**F10A02**

# Personnel

**Department of Budget and Management**

## *Operating Budget Data*

**($ in Thousands)**

| | FY 17 Actual | FY 18 Working | FY 19 Allowance | FY 18-19 Change | % Change Prior Year |
|---|---|---|---|---|---|
| General Fund | $7,961 | $8,423 | $63,219 | $54,795 | 650.5% |
| Adjustments | 0 | -37 | 69 | 107 | |
| **Adjusted General Fund** | **$7,961** | **$8,386** | **$63,288** | **$54,902** | **654.7%** |
| Special Fund | 0 | 0 | 11,421 | 11,421 | 100.0% |
| **Adjusted Special Fund** | **$0** | **$0** | **$11,421** | **$11,421** | **100.0%** |
| Federal Fund | 0 | 0 | 4,502 | 4,502 | 100.0% |
| **Adjusted Federal Fund** | **$0** | **$0** | **$4,502** | **$4,502** | **100.0%** |
| Reimbursable Fund | 7,890 | 9,005 | 9,126 | 121 | 1.3% |
| Adjustments | 0 | 0 | 39 | 39 | |
| **Adjusted Reimbursable Fund** | **$7,890** | **$9,005** | **$9,165** | **$160** | **1.8%** |
| **Adjusted Grand Total** | **$15,851** | **$17,391** | **$88,377** | **$70,986** | **408.2%** |

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 budget includes a fiscal 2018 deficiency in the statewide program of $60,041 in general funds to provide federal reimbursement for fund balance transfers to the General Fund taken from the Maryland Correctional Enterprises and State Treasurer's Office from fiscal 2012 to 2014. Including this deficiency, the total budgeted reimbursement for these fund transfers is $305,224 in fiscal 2018. An across-the-board reduction in health insurance reduces general funds in the department by $97,310 in fiscal 2018.

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

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- The fiscal 2019 allowance increases to $88.4 million, which is $71 million over the fiscal 2018 working appropriation. Most of the costs in fiscal 2019 are attributable to the statewide program, which has a $70.8 million budget. Funding in the statewide program provides for (1) a 2% general salary increase for State employees, effective January 1, 2019; (2) salary enhancements for specified positions based on annual salary reviews; and (3) negotiated increments for members of the State Law Enforcement Officers Labor Alliance.

- The fiscal 2019 allowance for the department is $17.5 million, which is an increase of $297,000 over fiscal 2018. The increase is primarily related to personnel costs.

## *Personnel Data*

| | FY 17 Actual | FY 18 Working | FY 19 Allowance | FY 18-19 Change |
|---|---|---|---|---|
| Regular Positions | 137.40 | 137.20 | 137.20 | 0.00 |
| Contractual FTEs | 6.00 | 0.00 | 0.00 | 0.00 |
| **Total Personnel** | **143.40** | **137.20** | **137.20** | **0.00** |

***Vacancy Data: Regular Positions***

| | | | |
|---|---|---|---|
| Turnover and Necessary Vacancies, Excluding New Positions | | 2.09 | 1.52% |
| Positions and Percentage Vacant as of 12/31/17 | | 10.80 | 7.87% |

- There are no changes in this agency's personnel complement in the fiscal 2019 allowance.

- As of December 31, 2017, the department had 10.8 vacant positions, which equates to a 7.9% vacancy rate. The vacancies are primarily related to positions transferred to the department from other agencies as part of the human resources shared services initiative.

# *Analysis in Brief*

## Major Trends

***Wellness Program Participation Increases:*** In an effort to address escalating medical and prescription drug costs, the State implemented a wellness program starting in calendar 2015. According to a report submitted by the Department of Budget and Management (DBM), 46% of eligible members completed wellness activities and earned the copay waiver incentive in calendar 2016, an increase from the prior year. Members that completed preventative screenings have increased, and the cost of chronic conditions has become proportionately less of the State's health insurance costs since implementation of the program. **DBM should discuss the strategies the State is pursuing that are leading to improved numbers for diabetes screening. DBM should also discuss how the State can maximize efforts to continue progress in all categories toward the national average. The Department of Legislative Services (DLS) recommends committee narrative to request that DBM include data related to preventative screenings, diabetes treatment, chronic condition costs, and any other performance metrics identified in the 2014 Request for Proposal for the State's medical plan with the department's annual Managing for Results submission to continue to monitor the impact of the wellness program. DLS also recommends committee narrative requesting DBM to submit a report on health measures of the State's health insurance plan members.**

***Sexual Harassment Complaints in State Agencies:*** The statewide Equal Employment Opportunity (EEO) office is housed within DBM and is responsible for handling sexual harassment complaints. Sexual harassment complaints are up in fiscal 2017. Four State agencies account for the most sexual harassment complaints reported. **With the recent focus on sexual harassment and the #MeToo movement, DBM should comment on the increased sexual harassment complaints in State agencies in fiscal 2017, and discuss any actions or policies the State is pursuing to reduce incidences of sexual harassment in the future.**

***Salary Gap Persists for Female and African American Employees:*** The State's EEO office reports on the distribution of State salaries by race and gender. The salary gap for female and African American employees has not greatly improved in the past decade. The EEO attributes the salary gap to differences in types of positions held, with White, male employees more likely to hold positions in the Executive Pay Plan (EPP) with positions classified at grade 24 and above. **DBM should comment on the salary gaps remaining for female and African American employees and discuss what efforts are being made to shrink these gaps. DBM should also provide the budget committees with the number and percentage of EPP positions currently occupied by female and minority employees, given the report's indication that the composition of the EPP is a factor in the salary gap.**

## Issues

***Medicare Part D Coverage Gap Elimination:*** The 2010 Affordable Care Act (ACA) eliminated the Medicare Part D prescription drug coverage gap, also known as the donut hole, by calendar 2020. On

February 9, 2018, H.R. 1892 (Bipartisan Budget Act of 2018) was signed into law by President Donald J. Trump, and included language that accelerated the elimination of the Medicare donut hole to calendar 2019 – one year earlier than dictated by the 2010 ACA. Statute ends State prescription drug coverage for Medicare-eligible retirees on July 1, 2019. The State would save approximately $50 million ($30 million in general funds) if statute is amended to align elimination of Medicare-eligible retirees with the revised closure of the donut hole. State statute is ambiguous as to whether non-Medicare-eligible spouses and dependents of Medicare-eligible retirees will continue to qualify for State prescription drug benefits once coverage is eliminated. **DBM should discuss how the State will communicate with retirees if the State amends statute to align the elimination of Medicare-eligible prescription drug coverage with the new Medicare donut hole closure date and comment on whether cost savings from the change would be worthwhile for the State to pursue. DBM should also comment on the potential of continuing State coverage to spouses and dependents of Medicare-eligible retirees.**

***State Agencies Continue to Carry High Vacancies:*** The statewide budgeted turnover expectancy for the Executive Branch, excluding institutions of higher education, increases to 6.6% in the fiscal 2019 allowance. The actual vacancy rate for Executive Branch agencies is 10.8% as of January 2018. State agencies are carrying more vacancies than necessary to meet turnover expectancy. In December 2017, the Spending Affordability Committee (SAC) recommended that the Administration act to fill positions in understaffed agencies and develop a plan to address barriers to agency staffing. The fiscal 2019 allowance appears to comply with SAC's recommendations in some areas, but not in others. SAC requested DBM submit a report by June 1, 2018, detailing the Administration's plans to address staffing issues. **DBM should comment on the issues raised. DLS recommends adding budget bill language restricting $100,000 until DBM submits the report requested by SAC.**

***State Workforce Planning Needed:*** State employees eligible for retirement increased from 12.1% of the workforce in January 2005 to 20.8% in December 2013. The increase is likely due to State employees delaying retirement as a result of the 2008 economic recession. However, retirements have increased over the past three fiscal years as the economy has improved. At the same time, hiring has decreased, creating an imbalance between employees leaving and entering State service. As State employees retire, agencies are at risk of losing institutional knowledge. State agencies need to have workforce plans to ensure continuity of operations and to maintain agency performance. **DBM should comment on the hiring deficit in the past three fiscal years. DBM should also update the budget committees on State workforce planning efforts, given the ongoing retirement of the baby boom generation.**

***Employee and Retiree Health Insurance Account:*** The employee and retiree health insurance account ended with high fund balances in fiscal 2017. Due to modest growth in payments of claims, particularly prescription drug claims, two additional payroll health insurance deduction holidays have been included in fiscal 2018. A new pharmacy benefit manager (PBM) is expected to generate substantial savings starting in calendar 2018. Additionally, the fiscal 2019 budget spends the fund balance down to a projected $3.1 million after incurred but not reported costs. **Given that the PBM contract is new, DLS recommends committee narrative requesting DBM to submit quarterly prescription drug utilization and cost data for fiscal 2018 and 2019. DBM should explain why the fund balance was**

**spent down to such a low level especially given uncertainty about the precise savings the new drug plan will generate.**

## Operating Budget Recommended Actions

1. Add language restricting funds until the department submits closeout information on the Employee and Retiree Health Insurance Account.

2. Add budget bill language restricting funds until the Department of Budget and Management submits a report requested by the Spending Affordability Committee.

3. Adopt committee narrative requesting the Department of Budget and Management to submit quarterly reports on prescription drug utilization and costs in fiscal 2018 and 2019.

4. Adopt committee narrative requesting the Department of Budget and Management to submit measures related to the wellness program with annual Managing for Results information.

5. Adopt committee narrative requesting the Department of Budget and Management to submit health data on State health insurance plan members.

6. Amend Section 19 reducing funds for health insurance to include the Maryland General Assembly and Judiciary.

7. Add a section for the annual "Rule of 100" limit on position creation.

8. Add a section for annual language requiring a report on State positions.

9. Add a section requiring annual language for Executive Pay Plan reporting.

10. Add a section for annual language restricting the movement of employees into abolished positions.

11. Add a section for annual language requiring reporting of employee and retiree health insurance receipts and spending.

12. Add a section that reduces statewide health insurance expenditures contingent on a budget reconciliation and financing act provision to conform elimination of Medicare-eligible retirees' prescription drug coverage with closure of the donut hole.

## Budget Reconciliation and Financing Act Recommendation

1. Adopt a provision to amend statute to eliminate State prescription drug coverage for Medicare-eligible retirees by January 1, 2019, to align with the accelerated closure of the Medicare donut hole.

## Updates

***Statewide Employee Compensation:*** Statewide personnel costs total $8.4 billion, accounting for 21.0% of State spending in fiscal 2019. Personnel costs increase by $187.9 million, or 2.3%, over the fiscal 2018 working appropriation. The largest increases are attributable to health insurance ($73.2 million), a 2% general salary increase ($54.3 million), and overtime ($32.1 million). Savings from turnover expectancy grow by $35.7 million.

***Statewide Position Changes:*** Given the staffing shortages in various State agencies, SAC discontinued the position cap that the State has had in place for a number of years. The fiscal 2019 allowance authorizes 80,414 regular full-time-equivalent positions, which is a decrease of 102 positions from the fiscal 2018 working appropriation.

***Statewide Personnel System Issues and Grievances Update:*** DBM has been working to replace the State's legacy personnel system since January 2008. Since the rollout of the components of the new personnel system, there have been issues involving employee payroll, particularly at the State's 24/7 facilities. The 2017 *Joint Chairmen's Report* (JCR) requested that DBM submit a report providing an update on the resolution of these issues.

***Collective Bargaining Agreements:*** Approximately 30,000 State employees, excluding higher education, were covered by collective bargaining as of February 2, 2017. DBM has reached an agreement with four exclusive representatives that represent eight bargaining units with agreements that were set to expire.

***2017 JCR Requested Reports Submitted:*** Fiscal 2018 budget bill language requested that DBM submit a report on employee churn, and committee narrative requested a report on employee terminations and demotions. These reports were submitted as required.

# *Operating Budget Analysis*

## Program Description

The Department of Budget and Management (DBM) Office of Personnel Services and Benefits (OPSB) provides policy direction for the human resources 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 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 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. Wellness Program Participation Increases

In an effort to address escalating medical and prescription drug costs, the State implemented a wellness program starting in calendar 2015. The original program was intended to be phased in over a six-year period and to use both incentives and disincentives to encourage the completion of wellness activities. However, as of January 2016, all disincentives (*i.e.*, premium surcharges) for nonparticipation were eliminated. Under the current program, copays for primary care physician (PCP) visits are waived if members complete a Health Risk Assessment and select a PCP. Members can also receive $5 off specialist copays by completing age/gender-specific preventative screenings, except for Kaiser Integrated Health Model members. According to a report submitted by DBM, as requested in the 2017 *Joint Chairmen's Report* (JCR), 59,727 members, or 46%, completed the wellness activities and earned the PCP copay waiver, an increase over calendar 2015 with 40% of members earning the copay incentive. As a result of more members completing activities and earning incentives, the cost of the program increased to $2 million in calendar 2016, in comparison to $800,000 in calendar 2015.

As shown in **Exhibit 1,** more members completed preventative screenings in calendar 2016 in comparison to rates prior to implementation of the program, although compliance rates are still below the national average. From calendar 2015 to 2016, eligible members completing colorectal cancer screenings and well visits increased, but so did total eligible members, indicating that part of the increase could be attributable to increasing membership. However, for both screenings, the increase in the total number of members completing screenings was higher than the overall increase in eligible members. Screenings for breast cancer dropped slightly in calendar 2016 in comparison to 2015, but is still higher than prior to implementation of the program.

The percentage of members in compliance with diabetes treatment has increased substantially from calendar 2014 to 2016. Part of the increase in the compliance percentage is due to fewer members being eligible for diabetes treatment, dropping from 26,469 members in calendar 2014 to 24,838 in calendar 2016, a 6.2% decrease. The number of members in compliance with diabetes screenings has increased. **DBM should discuss the strategies the State is pursuing that are leading to improved numbers for diabetes screening. DBM should also discuss how the State can maximize efforts to continue progress in all categories toward the national average.**

**Exhibit 1**
## Preventative Screenings and Diabetes Treatment Compared to National Average
**Calendar 2014-2016**

| Condition | Compliance Metric | 2014 Participating Members | 2014 Compliant Members | 2014 % Compliant | 2015 Participating Members | 2015 Compliant Members | 2015 % Compliant | 2016 Participating Members | 2016 Compliant Members | 2016 % Compliant | NCQA National Average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Breast Cancer | Mammogram | 60,909 | 26,628 | **43.7%** | 61,379 | 28,513 | **46.5%** | 60,991 | 28,227 | **46.3%** | **66.8%** |
| Colorectal Cancer | Colonoscopy | 92,734 | 29,953 | **32.3%** | 94,117 | 31,789 | **33.8%** | 95,383 | 34,693 | **36.3%** | **55.2%** |
| Well Visit | Adult Physical | 146,083 | 24,604 | **16.8%** | 157,127 | 40,497 | **25.8%** | 161,914 | 46,383 | **28.6%** | n/a |
| **Diabetes Treatment** | | | | | | | | | | | |
| Diabetes | Annual diabetic nephropathy screening | 26,469 | 13,932 | **52.6%** | 24,096 | 14,475 | **60.1%** | 24,838 | 14,679 | **59.1%** | **77.9%** |
| Diabetes | 2+A1C tests in 12 months* | 26,469 | 9,741 | **36.8%** | 24,096 | 10,867 | **45.1%** | 24,838 | 11,326 | **45.6%** | **87.3%** |
| Diabetes | Controlling blood glucose | 26,469 | 6,292 | **23.8%** | 24,096 | 11,351 | **47.1%** | 24,838 | 11,168 | **45.0%** | n/a |

NCQA: National Committee for Quality Assurance

*An A1C test measures what percentage of your hemoglobin is coated with sugar.

