

D16A06
Secretary of State

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>
General Fund	\$1,910	\$1,930	\$1,954	\$24	1.2%
Deficiencies and Reductions	0	0	-4	-4	
Adjusted General Fund	\$1,910	\$1,930	\$1,950	\$19	1.0%
Special Fund	512	731	850	119	16.3%
Deficiencies and Reductions	0	0	-2	-2	
Adjusted Special Fund	\$512	\$731	\$848	\$117	16.1%
Adjusted Grand Total	\$2,423	\$2,661	\$2,798	\$137	5.1%

- The fiscal 2017 allowance increases by 5.1%, most of which can be seen in personnel and information technology (IT) hardware and software upgrades. After accounting for the back of the bill health insurance reduction, the general fund appropriation increases by \$19,000, or 1.0%, and special funds increase by \$117,000, or 16.1%.

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

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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	24.00	26.00	25.00	-1.00
Contractual FTEs	<u>1.00</u>	<u>2.00</u>	<u>3.00</u>	<u>1.00</u>
Total Personnel	25.00	28.00	28.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.72	2.98%
Positions and Percentage Vacant as of 12/31/15	1.00	4.00%

- The allowance reflects the reduction of 1 regular employee, a programmer position, because the IT services for the agency are now provided by the Department of Information Technology directly.
- There is the addition of a contractual Notary Officer to perform reference and background processing for new notary applications.

Analysis in Brief

Major Trends

Ensuring Delinquent Charities Comply with State Law: The number of charities with a delinquent status increased in fiscal 2015, while the number of delinquencies resolved decreased. This trend is expected to reverse with the transfer of resources from the Notary Online project to the Charities Enforcement Division and with the addition of a new assistant Attorney General (AAG) responsible for Charitable Enforcement.

Address Confidentiality Program Expansion: The Address Confidentiality Program has increased the number of participants and pieces of mail forwarded. The program is also expected to expand to serve human trafficking victims.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Charitable Enforcement: This update will address the progress in charitable enforcement since the enactment of Chapter 654 of 2014, which increased the Attorney General's enforcement of laws related to charitable organizations. The Office of the Secretary of State has hired a new AAG to lead internal enforcement measures against delinquent charities.

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Operating Budget Analysis

Program Description

The Maryland Constitution and applicable statutes charge the Secretary of State with a wide variety of responsibilities. The Secretary of State attests to the Governor's signature on all public papers and documents; certifies documents for international use; registers trademarks, service marks, and insignia; administers the Notary Public laws; processes extraditions; assists in the commissioning of special police; represents the State of Maryland and the Executive Department in intergovernmental and international affairs; and administers the Address Confidentiality Program (ACP) for domestic violence victims in Maryland.

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 the *Code of Maryland Regulations*.

The key goals of the Secretary of State are to:

