

D16A06
Secretary of State

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$1,868	\$1,903	\$1,928	\$26	1.3%
Contingent & Back of Bill Reductions	0	0	-3	-3	
Adjusted General Fund	\$1,868	\$1,903	\$1,925	\$23	1.2%
Special Fund	414	355	366	11	3.1%
Adjusted Special Fund	\$414	\$355	\$366	\$11	3.1%
Adjusted Grand Total	\$2,283	\$2,258	\$2,291	\$34	1.5%

- The fiscal 2014 allowance for the Secretary of State increases by \$33,614, or 1.5%, compared to the fiscal 2013 working appropriation after accounting for a back of the bill reduction in health insurance due to favorable cost trends. Both general funds (\$22,668) and special funds (\$10,946) increase.
- The general fund increase is exaggerated, and the special fund increase is understated by the impact of the Budget Restoration Fund in fiscal 2013. The Budget Restoration Fund was created by the Budget Reconciliation and Financing Act (BRFA) of 2012 (Chapter 1 of the First Special Session of 2012). In the Secretary of State, Budget Restoration Funds totaling \$9,016 supported a portion of the cost-of-living adjustment provided to State employees in January 2013, expenses that would otherwise have been supported through general funds. In the fiscal 2014 allowance, these expenses are budgeted as general funds.
- The largest changes in the fiscal 2014 allowance in the Secretary of State occur in the area of personnel.

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

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Personnel Data

	<u>FY 12 Actual</u>	<u>FY 13 Working</u>	<u>FY 14 Allowance</u>	<u>FY 13-14 Change</u>
Regular Positions	24.00	24.00	24.00	0.00
Contractual FTEs	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
Total Personnel	25.00	25.00	25.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.72	3.00%
Positions and Percentage Vacant as of 12/31/12	1.00	4.17%

- There are no changes to the number of regular positions or contractual full-time equivalents in the fiscal 2014 allowance.
- As of December 31, 2012, the Secretary of State had 1.0 vacant position, a vacancy rate of 4.17%. To meet its turnover expectancy of 3.0%, the office needs to maintain 0.72 vacant positions in fiscal 2014.

Analysis in Brief

Major Trends

Address Confidentiality Program Continues to Grow: The number of participants and pieces of mail forwarded for participants has grown in each year of the Address Confidentiality Program's existence. In fiscal 2012, for only the second year, participants were eligible to re-enroll in the program. Although the number of individuals re-enrolling is low in absolute numbers, the number of participants re-enrolling increased by 64.3%.

Ensuring Delinquent Charities Comply with State Law: A fiscal compliance audit of the Secretary of State released in 2011 included a finding that the agency did not have adequate procedures to ensure that charities met annual reporting requirements and that the exempt status of charities was proper. To track improvement in this area, the Secretary of State presented new Managing for Results measures in the 2012 session. In fiscal 2012, the number of contacts with delinquent charities and the number of resolutions of delinquencies increased reflecting a full year of the agency's new tracking efforts.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Division of State Documents Fund Balance Transfer: The BRFA of 2012 authorized the transfer of \$50,000 from the Division of State Documents (DSD) special fund balance to the general fund in fiscal 2013. During the 2012 session, the closing fiscal 2013 fund balance was projected to fall to \$56,229 as a result of the transfer. However, primarily due to the updating of a handbook, DSD had higher than projected revenue in fiscal 2012, which led to a substantial increase in the fund balance in that year. The special fund balance is now projected to be \$246,552 at the close of fiscal 2013 and \$180,582 at the close of fiscal 2014.

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Secretary of State

Operating Budget Analysis

Program Description

The Secretary of State attests to the Governor's signature on all public papers and documents; certifies documents for international use; registers trademarks, services marks, and insignia; administers the Notary Public laws; processes extraditions; assists in the commissioning of the special police and railroad police; administers the Sister States Program; and represents the State of Maryland and the Executive Department in intergovernmental and international affairs. The Address Confidentiality Program (ACP) for victims of domestic violence in Maryland is also administered by the Secretary of State.

The Charitable and Legal Services Division registers, regulates, investigates, and informs the public about charitable organizations and professional solicitors.

The Division of State Documents (DSD) compiles and publishes all of the State's administrative regulations in the *Maryland Register* and *Code of Maryland Regulations* (COMAR).