Source: Segal Consulting Advisors

Although the cost of chronic conditions continues to climb, the percentage of plan costs that chronic conditions account for has decreased since implementation of the wellness program, as shown in **Exhibit 2.** DBM predicts that the full impact of the wellness program will not be realized for another three years, but the results from the second year of the program indicate a positive trend. The State's illness burden score, which measures the disease burden of the covered population, for those enrolled in CareFirst plans (the largest population), decreased from 1.43 to 1.38 in calendar 2017, indicating that people are moving out of the severe illness categories to more healthy categories. **The Department of Legislative Services (DLS) recommends committee narrative to request that DBM include data related to preventative screenings, diabetes treatment, chronic condition costs, and any other performance metrics identified in the 2014 Request for Proposal for the State's medical plan with the department's annual Managing for Results submission. This will enable the committees to continue to monitor the impact of the wellness program. DLS also recommends committee narrative requesting DBM to submit a report on health measures of the State's health insurance plan members.**

**Exhibit 2**
**State Cost of Chronic Conditions**
**Calendar 2013-2016**
**($ in Millions)**

| Condition | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| Diabetes | $130.2 | $144.4 | $164.1 | $184.5 |
| Hypertension | 154.7 | 158.4 | 176.6 | 179.1 |
| Hyperlipidemia | 93.6 | 90.6 | 87.0 | 83.7 |
| Heart Disease | 164.5 | 176.0 | 169.4 | 168.0 |
| Asthma/COPD | 39.9 | 43.3 | 41.6 | 45.6 |
| **Total Condition Cost** | **$582.9** | **$612.7** | **$638.7** | **$660.9** |
| **Plan Costs** | **$1,191.9** | **$1,295.0** | **$1,391.0** | **$1,457.9** |
| **% of Plan Costs** | **48.9%** | **47.3%** | **45.9%** | **45.3%** |

COPD: chronic obstructive pulmonary disease

Source: Segal Consulting Advisors

## 2. Sexual Harassment Complaints in State Agencies

The statewide Equal Employment Opportunity (EEO) office is housed within DBM. The EEO office is responsible for handling sexual harassment complaints in State agencies. **Exhibit 3** shows the number of sexual harassment complaints by State agency from fiscal 2008 to 2017. There were

61 sexual harassment complaints reported in State agencies in fiscal 2017, the highest number in the past decade.

**Exhibit 3**
## Sexual Harassment Complaints in State Agencies
**Fiscal 2008-2017**

| Agency/Function | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Public Safety and Correctional Services | 13 | 19 | 20 | 15 | 13 | 24 | 18 | 24 | 24 | 24 |
| Transportation | 5 | 6 | 8 | 6 | 11 | 6 | 12 | 6 | 8 | 15 |
| Health | 3 | 8 | 5 | 0 | 10 | 7 | 3 | 2 | 6 | 7 |
| Juvenile Services | 3 | 2 | 2 | 0 | 4 | 3 | 1 | 1 | 1 | 1 |
| State Police | 0 | 2 | 2 | 2 | 1 | 2 | 3 | 2 | 1 | 2 |
| Labor, Licensing, and Regulation | 1 | 2 | 3 | 2 | 1 | 2 | 1 | 0 | 1 | 1 |
| Education | 1 | 1 | 1 | 2 | 0 | 0 | 2 | 0 | 2 | 0 |
| Morgan State University | 0 | 0 | 2 | 0 | 0 | 5 | 0 | 6 | 0 | 1 |
| Baltimore City Community College | 0 | 0 | 2 | 0 | 2 | 0 | 1 | 2 | 2 | 0 |
| Human Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 7 |
| Housing and Community Development | 3 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| DBM and DoIT | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 2 | 0 |
| Military | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 3 |
| Legal (excluding Judiciary) | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 2 | 0 | 0 |
| Comptroller of Maryland | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| General Services | 0 | 1 | 2 | 0 | 0 | 3 | 0 | 0 | 0 | 0 |
| Other | 1 | 1 | 2 | 0 | 4 | 3 | 0 | 0 | 0 | - |
| **Total** | **31** | **46** | **50** | **29** | **47** | **56** | **43** | **46** | **49** | **61** |

DBM: Department of Budget and Management
DoIT: Department of Information Technology

Source: *Annual Statewide Equal Employment Opportunity Report* Fiscal Year 2008-2017, Department of Budget and Management

The Department of Public Safety and Correctional Services (DPSCS) consistently reports the highest sexual harassment complaints during this time period, with complaints in double digits every year. Other agencies with consistent sexual harassment complaints include MDOT; the Maryland Department of Health (MDH); the Department of Juvenile Services (DJS); the Department of State Police (DSP); and the Department of Labor, Licensing, and Regulation (DLLR). In fiscal 2017, DPSCS, MDOT, MDH, and the Department of Human Services (DHS) accounted for 87% of sexual harassment complaints. **With the recent focus on sexual harassment and the #MeToo movement, DBM should comment on the increased sexual harassment complaints in State agencies in fiscal 2017 and discuss any actions or policies that the State is pursuing to reduce the incidence of sexual harassment in the future.**

## 3. Salary Gap Persists for Female and African American Employees

The State's EEO office reports on the salary and grade of employees by gender and race. **Exhibit 4** shows the change in average salaries based on gender and race, comparing fiscal 2008, 2012, and 2017. The salary gap between male and female employees is $5,578 in fiscal 2017, a decrease of $364 since fiscal 2008. The salary gap between African American employees and White employees widens from fiscal 2008 to 2017 by $2,008, resulting in a salary differential of $9,616 below White employees in fiscal 2017. The salary gap for other minorities in comparison to White employees has practically been eliminated in fiscal 2017.

**Exhibit 4**
**Comparison of Average Salaries by Gender and Race**
**Fiscal 2008, 2012, and 2017**

| | Gender | | | Race | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Men** | **Women** | **Salary Gap** | **White** | **African American** | **African American Salary Gap** | **Other Minorities** | **Other Minorities Salary Gap** |
| 2008 | $51,924 | $45,982 | -$5,942 | $52,160 | $44,552 | -$7,608 | $50,147 | -$2,013 |
| 2012 | 54,286 | 48,852 | -5,434 | 53,952 | 46,228 | -7,724 | 54,528 | $576 |
| 2017 | 59,894 | 54,316 | -5,578 | 60,852 | 51,236 | -9,616 | 60,827 | -$25 |
| **Change 2008-2017** | **$7,970** | **$8,334** | | **$8,692** | **$6,684** | | **$10,680** | |
| ***Annual Growth*** | ***1.6%*** | ***1.9%*** | | ***1.7%*** | ***1.6%*** | | ***2.2%*** | |

Source: *Annual Statewide Equal Employment Opportunity Report* Fiscal Year 2008-2017, Department of Budget and Management

According to the *Annual Statewide Equal Employment Opportunity Report*, fiscal 2017, the salary differentials between men and women, and between White and African American employees relate to differences in the types of positions held. In fiscal 2017, White employees (82%) and male employees (61%) were more likely than African American employees (11%) and female employees (39%) to hold positions in the Executive Pay Plan (EPP) with positions classified as grade 24 and above. African American employees, in contrast, hold a majority of the positions classified at grade 14 or below. Female employees hold approximately 61% of positions classified at grade 14 and below.

**DBM should comment on the salary gaps remaining for female and African American employees and discuss what efforts are being made to shrink these gaps. DBM should also provide the budget committees with the number and percentage of EPP positions currently occupied by female and minority employees, given the report's indication that the composition of the EPP is a factor in the salary gap.**

## Fiscal 2018 Actions

### Proposed Deficiency

The budget includes a fiscal 2018 deficiency in the statewide program of $60,041 in general funds to provide federal reimbursement for fund balance transfers from the Maryland Correctional Enterprises and State Treasurer's Office fund to the General Fund from fiscal 2012 to 2014. Including this deficiency, the total budgeted reimbursement for these fund balance transfers is $305,224 in fiscal 2018.

### Cost Containment

On September 6, 2017, the Board of Public Works (BPW) approved cost containment reductions totaling $61 million in general funds and $2 million in special funds in fiscal 2018. OPSB's share of this reduction was $113,000 in general funds, which was achieved through salary savings from vacancies ($93,000) and reduced funding for association dues ($20,000).

### 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 $97,310 in general funds.

## Proposed Budget

As shown in **Exhibit 5**, the fiscal 2019 allowance totals $88.4 million, which is $71 million over the fiscal 2018 working appropriation. Most costs in fiscal 2019 are attributable to the statewide program, which has a $70.8 million budget. Funding for agency operations amounts to $17.5 million.

**Exhibit 5**
## Proposed Budget
**Department of Budget and Management – Personnel**
**($ in Thousands)**

| **How Much It Grows:** | **General Fund** | **Special Fund** | **Federal Fund** | **Reimb. Fund** | **Total** |
|---|---|---|---|---|---|
| Fiscal 2017 Actual | $7,961 | $0 | $0 | $7,890 | $15,851 |
| Fiscal 2018 Working Appropriation | 8,386 | 0 | 0 | 9,005 | 17,391 |
| Fiscal 2019 Allowance | 63,288 | 11,421 | 4,502 | 9,165 | 88,377 |
| Fiscal 2018-2019 Amount Change | $54,902 | $11,421 | $4,502 | $160 | $70,986 |
| Fiscal 2018-2019 Percent Change | 654.7% | | | 1.8% | 408.2% |

| **Where It Goes:** | |
|---|---|
| **Personnel Expenses** | |
| Regular earnings increase due to reclassified positions in fiscal 2018 | $147 |
| 2% general salary increase effective January 1, 2019 | 108 |
| Employee and retiree health insurance, including across-the-board reduction | 97 |
| Personnel cost containment actions per September 6, 2017 BPW action | 93 |
| Accrued leave payout | 27 |
| Other personnel changes | 14 |
| Reclassification funding | -64 |
| **Statewide Program** | |
| 2% general salary increase for State employees effective January 1, 2019 | 54,324 |
| Step increases for State Law Enforcement Officers Labor Alliance members | 15,121 |
| Annual Salary Review salary increases | 1,343 |
| Federal reimbursement for transfers from STO and MCE to General Fund | -305 |
| **Agency Operations** | |
| Segal Consulting Advisors contract | 75 |
| Increased printing due to changes in prescription drug coverage | 11 |
| Rent, insurance, and association dues | 11 |
| Other | -16 |
| **Total** | **$70,986** |

BPW: Board of Public Works
MCE: Maryland Correctional Enterprises
STO: State Treasurer's Office

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

## Statewide Program

The following funding has been provided in the DBM statewide program in fiscal 2019:

- $54.3 million for a 2% general salary increase effective January 1, 2019;

- $15.1 million for State Law Enforcement Officers Labor Alliance (SLEOLA) members to provide (1) retroactive step increases for officers who missed step increases from fiscal 2010 to 2014; (2) the full-year annualized cost of step increases provided on January 1, 2018; and (3) fiscal 2019 step increases; and

- $1.3 million for annual salary review (ASR) increases for specific position classifications.

## Contingent Salary Enhancements

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. DLS estimates the cost of the contingent salary enhancements to be $6.8 million ($5.2 million in general funds) for the 0.5% increase and $41.7 million ($25.2 million in general funds) for the $500 bonus. The Administration will most likely need to process a deficiency appropriation if revenues are $75 million more than projected.

## Agency Operations

OPSB's budget increases by $297,000 in fiscal 2019. Personnel costs are the primary driver of the increase. A 2% general salary increase effective January 1, 2019, increases OPSB's budget by $108,000 ($69,000 in general funds and $39,000 in reimbursable funds). The cost for the 2% general salary increase is currently budgeted in DBM's statewide program, to be distributed by budget amendment to State agencies during the fiscal year. Regular earnings increase by $147,000 as a result of reclassifications that occurred during fiscal 2018. Employee and retiree health insurance increases by $97,000 as a result of the across-the-board reduction in fiscal 2018. Personnel costs also increase by $93,000 to reflect restored funding that was eliminated in fiscal 2018 as part of the BPW cost containment action. OPSB partially achieved the cost containment through vacant positions salary savings. Besides personnel, the fiscal 2019 allowance for the department increases by $75,000 due to the renegotiation of the Segal Consulting actuarial contract.

# *Issues*

## 1. Medicare Part D Coverage Gap Elimination

Medicare Part D is optional outpatient prescription drug coverage subsidized by the U.S. federal government, for which beneficiaries pay a monthly premium. Under the program, beneficiaries pay 100% of their drug costs until they reach the deductible amount and then pay a smaller percentage of their drug costs until the total spent by the beneficiary reaches a certain level. At this point, beneficiaries reach a prescription drug coverage gap, also known as the donut hole, where beneficiaries pay the full cost of their medications while they continue to pay premiums. In calendar 2018, when Medicare beneficiaries' out-of-pocket (OOP) costs, combined with the plan's costs, exceed $3,750, they enter this gap. Coverage resumes when combined costs reach $5,000, also known as catastrophic coverage, at which time all OOP costs are waived. The 2010 Affordable Care Act (ACA) included provisions to reduce the Medicare Part D coverage gap until the gap is fully eliminated in calendar 2020. At that time, Medicare beneficiaries whose costs fall within that gap will pay 25% coinsurance for covered brand-name and generic drugs, the same as pre-gap coverage, until the beneficiary reaches catastrophic coverage.