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

Performance Analysis: Managing for Results

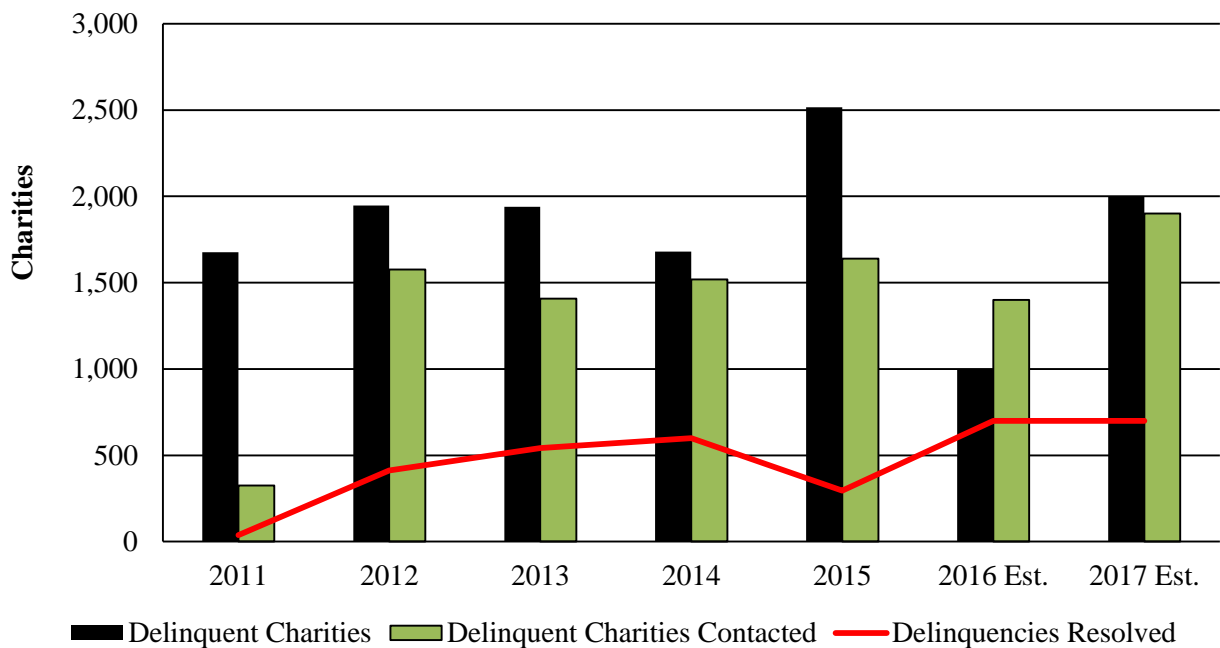
1. Ensuring Delinquent Charities Comply with State Law

Sections 6-407 and 6-408 of the Business Regulation Article require charities, with some exceptions, to submit an annual fee and an annual report to the Secretary of State. Charities often submit their filings late or not at all, which causes charities to fall into delinquent status until they are compliant. As seen in **Exhibit 1**, the number of delinquent charities has consistently increased over

the last several years with numbers peaking at 2,517 in fiscal 2015. This is a 49.7% increase in the number of delinquent charities from 1,681 in fiscal 2014. The number of delinquent charities contacted by the Secretary of State’s office increased from 1,519 in fiscal 2014 to 1,639 in fiscal 2015, which is a much lower rate of increase (7.9%). The number of delinquent charities is projected to decrease significantly, largely due to the addition of a new assistant Attorney General (AAG) in fiscal 2016 taking the lead on charitable enforcement.

Also shown in Exhibit 1, delinquencies resolved have taken a significant drop from 600 in 2014 to 296 in 2015. One of the main reasons for this decline is that for most of 2015 there was only one person responsible for managing delinquencies. This administrator worked extensively as a subject matter expert in the development of the new Notary On-line application, which streamlined the notary application system. The application has been completed and plans are being developed by the Assistant Secretary for Charities and Legal Services and her staff to aggressively address the delinquency issue once again.

Exhibit 1
Delinquent Charity and Resolution
Fiscal 2011-2017 Est.

