FA.00
Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 01 Actual	FY 02 Working	FY 03 Allowance	Change	% Change Prior Year
General Fund	$25,245	$23,651	$52,675	$29,024	122.7%
Special Fund	5,205	5,141	6,504	1,363	26.5%
Reimbursable Fund	3,936	4,515	6,320	1,805	40.0%
Total Funds	**$34,386**	**$33,307**	**$65,500**	**$32,193**	**96.7%**

- The Department of Budget and Management (DBM) has budgeted two statewide personnel expenditures in its own budget: $25.0 million general funds for a 2% general salary increase, implemented on January 1, 2003, and $6.3 million general funds for pay-for-performance bonuses ($3,300,000 increase).

Personnel Data

	FY 01 Actual	FY 02 Working	FY 03 Allowance	Change
Regular Positions	349.80	368.30	364.30	(4.00)
Contractual FTEs	48.50	17.50	20.80	3.30
Total Personnel	**398.30**	**385.80**	**385.10**	**(0.70)**

Vacancy Data: Regular Positions

Budgeted Turnover: FY 03	20.62	5.66%
Positions Vacant as of 12/31/01	36.00	9.77%

- DBM has abolished four positions within the agency: two office secretaries, one personnel analyst, and one personnel technician. It has also reorganized a number of positions, utilizing vacant positions for new functions.

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

Analysis in Brief

Issues

Statewide Personnel Expenditures: A summary of the personnel component of the State's budget is provided, which includes fiscal 2001 actual expenses, fiscal 2002 working appropriations, and the fiscal 2003 allowance.

Executive Pay Plan Works Well, but Reporting Process Needs Revision: January 1, 2001, to January 1, 2002, salary increases for those holding positions on the Executive Pay Plan appear reasonable, but more information is needed. **The Department of Legislative Services (DLS) has made recommendations for reporting requirement changes.**

Budget Assumes Employees Will Pay a Larger Share of Health Insurance Cost: The allowance includes the assumption that employees will pay a larger share of premium/State self-funded cost for basic, dental, and mental health insurance. **It is recommended that DBM discuss with the committees its decision to use this cost-containment tool.**

Changes in Pay-for-performance Bonuses and Increment Increases Added to Base Pay Are Recommended: Because there is an inability to determine whether or not pay-for-performance bonuses and increment increases result in the desired outcome, an incentive to employees to improve productivity, and because there is extraordinary need in the State to more closely align revenues with expenditures, pay-for-performance bonuses and merit increases paid as part of base pay are recommended to be discontinued for fiscal 2003. **Funds for pay-for-performance bonuses are recommended deleted. Increments are recommended to be used for a lump-sum payment on January 1, 2003, to employees whose performance rating is "meets standards" or better. This payment will equal one-half the value of the increment between an employee's (base) salary and the next step on the salary schedule. Employees shall not advance on the salary schedule during fiscal 2003.**

Governor Fails to Include Full Level of Pension Contributions, as Certified by the State's Pension Actuary: The Governor's fiscal 2003 budget includes approximately $80 million less in pension contributions to the State Retirement and Pension System than is required by the State's actuary. Because State law requires contributions based on the actuary's estimate, the Governor's reduction is contingent on language in the Budget Reconciliation Act of 2002 allowing the underfunding.

Converting Capital Project Units to Reimbursable Funds Could Save the General Fund $11 Million Annually: Currently the capital project units that manage projects are funded with general funds. The services provided by these units are integral to each capital project; however, the costs are not included in the project's total costs. **DLS recommends that these administrative and management services be included as an administrative fee assessed on each capital project.**

State Policy for Procuring Alternatively Fueled Vehicles Needs Correction: The auditors found that the State Policy for Procuring Alternatively Fueled Vehicles (AFVs) (State policy) developed by DBM is not consistent with the federal guidelines for the Act. The auditors found major errors in the State policy that were causing some agencies to purchase the wrong number of AFVs, to exclude vehicles from the Energy Policy Act reporting that should have been included, and to exclude agency fleets from the reporting requirements that should have been included. **DBM should correct and promptly distribute the State Policy for Procuring Alternatively Fueled Vehicles.**

Comprehensive Information on Homeland Defense in Maryland Needed: DBM should be prepared to answer three questions for the budget committees: how will the State spend currently unallocated federal funds; are the federal funds already in the budget earmarked for programs actually eligible for federal dollars; and can and should the State spend federal funds on personnel given federal restrictions on the use of the funds and the one-time nature of much of the federal funding? The possibility that an individual be named to coordinate additional security efforts in the State, perhaps as part of the State Emergency Operations Center, should be considered.

Recommended Actions

		Funds	Positions
1.	Delete general salary increase.	$ 25,000,000	
2.	Add budget language to pay merit increases in a lump sum.		
3.	Add budget language deleting pay-for-performance bonuses.		
4.	Add budget language providing for a maximum, reduced number of regular and contractual full-time equivalent positions.		
5.	Add budget language reducing funds for the State's match of employees' deferred compensation withholding.		
6.	Amend SECTION 17 to include a restriction on the use of Workers' Compensation funds.		
7.	Amend SECTION 26 by adding a restriction on the reclassification of positions through budget amendment.		
8.	Add budget language requiring Executive Pay Plan reporting and limiting merit pool to same increment increases available to those paid on the standard salary schedule.		
9.	Add budget language concerning withheld salaries due to unfavorable evaluation by the Joint Audit Committee.		

10. Add budget language requiring that capital funds be budgeted in separate eight-digit budget programs.		
11. Add budget language requiring a summary statement of federal revenues in the executive budget books.		
12. Add budget language requiring the reporting of higher education expenditures above $100,000.		
13. Add budget language requiring reporting of annual cost associated with collective bargaining.		
14. Add budget language creating new subobjects for leave payout and reclassification and clarifying other subobject classifications.		
15. Add budget language restricting funds used for Managing for Results training and consultants to $62,500 in fiscal 2003.		
16. Add budget language providing for the continuation of the sick leave incentive pilot program.		
17. Delete general funds for the Office of Capital Budgeting unit.	1,516,559	
18. Add budget language deleting funding for the Office of Personnel Services and Benefits improvements to Health Benefits System.		
19. Delete funding for the Council on Management and Productivity.	228,912	2.0
20. Reduce appropriations directed at additional hiring efforts.	212,000	
21. Reduce appropriations for a labor negotiator.	100,000	
22. Delete funds for new contractual employees.	90,201	
23. Reduce funding for travel to fiscal 2002 working appropriation levels.	23,405	
24. Adopt narrative requiring the annual report on State Personnel.		
Total Reductions	**$ 27,171,077**	**2.0**

Updates

Sick Leave Incentive Pilot Project Indicates a Positive Outcome: Participation in the sick leave incentive program increased as sick leave and overtime expenditures usage went down. Savings from the program are roughly equivalent to the cost of the program. **DLS recommends the continuation of the pilot, with expanded participation to other pilot sites, units, or facilities not open 24 hours, using existing funds.**

Funds Used for Managing for Results Training and Consulting through the University of Baltimore Should Be Limited: Agencies are generally complying with the Managing for Results (MFR) requirements, reducing the need for outside training and consulting. **DLS recommends that funds used for these purposes be reduced by 75%.**

FA.00 - Department of Budget and Management

FA.00
Department of Budget and Management

Operating Budget Analysis

Program Description

The Department of Budget and Management (DBM) is responsible for coordinating the study and analysis of the needs, administration, organization, functions, economy, efficiency, and performance of State agencies. Since 1997, personnel functions of the former Department of Personnel have been assumed by DBM. The Office of Personnel Services and Benefits (OPSB) provides policy direction for the human resources system established by the State Personnel and Pensions Article. The Executive Director manages OPSB within DBM and administers State personnel policies and health benefit programs. The department is also responsible for preparing and submitting the State budget, including capital items, to the General Assembly; providing ongoing assistance to operating departments for the preparation and execution of the State budget, including Managing for Results (MFR) program requirements; providing both short- and long-range projections of State revenue necessary for the executive fiscal planning and budgetary functions; and analyzing the revenue sources available to the State. The activities of the Central Collections Unit (CCU), which attempts to collect certain debts owed to the State, are supported by a percentage of the debts collected.

For purposes of presentation, this analysis reviews the expenditures and activities of the fiscal components of the department, as well as the personnel functions of the department. The Office of the Chief of Information Technology is reviewed in the separate DBM Information Technology analysis (FA.04).

Cost Containment

DBM has reduced the fiscal 2002 working appropriation for the Division of Salary Administration and Position Classification by $500,000 in general funds. These funds were removed from contractual services and would have been spent on the design of a statewide job evaluation system had they remained in the budget. In addition, DBM voluntarily abolished four positions in the Division of Employee Development and Training and the Division of Recruitment and Examination. Nearly all the remaining vacant positions are exempted from the hiring freeze.

Governor's Proposed Budget

Increases in the Governor's proposed budget over fiscal 2002 working appropriations are detailed in **Exhibit 1.**

Exhibit 1

Governor's Proposed Budget
Department of Budget and Management
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimbursable Fund	Total
2002 Working Appropriation	$23,651	$5,141	$4,515	$33,307
2003 Governor's Allowance	52,675	6,504	6,320	65,500
Amount Change	$29,024	$1,363	$1,805	$32,193
Percent Change	122.7%	26.5%	40.0%	96.7%

Where It Goes:	
DBM Personnel Expenses	
Annualize fiscal 2002 general salary increase	$346
Fiscal 2003 increments	209
Retirement contribution cost increases	208
Health insurance cost increases	181
Additional assistance and incentives in the Central Collections Unit	170
Turnover	134
Abolished/transferred positions	(140)
Other Changes	
Consulting services	1,751
Data processing equipment replacement	307
Communication	174
Contractual employees	153
Supplies and materials	96
Travel	63
Other	241
Statewide Employee Expenses	
Fiscal 2003 general salary increase	25,000
Pay-for-performance bonuses	3,300
Total	**$32,193**

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

DBM Personnel Expenditure Increases

The fiscal 2003 allowance includes savings of approximately $140,000 from the abolition of four currently vacant positions in the Division of Employee Development and Training (an Office Secretary I and an Office Secretary III) and in the Division of Recruitment and Examination (a Personnel Analyst and a Personnel Technician). The agency has not requested any new positions for fiscal 2003, although it has "recycled" a number of its vacant positions.

DBM has initiated a reorganization of its information technology oversight function during the current fiscal year. Although that aspect of DBM's responsibilities is not discussed in this analysis, five positions were transferred from the agency's other divisions to help provide additional information technology support. The Division of Employee Benefits (one positions), the Division of Salary Administration and Position Classification (two positions), the Division of Recruitment and Examination (one position), and Budget Analysis and Formation (one position) all contributed professional-level positions for the information technology reorganization. Higher levels of additional assistance and incentives in CCU are for the performance-based incentives (based on debts recovered) used in the division and for various personnel-related payments (e.g., reclassifications and leave payout at retirement).

CCU is also adding a number of new positions through the same type of reorganization. This special-funded division has converted a number of contractual positions by transferring in eight clerical positions from the Office of Information Technology (five positions), the Division of Finance and Administration (one position), the State Labor Relations Board (one position), and OPSB (one position).

The agency is also proposing to add 3.3 full-time equivalent (FTE) contractual positions. In employee benefits, the addition of 1.55 FTE contractuals is to provide help with enrollment applications and correspondence, a retroactive adjustment process to verify eligibility for vendor claim payments, and coverage at various benefit fairs around the State. Employee relations has asked for 1.0 FTE contractuals to help with data entry related to personnel transactions. Recruitment and examination is looking to add 2.05 FTE contractual employees to assist with agency training, workforce planning, exam research, and test proctoring. Finally, the Division of Budget Analysis and Formation is requesting an additional 0.3 FTE contractual position for an intern who works as a budget analyst. Salary administration and classifications is abolishing 1.0 FTE contractual, and the Central Collections Unit is abolishing 0.6 (net) FTE contractuals.

The decrease in turnover (+$134,000) is explained by the expectation of the agency, given the Information Technology reorganization and given the larger number of employees in CCU (the addition of which can be attributed to contractual conversions with basically no turnover expectancy), that its turnover expectations will be lower.

Consulting and Data Processing

The largest single increase category is for consulting services, distributed among a number of divisions. The most notable new expenditure, $788,000 in reimbursable funds, is for enhancements to employee benefits, including the development an intranet system for benefits coordinators, an imaging system for employee benefits data, and the ability to integrate direct billing into the benefits system, among other enhancements. Other reimbursable fund increases include additional expenditures for the State employee conference, and for increased wellness program activity.

A number of new consulting expenditures are being generated by the Central Collections Unit, a special-funded division of DBM. These expenditures include the rental of credit card machines to be used in Motor Vehicles Administration offices, additional freight and delivery expenses, and software enhancements related to the new Columbian Ultimate Business System operating system being used in CCU. CCU is also going to be purchasing a number of new personal computers, a scanner and server to use with their scanners, a Teleform system, a new dialer system, and a color printer. The increase in supplies and materials can also be largely attributed to increased activity in CCU. The division continues to grow and generate additional revenue. In fact, at the close of fiscal 2002 and 2003, it is estimated that nonbudgeted fund reserves set aside until transferred into the division as special funds will be approximately $2.3 million to $2.6 million.

Other large consulting expenditures include the development of a web-enabled hiring system for $150,000 general funds in recruitment and examination. Employee development and training is developing a program to improve project management skills. In fiscal 2003, the cost for the project will increase from $300,000 to $500,000 general funds and will be fully implemented. The fleet management system, under the Division of Policy Analysis, requires an upgrade, which will increase consulting expenditures by $125,000 general funds.

Statewide Expenses

DBM created a new subprogram within the agency (FA.02.08) to more easily and discernibly budget for statewide expenses. In fiscal 2003, the agency budgeted for two personnel expenditures which have a statewide impact – the fiscal 2003 general salary increase and the pay-for-performance bonuses, $25.0 million and $6.3 million ($3.3 million increase), respectively. The salary increase assumes a 2% raise on January 1, 2003. The level of general funds for pay-for-performance bonuses assumes that the program will fully fund individual bonuses at the $250 and $500 level. These bonuses had not been fully funded in previous years through DBM. Instead, other agencies were to apply for reimbursement on a first-come, first-serve basis. Unfortunately, some large agencies applied first and crowded out some of the smaller agencies. Later, DBM used some funds made available through the failure of the Personnel and Benefits Information System to go back and reimburse some of the missed agencies. Again, in fiscal 2003, DBM is intending that the $6.3 million in its budget will cover the full cost of the reduced bonuses.

Performance Analysis: Managing for Results

The department's MFR submission, exemplified by the sample of measurement indicators in **Exhibit 2**, chosen by the department itself, appears in the Governor's budget books. Ideally, the MFR submission ties the agency's mission, vision, and goals to its operating budget through articulated objectives, strategies, and performance indicators. The agency was not entirely successful in this effort during the last legislative session and some problems present then are still present in this session's submission. However, DBM has made some progress, as demonstrated by the following points made in the fiscal 2002 analysis:

Exhibit 2

Program Measurement Data
Department of Budget and Management
Fiscal 1999 to 2003

	Actual 1999	Actual 2000	Est. 2001	Actual 2001	Est. 2002	Est. 2003	Ann. Chg. 99-01	Ann. Chg. 01-03
% of outcome objectives that State agencies achieve	n/a	n/a	n/a	63%	64%	65%	n/a	1.6%
Index of agency performance[1]	n/a	100	102	101	102	104	n/a	1.5%
% evaluated using PEP	62%	76%	n/a	78%	85%	85%	12.2%	4.4%
% of individuals appointed to vacant positions . . .[2]	n/a	n/a	n/a	78%	n/a	90%	n/a	7.4%
% of State employees receiving managerial/supervisory training . . .[3]	n/a	n/a	n/a	100%	95%	95%	n/a	-2.5%
% of State employees receiving computer/IT training . . .[3]	n/a	n/a	n/a	74%	95%	95%	n/a	13.3%
Retention rate	92%	91.8%	92%	93.3%	92%	92%	0.7%	-0.7%
% of protected categories in State government reflecting Maryland civilian labor force	n/a	53%	n/a	53%	55%	55%	n/a	1.9%

[1]The index of agency performance is constructed from approximately 30 outcome-related performance data.

[2] . . . under OPSB's classification system for the ASR classifications who took up-to-date exams (fiscal 2001 ASR classifications: core clerical, professional fiscal, data processing operations, professional social workers.)

[3]. . . evaluated as having acquired the pertinent competencies at the level desired by his/her supervisor.

PEP = Preferred Performance Evaluation Program
IT = Information Technology

Source: Department of Budget and Management

- **Most divisions not providing significant measurement indicators for the 2001 session (some not any indicators at all) have provided them for the 2002 session.** For the 2001 session, the Division of Labor Relations and the Medical Director's office did not provide usable information. For the 2002 session, the Medical Director's office has made significant progress by providing three measures and measurement data for at least half of the data points covered. The Division of Labor Relations has provided one measure, but the Department of Legislative Services (DLS) suggests that it provide additional measures which more completely demonstrate the division's skill level and effort. Again, the

Labor Relations Board has not provided any measurement indicators. It continues to be plagued by staffing problems; until it is staffed by more than the Executive Director (hired on November 5, 2001), it is not likely that it will focus its efforts on the MFR process.

- **Level of expectation for performance continues to be somewhat unrealistic in some divisions.** The Division of Employee Benefits has reworked the measure questioned in the fiscal 2002 analysis by better defining the parameters of the measure – it defined what it means to meet program standards by saying ". . . health plan vendors will receive a "satisfactory" rating by at least 85% of all plan survey respondents in their overall plan satisfaction." However, it continues to have the expectation that 100% of vendors will meet the standard in calendar 2001 and 2002. Again, this seems unrealistic given audit findings reported in the fiscal 2002 analysis and given calendar 2000 actual experience (89%).