The State currently offers retiree prescription drug coverage, which acts as wraparound coverage for retirees with Medicare Part D coverage. In 2011, legislation was enacted that eliminates State prescription drug coverage to Medicare-eligible retirees in fiscal 2020, with the expectation that the Medicare donut hole would be closed. As a result, State retirees will no longer have the State's tiered copayment plan for prescriptions and will most likely pay more OOP due to Medicare's 25% coinsurance on prescriptions. The scheduled elimination of Medicare-eligible retirees' prescription drug coverage reduced the State's retiree health liability by approximately $6 billion when the legislation was enacted. Eliminating the prescription drug coverage to Medicare-eligible retirees is anticipated to save the State approximately $89.4 million annually, starting in fiscal 2020.

### Uncertainties in Statute

Under State statute, the State will stop covering Medicare-eligible retirees as of fiscal 2020 (July 1, 2019). Under the 2010 ACA provision, the Medicare Part D coverage gap was scheduled to close on January 1, 2020. However, on February 9, 2018, Congress reached a two-year budget agreement (H.R. 1892 – Bipartisan Budget Act of 2018) that closes the Medicare donut hole by calendar 2019 – a year earlier than scheduled under the 2010 ACA. The State must now decide whether to accelerate elimination of Medicare-eligible retirees' prescription drug coverage, aligning with the revised date of the coverage gap elimination. Accelerating the timeline would result in savings to the State of approximately $50 million ($30 million in general funds). However, the State would need to rapidly communicate the change in prescription drug coverage to Medicare-eligible retirees in order to give retirees time to adjust to the change. **Given the significant savings to the State, DLS recommends adopting a Budget Reconciliation and Financing Act provision to amend statute to reflect the accelerated closing of the Medicare Part D donut hole. DBM should discuss how the State will communicate with retirees if the State amends statute to align the elimination of**

**Medicare-eligible prescription drug coverage with the new Medicare donut hole closure and comment on whether cost savings from the change would be worthwhile for the State to pursue.**

The need for rapid communication is especially critical as State statute does not speak to coverage of non-Medicare-eligible spouses and dependents of Medicare-eligible retirees. Medicare Part D does not offer spousal and dependent coverage. If the State eliminates the wraparound coverage to these retirees, it is likely that spouses and dependents would lose State coverage. Allowing non-Medicare-eligible spouses and dependents to continue prescription drug coverage would increase the Other Post Employment Benefits liability by an estimated $130 million to $140 million. Legislation clarifying the General Assembly's intent could alleviate confusion about the State's policy. Maintaining State prescription drug coverage for spouses and dependents of Medicare-eligible retirees will cost approximately $6 million ($3.5 million in general funds) annually. **DBM should comment on the potential of continuing State coverage to spouses and dependents of Medicare-eligible retirees.**

## 2. State Agencies Continue to Carry High Vacancies

As shown in **Exhibit 6**, the statewide budgeted turnover rate for the Executive Branch, excluding institutions of higher education, is 6.6% in fiscal 2019. However, the actual vacancy rate of the Executive Branch is 10.8% as of January 2018, or 5,311 vacancies. The Executive Branch is carrying 2,019 more vacancies than what is currently required by budgeted turnover in the fiscal 2019 allowance.

**Exhibit 6**
**Analysis of Executive Branch Vacancies and Turnover Rate**
**Fiscal 2019 Allowance Compared to January 2018 Vacancies**

| Department/Service Area | Positions | Budgeted Turnover Rate | Vacancies to Meet Turnover | January Vacancies | Actual Vacancy Rate | Vacancies Above (or Below) Turnover |
|---|---|---|---|---|---|---|
| **Largest Six State Agencies** | | | | | | |
| Public Safety and Correctional Services* | 10,454 | 9.6% | 999 | 1,801 | 17.2% | 803 |
| Human Services | 6,120 | 7.1% | 433 | 478 | 7.8% | 45 |
| Health | 6,276 | 7.6% | 477 | 598 | 9.5% | 121 |
| Police and Fire Marshal | 2,436 | 6.9% | 167 | 310 | 12.7% | 143 |
| Juvenile Services | 1,987 | 7.0% | 139 | 202 | 10.2% | 63 |
| Transportation | 9,058 | 4.5% | 409 | 630 | 7.0% | 221 |
| ***Subtotal*** | ***36,330*** | ***7.1%*** | ***2,622*** | ***4,019*** | ***11.1%*** | ***1,397*** |
| Other Executive Agencies | 12,987 | 5.2% | 669 | 1,292 | 9.9% | 623 |
| **Executive Branch Total** | **49,318** | **6.6%** | **3,291** | **5,311** | **10.8%** | **2,019** |

*The fiscal 2019 budget bill includes language that abolishes 100 vacant positions in the Department of Public Safety and Correctional Services. Positions and vacancies have been updated to reflect this.

Source: Department of Budget and Management; Department of Legislative Services

High vacancies in a State agency may be the result of several factors, including (1) decreases in caseloads or populations; (2) information technology (IT) or work process efficiencies; (3) uncompetitive compensation or undesirable job factors that make hiring and retention difficult; (4) cost containment measures; or (5) a high budgeted turnover expectancy. In regard to high vacancies resulting from changes in caseloads, populations, or IT or work process efficiencies, abolishing unnecessary vacant positions would be a cost-effective solution. When considering vacancies that result from uncompetitive compensation or undesirable job factors, the State would need to determine whether to take action to address these factors, or if the positions in question would make more financial sense to be outsourced. High vacancies that result from cost containment measures or a high budgeted turnover expectancy do not necessarily indicate anything about a particular classification, just that funding to fill positions is restricted.

During lean budget years, State agencies' budgets may be flat funded with only limited increases authorized (often considered "over-the-target" requests). State agencies may choose to hold positions vacant and use the authorized funding for positions to fund other constrained areas in the department. **Exhibit 7** shows the top 10 State agencies in fiscal 2017 that spent less in personnel than was budgeted, indicating potential movement of these funds to other areas of the budget, or funds being reduced through cost containment.

**Exhibit 7**

## Authorized Personnel Costs Compared to Actual Expenditures

**Fiscal 2017 Legislative Appropriation vs. Actual Expenditures**
**($ in Millions)**

| Top 10 State Agencies | Leg. Approp.* | Actual | Difference | % of Personnel Cost |
|---|---|---|---|---|
| Public Safety and Correctional Services | $667.1 | $600.0 | -$67.1 | -10.1% |
| University System of Maryland | 2,459.6 | 2,436.2 | -23.5 | -1.0% |
| Environment | 73.0 | 56.4 | -16.7 | -22.8% |
| Health | 416.3 | 400.1 | -16.1 | -3.9% |
| Labor, Licensing, and Regulation | 113.2 | 101.6 | -11.7 | -10.3% |
| Juvenile Services | 125.0 | 118.2 | -6.8 | -5.5% |
| Education | 108.2 | 103.4 | -4.8 | -4.5% |
| Transportation | 639.2 | 635.5 | -3.7 | -0.6% |
| Natural Resources | 101.9 | 98.5 | -3.4 | -3.3% |
| Military | 18.5 | 15.3 | -3.1 | -17.0% |

*There was an employee increment in fiscal 2017. This amount has been added to the fiscal 2017 legislative appropriation.

Source: Department of Budget and Management; Department of Legislative Services

State agencies may also opt to hold positions vacant in order to meet additional cost containment requirements imposed throughout the fiscal year. For instance, the September 6, 2017 BPW cost containment measure attributed $12 million in general fund savings (19.7% of the total general fund reduction) to vacancies, and an additional $4.9 million in savings from the elimination of vacant positions in the University System of Maryland.

In addition to vacancy savings, abolishing positions is a common cost containment tool used by multiple Governors over the past decade. As shown in **Exhibit 8**, Executive Branch agencies have lost 2,164 positions from fiscal 2010 to 2018. The decrease is primarily in five State agencies: DPSCS, DHS, MDH, DJS, and DLLR. These five State agencies also have high vacancies, which have increased at the same time these departments lost positions.

## Exhibit 8
# Position and Vacancy Changes in the Executive Branch
### Fiscal 2010-2018

| Department/Service Area | 2010 Positions | 2018 Positions | Position Change | % Change | Jan. 2010 Vacancies | Jan. 2010 Vacancy Rate | Jan. 2018 Vacancies | Jan. 2018 Vacancy Rate |
|---|---|---|---|---|---|---|---|---|
| **State Agencies with Largest Position Decreases** | | | | | | | | |
| Public Safety and Correctional Services | 11,396 | 10,554 | -842 | -7.4% | 469 | 4.1% | 1,801 | 17.1% |
| Human Services | 6,742 | 6,220 | -522 | -7.7% | 453 | 6.7% | 478 | 7.7% |
| Health | 6,584 | 6,207 | -377 | -5.7% | 447 | 6.8% | 598 | 9.6% |
| Juvenile Services | 2,254 | 1,987 | -267 | -11.8% | 139 | 6.2% | 202 | 10.2% |
| Labor, Licensing, and Regulation | 1,675 | 1,471 | -204 | -12.2% | 142 | 8.5% | 222 | 15.1% |
| ***Subtotal*** | ***28,650*** | ***26,439*** | ***-2,211*** | ***-7.7%*** | ***1,650*** | ***5.8%*** | ***3,302*** | ***12.5%*** |
| **State Agencies with Largest Position Increases** | | | | | | | | |
| Budget and Management and DoIT | 450 | 567 | 116 | 25.8% | 46 | 10.1% | 63 | 11.2% |
| Financial and Revenue Administration – Agencies | 1,997 | 2,099 | 102 | 5.1% | 121 | 6.0% | 167 | 7.9% |
| ***Subtotal*** | ***2,447*** | ***2,666*** | ***218*** | ***8.9%*** | ***166*** | ***6.8%*** | ***230*** | ***8.6%*** |
| Other Executive | 20,536 | 20,364 | -171 | -0.8% | 997 | 4.9% | 1,779 | 8.7% |
| **Executive Branch Total** | **51,633** | **49,469** | **-2,164** | **-4.2%** | **2,813** | **5.4%** | **5,311** | **10.7%** |

DoIT: Department of Information Technology

Source: Department of Budget and Management; Department of Legislative Services

The concern when considering abolished positions and high vacancies in agencies is the impact on agency performance. High vacancies and abolished positions that result from decreased caseloads or populations to be served are rational and responsive to change. Reduced supervised, incarceration, and detained populations in DPSCS result in fewer positions being needed. In DLLR, there is a reduced need for unemployment insurance claims staff with the improvement of the economy and corresponding drop in claims. However, high vacancies and position reductions in MDH are already having an impact on agency performance. The Office of Health Care Quality (OHCQ) and the Office of the Chief Medical Examiner have seen increases in workloads, with efforts made by the agencies to streamline processes and gain efficiencies, but even with the changes, the agencies show difficulty in meeting required mandates and caseload standards. In DPSCS, despite reduced populations, high vacancies in correctional officer positions create an unsafe work environment. In the case of any understaffed State agencies, stress and burnout of employees is also a risk, particularly in 24/7 facilities, which utilize drafted overtime to fill shifts.

## Overtime Costs

Overtime costs in the State are increasing in fiscal 2019, particularly in agencies with the most vacancies. Overtime costs are budgeted at $198.2 million in fiscal 2019, an increase of $32.1 million, or 19.3%, over the fiscal 2018 working appropriation. Five agencies account for 93% of overtime costs in fiscal 2019, including DPSCS, MDOT, MDH, DSP, and DJS. These five agencies all have vacancy rates in excess of 7% as of January 2018, reaching as high as 17.2% for DPSCS. Overtime costs in DPSCS are budgeted at $86.5 million in fiscal 2019 and account for $23.3 million of the increase over fiscal 2018. Overtime costs in MDOT and DSP are budgeted below actual overtime expenditures in fiscal 2017 by $6.7 million and $5.6 million, respectively, and may ultimately require more funding for these costs.

## Chronic Understaffing Report

In response to a 2016 Spending Affordability Committee (SAC) recommendation, the budget committees directed DBM in the 2017 JCR to conduct a thorough and statewide evaluation of the causes underlying the chronic staffing issues plaguing State agencies and identify the impact this has on operations and the delivery of services. DBM submitted a two-page response to the budget committees request on February 8, 2018, three weeks past the granted extension date of January 15, 2018. As quoted from the report:

> "DBM believes that State agencies should be evaluated on the outcomes they produce for the citizens of Maryland and not on the sheer number of staff they employ. DBM further does not believe that it is appropriate to measure staffing levels based on Maryland's wealth, anecdotal information, or comparisons to 15-year-old staffing levels."

In the report, DBM acknowledges that the State faces recruitment and retention challenges in select job classifications, including correctional officers, nurses, physicians, and IT positions, but stresses that Maryland is not unique in this issue. In regard to claims that salaries for State employees are not competitive with the federal government or local governments, DBM attributes that to the federal government not being required to provide balanced budgets and the State enabling local governments to provide annual salary increases through the provision of local aid, at the cost of the ability to do the same for State employees. The report points to the general salary increase budgeted in fiscal 2019, the contingent salary increases negotiated with the unions, the ASR process, and recruitment and retention bonuses for nurses and correctional officers as examples of the Administration being responsive to staffing concerns.

The report is essentially identical to the response that DBM provided to the DLS 2018 *Executive Branch Staffing Adequacy Study* (DLS staffing study) in early January 2018. The report does not provide a thorough and statewide evaluation of the causes of the State's staffing issues, nor does it identify the impact understaffing has on operations and delivery of services, as requested by SAC and the budget committees.

**DBM should explain why the chronic understaffing report was submitted three weeks past the approved extension date, given that the report recapitulates testimony provided in response to the DLS staffing study in early January 2018. DBM should also explain why the department did not conduct a thorough and statewide evaluation of the staffing issues, as requested by SAC and the budget committees.**

## December 2017 SAC Recommendations

In December 2017, SAC expressed concern that a significant number of vacancies statewide are within agencies that have been identified as chronically understaffed by the DLS staffing study. SAC also expressed concern that a number of critical classes of positions in State agencies are understaffed, such as correctional officers, direct care providers, and positions in DSP, which could adversely impact public safety and care for vulnerable populations. Given the staffing shortages, SAC recommended discontinuing the position cap that the State has had in place for a number of years. The committee also expressed the intent that the Administration act expeditiously to fill positions in understaffed agencies, particularly in agencies experiencing higher levels of vacancies. To the extent that agencies are unable to fill positions because of hiring standards, excessive turnover expectancy, or inadequate compensation, SAC recommended that the Administration develop a plan to address these barriers through targeted compensation enhancements, reduced levels of turnover expectancy, or a reexamination of hiring requirements. SAC requested that a report outlining this strategy be submitted to the budget committees by June 1, 2018. The fiscal 2019 allowance appears to comply with SAC's December 2017 recommendations in some areas, but not in others, as discussed below.

