintenance Facility	-$682	
Southern Maryland Mass Transportation Analysis	-1,906	
MARC Growth and Investment Plan	-3,637	
System Preservation and Minor Projects		**$23,093**
Capital Salaries and Wages		**-$1,800**
Total Change		**-$309,154**

ARRA: American Recovery and Reinvestment Act of 2009
BWI: Baltimore-Washington International Thurgood Marshall Airport
CAD/AVL: Computer-aided Dispatch/Automated Vehicle Location
MARC: Maryland Area Regional Commuter

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Cash Flow Analysis – Fiscal 2016 to 2017 Changes

As shown in **Exhibit 10**, the fiscal 2017 capital appropriation increases by a net $269.7 million over the current year working appropriation. Funding increases for major projects ($262.5 million), development and evaluation projects ($8.3 million), and capital salaries and wages ($1.3 million) are partially offset by a decrease in funding for system preservation and minor projects (-$2.4 million).

Exhibit 10
Cash Flow Changes
Fiscal 2016 Working Appropriation to Fiscal 2017 Allowance
($ in Thousands)

Projects		Change
Major Projects		**$262,472**
Purple Line	$186,300	
Bus Procurement	51,541	
Purple Line – Montgomery County Funded Projects	40,440	
Light Rail Vehicle Overhaul	16,232	
Metro Railcar and Signal System Overhauls and Replacement	12,368	
MARC Locomotives – Overhauls and Replacements	9,677	
Corridor Cities Transitway	9,337	
Bus Network Improvements	9,000	
Bus Communications Systems Upgrade	8,948	
Light Rail Safety Improvements	6,204	
Metro Safety Improvements	4,118	
Fare Collection System Enhancements and Equipment Preservation	2,741	
Locally Operated Transit Systems Capital Procurement Projects	2,145	
Agencywide Radio and Telecommunications Upgrade	1,734	
Assistance to Private Nonprofit Agencies for the Transportation of the Elderly and Persons with Disabilities	1,662	
Union Payroll System Procurement	921	
MARC Improvements on Camden, Brunswick, and Penn Lines	668	
MARC West Baltimore Station Parking Expansion	-115	
MARC Maintenance, Layover, and Storage Facility	-269	
Central Control Center	-469	
CAD/AVL Systems	-486	
Freight Bridge Rehabilitation	-593	
MARC BWI Station Upgrades and Repairs	-973	
Closed Circuit Television Improvements	-1,231	
Agencywide Roof Replacement Program	-1,428	
MARC Coaches – Overhauls and Replacement	-2,436	
Mobility Vehicle Procurement	-2,634	
Southern Maryland Commuter Bus Initiative	-3,838	

Projects		**Change**
MARC Positive Train Control	-7,242	
Homeland Security	-9,188	
Takoma/Langley Park Transit Center (ARRA)	-9,352	
Montgomery County Local Bus Program	-12,583	
Kirk Bus Facility Replacement	-12,875	
Paul S. Sarbanes Transit Center	-16,846	
Bus New Main Shop	-19,006	
Development and Evaluation Projects		**$8,294**
MARC Northeast Maintenance Facility	$7,454	
MARC Growth and Investment Plan	957	
Southern Maryland Mass Transportation Analysis	-117	
System Preservation and Minor Projects		**-$2,400**
Capital Salaries and Wages		**$1,300**
Total Change		**$269,666**

ARRA: American Recovery and Reinvestment Act of 2009
BWI: Baltimore-Washington International Thurgood Marshall Airport
CAD/AVL: Computer-aided Dispatch/Automated Vehicle Location
MARC: Maryland Area Regional Commuter

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Major Project Significant Changes to the Fiscal 2015-2020 *Consolidated Transportation Program*

The fiscal 2016 to 2021 CTP lists four major project significant changes to the fiscal 2015 to 2020 CTP for MTA, all of which comprise additions to the construction program. The Baltimore Red Line project is not listed as removed, because there is $4.5 million in funding shown in MTA's minor projects (Line 42, Item 26 of the CTP) for project shutdown activities. **Exhibit 11** lists the four projects added to the construction program in the fiscal 2016 to 2021 CTP.

Exhibit 11
Projects Added to the Construction Program
Fiscal 2016-2021 *Consolidated Transportation Program*
($ in Millions)

Project	Total Cost
Light Rail Safety Improvements	$22.8
Bus Network Improvements	37.0
Agencywide Elevator and Escalator Rehabilitation	12.0
Agencywide Radio and Telecommunications Upgrade	28.7

Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Issues

1. BaltimoreLink Initiative Proposed to Improve Transit in the Baltimore Region

Cancellation of the Baltimore Red Line light rail project focused increased attention on existing transit services in the Baltimore metropolitan region and, in light of the fact that development of a major new transit system in place of the Red Line would take decades to complete, makes it imperative that these services address the transit needs of the region to the greatest extent possible. In response to this imperative, in October 2015, MTA announced the beginning of a $135 million, multi-phase initiative to improve transit services in the Baltimore region called BaltimoreLink. Full implementation, planned for June 2017, is to include a redesign of local and express bus routes, new and enhanced commuter bus service, the creation of 12 high-frequency routes along major arterials connecting to downtown, and 5 new suburb-to-suburb express bus routes. Existing transit services are renamed with "Link" appended to denote each service being part of a greater transit network.

Major BaltimoreLink Features

Major components of BaltimoreLink include:

- three levels of bus service:
  - ***CityLink* –** consisting of 12 new high-frequency color-coded routes that will connect to Amtrak, commuter bus, light rail, MARC train, and Metro subway;
  - ***LocalLink* –** existing local bus service with redesigned routes to provide connections to neighborhoods and communities; and
  - ***ExpressBusLink* –** providing longer distance commuter-oriented trips;
- transit hubs at five locations to facilitate transfers between buses and other transit modes;
- transitways consisting of bus-only streets or lanes to minimize delays associated with traffic;
- transit signal priority – a system that helps shorten bus travel times by holding green lights longer or shortening red lights in order to expedite bus travel through intersections;
- new signage and maps intended to improve access to and understanding of the transit system; and

- first/last mile improvements including bike and bike-sharing enhancements and investigations into encouraging car sharing, pop-up transit, and other emerging nonpublic transit options to complement the public transit system.

Implementation Timeline

As indicated earlier, full implementation of the changes envisioned for BaltimoreLink will not occur until June 2017 under current projections. Public hearing requirements for changes to existing bus service is one factor contributing to the 20-month roll-out. The need for MTA to negotiate and coordinate on portions of BaltimoreLink with Baltimore City and other stakeholders, as well as ongoing bus route analysis are other factors. Furthermore, some of the associated capital spending will continue through fiscal 2019. The following are the major milestones identified on the BaltimoreLink website:

- October 2015 – plan announcement, QuickBus 40 service enhancements, MARC bike car;
- November 2015 to January 2016 – public workshops, online engagement;
- March 2016 – Express BusLink hearings;
- June 2016 – Express BusLink service launched;
- August to November 2016 – BaltimoreLink (CityLink, LocalLink) hearings, Commuter bus hearings;
- January 2017 – implementation of BicycleLink, commuter bus, and Fort Meade connections;
- January-June 2017 – public outreach; and
- June 2017 – BaltimoreLink full project implementation begins.

