

C98F00
Workers' Compensation Commission

Executive Summary

The Workers' Compensation Commission (WCC) administers the State Workers' Compensation Law.

Operating Budget Data

(\$ in Thousands)

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$15,056	\$16,868	\$17,913	\$1,046	6.2%
Adjustments	0	75	319	244	
Adjusted Special Fund	\$15,056	\$16,942	\$18,232	\$1,290	7.6%
 Adjusted Grand Total	 \$15,056	 \$16,942	 \$18,232	 \$1,290	 7.6%

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

- WCC is entirely funded by an assessment on licensed insurers and self-insured entities in the State. The fiscal 2020 allowance increases by \$1.3 million largely due to an updated cost estimate for the replacement of the agency's case management system and the impact of statewide salary increases.
- The adjustments to the fiscal 2019 working appropriation and fiscal 2020 allowance are attributable to statewide employee compensation increases.

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

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Personnel Data

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>
Regular Positions	115.00	115.00	115.00	0.00
Contractual FTEs	<u>11.25</u>	<u>11.25</u>	<u>11.25</u>	<u>0.00</u>
Total Personnel	126.25	126.25	126.25	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.40	3.83%
Positions and Percentage Vacant as of 12/31/18	6.00	5.22%

Key Observations

- Fiscal 2019 and 2020 are likely to be transitional years for WCC and its leadership. Three new commissioners have been appointed in fiscal 2019, and the agency is in the process of replacing the case management system that it has relied on for decades.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

- This analysis includes additional statistics on claims as well as changes to the assessment on insurers and self-insured employers for fiscal 2018.

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Workers' Compensation Commission

Operating Budget Analysis

Program Description

The Workers' Compensation Commission (WCC) administers the State Workers' Compensation Law, which requires most employers in the State to maintain insurance to provide benefits to employees who sustain an accidental personal injury, occupational disease, or death in the course of their employment. WCC receives, processes, and adjudicates such claims and refers appropriate claimants for medical and rehabilitation vocational services. WCC is a special fund agency supported by an annual maintenance assessment levied on insurance carriers and self-insured employers.

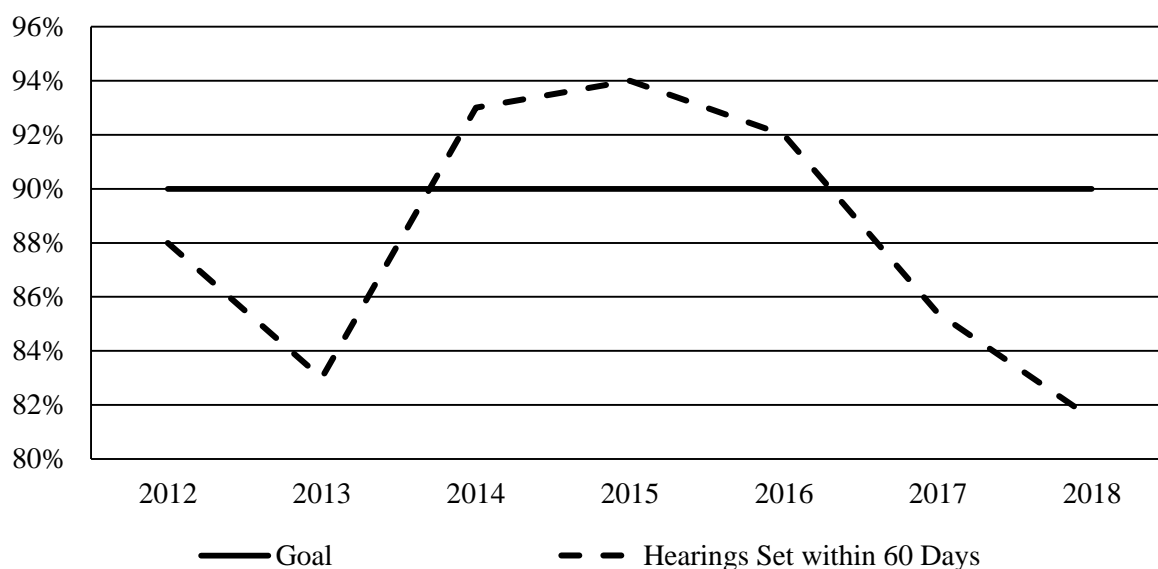
Performance Analysis: Managing for Results