### Position Cap

SAC recommended discontinuing the position cap with the intention that positions be created as necessary in understaffed agencies. The State agencies identified as understaffed by the DLS staffing study, are displayed in **Exhibit 9**.

**Exhibit 9**
## Quantifiable Staffing Shortages by Agency and Function

| Agency/Function | Additional Positions Needed | Vacant Positions | Total |
|---|---|---|---|
| Public Safety and Correctional Services | 154 | 937 | 1,091 |
| State Police | 193 | 182 | 375 |
| Environment | 295 | 0 | 295 |
| Juvenile Services | 79 | 189 | 268 |
| Health | 93 | 143 | 236 |
| Assessments and Taxation | 200 | 34 | 234 |
| Public Defender | 89 | 20 | 109 |
| Maryland Commission for Civil Rights | 8 | 0 | 8 |
| General Services | 8 | 0 | 8 |
| Historic St. Mary's City Commission | 4 | 0 | 4 |
| Secretary of State | 3 | 0 | 3 |
| **Total** | **1,126** | **1,505** | **2,631** |

Source: Department of Legislative Services, 2018 *Executive Branch Staffing Adequacy Study*

The fiscal 2019 allowance authorizes 69 new positions in MDH, as well as a transfer of 20 positions from DLLR to MDH. New positions include 33 direct care workers for the Behavioral Health Administration (BHA) and 8 nurse surveyor positions in OHCQ, which are both areas identified as understaffed in the DLS staffing study. The transferred positions from DLLR are also to provide additional staff needed based on expanded bed capacity. Besides MDH, no other State agencies identified with staffing shortages receive additional positions in the fiscal 2019 allowance. The fiscal 2019 allowance abolishes 100 vacant correctional officer positions in DPSCS and authorizes the funding for these positions to be applied to the agency's overtime costs.

**Fill Positions in Understaffed Agencies**

SAC recommended that the Administration fill positions in understaffed agencies, particularly in agencies with high vacancies. The agencies meeting this criteria identified in the study include DPSCS, DSP, DJS, MDH, State Department of Assessments and Taxation (SDAT), and the Office of the Public Defender (OPD). SAC further specified that the Administration should consider reducing turnover expectancy to encourage agencies to fill positions. **Exhibit 10** shows the change in budgeted turnover from fiscal 2018 to 2019 for the agencies identified in the DLS staffing study.

**Exhibit 10**
## Change in Budgeted Turnover for Understaffed Agencies with High Vacancies
**Fiscal 2018 Working Appropriation – Fiscal 2019 Allowance**
**($ in Thousands)**

| Agency/Function | 2018 | 2019 | Difference | % Change | 2019 Turnover Expectancy |
|---|---|---|---|---|---|
| Public Safety and Correctional Services | -$24,468.3 | -$63,251.7 | -$38,783.4 | -158.5% | 9.6% |
| State Police | -19,433.3 | -18,417.4 | 1,015.9 | 5.2% | 6.9% |
| Juvenile Services | -9,608.9 | -9,097.2 | 511.7 | 5.3% | 7.0% |
| Health | -31,983.4 | -33,383.6 | -1,400.2 | -4.4% | 7.6% |
| Assessments and Taxation | -2,351.2 | -2,304.8 | 46.4 | 2.0% | 6.0% |
| Public Defender | -4,473.5 | -5,147.6 | -674.1 | -15.1% | 6.7% |
| **Total** | **-$92,318.6** | **-$131,602.3** | **-$39,283.7** | **-42.6%** | |

Source: Department of Budget and Management; Department of Legislative Services

Budgeted turnover for DSP, DJS, and SDAT increase, which means fewer positions will need to be held vacant in fiscal 2019 in these agencies. Budgeted turnover for DPSCS, MDH, and OPD decrease, which assumes more positions will be vacant in fiscal 2019. In particular, the turnover rate for DPSCS increases to 9.6% in fiscal 2019, which is a decrease of $38.8 million in comparison to fiscal 2018. It should be noted that the actual vacancy rate for all these agencies exceeds the fiscal 2019 budgeted turnover.

**Targeted Enhancements and Reexamination of Hiring Requirements**

To the extent that agencies are unable to fill positions because of hiring standards or inadequate compensation, SAC recommended that the Administration develop a plan to address these barriers through targeted compensation enhancements or a reexamination of hiring requirements. The DLS staffing study proposed the following classifications to be evaluated:

- registered nurses;
- juvenile service resident advisor trainees;
- police communication operators;
- correctional officers;

- IT analysts; and

- parole and probation field supervisors.

DBM adjusts salaries of specific classifications through the ASR process. **Exhibit 11** provides the position classifications that will be adjusted by the ASR in fiscal 2019, which includes salary increases to security attendants and licensed practical nurses at Clifton T. Perkins hospital and police communication operators, 2 of the position classifications identified by the DLS staffing study. In addition to ASRs, recruitment and retention bonuses for registered nurses and correctional officers have been provided since January 1, 2015, and October 1, 2017, respectively. Registered nurses employed at 24/7 facilities with fewer than five unscheduled shift call-outs and no more than 32 hours of unscheduled absence during a 12-month period are eligible for a retention bonus of $3,000. Newly hired correctional officers receive a $2,000 bonus on entry and $3,000 after a year on probation.

**Exhibit 11**
## Annual Salary Review Adjustments by Classification
**Fiscal 2019 Allowance**

| Agency | Classification | Change | General Funds | Special Funds | Federal Funds | Total Funds |
|---|---|---|---|---|---|---|
| Military | Airport Firefighters | Two-grade increase to provide pay parity with other State firefighters | $0 | $0 | $205,052 | $205,052 |
| Behavioral Health Administration – Health | Security Attendant and Licensed Practical Nurse – Clifton T. Perkins Hospital | One-grade increase to provide pay parity with correctional officers* | 520,128 | 0 | 0 | 520,128 |
| State Police | Fire Safety Inspector | Three+ grade increase to address high vacancies and provide pay parity with other State inspectors | 68,246 | 0 | 0 | 68,246 |

| Agency | Classification | Change | General Funds | Special Funds | Federal Funds | Total Funds |
|---|---|---|---|---|---|---|
| State Police | Police Communication Operators | One grade increase to provide pay parity with EMS Communication Operator series | 530,940 | 18,681 | 0 | 549,621 |
| **Total** | | | **$1,119,314** | **$18,681** | **$205,052** | **$1,343,047** |

EMS: Emergency Medical Services

*Annual salary review is only for security attendants that have been certified by the Maryland Police Training Commission in the same manner as correctional officers.

Source: Department of Budget and Management

**Report on Strategy to Address Barriers to Recruitment and Retention**

Finally, SAC requested the Administration to submit a report on June 1, 2018, that outlines the Administration's strategy to address agencies unable to fill positions due to hiring standards, excessive turnover expectancy, or inadequate compensation. SAC recommended that the Administration develop a plan to address these barriers through targeted compensation enhancements, reduced levels of turnover expectancy, or a reexamination of hiring requirements. **DLS recommends adding budget bill language restricting a total of $100,000 until DBM submits the report requested by SAC.**

## 3. State Workforce Planning Needed

There has been much discussion of what the retirement of the baby boom generation will mean for government agencies. In 2005, the Office of Legislative Audits (OLA) issued a report on workforce planning efforts. At that time, it was determined that 12.1% of employees were eligible for immediate retirement. Within 5 years, the percentage of retirement eligible retirees increased to 28.3%, and at 10 years the percentage was 45.3%. DLS provided an update of these percentages during the 2014 legislative session. **Exhibit 12** provides a further update in February 2018 for employees eligible to retire.

**Exhibit 12**
## Comparison of Retirement Eligible Workforce

| | January 2005 Report | December 2013 | February 2018 |
|---|---|---|---|
| Eligible Now | 12.1% | 20.8% | 20.2% |
| Eligible within 5 Years | 28.3% | 37.6% | 36.9% |
| Eligible within 10 Years | 45.3% | 53.0% | 53.8% |

*This data does not include institutions of higher education or the Maryland Department of Transportation.

Source: January 2005 *State Workforce Planning Report*, Office of Legislative Audits; Department of Budget and Management

As of December 2013, the percentage of employees eligible to retire was 20.8%, a substantial increase from the 2005 OLA report. The increase is likely due to State employees delaying retirement as a result of the 2008 economic recession. However, retirements have increased in recent years as the economy has improved. As shown in **Exhibit 13**, from fiscal 2015 to 2017, 4,526 State employees retired, in comparison to 3,274 retirements from fiscal 2012 to 2014. At the same time, hiring has decreased, with 9,487 hires from fiscal 2015 to 2017, in comparison to 11,005 hires from fiscal 2012 to 2014. The State is not backfilling vacated positions at an equal rate that the State is losing employees, resulting in a hiring deficit.

**Exhibit 14** provides the percentage of employees eligible to retire by State agencies as provided in February 2018 data. DPSCS has the highest percentage of employees eligible to retire immediately in 2018 with 27.2% of the workforce. Education and the Department of Natural Resources had the highest percentage of employees eligible to retire during the 2014 session, but the percentage for both these agencies has dropped in 2018, most likely due to employees retiring.

**Exhibit 13**
## Hires and Separations of State Employees
**Fiscal 2012-2017**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Hires and Rehires | 3,344 | 3,549 | 4,112 | 3,604 | 2,919 | 2,964 |
| Resignations | 1,669 | 1,805 | 1,780 | 2,028 | 2,351 | 2,265 |
| Retirements | 992 | 1,170 | 1,112 | 1,764 | 1,432 | 1,330 |
| ***Hiring versus Separations*** | ***683*** | ***574*** | ***1,220*** | ***-188*** | ***-864*** | ***-631*** |

Source: Department of Budget and Management

**Exhibit 14**
## Percentage of Executive Branch Employees Eligible for Retirement by Agency
**2018 Legislative Session Data**

| | Current Year | | | 5 Years | | 10 Years | |
|---|---|---|---|---|---|---|---|
| | Positions* | Eligible | % | Eligible | % | Eligible | % |
| Public Safety and Correctional Services | 8,604 | 2,342 | 27.2% | 4,059 | 47.2% | 5,865 | 68.2% |
| Health | 8,064 | 1,566 | 19.4% | 2,918 | 36.2% | 4,179 | 51.8% |
| Human Services | 5,626 | 812 | 14.4% | 1,677 | 29.8% | 2,593 | 46.1% |
| State Police | 2,179 | 289 | 13.3% | 704 | 32.3% | 1,149 | 52.7% |
| Juvenile Services | 1,770 | 169 | 9.5% | 314 | 17.7% | 571 | 32.3% |
| Labor, Licensing, and Regulation | 1,442 | 369 | 25.6% | 633 | 43.9% | 886 | 61.4% |
| Education | 1,246 | 270 | 21.7% | 445 | 35.7% | 620 | 49.8% |
| Natural Resources | 1,190 | 235 | 19.7% | 461 | 38.7% | 602 | 50.6% |
| Comptroller | 1,050 | 226 | 21.5% | 390 | 37.1% | 519 | 49.4% |
| Other (Less Than 1,000 Employees) | 8,687 | 1,761 | 20.3% | 3,108 | 35.8% | 4,440 | 51.1% |
| **Total** | **39,858** | **8,039** | **20.2%** | **14,709** | **36.9%** | **21,424** | **53.8%** |

*Shows total filled positions. Data includes local health departments and nonbudgeted agencies. Institutions of higher education and Maryland Department of Transportation are not included.

Source: Department of Budget and Management

There are several factors to be noted when evaluating this information. Despite percentages of employees eligible to retire remaining relatively unchanged from December 2013 to February 2018, the increase from the 2005 OLA report to 2013 is substantial, indicating an increase in employees delaying retirement. From fiscal 2003 to 2015, the average age of State employees increased from age 44 to age 47, indicating an aging workforce. There are a variety of factors that can influence an employee’s decision to delay retirement, including a personal desire to work longer, timing, and financial situation. When considering the factors that would have encouraged an increase in delayed retirements from 2005 to 2013, the 2008 recession and subsequent employee furloughs from fiscal 2009 to 2011 most likely had significant impacts on employees’ retirement decisions. In addition to the direct financial impact, such as losses in wealth, savings, or income, the psychological impact of an economic crisis can also dissuade employees from retirement due to uncertainty in the economy.

Another factor to consider is the impact of employees retiring. When retirees leave the State workforce, this lowers the percentage of employees eligible to retire. The real concern in workforce planning is whether these positions are being replaced with qualified, experienced candidates. Given the low rate of hires and rehires in the past three years, and high levels of vacancies within State agencies, it does not appear that positions are being backfilled at the same rate as positions are being vacated.

One of the top competitors for qualified employees is the federal government. However, the State is also in competition with the nonprofit and private sector for talent. Given the generally higher salaries in the private sector, reduction in State employee benefits, limited salary enhancements in recent years, and mobility of the younger generation, the State will face difficultly competing for qualified employees from a decreasing pool of potential workers. Competition for talented workers is more aggressive as a result of the low unemployment rate. As more of the State workforce approaches retirement, it is critical that agencies undertake workforce planning efforts to better understand future staffing needs. In particular, the State needs to develop strategies to recruit and retain younger employees in order to maintain State agencies' operations and performance with the impending, and current, retirements of the baby boom generation.

**DBM should comment on the hiring deficit in the past three fiscal years. DBM should also update the budget committees on State workforce planning efforts, given the ongoing retirement of the baby boom generation.**

## 4. Employee and Retiree Health Insurance Account

The Employee and Retiree Health Insurance Account closed with a fund balance of $174.2 million in fiscal 2017, after taking into consideration incurred but not reported (IBNR) expenses. Favorable trends in prescription drug rebates, as well as an additional pay period of contributions in fiscal 2016, contributed to the surplus. As shown in **Exhibit 15,** payments of claims are projected to grow by 4.1% in fiscal 2018, which is lower growth than in prior years. Changes in prescription drug costs are the primary reason for the modest growth. Anticipated savings from a new pharmacy benefit manager (PBM) contract beginning January 1, 2018, reduces projected prescription drug spending starting in fiscal 2018. Contributions are lowered in fiscal 2018 through the implementation of two additional payroll health insurance deduction holidays, which reduce contributions into the account by approximately $121 million overall ($96.6 million in State agencies' contributions).