BaltimoreLink Funding Plan

BaltimoreLink is touted as a $135.0 million investment in the transformation and improvement of transit throughout the Baltimore region. This comprises $70.1 million in operating spending from fiscal 2016 through 2021 and $65.0 million in capital spending from fiscal 2016 through 2019.

Operating Budget

The planned $70.1 million, six-year operating budget spending for BaltimoreLink equates to 1.4% of MTA's operating expenses projected in the current MDOT Transportation Trust Fund forecast. Projected BaltimoreLink spending for fiscal 2017 comprises 3.7% of total spending for bus operations in that year. While $70.1 million is a substantial amount of funding, when compared to the full cost of

transit operations in the Baltimore region, it is clear that the majority of the proposed changes to the current system will be made within existing resources.

The six-year BaltimoreLink spending plan devotes over two-thirds of funding to three areas:

- personnel expenses associated with the creation of 130 new positions;
- enhanced service on the QuickBus 40 route (service between the Centers for Medicaid and Medicare Services and Baltimore City Hall); and
- commuter bus service.

Exhibit 12 shows the planned operating spending for fiscal 2016 to 2021.

Exhibit 12
Planned BaltimoreLink Operating Spending
Fiscal 2016-2021
($ in Thousands)

	2016	2017	2018	2019	2020	2021	Six-year Total
New Position Salaries\Fringes	$564	$4,827	$6,185	$6,269	$6,356	$6,444	$30,645
QuickBus 40 Enhanced Service							
Overtime	$630	$844	$906	$906	$906	$906	$5,098
Repair Parts	174	174	174	174	174	174	1,044
Diesel Fuel	69	101	101	101	101	101	574
Subtotal	***$873***	***$1,119***	***$1,181***	***$1,181***	***$1,181***	***$1,181***	***$6,716***
Commuter Bus		$1,983	$2,042	$2,104	$2,167	$2,232	$10,527
Charm City Circulator		1,000	1,000	1,000			3,000
Advertising – Marketing		975	975	975			2,925
Car Sharing		1,000	1,000				2,000
Overtime – Light Rail Expanded Hours			322	322	322	322	1,288
Schedule Analysis/Network Design		1,100	1,100	1,100	1,100	1,100	5,500
EcoSeal Project		1,100	1,100	1,100	1,100	1,100	5,500
Miscellaneous			500	500	500	500	2,000
Total	**$1,437**	**$13,104**	**$15,405**	**$14,551**	**$12,726**	**$12,879**	**$70,100**

Source: Maryland Department of Transportation

The fiscal 2017 MTA budget as introduced does not, however, fully fund the planned spending related to the BaltimoreLink initiative. The funding for the schedule analysis/network design and EcoSeal project, shown in Exhibit 13 in fiscal 2017, was inadvertently omitted from MTA's allowance. MDOT indicates that these items will be added by budget amendment.

The BaltimoreLink initiative spending plan includes the creation of 130 new MTA positions, 40 of which are created through deficiency appropriations in fiscal 2016. **Exhibit 13** lists the number of positions created in fiscal 2016 and 2017 by class title.

Exhibit 13
New BaltimoreLink-related Positions
Fiscal 2016-2017

	2016	2017	Total
Transit Administration			
Administrator IV	1	0	1
Quality Assurance Specialist	1	1	2
Subtotal	***2***	***1***	***3***
Bus Operations			
Administrator IV	0	2	2
Assistant Superintendent Transportation	2	4	6
Cleaner	6	0	6
Operator	0	60	60
Repairman	3	0	3
Superintendent	0	1	1
Superintendent – Bus Maintenance Division	2	1	3
Supervisor Facilities Maintenance Bus	5	0	5
Supervisor Transportation	8	6	14
Subtotal	***26***	***74***	***100***
MTA Police			
MTA Police Officer	0	10	10
Police Communications Supervisor	2	0	2
Police Monitoring Tech	6	2	8
Police Radio Communications I	4	0	4
Technician	0	3	3
Subtotal	***12***	***15***	***27***
Grand Total	**40**	**90**	**130**

Source: Department of Budget and Management; Department of Transportation

Capital Budget

Exhibit 14 shows the planned capital spending related to the BaltimoreLink initiative, indicating the location in the CTP and the year of expenditure. The projects to be funded as MTA minor projects (CTP lines 42 and 43) are not readily identifiable in the CTP. For example, while the bus shelters spending under CTP Line 43 logically fit under the "Facilities Rehabilitation" project listed in the CTP, the bus wraps do not appear to fit well with any of the six minor projects listed.

Exhibit 14
Planned BaltimoreLink Capital Spending
Fiscal 2016-2019
($ in Thousands)

	2016	2017	2018	2019	Total
CTP Line 12 – Light Rail Safety Improvements					
Howard Street Audio-visual Safety Project	$0	$2,800	$0	$0	$2,800
CTP Line 16 – Bus Procurement					
Vehicles	0	2,835	2,750	0	5,585
CTP Line 19 – Bus Network Improvements					
Local Bus – West Baltimore Enhanced Service	315	685	0	0	1,000
Transit Hubs	3,000	6,000	7,000	3,000	19,000
Transit Signal priority	1,000	5,000	4,000	1,000	11,000
Transitways	0	3,000	3,000	0	6,000
CTP Line 25 – Locally Operated Transit Systems Capital Procurement Projects					
Fort Meade Connections	0	320	0	0	320
CTP Line 42 – Minor Projects – Agencywide Improvements					
Car Sharing/Pop-up Transit Services	300	0	0	0	300
Last Mile Investments	100	300	200	0	600
Signage and Maps	1,000	4,000	3,300	0	8,300
CTP Line 43 – Minor Projects – Bus System Improvements					
Bus Shelters	300	3,100	3,100	0	6,500
Bus Wraps	200	1,400	1,400	0	3,000
Color Destination Signs	20	290	290	0	600
Total	**$6,235**	**$29,730**	**$25,040**	**$4,000**	**$65,005**

CTP: *Consolidated Transportation Program*

Source: Maryland Department of Transportation

Conclusion

Many of the changes proposed in the BaltimoreLink initiative address shortcomings of the current system that have long been recognized. Realignment of bus routes was one of the likely outcomes of the Bus Network Improvement Project (BNIP) started under the prior Administration. Indeed, BaltimoreLink is utilizing the BNIP data to guide much of the work in this area. Improving on-time performance of local bus service is also an issue that has needed to be addressed for some time. However, the primary method for doing so in the BaltimoreLink proposal – the development of transitways – will also degrade nonbus traffic flow as lanes and/or entire streets currently in general service are converted to bus-only transitways. Much of the success of BaltimoreLink depends on Baltimore City being willing and able to cede the necessary lane miles in a congested downtown to this effort. Avoiding these trade-offs were a major consideration in development of the Red Line, which would have travelled under the worst of the downtown congestion.

