F10A02
Office of Personnel Services and Benefits
Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change	% Change Prior Year
General Fund	$21,835	$17,219	$68,352	$51,133	297.0%
Special Fund	9	1,481	14,651	13,170	889.5%
Reimbursable Fund	5,763	6,249	5,818	-431	-6.9%
Total Funds	**$27,607**	**$24,948**	**$88,821**	**$63,872**	**256.0%**

- The Office of Personnel Services and Benefits' (OPSB) budget increases by $63.9 million.

- General and special fund increases are almost exclusively due to the inclusion of statewide employee salary enhancements in the budget, which will be transferred through amendment to other State agencies after the beginning of fiscal 2008. A total of $76.9 million is included for a 2% general salary increase for State employees, including $23.1 million for higher education.

- There is a proposed $4,076,940 general fund deficiency in the allowance to reimburse the federal government for the federal portion of funds transferred from the Injured Workers' Insurance Fund to the general fund in fiscal 2003.

- A total of $11.9 million remains in the OPSB's budget for fiscal 2007 Annual Salary Review (ASR) enhancements approved by the General Assembly. The Department of Budget and Management (DBM) withheld a portion of the funding for various personnel actions in the Department of Public Safety and Correctional Services (DPSCS) until DBM could revisit DPSCS's need for that funding in April 2007. There also remains a portion of the fiscal 2007 funding for the creation of two new salary steps, the DBM portion of the death benefit for law enforcement officers, and other annual salary review adjustments. There are no new ASR enhancements included in the fiscal 2008 allowance.

- If the deficiency, statewide expenditures, and the one-time health insurance savings are removed from the calculation, OPSB has an agency-level decrease of $788,029, or 6.2%.

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

For further information contact: Lori J. O'Brien Phone: (410) 946-5530

Personnel Data

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change
Regular Positions	121.00	121.00	121.00	0.00
Contractual FTEs	0.15	0.10	1.10	1.00
Total Personnel	**121.15**	**121.10**	**122.10**	**1.00**
Vacancy Data: Regular Positions				
Turnover, Excluding New Positions		5.08	4.20%	
Positions Vacant as of 12/31/06		17.50	14.46%	

- The Office of Personnel Services and Benefits, as of December 31, 2006, had 17.5 full-time equivalent (FTE) vacant positions; 8 of those vacancies had been vacant for more than a year and 3 had been vacant for over two-and-a-half years.

- As of February 1, 2007, 11 of those vacant positions have been filled or have an offer pending, the agency is actively recruiting for 2, 1 has been transferred to the DBM – Office of Budget Analysis for the new StateStat program, and 7 new vacancies have opened. A net total of 120.0 regular FTE positions and 13.0 vacant (without a job offer pending) FTE positions as of February 1, 2007, results in a revised vacancy rate of 10.8%.

- The turnover rate budgeted by the agency requires that 5.1 FTE positions remain open through fiscal 2008.

Analysis in Brief

Major Trends

Performance Measures Are Weak and the Office of Personnel and Benefits' Workforce Is Shrinking: The State's retention rate dropped between fiscal 2002 and 2006, as have the number of employees whose performance is evaluated using the Performance Planning and Evaluation Program. **OPSB is asked to discuss the situation.**

Issues

Statewide Regular Employee Compensation Grows by 4.9% in Fiscal 2008: Most of the growth in the statewide budget for regular personnel is due to salary enhancements, including the general salary increase and increment increases.

Health Insurance: A review of health plan funding and the accumulation of funds in the State Employees and Retirees Health and Welfare Benefits Fund is provided.

Performance Contracting and Health Benefit Contracts: A review of performance contracting in health vendor contracts and the degree to which incentives have been used is provided. **The Department of Legislative Services recommends that a report on the results of health vendor audits be provided to the budget committees**.

Retiree Health Care Liabilities Continue to Be a Significant Fiscal Challenge: A review of the revised recommendations of the Blue Ribbon Commission to Study Retiree Health Care Funding Options and the new actuarial valuation by Buck Consultants is provided. **DBM is asked to comment on future funding levels to cover normal costs.**

Recommended Actions

		Funds
1.	Add "Rule of 50" section.	
2.	Add section on reporting requirement for regular and contractual positions.	
3.	Add section requiring reporting on Executive Pay Plan positions.	
4.	Add section allowing continuation of employees in abolished positions in another State position.	
5.	Add section that prohibits the authorization for new positions in principal units with vacancy rates over 8%, with some exceptions.	
6.	Add section requiring an accounting of the employee and retiree health plan revenues and expenditures in the Governor's budget book	
7.	Add section establishing a subobject for OPEB funding to provide for budgeting in all funds in individual agency budgets.	

8.	Add language restricting $150,000 in general funds until a report on State health insurance is provided.	
9.	Reduce payment for technical oversight of new personnel system.	$ 10,000
10.	Adopt narrative requiring the Annual Report of State Personnel.	
11.	Adopt narrative making health vendor contract audit results available to the committees.	
12.	Adopt narrative requesting a report on the appropriateness of vacancy rates.	
	Total Reductions	**$ 10,000**

Updates

Special Committee on State Employee Rights and Protections: A review of the recommendations of the committee is provided.

Operating Budget Analysis

Program Description

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 and administers State personnel policies and the health benefit program. Specific functions within OPSB include salary administration and classification, recruitment and examination, employee relations, employee benefits, and medical services. OPSB shares responsibility with State agencies for the administration of personnel functions through policy development, guidance, and interpretation.

Primary Managing for Results goals include provisions that:

- employees in the State Personnel Management System (SPMS) will be retained;
- the salary system promotes recruitment and retention of a qualified State workforce; and
- services provided by State health plan vendors meet quality standards of performance.

Performance Analysis: Managing for Results

One of the most important measures over which the Department of Budget and Management (DBM) has some degree of control is the retention rate[1] for employees in grades 1 to 26. Between fiscal 2002 and 2006, years for which actual performance data are available, the statewide retention rate declined from 92.3 to 89.9%. Another measure, over which OPSB has influence, is the SPMS employee evaluation program. In fiscal 2005, the last year for which Performance Planning and Evaluation Program data were published in the Governor's budget books, only 57.8% of employees were evaluated, down from 66% in fiscal 2004. DBM has pointed out that it is difficult to motivate line managers to provide these evaluations when there is no monetary incentive attached to it, as there was when performance bonuses were funded in the budget. However, not providing evaluations to 42.2% of eligible employees leaves those employees with little basis for learning how their performance is perceived in a consistent fashion. Evaluations also communicate that someone

[1] The retention rate is 100%, less the percentage of all separations. The percentage of all separations is the total of all separations divided by the average number of filled positions. All separations are defined as resignations, terminations, deceased employees, retired employees, and "resigned/employed" at the University of Maryland.

is at the very least paying attention. The declining retention rate may possibly reflect a perception that performance does not matter. **OPSB is asked to comment on the decline in both the retention rate and the use of performance evaluations. DBM is also urged to include the Performance Planning and Evaluation Program evaluation rates in its Managing for Results (MFR) submission.**

Is State Employee Health Plan Vendor Performance Enhanced through the Managing for Results Process?

In the Department of Legislative Services' (DLS) review of performance contracting (Issue 3) in DBM health contracts, the relationship between vendor performance and the Managing for Results program was examined. DBM uses two MFR performance objectives and related measures that address the quality of the health program. Those standards measure:

- how close the health program comes to providing that "Annually, 100 percent of health plan vendors will receive a "satisfactory" rating by at least 85 percent of all plan survey respondents in their overall plan satisfaction," and

- whether "each calendar year at least 85 percent or more of health plan vendors will meet 80 percent of contractual Performance Standards criteria as defined in the State's contracts."

The first is measured through a survey conducted by DBM and the vendors, and the second is measured through the quarterly performance standard report submitted by each vendor, detailing performance on each measure.

There are two major issues with this approach that speak to the inadequacy of these measures as either contracting or budgeting performance guarantees:

- DBM and the vendors are not currently conducting the satisfaction survey. **Given this, OPSB is asked to discuss how it developed its MFR performance estimates for fiscal 2006 and 2007 (DBM estimated that 82% of respondents would rate the vendors' performance as satisfactory or better in both years).** The surveys were put on hold in 2005 due to the magnitude of plan changes implemented beginning in January 2005. There are, however, a number of other sources that provide current quality and satisfaction survey results. Some are State-employee specific, but none provide information on all the State-offered plans.