**Exhibit 15**
## Employee and Retiree Health Insurance Account
**Fiscal 2017-2019**
**($ in Millions)**

| | 2017 Actual | 2018 Working | 2019 Allowance |
|---|---|---|---|
| **Beginning Balance** | **$156.3** | **$277.2** | **$134.2** |
| **Expenditures** | | | |
| DBM – Personnel Administrative Cost | **$11.4** | **$7.8** | **$7.8** |
| **Payments of Claims** | | | |
| Medical | $979.6 | $1,025.4 | $1,070.4 |
| Prescription* | 460.4 | 472.3 | 445.8 |
| Dental | 48.7 | 52.0 | 53.5 |
| Contractual Employee Claims | 11.9 | 12.4 | 12.9 |
| **Payments to Providers** | **$1,500.5** | **$1,562.1** | **$1,582.6** |
| *% Growth in Payments* | *5.0%* | *4.1%* | *1.3%* |
| **Receipts** | | | |
| State Agencies** | $1,276.5 | $1,104.3 | $1,219.9 |
| Employee Contributions** | $191.6 | $174.7 | $188.1 |
| Retiree Contributions | $97.3 | $90.1 | $96.5 |
| Prescription Rebates, Recoveries, and Other | 67.4 | 57.8 | 57.8 |
| **Total Receipts** | **$1,632.8** | **$1,426.9** | **$1,562.3** |
| *% Growth in Receipts* | *6.2%* | *-12.6%* | *9.5%* |
| **Ending Balance** | **$277.2** | **$134.2** | **$106.1** |
| **Estimated Incurred but Not Received** | **-$103.0** | **-$103.0** | **-$103.0** |
| **Reserve for Future Provider Payments** | **$174.2** | **$31.2** | **$3.1** |

DBM: Department of Budget and Management

*****Prescription claims costs have been adjusted to include prescription rebates of $101.4 million in fiscal 2017, $115.8 million in fiscal 2018, and $171.5 million in fiscal 2019.

**State Agencies and Employees contributions include contributions for eligible contractual full-time equivalents.

Source: Department of Budget and Management; Department of Legislative Services

The new PBM is expected to reduce costs in calendar 2018 through better prices and enhanced rebates, and additional savings are expected in calendar 2019 as a result of a new drug formulary. Prescription drug rebates and other receipts into the account are projected to be $229.3 million, a 32% increase over fiscal 2018, reflecting the savings anticipated with implementation of a new drug formulary. **Given that the PBM contract is new, DLS recommends committee narrative requesting DBM to submit quarterly prescription drug utilization and cost data for fiscal 2018 and 2019.**

Contributions in fiscal 2019 increase by 9.9% over the fiscal 2018 working appropriation, which has been reduced by the two additional payroll holidays. Contributions decrease by 3.9% when compared to fiscal 2017 actual contributions. State agencies' contributions are 81% of the total contributions in fiscal 2019 instead of the 80% that has been budgeted in years prior. This ratio is closer to actual State agency spending in recent years, most likely reflecting that more members are opting for Exclusive Provider Organization (EPO) plans with a State agency premium cost-share of 85% instead of the Preferred Provider Organization (PPO) plans, with State agencies covering 80% of the premium cost. Including prescription drug rebates and other revenues, receipts in fiscal 2019 do not cover the projected costs, spending down the fund balance to an unusually low $3.1 million after IBNR, down from $31.2 million in fiscal 2018. **DBM should explain why the fund balance was spent down to such a low level especially given uncertainty about the precise savings the new drug plan will generate.**

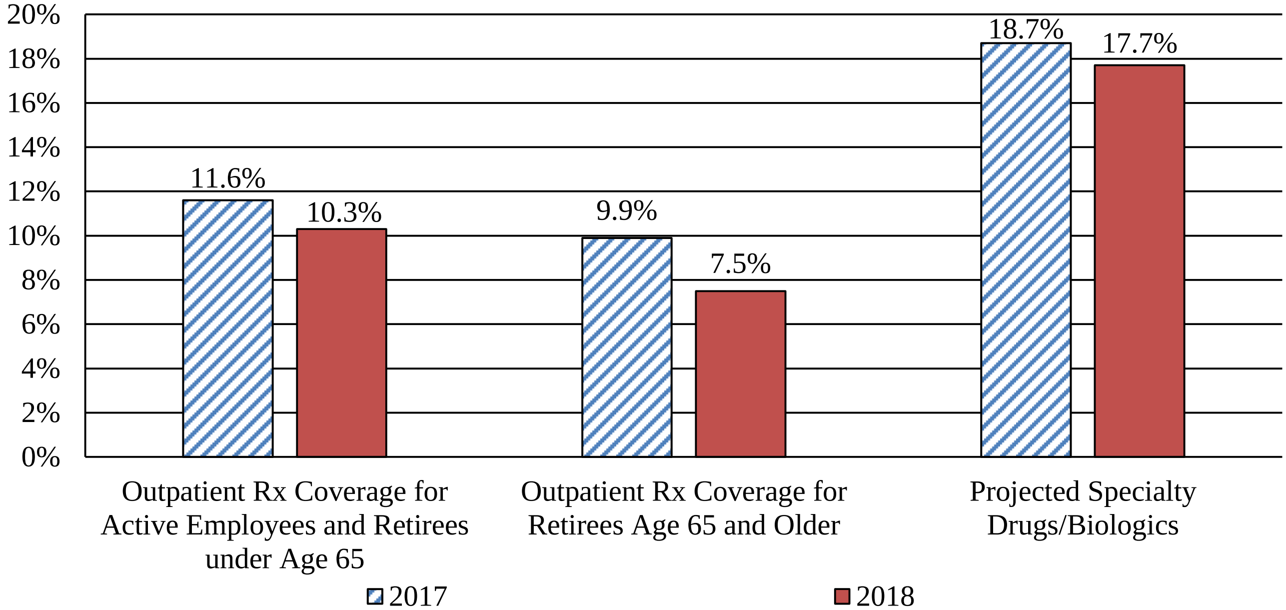
## Prescription Drug Trends

According to Segal Consulting Advisors, price inflation, not utilization, is the leading driver of increasing prescription drug costs nationwide. The trend for prescription drugs in calendar 2018 is more favorable than for calendar 2017, but growth in prescription drug cost is still projected in double-digits, as shown in **Exhibit 16**. In recent years, increased utilization of generic drugs has helped mitigate prescription drug cost increases. Formulary management, which encourages greater use of generic drugs, has also been a contributing factor. The State's plan has offered zero dollar copays on certain generic prescription drugs for several years to encourage the use of generics.

Although growth in prescription drug costs is anticipated to be less than in recent years, the cost of drug prices is still a significant share of overall health insurance costs for State employees and retirees. Specialty and biologic drug prices continue to increase. Recent examples include dermatological drugs, like Alcortin A, which increased from $226 in calendar 2015 to more than $9,500 today. Another example is the highly publicized Epipen, an allergy-reaction injector, whose price increased from $100 for a two-pack in 2009 to $600 in calendar 2016. While high-cost specialty drugs are a small portion of total drugs dispensed, they represent a disproportionate and growing share of total drug spending. Specialty drugs accounted for more than one-third of total spending nationwide in calendar 2016 and are projected to be almost 50% of all drug sales by calendar 2020[1].

[1] Segal Consulting Advisors, 2017; Robert Penington and Jo Ann Stubbings. "Evaluation of Specialty Drug Price Trends Using Retrospective Pharmacy Sales Transactions," *Journal of Managed Care & Specialty Pharmacy* (September 2016).

**Exhibit 16**
**Projected Drug Trends**
**Calendar 2017 and 2018**




Rx: prescriptions

Source: 2018 Segal Health Plan Cost Trend Survey

## Shifting Costs onto Employees and Retirees

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. In fiscal 2006, the State increased copays, raised health premiums, and implemented a spending cap on prescription drug costs of $700 per family. In fiscal 2012, the State added coinsurance to PPO plans and point-of-service plans, requiring members of these plans to pay a percentage of medical OOP costs. Members of EPO plans are not subject to coinsurance, but out-of-network services are not covered by the plan. **Exhibit 17** shows State plan costs and employee/retiree OOP costs for medical and prescription claims from fiscal 2011 to 2017. Plan paid medical costs have increased by 5.7% annually from fiscal 2011 to 2017 for active members and 3.7% annually for retirees. OOP costs (including copays, coinsurance, and deductibles) for active members decreased annually by 0.1%, and retirees increased annually by 2.4%, from fiscal 2011 to 2017. In fiscal 2017, more retirees (62.9%) opted for PPO plans with higher OOP costs while more active employees (65.1%) opted for EPO plans with limited OOP costs, which could account for the difference in OOP cost growth from fiscal 2011 to 2017.

**Exhibit 17**
## Annual Out-of-pocket Costs Per Member
**Fiscal 2011-2017**

| | Active – Medical | | Active – Prescription | | | | |
|---|---|---|---|---|---|---|---|
| | | | Rx – Generic | | Rx – Brand | | |
| | Plan Paid | OOP | Plan Paid | OOP | Plan Paid | OOP | Total OOP Rx |
| 2011 | $3,231 | $186 | $242 | $40 | $1,103 | $84 | **$123** |
| 2012 | 3,779 | 201 | 221 | 74 | 1,026 | 113 | **186** |
| 2013 | 3,760 | 275 | 244 | 82 | 938 | 79 | **161** |
| 2014 | 3,731 | 260 | 258 | 78 | 1,041 | 69 | **147** |
| 2015 | 3,994 | 256 | 290 | 79 | 1,181 | 63 | **142** |
| 2016 | 4,171 | 182 | 307 | 82 | 1,317 | 60 | **141** |
| 2017 | 4,503 | 185 | 353 | 75 | 1,390 | 54 | **129** |
| | **Retiree – Medical** | | **Retiree – Prescription** | | | | |
| | | | **Rx – Generic** | | **Rx – Brand** | | |
| | **Plan Paid** | **OOP** | **Plan Paid** | **OOP** | **Plan Paid** | **OOP** | **Total OOP Rx** |
| 2011 | $5,320 | $206 | $678 | $102 | $2,931 | $212 | **$314** |
| 2012 | 5,850 | 213 | 452 | 160 | 2,066 | 250 | **411** |
| 2013 | 5,598 | 373 | 359 | 126 | 1,431 | 128 | **254** |
| 2014 | 5,650 | 362 | 395 | 129 | 1,657 | 119 | **248** |
| 2015 | 5,655 | 357 | 441 | 129 | 1,790 | 110 | **238** |
| 2016 | 6,146 | 235 | 442 | 127 | 1,977 | 98 | **225** |
| 2017 | 6,607 | 237 | 600 | 138 | 2,293 | 97 | **235** |

OOP: out-of-pocket
Rx: prescription

Source: Segal Consulting Advisors

Due to nationwide price increases in prescription drugs, plan paid costs began to increase starting in fiscal 2014. OOP costs for brand-name drugs decreased starting in fiscal 2013, as more members switched to generic prescriptions, as a result of plan changes that favored generics. DBM also attributes decreases in brand-name drug costs to several big blockbuster prescriptions losing their patents, making generic, less expensive versions available.

## Delayed Affordable Care Act Taxes

The Continuing Resolution signed by President Donald J. Trump on January 22, 2018, delays specified taxes implemented by the 2010 ACA. A tax on high-cost employer-sponsored health coverage, (also known as the Cadillac Tax) is delayed until December 31, 2021, which would have impacted the State.

# *Operating Budget Recommended Actions*

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

   , provided that $50,000 of this appropriation may not be expended until the Department of Budget and Management submits a report on fiscal 2018 closeout of the Employee and Retiree Health Insurance Account. This report shall include the (1) closing fiscal 2018 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; (5) any closeout transactions processed after the fiscal year ended; and (6) actual incurred but not received (IBNR) costs. The report shall also include actual IBNR costs in each year from fiscal 2012 to 2017. The report shall be submitted to the budget committees by October 1, 2018. 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 (DBM) to submit a report with fiscal 2018 closeout data for the Employee and Retiree Health Insurance Account. The language also requires DBM to provide IBNR costs each year from fiscal 2012 to 2018.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Report on fiscal 2018 closeout data for the Employee and Retiree Health Insurance Account, and IBNR costs from fiscal 2012 to 2018 | DBM | October 1, 2018 |

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

   Further provided that $100,000 of this appropriation may not be expended until the Department of Budget and Management submits a report to the budget committees, as requested by the Spending Affordability Committee, which outlines a strategy to address barriers to filling vacant positions, including hiring standards, excessive turnover expectancy, or inadequate compensation. The report should include consideration of targeted compensation enhancements, reduced levels of turnover expectancy, and reexamination of hiring requirements. The report shall be submitted by June 1, 2018, and the budget committees shall have 45 days to review and comment. 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 Spending Affordability Committee requested the Department of Budget and Management (DBM) to submit a report outlining a strategy to address barriers to filling vacant positions. This report was requested by June 1, 2018.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Report on barriers to filling vacant positions | DBM | June 1, 2018 |

3. Adopt the following narrative:

**Prescription Drug Utilization and Costs:** The State has entered into a contract with a new Pharmacy Benefit Manager (PBM), effective January 1, 2018. The new PBM anticipates savings in fiscal 2018 as a result of better prices and enhanced rebates and in fiscal 2019 due to a new drug formulary. Given that it is a new contract, the budget committees request the Department of Budget and Management (DBM) to provide quarterly utilization and cost updates for fiscal 2018 and 2019 in order to increase transparency of the projected savings. The update should include a comparison of costs and utilization to the same time period in fiscal 2017, and a comparison of the out-of-pocket costs incurred by State employees and retirees.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Quarterly State prescription drug utilization and cost data | DBM | April 30, 2018;<br>July 31, 2018;<br>October 31, 2018;<br>January 31, 2019; and<br>April 30, 2019 |

4. Adopt the following narrative:

**State Wellness Program Managing for Results Measures:** In an effort to address escalating medical and prescription drug costs, the State implemented a wellness program in January 2015. The Department of Budget and Management (DBM) collects information on (1) the number of members eligible to participate in the wellness program; (2) the number of members completing requirements and earning wellness incentives; (3) the number of members eligible and completing recommended preventative screenings; (4) the number of members eligible and complying with diabetes treatment; and (5) the cost of chronic conditions. The budget committees request that DBM continue to provide updates of the information listed above, along with any other performance metrics identified in the 2014 Request for Proposal for the State's medical plan, with the submission of the department's annual Managing for Results (MFR) information, starting with the fiscal 2020 MFR submission.

| Information Request | Author | Due Date |
|---|---|---|
| Wellness program measures, including preventative screenings, diabetes treatment, and chronic condition costs | DBM | With submission of the fiscal 2020 budget books |

