C96J00

Uninsured Employers' Fund

Executive Summary

The Uninsured Employers' Fund (UEF) protects workers whose employers are not insured under the Maryland Workers' Compensation Law. UEF will directly pay claimants' compensation benefits and medical expenses and then hold the uninsured employer liable.

Operating Budget Data

($ in Thousands)

	FY 18 Actual	**FY 19 Working**	**FY 20 Allowance**	**FY 19-20 Change**	**% Change Prior Year**
General Fund	$0	$0	$2,000	$2,000	100.0%
Adjustments	0	0	0	0	
Adjusted General Fund	**$0**	**$0**	**$2,000**	**$2,000**	**100.0%**
Special Fund	1,788	1,600	1,918	318	19.9%
Adjustments	0	9	44	36	
Adjusted Special Fund	**$1,788**	**$1,608**	**$1,962**	**$354**	**22.0%**
Adjusted Grand Total	**$1,788**	**$1,608**	**$3,962**	**$2,354**	**146.4%**

Note: The fiscal 2019 appropriation includes deficiencies, a one-time $500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- The fiscal 2020 allowance provides $2 million in general funds, which the fund does not typically receive. These funds are provided to assist with claims associated with Bethlehem Steel retirees.

- Special funds increase by $354,000, or 22%, over fiscal 2019 primarily due to increases in personnel costs. Removing statewide general salary increases, regular earnings for the agency increase by $220,000, or 27.5%, due to salary increases and reclassifications.

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

For further information contact: Laura M. Vykol Phone: (410) 946-5530

Personnel Data

	FY 18 Actual	FY 19 Working	FY 20 Allowance	FY 19-20 Change
Regular Positions	13.00	13.00	13.00	0.00
Contractual FTEs	0.10	0.00	0.10	0.10
Total Personnel	**13.10**	**13.00**	**13.10**	**0.10**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/18	3.00	23.08%

- UEF has indicated that the 0.1 contractual full-time equivalent (FTE) provided in fiscal 2020 is an error and that the agency has no contractual FTEs. The Department of Legislative Services (DLS) recommends deleting funding associated with contractual FTEs, given the agency has none.

Key Observations

- ***Provision of General Funds Will Not Delay Insolvency:*** The fiscal 2020 allowance provides $2 million in general funds to assist UEF with claims associated with Bethlehem Steel retirees. Even with this additional funding, the fund is projected to be insolvent by fiscal 2021 as a result of benefit payments and operating costs outstripping revenues since fiscal 2015. DLS recommends an ongoing solution be considered, such as increasing the dedicated assessment revenue, and the general fund appropriation be deleted.

- ***Agency Continues to Struggle to Address Audit Findings:*** In a January 2018 audit report, the Office of Legislative Audits (OLA) concluded that UEF's accountability and compliance rating was unsatisfactory. In a follow-up report in November 2018, OLA determined that UEF had corrected one of the five findings reviewed. OLA will submit a follow-up report as requested by the legislature in February/March 2019, but DLS is concerned by the lack of progress and additional issues identified by OLA in the November 2018 report.

Operating Budget Recommended Actions

		Funds
1.	Delete general fund appropriation in favor of a long-term funding solution.	$ 2,000,000
2.	Add budget language restricting funds until the agency provides documentation that a contract for an actuarial study has been procured.	
3.	Delete funding for contractual full-time equivalents.	5,246
4.	Adopt committee narrative requesting quarterly financial reports.	
5.	Adopt committee narrative requiring the agency to include the cost of the third-party administrator contract in the agency's fiscal 2021 operating budget.	
	Total Reductions	**$ 2,005,246**

Operating Budget Analysis

Program Description

The Uninsured Employers' Fund (UEF) protects workers whose employers are not insured under the Maryland Workers' Compensation Law. UEF reviews and investigates claims filed by employees or, in the case of death, by their dependents. If the employer does not properly compensate a claimant, the fund will directly pay the claimant's compensation benefits and medical expenses. UEF then holds the uninsured employer liable for the total benefits that the fund paid to the claimant and for certain penalties and assessments.

