

**C98F00**  
**Workers' Compensation Commission**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$13,851	\$14,345	\$14,603	\$258	1.8%
Deficiencies and Reductions	0	0	-35	-35	
<b>Adjusted Special Fund</b>	<b>\$13,851</b>	<b>\$14,345</b>	<b>\$14,568</b>	<b>\$223</b>	<b>1.6%</b>
<b>Adjusted Grand Total</b>	<b>\$13,851</b>	<b>\$14,345</b>	<b>\$14,568</b>	<b>\$223</b>	<b>1.6%</b>

- The fiscal 2017 allowance increases by \$222,513 from the fiscal 2016 working appropriation. This increase is largely attributable to increased expenditures for turnover, retirement, health insurance, and contractual employee compensation.

***Personnel Data***

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>
Regular Positions	117.00	117.00	115.00	-2.00
Contractual FTEs	<u>7.57</u>	<u>11.25</u>	<u>11.25</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>124.57</b>	<b>128.25</b>	<b>126.25</b>	<b>-2.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	3.91	3.40%
Positions and Percentage Vacant as of 12/31/15	8.00	6.84%

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

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- The fiscal 2017 allowance for regular positions and contractual full-time equivalents decreases by 2.0 regular positions from the fiscal 2016 appropriation. This decrease is attributable to the abolition of 2.0 vacant information technology positions.
- The budgeted turnover rate is 3.40%, which requires 3.91 vacancies. As of January 1, 2016, the agency reported 8.0 vacancies. This is a significant reduction in turnover expectancy from the rate of 5.54% in the fiscal 2016 working appropriation and increases the agency allowance by \$196,319 in fiscal 2017.

## ***Analysis in Brief***

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### **Major Trends**

***Decrease in Claims Leads to Improved Clearance Rate:*** After falling short in fiscal 2012 and 2013, the Worker’s Compensation Commission (WCC) has achieved its goal of setting 90% of nonpermanency hearings within 60 days of their filing date. In fiscal 2015, WCC set at total of 22,172 hearings, of which 94% were set within 60 days.

### **Recommended Actions**

	<b><u>Funds</u></b>
1. Reduce funding to increase turnover expectancy to 5.54%.	\$ 196,319
<b>Total Reductions</b>	<b>\$ 196,319</b>

### **Updates**

***Caseload Levels and Insurer Assessments:*** WCC levies an annual assessment on insurers. The assessment is based on the insurer payroll base, the WCC operating budget, and the cost of a Department of Labor, Licensing, and Regulation safety program. In fiscal 2015, WCC had a lower insurer assessment rate than in fiscal 2014 due to a large payroll base and decrease in total expenditures.

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***Operating Budget Analysis***

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**Program Description**

The Workers' Compensation Commission (WCC) administers the State Workers' Compensation Law, which requires most Maryland employers to obtain and maintain insurance in order to provide benefits to employees who sustain an accidental personal injury, occupational disease, or death in the course of their employment. WCC receives, processes, and adjudicates claims for injured employees and refers appropriate claimants for medical and rehabilitation vocational services. WCC is a special fund agency that covers expenditures with an annual maintenance assessment levied on insurance carriers and self-insured employers. The WCC mission addresses the need for effective and timely delivery of services provided to its customers; a system for electronic exchange of all claims information documents; and the establishment of an effective system for the collection and analysis of all costs associated with the delivery of workers' compensation benefits.