1. Commissioner Turnover Continues to Impact Case Flow

WCC has 10 commissioners, 9 of whom serve as full-time hearing officers (the chairman has other duties as the administrative head of the commission). Thus, turnover of even 1 commissioner is likely to have a noticeable impact on the agency's performance metrics, which are based upon how efficiently WCC can process cases. For instance, as shown in **Exhibit 1**, the WCC principal workflow benchmark, the percentage of nonpermanency hearings set within 60 days, remained below the agency's 90% goal in both fiscal 2017 and 2018. While a slight uptick in the total caseload likely had an impact on clearance rates for fiscal 2018, the principal driver was most likely a longer than expected timeframe to onboard a new commissioner who was appointed in fiscal 2017, which negatively impacted both fiscal years. It is important to note that this impact was limited to the hearing calendar and that commissioners maintained their usual pace in issuing decisions once cases were heard (99% of orders were issued within 30 days after the hearings were conducted).

While this underperformance is a short-term phenomenon and is not evidence of agency performance issues, it does illustrate the importance of well-managed succession and the timely selection and appointment of new commissioners. This dynamic will be particularly important in fiscal 2019 because of the retirement of three commissioners and the appointment of their replacements in the first six months of the fiscal year. At a minimum, for three months of the year, only the other six commissioners will conduct full dockets as the new commissioners receive training. Therefore, it is likely that the timely clearance rate will remain somewhat depressed in fiscal 2019.

Exhibit 1
Percent of Nonpermanency Hearings Set within 60 Days
Fiscal 2012-2018



Source: Department of Budget and Management

Fiscal 2019 Actions

Proposed Deficiency

The budget includes a fiscal 2019 deficiency to provide a \$500 bonus and 0.5% general salary increase to qualifying employees effective April 1, 2019. For this agency, those actions add a total of \$74,581 to the fiscal 2019 appropriation.

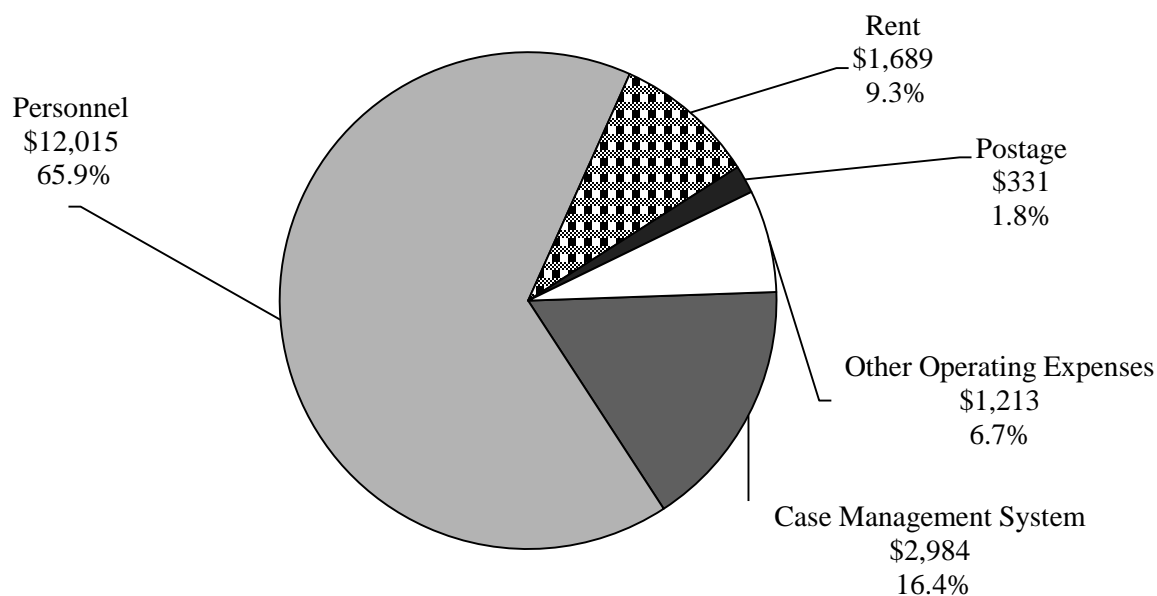
Fiscal 2020 Allowance

Overview of Agency Spending

Over 80% of the WCC fiscal 2020 allowance is for employee compensation (\$12.0 million) and the development of the case management system (\$3.0 million), as illustrated in **Exhibit 2**. The remainder of the budget is devoted to various expenses related to the day-to-day operations of the agency, particularly rent for the agency headquarters in downtown Baltimore. In addition, because

WCC is an administrative court, the agency still spends a noticeable share of its budget on postage for correspondence with parties.