The cost to administer the fund and provide benefits to claimants is wholly specially funded. The special funds are derived from a 2% assessment on (1) awards against employers or insurers for permanent disability or death; and (2) amounts payable by employers or insurers under settlement agreements. UEF also collects penalties from sanctions on uninsured employers and recovers benefits paid out for uninsured claims. UEF's mission addresses the need for:

- efficiently investigating and defending all designated noninsured cases;
- monitoring awards and following established procedures to ensure prompt payment to claimants and health care providers; and
- tracking and collecting fines and assessments and maintaining the adequacy and integrity of the fund balance.

Performance Analysis: Managing for Results

1. New Performance Measures Submitted

During the 2018 session, UEF expressed concern that the Managing for Results (MFR) measures for the agency were not a fair measure of agency performance. In response, the 2018 *Joint Chairmen's Report* (JCR) asked UEF to develop at least five new MFR measures that more appropriately reflected UEF's performance. UEF submitted a report to the budget committees outlining the five new MFR measures in September 2018. **Exhibit 1** provides the new MFR data submitted with the fiscal 2020 budget as well as the MFR measures UEF has been reporting previously. The new MFR measures include (1) the number of claims filed; (2) the number of investigations conducted; (3) the number of claims where coverage was found; (4) the number of claims where UEF was found to be responsible; and (5) the average number of open claims.

Exhibit 1
Uninsured Employers' Fund Managing for Results
Fiscal 2014 Actual to 2020 Estimate

	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Estimate	2020 Estimate
New Performance Measures							
Claims Filed	n/a	n/a	n/a	n/a	479	500	525
Investigations Conducted	n/a	n/a	n/a	n/a	479	500	525
Claims Where Coverage Is Found	n/a	n/a	n/a	n/a	98	100	110
Claims Where the Uninsured Employers' Fund Is Responsible	n/a	n/a	n/a	n/a	1,172	1,100	1,125
Average Open Claims	n/a	n/a	n/a	n/a	1,270	1,200	1,200
Prior Performance Measures							
New Cases	530	438	491	511	n/a	n/a	n/a
Investigations	700	840	816	757	n/a	n/a	n/a
Resolved Cases	480	436	370	430	992	430	425
Benefit Payments Made	3,414	4,102	3,740	4,114	2,250	3,758	2,175

Source: Uninsured Employers' Fund

During the 2018 session, UEF raised concerns on how resolved cases were defined and reported under the MFR process. In the report submitted in September 2018, UEF offers a clear definition of this term:

- ***Resolved Cases:*** Resolved cases include (1) cases in which the employer was found to have insurance or otherwise is covered by the insurance of another entity; (2) cases in which the Workers' Compensation Commission (WCC) finds in favor of UEF's position regarding the claim; (3) cases dismissed by WCC or the claimant; and (4) cases settled by UEF.

The number of resolved cases reported by the agency jumps from 430 in fiscal 2017 to 992 in fiscal 2018. According to UEF, refinement of the definition of resolved case and the addition of a fully staffed third-party administrator for claims processing both contributed to the increase in reported resolved cases. The number of benefit payments issued by the agency decreased from 4,114 in fiscal 2017 to 2,250 in fiscal 2018. This decrease reflects a change in reporting from a weekly basis to a biweekly basis to correspond with checks issued. This change results in a seemingly reduced number of payments, despite benefit payment numbers increasing in reality, according to UEF.

Outsourcing of Agency Primary Functions

According to UEF, the following functions are conducted by the third-party administrator for claims processing:

- recording, tracking, and investigating claims for purposes of coverage determination and defense preparation for WCC hearings;

- monitoring of active, inactive, and resolved cases; and

- payment of benefit payments to claimants.

Based on the mission of UEF, it appears that numerous primary functions of the agency have been outsourced to the third-party administrator. While a third-party administrator contract may be necessary in the short term in order to avoid disruption of benefit payments while the agency reorganizes, UEF should reevaluate the need for the third-party administrator contract in the future.