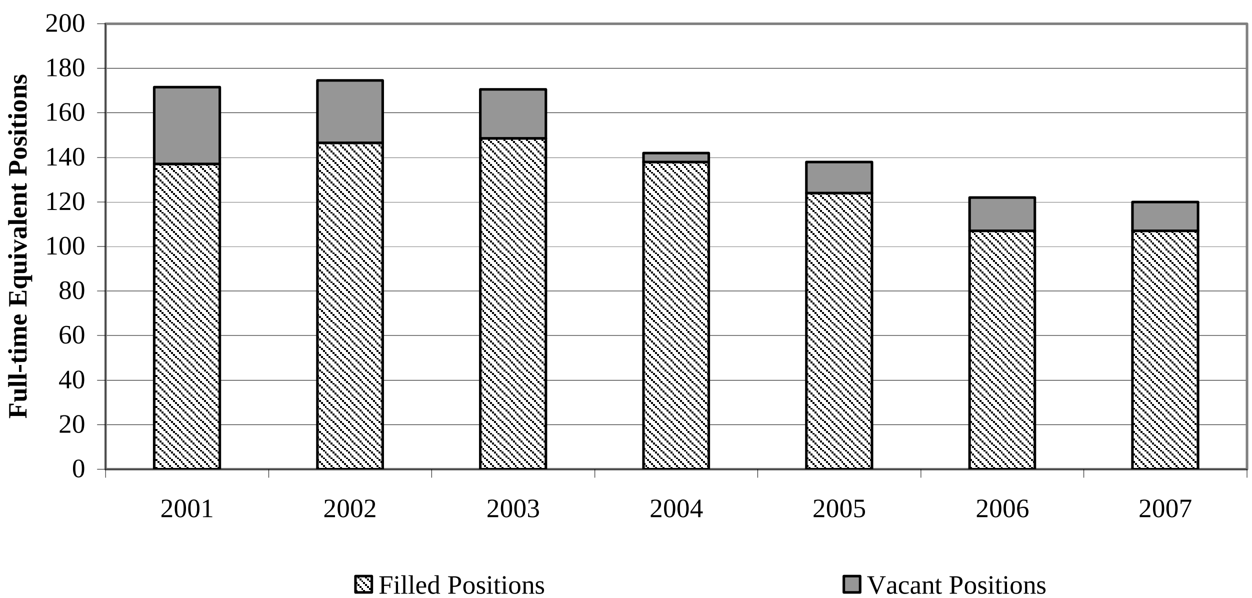
  DBM reports that the vendors themselves contract with third parties to conduct surveys in accordance with National Committee for Quality Assurance (NCQA) standards. In addition, the Maryland Health Care Commission (MHCC) provides an evaluation specific to the Health Maintenance Organization (HMO) and Point-of-Service (POS) plan offered to Maryland State employees for five of the six HMO and POS plans offered. Unfortunately, CareFirst is not required to submit quality information on the POS plan to MHCC due to the plan's licensing arrangement. Further, there is no comprehensive evaluation for preferred provider option plans offered to State employees. These disparate sources are obviously not available in one location; do not provide identical information for each plan; and cannot provide side-by-side performance information for the General Assembly, the Governor, budget staff, contract administrators, employees, or retirees.

- Under either the satisfaction survey or performance standards measure, overall performance results will hide both very good performance and very poor performance. These two measures rely on "average" performance, thus losing any potential impact the results could have on individual contract performance or MFR performance budgeting.

Office of Personnel Services and Benefits Workforce

One of the reasons personnel oversight provided by DBM is seemingly less effective than it used to be is the level of staffing provided by OPSB. As shown in **Exhibit 1**, between fiscal 2002 and 2007, the number of positions in OPSB has declined from 171.5 full-time equivalent (FTE) authorized positions to 120.0 FTEs. Exacerbating this loss of positions is the number of vacancies. Filled positions declined from a high of 148.5 FTE employees in fiscal 2003 to a low of 107.0 FTEs in fiscal 2006 and in the current fiscal year. **This is the second year that DLS has raised this issue and again recommends that OPSB comment on the impact its shrinking staff complement has on its own and the State's operations.**

Exhibit 1
Number of Positions in the Office of Personnel Services and Benefits
Fiscal 2001-2007 Working Appropriation



Source: Department of Budget and Management

Fiscal 2007 Actions

Proposed Deficiency

There is a proposed $4,076,940 general fund deficiency in the allowance to reimburse the federal government for the federal portion of funds transferred from the Injured Workers' Insurance Fund to the general fund in fiscal 2003. In fiscal 2003, through two separate legislative actions (the Budget Reconciliation and Financing Act of 2002 and 2003), a total of $114.2 million was transferred from the long-term liability account to the general fund to address budgetary shortfalls.

Governor's Proposed Budget

Exhibit 2 shows the major changes in OPSB's budget. The most significant changes are for statewide expenses, discussed in Issue 1.

Exhibit 2
Governor's Proposed Budget
DBM – Office of Personnel Services and Benefits
($ in Thousands)

How Much It Grows:	**General Fund**	**Special Fund**	**Reimb. Fund**	**Total**
2007 Working Appropriation	$17,219	$1,481	$6,249	$24,948
2008 Governor's Allowance	68,352	14,651	5,818	88,821
Amount Change	$51,133	$13,170	-$431	$63,872
Percent Change	297.0%	889.5%	-6.9%	256.0%

Where It Goes:

Personnel Expenses	
Increments and other compensation	$157
Retirement	123
Increased accrued leave payout payments based on specific anticipated retirements and historical patterns	40
Increased overtime in Employee Benefits Division (reimbursable funds)	26
Workers' compensation premium assessment	6
Health insurance costs decline due to one-time savings	-258
Turnover adjustments	-74
Position transferred to the Office of Budget Analysis for the StateStat program	-54
Other fringe benefit adjustments	50

Where It Goes:	
Statewide Expenditures	
Fiscal 2008 2% general salary increase	76,749
Fiscal 2007 funds held in reserve for correctional officer and other Department of Public Safety and Correctional Services classification upgrades and increased starting salaries for correctional officer I hires	-10,373
Fiscal 2007 funds held in reserve for the correctional officer retention bonuses and death benefits	-1,013
Fiscal 2007 funds held in reserve for the overtime impact of the fiscal 2007 correctional officers annual salary reviews	-399
Fiscal 2007 expenditures for salary study	-500
Other Changes	
Consulting for actuarial estimates, auditing of various contracts, and services related to the flexible spending account program in the Employee Benefits Division	350
Contractual increase to provide technical oversight of new personnel system	106
Medical contract for drug testing and other screening	50
High School Work Study and Mentoring Program for Baltimore City High Schools	25
Other service contracts	24
Software maintenance	-721
Office of Administrative Hearings	-353
Supplies and personal computer replacements	-44
Postage	-38
Travel	-4
Other	-3
Total	**$63,872**

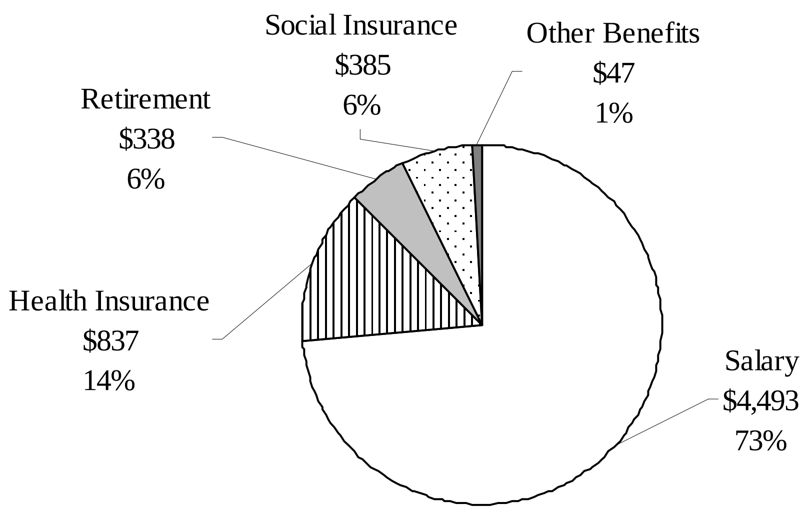
Note: Numbers may not sum to total due to rounding.

Issues

1. Statewide Regular Employee Compensation Grows by 4.9% in Fiscal 2008

The number of regular full-time equivalent State positions is growing by 1,071, or 1.3%, in the allowance while State expenditures devoted to regular employee salaries and fringe benefits total $6,223.8 million and are increasing by $284.4 million, or 4.8% over the fiscal 2007 working appropriation (**Appendix 5**). This increase takes into consideration a transfer from the nonbudgeted State Employees and Retirees Health and Welfare Benefits Fund to help finance fiscal 2008 health insurance costs. The federal fund portion of the general salary increase, not budgeted in the allowance, adds $9.4 million for an adjusted increase of 4.9%. The components of compensation in the fiscal 2007 working appropriation are illustrated in **Exhibit 3**, while the components of change from the fiscal 2007 to 2008 allowance are illustrated in **Exhibit 4**. Detail on the budgeted and anticipated adjustments in the fiscal 2007 allowance are shown in **Exhibit 5** and discussed below.