5. Adopt the following narrative:

**Health Measures of the State Health Insurance Plan Members:** The State implemented a wellness program in calendar 2015 in an attempt to address rising medical and prescription drug costs. Since implementation of the program, there is evidence of increased compliance with treatment for members identified with chronic illnesses, and increased member participation in voluntary preventative exams. However, despite increased participation in wellness program activities, medical and prescription drug costs continue to grow. The budget committees are interested in the impact the wellness program has had on the health of the members of the State health insurance plan, and request the Department of Budget and Management (DBM) submit a report providing information on plan members, including (1) total annual medical and prescription drug costs for the plan members that earned incentives by completing wellness activities; (2) total annual medical and prescription drug costs for a sample set of plan members, as determined by Segal Consulting, that did not complete wellness activities and earn incentives, for comparison; (3) the number of members identified as obese; (4) the number of members identified as a tobacco-user; and (5) the number of members identified with a chronic illness. The data reported should be annual, aggregate information from calendar 2014 to 2017. DBM should submit this report by December 1, 2018.

| Information Request | Author | Due Date |
|---|---|---|
| Health measures on State health insurance plan members from calendar 2014 to 2017 | DBM | December 1, 2018 |

6. Add the following section:

SECTION 19. AND BE IT FURTHER ENACTED, That for fiscal 2018 funding for health insurance shall be reduced by $84,121,443 ~~$78,621,256~~ in Executive Branch, Legislative Branch, and Judicial Branch agencies to reflect health insurance savings due to two additional payroll health deduction holidays. Funding for this purpose shall be reduced in Comptroller Objects 0152 Health Insurance and 0154 – Retirees Health Insurance – within Executive Branch, Legislative Branch, and Judicial Branch agencies in fiscal 2018 by the following amounts in accordance with a schedule determined by the Governor, the Presiding Officers, and the Chief Judge:

| | Agency | General Funds |
|---|---|---|
| B75 | General Assembly of Maryland | 950,942 |
| C00 | Judiciary | 4,549,245 |
| C80 | Office of the Public Defender | 1,175,606 |
| C81 | Office of the Attorney General | 200,543 |
| C82 | State Prosecutor | 9,923 |
| C85 | Maryland Tax Court | 8,205 |
| D05 | Board of Public Works (BPW) | 13,298 |
| D10 | Executive Department – Governor | 86,894 |
| D11 | Office of the Deaf and Hard of Hearing | 4,109 |
| D12 | Department of Disabilities | 19,677 |
| D15 | Boards and Commissions | 85,026 |
| D16 | Secretary of State | 28,521 |
| D17 | Historic St. Mary's City Commission | 32,416 |
| D18 | Governor's Office for Children | 19,295 |
| D25 | BPW Interagency Committee for School Construction | 29,710 |
| D26 | Department of Aging | 31,080 |
| D27 | Maryland Commission on Civil Rights | 32,406 |
| D38 | State Board of Elections | 48,630 |
| D40 | Department of Planning | 152,918 |
| D50 | Military Department | 109,478 |
| D55 | Department of Veterans Affairs | 73,266 |
| D60 | Maryland State Archives | 63,678 |
| E00 | Comptroller of Maryland | 1,107,271 |
| E20 | State Treasurer's Office | 33,032 |
| E50 | Department of Assessments and Taxation | 363,118 |
| E75 | State Lottery and Gaming Control Agency | 179,441 |
| E80 | Property Tax Assessment Appeals Boards | 12,846 |
| F10 | Department of Budget and Management | 180,046 |
| F50 | Department of Information Technology | 230,159 |
| H00 | Department of General Services | 498,745 |
| K00 | Department of Natural Resources | 671,475 |
| L00 | Department of Agriculture | 307,432 |
| M00 | Maryland Department of Health | 6,428,546 |
| N00 | Department of Human Services | 3,905,266 |
| P00 | Department of Labor, Licensing, and Regulation | 327,431 |
| Q00 | Department of Public Safety and Correctional Services | 18,577,426 |
| R00 | State Department of Education | 618,524 |
| R15 | Maryland Public Broadcasting Commission | 86,174 |
| R62 | Maryland Higher Education Commission | 51,644 |
| R75 | Support for State Operated Institutions of Higher Education | 12,453,948 |

| | | |
|---|---|---|
| R99 | Maryland School for the Deaf | 406,919 |
| S00 | Department of Housing and Community Development | 5,109 |
| T00 | Department of Commerce | 207,606 |
| U00 | Department of the Environment | 328,246 |
| V00 | Department of Juvenile Services | 2,505,930 |
| W00 | Department of State Police | 2,788,800 |
| | Total General Funds | 60,000,000<br>~~54,499,813~~ |

| | Agency | Special Funds |
|---|---|---|
| C81 | Office of the Attorney General | 77,939 |
| C90 | Public Service Commission | 183,320 |
| C91 | Office of the People's Council | 30,541 |
| C94 | Subsequent Injury Fund | 26,063 |
| C96 | Uninsured Employers Fund | 17,061 |
| C98 | Workers' Compensation Commission | 152,014 |
| D12 | Department of Disabilities | 1,406 |
| D13 | Maryland Energy Administration | 18,491 |
| D15 | Boards and Commissions | 1,116 |
| D16 | Secretary of State | 3,382 |
| D17 | Historic St. Mary's City Commission | 5,954 |
| D26 | Department of Aging | 6,536 |
| D38 | State Board of Elections | 5,247 |
| D40 | Department of Planning | 11,961 |
| D53 | Maryland Institute for Emergency Medical Services Systems | 121,425 |
| D55 | Department of Veterans Affairs | 7,683 |
| D60 | Maryland State Archives | 21,226 |
| D78 | Maryland Health Benefit Exchange | 60,410 |
| D80 | Maryland Insurance Administration | 359,204 |
| D90 | Canal Place Preservation and Development Authority | 2,546 |
| E00 | Comptroller of Maryland | 220,530 |
| E20 | State Treasurer's Office | 3,571 |
| E50 | Department of Assessments and Taxation | 389,781 |
| E75 | Maryland Lottery and Gaming Control Agency | 180,549 |
| F10 | Department of Budget and Management | 153,947 |
| F50 | Department of Information Technology | 8,148 |
| G20 | State Retirement Agency | 186,053 |
| G50 | Teachers and State Employees Supplemental Retirement Plans | 17,023 |
| H00 | Department of General Services | 17,977 |
| J00 | Department of Transportation | 8,292,612 |
| K00 | Department of Natural Resources | 924,335 |

| | | |
|---|---|---|
| L00 | Department of Agriculture | 132,258 |
| M00 | Maryland Department of Health | 527,685 |
| N00 | Department of Human Services | 113,283 |
| P00 | Department of Labor, Licensing, and Regulation | 350,379 |
| Q00 | Department of Public Safety and Correctional Services | 390,618 |
| R00 | State Department of Education | 34,659 |
| R15 | Maryland Public Broadcasting Commission | 111,468 |
| R62 | Maryland Higher Education Commission | 9,496 |
| S00 | Department of Housing and Community Development | 322,263 |
| T00 | Department of Commerce | 61,604 |
| U00 | Department of the Environment | 561,129 |
| W00 | Department of State Police | 678,229 |
| | Total Special Funds | 14,801,122 |

| | Agency | Federal Funds |
|---|---|---|
| C81 | Office of the Attorney General | 40,9 |
| C90 | Public Service Commission | 5,8 |
| D12 | Department of Disabilities | 13,6 |
| D13 | Maryland Energy Administration | 3,7 |
| D15 | Boards and Commissions | 22,8 |
| D26 | Department of Aging | 19,0 |
| D27 | Maryland Commission on Civil Rights | 7,7 |
| D40 | Department of Planning | 12,4 |
| D50 | Military Department | 193,6 |
| D55 | Department of Veterans Affairs | 12,8 |
| D78 | Maryland Health Benefit Exchange | 45,9 |
| D80 | Maryland Insurance Administration | 1,3 |
| H00 | Department of General Services | 7,8 |
| J00 | Department of Transportation | 343,1 |
| K00 | Department of Natural Resources | 142,1 |
| L00 | Department of Agriculture | 21,0 |
| M00 | Maryland Department of Health | 1,192,7 |
| N00 | Department of Human Services | 3,984,4 |
| P00 | Department of Labor, Licensing, and Regulation | 1,207,8 |
| Q00 | Department of Public Safety and Correctional Services | 426,7 |
| R00 | State Department of Education | 1,173,7 |
| R62 | Maryland Higher Education Commission | 3,5 |
| R99 | Maryland School for the Deaf | 8,3 |
| S00 | Department of Housing and Community Development | 85,7 |
| T00 | Department of Commerce | 8,6 |

| | | |
|---|---|---|
| U00 | Department of the Environment | 301,1 |
| V00 | Department of Juvenile Services | 32,9 |
| | Total Federal Funds | 9,320,3 |

| | Agency | Current Unrestricted Funds |
|---|---|---|
| R13 | Morgan State University | 724,0 |
| R14 | St. Mary's College of Maryland | 291,7 |
| R30 | University System of Maryland | 11,118,1 |
| R95 | Baltimore City Community College | 319,9 |
| | Total Current Unrestricted Funds | 12,453,9 |
| | Less: General Funds in Higher Education | 12,453,9 |
| | Net Current Unrestricted Funds | |

**Explanation:** The Administration cannot reduce the legislature or Judiciary's budgets. This action applies the health insurance contingent reduction to those budgets.

7. 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, 2018, as determined by the Secretary of Budget and Management. 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 an equal number of 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 contractual full-time equivalents (FTEs) 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 FTEs 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; and

(2) any positions created will be abolished in the event that non-State funds are no longer available.

The Secretary of Budget and Management shall certify and report to the General Assembly by June 30, 2019, the status of positions created with non-State funding sources during fiscal 2015 through 2019 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 2016 through 2019 | Department of Budget and Management | June 30, 2019 |

8. 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 2018, the Secretary of Budget and Management shall determine the total number of full-time equivalents (FTE) positions that are authorized as of the last day of fiscal 2018 and on the first day of fiscal 2019. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2018 and 2019, including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self-supported activities, and the Maryland Correctional Enterprises.

The Department of Budget and Management shall also prepare a report during fiscal 2019 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 2020 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 information in the same fashion as reported in the appendices of the fiscal 2019 Governor's budget books shall also be provided.

**Explanation:** This annual language providing reporting requirements for regular positions and contractual FTEs.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Total number of FTEs on June 30 and July 1, 2018 | Department of Budget and Management | July 14, 2018 |
| Report on the creation, transfer, or abolition of regular positions | Department of Budget and Management | As needed |

9. 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, 2018; October 15, 2018; January 15, 2019; and April 15, 2019; 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** | **Author** | **Due Date** |
|---|---|---|
| Report on all EPP positions | Department of Budget and Management | July 15, 2018<br>October 15, 2018<br>January 15, 2019<br>April 15, 2019 |

10. 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.

11. 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 Budget and Management shall include as an appendix in the fiscal 2020 Governor's budget books an accounting of the fiscal 2018 actual, fiscal 2019 working appropriation, and fiscal 2020 estimated revenues and expenditures associated with the employees' and retirees' health plan. The data in this report should be consistent with 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.

12. Add the following section:

**Section XX Reduce State Health Insurance Spending Contingent on Enactment of Legislation to Conform Elimination of Medicare-eligible Retiree Prescription Drug Coverage with Closure of the Medicare Donut Hole**

SECTION XX. AND BE IT FURTHER ENACTED, That $50,000,000 of appropriations for State health insurance contributions for employees (Comptroller subobject 0152) and retirees (Comptroller subobject 0154) shall be reduced, contingent upon the enactment of SB 187 or HB 161 to amend statute to align the elimination of Medicare-eligible retirees' prescription drug coverage with closure of the Medicare Part D coverage gap on January 1, 2019. The reduction shall be applied to the following appropriations:

| | |
|---|---|
| General Fund | $30,000,000 |
| Special Fund | $10,000,000 |
| Federal Fund | $10,000,000 |

**Explanation:** On February 9, 2018, Congress passed a law that accelerated the closure of the Medicare Part D coverage gap (donut hole) by one year to January 1, 2019. This language would eliminate prescription drug coverage for Medicare-eligible retirees on January 1, 2019, to align with the revised closure of the donut hole. Current statute has coverage eliminated as of July 1, 2019.

# *Updates*

## 1. Statewide Employee Compensation

Proposed statewide personnel spending in the allowance is $8.4 billion, an increase of $187.9 million, or 2.3%, over the fiscal 2018 working appropriation as shown in **Appendix 3**. Personnel spending accounts for 21.0% of State spending in fiscal 2019. The most significant changes include:

- $73.2 million increase in employee and retiree health insurance costs, including an across-the-board reduction that reduced State agency health insurance spending by $84.1 million in fiscal 2018;

- $54.3 million increase to provide a 2% general salary increase to State employees effective January 1, 2019;

- $32.1 million increase in overtime, primarily in DPSCS, which experienced an increase of $23.3 million;

- $15.1 million increase to provide step increases to SLEOLA members; and

- $35.7 million decrease in turnover expectancy, increasing the statewide turnover rate to 6.6%.

### 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 insurance and pensions, 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 employee supplemental retirement plans, but this has since been discontinued.

**Exhibit 18** shows changes in salary and benefits for the average State employee from fiscal 2008 to 2017. Fringe benefits have been increasing at a higher rate than salary costs. In fiscal 2008, fringe benefits were 26.7% of the average employees' salary. By fiscal 2017, fringe benefits account for almost one-third of employee costs. Pension contributions are the biggest increase in fringe benefits with an annual growth rate of 10.9%. Due to lower than expected returns on pension investments, contributions were increased starting in fiscal 2013. Health insurance increased by 2.9% annually. Growth in pension and health insurance costs have been mitigated by increases in employees' share of costs. Employee retirement contributions in the employees' and teachers' plans increased from 2% of salary in fiscal 2004 to 7% in fiscal 2012[2]. Increasing employees' and retirees'

[2] Employee contributions were increased to 3% in fiscal 2007, 4% in fiscal 2008, 5% in fiscal 2009, and 7% in fiscal 2012.

share of premium costs, adding coinsurance to certain health plans, and increasing copays and deductibles (all costs paid by the employee) have slowed the growth of State health insurance contributions.

**Exhibit 18**
## Change in Direct Salary and Benefit Costs for the Average Employee
**Fiscal 2008-2017**

| State Budgeted Compensation | 2008 | 2017 | Total Change | Annual % Change |
|---|---|---|---|---|
| Salary | $47,490 | $56,695 | $9,205 | 2.0% |
| Health Insurance Premium | 7,933 | 10,275 | 2,342 | 2.9% |
| Pension Contributions | 4,394 | 11,192 | 6,798 | 10.9% |
| Other Fringe Benefits | 4,968 | 5,316 | 348 | 0.8% |
| **Total** | **$64,785** | **$83,478** | **$18,693** | **2.9%** |
| Benefit Share of Total Cost | 26.7% | 32.1% | | |

Source: Department of Budget and Management, *Annual Personnel Reports*

The average employee salary increased from $47,490 in fiscal 2008 to $56,695 in fiscal 2017, an average growth of 2.0% annually. Salaries decreased from fiscal 2009 to 2011 due to employee furloughs implemented in response to economic recession and constrained budgets. Salaries remained relatively flat in fiscal 2012 and 2013, but grew by $6,446, or 13.2%, in fiscal 2015. This large increase in salary is unusual and most likely influenced by (1) funding for salary increases in fiscal 2014 and 2015; and (2) a change in methodology by DBM to exclude vacant position salaries in the calculation, which likely boosted the average salary reported in comparison to prior years. Since the change in fiscal 2015, salaries have grown by $1,400, or 1.3% annually.