- **Divisions appear to be measuring only one behavior per measure.** Different divisions seem to have made significant progress in limiting their measures to one behavior. The Division of Salary Administration and Position Classification measure questioned in calendar 2001: "Percentage (at least 90%) of individuals appointed to vacant position classified under OPSB's classification system as core clerical, professional fiscal, data processing operations, and professional social worker jobs that were recruited using up-to-date screening materials and exams, and that pass probation within one year of their appointments" has been revised. It now reads "Annually, at least 90% of individuals appointed to vacant positions under OPSB's classification system included in the Annual Salary Review (ASR) will have taken up-to-date examinations that reflect the work competencies currently required of these positions." It is now clear from this measure that the division is measuring its own ability to provide up-to-date examinations. It also provided extensive footnotes explaining its progress in the development of exams for specific categories of recruitment (classifications targeted in the annual salary review process). Other divisions seem to be making similar progress, sometimes in excruciating detail.

- **Historical data is provided more often than observed for the 2001 session.** In fiscal 2002, the lack of available equal employment opportunity (EEO) information in the Office of the Secretary was questioned. In fiscal 2003, considerable progress has been made in that regard. EEO data are made available back to fiscal 2000, providing some perspective for the reader. The Office of the Secretary has also provided an interesting and useful measure which reflects the degree to which Maryland's State workforce reflects the protected category (e.g., race, age, gender, and sexual orientation) composition of the Maryland Civilian Labor Force. The goal of having 55% of the protected categories match appears to be based on something slightly more optimistic than past experience – providing a tangible, realistic level to be reached.

Each year, the Office of Legislative Audits (OLA) conducts audits on the veracity of measurement indicators. **To provide a more in-depth analysis of the Department of Budget and Analysis MFR submission, which should be providing an example of excellence in MFR to the rest of the State, DLS is recommending that OLA conduct an audit of DBM's measures during fiscal 2003.**

Issues

1. Statewide Personnel Expenditures

The fiscal 2003 allowance as recorded in the budget database for the salaries and fringe benefits of regular and contractual positions, with comparisons to fiscal 2002 and 2001, is shown in **Exhibit 3**. Please note that these data include expenditures for budgeted agencies. Nonbudgeted agencies do not always report expenditures in the budget database in the same way budgeted agencies are required to do, often omitting subobject detail, making meaningful comparisons using nonbudgeted data difficult. Detail for nonbudgeted agencies is instead reflected in individual agency budgets. Please also note that these data do not fully show non-general fund personnel expenditures. For example, special funded agencies did not budget for the general salary increase (GSI), so total funds for salary expenditures are lower than anticipated, based on general fund increases. Expenditures in **Exhibit 4** show the total anticipated, based on budgeted general funds.

Overall, expenditures for salaries and fringe benefits provided in the fiscal 2003 allowance for budgeted agencies increase $311.5 million, or 6.1% over fiscal 2002 working appropriations. These additional expenditures are primarily attributable to the inclusion of a GSI of 2% (effective January 1, 2003), annualization of the fiscal 2002 4% general salary increase (effective January 1, 2002), the cost of increments (delayed six months in the new budget year), and the cost of 1,518 new regular positions. The increases are also attributable to health insurance and retirement costs, although there is an offset to increases in retirement costs through the Budget Reconciliation Act of 2002.

- **Regular Employee Salaries:** Overall, regular employee salary expenditures rise $152.6 million between fiscal 2002 working appropriations and the fiscal 2003 allowance, a 4.0% increase. The inclusion of funds budgeted for the general salary increase (approximately $25 million), brings the increase to $177.6 million, a 4.6% increase. Components of that increase are demonstrated in Exhibit 3 (the GSI is reflected in "Misc. Adjustments" under Discretionary Employee Benefits). Please note, however, that personnel increases are not fully budgeted. The Governor included $25 million general funds for the GSI but did not otherwise budget for it. It also appears that other expenditures related to salary increases are not fully budgeted, given that the total estimated cost of the major components of the increase (GSI, increment costs, annualization of fiscal 2002s GSI, and new positions) added to the fiscal 2002 working appropriation are higher than total salary funds in the allowance. This may be due to a number of things, among them budgeting practices in higher education which do not match non-higher education practices. Total salary expenditures (including total funds of $38 million for the GSI) increase $215 million, or 5.6% over fiscal 2002 working appropriations, as demonstrated in Exhibit 4.

- **Health Insurance:** Total regular active employee insurance costs, including the cost of prescription insurance, increases $42.8 million, or 10.7%; retiree expenditures rise $12.8 million, or 11.3% for a total increase (including a small decrease in special subsidies) to $55.2 million, or 10.4%. These increases are lower than observed in fiscal 2002 and lower than originally anticipated due to an increase in the employees' share of the health insurance premium, discussed as a separate *Issue* below. Calendar 2002 expenditures for both individual health and other insurance providers are reviewed in **Appendix 4.**

Exhibit 3

Statewide Employee Salaries and Benefits
Excludes Fiscal 2002 Deficiencies
($ in Millions)

	FY 2001 Actual	FY 2002 Working	% Change	FY 2003 Allowance	% Change
Regular FTE Positions	78,445	82,048	4.6%	83,565	1.8%
Contractual FTE Positions	9,613.6	9,175.8	(4.6)%	9,472.3	3.2%
Salary					
Regular Earnings	$3,164.9	$3,725.4	17.7%	$3,878.6	4.1%
Additional Assistance	11.5	8.1	(30.2)%	10.9	35.4%
Overtime Earnings	98.2	81.1	(17.5)%	77.4	(4.6)%
Shift Differential	9.8	10.4	6.3%	10.2	(2.0)%
Student Payments (UMS Only)	30.6	31.3	2.4%	31.7	1.3%
Total Salary	**$3,315.0**	**$3,856.2**	**16.3%**	**$4,008.8**	**4.0%**
Non-discretionary Employee Benefits					
Health Insurance					
Health Insurance	$332.8	$399.6	20.1%	$442.4	10.7%
Health Insurance – Special Subsidies	9.7	16.4	68.4%	15.9	(3.0)%
Retirees Health Insurance Premiums	91.1	114.0	25.1%	126.9	11.3%
Total Health Insurance	**$433.6**	**$529.9**	**22.2%**	**$585.1**	**10.4%**
Retirement					
Early Retirement Surcharge	$21.0	$22.0	5.1%	$2.5	(88.6)%
Employees' Retirement System	120.6	119.4	(0.9)%	152.5	27.7%
Teachers' Retirement System	16.8	20.4	21.7%	22.3	9.5%
State Police Retirement System	21.0	20.9	(0.5)%	19.8	(5.2)%
Mass Transit Administration Pension System	15.4	15.8	2.1%	15.8	0.3%
Optional Retirement/Pension System	41.7	45.2	8.4%	48.6	7.6%
DNR Police Retirement System	7.9	11.5	46.2%	16.6	44.2%
Other Retirement Systems	0.8	0.6	(28.9)%	0.6	0.0%
Total Retirement	**$245.1**	**$255.8**	**4.4%**	**$278.8**	**9.0%**
Social Insurance					
Social Security Contributions	$246.1	$267.5	8.7%	$279.5	4.5%
Unemployment Compensation	1.8	2.6	41.0%	2.5	(4.2)%
Workers' Compensation	45.0	65.0	44.3%	82.5	27.0%
Total Social Insurance	**$293.0**	**$335.0**	**14.4%**	**$364.5**	**8.8%**

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	FY 2001 Actual	FY 2002 Working	% Change	FY 2003 Allowance	% Change
Discretionary Employee Benefits					
Misc. Adjustments (in Fiscal 2003 Primarily GSI)	$22.4	$11.6	(48.1)%	$36.1	210.5%
Deferred Compensation Match	18.7	24.4	30.7%	20.4	(16.4)%
Sick Leave Incentive Pilot	7.3	1.8	(74.9)%	0.4	(79.2)%
Pay for Performance Bonuses	7.3	4.5	(37.7)%	8.8	94.5%
Tuition Waivers	11.5	12.5	9.0%	12.1	(3.3)%
Employee Transit Expenses	-	-		2.6	
Total Discretionary Benefits	**$67.1**	**$54.9**	**(18.2)%**	**$80.4**	**46.4%**
Turnover and Cost Containment					
Turnover Expectancy	$1.4	($327.0)		($269.7)	
Cost Containment – Higher Education	0.1	0.1		(0.6)	
Cost Containment	-	(0.1)		(60.0)	
Total Offsets	**$1.5**	**($327.0)**		**($330.3)**	
Turnover Expectancy Rate		6.89%		5.39%	(21.9)%
Turnover Exp. Rate with Cost Containment		6.89%		6.60%	(4.3)%
Other					
Unknown	$0.2	$0.2	1.2%	$0.2	0.0%
Other Fringe Benefit Costs	6.1	9.9	62.6%	10.8	9.5%
Total Other	**$6.2**	**$10.0**	**61.1%**	**$10.9**	**9.3%**
Total Regular Employee Expenditures	**$4,361.5**	**$4,714.9**	**8.1%**	**$4,998.2**	**6.0%**
Contractual Employee Expenses					
Special Payments Payroll	$351.9	$345.1	(1.9)%	$370.5	7.4%
Patient and Student Payments	14.6	13.6	(7.1)%	15.8	15.9%
Social Security Contributions	11.9	12.7	6.2%	13.2	4.3%
Unemployment Compensation	0.1	0.1	6.8%	0.1	37.4%
Workers' Compensation	0.0	0.0	13.2%	0.0	2.9%
Employee Awards	0.3	0.3	9.0%	0.4	27.8%
Contractual Turnover Expectancy	0.0	(13.5)		(13.6)	0.7%
Turnover Expectancy Rate	0.0%	-3.8%		-3.6%	(6.1)%
Total Contractual Expenses	**$378.9**	**$358.2**	**(5.5)%**	**$386.4**	**7.9%**
Total Personnel Expenditures	**$4,740.4**	**$5,073.1**	**7.0%**	**$5,384.6**	**6.1%**
Average regular employee salary	$42,258.4	$46,999.5		$48,270.9	
Average regular employee base salary	40,345.1	45,405.3		46,713.6	

Source: Department of Budget and Management

Exhibit 4

Increases in Regular Employee Salaries

Salary Element	$ in Millions	% Over Fiscal 2002
Regular Employee Expenditures (Anticipated, Based on General Funds Budgeted for GSI)	**$215**	**5.6%**
Fiscal 2003 general salary increase*	38	
Annualization of fiscal 2002 general salary increase*	75	
Cost of increments*	44	
New positions	59	
Annualization of fiscal 2002 annual salary reviews	3	
Other salary costs (additional enhancements, overtime, and shift differential)	(4)	
Contractuals	**28**	**7.8%**
Total Salary Expenditures	**$243**	**5.8%**

* Extrapolated from DBM provision of $25.0 million in subobject 0110 for the statewide general fund salary increase; general funds assumed to be 60% of total funds.

Source: Department of Budget and Management

- **Retirement Costs:** Retirement expenditures increase $23.0 million in the allowance, or 9.0%. Please note that this expenditure will be offset by a reduction of approximately $31 million, contingent on passage of the Budget Reconciliation Act of 2002. This contingency is discussed as a separate *Issue* below. Please note that the five-year amortization schedule for the early retirement option specified in Chapter 353, Acts of 1996 (Workforce Reduction Act) for non-higher education employees ended in fiscal 2002. However, full amortization of the higher education early retirement option will not occur until fiscal 2004 (Chapter 675, Acts of 1998), demonstrated by the $2.5 million in early retirement funds in fiscal 2003.

- **Social Insurance:** Social Security, Unemployment Insurance, and Workers' Compensation for regular employees add $29.5 million to the fiscal 2003 allowance, an increase of 8.8%. The total assessment to the State for the Injured Worker's Insurance Fund (IWIF) increases by $17.6 million, based on actual net claim payments made by the fund for fiscal 2001, reaching a total expenditure of $82.5 million. Social security contribution spending rises $12.0 million, or 4.5% with the proposed increase in the number of positions and the proposed increase in salary. The addition to Workers' Compensation reserve for unfunded liability for fiscal 2003 is budgeted at $20.0 million. The contractual employee expenditure increases for these benefits are negligible.

- **Discretionary Employee Benefits:** Benefits available to employees for which there is a higher degree of flexibility in their availability include the GSI, the deferred compensation match, funding for the sick leave incentive pilot program, pay-for-performance bonuses, tuition waivers (in the university system), and employee transit expenses (in the Baltimore area). Total funding for these benefits excluding the $25 million for the GSI discussed above is $55.4 million, a 28.2%, or $12.3 million increase over fiscal 2002 expenditures in the same subobjects. Pay-for-performance bonuses represent the largest increase, at $4.3 million. The deferred compensation match (-$4.0 million), the sick leave incentive program (-$1.5 million), and tuition waivers (-$0.4 million) all show small decreases in expenditures primarily owing to programmatic adjustments and adjustments in budgeting practices.

- **Contractual Employee Expenditures:** Expenditures related to contractual employees have increased $28.8 million, or 7.9% in fiscal 2003. $25.4 million of this increase is due to increased special payments payroll, reflecting in part the addition of 296.5 FTE contractual positions, and to social security payments. An additional $2.2 million can be attributed to patient and student payrolls, primarily for student wages in higher education institutions. Other contractual expenditures are relatively flat in fiscal 2003.

2. Executive Pay Plan Works Well, but Reporting Process Needs Revision

Legislation passed in the 2000 session (Chapter 179, Acts of 2000) altered the structure of the Executive Pay Plan (EPP) to give the Governor flexibility to compensate executives at appropriate levels within broad salary bands, without reference to a rigid schedule of steps (please refer to **Appendix 8** for current schedule). The General Assembly offered continued support of this structure during the 2001 session, expecting the change to assist the State's efforts to recruit talented employees to and retain them at the top levels of State government. Previous to this change, transactions involving reclassifications and other significant executive salary changes were reviewed by the DLS's Office of Policy Analysis, which served to inform the Board of Public Work's (BPW) deliberation on the matter, a requirement discontinued with Chapter 179, Acts of 2000. With the General Assembly's support of these changes is the possibility that diminished oversight of State administration, specifically the administration of executive salaries, may have resulted in excessive increases in individual executives' salaries. It does not appear that this happened in the past year.

Salaries paid for positions on the EPP are to increase with the flexibility described above, given certain constraints:

- Merit increases for those in the EPP are limited by and awarded out of the merit pool. For fiscal 2001 and 2002, DBM has set the merit pool at 3% of the total salary of all EPP positions in each agency, not including the salary of the agency head, as of July 1 of that fiscal year. The pool does not increase or decrease if positions or employees are added to or removed from the EPP during the fiscal year. Funds necessary to cover the merit increases are not specifically budgeted, but come out of available funds within the agency.

- During the fiscal year, the agency head may award the merit increase to an employee in the EPP at any time on or after July 1. The increase may be in the form of a one-time bonus or an increase in the employee's salary; it may be characterized as either a percentage of salary or as a flat dollar amount.

Base pay plus the merit increase may not exceed the maximum for the relevant grade, if merit is added to base pay. If it is given in a lump sum, base plus the lump sum may exceed the maximum for the grade, but the base pay cannot.

- The cost of all increases will be calculated on an annualized basis, regardless of the effective date of the increase for each employee.

- When an employee is promoted to, or within the EPP, at a grade which is the equivalent of one or two grades higher, the employee will receive a 7% (one grade), or 14% (two grades), increase in annual salary. The increased cost of reclassified positions is not taken out of the merit pool.

- Employees coming into the EPP during the fiscal year are eligible for a merit increase after six months of service within the fiscal year.

- Agencies may appoint a new employee to vacant positions without DBM approval if the initial pay rate is below midpoint.

It appears that DBM is abiding by its own standards for increases to salaries paid on the EPP, as demonstrated in **Appendix 5**, a comparison of salaries for EPP positions paid on January 1, 2001, and January 1, 2002. Most agencies have awarded increases below the total increase of 7.12% allowed (4% for the general salary increase, and 3% for the merit pool, compounded), even when the agency head is included in the calculation. This information was gathered through the January 2001 and 2002 installment of the required quarterly reports listing EPP positions and salaries.

These quarterly reports inform the General Assembly of the current base salary for each position. However, it is not explicitly clear from the reports whether employees holding EPP positions have in some cases been given reclassifications, the cost of which is not counted in the merit pool, or simply large merit increases. It is also impossible to know who on the EPP has been given a merit increase in the form of a lump-sum payment. **Given the information available on the January 1 to January 1 comparison, DLS recommends in regard to the EPP that:**

- **in the budget bill section requiring the quarterly reporting of EPP salaries the General Assembly be informed of the amount of individual lump-sum merit increases;**

- **the budget committees make a recommendation that the merit pool available to employees on the EPP be limited to the same increment increase awarded the remainder of the State workforce; and**

- **in the difficult budget year ahead that reclassifications on the EPP be given only with budget committees comment and BPW approval.**

3. Budget Assumes Employees Will Pay a Larger Share of Health Insurance Cost

Health insurance for active and retired regular employees is budgeted at $576.2 million for fiscal 2003, an increase of 12.2% over the $513.6 million budgeted in the fiscal 2002 working appropriations. This increase takes into consideration two significant budget assumptions. With the exception of prescription insurance, the budget increases the employees' share of premiums by 5%. The co-payment requirement for prescription insurance, however, is also assumed to increase. The proposed changes are described in **Exhibit 5.**

Exhibit 5

Health Insurance Plan Changes in Fiscal 2003

	Calendar 2002 Requirement	Calendar 2003 Requirement
	Employees Share of Premiums/Costs	
Health Insurance		
Health Maintenance Organizations (HMO)	15%	20%
Point of Service Insurance (POS)	15%	20%
Preferred Provider Insurance (PPO)	20%	25%
Mental Health POS	15%	20%
Mental Health PPO	20%	25%
Dental Insurance	50%	55%
Prescription Drugs	Required Co-payment for Prescriptions	
Tier 1 (Preferred Performance Drug)	$3	$6
Tier 2 (Formulary)	$5	$10
Tier 3 (Non-formulary)	$10	$12

Source: Department of Budget and Management

The increased employee cost sharing for HMO, PPO, and POS plans in the budget result in savings to the State of approximately $12.2 million. Savings to prescription insurance costs resulting from changes in behavior stemming from higher co-payment for individual prescriptions are estimated to be approximately $3.9 million for the fiscal year.