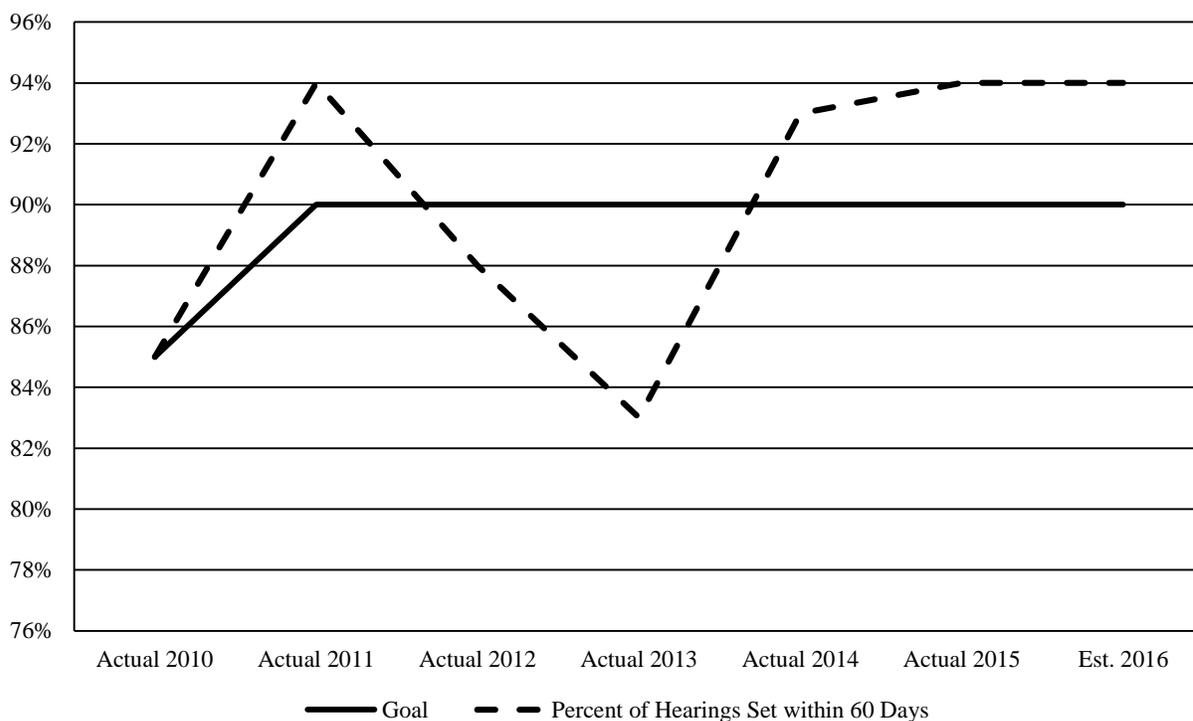
**Performance Analysis: Managing for Results**

**1. Decrease in Claims Leads to Improved Clearance Rate**

Since fiscal 2010, the WCC primary Managing for Results measure has been the percent of nonpermanency hearings set within 60 days of the claim's filing date. Since fiscal 2011, the target has been 90% of hearings set within the 60 day timeframe. After falling short in fiscal 2012 and 2013, WCC set 93% of hearings within 60 days in fiscal 2014 and 94% in fiscal 2015. **Exhibit 1** illustrates the improvement in agency efficiency since fiscal 2011 and the WCC adjustment to increasing workloads.

The overall number of nonpermanency hearings fell by 1,026 (4.4%) in fiscal 2015 but remained near the all-time high. The decreased workload allowed the agency to issue over 99.5% of orders within 30 days of the hearing, and decreased the average time from hearing to order from eight days to seven.

**Exhibit 1**  
**Percent of Nonpermanency Hearing Set within 60 Days**  
**Fiscal 2010-2016 Est.**



Source: Department of Budget and Management

**Proposed Budget**

As shown in **Exhibit 2**, the fiscal 2017 allowance increases by \$222,513 from the fiscal 2016 working appropriation. There is a decrease in personnel expenditures of \$164,214 attributable to abolishment of 2.0 regular positions. The Governor’s budget also includes an appropriation for employee increments totaling \$158,513 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 2**  
**Proposed Budget**  
**Workers’ Compensation Commission**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Total</u></b>
Fiscal 2015 Actual	\$13,851	\$13,851
Fiscal 2016 Working Appropriation	14,345	14,345
Fiscal 2017 Allowance	<u>14,568</u>	<u>14,568</u>
Fiscal 2016-2017 Amount Change	\$223	\$223
Fiscal 2016-2017 Percent Change	1.6%	1.6%

**Where It Goes:**

**Personnel Expenses**

Retirement contributions.....	\$262
Turnover adjustments .....	211
Employee and retiree health insurance .....	137
Other fringe benefit adjustments.....	-32
Abolishment of 2 regular positions.....	-164
Compensation adjustments .....	-262

**Other Changes**

Agencywide contractual employee cost increase.....	72
Statewide services and insurance allocations .....	21
In-state travel and training .....	16
Other .....	2
Interpreter services.....	-18
Non-Department of General Services Rent .....	-23

<b>Total</b>	<b>\$222</b>
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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 \$35,040 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 \$152,938. Increases in turnover, health insurance, and retirement contribution rates are partially offset by a reduction of \$164,214 for the abolishment of 2 vacant regular positions associated with a statewide realignment of information technology positions.