Exhibit 3
Primary Components of Compensation in the Fiscal 2007 Working Appropriation[1]
($ in Millions)



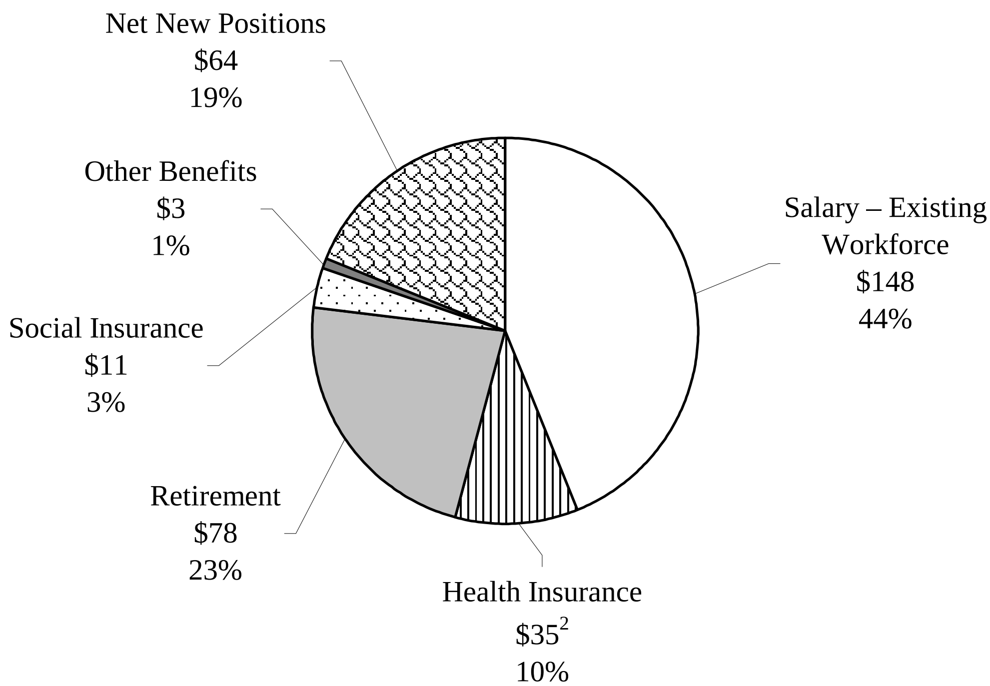
Total $6,102 Million

[1] Before turnover.

Note: Social insurance includes Social Security, workers' compensation insurance, and unemployment compensation insurance. "Other Benefits" include the deferred compensation match, employee awards, tuition waivers, and other incentives.

Source: Department of Budget and Management

Exhibit 4
Primary Components of Compensation Growth in the Fiscal 2008 Allowance[1]
($ in Millions)



Increase $339 Million

[1] Before turnover.
[2] This increase assumes the use of a transfer from State Employees and Retirees Health and Welfare Benefits nonbudgeted fund.

Note: Social insurance includes Social Security, workers' compensation insurance, and unemployment compensation insurance. "Other Benefits" include the deferred compensation match, employee awards, tuition waivers, and other incentives.

Source: Department of Budget and Management

Exhibit 5
Regular Employee Personnel Changes
Fiscal 2007-2008
($ in Millions)

2007 Working Appropriation	**$5,949.4**
General salary changes	
Increments	99.1
2.0% general salary increase – general and special funds (includes $23.1 million for higher education)	76.7
Decrease in base salary	-9.6
1,142.6 new full-time equivalent positions in the allowance (salaries and fringe benefits)	67.6
71.4 positions abolished in the allowance (salaries and fringe benefits)	-3.6
Health insurance	
Active and retired employee insurance costs	-148.3
Active and retiree excess nonbudgeted health insurance fund balance used for fiscal 2008 costs	175.6
Special Maryland Department of Transportation subsidy	7.5
Excess fiscal 2007 funds restricted for retirement benefits or reversions	-51.5
Retirement	77.8
Social Security and unemployment compensation insurance	12.0
Adjustment to turnover	-2.7
Workers' compensation insurance	-1.5
Employee incentives	1.4
Other salary (additional assistance, overtime, shift differential, student payments, and other)	-18.0
Other changes	1.8
Fiscal 2008 Allowance	**$6,223.8**
Unbudgeted general salary increase – federal funds	9.4
Adjusted 2008 Allowance	**$6,243.2**
Increase over fiscal 2006 working appropriation	293.8
Percentage Increase	4.9%

Source: Department of Budget and Management

New and Abolished Positions in the Allowance

A total of 1,143 new FTE positions and 71 abolitions are proposed for the fiscal 2008 allowance, the location of which is described in **Exhibit 6**. Most of these positions are added to assist with agency workloads (**Appendix 6 and 7**).

Exhibit 6
Regular Full-time Equivalent Positions
Fiscal 2007 Working Appropriation to 2008 Allowance

Department/Service Area	2007 Wkg. Approp.	Abolitions	New Positions	2008 Allowance
Legislative Branch	747	0	0	747
Judicial Branch	3,397	0	187	3,584
Executive Branch				
Legal	1,586	-2	18	1,602
Executive and Administrative Control	1,665	-3	28	1,689
Financial and Revenue Administration	2,026	-4	3	2,025
Budget and Management	442	0	3	445
Retirement	189	0	2	191
General Services	636	-6	16	646
Transportation	9,021	0	76	9,097
Natural Resources	1,369	-2	0	1,367
Agriculture	436	-1	13	448
Health and Mental Hygiene	7,680	-22	16	7,674
Human Resources	7,021	-15	48	7,054
Labor, Licensing, and Regulation	1,475	-1	7	1,480
Public Safety and Correctional Services	11,503	-3	209	11,709
MSDE and Other Education	2,198	-4	17	2,211
Housing and Community Development	316	0	0	316
Business and Economic Development	292	-2	0	290
Environment	951	-2	6	955
Juvenile Services	2,080	-4	13	2,089
Police and Fire Marshal	2,472	-1	4	2,475
Executive Branch Subtotal	**53,354**	**-71**	**478**	**53,761**
Higher Education	22,783	0	477	23,261
Total	**80,282**	**-71**	**1,143**	**81,353**

MSDE: Maryland State Department of Education

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

Source: Department of Budget and Management

Data on service assignments for these new positions are provided in **Exhibit 7**. The special appointment positions are primarily due to hiring in the Maryland State Department of Education, Office of the Attorney General, and the Maryland Insurance Administration, agencies for which special appointment status is defined through statute. The largest number of new positions is in the skilled service category.

It does not appear that any of the 71 positions abolished in the allowance are currently filled. If an error was made in this regard, DBM reports that any employee in a position to be abolished will either move to another position, or that another, vacant position will be selected for abolition.

Exhibit 7
New Positions by Service Category[1]

	New Positions		FY 2008 Allowance	
	FTEs	**%**	**FTEs**	**%**
Executive Service		0.0%	201	0.5%
Management Service	7	1.6%	1,812	4.1%
Special Appointment	32	8.0%	3,987	9.0%
Professional Service	19	4.8%	3,066	6.9%
Skilled Service	341	85.3%	32,610	73.6%
Other		0.0%	1,974	4.5%
Unknown	3	0.3%	647	1.5%
Total	**403**	**100.0%**	**44,297**	**100.0%**

[1] Excludes new positions in the Legislative Branch, the Judicial Branch, higher education, and transportation.

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

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

Allowance Is within Recommended Growth Rate

The 2006 Spending Affordability Committee (SAC) recognized the contribution past position caps have had in reducing the size of the State workforce but also recognized that long-term restrictions on position growth may impede the ability of some agencies to carry out their missions. Therefore, the committee recommended for the 2008 budget that growth in the number of Executive Branch positions, exclusive of higher education, be limited to 1% (533 positions) over the number of full-time equivalent authorized positions in the fiscal 2007 working appropriation. The allowance added 478 new positions in Executive Branch agencies, well under the recommended limit.

SAC also emphasized that new positions should be created only when it can be demonstrated that existing vacant positions are filled to the extent feasible. To encourage agencies to fill vacancies, SAC recommended that no new positions be authorized in principal units in the Executive Branch, exclusive of higher education, with vacancy rates in excess of 8%. As of December 31, 2006, seven State agencies had vacancy rates higher than 8% and a total of 256.5 new positions were requested in those agencies, shown in **Exhibit 8**.

