

C98F00
Workers' Compensation Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Approp.</u>	<u>FY 04</u> <u>Allowance</u>	<u>FY 03 - 04</u> <u>Change</u>	<u>FY 03 - 04</u> <u>% Change</u>
General Funds	\$10,482	\$0	\$0	\$0	0.0%
Adjusted General Funds	\$10,482	\$0	\$0	\$0	0.0%
Special Funds	165	12,527	12,822	296	2.3%
Contingent & Back of Bill Reductions	0	-9	-40	-31	
Adjusted Special Funds	\$165	\$12,517	\$12,783	\$265	2.1%
Reimbursable Funds	61	60	29	-32	-53.4%
Adjusted Reimbursable Funds	\$61	\$60	\$29	-\$32	-53.4%
Adjusted Grand Total	\$10,708	\$12,578	\$12,811	\$234	1.9%

- The comparison between the fiscal 2003 working appropriation and the fiscal 2004 allowance accounts for contingent and back of bill reductions within the special fund.
- Total funds increase by \$233,598 (1.9%) from the fiscal 2003 working appropriation. The increase includes a \$265,203 increase in special funds and a \$31,605 decrease in reimbursable funds.
- The special fund includes \$331,000 in rent for the new permanent regional hearing sites.

Personnel Data

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Working</u>	<u>FY 04</u> <u>Allowance</u>	<u>Change</u>
Regular Positions	132.50	132.50	131.50	-1.00
Contractual FTEs	8.07	12.75	13.75	1.00
Total Personnel	140.57	145.25	145.25	0.00

Vacancy Data: Regular Positions

Budgeted Turnover: FY 04	0.25	0.19%
Positions Vacant as of 12/31/02	11.00	8.30%

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

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- Total personnel costs increase by \$194,639 from the fiscal 2003 working appropriation to the fiscal 2004 allowance. The personnel cost increase occurs with increases for six new positions, cost containment and turnover, and health insurance. The change in personnel costs is offset by reductions for seven abolished positions, retirement, and decreases in salary funding and other adjustments.
- As of December 31, 2002, the vacancy rate at the Workers' Compensation Commission (WCC) was 8.30%, or 11 positions. The budgeted turnover rate is 0.19%, or .25 position.

Analysis in Brief

Issues

Web Enabled Electronic File Management System: WCC is in the middle of a major information technology project, spanning over four fiscal years, to create a web enabled electronic file management system. The fiscal 2004 Major Information Technology Development Projects section of the budget (Vol. 5) notes that \$600,000 is required for WCC's Web Enabled Electronic File Management System in fiscal 2004. However, the Governor's proposed fiscal 2004 allowance provides WCC with \$870,405 in special funds for the project. **The Department of Legislative Services recommends reducing funding for the Web Enabled File Management System project by \$270,405 to the intended level of \$600,000.**

Recommended Actions

	<u>Funds</u>
1. Reduce funds for the Web Enabled Electronic File Management System	\$ 270,405
2. Delete funding for contractual position added for fiscal 2004	65,897
Total Reductions	\$ 336,302

Updates

New Regional Hearing Sites Planned to Open: WCC plans to open five new permanent regional hearing sites. WCC hopes to have several of the permanent regional hearing sites operational by spring 2003.

Legal Responsibility for Verifying Workers' Compensation Insurance Unclear: A September 2002 WCC audit report by the Office of Legislative Audits reported that the commission's legal responsibility to identify employers who have not obtained workers' compensation insurance was unclear.

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Operating Budget Analysis

Program Description

The Workers' Compensation Commission (WCC) administers the Workers' Compensation Law. This law requires most Maryland employers to obtain and maintain insurance to provide benefits for employees who sustain an accidental personal injury, occupational disease, or death in the course of their employment. WCC receives, processes, and adjudicates all workers' compensation claims and refers appropriate claimants to the Division of Vocational Rehabilitation. WCC also provides information technology support services to the Subsequent Injury Fund (SIF) and the Uninsured Employers' Fund (UEF) under an interagency support services agreement. WCC is a specially funded agency that recovers expenditures with an annual maintenance assessment imposed on insurance carriers, the Injured Workers' Insurance Fund (IWIF), and self-insured employers. The WCC mission addresses the need for:

- the effective and timely delivery of services provided to its customers;
- a system for electronic exchange of all claims information documents; and
- the establishment of an effective system for collection and analysis of all costs associated with the delivery of workers' compensation benefits.