This savings to the State would carry with it a higher cost to individual employees who choose to carry health insurance. The employees' share in calendar 2002, the increase due to premium or cost inflation, the increase due to the increased share of the premium or costs borne by employees, and the total calendar 2003 cost is illustrated in **Exhibit 6** and **Exhibit 7**. Please note that these exhibits illustrate increases for active employees only. The monthly cost for calendar 2002, for calendar 2003 with premium or cost inflation only, and for calendar 2003 with inflation and the 5% increase in the employees' share are illustrated in **Appendix 6** for both active employees and retirees.

Exhibit 6

Monthly Increase in Employees' Costs
Health Insurance
Calendar 2002 to 2003

	HMOs			PPO		POS		
	Kaiser	Optimum Choice	Freestate	BCBSM	MLH/Eagle	CareFirst	MD-IPA Preferred	Aetna
Employee CY 2002	$30.0	$30.2	$32.2	$53.6	$57.2	$30.8	$32.0	$28.2
Premium/Cost Inflation	*1.20*	*1.21*	*1.29*	*4.16*	*4.39*	*2.36*	*2.28*	*1.97*
5% Increase in Share	*10.41*	*10.48*	*11.16*	*14.45*	*15.39*	*11.04*	*11.41*	*10.07*
Employee CY 2003	41.63	41.92	44.64	72.25	76.93	44.15	45.64	40.28
Total % Increase	*38.7%*	*38.7%*	*38.7%*	*34.7%*	*34.6%*	*43.6%*	*42.8%*	*42.6%*
Employee & Child CY 02	60.04	62.88	67.55	96.55	102.87	55.35	57.50	50.83
Premium/Cost Inflation	*2.40*	*2.52*	*2.70*	*7.48*	*7.91*	*4.24*	*4.11*	*3.55*
5% Increase in Share	*20.81*	*21.80*	*23.42*	*26.01*	*27.69*	*19.86*	*20.54*	*18.13*
Employee & Child CY03	83.25	87.20	93.67	130.04	138.47	79.45	82.15	72.51
Total % Increase	*38.7%*	*38.7%*	*38.7%*	*34.7%*	*34.6%*	*43.5%*	*42.9%*	*42.7%*
Employee & Spouse CY 02	60.04	62.88	67.55	96.55	102.87	55.35	57.50	50.83
Premium/Cost Inflation	*2.40*	*2.52*	*2.70*	*7.48*	*7.91*	*4.24*	*4.11*	*3.55*
5% Increase in Share	*20.81*	*21.80*	*23.42*	*26.01*	*27.69*	*19.86*	*20.54*	*18.13*
Employee & Spouse CY 03	83.25	87.20	93.67	130.04	138.47	79.45	82.15	72.51
Total % Increase	*38.7%*	*38.7%*	*38.7%*	*34.7%*	*34.6%*	*43.5%*	*42.9%*	*42.7%*
3 or More Covered CY 02	75.20	74.98	83.69	134.10	142.87	76.88	79.86	70.59
Premium/Cost Inflation	*3.01*	*3.00*	*3.35*	*10.39*	*10.99*	*5.89*	*5.71*	*4.93*
5% Increase in Share	*26.07*	*25.99*	*29.01*	*36.12*	*38.46*	*27.59*	*28.52*	*25.17*
3 or More Covered CY 03	104.28	103.97	116.05	180.61	192.32	110.36	114.09	100.69
Total % Increase	*38.7%*	*38.7%*	*38.7%*	*34.7%*	*34.6%*	*43.5%*	*42.9%*	*42.6%*

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

Exhibit 7

Monthly Increase in Employees' Costs
Other Insurance
Calendar 2002 to 2003

	Prescription Advance PCS	Mental		Dental		
		PPO	POS	DBP-DHMO	UCCI - DHMO	UCCI - DPOS
Employee CY 02	$26.67	$1.15	$0.86	$6.68	$6.38	$8.35
Premium/Cost Inflation	*5.33*	*0.07*	*0.05*	*0.27*	*0.26*	*0.33*
5% Increase in Share	*0.00*	*0.30*	*0.30*	*0.69*	*0.66*	*0.87*
Employee CY03	32.00	1.52	1.21	7.64	7.30	9.55
Total % Increase	*20.0%*	*32.2%*	*40.7%*	*14.4%*	*14.4%*	*14.4%*
Employee & Child CY 02	35.44	2.06	1.55	13.36	11.11	14.54
Premium/Cost Inflation	*7.09*	*0.12*	*0.09*	*0.53*	*0.44*	*0.58*
5% Increase in Share	*0.00*	*0.55*	*0.55*	*1.39*	*1.15*	*1.51*
Employee & Child CY 03	42.53	2.73	2.19	15.28	12.70	16.63
Total % Increase	*20.0%*	*32.5%*	*41.3%*	*14.4%*	*14.3%*	*14.4%*
Employee & Spouse CY 02	44.26	2.06	1.55	14.69	12.77	16.85
Premium/Cost Inflation	*8.85*	*0.12*	*0.09*	*0.59*	*0.51*	*0.67*
5% Increase in Share	*0.00*	*0.55*	*0.55*	*1.53*	*1.33*	*1.75*
Employee & Spouse CY 03	53.11	2.73	2.19	16.81	14.61	19.27
Total % Increase	*20.0%*	*32.5%*	*41.3%*	*14.4%*	*14.4%*	*14.4%*
3 or More Covered CY 02	53.34	2.87	2.15	23.38	17.95	23.48
Premium/Cost Inflation	*10.67*	*0.17*	*0.13*	*0.94*	*0.72*	*0.94*
5% Increase in Share	*0.00*	*0.76*	*0.76*	*2.43*	*1.87*	*2.44*
3 or More Covered CY 03	64.01	3.80	3.04	26.75	20.54	26.86
Total % Increase	*20.0%*	*32.4%*	*41.4%*	*14.4%*	*14.4%*	*14.4%*

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

This additional cost to employees for health coverage would have a negative effect on total compensation, if it is not offset by an increase in salary. To illustrate, **Exhibit 8** shows the increase in the cost of premiums for a number of different possible combinations of health insurance and compares those increases to a range of salaries. In summary, what this means is that a family of three will spend from $333.62 to $500.00 additional for health coverage in calendar 2003, not including the increases imposed because of premium/cost inflation. This is equivalent to between 1.7% and 2.5% of an annual salary for an employee making $20,000 to between 0.8% and 1.3% for an employee making $40,000. (Please see **Appendix 8** for current standard salary schedule).

Exhibit 8

Annual Impact of Increased Employees' Share of Health Insurance Premiums/Cost on Selected Salaries

	Insurance Type & Cost Increase				% of Annual Salary			
	Health	**Mental**	**Dental**	**Total Cost**	**$20,000**	**$30,000**	**$40,000**	**$50,000**
Employee Only								
Lowest Cost	$120.84	$3.64	$7.96	$132.44	0.7%	0.4%	0.3%	0.3%
Highest Cost	184.68	3.64	10.42	198.74	1.0%	0.7%	0.5%	0.4%
Employee & Child								
Lowest Cost	217.51	6.56	13.86	237.73	1.2%	0.8%	0.6%	0.5%
Highest Cost	332.33	6.56	18.14	357.03	1.8%	1.2%	0.9%	0.7%
Employee & Spouse								
Lowest Cost	217.51	6.56	15.93	240.00	1.2%	0.8%	0.6%	0.5%
Highest Cost	332.33	6.56	21.02	359.91	1.8%	1.2%	0.9%	0.7%
3 or More Covered								
Lowest Cost	302.10	9.12	22.4	333.62	1.7%	1.1%	0.8%	0.7%
Highest Cost	461.58	9.12	29.3	500.00	2.5%	1.7%	1.3%	1.0%

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

There are numerous tools that employers use to reduce spending on employee health insurance plans. For example, some employers implement a more rigorous oversight of health insurance use, some offer a cheaper package of health insurance options, and some choose incentives to move employees away from the higher-priced options. For example, some offer to reimburse employees for the cheapest premium from the range of offerings and give the employee an option to pay the rest. **There are many options available to employers who want to save money on health insurance costs. DBM should be prepared to discuss with the committees why they chose this particular cost-savings method and how the fiscal integrity of the employee and retirement health account will be maintained if these changes are not implemented.**

4. Changes in Pay-for-performance Bonuses and Increment Increases Added to Base Pay Are Recommended

Maryland's Performance Planning and Evaluation Program (PEP) and pay-for-performance incentives were established through the Maryland Personnel Reform Act of 1996 (Chapter 347, Laws of 1996) and cover most employees in the State Personnel and Management System (SPMS). Changes implemented because of this program include:

- the development of a consistent method by which employees' performance is evaluated; and
- the provision to more closely tie compensation to employee's performance, through increments and performance bonuses.

These performance bonuses are awarded to employees, who, in the annual performance review process, are judged to be performing at the "outstanding" or "exceeds standards" level; these bonuses are given in a lump-sum payment and are not added to base salary. The value of those bonuses in fiscal 2001 was $500 for "exceeds standards" and $1,000 for "outstanding" performance in fiscal 2002; and in fiscal 2003 the value of bonuses is half that.

Employees whose performance is rated "meets standards" or better, are allowed to advance a step on the salary schedule soon after the employees anniversary date. However, in fiscal 2003, the Governor's allowance assumes a six-month delay in the addition to the employees' base pay of these increment/steps. The value of these increments is slightly less than 4% (moving into steps 1 to 5) or slightly less than 2% (all increments after step 5). The dollar amounts range from $521 (step 1, grade 1) to $2,178 (step 18, grade 26). In the two most recent fiscal years for which DBM has data, the general fund cost to the State for bonuses is paid by DBM and some individual agencies. The non-general fund costs are borne by individual agencies. Increment costs are borne by individual agencies. The total costs (based on reported performance data) are shown in **Exhibit 9**.

In fiscal 2003, the allowance includes approximately $8.8 million for the pay-for-performance bonuses, $6.3 million general funds of which is included in DBM's statewide expense budget, and the remainder of which is distributed among agencies. These figures assume that the value of bonuses will remain at $500 and $250. The value of increments in the allowance is approximately $44.0 million in total and $26.4 million in general funds, which is slightly higher than indicated by performance data but takes into account unreported performance results and growth in the workforce.

The value of these performance bonuses and increments in terms of providing an incentive to employees to improve productivity is in question. Anecdotal evidence, which is the only evidence available, tends to

Exhibit 9

Total Cost to the State for Each Reported Performance Rating
($ in Millions)

Fiscal 2001	**Number Receiving**	**Bonus**	**Increment**	**Total**
Outstanding	7,882	$7.9	$7.9	$15.8
Exceeds Standards	17,771	8.9	17.8	26.7
Meets Standards	11,830	0.0	11.8	11.8
Total	**37,483**	**$16.8**	**$37.5**	**$54.3**
Fiscal 2002 (Estimated)				
Outstanding	7,882 *	$3.9	$8.2	$12.1
Exceeds Standards	17,771 *	4.4	18.5	22.9
Meets Standards	11,830 *	0.0	12.3	12.3
Total	**37,483 ***	**$8.4**	**$39.0**	**$47.3**

* Fiscal 2001 distribution of awards used in fiscal 2002 estimates.

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

be negative. There is not enough information available to tell us if supervisors are fairly and consistently distributing evaluation results. The widely varying distribution of bonus awards between agencies and between fiscal years suggest that something different is going in different agencies (please refer to **Appendix 7**). It is impossible to determine if there are differences between agencies in the quality of employees, if there are differences in the quality of the evaluations, if different job functions provide different opportunities to perform well (e.g., some outcomes are more easily measured than others), if some agencies are responding to inadequate base salaries by using bonuses to augment those salaries, or if the available evidence is even reliable. **Because it is impossible to determine whether or not this expenditure by the State is providing the outcome desired, and because in fiscal 2003 there is extraordinary need to limit expenditures, DLS recommends the following:**

- **DBM shall conduct a satisfaction survey of participating employees and managers (or an adequately-sized, randomly-chosen sample), provide a demographic profile of employees by performance ratings, including but not limited to service assignment category, education, tenure in the position, tenure in State employment, age, race, and gender. The same data shall be provided for managers and/or supervisors conducting the performance evaluations. DBM shall attempt to compare performance ratings with changes in performance, as measured by MFR indicators.**

- **Pay-for-performance bonuses not be paid in fiscal 2003.**

- **An amount equal to half the value of the increment between the employees' current (base) salary and the next step on the salary schedule shall be given in a lump-sum on January 1, 2003, for employees rated "meets standards" or better, and employees not advance through the steps during fiscal 2003.**

5. Governor Fails to Include Full Level of Pension Contributions, as Certified by the State's Pension Actuary

Background

Each year, the State's pension actuary recommends, and the Board of Trustees of the State Retirement and Pension System (SRPS) certifies, a level of contributions that the State must make to the pension system in order to adequately fund the State's pension commitments. The amount of such funding is calculated as the product of the pension contribution rate (a percentage rate determined by the actuary) times the estimated payroll for that fiscal year. Each subsystem of the SRPS has its own contribution rate.

For fiscal 2003, the pension board certified contribution rates that, in aggregate, were somewhat higher than in fiscal 2002. The contribution rate in aggregate for fiscal 2003 is 8.70%, versus 7.98%. The increase in the rate reflects the actuarial portion of the system's losses during fiscal 2001. The system lost approximately $3.5 billion in assets during that year, of which approximately $3 billion were as a result of investment losses. The system dropped from being 101% to 98% funded, and the actuary increased contribution rates in order to replenish assets to the system.

Based on these higher contribution rates plus growth in the payroll to which these rates are applied, the actuarially appropriate State pension contribution would be approximately $612 million (all funds) for fiscal 2003. (The actual contributions made will vary based on changes to payroll that occur during fiscal 2003.) This is a $90 million increase over the $522 million in contributions made for fiscal 2002 (all funds – working appropriation). It is a $52 million increase versus what the State would have paid applying the fiscal 2002 rates to the fiscal 2003 payroll.

Governor Includes Less than the Certified Amount

The Governor's budget includes less than the actuarially certified $612 million in contributions. Instead, the Budget Reconciliation Act of 2002 specifies a contribution of $531 million, or $80 million less. The budget bill makes contingent reductions of $65 million in general funds ($73 million in total funds) based on passage of the reconciliation act.

The manner in which these savings are calculated varies according to the group of SRPS members for whom the State is contributing. For State employees, the Governor's proposed budget includes a reduction that would use the lower fiscal 2002 contribution rate but apply it to the fiscal 2003 payroll. For local teachers (for whom the State has historically paid their pension contributions) and other State-supported local employees, the budget includes only the same amount as was included in the fiscal 2002. This results in a larger reduction because it effectively applies the fiscal 2002 rate and the fiscal 2002 payroll. The impact of the Governor's proposed reductions is illustrated below in **Exhibit 10**.

Exhibit 10

Proposed Underfunding of Pensions in the Governor's Allowance

Membership Group	Actuarially-expected Contribution	Governor's Proposed Contribution	Difference = Governor's Proposed Underfunding
State Employees	$215 million	$184 million	$31 million
Teachers and Other State-supported Local Personnel	$397 million	$348 million	$49 million
Total	**$612 Million**	**$531 Million**	**$80 Million (Total Funds) $65 Million GF**

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

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

Implications of Underfunding

The proposed underfunding will be transparent to employee members and retirees because the pension system is a defined benefit program in which pension benefits are guaranteed based on certain formulas. It will also be transparent to the local boards of education because the State pays the pension contributions of their teachers.

The pension system, however, will lose $80 million in expected pension contributions. These losses will be added to the system's unfunded liabilities and amortized (at 8% interest) over 25 years. In addition, next year's contributions will increase back to this year's level (and more), resulting in funding concerns in that fiscal year as well. The actuary advises that – all things being equal – the State's contribution rate for fiscal 2004 will be 8.7% again. All things are not equal, however; the $80 million liability increase plus poor investment performance so far in fiscal 2002 are likely to drive the contribution rate higher for fiscal 2004. Assuming normal growth in payroll, the State will face an increase in pension costs for fiscal 2004 of at least $85 million, if not more. DLS is working with the State's actuary to examine options to address current and future funding concerns in an actuarially appropriate manner.

The proposed underfunding also breaks with the State's fiscally prudent precedent of contributing the actuarially appropriate amount. Since the inception of actuarial funding, the State has contributed the certified amount, even during periods such as the early 1980s when the system was significantly underfunded and relatively high contributions were required. Moreover, while other states have at various times contributed less than the amount specified by their actuary, DLS can find no examples of a triple-A rated state doing so.

The budget committees may wish to address the underfunding issue with DBM.

6. Converting Capital Project Units to Reimbursable Funds Could Save the General Fund $11 Million Annually

Currently, non-transportation agency units that deal with capital projects are funded with general funds. The Maryland Department of Transportation and some other governmental units, such as Anne Arundel County, fund similar types of units by assessing an administrative fee against each capital project being managed. These fees are paid from the project's funding sources including bond funds. By adopting this funding approach for Maryland's non-transportation capital related units, general fund expenditures could be reduced by approximately $11.4 million in fiscal 2003. These savings would carry forward into each succeeding fiscal year as long as this funding mechanism was used. This system is already used by agencies such as the Department of Business and Economic Development and the Department of Housing and Community Development which are allowed to use a portion of the special funds from their capital financing programs for administrative expenses.

The State units which readily fit this category and their fiscal 2003 operating budget amounts are shown in **Exhibit 11**.

Exhibit 11

Capital Project Units

Department	Unit	FY 2003 General Fund Budget
Budget and Management	Office of Capital Budgeting	$1,516,559
General Services	*Office of Facilities Planning, Design, and Construction	6,639,609
	Interagency Committee on School Construction	1,098,750
Public Safety and Correctional Services	Division of Capital Construction and Facilities Maintenance	2,180,501
University System of Maryland	Capital Project Centers	Undetermined
Total		**$11,435,419**

*Excludes the Office of the Assistant Secretary

Source: Governor's Budget Books

These units provide administrative and management services that are an integral component to each capital project. For example, the units assist in every phase of a project (conception to completion) and provide technical and analytical review. Thus the current practice of excluding those services from a project's total costs serves to obscure the true costs of the State's capital improvement program.

