

C98F00
Workers' Compensation Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 17</u> <u>Actual</u>	<u>FY 18</u> <u>Working</u>	<u>FY 19</u> <u>Allowance</u>	<u>FY 18-19</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$15,051	\$16,265	\$16,252	-\$13	-0.1%
Adjustments	0	-152	89	241	
Adjusted Special Fund	\$15,051	\$16,113	\$16,341	\$227	1.4%
Adjusted Grand Total	\$15,051	\$16,113	\$16,341	\$227	1.4%

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The Workers' Compensation Commission (WCC) is funded by revenue generated by an assessment on licensed insurers and self-insured entities in the State. The fiscal 2019 allowance for WCC is \$16.3 million. This is an increase of \$227,437, or 1.4%, above the adjusted fiscal 2018 working appropriation.

Personnel Data

	<u>FY 17</u> <u>Actual</u>	<u>FY 18</u> <u>Working</u>	<u>FY 19</u> <u>Allowance</u>	<u>FY 18-19</u> <u>Change</u>
Regular Positions	115.00	115.00	115.00	0.00
Contractual FTEs	<u>9.02</u>	<u>11.25</u>	<u>11.25</u>	<u>0.00</u>
Total Personnel	124.02	126.25	126.25	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.47	3.89%
Positions and Percentage Vacant as of 12/31/17	5.00	4.35%

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

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- The fiscal 2019 allowance includes 115 regular positions and 11.25 contractual full-time equivalents, the same as the fiscal 2018 working appropriation.
- The turnover expectancy for the agency is 3.89%, which requires a total of 4.47 vacant positions. As of December 31, 2017, the agency had 5 vacant positions.

Analysis in Brief

Major Trends

Performance Slips Due to Commissioner Turnover: The WCC’s principal performance metric is the number of nonpermanency hearings it sets within 60 days of filing. In fiscal 2017, WCC set a total of 21,668 such hearings, a 3.1% decrease below fiscal 2016, and set 85.4% of the cases within 60 days, a decrease attributable to the appointment and training of a new commissioner.

Operating Budget Recommended Actions

1. Concur with Governor’s allowance.

Updates

Fiscal 2017 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 2017, despite an increase in expenses to fund WCC’s new case management system, the insurer assessment rate was lower than in fiscal 2016 due to large growth in the payroll base.

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Operating Budget Analysis

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.

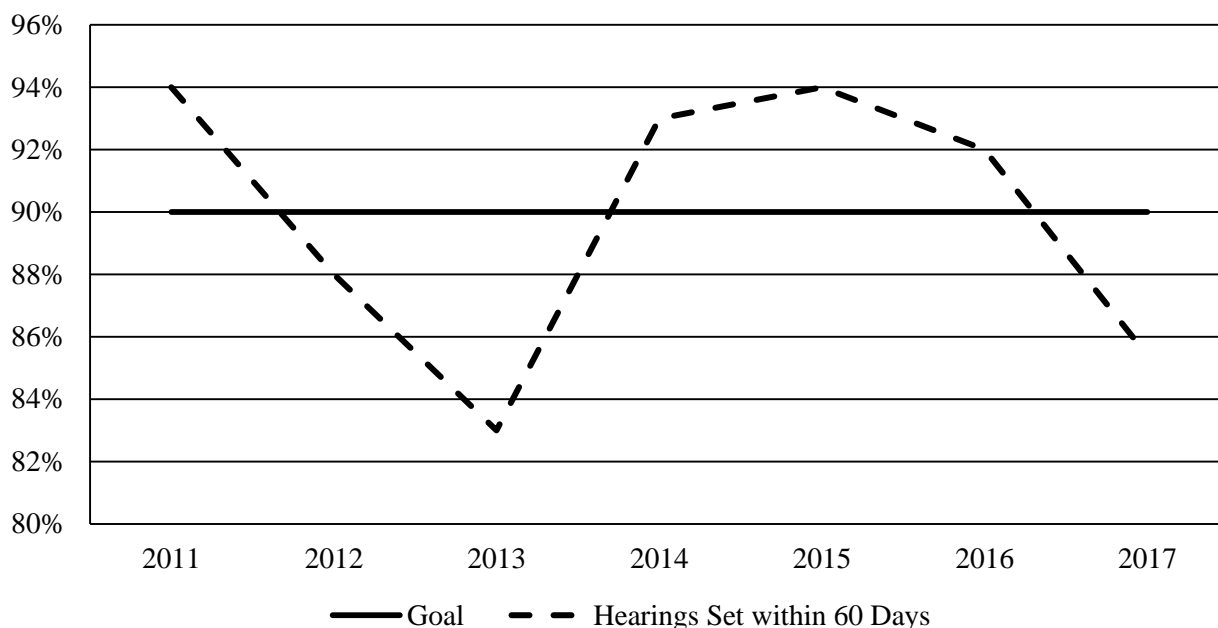
Performance Analysis: Managing for Results