Performance Analysis: Managing for Results

A review of the submitted WCC Managing for Results (MFR) performance measures generally shows that performance is moving (or is estimated to move) in a positive direction. WCC witnesses level rates or gradual increases in the number of employee claims filed, issues filed, and hearings set. The number of stipulated awards decreases from fiscal 2001 to 2004. Perhaps the most valuable indicator measuring performance shows that the yearly amount of injured workers returning to employment following rehabilitation and/or case management is increasing.

Although the performance measures provided by WCC are helpful when reviewing MFR data, they do not always link back to specific WCC goals. Objective 1.1 is to set 90% or more of all nonpermanency hearings in fiscal 2003 within 60 days of the date when issues are filed. The performance measures do not provide data showing that this goal has been achieved. Similarly, Objective 1.2 is to ensure that, in fiscal 2003, 85% or more of all callers to the Automated Call Directory systems will not have to wait longer than 90 seconds before being connected to their party or speaking to an attendant. Again, the performance measures do not provide data showing that this goal has been achieved. Objective 3.2 is to enable the electronic exchange of 65% or more of the processes that can be electronically exchanged by fiscal 2003. The current performance measures do not convey whether WCC is meeting this goal. WCC's success in the information technology area is particularly important given its \$3 million web enabled electronic file management project underway.

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Listing performance measures after each MFR goal would help link goals and objectives back to the measures. Additionally, given that many of WCC's goals and objectives include percentages, it would be appropriate to include percentages in the performance measures.

WCC should comment on the development of performance measures and consider expanding the measures to specifically link back to commission goals. WCC should consider listing performance measures after each MFR goal to help link goals and objectives back to the measures. Finally, WCC should consider including percentages in its performance measures to help the reader more easily identify important data trends.

Exhibit 1 provides a sampling of MFR reported measures including three objectives.

Exhibit 1

**Program Measurement Data
Workers' Compensation Commission
Fiscal 2001 through 2004**

	<u>FY 01</u> <u>Actual</u>	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Est.</u>	<u>FY 04</u> <u>Est.</u>	<u>Annual</u> <u>Change</u> <u>FY 01 – 02</u>	<u>Annual</u> <u>Change</u> <u>FY 01 - 04</u>
Employee claims filed*	28,421	27,407	28,000	28,000	-3.6%	-0.5%
Issues filed	36,620	38,215	39,800	41,350	4.4%	4.1%
Hearings set during period	41,145	41,435	42,000	43,000	0.7%	1.5%
Stipulated awards	2,690	2,326	2,100	2,100	-13.5%	-7.9%
Number of injured workers returning to employment following rehabilitation and/or case management	1,633	1,976	2,200	2,200	21.0%	10.4%

Objective 1.1 In fiscal 2003 to set 90% or more of all nonpermanency hearings within 60 days of the date when issues are filed.

Objective 1.2 In fiscal 2003 to ensure that 85% or more of all callers to the Automated Call Directory system will not have a wait longer than 90 seconds before being connected to their party or speaking with an attendant.

Objective 3.2 In fiscal 2003 to enable the electronic exchange of 65% or more of the processes of the WCC that can be electronically exchanged.

*Employee claims may include multiple issues with different priorities.

Source: Workers' Compensation Commission

Impact of Cost Containment Fiscal 2003

Fiscal 2003 cost containment reflects the reversion of \$9,240 in appropriations to support free transit ridership for State employees, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act (BRFA) of 2003.

Governor's Proposed Budget

The comparison between the fiscal 2003 working appropriation and the fiscal 2004 allowance accounts for contingent and back of bill reductions within the special fund. The fiscal 2004 allowance for WCC is \$12,811,123. This represents an increase of \$233,598 (1.9%) over the fiscal 2003 working appropriation. The special fund increases by \$265,203, and the reimbursable fund decreases by \$31,605.