Funding the administrative and management overhead through an administrative fee charged to the projects may result in fewer projects as project costs increase. Since project cost estimates do not currently include the fee, an appropriation to the Construction Contingency account could be made to help cover project shortfalls that result from the assessment of the administrative fee. In future years, the administrative fee would be factored into the cost estimate for each project. The Department of General Services (DGS) proposed adopting this approach on a more limited basis during the budgetary difficulties of the early 1990s. At that time it indicated that developing the necessary accounting structure would be relatively simple.

DLS recommends a reduction to the operating budgets of the capital project units. These units' operations should be funded through an assessed administrative fee on each capital project managed by the unit. DBM's budget is reduced accordingly.

7. State Policy for Procuring Alternatively Fueled Vehicles Needs Correction

Background

The U.S. Congress passed the Energy Policy Act of 1992 to address the country's increasing dependence on imported oil. The Act required the U.S. Department of Energy (USDOE) to create programs for accelerating the introduction of alternative fueled vehicles (AFVs) to replace conventional vehicles fueled by gasoline. An AFV can operate on an alternative fuel, such an ethanol/gasoline mixture (ethanol) or compressed natural gas (CNG). These vehicles can be dedicated (operate only on an alternative fuel) or flex-fueled/bi-fueled (operate on either an alternative fuel or gasoline). Following the edicts of the Act, the USDOE established the Alternative Fuel Transportation Program. Under the program, state governments are required to acquire AFVs in gradually increasing percentages of their total annual light duty vehicle (LDV) acquisitions beginning with model year 1997. A LDV is defined as a light duty truck or vehicle having a gross vehicle weight rating of 8,500 pounds or less. From model year 2001 and forward, the Act requires that AFVs account for 75% of the LDV acquisitions. The Act provides great flexibility to the states in determining which state agency fleets are subject to the provisions of the Act.

Compliance Audit

Unhappy with the increasing number of sport utility vehicles appearing in the State's fleet, the budget committees requested that OLA determine whether the State is complying with the Energy Policy Act. The auditors "were unable to conclude, with reasonable certainty, whether the State had acquired the proper number of AFVs to be in compliance with the Act." When the vehicle acquisition data reported to the USDOE for model year 2000 is adjusted for the errors found by the auditors, the State does not appear to be in compliance with the Act for that year. States that violate the requirements of the Act are subject to a civil penalty of not more than $5,000 for each violation. In other words, for each acquisition for which the State fell short of the requirement, the penalty would be $5,000 per vehicle. Additionally, states that willfully violate the requirements of the Act are subject to a criminal fine of not more than $10,000 for each violation.

Accurate Data Reporting Problematic

The auditors found that "[a]ccurate vehicle acquisition data [were] not always reported by State agencies, resulting in uncertainty as to whether the State has complied with the Act." The following is a summary table of some of the reporting deficiencies the auditors noted:

Agency Data Reported to DBM	Actual Data
9 LDV acquisitions, all AFVs	None of the LDVs were AFVs
4 LDV acquisitions, all AFVs	14 LDV acquired, 4 were AFVs
6 LDV acquisitions	42 LDV acquisitions

The auditors made the following recommendations:

DBM should establish procedures to verify the accuracy of vehicle acquisition data reported by State agencies. Discrepancies noted should be investigated and resolved with the applicable State agency prior to reporting any problematic data to the USDOE. DBM, in conjunction with the USDOE, should determine the need to reexamine and resubmit compliance reports from previous years.

8. Comprehensive Information on Homeland Defense in Maryland Needed

Maryland is eligible for at least $200 million of $1.1 billion currently scheduled for release around the country for homeland defense. Those funds are for a number of purposes in Maryland, for which the State has received $62.4 million in federal aid for homeland defense so far. Among those purposes are:

- assistance to help State and local governments prepare for attacks involving weapons of mass destruction;
- Byrne Discretionary Grants, which provide, among other things, aid for local law enforcement, for the improvement in the interoperability of communications and information technology systems, for Baltimore-Washington International (BWI) airport improvements, for Prince George's County disaster preparedness, and Montgomery County major incident preparedness;
- bioterrorism grants, which fund various activities related to preparedness for bioterrorism, including money to upgrade medical facilities and money to help protect the food supply; and
- a direct metropolitan medical response system grant to Chesapeake City.

The level of federal funding currently available to Maryland in each category is illustrated in **Exhibit 12**.

Exhibit 12

Federal Funding for Homeland Security
($ in Thousands)

Federal Grant	Purpose	Amount	Subtotal
Justice Assistance Formula Grants	Assistance to State and local governments to help prepare for terrorist attacks involving weapons of mass destruction.	$3,860	**$3,860**
Byrne Discretionary Grants	Funds shall be available solely for State and local public safety entities for expenses for emergency preparedness equipment, training, and other public safety purposes:		
	• Interoperability of communications, IT systems	7,020	
	• Upgrades to technology infrastructures and coordination between federal, State, and local law enforcement and public health agencies to prevent and respond to a biochemical attack	10,573	
	• Add and equip four additional bomb squad units with robots	3,468	
	• Crime laboratory equipment and training	9	
	• Police field operations equipment	508	
	• BWI airport bomb and canine teams	986	
	• Prince George's County disaster preparedness	7,885	
	• Montgomery County major incident preparedness	8,551	**$39,000**
Bioterrorism Grants	Emergency preparedness activities related to bioterrorism, infectious diseases, and public health	16,791	
	Establishment of regional hospital plans to respond in the event of a bioterrorism attack	2,302	
	Direct metropolitan medical response system grant to Chesapeake City	400	**$19,493**
Total Funds	**State Funds**	**$45,517**	
	Direct Grants to Locals	**$16,836**	**$62,353**

Source: Federal Fund Information Service

Fiscal 2002 deficiency appropriations provide $5.1 million in federal funding for homeland security. Another $3.5 million of federal funding is included in the fiscal 2003 allowance. **Exhibit 13** summarizes the activities funded with the federal dollars. The proposed funding raises number of question including:

- How will the State spend the remaining $36.9 million available from the federal government, and will it substitute for projects currently financed with State funds?

- Are the federal funds already included in the budget earmarked for programs eligible for federal dollars? Allocations for the Military Department and the Department of General Services may not comply with the purposes for which federal dollars can be spent.

- Can states spend the federal dollars on personnel and is this advisable given the one-time nature of much of the funding? DBM contends federal funds cannot be spent on personnel which is problematic since the dollars already in the budget, support some personnel costs. DLS, however, has been unable to confirm that states are prohibited from spending the federal dollars on personnel.

DBM should address the three questions identified above.

The possibility that an individual be named to coordinate additional security efforts in the State, perhaps as part of the State Emergency Operations Center, should also be discussed. Lastly, DBM should be prepared to update the budget committees on information presented to them early in January.

Exhibit 13

Homeland Security Federal Fund Spending
Fiscal 2002 Deficiencies and Fiscal 2003 Allowance

Agency	Activities	Funds
MEMA	Staff State emergency operations center on a 24-hour, 7-day a week basis in fiscal 2002 and 2003.	$781,207
Military	Increase security at camp Fretterd for both fiscal 2002 and 2003.	1,492,900
DHMH: Administration	Fiscal 2002 emergency readiness training and emergency and disaster response.	451,000
DHMH: Community Health	Fiscal 2002 emergency purchases of medicine and drugs, emergency hotline, contractual services, and equipment.	940,000
DHMH: Institutions	Deficiency appropriation – Increased overtime resulting from the response to September 11, 2001.	418,982
DHMH: Medical Examiner	Relief from cost containment in fiscal 2002.	356,000
DHMH: Laboratories Administration	Additional positions starting in fiscal 2002, laboratory supplies and security for fiscal 2002, and supplies and equipment in fiscal 2003.	1,800,000
DNR: Natural Resources Police	Deficiency appropriation – DNR previously developed a multi-year plan to modernize and upgrade its public safety two-way radio system. The new federal funds will cover year one of DNR's proposal to upgrade and enhance the existing radio network in support of comprehensive law enforcement functions and to promote interoperability with other law enforcement agencies.	1,000,000
State Police	Fiscal 2003 funding for six new bomb technician positions and one robot.	387,781
Dept. of Environment	Fiscal 2003 funding for emergency response.	179,635
DGS: Security	Fund fiscal 2002 cost of overtime, equipment, training, 56 new regular security positions, and 39 new contractual building guard positions.	292,000
	Fiscal 2003 costs of 56 regular positions created in fiscal 2002 and 31 new positions including 29 contractual conversions.	500,000
Total Federal Funds		**$8,599,500**

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

Recommended Actions

		Amount Reduction		Position Reduction
1.	Delete funds for general salary increase. This fiscal 2003 reduction more closely aligns increased State expenditures with the very slow rate of growth in estimated revenues anticipated by the Bureau of Revenue Estimates.	$ 25,000,000	GF	

2. Add the following language:

SECTION XX. AND BE IT FURTHER ENACTED, That funding for increments (merit increases) be paid in an amount equal to one-half the value of the increment between the employees' current (base) salary and the next step of the salary schedule. This payment shall be made as a lump-sum payment to employees performing at the "meets standards" level or better, prorated by percent of full-time service, and shall be paid on January 1, 2003. Employees shall not advance on the salary schedule in fiscal 2003, nor shall they be paid any other increment increase.

Explanation: For fiscal 2003, employees who meet or exceed standards for their position shall earn a one-time payment equivalent to one half the value of the annual increment. The amount of this payment is equivalent to the increment plan proposed by the Governor. However, by implementing payment in this manner, the State will realize general fund savings of $50 million in fiscal 2004.

3. Add the following language:

SECTION XX. AND BE IT FURTHER ENACTED, That the fiscal 2003 appropriations made for pay-for-performance bonuses shall be deleted. Appropriations for the agencies listed below shall be reduced by the amounts indicated.

Budget Code	Agency	General	Special	Federal	Reimb.
CC	Attorney General	1,500		4,500	15,500
CF	Workers' Compensation Commission		875		
D	Executive and Adm Control	25,250	89,000	5,000	
E	Financial & Revenue Adm		6,318		35,000
F	Budget & Management	6,300,000			
G	Retirement & Pension System		25,000		
J	Transportation		1,314,385	162,479	
K	Natural Resources & Rec.	66,680	163,400	21,500	3,070
L	Agriculture		19,000		7,000
M	Health, Hospitals,				

	& Mental Hygiene			16,750	
P	Labor, Licensing, & Reg.	93,746	1,030	127,427	
S	Housing & Community Dev.		52,150	13,200	
T	Business & Economic Dev.		30,219	3,000	
U	Environment	28,400	83,216	74,872	15,912
Total		6,515,576	1,784,593	428,728	76,482

Further, pay-for-performance bonuses shall not be paid in fiscal 2003.

Explanation: Because it is impossible to determine whether or not expenditures for performance bonuses are resulting in the desired outcome, providing employees with an incentive to improve productivity, and because revenue is extremely limited, pay-for-performance bonuses shall not be paid in fiscal 2003.

4. Add the following language:

SECTION XX. AND BE IT FURTHER ENACTED, That:

(A) for fiscal 2003 the total number of full-time equivalent (FTE) regular employees may not exceed 21,150 in higher education, and 55,750 in the remainder of the Executive Branch agencies and the number of FTE non-exempt contractual employees, as reported in the State Budget Books, may not exceed 5,800 in higher education, and 3,000 in the remainder of the Executive Branch agencies;

(B) to assist in the implementation of this section, the secretary of each principal department of the Executive Branch of State government shall submit to the Governor a reorganization, reengineering, and position reduction plan not later than May 15, 2002. These plans shall provide for the continued performance of the core missions of the departments and for a reduction of not less than 3 percent in the total number of regular and contractual positions authorized in Section 1 of this Act and for reductions of not less than 5 percent of such positions;

(C) the Governor shall submit to the Board of Public Works not later than June 15, 2002 a schedule for aligning the authorizations in section 1 of this Act to the levels established in paragraph (A) of this section, and shall take such actions as necessary to implement any necessary reductions. This schedule may only alter position authorizations for agencies of the Executive Branch;

(D) in implementing this Section the Governor shall take into account:

(1) the abundance of vacant positions resulting from the continuing hiring freeze announced on October 17, 2001;

(2) opportunities for improved efficiency through the elimination of unnecessary layers of administration and consolidation of administrative units; and

(3) need to maintain high quality services for vulnerable populations and promote public safety;

(E) operation of this section shall also cause a reduction in general fund appropriations to the agencies of the Executive Branch of not less than $3,100,000 in higher education, and $6,900,000 in the remainder of Executive Branch agencies; and

(F) the Secretary of the Department of Budget and Management shall provide to the budget committees a list of abolished positions by eight-digit budget code on or before July 1, 2002.

Explanation: The executive branch has added a total of 5,626 FTE positions since fiscal 2001 legislative appropriations, exacerbating the difference between total expenditures and estimated available revenue in fiscal 2003. This action is designed to help close the budget gap and not further encumber the State in the out-years.

Information Request	**Author**	**Due Date**
Schedule of position abolitions by eight-digit budget code	DBM	July 1, 2002

5. Add the following language:

SECTION XX. AND BE IT FURTHER ENACTED, That funding for the deferred compensation match by the State shall be reduced in fiscal 2003 by $2,220,000 general funds, $680,000 special funds, and $680,000 federal funds in accordance with a schedule determined by the Governor. The remaining funds (approximately $10,020,000 general funds, $3,400,000 special funds, and $3,400,000 federal funds) shall be distributed in the State's match of employees' deferred compensation withholding, up to a maximum of $500 per employee, for fiscal 2003.

Explanation: In recognition of the State's fiscal situation, it is necessary to reduce expenditures for this item. A $500 match will still provide a significant savings incentive.

6. Revise Section 17 by adding language and striking other language:

Section 17. AND BE IT FURTHER ENACTED, That funds appropriated to the various State agency programs and subprograms in Comptroller objects 0152 (Health Insurance), 0154 (Retirees Health Insurance Premiums), 0175 (Workers' Compensation), and 0305 (DBM Paid Telecommunications) are to be utilized for their intended purposes only. ~~The expenditure or transfer of these funds for other purposes requires the prior approval of the Secretary of Budget and Management.~~ Notwithstanding any other provision of law, the Secretary of Budget and Management may transfer amounts appropriated in Comptroller object 0305 between state departments and agencies by approved budget amendment in fiscal year 2002 and fiscal year 2003.

Explanation: Funds budgeted in these categories where funds are limited and the need is great should not be exposed to the possibility that they will be used for other purposes. For example, the Department of Budget and Management used $9.6 million in Workers' Compensation funds and $1.8 million in surplus health insurance balances to cover shortfalls at the fiscal 2001 closeout.

7. Amend Section 26 by adding the following language:

(d) provide for the additional appropriation of special, federal, or higher education funds of more than $100,000 for the reclassification of a position or positions.

Explanation: The budget committees have consistently indicated that they do not want reclassifications through budget amendment. They prefer the rigor of full review during the legislative session to fully appreciate the budgetary impact of an individual reclassification or a number of reclassifications.

8. Add the following language:

Section XX. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) is required to submit to the Department of Legislative Services' (DLS) Office of Policy Analysis documentation of any specific recruitment, retention, or other issue that warrants a pay increase. To fulfill this requirement, DBM shall provide to DLS' Office of Policy Analysis

(1) a report listing the grade, salary, title, and incumbent of each position in the Executive Pay Plan as of July 1, October 1, January 1, and April 1; and

(2) detail on any lump sum increases given to employees paid on the Executive Pay Plan subsequent to the previous quarterly report.

These reports shall be submitted in both paper (15 copies) and electronic format. Each position in the report shall be assigned a unique identifier which 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 DLS' Office of Policy Analysis.

Further, DBM shall provide documentation to the budget committees and DLS concerning reclassification requests for Executive Pay Plan positions. Reclassification of employees or positions paid on the Executive Pay Plan shall be given only with the budget committees' comment and Board of Public Works' approval.

Further, for fiscal 2003, the merit pool for Executive Pay Plan increases provided to each agency shall be limited to 1.15 percent of executive salaries as stated in the budget bill within each agency. No increases may be awarded after the effective date of this act until July 1, 2002, unless that increase is approved by the Board of Public Works.

Explanation: Legislation passed in the 2000 session (HB 1270) altered the structure of the Executive Pay Plan 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. The General Assembly offers continued support of this change and expects it to continue assisting the State's efforts to recruit talented employees to and retain them at the top levels of State government. The General Assembly is concerned, however, that the legislation also diminished oversight of State administration by eliminating the requirement that the Board of Public Works approve any extraordinary changes in position classification or compensation, especially given the budgetary pressures in this difficult budget year. This process included a review of these transactions by DLS' Office of Policy Analysis which served both to inform to advise the fiscal leadership of the legislature and the board's deliberations of significant problems identified in classification of positions in the executive service, as well as particular changes in executive personnel.

Information Request	Authors	Due Date
Report on all Executive Pay Plan positions	DBM	July 15, 2002 October 15, 2002 January 15, 2003 April 15, 2003
Executive Pay Plan Reclassification Requests	DBM	As needed

9. Add the following language:

<u>The committee shall consider the recommendations of the Governor and advise the Governor as to its decision whether or not to allow the salary to be restored to the full amount as provided in the budget and the amount withheld to be paid.</u>

Explanation: Section 19 of the budget bill addresses the remedy available for recommendation by the Joint Audit Committee when an agency does not adequately comply with State laws, rules, and regulations regarding the agency's fiscal and accounting record and procedures and/or fiscal administration activities. The Joint Audit Committee may recommend withholding up to 25% of the salary of the secretary or elected official in control of the agency. That recommendation includes the effective dates for the salary reduction and the specific reduction to be imposed. The Joint Audit Committee wishes to share in the decision of the Governor concerning these dates and the specific reduction through the application of this language, which has been included in the budget bill in the past.