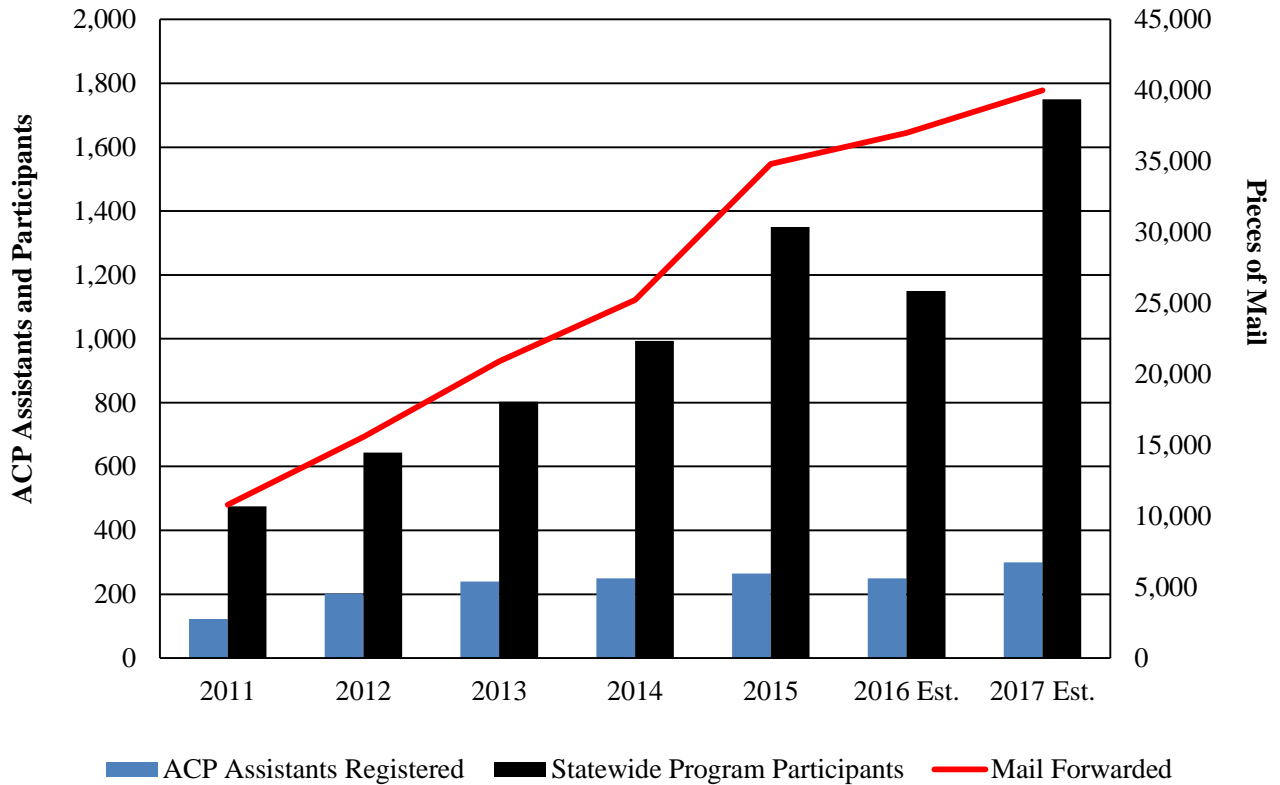


Source: Department of Budget and Management

2. Address Confidentiality Program Expansion

The ACP reroutes the mail of domestic abuse survivors to a post office box to prevent their abusers from finding their address. The ACP has continued to grow since it was established in Chapters 374 and 375 of 2006. Between fiscal 2014 and 2015, the number of women that participated in the program grew from 993 to 1,350, a 36.0% increase in participation. In addition, there was an increase in program assistants who are trained as local advocates for the program and serve to register eligible participants. In terms of pieces of mail forwarded, there was a parallel increase from 25,241 in fiscal 2014 to 34,809 in fiscal 2015, an increase of 37.9%. **Exhibit 2** shows the increases in participants registered, ACP assistants, and pieces of mail forwarded.

Exhibit 2
ACP Participants and Mail Forwarding
Fiscal 2011-2017 Est.



ACP: Address Confidentiality Program

Source: Department of Budget and Management

Chapter 344 of 2014 requires the Secretary of State to establish a Human Trafficking Address Confidentiality Program (HTACP) for human trafficking victims. The purpose of HTACP is to enable State and local agencies to respond to requests for public records without disclosing the location of a human trafficking victim. The human trafficking coordinator position was added to the agency in fiscal 2016. Specifically, the coordinator handles outreach and mail transfers for victims of human trafficking which expands the existing ACP. Because of its significant growth, the ACP has expanded into a larger office to more efficiently sort and redistribute mail.

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 Secretary of State is \$41,000, which includes:

- \$13,500 for delayed hirings;
- \$7,500 for a decrease in postage due to automation; and
- \$20,000 for the elimination of a proposed new vehicle.