Total personnel expenses account for a \$194,639 increase in the special fund. The personnel cost increase occurs with increases for six new positions, cost containment and turnover, and health insurance. The personnel change also includes reductions for seven abolished positions, retirement, and workers' compensation and other adjustments. Nonpersonnel changes in the special fund include the addition of \$331,000 in funds for rent at the new permanent regional hearing sites, a \$265,000 reduction for computer maintenance and equipment, and a \$86,000 increase for telecommunications due to increased costs for regional hearing sites and modifications to existing telecommunications systems.

The reimbursable fund decreases by \$31,605 due to the fact that SIF and UEF will begin reducing their reliance on the WCC's information technology resources beginning in fiscal 2003. SIF and UEF are reliant on data residing in WCC computers, but they are acquiring the hardware and software necessary to support their own accounting and administrative requirements.

Exhibit 2 shows the distribution of funds. The fiscal 2003 working appropriation and fiscal 2004 allowance are adjusted to include contingent and back of bill reductions.

Impact of Cost Containment Fiscal 2004

The fiscal 2004 allowance reflects the elimination of the \$39,755 appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in the BRFA of 2003.

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Exhibit 2

**Governor's Proposed Budget
Workers' Compensation Commission
(\$ in Thousands)**

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Approp.</u>	<u>FY 04</u> <u>Allowance</u>	<u>FY 03 - 04</u> <u>Change</u>	<u>FY 03 - 04</u> <u>% Change</u>
General Funds	\$10,482	\$0	\$0	\$0	0.0%
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Adjusted Grand Total	\$10,708	\$12,578	\$12,811	\$234	1.9%

Where It Goes:

Personnel Expenses

Cost containment and turnover	\$565
Workers' compensation and other adjustments	-529
Abolished positions	-280
New positions	250
Health insurance	229
Retirement	-41

Other Changes

Rent for the new permanent regional hearing sites	331
Reduction in computer maintenance contracts	-135
Reduction in computer equipment replacement	-130
Reduction for motor vehicle purchase/lease	-28
Reduction for advertising	-12
Reduction in funds for conferences/seminars	-10
Increase for telecommunications	9
Increase in postage	7
Miscellaneous adjustments	8

Total **\$234**

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

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Personnel

Total personnel expenses account for a \$194,639 increase in the special fund. This change includes increases of \$249,916 for six new regular positions, \$565,347 for cost containment and turnover, and \$229,199 for health insurance. The change also includes decreases of \$280,268 for seven abolished positions, \$40,600 for retirement, and \$528,956 for workers' compensation and other adjustments. One contractual position was added (\$65,897), creating a net personnel change of 0.

The six new regular positions include three administrative officer positions, two programmer/analyst positions, and one administrator position. The administrative officer positions are needed to ensure that certain persons with limited English proficiency can effectively access public services as required by Chapter 141, Acts of 2002. The two programmer/analyst positions are needed to develop automated systems to evaluate claims and other financial information as well as to convert existing applications for web-based processing. These positions were recommended by the Workers' Compensation Budget Advisory Committee in a report dated December 2, 2002. The administrator position added will serve as Deputy Director of the Insurance Division. The position is necessary to ensure that self-insured employers have the necessary financial resources to pay the claims of their injured workers in order to be approved or remain as self-insured in the State of Maryland. In addition to the six new regular positions, WCC added one contractual position due to the unplanned retirement of the WCC's Director of the Insurance Division.

The Department of Legislative Services (DLS) recommends deleting funding for the contractual position added for fiscal 2004. The contractual position is a temporary replacement for a regular Administrator II position, Director of the Insurance Division, that is vacant. The agency should fill the existing position without funding a contractual FTE to function as the Director of the Insurance Division.

Exhibit 3 provides a listing of the six new regular full-time positions for WCC.

Exhibit 3

New Positions for Fiscal 2004

<u>Full Time Positions</u>	<u>Position</u>	<u>Salary</u>
1	Administrative Officer 1	\$30,664
2	Admin. Officer 1 (split between 2 50% FTE employees)	\$30,664
3	Admin. Officer 1 (split between 2 50% FTE employees)	\$30,664
4	Programmer/Analyst II	\$39,766
5	Programmer/Analyst II	\$39,766
6	Administrator I, Deputy Director of the Insurance Division	\$37,255
Total		\$208,779
Total with Benefits		\$249,916

Source: Workers' Compensation Commission

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As of December 31, 2002, the vacancy rate at WCC was 8.30%, or 11 positions. These 11 vacant positions do not include the seven abolished vacant positions under the fiscal 2004 allowance. The budgeted turnover rate for fiscal 2004 is 0.19%, or 0.25 position. The turnover rate was lowered by the Department of Budget and Management (DBM) in conjunction with the abolition of seven vacant positions under the fiscal 2004 allowance.