Exhibit 2
Key Components of WCC Allowance
Fiscal 2020
(\$ in Thousands)



WCC: Workers’ Compensation Commission

Source: Department of Legislative Services

Proposed Budget Change

As shown in **Exhibit 3**, the fiscal 2020 allowance for WCC increases by \$1.3 million, or 7.6%, all in special funds. This increase is attributable to general salary increases for fiscal 2019 and 2020 as well as increased costs for WCC’s new case management system.

Exhibit 3
Proposed Budget
Workers' Compensation Commission
(\$ in Thousands)

How Much It Grows:	<u>Special Fund</u>	<u>Total</u>
Fiscal 2018 Actual	\$15,056	\$15,056
Fiscal 2019 Working Appropriation	16,942	16,942
Fiscal 2020 Allowance	<u>18,232</u>	<u>18,232</u>
Fiscal 2019-2020 Amount Change	\$1,290	\$1,290
Fiscal 2019-2020 Percent Change	7.6%	7.6%

Where It Goes:**Personnel Expenses**

3% general salary increase for fiscal 2020.....	\$274
Annualization of fiscal 2019 2% cost-of-living adjustment and 0.5% general salary increase.....	134
Employee retirement system.....	101
Employee and retiree health insurance	99
Commissioner salary increase under judicial compensation plan.....	50
Other personnel adjustments.....	-12
Workers' Compensation assessment.....	-30
Impact of fiscal 2019 \$500 bonus for qualifying employees	-63

Other Changes

New case management system major information technology project.....	816
Rent for headquarters.....	28
Telephones	-10
Mileage reimbursements for commissioners	-10
Language interpreter costs decline due to decrease in requests for services by parties	-19
Reduced maintenance costs for document scanning due to hardware upgrades.....	-70
Other	2

Total	\$1,290
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Note: Numbers may not sum to total due to rounding.

Personnel

Personnel expenditures increase by a total of \$553,604 for fiscal 2020. This increase is largely attributable to the general salary increases for fiscal 2019 and 2020 along with other statewide adjustments for pension and health insurance costs. However, the increase also includes a total of \$50,000 to increase commissioner salaries by \$5,000 based on the judicial compensation plan approved by the General Assembly during the 2018 session (JR 3 of 2018). By law, commissioners receive the same salary as District Court judges.

New Case Management System Costs Increase Based on Successful Procurement

When the General Assembly approved the WCC fiscal 2019 budget, it included \$1.6 million in fiscal 2019 for a major information technology project to replace the WCC 30-year-old electronic case management system. Since that time, the project was delayed by 18 months because the initial Task Order Request for Proposals (RFP) from the State’s pre-approved vendors did not lead to a bid that was acceptable to both WCC and the Department of Information Technology, which necessitated a longer RFP process.

The estimated cost of the project has also changed based on what the agency learned from the RFP process. The total project cost estimate has increased from \$8.8 million to \$14.9 million through fiscal 2023. This updated estimate, as well as changes in the project schedule, necessitated a budget amendment increasing the appropriation for fiscal 2019 to \$2.2 million. The allowance includes an additional increase of \$816,024 for fiscal 2020, for a total of \$3.0 million for the project. This is nearly double the amount programmed for fiscal 2020 when the General Assembly approved the budget last year.

While the cost estimate for the project has increased substantially, WCC appears to be carefully managing the development process, and the adjusted estimate merely reflects the market cost of the system WCC needs to maintain its electronic document management. These additional costs will be reflected in a higher assessment rate for insurers and self-insured employers. More information on this project is available in **Appendix 2**.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Fiscal 2018 Caseload and Insurer Levels

There are five key areas that drive the WCC workload: first reports of injury; claims filed; issues filed; hearings; and appeals. **Exhibit 4** shows how these areas affect the WCC workload annually. In fiscal 2018, all metrics saw slight increases, but levels remain low by historical standards.