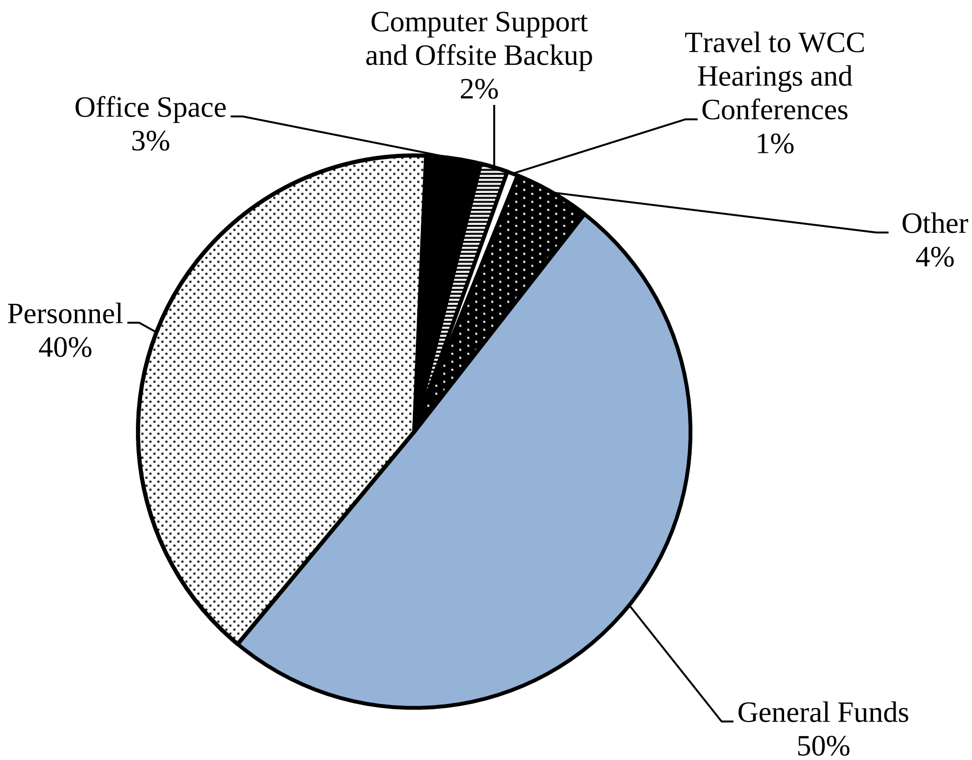
From September 2017 to August 2018, UEF paid $1.1 million for the third-party administrator contract, but the cost is not reflected in the agency's operating budget. UEF pays the cost of this contract from fund reserves, despite the cost being an ongoing operational expense. **The Department of Legislative Services (DLS) recommends that the budget committees adopt narrative requesting UEF to provide the cost of the third-party administrator contract with the agency's operating budget, starting with the fiscal 2021 budget submission.**

Fiscal 2020 Allowance

Overview of Agency Spending

The fiscal 2020 allowance for UEF amounts to $4 million. As shown in **Exhibit 2**, the $2 million general fund appropriation doubles UEF's usual budget.

Exhibit 2
Overview of Agency Spending
Fiscal 2020 Allowance



Fiscal 2020 Allowance = $3,961,878

WCC: Workers' Compensation Commission

Source: Governor's Fiscal 2020 Budget Books

Proposed Budget Change

As shown in **Exhibit 3**, the fiscal 2020 allowance increases by $2.4 million over the fiscal 2019 working appropriation. Removing the $2 million general fund appropriation, UEF's budget increases by $354,000, or 22%, primarily due to increases in personnel costs.

Exhibit 3
Proposed Budget
Uninsured Employers' Fund
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
Fiscal 2018 Actual	$0	$1,788	$1,788
Fiscal 2019 Working Appropriation	0	1,608	1,608
Fiscal 2020 Allowance	2,000	1,962	3,962
Fiscal 2019-2020 Amount Change	$2,000	$354	$2,354
Fiscal 2019-2020 Percent Change	100.0%	22.0%	146.4%

Where It Goes:	
Personnel Expenses	
Increases in salaries for various positions	$228
General salary increases in fiscal 2019 and 2020	43
Employee retirement	54
Social Security contributions	17
Employee and retiree health insurance	5
One-time $500 bonus for employees in fiscal 2019	-7
Other Changes	
General funds provided for Bethlehem Steel retirees' claims	2,000
Travel associated with WCC hearings and annual conference	15
Other	-1
Total	**$2,354**

WCC: Workers' Compensation Commission

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

Salary Increases

UEF receives the following statewide salary increases in fiscal 2019 and 2020:

- a 2% general salary increase effective January 1, 2019;

- a 0.5% general salary increase effective April 1, 2019;
- a $500 bonus effective April 1, 2019; and
- a 3% general salary increase effective July 1, 2019.