2. Purple Line Update

After putting the Purple Line light rail project on hold in early 2015 in order to allow time for a review of the project, the Governor announced in June 2015 that the project would move forward subject to the following key conditions:

- availability of $900 million in federal funding;
- increased funding from Montgomery and Prince George's counties;
- State construction funding capped at $168 million; and
- private-sector partners delivering proposals meeting the Administration's new vision of the project (reduced construction cost, increased private financing).

MTA identified changes to the project scope estimated to reduce the project cost by $215 million. The largest savings identified was through a reduction from 58 to 46 in the number of train cars to be purchased made possible by the decision to run fewer trains during peak hours (seven and a half minutes between trains rather than the six minutes previously planned for initial service). Other savings would be achieved through changes in the finishes used at stations, elimination of the requirement that some overhead structures be constructed to allow future widening of some roads, and a reduction in the number of elevators to be included at certain stations.

An addendum to the Request for Proposal (RFP) was posted in July 2015 incorporating the scope changes and revising the RFP submission date to November 17, 2015. All four of the short-listed bidder teams submitted proposals by the due date.

Following submission of the proposals, MTA began an evaluation process to identify the proposal most advantageous to the State, and in early 2016, it identified the preferred bidder and began negotiations on the final agreement. The identity of the preferred bidder is confidential until the agreement is complete. As required in statute, MTA must submit the final agreement to the General Assembly, the Comptroller, and the State Treasurer for 30 days review and comment before it may submit the agreement to the Board of Public Works (BPW) for approval. It expects to submit the final agreement for review in February or March 2016.

Once the final agreement has been approved by BPW, the winning bidder, called the concessionaire, will secure its financing, finish the design of and begin constructing the Purple Line. Construction is expected to take five years to complete, and revenue service is expected to begin in fiscal 2021.

MTA should update the committees on the status of the Purple Line project, to the extent possible under procurement law.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Bus Real-time Information System Beta Test Results Reported

In early calendar 2015, MTA began a beta test on a Global Positioning System tracking system for its bus fleet, dubbed the "My Bus Tracker," which utilized the currently installed radio data system to report bus location information. My Bus Tracker was intended to allow users to check on the real-time location of buses through the MTA website or via text or email alerts. Committee narrative adopted during the 2015 legislative session requested MTA to report to the committees on the outcomes of the beta test. MTA submitted the requested report in December 2015.

Findings

MTA reported that the beta test illustrated both the technological limitations of the outdated MTA systems on its bus fleet as well as the public demand for real-time tracking of its buses. The report noted the following issues identified through the beta test:

- operator log-on errors caused delays in, and in some cases a complete lack of, real-time location services;
- data/scheduling inaccuracies involved in data transfers between various systems used by My Bus Tracker led to a drop in real-time data availability and reliability; and
- radio-based equipment utilized for the test was antiquated and was inadequate to serve as the core of a functional real-time tracking system.

Next Step

MTA indicated that it had initiated a procurement to modernize the equipment for its bus fleet. The new technology, referred to as Bus Unified System Architecture will utilize the cellular network to increase both the reliability and functionality of the My Bus Tracker system. Responses to the RFP are due March 15, 2016.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – Maryland Transit Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$653,127	$56,735	$0	$709,862
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	54,854	2,311	0	57,165
Reversions and Cancellations	0	-18	0	0	-18
Actual Expenditures	**$0**	**$707,963**	**$59,046**	**$0**	**$767,009**
Fiscal 2016					
Legislative Appropriation	$0	$691,872	$57,843	$0	$749,714
Budget Amendments	0	11,901	1,658	0	13,559
Working Appropriation	**$0**	**$703,773**	**$59,501**	**$0**	**$763,273**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 budget for MTA closed out $57.1 million higher than the legislative appropriation. Special and federal fund budget amendments added a net of $57.2 million. These increases were very slightly offset by a special fund year-end cancellation of $18,000. Funding changes by budget amendment were as follows:

- Special fund budget amendments added $54,854,030 for the following purposes:

Mobility contract increase	$22,890,814
Overtime	8,117,356
MARC contractual services fund swap	4,914,723
Hiring above base	4,108,565
Snow removal	3,987,572
Utilities	2,823,465
Salaries and fringes for 35 positions created by the Board of Public Works	1,949,488
Insurance claim settlements	1,918,962
Janitorial services	754,957
Advertising contractual services	558,267
Southern Maryland\Washington commuter bus – overcrowding response	525,690
General salary increase	523,431
Systems software	519,149
Office assistance	507,116
Miscellaneous contracts	399,911
Local 2 union contract ratification – retroactive salary	354,564
Total	**$54,854,030**

- Federal fund budget amendments added a net $2,311,342 as follows:

Locally Operated Transit Systems grants	$9,330,889
Contractual services – maintain and repair bus facilities/stops/shelters due to extreme weather	1,035,845
Repair parts	852,904
Motor vehicle repair	-1,784,244
Preventative maintenance	-2,280,699
MARC contractual services fund swap	-4,843,353
Total	**$2,311,342**

Fiscal 2016

The fiscal 2016 working appropriation is a net $13,558,894 ($11,900,861 in special funds and $1,658,033 in federal funds) higher than the legislative appropriation. Special fund budget amendments added to MTA's appropriation for transit service contract and ridership increases and restored the 2% salary reduction. Reductions recognized savings due to lower than expected fuel prices and to reflect general cost containment efforts as follows:

Additional Costs	
MARC contract and ridership increases	$7,538,582
Mobility new contract and ridership increases	7,349,433
Additional funds for local transit properties based on current grant agreement	4,924,432
Washington area and Intercounty Connector commuter bus contracts and ridership increases	4,671,373
2% salary restoration	2,871,008
Baltimore commuter bus contract	1,115,331
Recalculation of fringe benefit costs	824,168
Vehicle insurance	5,845
Savings and Cost Containment	
Reduce travel at fiscal 2015 actual	-67,161
Rent adjustment	-166,317
Voluntary Separation Program savings	-438,898
Overtime	-608,346
Miscellaneous supplies	-756,376
Recalculation of salaries and accrued leave	-1,372,225
Information Technology contractual services	-1,411,566
Utilities	-2,205,104
Diesel fuel price reduction savings	-10,373,318
Total	**$11,900,861**

Federal fund budget amendments increased MTA's appropriation as follows:

Additional Locally Operated Transit Systems grants	$1,544,983
Additional preventative maintenance	100,000
Additional Canine Unit grant	13,050
Total	**$1,658,033**