Issues

1. Web Enabled Electronic File Management System

WCC is in the middle of a major information technology project, spanning over four fiscal years, to create a web enabled electronic file management system. The total cost of the project is \$3,109,882 over four fiscal years. Prior to fiscal 2003, \$914,883 came from general funds to support the project. After Chapter 487, Acts of 2002 (mandated WCC as a special fund agency) was enacted, all subsequent funding will now come from the special fund.

The project stems from the State of Maryland requirement that each agency must web enable 50% of its business process by 2002, 65% by 2003, and 80% by 2004. WCC has a contract with Verizon for the web enabled electronic file management system project. The project was designed for completion in three phases. The first phase, completed in September 2002, included online registering for web access, online filing and processing of employer's first report of injury (SF-1), and online viewing of claim related documents. The second phase includes online filing for a variety of WCC forms using digital signature technology. WCC plans to complete phase two by the end of 2003. Finally, the third phase includes the automatic routing of forms to e-mail accounts of registered users. WCC plans to complete phase three by the end of 2004.

The fiscal 2004 Major Information Technology Development Projects section of the budget (Vol. 5) notes that \$600,000 is required for WCC's Web Enabled Electronic File Management System in fiscal 2004. However, the Governor's proposed fiscal 2004 allowance provides WCC with \$870,405 in special funds for the project.

DLS recommends reducing funding for the Web Enabled Electronic File Management System project by \$270,405 to the intended level of \$600,000.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funds for the Web Enabled Electronic File Management System to the intended level of \$600,000.	\$ 270,405	SF
2. Delete funding for contractual position added for fiscal 2004. The contractual position is a temporary replacement for a regular Administrator II position that is vacant.	65,897	SF
Total Special Fund Reductions	\$ 336,302	

Updates

1. New Regional Hearing Sites Planned to Open

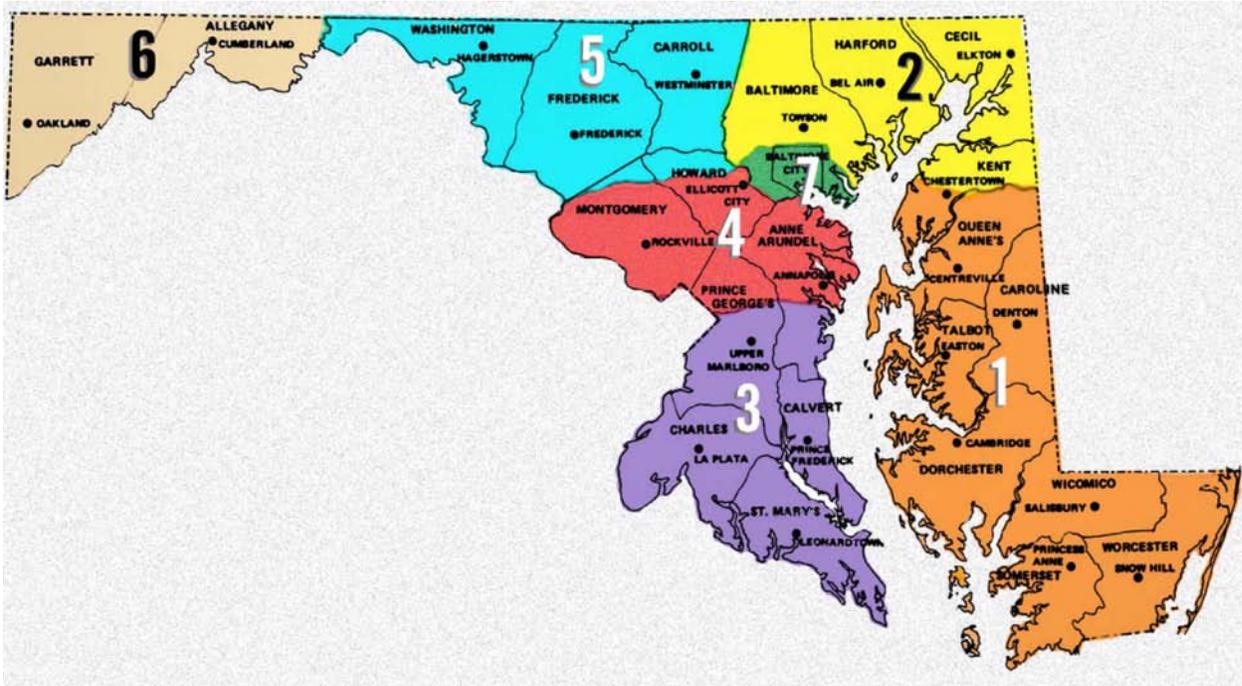
WCC is establishing regional hearing sites as required by Section 9-724 of the Labor and Employment Article. Section 9-724 was enacted through Chapter 90, Acts of 2000 and charges WCC with development of regional hearing sites. WCC anticipates the opening of five new permanent regional hearing sites convenient to all Maryland residents. WCC believes that the new hearing sites will allow the scheduling of hearings in a more efficient and timely manner at locations that are more convenient and secure for all parties. In previous years, the WCC used space in local government facilities including community colleges, municipal buildings, Motor Vehicle Administration offices, as well as circuit and district courts. The process of establishing the permanent regional facilities has been delayed due to cost containment efforts and the difficult task of securing rental space in designated areas of the State.