Besides these increases, UEF salary costs increase by $220,000 (27.5%) in fiscal 2020. **Exhibit 4** provides the positions that have received increases over the statewide increases budgeted.

Exhibit 4
Salary Increases (Excluding Statewide Budgeted Increases)
Fiscal 2020 Allowance

Position	Projected Salary*	Current Salary	Difference	% Change
Reclassifications of Vacant Positions				
Program Manager IV	$42,185	$65,901	$23,716	56.2%
Assistant Attorney General VI	34,527	96,222	61,695	178.7%
Assistant Attorney General VI	31,081	92,644	61,563	198.1%
Increases for Filled Positions				
Assistant Attorney General VI	$94,415	$100,742	$6,327	6.7%
Assistant Attorney General VI	92,644	98,848	6,204	6.7%
Administrative Manager Senior I	35,078	84,960	49,882	142.2%
Principal Counsel	106,320	116,965	10,645	10.0%
Total Increase			**$220,032**	

*Projected salary takes the prior authorized salary and applies the budgeted 2% general salary increase effective January 1, 2019, in order to exclude expected statewide increases.

Source: Governor's Fiscal 2020 Budget Books

UEF has made efforts in recent years to reclassify vacant positions to assistant Attorneys General positions in order to better pursue penalties and sanctions against uninsured employers. Salary increases for the legal staff at the agency increase by $146,000, accounting for two-thirds of the increase above statewide actions. These increases have been approved by the Office of the Attorney General.

Besides legal staff, the fiscal 2020 allowance shows significant salary increases to a vacant program manager IV position ($24,000, or 56%) and a filled administrative manager senior I position ($50,000, or 142%). According to UEF, the program manager IV is a reclassified vacant position that will act as the agency's claims manager and work directly with the third-party administrator and legal staff. The position will also be responsible for procurement and billing review. According to a November 2018 staffing report requested by the 2018 JCR, UEF is also in the process of reclassifying a vacant administrative specialist III position to serve as an office manager and clerk for the agency. The position will provide supervisory and oversight over administrative functions as well as work with legal, claims, and collections staff to ensure correct processing of the data. **UEF should discuss the need for both the program manager IV and the office manager and clerk, given the seeming overlap in the duties of the 2 positions.**

According to UEF, the filled administrative manager senior I position was reclassified in 2016 and is responsible for the agencies' collection function. During the 2017 session, the legislature abolished this position due to the nature of the position's role being duplicative with the function of the State's Central Collection Unit. **UEF should explain why the administrative manager senior I position merits a salary increase of $50,000, given the position has been filled at an authorized salary of $34,000 for three years.**

The fiscal 2020 allowance includes $5,246 in funding associated with a contractual full-time equivalent (FTE) of 0.1. According to UEF, the agency does not have any contractual FTEs and is unaware of why the FTE and funding were provided. **DLS recommends deleting the funding associated with contractual FTEs, given the agency has none.**

Issues

1. Provision of General Funds Will Not Delay Insolvency

UEF is entirely specially funded through an assessment on awards against and settlements with employers or insurers for permanent disability or death as defined by Section 9-1007 of the Labor and Employment Article. According to statute, if the UEF board determines that the reserves of the fund are inadequate to meet anticipated losses, the board may direct WCC to assess up to 2% maximum on permanency awards. In fiscal 2004, the UEF board used this authority to increase the assessment from 1% to 2% to provide for the estimated payouts for Bethlehem Steel workers' compensation claims in the wake of the company's bankruptcy. The rate was temporarily reduced back to 1% in fiscal 2008 but immediately returned to 2% in fiscal 2009 as the liability associated with Bethlehem Steel was revalued higher than expected. The assessment has remained at 2% since fiscal 2009.