Object/Fund Difference Report
MDOT – Maryland Transit Administration

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	3,226.50	3,225.50	3,354.50	129.00	4.0%
02 Contractual	16.00	16.00	16.00	0.00	0%
Total Positions	**3,242.50**	**3,241.50**	**3,370.50**	**129.00**	**4.0%**
Objects					
01 Salaries and Wages	$ 313,915,724	$ 314,437,912	$ 323,244,702	$ 8,806,790	2.8%
02 Technical and Spec. Fees	1,097,715	1,136,586	1,192,706	56,120	4.9%
03 Communication	1,558,515	1,210,718	1,210,718	0	0%
04 Travel	434,854	434,854	434,855	1	0%
06 Fuel and Utilities	14,015,979	14,071,577	14,190,577	119,000	0.8%
07 Motor Vehicles	64,886,877	63,763,613	64,038,613	275,000	0.4%
08 Contractual Services	272,953,074	269,158,247	283,202,835	14,044,588	5.2%
09 Supplies and Materials	6,799,317	5,643,653	5,643,653	0	0%
10 Equipment – Replacement	384,279	111,490	111,490	0	0%
11 Equipment – Additional	41,038	130,635	130,635	0	0%
12 Grants, Subsidies, and Contributions	82,907,098	85,149,042	86,659,042	1,510,000	1.8%
13 Fixed Charges	8,014,494	8,025,057	8,007,882	-17,175	-0.2%
Total Objects	**$ 767,008,964**	**$ 763,273,384**	**$ 788,067,708**	**$ 24,794,324**	**3.2%**
Funds					
03 Special Fund	$ 707,962,978	$ 703,772,720	$ 728,567,044	$ 24,794,324	3.5%
05 Federal Fund	59,045,986	59,500,664	59,500,664	0	0%
Total Funds	**$ 767,008,964**	**$ 763,273,384**	**$ 788,067,708**	**$ 24,794,324**	**3.2%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
MDOT – Maryland Transit Administration

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Transit Administration	$ 56,633,367	$ 54,053,446	$ 55,149,866	$ 1,096,420	2.0%
02 Bus Operations	338,265,192	340,445,328	355,739,588	15,294,260	4.5%
04 Rail Operations	243,991,930	236,264,537	239,410,891	3,146,354	1.3%
05 Facilities and Capital Equipment	431,673,566	436,584,000	663,506,000	226,922,000	52.0%
06 Statewide Programs Operations	128,118,475	132,510,073	137,767,363	5,257,290	4.0%
08 Major Information Technology Development Projects	2,611,860	2,773,000	11,790,000	9,017,000	325.2%
Total Expenditures	**$ 1,201,294,390**	**$ 1,202,630,384**	**$ 1,463,363,708**	**$ 260,733,324**	**21.7%**
Special Fund	$ 957,893,304	$ 1,003,008,720	$ 946,105,044	-$ 56,903,676	-5.7%
Federal Fund	243,401,086	199,621,664	517,258,664	317,637,000	159.1%
Total Appropriations	**$ 1,201,294,390**	**$ 1,202,630,384**	**$ 1,463,363,708**	**$ 260,733,324**	**21.7%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 4

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Maryland Transit Administration – Operating

Status	Amendment	Fund	Justification
Approved	$2,871,008	Special	2% salary restoration.
Approved	9,029,853	Special	Provide additional funds for mobility and commuter bus contracts and additional grants for Locally Operated Transit Systems.
	1,658,033	Federal	
	$10,687,886	**Total**	
Pending	-$650,306	Special	Realign Office of Administrative Hearings and Workers' Compensation funding among modal administrations.

Source: Maryland Department of Transportation

Appendix 5

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Maryland Transit Administration – Capital

Status	Amendment	Fund	Justification
Approved	$135,102	Special	2% salary restoration.
Pending	-19,507	Special	Realign Office of Administrative Hearings and Workers' Compensation funding among modal administrations.
Pending	-109,395,800	Special	Adjust the amended appropriation to agree with the final fiscal 2016 to 2021 *Consolidated Transportation Program.*
	-192,623,000	Federal	
	-$302,018,800	**Total**	

Source: Maryland Department of Transportation

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Maryland Aviation Administration

Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Special Fund	$187,314	$186,258	$186,506	$249	0.1%
Deficiencies and Reductions	0	0	-137	-137	
Adjusted Special Fund	**$187,314**	**$186,258**	**$186,370**	**$112**	**0.1%**
Federal Fund	776	646	646	0	
Deficiencies and Reductions	0	0	0	0	
Adjusted Federal Fund	**$776**	**$646**	**$646**	**$0**	**0.0%**
Adjusted Grand Total	**$188,090**	**$186,903**	**$187,015**	**$112**	**0.1%**

- The fiscal 2017 allowance increases by $248,829, or 0.1%, in special funds, with no change in federal funds.

- Personnel costs increase by $857,739, primarily due to increases in health and pension contributions.

Note: Numbers may not sum to total due to rounding.

For further information contact: Jasan A. Kramer Phone: (410) 946-5530

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2015	Fiscal 2016		Fiscal 2017
	Actual	Legislative	Working	Allowance
Special	$91,491	$87,839	$132,926	$115,025
Federal	31,906	25,248	22,345	5,478
Subtotal	***$123,398***	***$113,087***	***$155,271***	***$120,503***
Other funds	90,827	101,800	86,200	75,600
Total	**$214,125**	**$214,887**	**$241,471**	**$196,103**

- The fiscal 2016 pay-as-you-go (PAYGO) working appropriation increases by $42.2 million, primarily due to an increase in system preservation projects.

- The fiscal 2017 PAYGO allowance decreases by $34.8 million compared to the fiscal 2016 working appropriation primarily due to a reduction in system preservation projects and a reduction in spending on runway safety improvements as the project nears completion.

Operating and PAYGO Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Operating Budget Positions	451.50	451.50	451.50	0.00
Regular PAYGO Budget Positions	49.00	49.00	49.00	0.00
Total Regular Positions	**500.50**	**500.50**	**500.50**	**0.00**
Operating Budget FTEs	0.50	0.50	0.50	0.00
PAYGO Budget FTEs	0.00	0.00	0.00	0.00
Total FTEs	**0.50**	**0.50**	**0.50**	**0.00**
Total Personnel	**501.00**	**501.00**	**501.00**	**0.00**

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		29.83	5.96%	
Positions and Percentage Vacant as of 1/1/16		28.00	5.59%	

- The fiscal 2017 allowance for personnel remains unchanged.
- The budgeted turnover rate in fiscal 2017 is 5.96%, requiring 29.83 vacant positions. As of January 1, 2016, the department had 28.0 vacant positions for a turnover rate of 5.59%.

Analysis in Brief

Major Trends

Total Passengers Increase: Passenger traffic at Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport) was an estimated 23.1 million passengers in calendar 2015, an increase of 3.4% from calendar 2014.

Passenger Market Share Flat: BWI Marshall Airport served 34% of the passengers in the market that consists of Reagan National Airport, Dulles International Airport, and BWI Marshall Airport in calendar 2015. The current market share is slightly lower than its 2012 peak of 35.1%.

Cost and Non-airline Revenue Per Enplaned Passenger Both Decline: The cost per enplaned passenger at BWI Marshall Airport declined from $9.88 to $9.85 in fiscal 2015, much lower than its regional competitors. Non-airline revenue per enplaned passenger declined slightly to $10.06 from $10.16.