1. Performance Slips Due to Commissioner Turnover

The principal measure used by WCC to track its performance is the percentage of nonpermanency hearings it sets within 60 days of the filing date of the claim. In fiscal 2010, the first year in which the new metric was tracked, WCC scheduled hearings for 85% of the 23,370 nonpermanency hearings within this 60-day timeframe. Based on that result, the agency adopted a goal of scheduling 90% of hearings within 60 days. **Exhibit 1** shows the agency's performance since fiscal 2011.

WCC set 21,668 hearings in fiscal 2017, a 3.1% decrease from fiscal 2016. However, the timeliness rate declined to 85.4%, marking the first time that WCC has failed to meet its timeliness target since fiscal 2013. It is important to note, however, that this decline was expected because a new commissioner was appointed in fiscal 2017. Because there are only 10 commissioners, turnover in even 1 of those positions is enough to have a measurable impact on the agency's clearance rate, especially given the rigorous training and other preparation offered to new commissioners during their first months on the job. The agency reports that it can take four to six months after appointment for a new commissioner to take on a full workload. As such, there is no reason to believe that this represents an actual decline in agency performance.

Exhibit 1
Percent of Nonpermanency Hearings Set within 60 Days
Fiscal 2011-2017



Source: Department of Budget and Management

Fiscal 2018 Actions

Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. This agency’s share of this reduction is \$152,014 in special funds.

Proposed Budget

As shown in **Exhibit 2**, the fiscal 2019 allowance for WCC increases by \$227,437, or 1.4%. This increase is attributable to the impact of the across-the-board changes for health insurance in fiscal 2018 and the 2% general salary increase in fiscal 2019.

Exhibit 2
Proposed Budget
Workers’ Compensation Commission
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Total</u>
Fiscal 2017 Actual	\$15,051	\$15,051
Fiscal 2018 Working Appropriation	16,113	16,113
Fiscal 2019 Allowance	<u>16,341</u>	<u>16,341</u>
Fiscal 2018-2019 Amount Change	\$227	\$227
Fiscal 2018-2019 Percent Change	1.4%	1.4%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$152
Cost-of-living adjustment	89
Workers’ compensation premium assessment	39
Other fringe benefit adjustments.....	9
Employee retirement system.....	-36
Compensation	-41

Other Changes

Equipment upkeep	39
Employee training.....	19
Travel.....	15
Statewide cost allocations.....	-11
New case management system	-15
Contractual employee compensation	-31
Other	-1

Total	\$227
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Note: Numbers may not sum to total due to rounding.

General Salary Increase

The fiscal 2019 allowance includes funds for a 2% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management’s statewide program and will be distributed to agencies during the fiscal year. This agency’s share of the general salary increase is \$88,889 in special funds. In addition, employees will receive another 0.5% increase and a \$500 bonus effective April 1, 2019, if actual fiscal 2018 general fund revenues exceed the December 2017 estimate by \$75 million. These funds have not been budgeted. The Administration will need to process a deficiency appropriation if revenues are \$75 million more than projected.

Personnel

Personnel expenditures increase by \$211,919. This increase is attributable to the impact of the fiscal 2018 across-the-board health insurance reduction not continuing in fiscal 2019 (\$152,014) and the 2% general salary increase (\$88,889). These increases are partially offset by reductions for pension contributions (\$35,558) and compensation (\$40,998).

Other Changes

Other changes of note include an increase for equipment upkeep (\$38,722) to reflect actual expenditures, as well as additional funding for employee training (\$19,207). These increases are offset by decreases for contractual employee compensation (\$30,769) and a slightly lower cost estimate for the new case management system major information technology project (\$15,000).