As shown in **Exhibit 5**, benefit payments and agency operating expenditures have outstripped revenues since fiscal 2015. As a result, the reported fund balance decreased from $10.9 million in fiscal 2015 to $6.1 million in fiscal 2018.

Exhibit 5
Uninsured Employers' Fund
Fiscal 2015-2021 Est.
($ in Thousands)

Fiscal Year	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Est.	2020 Est.	2021 Est.
Beginning Balance	**$11,184**	**$10,861**	**$9,085**	**$7,041**	**$6,085**	**$2,446**	**$2,333**
Revenue							
Gross Fund Revenue	$8,390	$8,726	$7,589	$9,586	$8,100	$8,800	$8,500
Investment Income	110	105	111	121	71	110	104
Recovery of Benefit Payments Owed by Uninsured Employers	416	548	709	1,492	700	900	870
General Fund Payment						2,000	
Total Revenue	**$8,916**	**$9,380**	**$8,409**	**$11,200**	**$8,871**	**$11,810**	**$9,474**
Expenditures							
Benefits Payments	$7,977	$9,982	$8,863	$9,449	$9,800	$8,859	$9,391
Nonbudgeted Third-party Administrator Contract				918	1,102	1,102	1,102
Agency Operating Expenses	1,260	1,174	1,590	1,788	1,608	1,962	1,981
Total Expenditures	**$9,238**	**$11,156**	**$10,453**	**$12,155**	**$12,510**	**$11,923**	**$12,474**
Surplus/Deficit	**-$322**	**-$1,776**	**-$2,044**	**-$956**	**-$3,639**	**-$113**	**-$3,000**
Estimated Ending Balance	**$10,861**	**$9,085**	**$7,041**	**$6,085**	**$2,446**	**$2,333**	**-$667**

Source: Fiscal 2017-2020 Managing for Results; Department of Legislative Services

The fiscal 2020 allowance provides $2 million in general funds in addition to UEF's usual special fund revenue. Assuming the cost of this contract is ongoing, the fund is projected to be insolvent by fiscal 2021, even with the additional general funds. In a report submitted in January 2016, as requested in the 2015 JCR, UEF provided two recommendations to sustain the fund long term:

- the assessment percentage should be allowed to increase an additional 1% to 2% over the current assessment rate; and

- the fund balance cap of $5 million as provided in statue should be repealed or raised to allow for the accumulation of reserves to address future liabilities.

As shown in **Exhibit 6**, increasing the assessment by 1% (from 2% to 3%) would provide sufficient funding to prevent insolvency and allow the fund to accumulate reserves to address future liabilities, based on the data available. As a result of this increase, the $2 million in general funds provided in fiscal 2020 would not be required, and the additional revenue would provide a long-term solution instead of a short-term fix. Legislation would be needed to authorize an increase in the assessment. **DLS recommends deleting the $2 million general fund appropriation in fiscal 2020 and that a long-term revenue solution, such as increasing the assessment rate, be pursued instead.**

Exhibit 6
Uninsured Employers' Fund with 1% Increase in Assessments Beginning in Fiscal 2020
Fiscal 2015-2021 Est.
($ in Thousands)

Fiscal Year	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Est.	2020 Est.	2021 Est.
Beginning Balance	**$11,184**	**$10,861**	**$9,085**	**$7,041**	**$6,085**	**$2,446**	**$4,325**
Revenue							
Gross Fund Revenue	$8,390	$8,726	$7,589	$9,586	$8,100	$12,792	$12,877
Investment Income	110	105	111	121	71	110	104
Recovery of Benefit Payments Owed by Uninsured Employers	416	548	709	1,492	700	900	870
Total Revenue	**$8,916**	**$9,380**	**$8,409**	**$11,200**	**$8,871**	**$13,802**	**$13,850**
Expenditures							
Benefits Payments	$7,977	$9,982	$8,863	$9,449	$9,800	$8,859	$9,391
Nonbudgeted Third-party Administrator Contract				918	1,102	1,102	1,102
Agency Operating Expenses	1,260	1,174	1,590	1,788	1,608	1,962	1,981
Total Expenditures	**$9,238**	**$11,156**	**$10,453**	**$12,155**	**$12,510**	**$11,923**	**$12,474**
Surplus/Deficit	**-$322**	**-$1,776**	**-$2,044**	**-$956**	**-$3,639**	**$1,878**	**$1,376**
Estimated Ending Balance	**$10,861**	**$9,085**	**$7,041**	**$6,085**	**$2,446**	**$4,325**	**$5,701**