Proposed Budget

Exhibit 3 shows that after accounting for the back of the bill health insurance reduction, the general fund appropriation increases by \$19,000, or 1.0%, and special funds increase by \$117,000, or 16.1%. Overall, the fiscal 2017 allowance increases by 5.1%. Most of the largest changes in the allowance can be seen in personnel and information technology (IT) hardware and software upgrades. There is 1 abolished position as a part of the Governor's IT shared services initiative. This was a vacant regular position. As a part of the life cycle rotation used to replace computers, the fiscal 2017 allowance includes an increase of \$32,000 for funds associated with new computers, keyboards and other hardware, as well as software licenses and upgrades.

There has also been a \$26,000 increase in travel costs associated with anticipated trade missions during which the Secretary of State and the Director of International Affairs will accompany the Governor to different countries to promote positive relationships and potential trade opportunities between Maryland and international partners. The fiscal 2017 allowance also has an increase of \$17,000 for contractual employees due to the increase of 1 contractual programmer to assist with the charitable enforcement database. There is also an \$11,000 increase for office equipment such as printers, letter stuffers, and scanners. The most significant decrease, \$49,000, is in postage because of the transition to the electronic Notary application.

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

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
Fiscal 2015 Actual	\$1,910	\$512	\$2,423
Fiscal 2016 Working Appropriation	1,930	731	2,661
Fiscal 2017 Allowance	<u>1,950</u>	<u>848</u>	<u>2,798</u>
Fiscal 2016-2017 Amount Change	\$19	\$117	\$137
Fiscal 2016-2017 Percent Change	1.0%	16.1%	5.1%
Where It Goes:			
Personnel Expenses			
Employees Retirement System			\$58
Turnover adjustments			36
Regular earnings			35
Health insurance			25
Other fringe benefits			6
Abolished position			-100
Other Changes			
Computers, software licenses, keyboards, and other hardware			32
Secretary of State and the Director of International Affairs, travel on trade mission with the Governor			26
<i>Code of Maryland Regulations</i> printing			20
Contractual programmer			17
Printers, letter stuffer, and scanner contracts and maintenance			11
Outside legal service and Office of the Attorney General administrative fees.....			9
Contractors for electrical services, painting, and moving services.....			8
Postage related to Notary application			-49
Other miscellaneous charges			3
Total			\$137

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 \$4,486 in general funds and \$1,718 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.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Charitable Enforcement

The Secretary of State registers and regulates charities that solicit in Maryland. Currently, there are 11,110 charities registered in the State, of which 2,517 were classified as delinquent due to the failure to submit annual reports. Once a charity initially registers with the agency, the charity is required to submit an annual report and an annual fee.

In October 2011, the Office of Legislative Audits (OLA) published a fiscal compliance audit of the Secretary of State and found that the agency did not always follow up with the charities that did not comply with the reporting and payment requirements. A second OLA audit dated January 2014 repeated this finding.

In the 2014 session, there was authorization for the Office of the Attorney General (OAG) to investigate and enforce laws relating to charitable organizations in the same manner as the Secretary of State. Chapter 654 of 2014 also increased specified fees that charities are required to pay, established a Charitable Enforcement Fund, and required the Secretary of State and the Attorney General to establish a workgroup to study and report on the information related to charitable organizations registration and enforcement.

The Secretary of State requires an annual fee that gets progressively larger with the size of the charity. A total of \$100 of each charity's annual fee goes to the Charitable Enforcement Fund. The agency will give a delinquent charity a six-month grace period at the end of the charity's fiscal year to make the annual payment. Unless the agency grants an extension, the charity will be assessed \$25 for each month that the annual payment is late.

The Charitable Enforcement Fund is a special, nonlapsing fund to support the Secretary of State and OAG in administering and enforcing laws related to charitable organizations. The fund consists of the revenue from fees, appropriated money, investment earnings, and any money from other sources.

The workgroup established by Chapter 654 drew several conclusions to improve charity registration and processing, the main goal of which was to make the registration process more efficient. Arising from that workgroup, the Secretary of State is moving toward an electronic filing option for charitable registrations. There have been meetings with an IT contractor to determine the feasibility of this effort. Electronic filing will eliminate the need for submitting voluminous paper filings, which must be scanned in order to be stored electronically. This will save a significant amount of staff time that could be used to review filings and follow up on delinquent registrants. In addition, the registration forms have been simplified to make the filing processes less cumbersome for registrants and easier to review for staff. The Secretary of State plans to revamp the charities database so that information about each charity is more easily accessible and reviewable.