The key goals of the Secretary of State are:

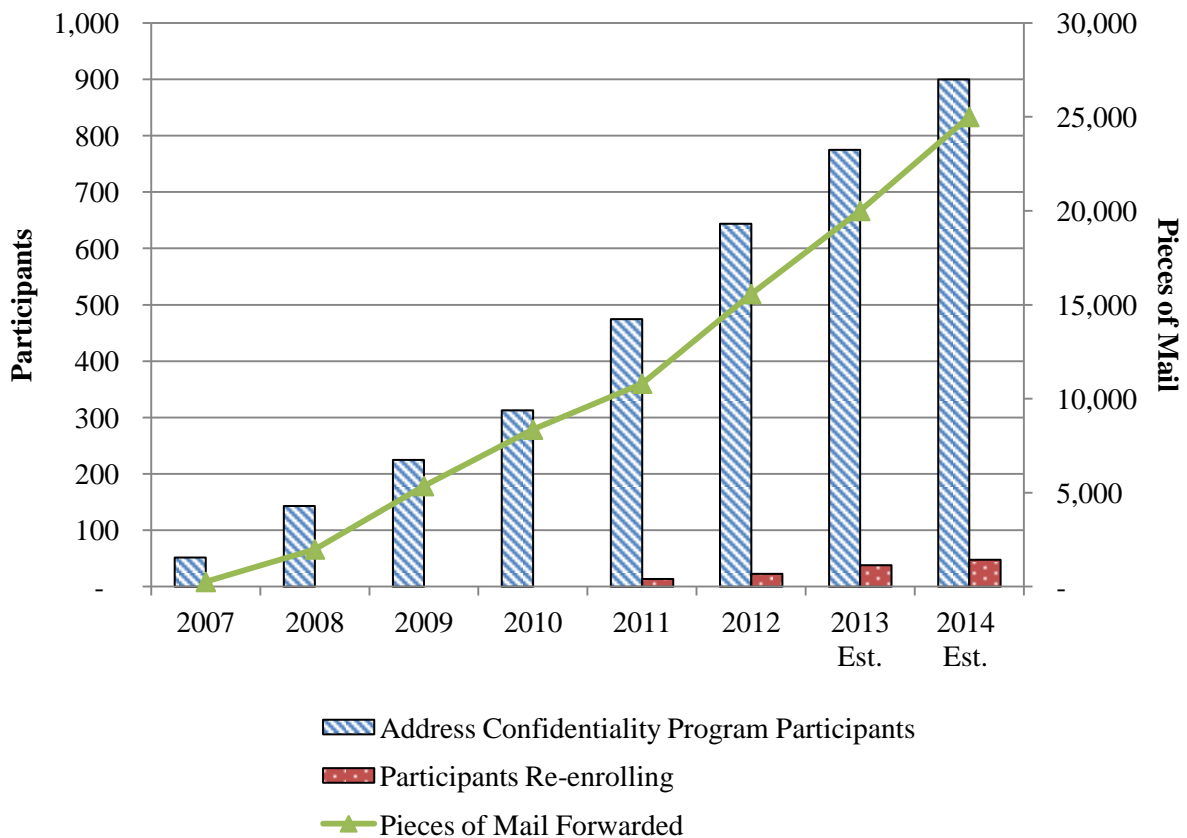
- to implement a document management plan to manage documents related to the operations of DSD;
- to strengthen and enhance Maryland's role and influence in international affairs;
- to obtain updated information from delinquent charitable organizations required to register with the Secretary of State;
- to help Maryland residents make informed decisions when contributing to a charitable organization; and
- to maintain and expand ACP for victims of domestic violence who have relocated to avoid further abuse.

Performance Analysis: Managing for Results

1. Address Confidentiality Program Continues to Grow

Participation in ACP has grown rapidly in all years since fiscal 2007 (the year the program began), as shown in **Exhibit 1**. In fiscal 2012, the number of program participants increased by 35.6% compared to the prior year, while the number of pieces of mail forwarded increased by 44.1%. After four years, program participants wishing to remain in the program must re-enroll. Fiscal 2011 was the first year any participants were eligible to re-enroll. The number of participants re-enrolling remained relatively low in absolute numbers in fiscal 2012, only 23, but increased compared to fiscal 2011 (64.3%).

Exhibit 1
Address Confidentiality Program
Fiscal 2007-2014 Est.