10. Add the following language:

<u>Section XX. AND BE IT FURTHER ENACTED, That for fiscal 2004, capital funds shall be budgeted in separate eight-digit programs. When multiple projects and/or programs are budgeted within the same non-transportation eight-digit program, each distinct program and project shall be budgeted in a distinct subprogram. To the extent possible, subprograms for projects spanning multiple years shall be retained to preserve funding history. Furthermore, the budget detail for fiscal 2002 and 2003 submitted with the fiscal 2004 budget shall be organized in the same fashion to allow comparison between years.</u>

Explanation: This is language, which was modified in the 2001 session, but which had been added for many years previous to that modification. The standard language which remains the same throughout is the requirement that capital appropriations be budgeted in discrete budget codes and not co-mingled with operating appropriations. The 2001 session modification further refines the requirement by indicating that if multiple projects are funded in the same budget code (e.g., Board of Public Works) each distinct project should be budgeted within a distinct subprogram within the budget code. Further, subprograms should remain the same year-to-year for projects funded over multiple years. This requirement would make it easier to identify where projects are funded and track the funding history of a project from one year to the next.

11. Add the following language:

Section XX. AND BE IT FURTHER ENACTED, That executive budget books shall include a summary statement of federal revenues by major federal program source supporting the federal appropriations made therein along with the major assumptions underpinning the federal fund estimates. The Department of Budget and Management (DBM) shall exercise due diligence in reporting these data and ensure that they are updated as appropriate to reflect ongoing Congressional action on the federal budget. In addition, DBM shall provide to the Department of Legislative Services (DLS) data for the actual, current, and budget years listing the components of each federal fund appropriation by Catalogue of Federal Domestic Assistance number or equivalent detail for programs not in the catalogue. Data shall be provided in an electronic format subject to the concurrence of DLS.

Explanation: A reliable source of information on federal revenue available in the current and future budget years is necessary for accurate budgeting, for programmatic decision making, and for the development of a federal funding history. This information is particularly necessary when the State is anticipating federal revenue to be used in Maryland for a new purposes (e.g., homeland security). This language has been part of the budget bill for many years.

12. Add the following language:

SECTION XX. AND BE IT FURTHER ENACTED, That any agreements between State agencies and any public higher education institutions involving an expenditure of more than $100,000 shall be published in the Maryland Register and reported to the budget committees.

Explanation: To ensure oversight of agreements between State agencies and public higher education institutions, the language requires all agreements between State agencies and public higher education institutions valued at more than $100,000 be published in the Maryland Register and be reported to the budget committees.

13. Add the following language:

SECTION XX. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that, in the budget submitted at the 2003 session, funds may be expended to implement provisions of collective bargaining agreements invoked under Executive Order 01.01.1996.13 or subsequent legislation establishing collective bargaining only to the extent that:

(1) the fiscal year direct cost of implementing the provisions in fiscal 2004, including the cost of additional employee compensation and fringe benefits developed in consultation with unit representatives, is expressly identified in the budget bill by agency, using the expenditure categories used for fiscal 2002 and any new categories subsequently established through collective bargaining;

(2) the fiscal year expenditures, by agency, in these expenditure categories are also to be reported for those not covered by a collective bargaining agreement;

(3) the fiscal year personnel and associated expenditures needed to negotiate or administer collective bargaining agreements, by agency, is also included as an expenditure category; and

(4) the fiscal year amounts indicated are approved by the General Assembly through its actions on the budget bill.

Explanation: This section requires that the direct (i.e., for those covered by collective bargaining agreements) cost of collective bargaining and the indirect (i.e., same expenditure categories for those not covered by collective bargaining agreements) costs of collective bargaining be identified for express approval by the General Assembly through its actions on the budget bill submitted at the 2003 session. The identification of costs shall include negotiated salary increases and salary increases provided to employees not covered by collective bargaining, and costs added through deficiency appropriations. It is intended that these expenditures be reported on a fiscal year basis, not on a cumulative basis, as has been done in the past.

14. Add the following language:

SECTION XX. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall create two new statewide subobjects, one for leave payout funds used when long-term employees leave State service and are entitled to payment for accrued leave, and one for funds to be used for reclassifications and hiring above the minimum for a classification. DBM shall also require that agency programs and subprograms specify the use to which subobject 0110 (Miscellaneous Adjustments) and 0199 (Other Fringe Benefit Costs) are being put in agency budget requests.

Explanation: Agencies are treating two potentially notable personnel expenditures inconsistently. Some agencies budget vacation leave payout and expenditures related to hiring above the minimum rate in subobject 0110. Both of these are expenditures that other agencies take into consideration when calculating their turnover expectancy. By treating them differently in different agencies, it is difficult to adequately compare turnover expectancy between agencies or to an agency's vacancy experience.

Further, since agencies have the option of using subobjects 0110, 0102, and 0199 for various purposes, there is the potential that expenditures more appropriately budgeted elsewhere will be reflected in these undefined categories. The Department of Legislative Services (DLS) has observed these subobjects being used for expenditures related to reclassifications, leave payouts, uniform cleaning, acting capacity pay, various performance bonuses, annual salary reviews, hiring above the minimum for a classification, contractual salaries (subobject 0102 in the University System of Maryland) and so on. To discourage inappropriate use of these subobjects, agencies should be required to define for what purpose they are being used in their budget requests to DBM and DLS.

15. Add the following language:

<u>SECTION XX. AND BE IT FURTHER ENACTED, That State funds used for Managing for Results (MFR) training and consultant services shall be limited to $62,500 in fiscal 2003. The Department of Budget and Management shall monitor the use of these services across the State, and limit outside training for MFR to only the most crucial need.</u>

Explanation: With MFR now fully implemented, there should be little need for additional training.

16. Add the following language:

<u>SECTION XX. AND BE IT FURTHER ENACTED, That the scope of the sick leave incentive program established in Chapter 97, Acts of 2000 be limited to the number of pilot sites, units, or facilities selected by the Department of Budget and Management (DBM) for purposes of a continuing pilot evaluation program. DBM shall select the additional pilot sites, units, or facilities in the sick leave incentive program based on their sick leave usage and hours of operation; variation between agencies shall be considered. Sick leave incentive payments made shall be limited to the use of existing funds. DBM shall use the same system used in the February 1, 2002, report to the budget committees for tracking the costs and savings related to the sick leave incentive program and shall make another report on February 1, 2003, no matter the scope of the pilot.</u>

Explanation: The first report of the sick leave incentive pilot program shows promising results. Funding constraints during fiscal 2003 do not allow additional expenditures to broaden the scope of the pilot, but the budget committees believe that it should be continued and broadened if possible. Consideration should be given to extending the pilot to facilities that are not open 24 hours and do not use an inordinate amount of overtime to cover personnel out on sick leave. This language allows DBM to extend the scope using existing funds, if possible.

Information Request	Author	Due Date
Report on pilot Sick Leave Incentive Program	DBM	February 1, 2003

	Amount Reduction		Position Reduction
17. Delete general funds for the Office of Capital Budgeting. Convert capital-related general fund expenditures to reimbursable funds. As part of a statewide reduction to the operating budgets of the capital budget units,	1,516,559	GF	

	Amount Reduction	**Position Reduction**
expenditures related to the Office of Capital Budgeting unit in the Department of Budget and Management are removed from the general fund.		

18. Add the following language:

SECTION XX. AND BE IT FURTHER ENACTED, That:

(1) To recognize savings resulting from the delay of improvements to the Department of Budget and Management, Office of Personnel Services and Benefits, Division of Employee Benefits Health Benefits System, funds appropriated for this purpose shall be reduced as provided in this section;

(2) The Governor and officials responsible for administration and amendment of the State budget shall develop a schedule for allocating this reduction to the programs of the Executive and Judicial branches; and

(3) Aggregate reductions under this section shall equal at least the amounts indicated for the departments and budgetary fund types listed:

Department	Fund	Amount
Attorney General	General	$71,156
Executive	General	$575,116
Executive	Special	$215,424
Executive	Federal	$215,424

Explanation: This project is designed to improve the accuracy of and the response time involved in health benefit enrollment transactions. In its request, the Division of Employee Benefits used as the rationale for this improvement Goal 2 of its Managing for Results submission. However, the division is already meeting its objectives under this goal. Given this circumstance, and the State's need to more closely align revenues and expenditures, these improvements can be delayed until sometime after the fiscal 2003.

		Amount Reduction		Position Reduction
19.	Delete funding for the Council on Management and Productivity. The degree to which the accomplishments of the council have moved away from the core functions of the Division of Policy Analysis does not justify continued support of the council by the State as a separate entity. The Division of Policy Analysis has the ability to focus more narrowly on the function of the council currently in greatest demand, the development of management skills throughout the State. Special funds designated for the Yes NetWORK: Offender Employment Projects remain in the budget.	228,912	GF	2.0
20.	Reduce funds used for hiring efforts in the Division of Recruitment and Examination. These funds are used for advertising (e.g., job fair, television, radio), printing (job bulletins, brochures), and the development of a web-enabled hiring system. Given that the State has implemented a hiring freeze, these expenditures can be postponed at least until the end of the hiring freeze.	212,000	GF	
21.	Reduce appropriation for labor negotiator by two-thirds. All current non-higher education labor agreements expire on June 30, 2002. Since the Department of Budget and Management is in active negotiations midway through fiscal 2002 for the renewal of the contracts, it is not likely that a labor negotiator will be needed at the same level for fiscal 2003.	100,000	GF	
22.	Delete additional contractual employees in the Division of Employee Relations and the Division of Recruitment and Training. The hiring freeze applies to contractual as well as regular positions. Further, these new contractual positions are requested to fill ongoing needs within each division, some related to the hiring of new employees, as well as the transfer of existing employees. These activities will not be showing extraordinary levels of activity during the hiring freeze.	90,201	GF	
23.	Reduce funding for travel to fiscal 2002 working appropriation levels. Agencies should not be increasing expenditures on in-state and out-of-state training and conferences in this difficult budget year.	23,405	GF	

24. Adopt the following narrative:

Annual Report of State Personnel: The Department of Budget and Management, Office of Personnel Services and Benefits, shall produce an annual report for agencies in the State Personnel Management System (SPMS) and for selected groups not in the SPMS covered by collective bargaining, as a document of record. The report shall include but not be limited to the same information provided in the *Annual Report, Fiscal Year 2001*, updated for fiscal 2002. If complete information is not available for certain sections as of the due date of October 1, 2002, updated information shall be provided when it is available.

Information Request	**Author**	**Due Date**
Annual Report of State Personnel	DBM, Office of Personnel Services and Benefits	October 1, 2002

Total General Fund Reductions	**$ 27,171,077**	**2.0**

Updates

1. Sick Leave Incentive Pilot Project Indicates a Positive Outcome

Chapter 179, Acts of 2000 created a Sick Leave Incentive Program with the stated purpose of encouraging State employees to reduce their usage of sick leave by allowing them to receive compensation for unused days if they meet certain conditions. The program was part of the negotiated Memoranda of Understanding (MOU) between the Governor and the representatives of the State employee bargaining units. Chapter 179, Acts of 2000 provided the statutory authority for these negotiated provisions, which included not only the sick leave incentive, but also changes to State personnel rules relating to holiday pay and to the death benefits for State employees killed in the performance of job duties. (The bill also made substantial changes to State's Executive Pay Plan.)

Provisions of the Sick Leave Incentive Program

Under the Sick Leave Incentive Program, employees in SPMS and the Transportation Service Human Resources Management System are eligible for payment for unused sick leave as follows:

- employees may receive payment for up to 40 hours of unused sick leave per calendar year if an employee has used no more than 40 hours of sick leave during the calendar year and has a sick leave balance of at least 240 hours on December 31 of that calendar year;

- employees may receive payment of up to 56 hours of unused sick leave per calendar year if an employee has used no more than 24 hours of sick leave during the calendar year and has a sick leave balance of at least 240 hours on December 31 of that calendar year;

- the following sick leave usage does not count against a member's usage for purposes of the incentive: death in the immediate family, donated sick leave, and sick leave taken under the federal Family and Medical Leave Act;

- part-time employees are eligible on a prorated basis; and

- agencies are required to track sick leave usage for the program retroactively to January 1, 2000, and are required to submit reports to the Secretary of DBM at the end of each calendar year on their employees' participation in the program.

Not only was the statewide impact of the program much greater than that which DBM testified to during the deliberations on the sick leave incentive legislation, but the impact on individual agencies was proving to be much greater than anticipated. Agencies with high morale tend to have lower sick leave usage and would experience greater costs when funding the cashout. Agencies with lower morale tend to have higher sick leave usage. Those agencies would experience lower cashout costs, at least initially until employees build up sufficient sick leave to trigger the cashout. Moreover, it was not clear whether work conditions and other factors would encourage continued use of sick leave even with the cashout.

It was expected that to the extent that agencies with 24-hours a day, 7-days a week (24/7) operations – that require overtime employment to cover for sick employees – are also agencies with high sick leave usage, they will pay out little under the cashout program but would reap the greatest savings if the cashout actually alters behavior. Agencies with high morale and/or no 24/7 operations will experience the highest buyout costs and the smallest offsetting productivity savings. To help test this theory, DLS requested that DBM reduce funding for the sick leave incentive program and implement it as a pilot project in three public safety institutions: the medium security Eastern Correctional institute (ECI), the maximum security Maryland Correctional Institution-Women (MCIW), and the pre-release facility Baltimore City Correctional Center (BCCC).

Indications are that the institutions participating in the Sick Leave Incentive Pilot Program showed an increase in the number of people eligible to participate in the program (+2%), a decline in the sick leave usage (overall – 14%), and a decrease in the use of overtime ($333,000 in savings) during the same time period. Detail on individual institutions is demonstrated in **Exhibit 14**.

Exhibit 14

Results of Sick Leave Incentive Pilot Project
Change During Calendar 2001

Institution	**Eligible Employees**		**Avg. Hrs Sick Leave Usage**		**Overtime Savings**	
Similarly-sized/Type Facilities	**%**	**Total #**	**%**	**Avg #**	**%**	**Total $**
ECI	2%	17	-20%	-11	5%	$68,000
Similar Nonparticipating Facilities			*4%*	*4*		
MCIW	4%	7	-4%	-4	35%	$192,000
Similar Nonparticipating Facilities			*10%*	*11*		
BCCC	-2%	-3	-5%	-5	25%	$73,000
Similar Nonparticipating Facilities			*-6%*	*-6*		
Overall Change	2%	21	-14%	n/a	n/a	$333,000
Similar Nonparticipating Facilities			*5%*	*5*		

Source: Department of Budget and Management

The total savings in overtime costs for calendar 2001 suggest that, compared to the general funds invested in the program ($362,978), there will be a net fiscal year cost to the State of about $30,000 in these three institutions. Similar encouraging results are shown when comparing calendar 2000 to 1999, although the actual savings are not as well documented. These results suggest that the sick leave incentive program, during the second full year of its existence in these 24-hour/7-day participating institutions, has had the desired impact of reducing overtime and sick leave usage. The benefits to quality of service from having less reliance on overtime outweighs the negligible cost. It also begs the question of whether the same results can be observed in facilities not open 24 hours. **In order to observe whether or not these results can be generalized to other types of facilities, DLS recommends that:**

- **if DBM believes that it can extend the pilot program using existing funds to other pilot sites, units, or facilities not open 24-hours, that it do so;**

- **the program be continued at the same level in the three facilities used during the first year of the pilot;**

- **DBM shall track the costs and savings in the three correctional institutions participating in the first year of the pilot, as well as the costs and savings in the new pilot sites; and**

- **DBM shall submit a report similar to that provided to the budget committees on February 1, 2002 and shall submit that report on February 1, 2003.**

2. Funds Used for Managing for Results Training and Consulting through the University of Baltimore Should Be Limited

The statewide strategic planning initiative known as MFR, is entering its fourth year of implementation. Agencies have generally complied with the reporting requirements. DLS has continued to evaluate agency MFR submissions and made recommendations for improvement when appropriate.

Not all elements of the MFR plans have been uniformly satisfactory. Much of the framework is in place for evaluating result-based plans and program performance data at the agency level. However, decision making involving spending priorities and resource allocation in some agency budgets based on MFR has yet to be established due to the continuing lack of baseline data against which to evaluate agencies' progress in attaining objectives. When data are only available for the budget year for which appropriations are proposed, the ability to evaluate the impact of new programs based on any longer horizon is constrained. In addition, the lack of a well-defined statewide strategic plan limits the usefulness of MFR.

Structure

Agencies are responsible to develop the following aspects of the MFR process for each program appropriated in the annual budget bill:

- ***Mission*** **–** a short comprehensive statement of the reason for the organization's existence, succinctly identifying what an organization does (or should do), and for whom it does it.

- ***Vision*** **–** a brief and compelling description of the preferred, ideal, future, including the conditions and quality of life.

- ***Key Goals*** **–** the general ends toward which an organization directs its efforts. Goals clarify the mission and provide direction but do not state how to get there.

- ***Objectives*** **–** specific and measurable targets toward the accomplishment of a goal. Agency objectives should be attainable and time bound. When assessing performance targets, agencies should identify factors that can affect performance, such as money, people, time, economic conditions, and political considerations.

- ***Strategies*** – specific courses of action that will be undertaken to accomplish goals and objectives. Strategies reflect budgetary and other resources.

- ***Performance Measures*** **–** the system of customer-focused, quantified indicators that let an organization know if it is meeting its goals and objectives. There are five categories of performance measures: efficiency, input, outcome, output, and quality. Outcome measures should be reported for each program and agency. An appropriate and balanced mix of performance measures should be submitted for each program.

Reporting Requirements

Beginning with the fiscal 1999 budget request, DBM has required executive agencies to incorporate information derived from the MFR initiative into their budget requests. A three-year phase-in approach was undertaken. With the fiscal 2002 budget submission, agencies were to have provided completed mission statements; established key goals, objectives, and performance indicators; and provided measurement data for those indicators. For each agency, after being reviewed DBM's Office of Budget Analysis, these elements (with the exception of strategies) are published along with the budget data in the Governor's budget books. The fiscal 2003 submission was expected to offer DLS an opportunity to become more involved in the process by tying the proximity of measurement indicators and goals to justification for funds.