In conjunction with the more streamlined registration process, the Secretary of State has hired a new AAG to work specifically on issues regarding delinquent registrants and to act on behalf of the OAG in taking legal actions against charities when necessary. The new AAG position was approved

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by the Board of Public Works and was filled in September 2015. The position is supported with special funds from the Charitable Enforcement Fund.

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 2015					
Legislative Appropriation	\$1,931	\$455	\$0	\$0	\$2,386
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-39	0	0	0	-39
Budget Amendments	19	122	0	0	141
Reversions and Cancellations	0	-65	0	0	-65
Actual Expenditures	\$1,910	\$512	\$0	\$0	\$2,423
Fiscal 2016					
Legislative Appropriation	\$1,902	\$516	\$0	\$0	\$2,419
Budget Amendments	28	214	0	0	242
Working Appropriation	\$1,930	\$731	\$0	\$0	\$2,661

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 Secretary of State increased by \$37,000. Cost containment reduced the general fund appropriation by \$38,901. A budget amendment increased general funds by \$18,758 for salaries and communications. The special fund appropriation was increased by \$56,865. A budget amendment increased special funds by \$122,030 for salaries, contractual services, and equipment. There was also \$65,165 in canceled special funds for 2 IT contractors because the work was taken on by the Department of Information Technology.

Fiscal 2016

To date, the fiscal 2016 legislative appropriation has increased by \$242,000 including \$28,000 in general funds for the restoration of the 2% pay cut. The special fund appropriation increased by \$222,439 including \$4,000 for the restoration of the 2% pay cut and \$218,439 for expenses associated with the addition of the Charitable Enforcement AAG position.

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

<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>
Positions					
01 Regular	24.00	26.00	25.00	-1.00	-3.8%
02 Contractual	1.00	2.00	3.00	1.00	50.0%
Total Positions	25.00	28.00	28.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,985,366	\$ 2,173,157	\$ 2,239,120	\$ 65,963	3.0%
02 Technical and Spec. Fees	52,024	116,321	132,874	16,553	14.2%
03 Communication	93,946	102,109	56,551	-45,558	-44.6%
04 Travel	25,427	27,000	51,840	24,840	92.0%
07 Motor Vehicles	7,212	4,110	8,962	4,852	118.1%
08 Contractual Services	196,442	163,476	213,716	50,240	30.7%
09 Supplies and Materials	30,787	39,800	46,200	6,400	16.1%
10 Equipment – Replacement	2,979	10,000	26,300	16,300	163.0%
11 Equipment – Additional	11,002	9,870	12,500	2,630	26.6%
13 Fixed Charges	17,509	15,150	15,720	570	3.8%
Total Objects	\$ 2,422,694	\$ 2,660,993	\$ 2,803,783	\$ 142,790	5.4%
Funds					
01 General Fund	\$ 1,910,477	\$ 1,930,400	\$ 1,954,064	\$ 23,664	1.2%
03 Special Fund	512,217	730,593	849,719	119,126	16.3%
Total Funds	\$ 2,422,694	\$ 2,660,993	\$ 2,803,783	\$ 142,790	5.4%

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

**Fiscal Summary
Secretary of State**

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
01 Office of the Secretary of State	\$ 2,422,694	\$ 2,660,993	\$ 2,803,783	\$ 142,790	5.4%
Total Expenditures	\$ 2,422,694	\$ 2,660,993	\$ 2,803,783	\$ 142,790	5.4%
General Fund	\$ 1,910,477	\$ 1,930,400	\$ 1,954,064	\$ 23,664	1.2%
Special Fund	512,217	730,593	849,719	119,126	16.3%
Total Appropriations	\$ 2,422,694	\$ 2,660,993	\$ 2,803,783	\$ 142,790	5.4%

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