In the most recent five fiscal years, two general salary increases, each effective for half the fiscal year (January 1), and two employee increments have been provided. During that time period, fiscal 2015 is the only year where both a general salary increase and employee increments have been provided. The budgets for fiscal 2016 and 2018 did not provide funding for salary increases. The fiscal 2019 allowance includes funding for a 2% general salary increase effective January 1, 2019. Employees will receive an additional 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. **Appendix 4** provides permanent employee statewide salary actions from fiscal 2003 to 2019.

## 2. Statewide Position Changes

Given the staffing shortages in various State agencies, SAC recommended discontinuing the position cap that the State has had in place for a number of years. The fiscal 2019 allowance authorizes 80,414 regular full-time equivalent positions, a decrease of 102 positions from the fiscal 2018 working appropriation. **Exhibit 19** provides a summary of the position changes from the fiscal 2018 legislative appropriation to the fiscal 2019 allowance.

The major changes in fiscal 2018 include:

- a net 384 positions are created in higher education institutions using flex personnel autonomy;
- 20 positions are transferred from DLLR to MDH to provide additional positions for expanded bed capacity;
- 15 positions are transferred from the Department of Information Technology (DoIT) to DJS (9 positions), Department of Housing and Community Development (DHCD) (5 positions), and Department of Disabilities (1 position) as the result of deconsolidation of IT services in these agencies;
- 11 positions are created by deficiency in MDH, including 10 positions in the Medical Care Program and 1 staffer for the Opioid Operational Command Center in BHA; and
- 4 positions are transferred from DHS to DHCD to provide staff for homeless programs.

**Exhibit 19**
## Regular Full-time Equivalent Position Changes
**Fiscal 2018 Legislative Appropriation to Fiscal 2019 Allowance**

| Department/Service Area | 2018 Leg. Approp. | BPW/Flex Adjust. | Abolish | Transfer | Def. | 2018 Work Approp. | Abolish | New | 2019 Allow. |
|---|---|---|---|---|---|---|---|---|---|
| **State Agencies with Position Changes** | | | | | | | | | |
| Public Safety and Correctional Services | 10,554 | - | - | - | - | 10,554 | -100 | - | 10,454 |
| Human Services | 6,224 | - | - | -4 | - | 6,220 | -100 | - | 6,120 |
| Health | 6,187 | - | - | 20 | 11 | 6,218 | - | 58 | 6,276 |
| Legal (Excluding Judiciary) | 1,474 | - | - | - | - | 1,474 | - | 1 | 1,475 |
| Executive and Administrative Control | 1,559 | - | - | 1 | 2 | 1,562 | - | 10 | 1,571 |
| Financial and Revenue Administration | 2,099 | - | - | - | - | 2,099 | -2 | - | 2,097 |
| Information Technology | 250 | - | - | -15 | - | 235 | - | - | 235 |
| Natural Resources | 1,333 | - | - | - | - | 1,333 | -1 | 9 | 1,340 |
| Agriculture | 355 | - | - | - | - | 355 | -3 | - | 352 |
| Labor, Licensing, and Regulation | 1,491 | - | - | -20 | - | 1,471 | -25 | - | 1,446 |
| MSDE and Other Education | 1,940 | - | - | - | - | 1,940 | -10 | - | 1,930 |
| Housing and Community Development | 324 | - | - | 9 | - | 333 | - | - | 333 |
| Commerce | 193 | - | - | - | - | 193 | -1 | - | 192 |
| Juvenile Services | 1,978 | - | - | 9 | - | 1,987 | - | - | 1,987 |
| ***Subtotal*** | ***35,960*** | ***0*** | ***0*** | ***0*** | ***13*** | ***35,973*** | ***-242*** | ***78*** | 35,809 |

| Department/Service Area | 2018 Leg. Approp. | BPW/Flex Adjust. | Abolish | Transfer | Def. | 2018 Work Approp. | Abolish | New | 2019 Allow. |
|---|---|---|---|---|---|---|---|---|---|
| **State Agencies without Position Changes** | **13,509** | **0** | **0** | **0** | **0** | **13,509** | **0** | **0** | **13,509** |
| **Executive Branch Subtotal** | **49,469** | **0** | **0** | **0** | **13** | **49,482** | **-242** | **78** | **49,318** |
| **Higher Education** | **25,911** | **399** | **-15** | **0** | **0** | **26,295** | **-2** | **0** | **26,293** |
| **Judiciary** | **3,989** | **0** | **0** | **0** | **0** | **3,989** | **0** | **63** | **4,052** |
| **Legislature** | **749** | **0** | **0** | **0** | **0** | **749** | **0** | **2** | **751** |
| **Grand Total** | **80,118** | **399** | **-15** | **0** | **13** | **80,516** | **-244** | **142** | **80,414** |

BPW: Board of Public Works
Def.: deficiency
MSDE: Maryland State Department of Education

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

Source: Department of Budget and Management

Unlike in prior years, DBM has not utilized the "Rule of 100" to create positions in fiscal 2018, and no positions were created through the BPW process.

The major changes in fiscal 2019 include:

- 100 correctional officer positions are abolished in DPSCS, with language included in the fiscal 2019 budget bill authorizing the agency to use the funding from those positions to assist with overtime costs;
- 100 positions are abolished in DHS, including 41 positions in the Family Investment Administration, 34.5 positions in the Social Services Administration, 19.5 positions in Administration, and 5 positions in the Child Support Administration;
- 63 positions are created in the Judiciary for judicial staff;
- 58 positions are created in MDH, including 33 direct care workers in BHA, 8 nurse surveyors and 1 physician in OHCQ, 8 analysts for Health Services Cost Review Commission, 5 positions in the Medical Care Program, and 3 positions in the Public Health Administration; and
- 25 positions are abolished in DLLR, including 11 positions in the Unemployment Insurance Program, 6 positions from Workforce Development Programs, 5 agency administrative positions, 2 positions from Labor and Industry Programs, and 1 position from Financial Regulation Program.

## 3. Statewide Personnel System Issues and Grievances Update

Since January 2008, DBM has been working to replace the State's legacy SPMS. The new system will include recruiting, compensation, performance management, timekeeping, and benefits administration capabilities. The vendor chosen for this project was Workday. Since the rollout of the components of the new system, there have been issues involving employee payroll, particularly at the State's 24/7 facilities. The 2017 JCR requested that DBM submit a report providing an update on the resolution of these issues, which was submitted on November 1, 2017. In fiscal 2017, DBM received 350 complaints regarding the new personnel system and resolved 338 complaints. Complaints are resolved when (1) the case is withdrawn by the complainant; (2) the case is settled by the parties; or (3) the case is forwarded to the Office of Administrative Hearings.

According to DBM, the implementation of the time and attendance/payroll module was complex and challenging, in part because, prior to implementation, State agencies had approximately 69 standalone timekeeping systems, and several agencies were still using paper timesheets and Excel. Additionally, the user base of the system expanded from primarily human resources and finance professionals to include virtually all State employees, which presented a substantial learning curve. On March 15, 2016, DBM and DoIT piloted the timekeeping system, and on May 25, 2016, all SPMS agencies went live, except DPSCS. DPSCS needed additional time to prepare due to the challenges of implementing a computer-based timekeeping system in a secure environment in which computers are not available to employees.

DPSCS went live with the system on October 12, 2016. Initially, there were limited issues with employees receiving a full 80 hours of pay and, in some cases, employees not receiving full overtime earnings in the pay period that it was earned. These issues were due to the manual effort involved in transferring correctional officers' time from paper worksheets into Workday. In response, DPSCS established a command center to quickly resolve pay issues, created a team of expert timekeepers, and obtained time-entry assistance from DBM. Additionally, DPSCS implemented a system adjustment to automatically pay employees for 80 hours, along with any overtime that had been entered for the pay period.

## 4. Collective Bargaining Agreements

Approximately 30,000 State employees, excluding higher education, were covered by collective bargaining as of February 2017. While most Executive Branch employees have collective bargaining rights, management service employees, special appointees, the Governor's personal staff, and elected officials do not. Certain Maryland Transit Administration employees also have binding arbitration. Excluding higher education, covered employees are divided into 11 bargaining units. The State Labor Relations Board conducts the elections in which employees choose their exclusive bargaining representative. **Appendix 5** contains a list of the bargaining units and their exclusive representatives.

DBM represents the State in negotiations with each unit's bargaining representative, and negotiations can include any matters relating to wages, hours, and terms and conditions of employment. The Governor is not required to negotiate on any matter that is inconsistent with State law, but the Governor can negotiate items that require a statutory change or an appropriation as long as the parties understand that the item cannot be effective until the General Assembly takes action. The General Assembly, however, is not bound by that agreement. The collective bargaining statute does not provide for binding arbitration. Instead, the State and bargaining representatives must meet and confer about negotiable terms. 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 MOU 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 lockout occurs or appears imminent, the State or an employee organization may petition the circuit court for relief.

### Agreements Reached For Bargaining Units

The State reached an agreement with the American Federation of State, County, and Municipal Employees (AFSCME), which represents over 20,000 members. The agreement expires December 31, 2020, and includes the following:

- 2% general salary increase on January 1, 2019;
- an additional 0.5% general salary increase and a $500 bonus on April 1, 2019, if fiscal 2018 general fund revenues exceed December 2017 revenue estimates by $75 million; and
- two additional payroll holidays for health insurance deductions in calendar 2018.

Agreements with AFT-Healthcare Maryland, the Maryland Professional Employees Council, and Local 1747 International Airport Fire Fighters Union were also reached. All bargaining units will get a 2% general salary increase on January 1, 2019, and the contingent increases on April 1, 2019. Nurses represented by AFT-Healthcare Maryland and correctional officers represented by AFSCME also negotiated hiring and retention bonuses.

Agreements with SLEOLA and Maryland Transportation Authority Police Lodge #34 are set to expire June 30, 2019. SLEOLA members receive step increases in fiscal 2019, as well as retroactive step increases for sworn officers who missed step increases in prior years.

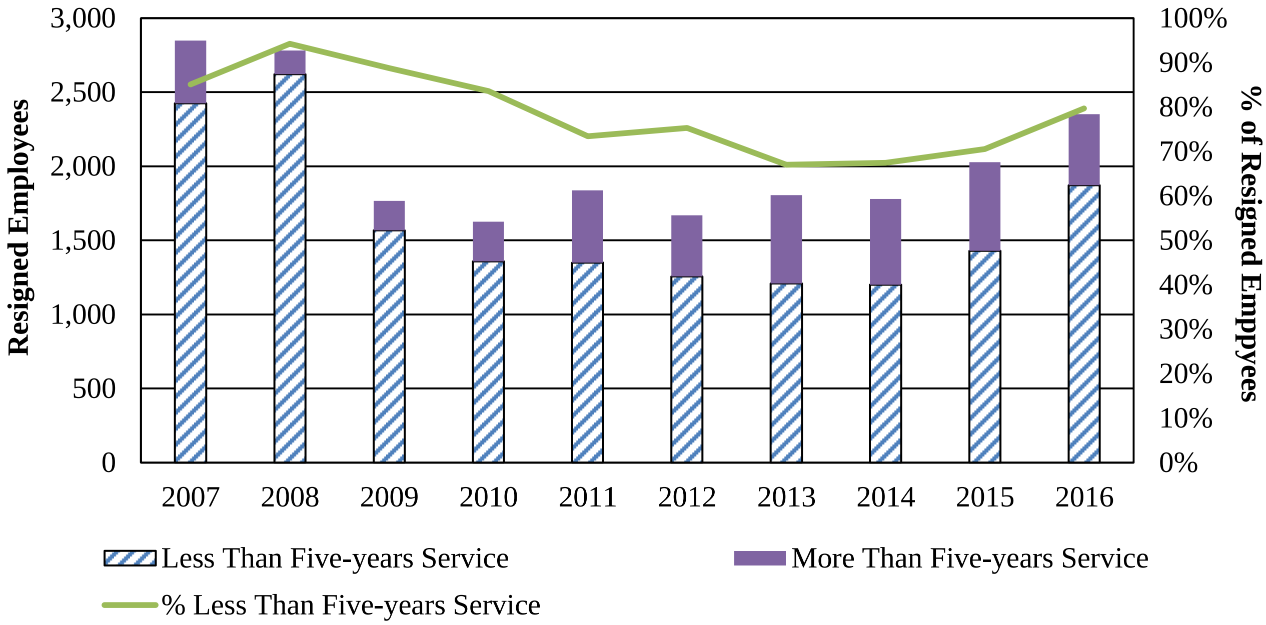
## 5. 2017 JCR Requested Reports Submitted

The 2017 JCR requested that DBM submit a variety of reports. The information and findings of these reports is summarized as follows.

### Employee Churn

Fiscal 2018 budget bill language requested DBM submit a report on employee churn from fiscal 2007 to 2016, including the total number of resignations of employees with five years or less of State service for each State agency. **Exhibit 20** shows SPMS employee resignations by years of service from fiscal 2007 to 2016.

**Exhibit 20**
**Employee Resignations by Years of Service**
**Fiscal 2007-2016**




Source: Department of Budget and Management

Employees with less than five years of service account for the majority of resignations each year. Employee resignations dropped in fiscal 2009 and 2010 and stayed at low levels through fiscal 2014, most likely due to the recession and uncertainty associated with the economy. Employees with years of service in excess of five years begin to represent a higher percentage of resignations in fiscal 2013 and 2014 than in previous years. Employee resignations overall increased in fiscal 2015 and 2016, most likely due to the improvement of the economy and increased availability of jobs.

## Employee Terminations and Demotions

The 2017 JCR requested DBM to provide employee demotions and terminations by years of service and State agencies for agencies with five or more terminations or demotions in a fiscal year. **Exhibit 21** provides employee demotions and terminations from fiscal 2012 to 2017 by years of service. Employees within 10 years of service account for over half of all demotions, and over two-thirds of all terminations. In the past 6 fiscal years, there were nine employees demoted and eight employees terminated with 35 years of service of more.