Exhibit 8
State Agencies with Vacancy Rates Higher Than 8%
December 31, 2006

State Agencies	Dec. 31, 2006 Vacancy Rate	New Positions
Office of the State Prosecutor	10.0%	1.0
Boards, Commissions, and Offices	9.5%	4.0
Military Department	21.5%	11.0
Budget and Management	11.5%	3.0
Agriculture	8.6%	13.0
Health and Mental Hygiene	9.7%	15.5
Public Safety and Correctional Services	9.6%	209.0

Source: Department of Budget and Management

SAC also recommended that exceptions to both the 1% growth rate limit and the 8% vacancy ceiling be made for facilities scheduled to open in fiscal 2008 and position additions necessary to implement legislation. The Department of Public Safety and Correctional Services, the agency adding the largest number of new positions, plans to open the North Branch Correctional Institution, the new maximum security facility in Cumberland, in fiscal 2008. New positions are not all requested for the new facility, although a large number will be "backfilling" positions vacated due to transfers into the new facility. Only five of the new positions requested statewide were to address legislation; the remaining positions are added primarily for workload reasons or for contractual conversions.

Two Percent General Salary Increase

The allowance contains $76.7 million in general and special funds for a planned 2.0% general salary increase effective July 1, 2007, the fourth consecutive annual general salary increase (**Appendix 8**)[2]. These funds are budgeted in DBM and are to be transferred to non-higher education agencies supporting personnel with general funds ($38.2 million) and special funds ($14.6 million), as well as to higher education institutions ($23.1 million). The federal funds necessary to fund the

[2] Appendix 8 also details changes to other components of employee compensation from fiscal 2000 forward.

general salary increase ($9.4 million) will be brought in through budget amendment in individual agencies. Other expenditures related to the general salary increase – additional funding for local health agencies and funds for small agencies with a large reimbursable fund impact – total $0.9 million in general funds.

Increment or Merit Increases

Increment increases, frequently called merit increases, are funded in the fiscal 2008 allowance, also for the fourth consecutive year. The full average cost of these increases is approximately 2.3% of the base salary; employees on the standard salary schedule moving through receive an increase of 3.4 to 3.9% until they reach step 6, then the increases decrease to 1.7 to 1.9%. These increments, tied to the results of performance evaluations, are given in either July or January. About half the workforce receives increments at each point. In fiscal 2008 the cost is approximately $99.1 million in total funds.

For those employees paid on the standard salary schedule, the average value of the merit increase and the general salary increase together is approximately $1,974, or 4.3%. The average salary paid those 42,732 FTE State employees (**Appendix 9**) during fiscal 2007 is $45,904. Approximately 25% of employees are in grade 10 or below and approximately 25% are in grade 16 and above. Grade 13 contains the largest number of employees, as shown in **Exhibit 9**, due to the prevalence of the 3,604 FTE correctional office II positions (**Appendix 10**) currently in that grade.

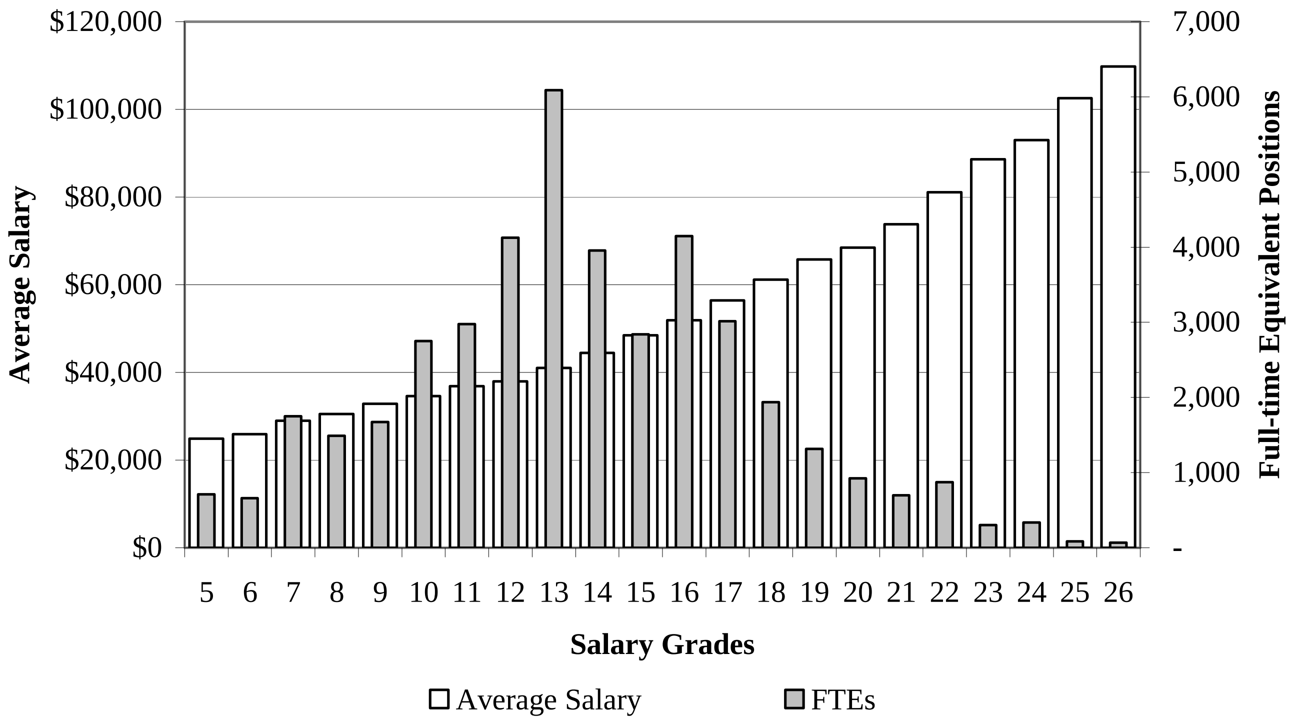
Employees' Retirement and Pensions

Contribution rates to the State Employees' Retirement and Pension Plan, the Teachers' Retirement and Pension System, the State Police plan, and other plans will rise in fiscal 2008, resulting in an increase of $77.8 million in the allowance.

The largest share of this increase ($38.2 million) is due to the effects of the State Employees' and Teachers' Retirement Enhancement Benefit Act of 2006 (Chapter 110 of 2006). The second largest share of the increase is due to increases in payroll ($16.2 million), followed by amortization of the investment by the State necessary to reach full funding of employee and teacher pension plans under the corridor funding method established in Chapter 440 of 2002 ($22.8 million) and its remaining plans ($0.6 million).

Under Chapter 110, the benefit multiplier for retirees increases from 1.4 to 1.8% for service credit retroactive to fiscal 1998. Funding is provided by increasing the employee contribution rate from 2.0 to 5.0% by July 1, 2008. The State shares in the impact of this improved benefit and increased contribution rate in two ways: by funding the retroactive portion of creditable service accrued between June 30, 1997, and July 1, 2006, and by funding the benefit not covered by the phased-in portion of the employee contribution rates between July 1, 2006, and June 30, 2008. Employee contributions increase from 2.0% on June 30, 2006, to 3.0% on July 1, 2006, to 4.0% on July 1, 2007, to the full contribution level of 5.0% on July 1, 2008. The State pays the 2.0% not paid by employees during fiscal 2007 and the 1.0% not paid in fiscal 2008 during the phase-in period.

Exhibit 9
Average Salary and Number of FTE Filled Positions in Each Grade of the Standard Salary Schedule
Fiscal 2007 Working Appropriation



FTE: Full-time Equivalent

Note: Filled positions as of December 31, 2006.

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

Exhibit 10 shows the increases in employer contribution rates and funding status for all of the retirement systems from fiscal 2007 to 2008. For the employees' and teachers' systems, it shows the difference between the full-funding rates and the rates determined by the corridor method (which are the rates applied in the State budget).

Exhibit 10
Employer Contribution Rates and Actuarial Funding Levels[3]
Fiscal 2007 and 2008

	Fiscal 2007			**Fiscal 2008**		
Plan	**Corridor Rate**	**Actuarial Rate**	**Funding Level**	**Corridor Rate**	**Actuarial Rate**	**Funding Level**
Employees	6.83%	11.11%	84.9%	8.86%	12.27%	80.6%
Teachers	9.71%	11.17%	89.3%	11.60%	12.78%	84.2%
State Police		13.83%	100.3%		15.44%	98.2%
Judges		42.43%	79.3%		44.12%	77.6%
LEOPS		40.60%	57.7%		41.74%	62.8%
Combined System	**9.18%**	**11.58%**	**87.8%**	**11.10%**	**13.00%**	**83.3%**

LEOPS: Law Enforcement Officers' Pension System

Source: Segal, Inc.