## **Other**

The most significant other adjustment is an increase of \$46,000 to fund a recall commissioner and security officer and to restore hours for other contractual full-time equivalents, which were not funded in fiscal 2016 as a cost savings measure. There is also an increase of \$15,876 for cost-of-living adjustments and other salary increases for key professional staff. There are reductions of \$22,689 for rent and \$17,555 for contracts in interpreter services, which are increasingly shifting to the WCC staff interpreters.

## ***Recommended Actions***

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	<b><u>Amount Reduction</u></b>	
1. Reduce funding to increase turnover expectancy from 3.4% to 5.54%. This higher turnover expectancy is more consistent with recent agency vacancy rates.	\$ 196,319	SF
<b>Total Special Fund Reductions</b>	<b>\$ 196,319</b>	

## Updates

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### 1. Caseload Levels and Insurer Assessments

There are five key areas that drive the WCC workload: first reports of injury, claims filed, issues filed, hearings, and appeals. **Exhibit 3** shows how these areas affect the WCC workload annually. In fiscal 2015, total first reports of injury, total filed claims, initial claims, hearings set, and appeals all decreased from fiscal 2014 levels. The number of appeals filed fell 2.76% in fiscal 2015. In total, the WCC workload fell 4.82% between fiscal 2012 and 2015.

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#### Exhibit 3 Commission Claim Actions Fiscal 2012-2015

	<u>Actual 2012</u>	<u>Actual 2013</u>	<u>Actual 2014</u>	<u>Actual 2015</u>	<u>% Change 2012-2015</u>
First Reports of Injury	105,074	106,715	110,783	96,581	-8.08%
Total Filed Claims	22,909	23,241	24,113	23,706	3.48%
Issues Filed	43,956	43,838	44,570	42,813	-2.60%
Hearings Set	41,561	42,847	43,382	40,059	-3.61%
Appeals	2,031	2,016	2,018	1,975	-2.76%
<b>Total</b>	<b>215,531</b>	<b>218,657</b>	<b>224,866</b>	<b>205,134</b>	<b>-4.82%</b>

Source: Workers’ Compensation Commission

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The agency levies an annual assessment on all licensed insurers and authorized self-insured entities. This assessment funds the agency’s operating budget. To determine the assessment amount, the agency sums its own operating budget cost with the cost of the Department of Labor, Licensing, and Regulation’s (DLLR) safety program. **Exhibit 4** lists the payroll base, commission expense, safety program, and the resulting assessment for fiscal 2009 to 2015. Total expenditures in fiscal 2015 decreased by \$872,093, and the payroll base increased by \$2.8 billion from fiscal 2014, resulting in a lower assessment rate.

**Exhibit 4**  
**Total Payrolls and Insurer Assessments**  
**Fiscal 2009-2015**

<b><u>Fiscal Years</u></b>	<b><u>Assessment Base Insurer Payroll</u></b>	<b><u>Commission Expense</u></b>	<b><u>Safety Program Cost</u></b>	<b><u>Total Expenses</u></b>	<b><u>Insurer Assessments</u></b>	<b><u>Assessment Per \$1,000 of Payroll</u></b>
2015	\$123,788,020,927	\$13,850,624	\$11,332,540	\$25,183,164	\$24,742,542	0.200
2014	121,027,528,186	13,898,109	12,157,148	26,055,257	25,684,112	0.212
2013	113,830,536,789	13,736,289	11,660,527	25,396,816	24,923,537	0.219
2012	110,175,781,742	13,739,984	11,319,662	25,059,646	25,059,646	0.227
2011	112,656,771,036	13,496,037	9,985,427	23,481,464	24,428,360	0.217
2010	108,195,546,586	12,263,369	10,177,248	22,440,617	22,440,617	0.207
2009	112,282,039,829	12,796,532	10,095,153	22,891,685	20,879,634	0.185