Financial Results: The Maryland Aviation Administration (MAA) operating revenues are expected to increase by 1.67% in fiscal 2017, driven by a 4.25% increase in concession revenue. Combined with a tiny increase in operating expenditures, net operating income is expected to increase by 10.49% in fiscal 2017.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

No Bids to Build BWI Marshall Airport Hotel: No bidders submitted proposals to build a hotel next to the BWI Marshall Airport hourly parking garage and linked to the terminal via skywalk by the September 2015 deadline. MAA is interviewing prospective developers and hotel operators, and based on feedback from potential bidders, MAA will put out a revised request for proposal and lease agreement in mid-2016.

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Maryland Aviation Administration

Maryland Department of Transportation

Budget Analysis

Program Description

The Maryland Aviation Administration (MAA) has responsibility for fostering, developing, and regulating aviation activity throughout the State. MAA is responsible for operating, maintaining, and developing the State-owned Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport) as a major center of commercial air carrier service in the State and Martin State Airport (MTN) as a general aviation reliever facility and as a support facility for the Maryland Air National Guard and the Maryland State Police. MAA has identified the following key goals:

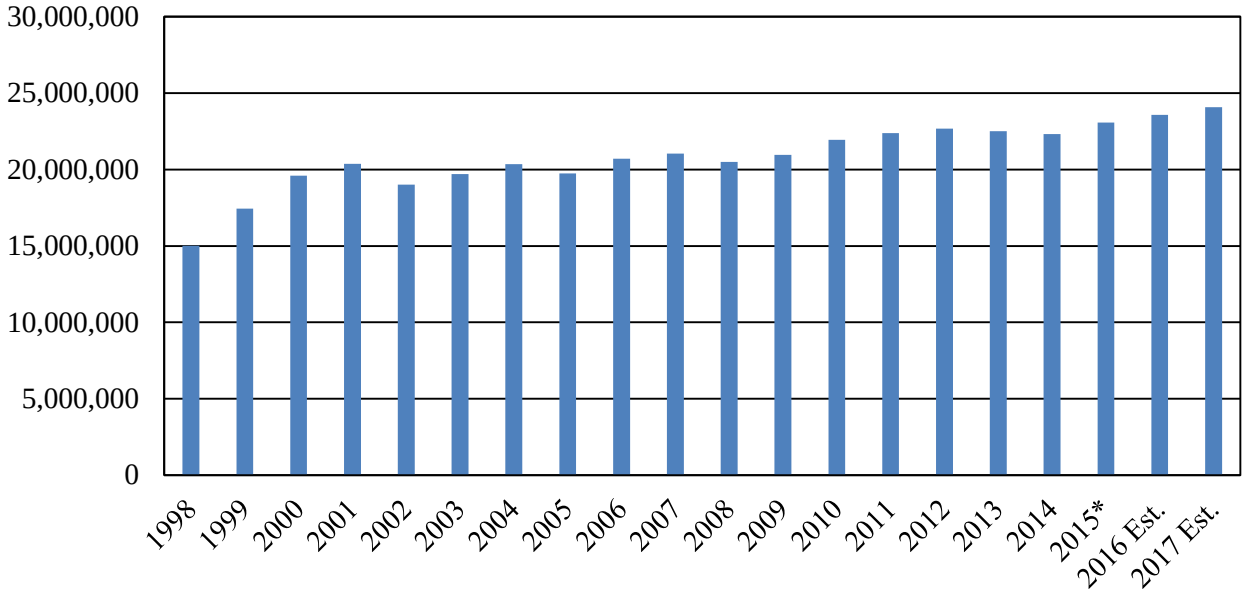
- keeping BWI Marshall Airport passengers, tenants, and facilities safe;
- operating BWI Marshall Airport efficiently and effectively;
- attracting, maintaining, and expanding air service; and
- providing exceptional service.

Performance Analysis: Managing for Results

1. Total Passengers Increase

Passenger traffic at BWI Marshall Airport was an estimated 23.1 million passengers in calendar 2015, an increase of 3.4% from calendar 2014. As shown in **Exhibit 1**, over the last two decades, passengers have increased from 15.0 million in calendar 1998 to 23.1 million in calendar 2015. Since calendar 2008, BWI Marshall Airport has seen steady growth in passengers despite the economic downturn. Beginning in calendar 2013, the decline in passengers is largely attributable to the impact of the federal budget shutdown, sequestration, and the weak economy. It appears that decline has been halted, with continued passenger growth expected in calendar 2016 and 2017. Southwest Airlines remains the dominant airline at BWI Marshall Airport. For the 12-month period ending in October 2015, Southwest Airlines' share of passengers totaled 71.0%. The next largest carrier is American, which accounts for 9.2% of passengers.

Exhibit 1
Total Passengers at Baltimore/Washington International Thurgood Marshall Airport
Calendar 1998-2017 Est.



*2015 data represents the 12-month period ending November 30, 2015.

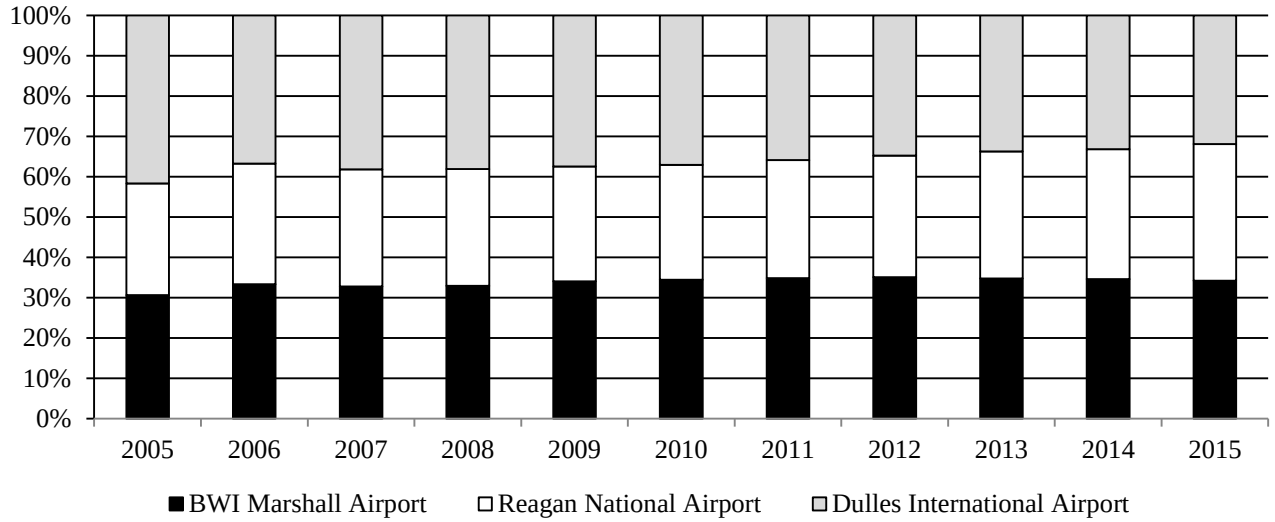
Source: Maryland Aviation Administration

2. Passenger Market Share Flat

In order for BWI Marshall Airport to experience growth in business, it must remain competitive with other airports. In addition to competing with other airports nationally and internationally, BWI Marshall Airport must also compete for passengers closer to home in the Washington region due to the proximity of the Washington Dulles International Airport (Dulles International Airport) and, to a lesser extent, Ronald Reagan Washington National Airport (Reagan National Airport).