Issues

- ***Some Agencies Are Continuing to Bring a Number of New Measures into the Current Budget Request:*** This results in an overabundance of "n/a" performance data. While this is necessary in some cases, either because of new programs or new policies, it negates any sort of value provided through the analysis as a whole. MFR is five years old with the submission of the fiscal 2003 budget request. Over those five years, while the quality of the program and data provided through the program is vastly improved, it remains difficult to effectively tie agency performance to budgetary initiatives. DBM has assured the General Assembly that it will work with agencies to be able to provide that most useful data possible. **DLS continues to stress that when a new measure is developed it does not provide any useful data for at least a couple of years, unless the data can be "backfilled." As a cost-saving measure, given the level of accumulated knowledge found in State agencies about MFR, DLS recommends reducing State agency use of the University of Baltimore's services by 75% (leaving up to $62,500 for this use) in this area for fiscal 2003. DBM shall monitor the use of these services across the State and limit training for MFR to only the most crucial cases.**

- ***OLA Continues to Provide Audits of MFR Performance Measures:*** This process is designed to monitor the adequacy of controls over a performance measure, consistency between the performance measure calculation method and the performance measure definition, and testing of source documents. Toward that end, OPA has developed four possible "grades" in relation to select performance measures, as demonstrated in **Exhibit 15**.

Exhibit 15

Categories of Performance Certification

Category	Definition
Certified	Reported performance was reasonably accurate.
Certified with Qualifications	Reported performance was reasonably accurate but either minor deficiencies were noted with the supporting documentation, or controls were not sufficient, or the methodology used to calculate reported performance was not consistent with the measure definition.
Factors Prevent Certification	Actual performance could not be verified as documentation was unavailable and/or controls were not adequate to ensure the accuracy of reported results.
Inaccurate	Reported performance differed significantly from actual performance.

Source: Department of Legislative Services; Office of Legislative Audits

To date, MFR audits have been conducted in the following:

- Department of Health and Mental Hygiene's Alcohol and Drug Abuse Administration and Developmental Disabilities Administration;
- Comptroller of the Treasury Revenue Administration Division;
- Department of Transportation Motor Vehicle Administration;
- Department of Human Resources Family Investment Administration;
- University System of Maryland University of Maryland College Park;
- Towson University; and
- Department of Public Safety and Correctional Services Division of Parole and Probation.

Results have been mixed with some agencies receiving favorable audits and others cited for inaccurate or uncertifiable data.

- ***MFR Should Be Codified:*** To date, there has been much time and money invested in the development of Maryland's answer to strategic planning. However, there is a perception that some of the lingering problems with MFR stem from an attitude that its future is less than certain. An example of the fallout from that perception is perhaps the tendency for agencies to inconsistently provide performance measures, preventing the development of historical data.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets

Department of Budget and Management

($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2001					
Legislative Appropriation	$39,435	$4,272	$0	$4,618	$48,325
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	(12,436)	1,110	0	291	(11,035)
Reversions and Cancellations	(1,754)	(177)	0	(973)	(2,904)
Actual Expenditures	**$25,245**	**$5,205**	**$0**	**$3,936**	**$34,386**
Fiscal 2002					
Legislative Appropriation	$33,328	$5,141	$0	$4,515	$42,984
Budget Amendments	(9,677)	0	0	0	(9,677)
Working Appropriation	**$23,651**	**$5,141**	**$0**	**$4,515**	**$33,307**

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

Fiscal 2001

Fiscal 2001 amendments include, but are not limited to:

- $12,558,567 in general funds is transferred from OPSB to various agencies of the State. These funds are for annual salary review costs, the partial general salary increase adjustment, and Office of Administrative Hearing costs.

- $1,480,000 in general funds from the Office of the Chief of Information Technology is transferred to various other divisions with the agency. These funds are used for expenditures related to the renovation project at 45 Calvert in Annapolis.

- $1,109,522 in special funds are appropriated to the Central Collections Unit to provide funding for 25 regular, contractual, and temporary employees. Employees hired are to handle the increased workload created by five new satellite offices in Glen Burnie, Largo, Gaithersburg, Hagerstown, and Salisbury. These new offices are opened in partnership with the Motor Vehicle Administration.

- $1,024,990 in general funds is transferred from DBM to various agencies to cover the cost-of-salary increases for physicians resulting from the annual salary review process.

- $452,232 in general funds represents transfers of monies from DBM to the judiciary for the annual salary review costs and the partial general salary adjustment.

- $266,000 in reimbursable funds is transferred from the Employees & Retirees' Health Insurance nonbudgeted accounts to the Division of Employee Benefits to replace obsolete workstations.

- $25,000 in unappropriated reimbursable fund transfers to the Division of Employee Relations to meet actual expenditures for salaries and wages.

Fiscal 2002

Fiscal 2002 amendments include, but are not limited to:

- $9,531,391 of general funds was transferred to various agencies to cover increases implemented as a result of the annual salary review. These funds were to increase the salaries of nursing classifications and of instructional educator classifications.

Object/Fund Difference Report
Department of Budget and Management

Object/Fund	FY01 Actual	FY02 Working Appropriation	FY03 Allowance	FY02 - FY03 Amount Change	Percent Change
Positions					
01 Regular	349.80	368.30	364.30	(4.00)	(1.1%)
02 Contractual	48.50	17.50	20.80	3.30	18.9%
Total Positions	**398.30**	**385.80**	**385.10**	**(0.70)**	**(0.2%)**
Objects					
01 Salaries and Wages	$ 24,838,938	$ 23,584,180	$ 53,228,023	$ 29,643,843	125.7%
02 Technical & Spec Fees	700,151	763,300	916,648	153,348	20.1%
03 Communication	1,710,489	1,370,867	1,545,156	174,289	12.7%
04 Travel	332,305	374,995	437,756	62,761	16.7%
07 Motor Vehicles	21,972	50,659	46,554	(4,105)	(8.1%)
08 Contractual Services	5,776,834	6,201,110	7,952,299	1,751,189	28.2%
09 Supplies & Materials	395,673	455,693	551,879	96,186	21.1%
10 Equip - Replacement	401,204	249,376	556,703	307,327	123.2%
13 Fixed Charges	208,280	257,080	264,756	7,676	3.0%
Total Objects	**$ 34,385,846**	**$ 33,307,260**	**$ 65,499,774**	**$ 32,192,514**	**96.7%**
Funds					
01 General Fund	$ 25,245,335	$ 23,651,232	$ 52,675,322	$ 29,024,090	122.7%
03 Special Fund	5,204,899	5,141,331	6,504,433	1,363,102	26.5%
09 Reimbursable Fund	3,935,612	4,514,697	6,320,019	1,805,322	40.0%
Total Funds	**$ 34,385,846**	**$ 33,307,260**	**$ 65,499,774**	**$ 32,192,514**	**96.7%**

Note: Full-time and contractual positions and salaries are reflected for operating budget programs only.

Fiscal Summary
Department of Budget and Management

Unit/Program	FY01 Actual	FY02 Legislative Appropriation	FY02 Working Appropriation	FY01 - FY02 % Change	FY03 Allowance	FY02 - FY03 % Change
01 Office of the Secretary	$ 13,016,284	$ 11,692,909	$ 11,978,629	(8.0%)	$ 13,645,642	13.9%
02 Office of Personnel Services and Benefits	18,122,882	27,798,254	17,845,010	(1.5%)	48,191,078	170.1%
05 Office of Budget Analysis	1,898,955	2,060,984	2,052,131	8.1%	2,146,495	4.6%
06 Office of Capital Budgeting	1,347,725	1,431,490	1,431,490	6.2%	1,516,559	5.9%
Total Expenditures	**$ 34,385,846**	**$ 42,983,637**	**$ 33,307,260**	**(3.1%)**	**$ 65,499,774**	**96.7%**
General Fund	$ 25,245,335	$ 33,327,609	$ 23,651,232	(6.3%)	$ 52,675,322	122.7%
Special Fund	5,204,899	5,141,331	5,141,331	(1.2%)	6,504,433	26.5%
Total Appropriations	**$ 30,450,234**	**$ 38,468,940**	**$ 28,792,563**	**(5.4%)**	**$ 59,179,755**	**105.5%**
Reimbursable Fund	$ 3,935,612	$ 4,514,697	$ 4,514,697	14.7%	$ 6,320,019	40.0%
Total Funds	**$ 34,385,846**	**$ 42,983,637**	**$ 33,307,260**	**(3.1%)**	**$ 65,499,774**	**96.7%**

State Employee Health and Supplemental Benefits Contracts – Calendar 2002

Service Plans	Current Contract Term	Vendor	CY 2001 Expenditures ($ in Millions)	Value of Contract Award ($ in Millions)	Expiration Date (Not Including Renewal Options)
Preferred Provider Option (PPO)	01/01/00 through 12/31/02 3 years with 2 one-year renewal options	CareFirst of MD (formerly BCBSMD)	$163.1	$550 (3-year contract) see footnote	12/31/02
		MAMSI - MLH Eagle	$20.2	$554 (3-year contract) see footnote	12/31/02
Point-of-Service (POS)	01/01/00 through 12/31/02 3 years with 2 one-year renewal options	CareFirst	$50.2	$280 (3-year contract) see footnote	12/31/02
		MAMSI - MDIPA Preferred	$65.5	$298 (3-year contract) see footnote	12/31/02
		AETNA (acquired NYLCare)	$16.3	$343 (3-year contract) see footnote	12/31/02
Health Maintenance Organization (HMO)	01/01/00 through 12/31/02 3 years with 2 one-year renewal options	Carefirst	$35.4	$286 (3-year contract) see footnote	12/31/02
		MAMSI - Optimum Choice	$16.0	$259 (3-year contract) see footnote	12/31/02
		Kaiser Permanente	$16.3	$254 (3-year contract) see footnote	12/31/02
		Prudential	$0.0	Plan purchased by AETNA contract terminated	12/31/02
		George Washington	$3.7	Plan terminated business	12/31/02

Service Plans	Current Contract Term	Vendor	CY 2001 Expenditures ($ in Millions)	Value of Contract Award ($ in Millions)	Expiration Date (Not Including Renewal Options)
Mental Health/Substance Abuse	01/01/01 through 12/31/03 3 years with 3 one-year renewal options	American Psych Systems, Inc.	$10.8 total; APS $8.6 and $2.2 was for runout claims under Magellan Health Services	$34 (3-year contract)	12/31/02
Prescription Drug	01/01/01 through 12/31/03 3 years with 3 one-year renewal options	AdvancePCS (formerly PCS Health Systems)	$186.4	$790 (3-year contract)	12/31/02
Dental Services (Point-of-Service Option)	01/01/00 through 12/31/02 3 years with 2 one-year renewal options	United Concordia	$15.4 DPOS and DHMO combined	$79 (3-year contract) see footnote	12/31/02
Dental Services (DHMO Option)	01/01/00 through 12/31/02 3 years with 2 one-year renewal options	United Concordia	See DPOS	$48 (3-year contract) see footnote	12/31/02
		Dental Benefits Provider	$5.5	$53 (3-year contract) see footnote	12/31/02
Term Life Insurance	01/01/95 through 12/31/98 4 years with 1 four-year renewal option	Met Life	$10.2	$33 (4-year contract)	12/31/02
Accidental Death and Dismemberment	01/01/95 through 12/31/98 4 years with 1 four-year renewal option	American Home Assurance	$1.8	$6 (4-year contract)	12/31/02
Long-term Care	01/01/00 through 12/31/03 4 years with 2 one-year renewal options	Unum Life Insurance Company of America	$1.2	n/a	12/31/02
Flexible Spending Accounts	07/15/99 through 12/31/02 with 2 one-year renewal options	ERISA Administrative Services, Inc.	$0.2	$1 (3½-year contract) administrative fees only	12/31/02

Source: Department of Budget and Management

Comparison of Salaries Paid for Positions on the Executive Pay Plan
January 1, 2001 and January 1, 2002

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
Office of the Public Defender						
Deputy Public Defender	$100,611	$92,302	9907	-8.26%	01 avg:	$90,325
Director of Operations	80,038	88,400	9906	10.45%	02 avg:	$90,351
					% inc:	0.03%
Office of the Attorney General						
Deputy Attorney General - Litigation & Enforcement	114,721	122,672	9909	6.93%		
Deputy Attorney General - Financial & Procurement	111,461	119,281	9909	7.02%	01 avg:	$107,725
Senior Exec. Assoc. Attorney General, General Assembly	108,449	116,149	9908	7.10%	02 avg:	$115,396
Senior Exec. Assoc. Attorney General, Opinions	105,367	112,943	9908	7.19%	% inc:	7.12%
Senior Exec. Assoc. Attorney General, Civil Litigation	98,628	105,935	9908	7.41%		
Office of the People's Counsel						
People's Counsel	93,434	99,116	9906	6.08%		
Subsequent Injury Fund						
Exec. Director Subsequent Injury Fund	87,323	93,541	9905	7.12%		
Uninsured Employer Fund						
Exec. Director Uninsured Employer Fund	87,323	93,541	9905	7.12%		
Executive Department - Governor						
Deputy Chief of Staff - DBED, DOT, Agriculture, DGS	120,419	133,538	9909	10.89%		
Deputy Chief of Staff, Lt. Governor	113,871	130,517	9909	14.62%		
Chief Legislative Officer	116,865	130,048	9909	11.28%	01 avg:	$108,241
Deputy Chief of Staff, DHR, Aging, DLLR, MHEC	86,469	117,306	9909	35.66%	02 avg:	$119,470
Deputy Chief of Staff	122,758	109,509	9909	-10.79%	% inc:	10.37%
Deputy Chief of Staff - DNR, MDE, Planning, DHCD, Smart Growth	100,571	107,732	9909	7.12%		
Director, Communications Office	96,731	107,643	9908	11.28%		
Governor's Office of Crime Control and Prevention						
Executive Director	97,760	103,704	9907	6.08%		

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
Department of Aging						
Secretary - Department of Aging	108,422	116,142	9909	7.12%	01 avg:	$94,391
Deputy Secretary - Department of Aging	80,359	86,081	9906	7.12%	02 avg:	$101,112
					% inc:	7.12%
State Archives						
State Archivist	96,156	103,002	9906	7.12%		
Office of Administrative Hearings						
Chief Administrative Law Judge	103,629	109,931	9907	6.08%	01 avg:	$98,532
Deputy Chief	93,434	100,292	9906	7.34%	02 avg:	$105,112
					% inc:	6.68%
Office for Children, Youth, and Families						
Special Secretary - Children, Youth, and Families	108,528	116,256	9908	7.12%		
Office of Smart Growth						
Special Secretary - Smart Growth	n/a	116,170	9908	n/a		
Public School Construction						
Executive Director	100,691	107,861	9907	7.12%		
Military Department						
Adjutant General	103,629	111,008	9907	7.12%	01 avg:	$88,730
Assistant Adjutant General, State Operations	88,430	95,887	9905	8.43%	02 avg:	$94,261
Assistant Adjutant General, Air National Guard	84,192	91,480	9905	8.66%	% inc:	6.23%
Assistant Adjutant General, Army National Guard	78,669	78,669	9905	0.00%		
State Board of Elections						
State Administrator of Election Laws	89,236	94,662	9905	6.08%		
Maryland Commission on Human Relations						
Executive Director - Commission on Human Relations	82,568	87,588	9906	6.08%	01 avg:	$78,359
Deputy Director - Commission on Human Relations	74,149	79,428	9904	7.12%	02 avg:	$83,508
					% inc:	6.57%

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
Department of Veterans Affairs						
Secretary - Department of Veterans Affairs	79,512	85,173	9905	7.12%		
Department of Planning						
Secretary - Department of Planning	104,277	112,786	9909	8.16%	01 avg:	$98,816
Deputy Director - Office of Planning	93,355	97,090	9906	4.00%	02 avg:	$104,938
					% inc:	6.20%
Governor's Work Force Investment Board						
President	113,664	120,575	9909	6.08%		
Maryland Insurance Administration						
State Insurance Commissioner	116,912	125,236	9909	7.12%	01 avg:	$106,741
MIA Deputy Insurance Commissioner	96,570	99,591	9906	3.13%	02 avg:	$112,414
					% inc:	5.31%
Office of the Comptroller						
Chief Deputy Comptroller	111,941	119,019	9908	6.32%		
Chief of Staff	103,851	110,606	9907	6.50%		
Assistant State Comptroller VI - General Accounting	96,361	102,816	9906	6.70%		
Chief Information Officer	92,575	98,878	9907	6.81%		
Assistant State Comptroller VI - Compliance Administration	88,416	94,553	9906	6.94%		
Director, Field Enforcement Division	85,920	91,957	9906	7.03%		
Assistant State Comptroller VI - Revenue Administration	83,500	89,440	9906	7.11%	01 avg:	$85,760
Assistant State Comptroller VI - Revenue Estimates	81,145	86,991	9906	7.20%	02 avg:	$91,828
Assistant State Comptroller IV - Alcohol & Tobacco Tax	80,668	86,495	9904	7.22%	% inc:	7.08%
Assistant State Comptroller IV - Motor Fuel Tax	78,399	84,135	9904	7.32%		
Assistant State Comptroller IV - Central Payroll	78,399	83,598	9904	6.63%		
Assistant State Comptroller IV - Office of Communications	75,502	81,123	9904	7.44%		
Assistant State Comptroller IV - Administration & Finance	71,978	78,366	9904	8.87%		
Assistant State Comptroller IV - Chief Internal Auditor	71,978	77,609	9904	7.82%		
State Treasurer						
Chief Deputy Treasurer	97,000	104,000	9908	7.22%		