Turnover

Although turnover expectancy has not shifted greatly in terms of dollars, the contrast between the turnover rate and the vacancy rate has. During the 2006 session, the vacancy rate was 7.1%, and the turnover expectancy rate in the working appropriation was 4.5% (4.4% in the fiscal 2007 allowance); currently, the vacancy rate is 7.7% and the turnover expectancy rate is 4.1% (4.0% in the allowance). DLS estimates that there are about 1,800 vacancies for which there is funding in the 2007 working appropriation. DBM has assumed a reversion of $5.0 million in the working appropriation to reflect the availability of these funds. Whether or not this discrepancy will continue into the fiscal 2008 budget, where DLS estimates there will be 2,000 funded vacancies (**Appendix 11**), depends in part on whether or not the administration imposes a hiring freeze in fiscal 2008 and how firmly the freeze is imposed. **DLS requests that DBM comment on its plans for the hiring freeze.**

Another reason for the large number of funded vacancies may be the inability of the State to fill its vacancies due to inadequate salaries. The 2006 General Assembly commissioned a salary study, to be completed no later than June 30, 2007, in which the adequacy of the State's salaries compared to other employers will be determined.

[3] For fiscal 2007, the funding level is as of June 30, 2005; for fiscal 2008, the funding level is as of June 30, 2006.

The position caps utilized in past budgets have been successful in reducing the size of the workforce, and that maintaining high vacancy rates quite simply saves money. The easing of restrictions on adding new positions by SAC should not be construed as encouragement to do so, but recognition that agencies should possess the ability to manage their workforces, consistent with their mission, legislative intent, and the limits imposed by the budget. **To help determine whether agencies are fully utilizing existing resources by maintaining such high vacancy rates, SAC requests that DBM produce a report in which a determination of the appropriateness of vacancy levels in each agency is made.**

2. Health Insurance

To control spending in what is approaching a billion dollar annual State expenditure, a number of changes have been implemented in the health, mental health, prescription, and dental insurance programs beginning in fiscal 2005. Those changes have succeeded significantly beyond the expectations of all the stakeholders and other participants in the process: the General Assembly, the executive, the enrollees, and most disturbingly, the actuary that provided the estimates of health cost inflation and potential savings from program changes. A summary of the programmatic changes is provided below.

Fiscal 2005

Beginning in January 2005, the Department of Budget and Management implemented a number of changes including:

- increasing primary doctor’s office visit copayments from $5 to $15 for POS and HMO plans and increasing specialist doctor’s office visit copayments from $10 or $20 to $25 for all types of plans;
- increasing emergency room hospital charge copayments from $25 to $50 if emergency criteria are not met and implementing physician’s charge copayments of $50 per emergency room visit; and
- covering up to 50 rather than 100 visits per year of physical therapy.

Fiscal 2006

During the 2005 legislative session, the General Assembly found it necessary to respond to a budget proposal which included a shortfall of $120 million in health insurance funding. In the fiscal 2006 budget submitted by the Governor, health insurance was level-funded, which would have required that State employees and retirees absorb any costs related to inflation or benefit enhancements. The General Assembly chose to close this gap by transferring funds from elsewhere in the budget and by implementing the following program changes:

- increasing the point-of-service health insurance copremiums from 15 to 17% of the total cost;
- increasing prescription copayments to $5 for generic drugs, $15 for preferred brand name drugs, and $25 for non-preferred brand name drugs from $3, $5, and $10 for the three existing tiers;
- implementing a $700 spending cap per family for prescriptions;
- requiring two copayments instead of one copayment for 90 days of medication;
- implementing a 30-day maximum for the first fill of a new drug;
- requiring prior authorization for certain medications; and
- implementing a number of other changes such as required step therapy for prescription drugs, managed quantities of drugs, and voluntary mail order and specialty drug pharmacies.

Fiscal 2007

Program restructuring in fiscal 2007 included implementing a maximum $20 copayment in the voluntary mail order prescription program for prescriptions written for up to 90 days.

What Is the Budgetary Impact of These Programmatic Changes?

As shown in **Exhibit 11**, the largest savings in this time period from a single source was in the prescription program between fiscal 2005 and 2006, when enrollee copayment charges increased from $3/$5/$10 for up to a 90-day prescription to $5/$15/$25 for up to a 45-day prescription. Prescription claims costs decreased by $40.6 million from fiscal 2005 to 2006. Based on estimated utilization data, shown in **Exhibit 12**, $30.3 million of that savings to the State was due to cost shifting or increases in the cost of copayments, a charge to enrollees not reflected in the claims made by pharmacies. The remaining savings was due simply to the fact that fewer prescriptions were being filled.

Exhibit 11
Health Benefit Claims vs. Payments
Fiscal 2005-2008
($ in Millions)

Claims Costs	2005	2006	Est. 2007	% Change 2006-07	Est. 2008	% Change 2007-08
Medical	$541.8	$584.9	$637.0	8.9%	$693.6	8.9%
Dental	25.8	30.3	34.4	13.4%	34.7	0.9%
Prescription	303.4	262.8	288.4	9.7%	317.0	9.9%
Administration	5.6	5.6	7.0	23.8%	7.3	4.3%
1% Increased Workforce Participation					10.5	
Total	**$876.7**	**$883.7**	**$966.7**	**9.4%**	**$1,063.1**	**10.0%**
Funding						
Agencies' Premium Payments	$705.8	$771.6	$807.1		$674.8	-16.4%
Enrollees' Premium Payments	177.3	196.9	198.2		212.6	7.3%
Agency Balance and Other Payments		15.4	10.4			
Medicare Part D			27.2			
Total	**$883.2**	**$983.9**	**$1,042.9**		**$887.4**	
State Employees and Retirees Health and Welfare Benefits Fund						
To/(From) Account	$6.5	$100.2	$76.2		-$175.6	
Closing Account Balance	**$93.6**	**$193.8**	**$270.0**		**$94.4**	
Necessary (IBNR) Balance	62.4	66.9	73.6		80.9	
Balance Available Over IBNR	**$31.2**	**$126.9**	**$196.4**		**$13.5**	

IBNR: Incurred but not received

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

Exhibit 12
Estimated Prescription Copayments
Number and Value at Each Payment Tier
Fiscal 2005-2006
(Number and Value in Thousands)

	Lowest Tier		Middle Tier		Highest Tier		Total	
	#	$	#	$	#	$	#	$
2005	1,456	$4,367	1,397	$6,987	228	$2,276	3,081	$13,630
2006	1,561	10,027	790	16,634	550	17,251	2,901	43,912
Difference	**105**	**$5,660**	**-607**	**$9,647**	**322**	**$14,975**	**-180**	**$30,282**

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

These savings were not fully reflected in the premiums charged the State or the enrollees. At the time the fiscal 2006 premiums were calculated, the programmatic changes had just been finalized. The actuary employed by the State estimated that they would result in a prescription cost savings of 10.4%, but they instead resulted in a savings of 13.4%. Prescription premiums collected totaled $301.0 million in fiscal 2006, when a more accurate premium rate would have resulted in collections of $262.8 million; of this overpayment, approximately $7.6 million was due to overpayment by enrollees, shown in **Exhibit 13**.

Similar imprecision in the premium rates for health insurance resulted in premium collections of $643.5 million, while health insurance claims totaled $584.9 million; of this discrepancy, approximately, $10.7 million was attributable to overpayment by enrollees. This overpayment was in addition to the increase of $4.1 million paid by enrollees in point-of-service plans due to the co-premium rate increase from 15% to 17% of total costs.

DLS is projecting similar “discrepancies” in fiscal 2007. The cumulative effect of these overcharges results in a fiscal 2007 State Employees and Retirees Health and Welfare Benefits Fund balance of $196.4 million over the funding necessary to cover any claims incurred but not received by the State. In total, the fiscal 2006 and 2007 health and prescription cumulative overpayment by enrollees is approximately $25.6 million.

Exhibit 13
Overpayment for Health and Prescription Insurance
Total Impact and Impact on Enrollees
Fiscal 2006 and 2007
($ in Millions)

	2006	2007	Cumulative Impact
What Was Paid			
Health	$643.5	$670.2	$1,313.7
Prescription	301.0	294.1	595.1
Total	**$944.5**	**$964.2**	**$1,908.8**
What Was Necessary			
Health	584.9	637.0	1,221.9
Prescription	262.8	288.4	551.2
Total	**$847.7**	**$925.4**	**$1,773.1**
Overpayment			
Health	58.6	33.2	91.8
Prescription	38.2	5.7	43.9
Total	**$96.8**	**$38.8**	**$135.7**
Enrollees Share			
Health	10.7	6.1	16.8
Prescription	7.6	1.1	8.8
Total	**$18.4**	**$7.2**	**$25.6**

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

What We Can Expect in Fiscal 2008

DBM has assumed the use of the balance of the State Employees and Retirees Health and Welfare Benefits nonbudgeted fund to cover current costs in fiscal 2008. Budgeted State costs have gone from $817.5 million in fiscal 2007 to $674.8 million in fiscal 2008, a $142.7 million, or 17%, reduction (**Exhibit 14**). This level of funding in the budget requires that $175.6 million be transferred from the nonbudgeted fund to meet the need for the approximately $850.4 million necessary to cover the State's share of claims costs in fiscal 2008.