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Fiscal 2017 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 2017, total first reports of injury, hearings set, issues, and appeals each decreased from fiscal 2016 levels, while the number of total claims filed was essentially flat.

Exhibit 3 Commission Claim Actions Fiscal 2013-2017

	<u>Actual</u> <u>2013</u>	<u>Actual</u> <u>2014</u>	<u>Actual</u> <u>2015</u>	<u>Actual</u> <u>2016</u>	<u>Actual</u> <u>2017</u>	<u>% Change</u> <u>2016-2017</u>
First Reports of Injury	106,715	110,783	96,581	91,109	89,757	-1.48%
Total Filed Claims	23,241	24,113	23,706	23,683	23,706	0.10%
Issues Filed	43,838	44,570	42,813	44,295	43,797	-1.12%
Hearings Set	42,847	43,382	40,059	43,870	41,414	-5.60%
Appeals	2,016	2,018	1,975	1,907	1,895	-0.63%

Source: Workers’ Compensation Commission

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 safety program. **Exhibit 4** lists the payroll base, commission expense, safety program, and the resulting assessment for fiscal 2013 to 2017. The total assessment in fiscal 2017 increased by \$631,472, and the payroll base increased by \$11.7 billion. Growth in the payroll base was sufficient to decrease the assessment rate in fiscal 2017 to 18.4 cents per \$1,000 of payroll.

Exhibit 4
Total Payrolls and Insurer Assessments
Fiscal 2009-2017
(\$ in Thousands)

	<u>Assessment Base Insurer Payroll</u>	<u>Commission Expense</u>	<u>Safety Program Cost</u>	<u>Total Expenses</u>	<u>Insurer Assessments</u>	<u>Assessment Per \$1,000 of Payroll</u>
2017	\$141,868,668	\$15,051	\$11,105	\$26,156	\$26,156	0.184
2016	130,198,576	13,243	12,279	25,522	25,522	0.196
2015	123,788,021	13,851	11,333	25,183	24,743	0.200
2014	121,027,528	13,898	12,157	26,055	25,684	0.212
2013	113,830,537	13,736	11,661	25,397	24,924	0.219
2012	110,175,782	13,740	11,320	25,060	25,060	0.227
2011	112,656,771	13,496	9,985	23,481	24,428	0.217
2010	108,195,547	12,263	10,177	22,441	22,441	0.207
2009	112,282,040	12,797	10,095	22,892	20,880	0.185

Source: Workers’ Compensation Commission

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**Appendix 1
Current and Prior Year Budgets
Workers’ Compensation Commission
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2017					
Legislative Appropriation	\$0	\$14,568	\$0	\$0	\$14,568
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	703	0	0	703
Reversions and Cancellations	0	-220	0	0	-220
Actual Expenditures	\$0	\$15,051	\$0	\$0	\$15,051
Fiscal 2018					
Legislative Appropriation	\$0	\$16,265	\$0	\$0	\$16,265
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$16,265	\$0	\$0	\$16,265

Note: The fiscal 2018 appropriation does not include deficiencies, or across-the-board reductions. Numbers may not sum to total due to rounding.

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Fiscal 2017

The Workers’ Compensation Commission finished fiscal 2017 \$482,995 above its legislative appropriation, all in special funds. This increase is attributable to two budget amendments – \$550,000 was added to support a major information technology project to replace the agency’s case management systems and an additional \$153,079 was added for employee increments. These increases were partially offset by a decrease of \$220,083 due to cancellation of unspent funds.

Fiscal 2018

To date, there have been no actions impacting the fiscal 2018 legislative appropriation.