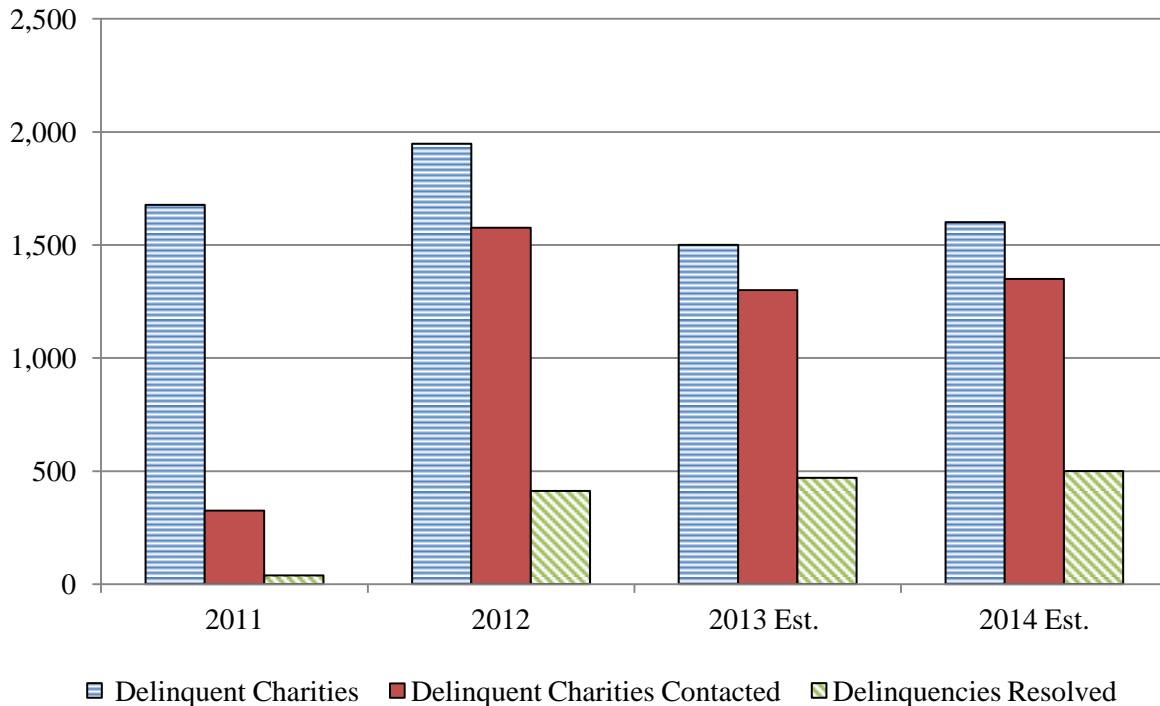


Source: Secretary of State; Governor’s Budget Books

2. Ensuring Delinquent Charities Comply with State Law

Sections 6-407 and 6-408 of the Business Regulation Article require, with some exceptions, charities to submit an annual fee and an annual report. The annual report is due within six months of the end of the charity’s fiscal year. A fiscal compliance audit of the Secretary of State released in 2011 included a finding that the office did not always follow up on charities that did not submit a required annual report. The office may follow up on the delinquency by sending letters to the organization or referring the organization to an investigator. The Secretary of State introduced new Managing for Results measures in the 2012 session to track its resolution of a fiscal compliance audit finding related to the treatment of delinquent charities. Having a full year of data (rather than only one quarter) led to the appearance of substantial increases in both contacts and resolution of delinquencies, as shown in **Exhibit 2**. The Secretary of State also explained that the office has been more aggressive in its resolution of delinquent charities by increasing monthly onsite visits by the charity investigator and by focusing on the oldest delinquencies first.

Exhibit 2
Delinquent Charities
Fiscal 2011-2014 Est.



Source: Secretary of State; Governor’s Budget Books

Fiscal 2013 Actions

Section 25 of Chapter 1 of the First Special Session of 2012 (the Budget Reconciliation and Financing Act (BRFA) of 2012) required the Governor to abolish at least 100 vacant positions as of January 1, 2013, saving at least \$6 million in general funds. The Secretary of State’s share of the reduction was \$5,496 in general funds.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2014 allowance of the Secretary of State increases by \$33,614, or 1.5%, compared to the fiscal 2013 working appropriation, after accounting for a back of the bill reduction in health insurance due to favorable cost trends. Both general (\$22,668) and special (\$10,946) funds increase in the Secretary of State’s fiscal 2014 allowance. However, the increases in general and special funds are distorted by the use of the Budget Restoration Fund in fiscal 2013. The Budget Restoration Fund was created in the BRFA of 2012. In the Secretary of State, these funds were used to support the majority of the cost-of-living adjustment (COLA) provided to State employees in January 2013 (\$9,016) that would otherwise have been general fund expenses. In the fiscal 2014 allowance, these expenses are budgeted as general fund expenditures, exaggerating the increase in general funds and understating the increase in special funds.