The net impact of this transfer, plus payments made by enrollees, is that the closing account balance in the nonbudgeted fund over that necessary to pay any pending claims will be approximately $13.5 million.

Exhibit 14
State Funding for Health Insurance
Fiscal 2007 and 2008
($ in Millions)

			Change	
	2007	**2008**	**$**	**%**
Appropriation/Allowance	$817.5	$674.8	-$142.7	-17%
Surplus Funding Retained in Health Insurance Account	-39.2			
Use Surplus in Nonbudgeted Health Insurance Account		175.6		
Total State Funding	**$778.3**	**$850.4**	**$72.1**	**9%**

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

A Longer View

The substantial savings realized by the State due to the programmatic changes described above have provided a one-time check on the increase in health and prescription insurance costs. Longer term savings, short of implementing additional programmatic changes that shift costs from the State to the enrollees, still require the participation of all the stakeholders.

The Administration has submitted the Maryland Health Care Access Act of 2007 (HB 132/ SB 149), in which two provisions have the potential to directly affect the cost of health insurance for State employees, one by reducing expenditures and the other by increasing expenditures.

Wellness Plan

The first provision is the authorization for health insurance carriers to offer a discounted rate for participation in wellness activities such as smoking cessation, weight reduction, nutrition education, injury and accident prevention, reduction of alcohol misuse, and exercise for the purpose of improving health status and reducing health care costs. Uncodified language in the bill requires DBM and the Department of Health and Mental Hygiene (DHMH) to develop a wellness incentive pilot for State employees and their dependents. A similar approach has been taken by other states and, although not all apply to their own workforces, incentive structures used by those states include[4]:

[4] National Conference of State Legislatures. *State Legislatures*. "On the Road to Wellness." February 2007, pages 14-16.

- Michigan's 2006 legislation requires insurers, HMOs, and nonprofit organizations that offer group health insurance to give premium rebates when a majority of employees or members maintain participation in group wellness programs.

- New Hampshire permits small group and individual insurers to use a rating factor to discount premium rates for plans, giving monetary incentives for participants in wellness or disease management programs.

DBM and DHMH are required to report on the components of and implementation plans for the program on or before January 1, 2008, and the plan must be implemented by July 1, 2008. **DBM is urged to comment on any early plans made for the incentive program and on the possibility of implementing the plan on a broader basis.**

Continuation of Coverage for Dependent Children

The second provision with the potential to affect State employees is the requirement that each health benefit plan allow a child to remain on a parent's health benefit plan beyond the limiting age of the plan. To remain on the plan, a child must have had continuous coverage for at least two years immediately prior to reaching the limiting age. A child is permitted to remain on the policy until the earlier of the date on which:

- the child turns 25;

- the child accepts coverage under another health benefit plan;

- the child becomes eligible for employer-sponsored coverage other than as a dependent child;

- a parent elects to terminate coverage for the child; or

- a parent terminates coverage.

The current eligibility standard is that a child, who is supported solely by an enrollee, provided that child is related to the enrollee by blood, marriage, or legal guardianship is covered:

- through the end of the calendar year in which the child reaches age 19;

- through the end of the calendar year in which the child reaches 23, if a full-time student taking 12 or more credit hours per semester and who is dependent on the enrollee for support; or

- to the end of the month in which the child ceases to be a full-time student.

Children who are incapable of self-support because of mental or physical incapacity are also eligible, under specific conditions.

DLS estimates adoption of this provision will increase fiscal 2008 costs for the State employee and retiree health insurance plan by $3.9 million. An estimated 2,492 individuals will retain coverage as a result of the change.

3. Performance Contracting and Health Benefit Contracts

Performance contracting potentially is a very useful instrument for providing cost-effective, quality goods, and services for and on behalf of the State of Maryland. OPSB administers a large number of employee benefits contracts, primarily to provide health, mental health, dental, prescription, and other insurance to State employees and retirees. The value of the services provided by these 18 separate contracts is approximately $1 billion dollars annually; consequently, the success or failure of effective service delivery has the potential for a very large collective financial impact on State employees and retirees and on the budget of the State itself. In addition, the failure to effectively provide the services contracted for by the State has the potential to impact the very health of those employees and retirees.

Performance contracting, instead of specifying exactly how services are to be delivered, specifies what outcomes are expected in the successful implementation of the service provided by the contract. However, the complexity or the level of risk associated with poor implementation of the service can require that the agency be very specific and define inputs rather than outcomes. In other words, the nature of the service/product dictates the degree to which the agency can successfully implement full performance-contracting.

The United States General Accounting Office (GAO) has provided a list of requirements for a true performance-based contract[5]:

- **Describe the requirements in terms of results required rather than the methods of performance of the work**. The focus should be what is to be performed rather than how to perform it.

- **Set measurable performance standards that ensure that each standard is necessary, carefully chosen, and not unduly burdensome.** Standards should not be set too high and drive up the cost of the contract nor should they be set too low and act as a disincentive to good contract performance.

- **Identify positive and negative incentives, when appropriate.** Incentives should be used if they can be effective in inducing better quality performance. They should apply to the most important aspects of the work.

[5] United States General Accounting Office, *Report to the Chairman, Subcommittee on Technology and Procurement Policy, Committee on Government Reform, House of Representatives, Contract Management, Guidance Needed for Using Performance-Based Service Contracting,* GAO-02-1049, David E. Cooper, Director, Acquisition and Sourcing Management (September 2002).

- **Describe how the contractor's performance will be evaluated in a quality assurance plan.** The GAO suggests that a good quality assurance plan should include a surveillance schedule and clearly state the surveillance methods to be used.

DBM has implemented some of these requirements in its own health contracting, summarized in **Exhibit 15**. It has set up performance measures that are not overly prescriptive but address most of the important aspects of its insurance program. The standards emphasize results, balanced against various technical needs of the program. Although DBM simply states what it expects in each of the contracts, it does not, in those contracts, address some important aspects of the delivery of the health care supported with the insurance program. The lack of sufficient oversight and actual implementation of incentives (although they are defined) in the past has led to the underutilization of its performance measures in contributing to the delivery of first-rate services.

Results Rather Than Method

With each of the State contracts, there is a simple statement focusing on the delivery of the services to be provided. For example, the contract for Preferred Provider Organizations (PPO) health coverage specifies that "[t]he Contractor shall provide administrative services of the preferred provider organization health plan benefits for eligible participants…" For most contracts, there is also an additional statement introducing performance guarantees that further emphasizes the need for the vendor to perform reliably:

> It is critical to the success of the State's programs that services be maintained in accordance with the schedules agreed upon by the State. It is also crucial to the success of the State's programs that the Contractor operates in an extremely reliable manner.

One notable exception to the inclusion of this "reliability statement" is in the contract with CaremarkPCS Health providing pharmacy benefit manager (PBM) services to the State, in place through March 2007. A simple bulleted list of contract guarantees is provided in the Caremark contract, with no introduction stressing reliability.

The State also specifies in the actual performance measures themselves (a sample is provided in **Appendix 12**) what it expects reliability to mean. For example, under telephone call availability[6], the State expects that for State-specific telephone inquiries, 90% of telephone calls are answered by a live service representative (with knowledge of State of Maryland account) within 60 seconds. In addition, the representative must be able to address the member's issue/question. In the PPO contract, this is 1 of 12 separate performance guarantees, about the number found in other health, mental health, dental, and prescription contracts.

[6] Each of the performance guarantees utilizes about the same level of detail as that found in the telephone call availability measure. In the PPO and POS health plan contracts, these guarantees cover call-center performance, enrollment eligibility, meeting attendance, performance reports, utilization and case management reports, rate renewal reports, financial accuracy, payment accuracy, claims processing, provision of data to third-party vendors, and an annual hospital records claims audit.

Exhibit 15
Health Benefit Program Contracts and Performance Contracting State Performance Measures and the U.S. GAO Standards

Plan Type	Results vs. Method	Measurable/ Attainable Standards?	Positive/ Negative Incentives?	Quality Assurance Plan?	All Primary Issues Addressed?
PPO	Both, primarily results.	Yes	Negative, set too low.	Self-reported quarterly. Independent audit, not current.	Quality and customer satisfaction not tied to contract.
POS	Both, primarily results.	Yes	Negative, set too low.	Self-reported quarterly. Independent audit, not current.	Quality and customer satisfaction not tied to contract, though measured elsewhere.
HMO	Both, primarily results.	Yes	Negative, set too low.	Self-reported quarterly. Independent audit, not current.	Quality and customer satisfaction not tied to contract, though measured elsewhere.
Prescription	Both, primarily results.	Yes, but standards are less well defined.	Negative. Not used.	Management reports. Independent audit, not current. Customer satisfaction survey.	Quality and customer satisfaction not tied to contract.
Mental Health	Both, primarily results.	Yes	Negative, set too low.	Self-reported quarterly. Independent audit, not current. Customer satisfaction survey until 6/30/06.	Quality and customer satisfaction not tied to contract.
Dental	Both, primarily results.	Yes	Negative, set too low.	Self-reported quarterly. Independent audit, not current.	Quality and customer satisfaction not tied to contract.