As shown in **Exhibit 2**, BWI Marshall Airport maintained its market share in calendar 2015 relative to Reagan National Airport and Dulles International Airport. Over time, BWI Marshall Airport has been able to take market share from Dulles International Airport and increase its market share from approximately 31.0% to 34.0%, a slight decrease from the calendar 2012 peak of 35.1%.

Exhibit 2
Passenger Market Share
Calendar 2005-2015



BWI Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport
Dulles International Airport: Washington Dulles International Airport
Reagan National Airport: Ronald Reagan Washington National Airport

Note: 2015 data represents the 12-month period ending November 30, 2015.

Source: Maryland Aviation Administration

3. Cost and Non-airline Revenue Per Enplaned Passenger Both Decline

Two important financial calculations considered in regard to airports are the cost per enplaned passenger (CPE) and the non-airline revenue per enplaned passenger. Non-airline revenue includes parking, concessions, rental cars, and other revenue sources. In regard to the CPE, part of BWI Marshall Airport's success has been its ability to maintain low CPE rates, which attracts and retains low-cost carriers such as Southwest Airlines. At BWI Marshall Airport, like all airports, operating costs are passed on to airlines through building rent, landing fees, and other user charges. Therefore, both MAA and the airlines have an interest in keeping operating costs as low as possible.

As shown in **Exhibit 3**, BWI Marshall Airport's CPE decreased slightly to $9.85 per passenger, while non-airline revenue also decreased slightly to $10.06 per passenger. BWI Marshall Airport continues to remain well below the cost average for other regional airports – Reagan National Airport,

Dulles International Airport, and Philadelphia International Airport. These lower costs per passenger make BWI Marshall Airport an attractive airport for airlines.

Exhibit 3
Cost and Non-airline Revenue Per Enplaned Passenger
Fiscal 2011-2017 Est.

	2011	2012	2013	2014	2015	Est. 2016	Est. 2017
Cost Per Enplaned Passenger							
BWI Marshall Airport	$9.18	$9.29	$9.50	$9.88	$9.85	$9.95	$9.77
Regional Airports Average	14.83	15.91	17.38	17.01	16.86	17.59	18.04
Non-airline Revenue Per Enplaned Passenger							
BWI Marshall Airport	$10.31	$10.13	$11.09	$10.16	$10.06	$9.71	$9.69
Regional Airports Average	10.80	10.88	12.04	12.82	–	–	–

BWI Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport

Note: The amount shown as the fiscal 2015 cost per enplaned passenger is an estimate only. Actual revenue data for fiscal 2015 for regional airports is not yet available. Projections of revenues for regional airports are not available.

Source: Maryland Aviation Administration

4. Financial Results

Unlike most other State agencies that rely solely on the State for all support, MAA receives operating revenues that help offset its expenditures. Its profitability determines how much the Transportation Trust Fund (TTF) must provide as a subsidy. Although MAA revenues have typically covered its operating expenses, MAA relies on the TTF or other non-MAA financing mechanisms to fund its capital program.

Exhibit 4 shows MAA special fund revenues and expenditures. In fiscal 2017, revenues are expected to increase from fiscal 2016 levels by 0.42%. Combined with a slightly smaller increase in operating expenditures, net operating income is expected to increase by 1.8% in fiscal 2017.

Exhibit 4
Special Fund Revenues and Expenditures
Fiscal 2014-2017

	2014	2015	Work. Approp. 2016	Allowance 2017	$ Change 2016-2017	% Change 2016-2017
Operating Revenues						
Flight Activities	$61,057	$60,882	$62,278	$64,035	$1,757	2.82%
Rent and User Fees	62,545	65,225	65,970	67,817	1,847	2.80%
Concessions	77,421	85,449	84,827	82,057	-2,770	-3.27%
Other Revenues	2,646	2,078	3,240	3,308	68	2.10%
Martin State Airport	8,784	8,484	8,214	8,247	33	0.40%
Revenues Subtotal	***$212,453***	***$222,118***	***$224,528***	***$225,465***	***$937***	***0.42%***
Operating Expenditures[1]	$170,473	$187,314	$186,258	$186,506	$248	0.13%
Net Operating Income	**$41,980**	**$34,804**	**$38,270**	**$38,959**	**$689**	**1.80%**
Capital Expenditures[1]	$55,622	$91,491	$132,926	$115,025	-$17,901	-13.47%
Net Income/Loss	**-$13,642**	**-$56,687**	**-$94,656**	**-$76,066**	**$18,590**	**19.64%**

[1] Includes special funds only.

Source: Maryland Aviation Administration

It is important to note that in looking at MAA capital expenditures in a business manner, consideration should be given to the fact that capital expenditures are often paid for in a single year, or over multiple years, which decreases TTF expenditures for other purposes. Reimbursement from the airlines (through the Use and Lease Agreement) actually takes place over 5 to 20 years, meaning that revenues and capital expenditures may not match in a year-to-year comparison.

Fiscal 2016 Actions

Cost Containment

While the Maryland Department of Transportation (MDOT) was not subject to the fiscal 2016 across-the-board 2% reduction, it did list areas in which costs could be reduced by that amount. MAA said it would reduce operating expenditures by $2.5 million in special funds by shifting some personnel and maintenance costs to the capital program, more efficiently scheduling for shuttle services, and reducing security costs with the closure of one checkpoint. Rather than amending the working appropriation, MDOT will cancel funds at the end of fiscal 2016.

Proposed Budget

As shown in **Exhibit 5,** the fiscal 2017 allowance increases by $248,829, or 0.1%, in special funds. There is no change in the federal funds allowance.

Exhibit 5
Proposed Budget
MDOT – Maryland Aviation Administration
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2015 Actual	$187,314	$776	$188,090
Fiscal 2016 Working Appropriation	186,258	646	186,903
Fiscal 2017 Allowance	186,506	646	187,152
Fiscal 2016-2017 Amount Change	$249	$0	$249
Fiscal 2016-2017 Percent Change	0.1%		0.1%

Where It Goes:

Personnel Expenses	
Regular earnings	-$216
Employee and retiree health insurance	716
Retirement system contributions and law enforcement officer pension contributions	607
Social Security	-31
Workers' and unemployment compensation premium assessments	-212
Turnover adjustments	-6
Other Changes	
Equipment repair and maintenance	1,298
Other contractual services	923
Software maintenance for Business/Lease Management System and web support services	304
Gas and Propane aligned with fiscal 2015 actuals	242
Airport vegetation control aligned with fiscal 2015 actuals	210
Housekeeping aligned with fiscal 2015 actuals	150
Insurance paid to State Treasurer's Office	52
Data processing supplies	50

Where It Goes:

Extermination	38
Non-Department of General Services rent	-125
Telephone aligned with fiscal 2015 actuals	-150
Water	-172
Motor vehicle gas and oil	-176
Security	-549
Electricity aligned with fiscal 2015 actuals	-2,800
Other	96
Total	**$249**

Note: Numbers may not sum to total due to rounding.