Source: Fiscal 2017-2020 Managing for Results; Department of Legislative Services

In regard to the $5 million fund balance cap instituted in statute, in practice, this cap has not been enforced. SB 62 of 2019 seeks to repeal the $5 million fund balance cap as recommended by UEF in 2016.

Actuarial Study Out of Date

The last actuarial study conducted for UEF was in 2014 by Pinnacle Actuarial Resources, Inc. (Pinnacle). Pinnacle recommended that an actuarial study be conducted every two to three years to monitor unfunded loss liability and cash flow, and evaluate the need to revise the assessment rate. According to the actuary's assumption at that time, the fund was expected to be solvent through fiscal 2024. As costs have increased, projected insolvency has been projected earlier each year. However, it is difficult to accurately project fund health without an updated actuarial study. In 2018, UEF agreed that the Pinnacle study was out of date but felt that an actuarial study was not prudent at that time due to major changes occurring in agency staffing. Now that many positions have been reclassified, DLS is recommending the agency conduct an actuarial study to reevaluate the health of the fund. **DLS recommends $100,000 in special funds be restricted until UEF submits award information to the budget committees indicating the agency has entered into a contract for an actuarial study.**

2. Agency Continues to Struggle with Audit Findings

In a January 2018 audit report, the Office of Legislative Audits (OLA) concluded that UEF's accountability and compliance rating was unsatisfactory. In November 2018, OLA submitted a follow-up review of the actions taken by UEF to address the findings identified in the January 2018 audit. During the follow up, UEF indicated that four findings had been corrected, and additional actions were still required to address the four remaining findings. OLA reviewed the four findings that UEF indicated were corrected and one finding for which UEF indicated additional actions were needed. OLA's review disclosed that UEF had corrected one of the five findings reviewed. To varying degrees, UEF had made progress but did not resolve the other four findings. **Exhibit 7** provides UEF's assessed implementation status for all eight findings as well as the results of the review for the five findings as determined by OLA.

Exhibit 7
Implementation Status of Findings in the January 2018 UEF Audit Report

Prior Finding	Status as Determined by UEF as of June 2018	Status Based on Auditor's Review
UEF did not conduct independent reviews of accounts receivable transactions.	In progress	n/a
UEF did not adequately monitor and pursue collection of delinquent accounts. As of January 2017, there were 3,980 delinquent accounts totaling $5.2 million that should have been referred to the Department of Budget and Management Central Collection Unit.	In progress	n/a
UEF did not adequately review indemnity and medical claim payments for propriety.	Corrected	In progress
UEF violated State procurement regulations to obtain claims processing and related services from 11 vendors, did not have written agreements, and did not adequately monitor the vendors' services and verify their billings.	Corrected	No progress
UEF did not have adequate procedures and controls to ensure that all collections were deposited.	Corrected	In progress
Sensitive personally identifiable information maintained by UEF was stored without adequate safeguards.	Corrected	Corrected
Security event monitoring, access controls, and user access monitoring were not sufficient.	In progress	n/a
UEF did not have an information systems disaster recovery plan.	In progress	In progress

UEF: Uninsured Employers' Fund

Source: Office of Legislative Audits

Third-party Administrator Contract Finding

In the January 2018 audit, OLA recommended that UEF comply with procurement and contract provisions of State procurement regulations by soliciting competitive bids for the third-party administrator claims processing contract that the agency entered into by emergency in September 2017.

OLA also recommended that UEF ensure invoiced amounts are supported, agree to contract-approved rates and level of services prior to approving invoices for payment of the contract, and resubmit the emergency contract initially withdrawn to the Board of Public Works (BPW) for approval. According to the OLA follow-up report, UEF has made no progress on this finding.