Exhibit 4
Commission Claims Action
Fiscal 2014-2018

	<u>Actual</u> <u>2014</u>	<u>Actual</u> <u>2015</u>	<u>Actual</u> <u>2016</u>	<u>Actual</u> <u>2017</u>	<u>Actual</u> <u>2018</u>	<u>% Change</u> <u>2017-2018</u>
First Reports of Injury	110,783	96,581	91,109	89,757	92,483	3.04%
Total Filed Claims	24,113	23,706	23,683	23,706	24,041	1.41%
Issues Filed	44,570	42,813	44,295	43,797	46,020	5.08%
Hearings Set	43,382	40,059	43,870	41,414	44,040	6.34%
Appeals	2,018	1,975	1,907	1,895	1,959	3.38%

Source: Workers' Compensation Commission

WCC is also responsible for levying the annual payroll-based assessment on all licensed insurers and authorized self-insured entities that supports the WCC operations and the State's occupational safety program, which is part of the Department of Labor, Licensing, and Regulation. **Exhibit 5** lists the payroll base, commission expense, safety program, and the resulting assessment since fiscal 2010. The total assessment in fiscal 2018 declined by \$823,124, and the payroll base increased by \$2.2 billion. As a result, the assessment rate fell by 4.9%.

Exhibit 5
Total Payrolls and Insurer Assessments
Fiscal 2010-2018
(\$ in Thousands)

	<u>Assessment Base</u> <u>Insurer Payroll</u>	<u>Commission</u> <u>Expense</u>	<u>Safety</u> <u>Program</u> <u>Cost</u>	<u>Total</u> <u>Expenses</u>	<u>Insurer</u> <u>Assessments</u>	<u>Assessment</u> <u>Per \$1,000 of</u> <u>Payroll</u>
2018	\$144,091,231	\$14,475	\$10,867	\$25,342	\$25,331	0.175
2017	141,868,668	15,049	11,105	26,154	26,154	0.184
2016	130,198,576	13,243	12,279	25,522	25,522	0.196
2015	123,788,021	13,851	11,333	25,183	24,743	0.200
2014	121,027,528	13,898	12,157	26,055	25,684	0.212
2013	113,830,537	13,736	11,661	25,397	24,924	0.219
2012	110,175,782	13,740	11,320	25,060	25,060	0.227
2011	112,656,771	13,496	9,985	23,481	24,428	0.217
2010	108,195,547	12,263	10,177	22,441	22,441	0.207

Source: Workers' Compensation Commission

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

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2018					
Legislative Appropriation	\$0	\$16,265	\$0	\$0	\$16,265
Deficiency/Withdrawn Appropriation	0	-152	0	0	-152
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-1,057	0	0	-1,057
Actual					
Expenditures	\$0	\$15,056	\$0	\$0	\$15,056
Fiscal 2019					
Legislative Appropriation	\$0	\$16,170	\$0	\$0	\$16,170
Budget Amendments	0	697	0	0	697
Working					
Appropriation	\$0	\$16,868	\$0	\$0	\$16,868

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 Workers’ Compensation Commission finished fiscal 2018 \$1.2 million below its legislative appropriation, all in special funds. This decrease is largely attributable to the cancellation of \$930,507 appropriated for the agency’s new case management system based on adjustments to the project timeline. There is an additional cancellation of \$126,152 in unspent funds for operations. Finally, the fiscal 2018 Budget Bill included a reduction of \$152,014 for health insurance.

Fiscal 2019

The fiscal 2019 working appropriation is \$697,141 above the legislative appropriation. This increase is attributable to two budget amendments that increased the appropriation. One amendment increases the appropriation by \$607,735 to reflect the adjusted timeline, total costs, and cash flow requirements for the new case management system. The second amendment adds \$89,406 for the fiscal 2019 cost of the 2% cost-of-living adjustment for State employees effective January 1, 2019.