Salary Increments

The fiscal 2017 budget bill includes funds for a salary increment increase in the Department of Budget and Management. The MAA operating budget portion of the increment increase is $464,738 in special funds. Federally funded salary increment increases are expected to be added later by budget amendment.

Personnel Changes

Personnel costs increase by $857,739, with increases of $715,746 in health insurance costs and $606,718 in pension costs offset by reductions in regular earnings and workers compensation and unemployment compensation premium assessments.

Other Changes

Other large changes include a $2.8 million reduction in electricity to align with actual spending. A $1.3 million increase in equipment repair and maintenance is mostly tied to added costs related to the expanding size of the terminal, including maintenance of standby emergency backup life safety systems, equipment and maintenance for passenger loading bridges, heating and ventilating units operation and maintenance, and new wayfinding systems for passengers.

Security costs are reduced by $549,300 as part of cost containment. MAA eliminated one manned security gate by expanding its secured area and installing identification card readers and shifted the cost of a vehicle-only entry point to the capital program to achieve the savings.

Other contractual services increased by $923,364, primarily due to BWI Marshall Airport adding Automated Passport Control kiosks to expedite the customs process for passengers reentering the United States.

PAYGO Capital Program

Program Description

The MAA capital program provides for the development and maintenance of facilities at BWI Marshall Airport and MTN. MAA undertakes projects that meet the demands of commercial and general aviation for both passenger and cargo activities at BWI Marshall Airport. At MTN, facilities improvements and rehabilitation activities such as runway and taxiway improvements, building and system renovations, and various maintenance projects are implemented.

Fiscal 2016 to 2021 *Consolidated Transportation Program*

The MAA total capital program from fiscal 2016 to 2021 totals $601.4 million, a decrease of $13.1 million compared to the fiscal 2015 to 2020 *Consolidated Transportation Program* (CTP). Funding for projects in the fiscal 2016 to 2021 CTP is largely devoted to concourse improvements and minor system preservation projects.

Fiscal 2017 Capital Allowance

Exhibit 6 shows the fiscal 2017 capital allowance for MAA by project and program along with estimated total project costs and six-year funding included in the CTP. The International Concourse Extension enters the main construction phase in fiscal 2017 and is the largest project in this CTP.

Exhibit 6
Maryland Aviation Administration PAYGO Capital Allowance
Fiscal 2017
($ in Thousands)

Jurisdiction	Project Description	2017	Total Cost	Six-year Total
Projects				
Anne Arundel	International Concourse Extension at BWI Marshall Airport[1]	$36,468	$118,496	$116,285
Anne Arundel	D/E Connector at BWI Marshall Airport	57,049	137,407	104,735
Anne Arundel	Runway Safety Area, Standards and Pavement Improvements at BWI Marshall Airport	30,897	337,648	100,692
Anne Arundel	International Checked Baggage Inspection System at BWI Marshall Airport	13,065	22,086	22,046
Anne Arundel	Loading Bridge Replacement Program at BWI Marshall Airport	5,222	12,484	9,077

Jurisdiction	Project Description	2017	Total Cost	Six-year Total
Anne Arundel	Homeowner Assistance Program	940	28,575	5,637
Anne Arundel	Parking Revenue Control System at BWI Marshall Airport	-	9,803	3,200
Anne Arundel	Environmental Assessment at BWI Marshall Airport	854	2,000	2,000
Baltimore County	Environmental Assessment at Martin State Airport	-	1,875	661
Subtotal – Projects		***$144,495***	***$670,374***	***$364,333***
Programs				
Statewide	System Preservation and Minor Projects	$44,700	n/a	$234,200
Statewide	Capital Salaries	6,900	n/a	37,800
Subtotal – Programs		***$51,600***		***$272,000***
Total – Projects and Programs		**$196,095**	**$670,374**	**$636,333**

BWI Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport
PAYGO: pay-as-you-go

[1] Project moved from the development and evaluation program to the construction program in this *Consolidated Transportation Program.*

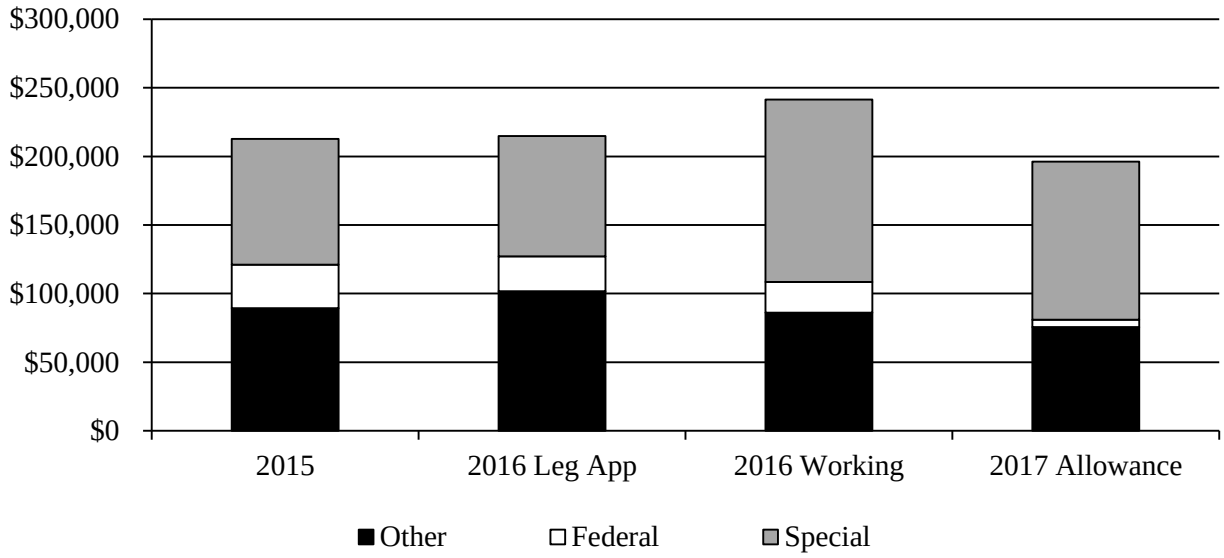
Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

Fiscal 2016 and 2017 Cash Flow Analysis

Exhibit 7 shows that the fiscal 2016 working appropriation increased by $42.2 million (not including nonbudgeted funds) compared to the legislative appropriation. Including nonbudgeted funds, the increase is $26.6 million and includes the following:

- a $31.2 million increase for system preservation projects;
- an $18.6 million decrease for several phases of federally mandated runway safety and pavement improvements, which are nearing completion; and
- a $17.9 million increase for the International Concourse Extension, which has been moved from the Development and Evaluation program to the Construction program.