U.S. GAO: United States General Accounting Office
HMO: Health Maintenance Organizations
POS: Point-of-Service
PPO: Preferred Provider Organization

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

Is Reliability Enough?

Although the benefit program reliably delivers a product, it is questionable whether it consistently delivers a quality product. In each contract, reliability is both explicitly expected in the statement and implicitly implied with each performance indicator. The breadth of the topics covered with the performance guarantees under each contract is broad. However, with the exception of the PBM and mental health contracts[7], none of the other contracts attempt to measure whether or not consumers are satisfied with the products offered them, thereby, making some level of consumer satisfaction a performance goal rather than a collateral event. Further, there are no attempts to measure whether or not the benefit program actually results in the delivery of high-quality health care to employees and retirees.

At a minimum, DLS recommends that a satisfaction survey be reintroduced to address the adequacy of all vendors under the benefit program; contractual penalties should be attached to poor performance. The survey should address both consumer satisfaction with the program and the perceived quality of care provided under the program. Care should be taken to ensure that the survey is administered to a random cross-section of enrollees.

Are the Performance Standards Too Tough? Too Easy?

The GAO report suggests that standards should not be set too high or too low to ensure that they will all actually be used as an incentive for good performance. The State has contracted for audit services for the State benefits program; one of the many requirements of the audit is an evaluation of the performance guarantees. If most vendors are performing poorly on a particular measure, it is more likely that the standard is set too high; conversely, if most vendors are performing very well, the measure may be set too low. Further, if a small number of vendors is performing very well or very poorly, it is more likely that the standard is providing meaningful information. The audit for the January 1, 2005, through June 30, 2006, period will be completed by September 2007. However, even without the audit results, it appears that most measures are either very attainable or attainable.

Are Incentives Used Appropriately?

The GAO advises that incentives should be used if they can be effective in inducing better quality performance and that they should apply to the most important aspects of the work. The health plan vendor contracts utilize a number of different negative incentive ranging from $250 per second over 60 seconds in which a call-center call goes unanswered, to $500 for a missed State plan management meeting, to $50 per day for each calendar day over the delivery date that each plans' performance measurement report card to the State is not received, to a percentage of administration fees for non-compliance on financial guarantees. These fines do not appear onerous, especially given the magnitude of the cost of the benefits program. In fact, the value of these "assessments" during calendar 2004 was less than 4/100th of 1% of the value of the contracts. Assessments made against

[7] The mental health contract, in effect until June 30, 2006, requires a costumer satisfaction survey, but the survey in effect beginning in fiscal 2007 does not. The PBM contract expires March 30, 2007.

health plan vendors for not meeting contractual obligations in calendar 2001 through 2004 (the last period for which audits have been completed) are summarized in **Exhibit 16**.

Exhibit 16
State of Maryland
Calendar 2001-2004 Audit Assessments

	2001	2002	2003	2004	Total
Preferred Provider Organizations	$72,616	$13,000	$0	$1,000	$86,616
Point-of-Service	446,711	246,036	175,286	108,848	976,881
Health Maintenance Organizations	15,812	13,705	14,150	44,475	88,142
Subtotal Health	**$535,139**	**$272,741**	**$189,436**	**$154,323**	**$1,151,639**
Prescription	0	0	0	0	0
Mental Health	48,516	186,990	217,819	190,395	643,720
Dental	19,400	13,600	9,000	5,500	47,500

Source: Department of Budget and Management

In short, in order to effect change, these negative performance assessments should be onerous enough to be felt. These incentives are not.

In October 2005, the Office of Legislative Audits conducted an audit of the Office of Personnel Services and Benefits. The audit noted that the State's prescription drug contract did not provide an effective remedy for the contractor's failure to meet performance requirements. The report went on to note that the PBM contract contained 13 performance measures with corresponding remedies that reduced the annual administrative fees paid to the PBM if the performance measures were not met. However, DBM noted that the State did not actually pay any administrative fees to the PBM due to its pricing structure. DBM also noted in October 2005 that they were procuring a new PBM and that they were seeking full retail pass-through pricing from potential vendors. The new PBM is to receive compensation through an administrative fee. Performance guarantees were requested (**Appendix 13**) and will be measured and assessed against administrative fees for failure to meet any guarantee. Although a new PBM has been chosen (Catalyst Rx, Inc.), the existing PBM (CaremarkPCS) is in the process of filing a third protest to the award, effectively blocking the assumption of Catalyst as the State's new PBM manager. What this means to enrollees and the State is that performance guarantee incentives are still being assessed on administrative fees that are not actually paid.

How Will the Vendors' Performance Be Evaluated?

The GAO suggests that a good quality assurance plan should include a surveillance schedule and clearly state the surveillance methods to be used. In the recently closed Request for Proposals for health plan vendor audits, five successive annual audit periods are covered, the first being January 1, 2005, through June 30, 2006. The second through fifth audit periods will cover successive fiscal years. These audits are all to:

- ensure that the State receives the benefit of the contractual pricing arrangements with all contractors;
- ensure contractor accountability for compliance with contractual requirements, *including performance guarantees*;
- verify appropriate administrative procedures and control measures are in place;
- confirm the accuracy of benefit payments to providers; and
- improve quality of service through the review of clinical processes.

DLS recommends that DBM prepare a report showing performance results in the January 1, 2005, to June 30, 2006, audit period under each contract's performance guarantees. The report shall include a summary of liquidated damages to be assessed for underperformance for each of the guarantees. If damages are not collectible for any reason, that fact and the reason shall also be included in the report. The report shall also include a review of clinical processes for each vendor. Further, the report shall include suggestions for more effectively incentivizing vendor performance, including but not limited to an analysis of the feasibility of increasing assessments, revising performance guarantees to include quality measures, and providing positive incentives.

4. Retiree Health Care Liabilities Continue to Be a Significant Fiscal Challenge

Background on Governmental Account Standards Board Statement 45

Maryland currently funds the costs of State retiree health benefits on a pay-as-you-go (PAYGO) basis in the State budget each year. However, based on new standards established by the Governmental Accounting Standards Board (GASB), governmental employers will be required to account for liabilities associated with the employers' commitment to what is referred to as Other Post Employment Benefits (OPEB) such as retiree health insurance. Moreover, under these standards, Maryland will be required to account for these OPEB liabilities on its balance sheets in fiscal 2008.

The benefits to be valued for the purposes of OPEB liabilities are the retiree health benefits. The financial reporting under GASB 45 provides that employers must commission an actuarial valuation of OPEB liabilities every two years. Once a valuation is done, an Annual Required Contribution (ARC) amount will be calculated that represents the annual payment by the employer that would be necessary to fund the normal costs accrued for that year (liability for current and future benefits earned by employees in that year) in addition to an amount that represents the amortization of any unfunded OPEB liabilities (benefits earned to the date of the valuation). For financial accounting purposes, GASB 45 requires that a commitment by a governmental employer to provide retiree health care benefits be treated in the same manner as pension benefits are currently treated.

2005 Task Force and Actuarial Valuation of Retiree Health Liabilities

Chapter 298 of 2005 created the Task Force to Study Retiree Health Care Funding Options and required the task force to commission an actuarial valuation through the Department of Budget and Management of the liabilities associated with GASB 45. In compliance with the provisions of Chapter 298, in the summer of 2005, DBM contracted with AON Consulting to conduct the State's actuarial valuation.

The actuarial valuation completed by AON indicated that the State's liabilities with respect to retiree health care under GASB 45 were very significant. Specifically, the liabilities estimated for the actuarial accrued liability for retiree health benefits, defined as benefits earned as of the valuation date of July 1, 2005, were approximately $20.4 billion. AON also estimated that the $20.4 billion liability amortized over a 30-year period plus other specified costs required under the GASB standards would result in an ARC amount of $1.96 billion.

Recommendations of the Task Force

The task force was cognizant that Maryland's AAA debt rating stems from the State's historical fiscal prudence. Although the bond rating agencies have indicated that these new liability disclosures are not likely to result in any immediate changes in bond ratings, it is clear that this issue will be one that the agencies will be watching. As a result, although the task force recognized that additional study was required, it also recommended that the State begin to set aside some funds for the purposes of prefunding a portion of the liabilities.