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
State Department of Assessments & Taxation						
Director - Dept. of Assessments & Taxation	97,838	104,804	9907	7.12%		
Deputy Director - Assessments & Taxation	85,875	91,390	9905	6.42%	01 avg:	$82,068
Assistant Director for Taxpayer Services	83,634	89,580	9904	7.11%	02 avg:	$87,896
Assistant Director for Real Property	73,181	78,501	9904	7.27%	% inc:	7.10%
Assistant Director for Finance & Administration	69,813	75,206	9904	7.72%		
Lottery						
Director - State Lottery	120,419	128,994	9909	7.12%	01 avg:	$99,556
Assistant Director - State Lottery	78,693	78,693	9906	0.00%	02 avg:	$103,844
					% inc:	4.31%
Department of Budget and Management						
Secretary - Department of Budget & Management	133,281	142,771	9911	7.12%		
Deputy Secretary - Budget & Management	98,422	107,477	9909	9.20%	01 avg:	$106,580
State Chief of Information Technology	105,448	105,448	9908	0.00%	02 avg:	$112,943
Executive Director, Office of Personnel Services & Benefits	103,629	112,085	9907	8.16%	% inc:	5.97%
Executive Director, Office of Capital Budget	103,629	111,008	9907	7.12%		
Executive Director, Office of Budget Analysis	95,068	98,871	9907	4.00%		
Maryland State Retirement and Pension System						
Executive Director - State Retirement Agency	111,702	119,657	9908	7.12%	01 avg:	$104,067
Executive Director for Investments, Retirement	111,702	116,171	9908	4.00%	02 avg:	$112,280
Executive Director, Supplemental Retirement System	103,629	111,008	9907	7.12%	% inc:	7.89%
Executive Director, Retirement Administrator	89,236	102,282	9906	14.62%		
Department of General Services						
Secretary - Department of General Services	116,990	125,320	9909	7.12%		
Deputy Director - Department of General Services	100,547	107,703	9907	7.12%	01 avg:	$96,097
Assistant Secretary - Facilities Operations & Maintenance	96,156	103,002	9906	7.12%	02 avg:	$102,913
Asst. Secretary - Facilities Planning, Engineering, & Construction	89,236	95,587	9905	7.12%	% inc:	7.09%
Assistant Secretary - Real Estate	84,415	93,060	9905	10.24%		
Assistant Secretary - Procurement & Logistics	89,236	92,806	9905	4.00%		

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
Maryland Department of Transportation						
Secretary - Department of Transportation	134,688	144,279	9911	7.12%		
Deputy Secretary - Department of Transportation	120,420	125,237	9909	4.00%	01 avg:	$119,029
MDTA Executive Secretary	116,991	121,671	9909	4.00%	02 avg:	$124,631
State Highway Administrator	113,665	118,212	9909	4.00%	% inc:	4.71%
Motor Vehicle Administrator	109,379	113,755	9909	4.00%		
Department of Natural Resources						
Secretary - Department of Natural Resources	106,076	125,320	9910	18.14%		
Deputy Secretary - Department of Natural Resources	100,690	108,784	9907	8.04%		
Assistant Secretary - Capital Grants & Loans	96,155	103,001	9906	7.12%	01 avg:	$92,748
Assistant Secretary - Public Lands	96,155	103,001	9906	7.12%	02 avg:	$102,072
Assistant Secretary - Chesapeake Bay & Watershed Program	90,791	97,255	9906	7.12%	% inc:	10.05%
Assistant Secretary - Resource Management Services	78,692	91,052	9906	15.71%		
Assistant Secretary - Management Services	77,271	85,164	9905	10.21%		
Chairman - Chesapeake Critical Area Commission	96,155	103,001	9906	7.12%		
Department of Agriculture						
Secretary - Dept. of Agriculture	107,295	113,667	9909	5.94%		
Deputy Secretary - Dept. of Agriculture	93,080	85,872	9906	-7.74%	01 avg:	$88,672
Assistant Secretary - Plant Industries & Pest Management	88,920	92,477	9905	4.00%	02 avg:	$89,664
Assistant Secretary - Office of Resource Conservation	82,992	86,312	9905	4.00%	% inc:	1.12%
Director of Administration	82,576	85,880	9904	4.00%		
Assistant Secretary - Marketing, Animal Industries, & Consumer Services	77,168	73,777	9905	-4.39%		
Department of Health and Mental Hygiene						
Secretary - Department of Health and Mental Hygiene	136,003	145,687	9911	7.12%		
Deputy Secretary for Health Care Financing	116,990	125,837	9909	7.56%		
Deputy Secretary for Operations	105,448	113,423	9908	7.56%		
Deputy Secretary for Public Health	102,885	110,666	9908	7.56%		
Executive Director - Health Care Access & Cost Commission	107,405	108,070	9908	0.62%		
Director, Cigarette Restitution	97,838	105,237	9907	7.56%		
Executive Director - Operations & Eligibility, Medicaid	96,156	103,427	9906	7.56%		
Director, Developmental Disabilities Administration	95,068	102,257	9907	7.56%	01 avg:	$98,254

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
Director, AIDS Administration	92,788	99,805	9906	7.56%	02 avg:	$104,966
Director, Mental Hygiene Administration	92,377	99,363	9907	7.56%	% inc:	6.83%
Director, Executive Operations & Quality Management	91,765	98,705	9906	7.56%		
Director - Office of Health Care Quality	90,792	97,659	9906	7.56%		
Executive Director - Planning & Finance, Medicaid	90,792	97,659	9906	7.56%		
Deputy Director - Public Health	89,236	95,984	9905	7.56%		
Director - Labs Administration	86,718	93,276	9905	7.56%		
Executive Director - Health Services, Medicaid	96,156	82,403	9906	-14.30%		
Director - Alcohol & Drug Abuse Administration	81,897	n/a	n/a	n/a		
Department of Human Resources						
Secretary - Department of Human Resources	122,537	127,175	9910	3.78%		
Deputy Secretary for Operations	101,293	105,345	9907	4.00%		
Deputy Secretary for Planning & Continuous Quality Improvement	97,758	101,669	9907	4.00%		
Deputy Secretary for Programs	89,687	93,275	9907	4.00%	01 avg:	$92,729
Executive Director - Social Services Administration	88,148	91,674	9906	4.00%	02 avg:	$96,757
Executive Director - Community Services Administration	86,517	89,978	9906	4.00%	% inc:	4.34%
Executive Director - Child Care Administration	86,517	89,978	9906	4.00%		
Executive Director - Child Care Support Administration	86,517	89,978	9906	4.00%		
Executive Director - Family Investment Administration	75,590	81,739	9906	8.13%		
Department of Labor, Licensing, and Regulation						
Secretary - Department of Labor, Licensing, & Regulation	116,990	125,320	9909	7.12%		
Deputy Secretary - Department of Labor, Licensing, & Regulation	106,336	115,014	9907	8.16%	01 avg:	$92,986
Assistant Secretary - Employment & Training	83,495	89,006	9906	6.60%	02 avg:	$99,501
Director - Administration & Intergovernmental Affairs	90,748	96,737	9906	6.60%	% inc:	7.01%
Assistant Secretary - Regulatory Policy & Programs	80,174	85,465	9906	6.60%		
Assistant Secretary - Labor & Industry	80,174	85,465	9906	6.60%		

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
Department of Public Safety and Correctional Services						
Secretary - Department of Public Safety and Correctional Services	136,003	145,687	9911	7.12%		
Deputy Secretary - Support Services	110,529	117,395	9908	6.21%		
Commissioner - Pretrial and Detention Services	102,691	109,243	9907	6.38%	01 avg:	$102,392
Deputy Secretary - Operations	102,228	109,230	9908	6.85%	02 avg:	$109,621
Assistant Secretary - Administration	101,138	108,710	9907	7.49%	% inc:	7.06%
Director - Division of Parole and Probation	91,528	98,102	9906	7.18%		
Commissioner of Correction	88,071	95,120	9907	8.00%		
Director - Patuxent Institution	86,947	93,483	9905	7.52%		
Maryland State Department of Education						
Deputy State Superintendent - Administration	111,702	121,631	9908	8.89%		
Deputy State Superintendent - Finance	87,557	111,075	9908	26.86%		
Deputy State Superintendent - School Improvement	101,462	110,481	9908	8.89%		
Assistant State Superintendent - Information Management & Planning	96,156	106,769	9906	11.04%	01 avg:	$95,781
Assistant State Superintendent - Career Technology & Adult Learning	96,156	106,769	9906	11.04%	02 avg:	$107,346
Assistant State Superintendent - Library Development	96,156	106,769	9906	11.04%	% inc:	12.07%
Assistant State Superintendent - Rehabilitation Services	96,156	106,769	9906	11.04%		
Assistant State Superintendent - School & Community Outreach	93,444	103,985	9906	11.28%		
Assist. State Superintendent - Special Education/Early Intervention Services	90,792	101,033	9906	11.28%		
Assistant State Superintendent - Student & School Services	88,228	98,181	9906	11.28%		
Maryland School for the Deaf						
Superintendent - School for the Deaf	97,838	104,804	9907	7.12%		
Maryland Prepaid College Trust						
Executive Director	92,377	96,073	9907	4.00%		
Maryland Higher Education Commission						
Secretary - Department of Higher Education	111,423	119,357	9910	7.12%	01 avg:	$98,619
Assistant Secretary - Administration	103,629	100,008	9907	-3.49%	02 avg:	$103,584
Assistant Secretary - Planning & Academic Affairs	92,377	99,915	9907	8.16%	% inc:	5.03%

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
Assistant Secretary - Finance Policy	87,048	95,056	9907	9.20%		
Department of Housing and Community Development						
Secretary - Dept. of Housing & Community Development	122,537	131,262	9910	7.12%		
Deputy Secretary - Dept. of Housing & Community Development	89,687	98,683	9907	10.03%		
Assistant Secretary - Community Development	90,000	93,600	9905	4.00%	01 avg:	$90,994
Director, Maryland Historical Trust	86,637	92,699	9905	7.00%	02 avg:	$97,437
Assistant Secretary - Finance	86,637	92,699	9905	7.00%	% inc:	7.08%
Assistant Secretary - Neighborhood Revitalization	84,192	90,156	9905	7.08%		
Director, Maryland Housing Fund	77,271	82,958	9905	7.36%		
Department of Business and Economic Development						
Secretary - Department of Business and Economic Development	136,599	144,905	9911	6.08%		
Deputy Secretary - Department of Business and Economic Development	105,000	112,573	9909	7.21%		
Assistant Secretary - Business Development	102,377	108,033	9908	5.52%	01 avg:	$103,885
Assistant Secretary - Financing Programs	98,274	105,578	9906	7.43%	02 avg:	$111,079
Assistant Secretary - Regional Development	98,274	105,578	9906	7.43%	% inc:	6.92%
Assistant Secretary - Tourism, Films, & the Arts	98,274	105,578	9906	7.43%		
Assistant Secretary - Economic Policy & Legislation	88,400	95,309	9906	7.82%		
Department of the Environment						
Secretary - Department of the Environment	116,990	134,093	9910	14.62%		
Deputy Secretary - Department of the Environment	93,355	115,014	9907	23.20%		
Assistant Secretary for Policy	93,355	102,534	9906	9.83%	01 avg:	$88,989
Director - Waste Management Administration	86,637	100,304	9906	15.78%	02 avg:	$103,870
Director - Water Management Administration	86,637	99,234	9906	14.54%	% inc:	16.72%
Director - Technical & Regulatory Services	78,151	98,971	9906	26.64%		
Director - Air & Radiation Management Administration	77,271	98,116	9906	26.98%		
Director - Administrative & Employee Services	79,512	82,693	9905	4.00%		

Fiscal 2003 Classification Title	FY 2001 Salary	FY 2002 Salary	FY 2002 Grade	Percent Increase	Agency Increase	
Department Juvenile Justice						
Secretary - Department Juvenile Justice	136,003	141,444	9911	4.00%		
Deputy Secretary - Administration	93,355	97,090	9906	4.00%		
Assistant Secretary - Finance & Procurement	68,210	91,845	9905	34.65%	01 avg:	$87,276
Assistant Secretary - Admissions	79,512	86,000	9905	8.16%	02 avg:	$92,919
Assistant Secretary - Professional Responsibility & Accountability	77,083	82,571	9905	7.12%	% inc:	6.47%
Assistant Secretary - Residential Services	83,304	78,024	9905	-6.34%		
Deputy Secretary - Restorative Justice Operations	73,462	73,462	9906	0.00%		
Maryland State Police/Fire Marshal						
Superintendent - Maryland State Police	126,107	135,086	9910	7.12%	01 avg:	$104,240
Assistant Secretary for Administrative Operations	82,373	88,238	9906	7.12%	02 avg:	$111,662
					% inc:	7.12%

Increase for all positions on the Executive Pay Plan:	17,467,659	18,754,763
% increase for all positions on the Executive Pay Plan:		1,287,104
% increase:		7.37%
Average salary	$95,976	103,048
Average increase		$6,960
Average % increase		7.25%

Calendar 2002 Monthly Cost of Insurance to Employees
Various Levels of Coverage for Active Employees

	Employee Only	Employee and Child	Employee and Spouse	3 or More Covered
Kaiser - HMO	$30.02	$60.04	$60.04	$75.20
Optimum Choice - HMO	30.23	62.88	62.88	74.98
FreeState - HMO	32.19	67.55	67.55	83.69
BCBSM - PPO	53.64	96.55	96.55	134.10
MLH/Eagle- PPO	57.15	102.87	102.87	142.87
CareFirst - POS	30.75	55.35	55.35	76.88
MD-IPA/Preferred - POS	31.95	57.50	57.50	79.86
Aetna US Healthcare - POS	28.24	50.83	50.83	70.59
PCS - Prescription	26.67	35.44	44.26	53.34
Mental Health - PPO	1.15	2.06	2.06	2.87
Mental Health - POS	0.86	1.55	1.55	2.15
Dental - DBP - DHMO	6.68	13.36	14.69	23.38
Dental - UCCI - DHMO	6.38	11.11	12.77	17.95
Dental - UCCI - DPOS	8.35	14.54	16.85	23.48

Calendar 2003 Estimated Monthly Cost of Insurance to Employees with Premium or Cost Inflation Only Various Levels of Coverage for Active Employees

	Employee Only	Employee and Child	Employee and Spouse	3 or More Covered
Kaiser - HMO	$31.22	$62.44	$62.44	$78.20
Optimum Choice - HMO	31.44	65.40	65.40	77.98
FreeState - HMO	33.48	70.25	70.25	87.04
BCBSM - PPO	57.79	104.03	104.03	144.49
MLH/Eagle - PPO	61.54	110.78	110.78	153.86
CareFirst - POS	33.11	59.59	59.59	82.77
MD-IPA/Preferred - POS	34.23	61.61	61.61	85.57
Aetna US Healthcare - POS	30.21	54.38	54.38	75.52
PCS - Prescription	32.00	42.53	53.12	64.01
Mental Health - PPO	1.21	2.19	2.19	3.04
Mental Health - POS	0.91	1.64	1.64	2.28
Dental - DBP - DHMO	6.95	13.89	15.28	24.31
Dental - UCCI - DHMO	6.64	11.55	13.28	18.67
Dental - UCCI - DPOS	8.68	15.12	17.52	24.41

Calendar 2003 Total Monthly Premium Cost of Insurance to Employees with Premium or Cost Inflation and Increased Share Paid by Employee Various Levels of Coverage for Active Employees

	Employee Only	Employee and Child	Employee and Spouse	3 or More Covered
Kaiser -HMO	$41.63	$83.26	$83.26	$104.27
Optimum Choice - HMO	41.92	87.20	87.20	103.97
Freestate - HMO	44.63	93.67	93.67	116.05
BCBSM - PPO	72.24	130.04	130.04	180.61
MLH / Eagle- PPO	76.93	138.47	138.47	192.32
CareFirst - POS	44.14	79.46	79.46	110.36
MD-IPA / Preferred - POS	45.64	82.15	82.15	114.10
Aetna US Healthcare - POS	40.28	72.50	72.50	100.70
PCS -Prescription	32.00	42.53	53.12	64.01
Mental Health - PPO	1.52	2.73	2.73	3.80
Mental Health - POS	1.21	2.19	2.19	3.04
Dental - DBP - DHMO	7.64	15.28	16.81	26.74
Dental - UCCI - DHMO	7.30	12.70	14.60	20.53
Dental - UCCI - DPOS	9.55	16.63	19.27	26.86

Calendar 2002 Monthly Cost of Insurance to Employees
Various Levels of Coverage for Retired Employees

	Retiree Only	Retiree & Child	Retiree & Spouse	3 or More Covered	Retiree with Medicaid	1 Medicaid 1 without	Two with Medicaid	1 Medicaid 2 without	2 Medicaid 1 without	Three with Medicaid	1 - 3 Medicaid 4+ without
Kaiser - HMO	$30.02	$60.04	$60.04	$75.20	$22.39	$52.41	$44.79	$74.81	$74.81	$74.81	$75.20
Optimum Choice - HMO	30.23	62.88	62.88	74.98	19.97	50.20	39.93	74.98	68.55	59.90	74.98
FreeState - HMO	32.19	67.55	67.55	83.69	15.87	47.80	34.87	79.73	50.85	43.62	79.35
BCBSM - PPO	53.64	96.55	96.55	134.10	26.83	80.45	53.64	123.36	107.28	80.45	134.10
MLH/Eagle - PPO	57.15	102.87	102.87	142.87	28.58	85.72	57.15	131.43	114.30	85.72	142.87
CareFirst - POS	30.75	55.35	55.35	76.88	15.38	46.13	30.75	70.73	61.50	46.13	76.88
MD-IPA/Preferred - POS	31.95	57.50	57.50	79.86	15.97	47.92	31.95	73.48	63.89	47.92	79.86
Aetna US Healthcare - POS	28.24	50.83	50.83	70.59	14.12	42.35	28.24	64.94	56.47	42.35	70.59
PCS - Prescription	26.67	35.44	44.26	53.34	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mental Health - PPO	1.15	2.06	2.06	2.87	0.57	1.72	1.15	2.63	2.29	1.72	2.87
Mental Health - POS	0.86	1.55	1.55	2.15	0.43	1.29	0.86	1.98	1.72	1.29	2.15
Dental - DBP - DHMO	6.68	13.36	14.69	23.38	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dental - UCCI - DHMO	6.38	11.11	12.77	17.95	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dental - UCCI - DPOS	8.35	14.54	16.85	23.48	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Calendar 2003 Estimated Monthly Cost of Insurance to Employees with Premium or Cost Inflation Only Various Levels of Coverage for Retired Employees

	Retiree Only	Retiree & Child	Retiree & Spouse	3 or More Covered	Retiree with Medicaid	1 Medicaid 1 without	Two with Medicaid	1 Medicaid 2 without	2 Medicaid 1 without	Three with Medicaid	1 - 3 Medicaid 4+ without
Kaiser - HMO	$31.22	$62.44	$62.44	$78.20	$23.29	$54.51	$46.58	$77.80	$77.80	$77.80	$78.20
Optimum Choice - HMO	31.44	65.40	65.40	77.98	20.76	52.21	41.53	77.98	71.29	62.29	77.98
FreeState - HMO	33.48	70.25	70.25	87.04	16.50	49.71	36.26	82.92	52.88	45.36	82.52
BCBSM - PPO	57.79	104.03	104.03	144.49	28.91	86.68	57.79	132.92	115.59	86.68	144.49
MLH/Eagle - PPO	61.54	110.78	110.78	153.86	30.78	92.31	61.54	141.54	123.09	92.31	153.86
CareFirst - POS	33.11	59.59	59.59	82.77	16.55	49.66	33.11	76.15	66.22	49.66	82.77
MD-IPA/Preferred - POS	34.23	61.61	61.61	85.57	17.12	51.35	34.23	78.73	68.46	51.35	85.57
Aetna US Healthcare - POS	30.21	54.38	54.38	75.52	15.10	45.31	30.21	69.48	60.42	45.31	75.52
PCS - Prescription	32.00	42.53	53.12	64.01	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mental Health - PPO	1.21	2.19	2.19	3.04	0.61	1.82	1.21	2.79	2.43	1.82	3.04
Mental Health - POS	0.91	1.64	1.64	2.28	0.45	1.37	0.91	2.09	1.82	1.37	2.28
Dental - DBP - DHMO	6.95	13.89	15.28	24.31	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dental - UCCI - DHMO	6.64	11.55	13.28	18.67	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dental - UCCI - DPOS	8.68	15.12	17.52	24.41	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Appendix 6 (Cont.)