Exhibit 7
Cash Flow Changes
Fiscal 2015-2017



Source: Maryland Department of Transportation, 2016-2021 *Consolidated Transportation Program*

The fiscal 2017 allowance (including nonbudgeted funds) is $45.4 million less than the working appropriation, primarily due to a reduction in minor system preservation projects and a reduction in spending on runway safety improvements as various phases of that project come to a conclusion. The other funding category is primarily made up of passenger facility charges; beginning in fiscal 2018, that revenue will be used to reimburse the TTF for the financing of the D/E Connector and the International Concourse E Extension projects.

Projects Removed from the Development and Evaluation Program

The Exit Lane Technology at BWI Marshall Airport was removed from the development and evaluation program to minor programs.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. No Bids to Build BWI Marshall Airport Hotel

The MAA plans to build a hotel next to the hourly parking garage and linked to the terminal via a skywalk hit a snag in fall 2015 when no bidders submitted proposals to build the hotel by the September 2015 deadline. MAA issued a Request for Proposal (RFP) to enter into a long-term lease – likely 50 years – with a developer in order to complete the project. The developer would be responsible for the design, construction, finance, operation, and maintenance of the hotel. The RFP also stipulated that the developer would be required to pay for necessary utility and road access upgrades, which may have been a disincentive to potential bidders. MAA is interviewing prospective developers and hotel operators to examine if the utility and road requirement or other factors contributed to the lack of bids. Based on feedback from potential bidders, MAA will put out a revised RFP and lease agreement in mid-2016.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – Maryland Aviation Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015					
Legislative Appropriation	$0	$179,659	$655	$0	$180,314
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	7,787	121	0	7,908
Reversions and Cancellations	0	-131	0	0	-131
Actual Expenditures	**$0**	**$187,314**	**$776**	**$0**	**$188,090**
Fiscal 2016					
Legislative Appropriation	$0	$185,766	$646	$0	$186,411
Budget Amendments	0	492	0	0	492
Working Appropriation	**$0**	**$186,258**	**$646**	**$0**	**$186,903**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

MAA finished fiscal 2015 approximately $7.8 million above its legislative appropriation.

Special Funds

MAA increased its special fund appropriation by $7.5 million via amendment due to higher costs related to unanticipated winter precipitation levels. Another amendment increased the appropriation by $322,536 for the cost-of-living adjustment. MAA cancelled approximately $131,000 due to lower than expected health insurance costs.

Federal Funds

A federal fund amendment increased the appropriation by $121,000 for the Canine Explosive Detection Squad at BWI.

Fiscal 2016

The fiscal 2016 appropriation increased by $491,999 for the salary increment increase.

Object/Fund Difference Report
MDOT – Maryland Aviation Administration

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	451.50	451.50	451.50	0.00	0%
02 Contractual	0.50	0.50	0.50	0.00	0%
Total Positions	**452.00**	**452.00**	**452.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 42,448,115	$ 41,534,680	$ 42,529,355	$ 994,675	2.4%
02 Technical and Spec. Fees	1,733,527	1,908,709	2,102,878	194,169	10.2%
03 Communication	1,224,007	1,667,775	1,517,775	-150,000	-9.0%
04 Travel	242,944	242,969	242,969	0	0%
06 Fuel and Utilities	13,954,071	17,104,302	14,471,412	-2,632,890	-15.4%
07 Motor Vehicles	3,612,062	3,377,085	3,260,309	-116,776	-3.5%
08 Contractual Services	80,481,572	83,448,138	85,399,118	1,950,980	2.3%
09 Supplies and Materials	8,696,900	6,564,925	6,764,925	200,000	3.0%
10 Equipment – Replacement	116,617	23,990	0	-23,990	-100.0%
11 Equipment – Additional	126,223	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	968,111	977,482	970,572	-6,910	-0.7%
13 Fixed Charges	19,486,689	19,355,333	19,256,806	-98,527	-0.5%
14 Land and Structures	14,999,237	10,697,742	10,635,840	-61,902	-0.6%
Total Objects	**$ 188,090,075**	**$ 186,903,130**	**$ 187,151,959**	**$ 248,829**	**0.1%**
Funds					
03 Special Fund	$ 187,314,075	$ 186,257,630	$ 186,506,459	$ 248,829	0.1%
05 Federal Fund	776,000	645,500	645,500	0	0%
Total Funds	**$ 188,090,075**	**$ 186,903,130**	**$ 187,151,959**	**$ 248,829**	**0.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
MDOT – Maryland Aviation Administration

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
2021 BWI Marshall Airport	$ 179,677,305	$ 178,857,942	$ 179,270,273	$ 412,331	0.2%
2022 Martin State Airport	7,988,028	7,589,160	7,416,840	-172,320	-2.3%
2023 Regional Air Development	424,742	456,028	464,846	8,818	1.9%
2030 Facilities and Capital Equipment	118,184,012	150,935,000	120,453,000	-30,482,000	-20.2%
1270 Parking Revenue Control System	5,206,060	3,200,000	0	-3,200,000	-100.0%
1931 Parking Garage Guidance System	0	902,000	0	-902,000	-100.0%
2044 Airport Road Electronic Signage Replacement	0	179,000	0	-179,000	-100.0%
7200 Consolidated Dispatch Center Upgrade	-6,843	0	0	0	0%
7403 Integrated Airport Security Systems	14,355	5,000	0	-5,000	-100.0%
7405 Noise Monitoring System Replacement	0	50,000	50,000	0	0%
Total Expenditures	**$ 311,487,659**	**$ 342,174,130**	**$ 307,654,959**	**-$ 34,519,171**	**-10.1%**
Special Fund	$ 278,805,167	$ 319,183,630	$ 301,531,459	-$ 17,652,171	-5.5%
Federal Fund	32,682,492	22,990,500	6,123,500	-16,867,000	-73.4%
Total Appropriations	**$ 311,487,659**	**$ 342,174,130**	**$ 307,654,959**	**-$ 34,519,171**	**-10.1%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 4

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Maryland Aviation Administration – Operating

Status	Amendment	Fund	Justification
Approved	$491,999	Special	Salary increase.
Pending	241,998	Special	Realign Office of Administrative Hearings and Workers' Compensation Costs.

Source: Maryland Department of Transportation

Appendix 5

Budget Amendments for Fiscal 2016

Maryland Department of Transportation
Maryland Aviation Administration – Capital

Status	Amendment	Fund	Justification
Approved	$64,854	Special	Salary increase.
Pending	6,999	Special	Realign Office of Administrative Hearings and Workers' Compensation costs across MDOT.
Pending	45,022,634 -2,903,000	Special Federal	Amend the working appropriation to reflect the fiscal 2016 to 2021 Consolidated Transportation Program.
Projected	10,000,000	Federal	Increased funding made available for final phase of runway safety project.

Source: Maryland Department of Transportation