UEF entered into an emergency contract with a vendor for claims processing for an 18-month term beginning September 1, 2017, at an estimated cost of $994,500 (plus fees). OLA determined at that time that UEF violated State procurement laws by not competitively bidding the contract. In response, the legislature restricted $50,000 in special funds until UEF submitted a draft Request for Proposals (RFP) to competitively bid the contract and an additional $50,000 in special funds pending award information from the competitive bidding process. UEF submitted a draft RFP to the budget committees, as required, in October 2018. According to the agency, the final competevely bid contract is expected to be brought to BPW for approval by March 2019.

In OLA's follow-up report, it was determined that UEF did not comply with provisions of the State procurement regulations with respect to additional services procured by the agency from the third-party administrator. Specifically, beginning in February 2018, UEF began paying the vendor a separate fee for services provided by an individual employed by the vendor who was handling the settlement of claims associated with a large company's bankruptcy. While the emergency contract with this vendor included a provision for additional services, UEF did not enter into a contract modification with the vendor for these services to reflect agreed-upon terms. Furthermore, the vendor's invoices did not specify the hours worked by this individual or the number of claims handled to support the work performed. From February to August 2018, UEF paid $95,550 to the vendor for this individual's services.

OLA also determined that UEF did not ensure that invoiced amounts from the vendor were supported and agreed to contract-approved rates. Specifically, UEF paid the vendor a fixed monthly fee of $82,875, which is based on a 12-month contract term, rather than the required $55,250 based on the actual 18-month term. UEF management advised OLA that it was aware of this discrepancy but had an informal understanding with the vendor that the $994,500 estimated cost of the contract would be paid over a 12-month period instead of an 18-month period. UEF management further advised OLA that it would continue to compensate the vendor at the monthly rate of $82,875 for the remaining 6 months of the contract, overpaying the contract by $497,250. UEF never resubmitted a modified contract to BPW for approval.

OLA will provide a follow-up report on UEF's progress on repeat audit findings, as requested by the legislature, in February/March 2019, but DLS is concerned by the lack of progress and additional issues identified by the OLA November 2018 report. **UEF should comment on the OLA follow-up review in November 2018 and explain why the agency did not submit contract modifications to BPW as recommended by OLA. The agency should also explain why the third-party administrator vendor was overpaid in comparison to the contract brought to BPW.**

Operating Budget Recommended Actions

		Amount Reduction	
1.	Delete general fund appropriation in favor of a long-term funding solution.	$ 2,000,000	GF

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

<u>, provided that $100,000 of this appropriation made for the purpose of general administration may not be expended until the Uninsured Employers' Fund submits documentation to the budget committees indicating that an actuarial contract has been awarded to conduct an actuarial study. The documentation shall be submitted by January 1, 2020, and the budget committees shall have 45 days to review and comment. Funds restricted pending the receipt of the documentation may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled if the documentation is not submitted to the budget committees.</u>

Explanation: This budget bill language restricts $100,000 in special funds until the Uninsured Employers' Fund (UEF) submits documentation indicating that the agency has entered into a contract to conduct an actuarial study. The last actuarial study was conducted in 2014 and recommended a study every two to three years.

Information Request	Author	Due Date
Documentation of awarded contract to conduct actuarial study	UEF	January 1, 2020

		Amount Reduction	
3.	Delete funding for contractual full-time equivalents the agency does not have.	5,246	SF

4. Adopt the following narrative:

Quarterly Financial Reports: During the 2018 session, the budget committees requested that the Uninsured Employers' Fund (UEF) submit quarterly financial reports in order to monitor the health of the fund. The budget committees request that UEF continue to submit quarterly financial data, providing actual revenues and expenditures, in order to monitor fund health. Additionally, the budget committees request expenditures for the third-party administrator claims processing contract be provided, given the cost of this contract is not currently accounted for in the agency's budget. The quarterly reports should also provide the most recent fund balance to date. UEF should submit reports on August 15, 2019; November 15, 2019; February 15, 2020; and May 15, 2020.