Calendar 2003 Total Monthly Premium/Cost of Insurance to Employees with Premium or Cost Inflation and Increased Share Paid by Employee Various Levels of Coverage for Retired Employees

	Retiree Only	Retiree & Child	Retiree & Spouse	3 or More Covered	Retiree with Medicaid	1 Medicaid 1 without	Two with Medicaid	1 Medicaid 2 without	2 Medicaid 1 without	Three with Medicaid	1 - 3 Medicaid 4+ without
Kaiser - HMO	$41.63	$83.26	$83.26	$104.27	$31.05	$72.68	$62.11	$103.73	$103.73	$103.73	$104.27
Optimum Choice - HMO	41.92	87.20	87.20	103.97	27.68	69.61	55.37	103.97	95.06	83.06	103.97
FreeState - HMO	44.63	93.67	93.67	116.05	22.00	66.28	48.35	110.56	70.51	60.48	110.03
BCBSM - PPO	72.24	130.04	130.04	180.61	36.13	108.36	72.24	166.15	144.49	108.36	180.61
MLH/Eagle - PPO	76.93	138.47	138.47	192.32	38.47	115.38	76.93	176.93	153.86	115.38	192.32
CareFirst - POS	44.14	79.46	79.46	110.36	22.07	66.22	44.14	101.53	88.29	66.22	110.36
MD-IPA/Preferred - POS	45.64	82.15	82.15	114.10	22.82	68.46	45.64	104.97	91.28	68.46	114.10
Aetna US Healthcare - POS	40.28	72.50	72.50	100.70	20.14	60.41	40.28	92.64	80.56	60.41	100.70
PCS - Prescription	32.00	42.53	53.12	64.01	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mental Health - PPO	1.52	2.73	2.73	3.80	0.76	2.28	1.52	3.49	3.03	2.28	3.80
Mental Health - POS	1.21	2.19	2.19	3.04	0.61	1.82	1.21	2.79	2.43	1.82	3.04
Dental - DBP - DHMO	7.64	15.28	16.81	26.74	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dental - UCCI - DHMO	7.30	12.70	14.60	20.53	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dental - UCCI - DPOS	9.55	16.63	19.27	26.86	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

Distribution of Employee Performance by Category
By Principal Department for Fiscal 2000

Department	Total Number of Employees To Be Rated	Percent of Rating Results Submitted	Percent of Employees Rated Outstanding	Percent of Employees Rated Exceeds	Percent of Employees Rated Meets	Percent of Employees Rated Need Improv	Percent of Employees Rated Unsatis
Aging	43	67.4%	9.3%	32.6%	25.6%	0.0%	0.0%
Agriculture	451	86.0%	33.7%	44.8%	7.5%	0.0%	0.0%
Budget and Management	340	35.0%	10.3%	18.8%	5.9%	0.0%	0.0%
Business and Economic Development	222	86.0%	24.8%	44.1%	15.8%	1.4%	0.0%
Education (MSDE)	1,227	91.9%	9.1%	53.3%	28.6%	0.9%	0.0%
Environment	887	74.6%	15.4%	37.4%	21.2%	0.3%	0.2%
General Services	631	93.0%	7.8%	36.0%	48.5%	0.8%	0.0%
Health and Mental Hygiene	10,098	79.6%	14.3%	39.8%	24.8%	0.7%	0.0%
Housing and Community Development	397	70.5%	11.3%	36.5%	22.2%	0.3%	0.3%
Human Resources	7,088	52.9%	9.9%	27.8%	14.7%	0.4%	0.1%
Juvenile Justice	1,235	46.3%	16.5%	20.1%	9.5%	0.2%	0.1%
Labor, Licensing, and Regulation	1,682	62.8%	10.6%	34.3%	17.4%	0.5%	0.0%
Natural Resources	1,168	96.8%	6.8%	48.1%	41.1%	0.8%	0.0%
Planning	118	39.8%	18.6%	19.5%	1.7%	0.0%	0.0%
Public Safety and Correctional Services	10,403	80.0%	6.2%	25.1%	48.2%	0.5%	0.0%
State Police	714	85.0%	40.9%	28.6%	15.1%	0.4%	0.0%
Transportation	6,326	100.0%	36.0%	46.5%	16.8%	0.6%	0.1%
Veterans Affairs	65	100.0%	1.5%	0.0%	92.3%	6.2%	0.0%
All Other Agencies	4,161	69.5%	11.3%	27.1%	30.6%	0.5%	0.0%
Total	**47,256**	**76.6%**	**14.6%**	**33.9%**	**27.5%**	**0.5%**	**0.0%**

Source: Department of Budget and Management

Distribution of Employee Performance by Category
By Principal Department for Fiscal 2001 (As of November 20, 2001)

Department	Total Number of Employees To Be Rated	Percent of Rating Results Submitted	Percent of Employees Rated Outstanding	Percent of Employees Rated Exceeds	Percent of Employees Rated Meets	Percent of Employees Rated Need Improv	Percent of Employees Rated Unsatis
Aging	42	95.2%	9.5%	52.4%	33.3%	0.0%	0.0%
Agriculture	449	78.2%	35.9%	35.9%	6.2%	0.2%	0.0%
Budget and Management	377	73.2%	13.8%	34.0%	24.9%	0.5%	0.0%
Business and Economic Development	254	91.7%	17.7%	54.7%	19.3%	0.0%	0.0%
Education (MSDE)	1,236	95.5%	12.2%	57.6%	24.7%	1.0%	0.0%
Environment	936	72.9%	16.9%	37.7%	17.2%	0.9%	0.2%
General Services	601	84.5%	5.2%	29.6%	49.1%	0.7%	0.0%
Health and Mental Hygiene	9,928	75.6%	16.0%	35.3%	23.8%	0.5%	0.0%
Housing and Community Development	403	54.6%	8.4%	29.5%	16.1%	0.5%	0.0%
Human Resources	7,333	78.1%	14.0%	38.8%	24.3%	0.9%	0.2%
Juvenile Justice	1,385	41.5%	17.5%	18.5%	5.3%	0.3%	1.1%
Labor, Licensing, and Regulation	1,625	97.9%	18.5%	47.6%	30.9%	0.9%	0.0%
Natural Resources	1,202	91.3%	6.7%	49.8%	33.9%	0.9%	0.0%
Planning	114	83.3%	49.1%	30.7%	2.6%	0.9%	0.0%
Public Safety and Correctional Services	10,623	74.2%	9.2%	32.7%	32.1%	0.2%	0.0%
State Police	732	94.9%	49.5%	33.9%	11.3%	0.3%	0.0%
Transportation	6,326	100.0%	36.0%	46.5%	16.8%	0.6%	0.1%
Veterans Affairs	66	78.8%	0.0%	0.0%	77.3%	1.5%	0.0%
All Other Agencies	5,544	62.9%	11.7%	28.0%	22.5%	0.7%	0.0%
Total	**48,986**	**78.3%**	**16.6%**	**36.6%**	**24.4%**	**0.5%**	**0.1%**

Source: Department of Budget and Management

What Performance Ratings Are Maryland Employees Receiving?
Change in Percent of Employees Receiving Performance Bonuses
By Principal Department – Fiscal 2000 and 2001

	Total Number of Employees To Be Rated*	Percent of Employees Rated*	Percent Receiving Bonus 2000	Percent Receiving Bonus 2001	Change in % Receiving Bonus 2000 to 2001
Aging	42	95.2%	41.9%	61.9%	20.0
Agriculture	449	78.2%	78.5%	71.7%	(6.8)
Budget and Management	377	73.2%	29.1%	47.7%	18.6
Business and Economic Development	254	91.7%	68.9%	72.4%	3.5
Education (MSDE)	1,236	95.5%	62.4%	69.8%	7.4
Environment	936	72.9%	52.9%	54.6%	1.7
General Services	601	84.5%	43.7%	34.8%	(9.0)
Health and Mental Hygiene	9,928	75.6%	54.1%	51.3%	(2.9)
Housing and Community Development	403	54.6%	47.9%	38.0%	(9.9)
Human Resources	7,333	78.1%	37.7%	52.8%	15.0
Juvenile Justice	1,385	41.5%	36.6%	36.0%	(0.6)
Labor, Licensing, and Regulation	1,435	97.9%	44.9%	66.1%	21.2
Natural Resources	1,202	91.3%	55.0%	56.4%	1.4
Planning	114	83.3%	38.1%	79.8%	41.7
Public Safety and Correctional Services	10,623	74.2%	31.3%	42.0%	10.7
State Police	732	94.9%	69.5%	83.3%	13.9
Transportation	6,326	100.0%	82.5%	82.5%	-
Veterans Affairs	66	78.8%	1.5%	0.0%	(1.5)
All Other Agencies	5,544	62.9%	38.4%	39.7%	1.3
Total	**48,986**	**76.3%**	**48.5%**	**53.3%**	**4.8**

* Number to be rated and percent rated in fiscal 2001.

Source: Department of Budget and Management

State of Maryland Standard Salary Schedule
Fiscal 2002
Annual Rates Effective January 1, 2002

Grades Down, Steps Across

	Base	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	$14,382	$14,903	$15,444	$16,007	$16,592	$17,201	$17,517	$17,839	$18,168	$18,505	$18,846	$19,195	$19,553	$19,916	$20,287	$20,665	$21,051	$21,444	$21,844
2	$15,292	$15,850	$16,428	$17,030	$17,655	$18,306	$18,645	$18,991	$19,343	$19,702	$20,069	$20,442	$20,824	$21,213	$21,609	$22,015	$22,427	$22,846	$23,273
3	$16,267	$16,863	$17,482	$18,126	$18,796	$19,493	$19,855	$20,224	$20,601	$20,986	$21,377	$21,778	$22,185	$22,601	$23,027	$23,459	$23,900	$24,350	$24,807
4	$17,309	$17,946	$18,609	$19,297	$20,015	$20,759	$21,148	$21,543	$21,946	$22,357	$22,777	$23,206	$23,641	$24,086	$24,541	$25,004	$25,477	$25,959	$26,450
5	$18,424	$19,106	$19,814	$20,552	$21,319	$22,117	$22,532	$22,954	$23,385	$23,826	$24,275	$24,732	$25,199	$25,677	$26,162	$26,657	$27,163	$27,678	$28,203
6	$19,616	$20,347	$21,105	$21,894	$22,714	$23,567	$24,012	$24,464	$24,926	$25,397	$25,877	$26,368	$26,867	$27,377	$27,897	$28,427	$28,968	$29,519	$30,081
7	$20,894	$21,675	$22,487	$23,330	$24,209	$25,122	$25,596	$26,081	$26,575	$27,080	$27,593	$28,117	$28,652	$29,197	$29,754	$30,321	$30,900	$31,491	$32,092
8	$22,259	$23,095	$23,964	$24,866	$25,806	$26,783	$27,291	$27,810	$28,337	$28,877	$29,427	$29,987	$30,560	$31,143	$31,739	$32,346	$32,966	$33,597	$34,241
9	$23,721	$24,616	$25,544	$26,512	$27,516	$28,563	$29,105	$29,660	$30,226	$30,803	$31,390	$31,991	$32,603	$33,228	$33,866	$34,514	$35,177	$35,852	$36,540
10	$25,286	$26,242	$27,237	$28,270	$29,347	$30,465	$31,047	$31,640	$32,245	$32,863	$33,492	$34,135	$34,789	$35,458	$36,139	$36,835	$37,543	$38,265	$39,001
11	$26,958	$27,981	$29,046	$30,153	$31,303	$32,500	$33,123	$33,758	$34,405	$35,066	$35,740	$36,427	$37,128	$37,842	$38,572	$39,315	$40,075	$40,850	$41,641
12	$28,749	$29,844	$30,982	$32,166	$33,399	$34,679	$35,344	$36,024	$36,716	$37,422	$38,144	$38,879	$39,629	$40,394	$41,175	$41,971	$42,782	$43,609	$44,453
13	$30,663	$31,835	$33,054	$34,321	$35,638	$37,008	$37,721	$38,448	$39,190	$39,946	$40,717	$41,503	$42,306	$43,125	$43,960	$44,812	$45,680	$46,565	$47,468
14	$32,714	$33,968	$35,273	$36,628	$38,037	$39,503	$40,267	$41,044	$41,838	$42,647	$43,472	$44,313	$45,172	$46,048	$46,941	$47,852	$48,783	$49,732	$50,700
15	$34,908	$36,249	$37,645	$39,095	$40,604	$42,173	$42,988	$43,820	$44,669	$45,534	$46,418	$47,319	$48,237	$49,175	$50,130	$51,106	$52,100	$53,114	$54,147
16	$37,255	$38,690	$40,184	$41,735	$43,350	$45,029	$45,901	$46,792	$47,701	$48,626	$49,572	$50,535	$51,518	$52,521	$53,544	$54,586	$55,651	$56,737	$57,844
17	$39,765	$41,302	$42,898	$44,559	$46,286	$48,083	$49,016	$49,969	$50,940	$51,932	$52,943	$53,975	$55,026	$56,100	$57,194	$58,310	$59,448	$60,609	$61,794
18	$42,453	$44,096	$45,805	$47,582	$49,431	$51,353	$52,353	$53,371	$54,412	$55,472	$56,554	$57,658	$58,783	$59,931	$61,102	$62,296	$63,514	$64,756	$66,021
19	$45,328	$47,087	$48,914	$50,816	$52,794	$54,851	$55,919	$57,011	$58,124	$59,258	$60,416	$61,596	$62,800	$64,029	$65,282	$66,560	$67,863	$69,192	$70,546
20	$48,405	$50,286	$52,241	$54,277	$56,392	$58,593	$59,738	$60,904	$62,095	$63,309	$64,548	$65,810	$67,100	$68,414	$69,755	$71,122	$72,517	$73,939	$75,389
21	$51,696	$53,710	$55,803	$57,980	$60,243	$62,598	$63,823	$65,072	$66,346	$67,645	$68,970	$70,322	$71,701	$73,107	$74,542	$76,004	$77,497	$79,018	$80,570
22	$55,219	$57,373	$59,612	$61,941	$64,365	$66,883	$68,193	$69,530	$70,893	$72,283	$73,701	$75,147	$76,622	$78,128	$79,663	$81,227	$82,826	$84,455	$86,117
23	$58,988	$61,292	$63,689	$66,181	$68,774	$71,470	$72,871	$74,301	$75,759	$77,246	$78,763	$80,312	$81,890	$83,502	$85,143	$86,817	$88,527	$90,270	$92,048
24	$63,020	$65,487	$68,050	$70,718	$73,491	$76,376	$77,874	$79,406	$80,966	$82,557	$84,181	$85,836	$87,525	$89,249	$91,006	$92,798	$94,628	$96,493	$98,395
25	$67,335	$69,974	$72,718	$75,571	$78,539	$81,625	$83,229	$84,867	$86,537	$88,240	$89,977	$91,749	$93,555	$95,400	$97,280	$99,197	$101,154	$103,148	$105,182
26	$71,951	$74,776	$77,710	$80,764	$83,940	$87,242	$88,958	$90,711	$92,498	$94,320	$96,178	$98,073	$100,007	$101,981	$103,993	$106,045	$108,139	$110,275	$112,453

Note: Dark lines mark each $10,000 in salary.

State of Maryland
Executive Pay Plan – Salary Schedule
Fiscal 2002 – Effective January 1, 2002

Scale		Minimum	Midpoint	Maximum
ES4	9904	$68,517	$80,293	$92,068
ES5	9905	73,777	86,456	99,136
ES6	9906	79,457	$93,113	106,768
ES7	9907	85,593	100,304	115,014
ES8	9908	92,220	108,070	123,918
ES9	9909	99,378	116,458	133,537
ES10	9910	107,105	125,513	143,921
ES11	9911	115,456	135,299	155,141