Exhibit 3
Proposed Budget
Secretary of State
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
2013 Working Appropriation	\$1,903	\$355	\$2,258
2014 Allowance	<u>1,928</u>	<u>366</u>	<u>2,294</u>
Amount Change	\$26	\$11	\$37
Percent Change	1.3%	3.1%	1.6%
Contingent Reductions	-\$3	\$0	-\$3
Adjusted Change	\$23	\$11	\$34
Adjusted Percent Change	1.2%	3.1%	1.5%

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Where It Goes:

Personnel Expenses

Employee and retiree health insurance net of a back of the bill reduction due to favorable cost trends.....	\$45
Employee retirement	39
Annualization of the fiscal 2013 cost-of-living adjustment	16
Social Security contributions, unemployment compensation, and turnover adjustments	-1
Regular earnings	-1

Cost Allocations

Department of Budget and Management paid telecommunications	2
Department of Information Technology services allocation.....	-1
Retirement administrative fee and statewide personnel system allocation	-2

Administrative expenses

Equipment rental primarily due to leasing a second high capacity printer to allow for more in-house printing	6
Office supplies resulting from increased in-house printing in the Division of State Documents.....	6
Travel for training	4
Telephone expenditures to reflect recent experience and cell phone expenditures.....	-3
Computer maintenance and equipment repair contracts to align with recent experience	-4
Reduced mailings resulting from implementation of a system of electronic notifications and announcements for notary publics	-5
Information technology hardware and software needs based on the information technology life cycle	-6
Triennial Microsoft Windows software license renewal.....	-17
Cost containment actions in contractual services, supplies, and equipment purchases	-21
Contractual employee payroll due to changes in duties	-25
Other	1

Total **\$34**

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

Increases in personnel expenditures (\$97,547) are partially offset by a net decrease throughout the remainder of the budget. The majority of the personnel expenditure increase occurs in the areas of employee and retiree health insurance (\$45,019) and employee retirement expenses (\$38,605). The contribution rate for the regular employees’ pension plan increases in fiscal 2014. The rate increase is attributable to underattaining investment returns, adjusting actuarial assumptions, and increasing the reinvestment of savings achieved in the 2011 pension reform.

Several reductions (totaling \$21,103) throughout the areas of contractual services, supplies, and equipment purchases result from the agency’s efforts to constrain spending. These actions include reduced printing due to posting information on the agency website and purchasing supplies only as needed. The agency has also planned for reduced postage expenditures (\$5,194) as it implements a system by which it will provide notifications and announcements to notary publics electronically.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Division of State Documents Fund Balance Transfer

Section 5 of the BRFA of 2012 authorized a transfer of \$50,000 from the DSD special fund balance to the general fund. The special fund is used for expenditures in the division, and revenue is generated through subscriptions and sales of the *Maryland Register* and COMAR. As shown in **Exhibit 4**, revenue has fluctuated but generally remained below the level of expenditures in recent years, leading to an increased use of the fund balance to support expenditures in DSD. To address the declining fund balance, the Secretary of State reorganized the DSD in fiscal 2010.

Exhibit 4
Division of State Documents Special Fund Balance
Fiscal 2008-2014

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Beginning Fund Balance	\$691,035	\$598,635	\$410,150	\$185,222	\$200,796	\$351,576	\$246,552
Revenues	295,020	359,887	290,870	323,563	551,929	300,000	300,000
Total Special Fund Expenditures	387,420	548,372	515,798	307,989	401,149	355,024	365,970
Transfer to General Fund	0	0	0	0	0	50,000	0
Ending Fund Balance	\$598,635	\$410,150	\$185,222	\$200,796	\$351,576	\$246,552	\$180,582
Change in Fund Balance	-\$92,400	-\$188,485	-\$224,928	\$15,574	\$150,780	-\$105,024	-\$65,970

Source: Secretary of State

As part of the reorganization, DSD began to print fewer *Maryland Register* publications and, to the extent possible, meet printing needs through the Department of General Services (DGS) or in-house, rather than separate contracts. DSD also stopped outsourcing the development of the Table of Contents for COMAR. In addition, 3.5 positions were abolished from DSD in fiscal 2010 and 2011. As shown in Exhibit 4, in fiscal 2011, DSD was able to slightly increase its fund balance due to both an increase in revenue and the declines in expenditures that resulted from the changes.