Information Request	**Author**	**Due Date**
Quarterly financial reports	UEF	August 15, 2019 November 15, 2019 February 15, 2020 May 15, 2020

5. Adopt the following narrative:

Third-party Administrator Contract Cost Not Budgeted: In September 2017, the Uninsured Employers' Fund (UEF) entered into an emergency contract with a third-party administrator to provide claims processing services. From September 2017 to August 2018, UEF paid the vendor $1.1 million; however, this amount does not appear in UEF's budget. According to the agency, the cost of this contract is paid with nonbudgeted funds, which is the fund balance. Since the contract is an ongoing operational cost, there is no reason this cost should not be included in the agency's operating expenditures. The budget committees request UEF include the cost of the third-party administrator within the agency's operating budget submission, starting with the fiscal 2021 budget.

Total Reductions	**$ 2,005,246**
Total General Fund Reductions	**$ 2,000,000**
Total Special Fund Reductions	**$ 5,246**

Appendix 1
Current and Prior Year Budgets
Uninsured Employers' Fund
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2018					
Legislative Appropriation	$0	$1,589	$0	$0	$1,589
Deficiency/Withdrawn Appropriation	0	-17	0	0	-17
Cost Containment	0	0	0	0	0
Budget Amendments	0	227	0	0	227
Reversions and Cancellations	0	-11	0	0	-11
Actual Expenditures	**$0**	**$1,788**	**$0**	**$0**	**$1,788**
Fiscal 2019					
Legislative Appropriation	$0	$1,589	$0	$0	$1,589
Budget Amendments	0	10	0	0	10
Working Appropriation	**$0**	**$1,600**	**$0**	**$0**	**$1,600**

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time $500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

Fiscal 2018

The fiscal 2018 legislative appropriation for the Uninsured Employers' Fund (UEF) increased by $199,000 in special funds. An increase of $226,700 in additional funds was provided to cover unanticipated salary costs of the department's legal staff and executive director, additional communication costs, increased travel expenses associated with workers' compensation hearings, increased monthly costs for an information technology contract, costs for temporary office staff, and other office needs. The increase was partially offset by a decrease of $17,000, reflecting an across-the-board reduction to health insurance per Section 19 of the fiscal 2019 Budget Bill and $11,000 in canceled funds.

Fiscal 2019

The fiscal 2019 legislative appropriation for UEF increases by $10,000 to reflect funding provided for a 2% general salary increase effective January 1, 2018. The funding for the increase was previously budgeted in the Department of Budget and Management Statewide Program.

Appendix 2
Object/Fund Difference Report
Uninsured Employers' Fund

Object/Fund	FY 18 Actual	FY 19 Working Appropriation	FY 20 Allowance	FY 19 - FY 20 Amount Change	Percent Change
Positions					
01 Regular	13.00	13.00	13.00	0.00	0%
02 Contractual	0.10	0.00	0.10	0.10	n/a
Total Positions	**13.10**	**13.00**	**13.10**	**0.10**	**0.8%**
Objects					
01 Salaries and Wages	$ 1,153,291	$ 1,222,427	$ 1,526,592	$ 304,165	24.9%
02 Technical and Special Fees	3,346	7,100	12,346	5,246	73.9%
03 Communication	44,602	57,721	32,012	-25,709	-44.5%
04 Travel	20,222	14,500	25,000	10,500	72.4%
08 Contractual Services	427,608	137,827	161,674	23,847	17.3%
09 Supplies and Materials	8,666	19,500	19,500	0	0%
10 Equipment – Replacement	15,541	11,385	11,385	0	0%
12 Grants, Subsidies, and Contributions	0	0	2,000,000	2,000,000	n/a
13 Fixed Charges	114,586	129,106	129,064	-42	0%
Total Objects	**$ 1,787,862**	**$ 1,599,566**	**$ 3,917,573**	**$ 2,318,007**	**144.9%**
Funds					
01 General Fund	$ 0	$ 0	$ 2,000,000	$ 2,000,000	n/a
03 Special Fund	1,787,862	1,599,566	1,917,573	318,007	19.9%
Total Funds	**$ 1,787,862**	**$ 1,599,566**	**$ 3,917,573**	**$ 2,318,007**	**144.9%**

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time $500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.