**Exhibit 21**
## Employee Demotions and Terminations by Years of Service
**State Agencies with Five or More Terminations**
**Fiscal 2012-2017**

| | Demotions | | | | | | Terminations | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Years of Service** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| 0-5 | 84 | 58 | 66 | 75 | 56 | 75 | 66 | 56 | 48 | 49 | 63 | 68 |
| 5-10 | 51 | 73 | 73 | 70 | 58 | 63 | 33 | 44 | 49 | 46 | 47 | 43 |
| 10-15 | 43 | 42 | 26 | 43 | 32 | 47 | 22 | 24 | 12 | 17 | 17 | 27 |
| 15-20 | 29 | 30 | 36 | 29 | 22 | 20 | 12 | 11 | 13 | 7 | 15 | 9 |
| 20-25 | 13 | 12 | 8 | 11 | 12 | 13 | 4 | 4 | 6 | 2 | 6 | 8 |
| 25-30 | 12 | 10 | 8 | 7 | 9 | 3 | 3 | 5 | 7 | 1 | 5 | 6 |
| 30-35 | 7 | 5 | 9 | 2 | 2 | 2 | 1 | 0 | 0 | 3 | 1 | 0 |
| 35-40 | 1 | 3 | 3 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| 40+ | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 2 | 4 |
| **Total** | **240** | **233** | **229** | **237** | **191** | **225** | **142** | **144** | **135** | **126** | **156** | **165** |

Source: Department of Budget and Management

## Appendix 1
# Current and Prior Year Budgets
### Department of Budget and Management – Personnel
### ($ in Thousands)

| | General Fund | Special Fund | Federal Fund | Reimb. Fund | Total |
|---|---|---|---|---|---|
| **Fiscal 2017** | | | | | |
| Legislative Appropriation | $104,976 | $17,978 | $8,713 | $10,021 | $141,687 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Cost Containment | -103 | 0 | 0 | 0 | -103 |
| Budget Amendments | -96,359 | -17,766 | -8,452 | 0 | -122,577 |
| Reversions and Cancellations | -552 | -212 | -261 | -2,131 | -3,156 |
| **Actual Expenditures** | **$7,961** | **$0** | **$0** | **$7,890** | **$15,851** |
| **Fiscal 2018** | | | | | |
| Legislative Appropriation | $11,536 | $516 | $6 | $9,005 | $21,063 |
| Cost Containment | -113 | 0 | 0 | 0 | -113 |
| Budget Amendments | -3,000 | -516 | -6 | 0 | -3,522 |
| **Working Appropriation** | **$8,423** | **$0** | **$0** | **$9,005** | **$17,429** |

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

## Fiscal 2017

The fiscal 2017 legislative appropriation for the Department of Budget and Management (DBM) Personnel programs totaled $141.7 million. The statewide program accounted for $123.3 million of the appropriation. All funds appropriated in the statewide program were either transferred to State agencies via budget amendment or canceled. Of the amounts transferred to State agencies, $104.2 million was distributed for employee increments ($81.4 million in general funds), $17.8 million was distributed to provide step increases for State Law Enforcement Officers Labor Alliance (SLEOLA) members ($14.6 million in general funds), and $798,000 was distributed for annual salary review increases ($508,000 in general funds). A total of $619,000 ($146,000 in general funds) were reverted and canceled from the statewide program. This funding was not needed to allocate salary increases.

Besides the statewide program, the fiscal 2017 legislative appropriation for DBM Personnel programs was $18.4 million. The appropriation for these programs decreased by $2.5 million, predominately due to canceled or reverted funds. Reimbursable funds of $2.1 million for the Benefits Administration System were canceled as a result of delayed needs, and the rest of the $449,000 in canceled and reverted funds were mostly unused salary costs. A November 2, 2016 Board of Public Works (BPW) cost containment action further reduced the budget by $103,000 in general funds, and a budget amendment decreased the appropriation by a net $8,000 in general funds, reflecting savings from deleted positions.

## Fiscal 2018

The fiscal 2018 working appropriation decreases by $3.6 million ($3.1 million in general funds). This decrease is primarily due to $3.5 million in total funds ($3.0 million in general funds) transferring out of the statewide program to provide step increases to SLEOLA members, per a collective bargaining agreement. The fiscal 2018 appropriation decreases further by $113,000 due to a September 6, 2017 BPW cost containment action, which was achieved through vacancies and elimination of $20,000 in funding for association dues.

## Appendix 2
# Major Information Technology Projects
## Department of Budget and Management – Personnel
## 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 of the project has been deployed. The second phase includes timekeeping. There is now a third phase for benefits management. | | |
| **Project Business Goals:** | The purpose of this project is to implement a cloud-based system to replace an antiquated legacy personnel 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:** | $81,211,830 | **Estimated Planning Project Cost:** | $6,026,913 |
| **Project Start Date:** | January 2008. | **Projected Completion Date:** | December 2018. |
| **Schedule Status:** | The time tracking functionality went live by March 2016 for the Department of Budget and Management (DBM) and Department of Information Technology (DoIT). All Statewide Personnel Management System (SPMS) agencies went live by May 2016, except for the Department of Public Safety and Correctional Services (DPSCS). DPSCS went live by October 2016, due to the delay in its internal process readiness. Benefits implementation started by December 2016, and went live for DBM and DoIT by September 2017. Parallel testing will continue and the remaining SPMS agencies, as well as higher education institutions, the Judiciary, and the Maryland General Assembly, are scheduled to go live by January 2019. | | |
| **Cost Status:** | Costs increased due to the delay of the benefits administration module and a change in the approach, including training and monitoring over the next 15 months to reduce transaction errors. | | |
| **Scope Status:** | No changes in scope are projected. | | |
| **Project Management Oversight Status:** | Because DoIT 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. The Workday product team is working with the State to deliver system fixes by September 2018, and is working to resolve compliance and usability issues of the new benefits module. | | |
| **Additional Comments:** | Project status is discussed in the Department of Budget and Management – Personnel Analysis. | | |

| **Fiscal Year Funding ($ in Thousands)** | **Prior Years** | **FY 2019** | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **Balance to Complete** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Professional and Outside Services | $76,370.3 | $4,341.5 | $500.0 | $0.0 | $0.0 | $0.0 | $4,841.5 | $81,211.8 |
| **Total Funding** | **$76,370.3** | **$4,341.5** | **$500.0** | **$0.0** | **$0.0** | **$0.0** | **$4,841.5** | **$81,211.8** |

## Appendix 3
# Regular Employee Statewide Personnel Cost Changes
### Fiscal 2018 Working Appropriation to Fiscal 2019 Allowance
### ($ in Millions)

| | |
|---|---|
| **2018 Working Appropriation*** | **$8,260.2** |
| **Statewide Salary Changes** | |
| 2% general salary increase effective January 1, 2019 | $54.3 |
| State Law Enforcement Officers Labor Alliance step increases | 15.1 |
| Annual salary review salary increases for specific position classifications | 1.3 |
| **Position-based Changes** | |
| New regular full-time equivalent positions in the allowance | 8.8 |
| Position abolitions, not including DPSCS abolished position funding | -9.7 |
| **Operational Expenditures** | |
| Overtime | 32.1 |
| Additional assistance | 14.5 |
| Regular earnings | 13.1 |
| Restoration of one-time personnel-related BPW cost containment savings | 11.6 |
| Accrued leave payout | 6.9 |
| Adjustments to turnover | -35.7 |
| Other personnel changes | 8.3 |
| **Fringe Benefits** | |
| Employee and retiree health insurance | 73.2 |
| Workers' compensation | 3.4 |
| Employee retirement | -1.7 |
| Social Security | -7.7 |
| **Fiscal 2019 Allowance** | **$8,448.1** |
| Increase over fiscal 2018 working appropriation | $187.9 |
| Percentage increase | 2.3% |

BPW: Board of Public Works
DPSCS: Department of Public Safety and Correctional Services

*The fiscal 2018 working appropriation has been reduced to reflect an $84.1 million reduction to health insurance per Section 19 of the fiscal 2019 budget bill. Deficiencies and contingent reductions are not included.

Source: Department of Budget and Management; Department of Legislative Services

## Appendix 4
# Permanent Employee Statewide Salary Actions
### Fiscal 2003-2019

| 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% with $900 Floor and $1,400 Ceiling | On time |
| 2008 | July 1, 2007 | 2% | On time |
| 2009 [1] | July 1, 2008 | 2% | 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% | None |
| 2014 | January 1, 2014 | 3% | April 1, 2014 |
| 2015 | January 1, 2015 | 2% | On time |
| 2016 | July 1, 2015 | None | None |
| 2017 | July 1, 2016 | None | On time |
| 2018 | July 1, 2017 | None | None |
| 2019 | January 1, 2019 | 2% | None |

[1] 2- to 5-day furlough.
[2] 3- to 10-day furlough.

Source: Department of Budget and Management

## Appendix 5
# Bargaining Units and Representatives
### As of February 2, 2017

| Title | Exclusive Representative | Employees | Expiration Dates |
|---|---|---|---|
| Labor and Trades | AFSCME | 1,738 | December 31, 2020 |
| Administrative, Technical, and Clerical | AFSCME | 5,252 | December 31, 2020 |
| Regulatory, Inspection, and Licensure | AFSCME | 794 | December 31, 2020 |
| Health and Human Service Nonprofessionals | AFSCME | 1,587 | December 31, 2020 |
| Health Care Professionals | AFT-Healthcare Maryland | 1,649 | December 31, 2020 |
| Social and Human Service Professional | AFSCME | 3,554 | December 31, 2020 |
| Engineering, Scientific, and Administrative Professionals | MPEC | 4,508 | December 31, 2020 |
| Public Safety and Security | AFSCME/Teamsters | 8,372 | December 31, 2020 |
| BWI Airport Fire Fighters | International Airport Professional Firefighters Local 1742 I.A.F.F., AFL-CIO, CLC | 69 | December 31, 2019 |
| Sworn Police Officers | SLEOLA | 1,734 | June 30, 2019 |
| MdTA Sworn Officers | MdTA Police Lodge #34 | 405 | June 30, 2019 |
| **Total** | | **29,662** | |

AFL-CIO: American Federation of Labor and Congress of Industrial Organizations
AFSCME: American Federation of State, County, and Municipal Employees
BWI: Baltimore-Washington International Thurgood Marshall Airport
CLC: Canadian Labor Congress
I.A.F.F: International Airport Fire Fighters
MdTA: Maryland Transportation Authority
MPEC: Maryland Professional Employees Council
SLEOLA: State Law Enforcement Officers' Labor Alliance

Sources: Department of Budget and Management; Maryland Department of Transportation

**Appendix 6**
**Object/Fund Difference Report**
**Department of Budget and Management – Personnel**

| Object/Fund | FY 17 Actual | FY 18 Working Appropriation | FY 19 Allowance | FY 18 - FY 19 Amount Change | Percent Change |
|---|---|---|---|---|---|
| **Positions** | | | | | |
| 01 Regular | 137.40 | 137.20 | 137.20 | 0.00 | 0% |
| 02 Contractual | 6.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| **Total Positions** | **143.40** | **137.20** | **137.20** | **0.00** | **0%** |
| **Objects** | | | | | |
| 01 Salaries and Wages | $ 12,159,786 | $ 12,787,319 | $ 83,791,990 | $ 71,004,671 | 555.3% |
| 02 Technical and Spec. Fees | 326,654 | 0 | 0 | 0 | 0.0% |
| 03 Communication | 456,717 | 328,730 | 327,760 | -970 | -0.3% |
| 04 Travel | 8,658 | 26,550 | 26,550 | 0 | 0% |
| 08 Contractual Services | 2,662,424 | 4,000,451 | 3,835,400 | -165,051 | -4.1% |
| 09 Supplies and Materials | 50,421 | 50,000 | 50,000 | 0 | 0% |
| 10 Equipment – Replacement | 2,125 | 37,000 | 37,000 | 0 | 0% |
| 13 Fixed Charges | 183,946 | 198,658 | 200,317 | 1,659 | 0.8% |
| **Total Objects** | **$ 15,850,731** | **$ 17,428,708** | **$ 88,269,017** | **$ 70,840,309** | **406.5%** |
| **Funds** | | | | | |
| 01 General Fund | $ 7,960,865 | $ 8,423,405 | $ 63,218,858 | $ 54,795,453 | 650.5% |
| 03 Special Fund | 0 | 0 | 11,421,443 | 11,421,443 | N/A |
| 05 Federal Fund | 0 | 0 | 4,502,385 | 4,502,385 | N/A |
| 09 Reimbursable Fund | 7,889,866 | 9,005,303 | 9,126,331 | 121,028 | 1.3% |
| **Total Funds** | **$ 15,850,731** | **$ 17,428,708** | **$ 88,269,017** | **$ 70,840,309** | **406.5%** |

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 7**
**Fiscal Summary**
**Department of Budget and Management – Personnel**

| Program/Unit | FY 17 Actual | FY 18 Wrk Approp | FY 19 Allowance | Change | FY 18 - FY 19 % Change |
|---|---|---|---|---|---|
| 01 Executive Direction | $ 2,209,776 | $ 1,780,173 | $ 1,818,166 | $ 37,993 | 2.1% |
| 02 Division of Employee Benefits | 6,313,994 | 7,568,330 | 7,614,199 | 45,869 | 0.6% |
| 04 Division of Employee Relations | 4,262,918 | 4,248,612 | 4,605,662 | 357,050 | 8.4% |
| 06 Division of Classification and Salary | 1,842,074 | 2,307,089 | 2,093,339 | -213,750 | -9.3% |
| 07 Division of Recruitment and Examination | 1,221,969 | 1,279,321 | 1,348,935 | 69,614 | 5.4% |
| 08 Statewide Expenses | 0 | 245,183 | 70,788,716 | 70,543,533 | 28771.8% |
| **Total Expenditures** | **$ 15,850,731** | **$ 17,428,708** | **$ 88,269,017** | **$ 70,840,309** | **406.5%** |
| | | | | | |
| General Fund | $ 7,960,865 | $ 8,423,405 | $ 63,218,858 | $ 54,795,453 | 650.5% |
| Special Fund | 0 | 0 | 11,421,443 | 11,421,443 | N/A |
| Federal Fund | 0 | 0 | 4,502,385 | 4,502,385 | N/A |
| **Total Appropriations** | **$ 7,960,865** | **$ 8,423,405** | **$ 79,142,686** | **$ 70,719,281** | **839.6%** |
| | | | | | |
| Reimbursable Fund | $ 7,889,866 | $ 9,005,303 | $ 9,126,331 | $ 121,028 | 1.3% |
| **Total Funds** | **$ 15,850,731** | **$ 17,428,708** | **$ 88,269,017** | **$ 70,840,309** | **406.5%** |

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.