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In fiscal 2012, revenues in the special fund were higher than in all recent years, an increase of 70.6% compared to fiscal 2011, largely due to an update of the *Vehicle Inspection Handbook* (which had not been updated in more than 10 years) and an increase in data license fees with two companies. With the exception of the change in data license fees, the increase in revenue in that year is not likely to be ongoing. Although the production of the updated *Vehicle Inspection Handbook* resulted in additional expenditures and despite the fact that the division purchased additional information technology, DSD's fund balance increased by \$150,780 in fiscal 2012.

The higher than expected fiscal 2012 ending fund balance and actions taken by the Secretary of State to maintain expenditures within the level of estimated revenue has placed the fund balance on solid ground, at least temporarily. During the 2012 session, the fund balance was expected to fall to \$56,229 after the transfer, but the Secretary of State's projections show a fiscal 2013 ending fund balance of \$246,552 and a fiscal 2014 ending fund balance of \$180,582. DSD has again begun to draw down its fund balance, in part, because printing needs exceeded the capability of DGS and the office began to again rely more on outside printing contracts.

Current and Prior Year Budgets

Current and Prior Year Budgets Secretary of State (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$1,850	\$400	\$0	\$0	\$2,250
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	19	20	0	0	39
Reversions and Cancellations	0	-5	0	0	-6
Actual Expenditures	\$1,868	\$414	\$0	\$0	\$2,283
Fiscal 2013					
Legislative Appropriation	\$1,903	\$345	\$0	\$0	\$2,248
Budget Amendments	0	10	0	0	10
Working Appropriation	\$1,903	\$355	\$0	\$0	\$2,258

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

Fiscal 2012

The fiscal 2012 expenditures of the Secretary of State were \$32,970 higher than the legislative appropriation. General fund expenditures were \$18,561 higher as a result of the \$750 one-time bonus provided to State employees which was partially offset by a small general fund reversion. Special funds increased by \$20,000 in a budget amendment to support an update of the *Vehicle Inspection Handbook* and computer equipment purchases. The special fund increase was partially offset by a cancellation of \$5,362 due to lower than anticipated costs of computer equipment purchases.

Fiscal 2013

The fiscal 2013 special fund appropriation of the Secretary of State has increased by \$10,018, as a result of the 2% COLA provided to employees in January 2013.

**Object/Fund Difference Report
Secretary of State**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	24.00	24.00	24.00	0.00	0%
02 Contractual	1.00	1.00	1.00	0.00	0%
Total Positions	25.00	25.00	25.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,869,406	\$ 1,844,720	\$ 1,945,236	\$ 100,516	5.4%
02 Technical and Spec. Fees	34,324	47,373	22,303	-25,070	-52.9%
03 Communication	96,021	77,135	71,819	-5,316	-6.9%
04 Travel	36,777	2,500	6,026	3,526	141.0%
07 Motor Vehicles	4,654	5,140	4,840	-300	-5.8%
08 Contractual Services	137,389	215,115	189,075	-26,040	-12.1%
09 Supplies and Materials	60,274	41,703	39,500	-2,203	-5.3%
10 Equipment – Replacement	31,928	14,000	5,000	-9,000	-64.3%
11 Equipment – Additional	5,138	1,000	3,000	2,000	200.0%
13 Fixed Charges	6,730	9,100	7,570	-1,530	-16.8%
Total Objects	\$ 2,282,641	\$ 2,257,786	\$ 2,294,369	\$ 36,583	1.6%
Funds					
01 General Fund	\$ 1,868,442	\$ 1,902,762	\$ 1,928,399	\$ 25,637	1.3%
03 Special Fund	414,199	355,024	365,970	10,946	3.1%
Total Funds	\$ 2,282,641	\$ 2,257,786	\$ 2,294,369	\$ 36,583	1.6%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

**Fiscal Summary
Secretary of State**

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
1000 General Administration	\$ 1,477,060	\$ 1,342,685	\$ 1,330,952	-\$ 11,733	-0.9%
2000 Division of State Documents	711,190	820,166	864,121	43,955	5.4%
3000 International Affairs Division	94,391	94,935	99,296	4,361	4.6%
Total Expenditures	\$ 2,282,641	\$ 2,257,786	\$ 2,294,369	\$ 36,583	1.6%
General Fund	\$ 1,868,442	\$ 1,902,762	\$ 1,928,399	\$ 25,637	1.3%
Special Fund	414,199	355,024	365,970	10,946	3.1%
Total Appropriations	\$ 2,282,641	\$ 2,257,786	\$ 2,294,369	\$ 36,583	1.6%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.