WCC has rented space on a temporary basis in four service regions to satisfy Chapter 90, Acts of 2000. WCC expended \$47,125 for the rental of these temporary locations in fiscal 2002 and expects to expend more than \$50,000 for fiscal 2003. The Board of Public Works (BPW) approved leases for permanent facilities for Region 2 (Abingdon) on October 16, 2002, and Region 4 (Calverton) on October 30, 2002. The proposed lease for Region 3 (LaPlata) is listed on the BPW agenda for February 19, 2003. WCC expects to have the Abingdon site operational in April 2003, and the Calverton site operational soon thereafter.

Exhibit 4 shows a map identifying the WCC's service regions for the regional hearing sites. There are five anticipated new permanent regional hearing sites (Regions 1-5), one temporary site to be used on an as-needed basis (Region 6), and WCC Headquarters (Region 7).

Exhibit 4

Anticipated Regional Hearing Locations



Region 1: Eastern Shore (location not yet identified); **Region 2:** Northern Region-Abingdon; **Region 3:** Southern Region-LaPlata; **Region 4:** Central Region-Calverton; **Region 5:** Western Region (location not yet identified); **Region 6:** not yet determined, temporary site to be used on an as-needed basis **Region 7:** WCC Headquarters in Baltimore

Source: Workers' Compensation Commission

2. Legal Responsibility for Verifying Workers' Compensation Insurance Unclear

A September 2002 WCC audit report by the Office of Legislative Audits reported that the commission's legal responsibility to identify employers who have not obtained workers' compensation insurance was unclear. The audit report stated that while WCC is required to administer the State's workers' compensation laws, these laws do not state that the commission should ensure that all covered companies obtain workers' compensation insurance. The report recommended that WCC obtain a formal opinion from the Office of the Attorney General to determine the commission's responsibility for verifying workers' compensation insurance.

Current and Prior Year Budgets

Current and Prior Year Budgets Workers' Compensation Commission (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2002					
Legislative Appropriation	\$10,630	\$211	\$0	\$61	\$10,902
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	-148	-46	0	0	-194
Actual Expenditures	\$10,482	\$165	\$0	\$61	\$10,708
Fiscal 2003					
Legislative Appropriation	\$0	\$11,792	\$0	\$60	\$11,852
Budget Amendments	0	726	0	0	726
Working Appropriation	\$0	\$12,517	\$0	\$60	\$12,578

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

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Fiscal 2002

Fiscal 2002 expenditures at WCC totaled \$10.7 million, which is \$194,000 less than the legislative appropriation. The \$194,000 reduction was accounted for by reversions and cancellations. There were \$148,000 in reversions from the general fund and \$46,000 in cancellations from the special fund. \$142,000 of the \$148,000 reduction for reversions in the general fund is explained by cost containment and hiring freeze reductions imposed by DBM in fiscal 2002.