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

Project Status	Implementation.			New/Ongoing Project:		Ongoing.		
Project Description:	Enterprise modernization to replace 30-year-old agency systems.							
Project Business Goals:	Replace a case management system at the end of its usable life cycle and all other agency information technology (IT) systems with a new unified IT system without compromising efficiency of agency operations.							
Estimated Total Project Cost:	\$14,910,257			Estimated Planning Project Cost:		\$840,702		
Project Start Date:	July 2015.			Projected Completion Date:		Fiscal 2023.		
Schedule Status:	Agency reports an 18-month delay in project completion due to the necessity to withdraw its initial Request for Proposals (RFP) and issue a second RFP. Vendors are in place, and implementation is underway.							
Cost Status:	Project cost increased by \$6.1 million based on information obtained through the RFP process.							
Scope Status:	n/a							
Project Management Oversight Status:	Department of Information Technology oversight established.							
Identifiable Risks:	The agency has not identified any significant risks; however, this is a large and complicated project planned to encompass all agency systems. There is always risk inherent in transitioning to a new system, especially when many employees have spent their entire careers with one set of business processes, and the organization is entirely dependent upon the system being replaced.							
Additional Comments:	The Workers’ Compensation Commission has been a paperless agency for over two decades. The current case management system has been highly effective but is approaching obsolescence and must be replaced.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	3,076.5	2,983.8	3,088.5	3,131.2	2,630.3	0.0	0.0	14,910.3
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$3,076.5	\$2,983.8	\$3,088.5	\$3,131.2	\$2,630.3	\$0.0	\$0.0	\$14,910.3

Appendix 3
Object/Fund Difference Report
Workers' Compensation Commission

<u>Object/Fund</u>	<u>FY 18 Actual</u>	<u>FY 19 Working Appropriation</u>	<u>FY 20 Allowance</u>	<u>FY 19 - FY 20 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	115.00	115.00	115.00	0.00	0%
02 Contractual	11.25	11.25	11.25	0.00	0%
Total Positions	126.25	126.25	126.25	0.00	0%
Objects					
01 Salaries and Wages	\$ 10,681,146	\$ 10,862,721	\$ 11,171,962	\$ 309,241	2.8%
02 Technical and Spec. Fees	800,766	793,033	780,814	-12,219	-1.5%
03 Communication	345,531	483,279	379,945	-103,334	-21.4%
04 Travel	177,268	124,917	115,000	-9,917	-7.9%
06 Fuel and Utilities	5,907	12,214	12,214	0	0%
07 Motor Vehicles	91,723	82,880	82,880	0	0%
08 Contractual Services	950,302	2,631,437	3,451,868	820,431	31.2%
09 Supplies and Materials	143,166	137,900	143,313	5,413	3.9%
10 Equipment – Replacement	99,023	0	0	0	0.0%
11 Equipment – Additional	156,630	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	52,387	52,387	52,387	0	0%
13 Fixed Charges	1,541,218	1,686,780	1,723,027	36,247	2.1%
14 Land and Structures	11,394	0	0	0	0.0%
Total Objects	\$ 15,056,461	\$ 16,867,548	\$ 17,913,410	\$ 1,045,862	6.2%
Funds					
03 Special Fund	\$ 15,056,461	\$ 16,867,548	\$ 17,913,410	\$ 1,045,862	6.2%
Total Funds	\$ 15,056,461	\$ 16,867,548	\$ 17,913,410	\$ 1,045,862	6.2%

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.

Appendix 4
Fiscal Summary
Workers' Compensation Commission

<u>Program/Unit</u>	<u>FY 18 Actual</u>	<u>FY 19 Wrk Approp</u>	<u>FY 20 Allowance</u>	<u>Change</u>	<u>FY 19 - FY 20 % Change</u>
01 General Administration	\$ 14,411,968	\$ 14,699,813	\$ 14,929,651	\$ 229,838	1.6%
02 Processing And Adjudication Of Claims	644,493	2,167,735	2,983,759	816,024	37.6%
Total Expenditures	\$ 15,056,461	\$ 16,867,548	\$ 17,913,410	\$ 1,045,862	6.2%
Special Fund	\$ 15,056,461	\$ 16,867,548	\$ 17,913,410	\$ 1,045,862	6.2%
Total Appropriations	\$ 15,056,461	\$ 16,867,548	\$ 17,913,410	\$ 1,045,862	6.2%

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.