Appendix 2
Major Information Technology Projects
Workers' Compensation Commission
Enterprise Modernization

Project Status	Implementation.	New/Ongoing Project:	Ongoing.					
Project Description:	Enterprise modernization to replace 30-year-old agency systems.							
Project Business Goals:	Replace 30-year-old case management system and all other agency information technology (IT) systems with a new unified IT system without compromising efficiency of agency operations.							
Estimated Total Project Cost:	\$8,765,702	Estimated Planning Project Cost:	\$840,702					
Project Start Date:	July 2015.	Projected Completion Date:	n/a					
Schedule Status:	Agency began implementation in July 2017 by issuing a Task Order Request for Proposal (TORFP). The agency reported in January 2018 that this TORFP did not yield a viable bid, and therefore the agency has issued a new Request for Proposal (RFP). This change will necessitate a six-month delay for the project.							
Cost Status:	Project cost has increased by \$1.6 million to reflect project funding in fiscal 2023 that was not included in the fiscal 2018 Information Technology Master Plan. The cost of the project will be updated based on the results of the pending RFP.							
Scope Status:	n/a							
Project Management Oversight Status:	Department of Information Technology oversight established.							
Identifiable Risks:	The agency has not identified any significant risks; however, this is a large and complicated project planned to encompass all agency systems. There is always risk inherent in transitioning to a new system, especially when many employees have spent their entire careers with one set of business processes and the organization is entirely dependent upon the system being replaced.							
Additional Comments:	The Workers' Compensation Commission has been a paperless agency for over two decades. The current case management system has been highly effective but is approaching obsolescence and must be replaced.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	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	2,465.7	1,560.0	1,575.0	1,575.0	1,575.0	0.0	0.0	8,750.7
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$2,202.0	\$1,560.0	\$1,853.7	\$1,575.0	\$1,575.0	\$0.0	\$0.0	\$8,765.7

**Appendix 3
Object/Fund Difference Report
Workers' Compensation Commission**

<u>Object/Fund</u>	<u>FY 17 Actual</u>	<u>FY 18 Working Appropriation</u>	<u>FY 19 Allowance</u>	<u>FY 18 - FY 19 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	115.00	115.00	115.00	0.00	0%
02 Contractual	9.02	11.25	11.25	0.00	0%
Total Positions	124.02	126.25	126.25	0.00	0%
Objects					
01 Salaries and Wages	\$ 10,981,409	\$ 10,878,431	\$ 10,849,447	-\$ 28,984	-0.3%
02 Technical and Spec. Fees	711,793	804,847	793,033	-11,814	-1.5%
03 Communication	441,619	477,608	483,279	5,671	1.2%
04 Travel	183,247	110,222	124,917	14,695	13.3%
06 Fuel and Utilities	10,833	12,554	12,214	-340	-2.7%
07 Motor Vehicles	81,975	84,120	82,880	-1,240	-1.5%
08 Contractual Services	760,035	2,002,303	2,028,831	26,528	1.3%
09 Supplies and Materials	109,302	157,747	137,900	-19,847	-12.6%
10 Equipment – Replacement	116,050	0	0	0	0.0%
11 Equipment – Additional	95,629	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	52,387	52,387	52,387	0	0%
13 Fixed Charges	1,505,634	1,684,915	1,686,780	1,865	0.1%
14 Land and Structures	995	0	0	0	0.0%
Total Objects	\$ 15,050,908	\$ 16,265,134	\$ 16,251,668	-\$ 13,466	-0.1%
Funds					
03 Special Fund	\$ 15,050,908	\$ 16,265,134	\$ 16,251,668	-\$ 13,466	-0.1%
Total Funds	\$ 15,050,908	\$ 16,265,134	\$ 16,251,668	-\$ 13,466	-0.1%

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

**Appendix 4
Fiscal Summary
Workers' Compensation Commission**

<u>Program/Unit</u>	<u>FY 17 Actual</u>	<u>FY 18 Wrk Approp</u>	<u>FY 19 Allowance</u>	<u>Change</u>	<u>FY 18 - FY 19 % Change</u>
01 General Administration	\$ 14,606,354	\$ 14,690,134	\$ 14,691,668	\$ 1,534	0%
02 Processing and Adjudication of Claims	444,554	1,575,000	1,560,000	-15,000	-1.0%
Total Expenditures	\$ 15,050,908	\$ 16,265,134	\$ 16,251,668	-\$ 13,466	-0.1%
Special Fund	\$ 15,050,908	\$ 16,265,134	\$ 16,251,668	-\$ 13,466	-0.1%
Total Appropriations	\$ 15,050,908	\$ 16,265,134	\$ 16,251,668	-\$ 13,466	-0.1%

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.