Fiscal 2003

In fiscal 2003, the legislative appropriation was increased by \$735,000 from \$11,852,000 to \$12,587,000. The \$735,000 special fund increase was for WCC's second phase of their Web Enabled Electronic File Management System project. The funds are available through assessing and collecting from each licensed insurer and self-insurer providing workers' compensation coverage in the State of Maryland. This amendment is offset by a planned reversion of \$9,240 in transit subsidy funding for State employees.

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Appendix 2

Object/Fund Difference Report
Workers' Compensation Commission

<u>Object/Fund</u>	<u>FY 02 Actual</u>	<u>FY 03 Working Appropriation</u>	<u>FY 04 Allowance</u>	<u>FY 03 - FY 04 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	132.50	132.50	131.50	- 1.00	- 0.8%
02 Contractual	8.07	12.75	13.75	1.00	7.8%
Total Positions	140.57	145.25	145.25	0	0%
Objects					
01 Salaries and Wages	\$ 7,606,407	\$ 8,088,579	\$ 8,313,733	\$ 225,154	2.8%
02 Technical & Spec Fees	370,229	477,922	685,664	207,742	43.5%
03 Communication	386,123	478,173	564,440	86,267	18.0%
04 Travel	157,913	122,000	112,419	- 9,581	- 7.9%
06 Fuel & Utilities	31,959	35,000	35,000	0	0%
07 Motor Vehicles	80,612	119,429	91,091	- 28,338	- 23.7%
08 Contractual Services	874,952	1,504,956	1,499,838	- 5,118	- 0.3%
09 Supplies & Materials	156,474	162,398	165,922	3,524	2.2%
10 Equip - Replacement	4,945	138,850	8,000	- 130,850	- 94.2%
11 Equip - Additional	52,123	59,920	21,000	- 38,920	- 65.0%
12 Grants, Subsidies, Contr.	52,387	52,387	52,387	0	0%
13 Fixed Charges	933,720	968,456	1,301,629	333,173	34.4%
14 Land & Structures	0	378,940	0	- 378,940	- 100.0%
Total Objects	\$ 10,707,844	\$ 12,587,010	\$ 12,851,123	\$ 264,113	2.1%
Funds					
01 General Fund	\$ 10,481,852	\$ 0	\$ 0	\$ 0	0.0%
03 Special Fund	165,325	12,526,708	12,822,426	295,718	2.4%
09 Reimbursable Fund	60,667	60,302	28,697	- 31,605	- 52.4%
Total Funds	\$ 10,707,844	\$ 12,587,010	\$ 12,851,123	\$ 264,113	2.1%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

Fiscal Summary Workers' Compensation Commission						
<u>Unit/Program</u>	<u>FY 02 Actual</u>	<u>FY 03 Legislative Appropriation</u>	<u>FY 03 Working Appropriation</u>	<u>FY 02 - FY 03 % Change</u>	<u>FY 04 Allowance</u>	<u>FY 03 - FY 04 % Change</u>
01 General Administration	\$ 10,407,644	\$ 11,852,298	\$ 11,751,423	12.9%	\$ 11,980,718	2.0%
02 Processing And Adjudication Of Claims	300,200	0	835,587	178.3%	870,405	4.2%
Total Expenditures	\$ 10,707,844	\$ 11,852,298	\$ 12,587,010	17.5%	\$ 12,851,123	2.1%
General Fund	\$ 10,481,852	\$ 0	\$ 0	- 100.0%	\$ 0	0.0%
Special Fund	165,325	11,791,996	12,526,708	7477.0%	12,822,426	2.4%
Total Appropriations	\$ 10,647,177	\$ 11,791,996	\$ 12,526,708	17.7%	\$ 12,822,426	2.4%
Reimbursable Fund	\$ 60,667	\$ 60,302	\$ 60,302	- 0.6%	\$ 28,697	- 52.4%
Total Funds	\$ 10,707,844	\$ 11,852,298	\$ 12,587,010	17.5%	\$ 12,851,123	2.1%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.