Source: Workers’ Compensation Commission

Typically, the assessment amount is set to match total expenditures. However, in recent years, the agency has made several adjustments to the assessment based on a variety of factors. In fiscal 2009, the commission credited approximately \$2.6 million to insurers to correct an overaccumulation of funds in the balance. In fiscal 2011, the agency billed insurers an additional \$946,896 above expenses to replenish the agency’s fund balance. In fiscal 2013, the agency credited insurers \$473,279 to correct prior year unencumbered balances. In fiscal 2014 and 2015, unexpected vacancies during the fiscal year caused expenditures to be lower than anticipated, so the commission credited insurers back \$371,145 in fiscal 2014 and \$440,622 in fiscal 2015.

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets Workers’ Compensation Commission (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2015</b>					
Legislative Appropriation	\$0	\$14,027	\$0	\$0	\$14,027
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	488	0	0	488
Reversions and Cancellations	0	-664	0	0	-664
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$13,851</b>	<b>\$0</b>	<b>\$0</b>	<b>\$13,851</b>
<b>Fiscal 2016</b>					
Legislative Appropriation	\$0	\$14,170	\$0	\$0	\$14,170
Budget Amendments	0	175	0	0	175
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$14,345</b>	<b>\$0</b>	<b>\$0</b>	<b>\$14,345</b>

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

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**Fiscal 2015**

WCC finished fiscal 2015 \$176,403 below its legislative appropriation. Budget amendments increased the appropriation by a total of \$487,700, including \$87,700 for the cost-of-living adjustment and \$400,000 for an information technology (IT) consultant to develop a plan to replace the agency’s legacy IT system. These increases were offset by the cancelation of \$664,103 in unspent funds, largely attributable to unanticipated vacancies at the agency.

**Fiscal 2016**

In fiscal 2016, one budget amendment added \$175,000 in special funds to restore employee salaries that would otherwise have been reduced 2% effective July 1, 2015.

## ***Audit Findings***

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Audit Period for Last Audit:	May 9, 2011 – November 4, 2014
Issue Date:	June 2015
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

**Finding 1:** WCC did not ensure all collections were deposited.

**Finding 2:** WCC paid invoices to reimburse DLLR for the costs of certain programs without verifying the costs to supporting documentation.

**Object/Fund Difference Report  
Workers' Compensation Commission**

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	117.00	117.00	115.00	-2.00	-1.7%
02 Contractual	7.57	11.25	11.25	0.00	0%
<b>Total Positions</b>	<b>124.57</b>	<b>128.25</b>	<b>126.25</b>	<b>-2.00</b>	<b>-1.6%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 9,921,640	\$ 10,697,692	\$ 10,885,670	\$ 187,978	1.8%
02 Technical and Spec. Fees	575,075	511,908	566,572	54,664	10.7%
03 Communication	497,648	469,446	460,561	-8,885	-1.9%
04 Travel	207,010	94,918	110,962	16,044	16.9%
06 Fuel and Utilities	11,508	10,467	11,197	730	7.0%
07 Motor Vehicles	79,922	80,312	80,094	-218	-0.3%
08 Contractual Services	909,321	580,855	600,806	19,951	3.4%
09 Supplies and Materials	146,616	142,434	146,684	4,250	3.0%
10 Equipment – Replacement	61,891	0	0	0	0.0%
11 Equipment – Additional	7,262	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	52,387	52,387	52,387	0	0%
13 Fixed Charges	1,379,909	1,704,980	1,688,019	-16,961	-1.0%
14 Land and Structures	435	0	0	0	0.0%
<b>Total Objects</b>	<b>\$ 13,850,624</b>	<b>\$ 14,345,399</b>	<b>\$ 14,602,952</b>	<b>\$ 257,553</b>	<b>1.8%</b>
<b>Funds</b>					
03 Special Fund	\$ 13,850,624	\$ 14,345,399	\$ 14,602,952	\$ 257,553	1.8%
<b>Total Funds</b>	<b>\$ 13,850,624</b>	<b>\$ 14,345,399</b>	<b>\$ 14,602,952</b>	<b>\$ 257,553</b>	<b>1.8%</b>

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