Begin by Funding Normal Cost

The task force recommended that the State set a goal of funding normal costs for retiree health benefits beginning in fiscal 2008, the first year the liabilities will appear on the State's financial statements. To accomplish this goal, the task force recommended that the State set aside approximately one-half of the total funds required to meet this goal in both the fiscal 2007 and 2008 budgets. The estimated normal/service cost for fiscal 2008 was $650 million, of which it is estimated that the State would already be paying approximately $320 million for current retiree health PAYGO costs. Of the remaining $329 million necessary to meet normal costs, $209 million would be general funds, with federal and special funds making up the remaining $120 million. In response to the recommendation of the task force, the Governor included $100 million in the fiscal 2007 budget and in the 2008 allowance for the Dedicated Purpose Account for retiree health care liabilities.

Establishment of a Blue Ribbon Commission for Additional Study

The task force also recommended that legislation be introduced establishing a Blue Ribbon Commission to further study the issue. In response, Chapter 433 of 2006 established the Blue Ribbon Commission to Study Retiree Health Care Funding Options. The membership of the commission includes legislators, elected officials and appointees of the Executive Branch, and members of the public with expertise in either funding retiree health benefits, the economics of affordable retiree health care programs, or investing pension fund assets.

Chapter 433 charges the commission with continuing the study of the many challenges facing the State with regard to the GASB 45 standards, taking into account the fiscal, workforce, and bond rating implications. To accomplish this goal, Chapter 433 also directed the commission to contract with an actuarial consulting firm to provide ongoing services to the commission throughout its two-year existence. In October 2006, the commission hired Buck Consultants to conduct a second valuation and provide ongoing services to the commission throughout its existence. Buck presented its findings to the commission in January 2007.

Revised Actuarial Valuation

The revised actuarial valuation completed by Buck indicated that the State's unfunded liabilities with respect to retiree health care under GASB 45 were significant, but somewhat less onerous than estimated by AON. Specifically, the liabilities estimated for the actuarial accrued liability for retiree health benefits, defined as benefits earned as of the valuation date of July 1, 2006, were approximately $14.5 billion, with a range of $13.1 billion to $16.2 billion. Buck also estimated that the $14.5 billion liability amortized over a 30-year period plus other specified costs required under the GASB standards would result in an ARC amount of $1.11 billion, with a range of $0.99 billion to $1.27 billion.

Buck's revised estimated normal/service cost for fiscal 2008 is $591 million (range: $516 million to $685 million), of which it is estimated that the State would already be paying approximately $304 million for current retiree health PAYGO costs. Of the remaining $287 million (range: $212 million to $381 million) necessary to meet normal costs, $182 million would be general funds, with federal and special funds making up the remaining $105 million. Although the $100 million in general funds included in the 2007 budget and the 2008 allowance is adequate to cover fiscal 2008's normal costs, this contribution rate will not be adequate in the future. There will, however, be the Medicare Part D funding available in fiscal 2008 to assist with this need. Estimated payments should total approximately $20 million. **DBM has assumed $100 million normal retiree health care costs in the out-years of its general fund forecast; the agency is asked to comment. The agency is also requested to set up a subobject to capture the federal and special fund portion of the normal cost of OPEB and to develop a methodology for allocating this expenditure, based on a percentage of payroll.**

Recommended Actions

1. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Board of Public Works, in exercising its authority to create additional positions pursuant to Section 7-236 of the State Finance and Procurement Article, may authorize during the fiscal year no more than 50 positions in excess of the total number of authorized State positions on July 1, 2007, as determined by the Secretary of Budget and Management. Provided, however, that if the imposition of this ceiling causes undue hardship in any department, agency, board, or commission, additional positions may be created for that affected unit to the extent that positions authorized by the General Assembly for the fiscal year are abolished in that unit or in other units of State government. It is further provided that the limit of 50 does not apply to any position that may be created in conformance with specific manpower statutes that may be enacted by the State or federal government nor to any positions created to implement block grant actions or to implement a program reflecting fundamental changes in federal/State relationships. Notwithstanding anything contained in this section, the Board of Public Works may authorize additional positions to meet public emergencies resulting from an act of God and violent acts of men, which are necessary to protect the health and safety of the people of Maryland.

The Board of Public Works may authorize the creation of additional positions within the Executive Branch provided that 1.25 full-time equivalent contractual positions are abolished for each regular position authorized and that there be no increase in agency funds in the current budget and the next two subsequent budgets as the result of this action. It is the intent of the General Assembly that priority is given to converting individuals that have been in a contractual position for at least two years. Any position created by this method shall not be counted within the limitation of 50 under this section.

In addition to any positions created within the limitation of 50 under this section, the Board of Public Works may authorize the creation of no more than 150 positions within the Department of Human Resources to provide services purchased by Local Management Boards through contracts with local departments of social services. If a Local Management Board terminates a contract with a local department of social services during the fiscal year, all the positions created by the Board of Public Works to provide services under the terms of that contract shall be abolished.

In addition to any positions created within the limitation of 50 under this section, the Board of Public Works may authorize the creation of positions within the Department of Human Resources to provide services funded by grants from sources other than Local Management Boards. If any grant entity terminates a grant award with a local department of social services or other unit during the fiscal year, all positions created by the Board of Public Works to provide services under the terms of the grant award shall be abolished. The employee contracts for these positions shall explicitly state that the positions are abolished at the termination of the grant award. General funds or any other State funds shall not be used to pay any of the salaries or benefits for these positions. Furthermore, the Department of Human Resources must provide a summary to the budget committees by December 1 of each year on the number of positions created under this section.

The numerical limitation on the creation of positions by the Board of Public Works established in this section shall not apply to positions entirely supported by funds from federal or other non-State sources so long as both the appointing authority for the position and the Secretary of Budget and Management certify for each position created under this exception that:

(1) funds are available from non-State sources for each position established under this exception; and

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

The Secretary of Budget and Management shall certify and report to the General Assembly by June 30, 2008, the status of positions created with non-State funding sources during fiscal 2004, 2005, 2006, 2007, and 2008 under this provision as remaining authorized or abolished due to the discontinuation of funds.

Explanation: This annual language, the "Rule of 50", limits the number of positions that may be added after the beginning of the fiscal year to 50 and provides for exceptions to the limit.

Information Request	**Author**	**Due Date**
Certification of the status of positions created with non-State funding sources during fiscal 2004, 2005, 2006, 2007, and 2008	DBM	June 30, 2008

2. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That immediately following the close of fiscal 2007, the Secretary of Budget and Management shall determine the total number of full-time equivalent positions that are authorized as of the last day of fiscal 2007 and on the first day of fiscal 2008. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2007 and 2008 including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self-supported activities, and the State Use Industries.

The Department of Budget and Management shall also prepare during fiscal 2008 a report for the budget committees upon creation of regular full-time equivalent (FTE) positions through Board of Public Works action and upon transfer or abolition of positions. This report shall also be provided as an appendix in the fiscal 2009 Governor's budget book. It shall note, at the program level:

(1) where regular FTE positions have been abolished;

(2) where regular FTE positions have been created;

(3) from where and to where regular FTE positions have been transferred; and

(4) where any other adjustments have been made.

Provision of contractual FTE position information in the same fashion as reported in the appendices of the fiscal 2008 Governor's budget book shall also be provided.

Explanation: This is annual language providing reporting requirements for regular and contractual State positions.

Information Request	**Author**	**Due Date**
Total number of FTEs on June 30 and July 1, 2007	DBM	July 14, 2007
Report on the creation, transfer, or abolition of regular positions	DBM	As needed

3. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Department of Budget and Management and the Maryland Department of Transportation are required to submit to the Department of Legislative Services' (DLS) Office of Policy Analysis:

(1) a report listing the grade, salary, title, and incumbent of each position in the Executive Pay Plan (EPP) as of July 1, 2007, October 1, 2007, January 1, 2008, and April 1, 2008; and

(2) detail on any lump-sum increases given to employees paid on the EPP subsequent to the previous quarterly report.

Flat rate employees on the EPP shall be included in these reports. Each position in the report shall be assigned a unique identifier, 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.

Explanation: Legislation adopted during the 2000 session altered the structure of the EPP to give the Governor flexibility to compensate executives at appropriate levels within broad salary bands established for their positions, without reference to a rigid schedule of steps, and through other compensation methods such as a flat rate salary. These reports fulfill a requirement for documentation of any specific recruitment, retention, or other issues that warrant a pay increase.

Information Request	Authors	Due Date
Report of all Executive Pay Plan positions	Department of Budget and Management Maryland Department of Transportation	July 15, 2007 October 15, 2007 January 15, 2008 April 15, 2008

4. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That no position identification number assigned to a position abolished in this budget may be reassigned to a job or function different from that to which it was assigned when the budget was submitted to the General Assembly. Incumbents in positions abolished may continue State employment in another position.

Explanation: This language prevents employees from being moved into positions abolished in the budget. It also allows that incumbents in abolished positions may continue State employment in another position.

5. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That no new regular positions be authorized for fiscal 2008 in agencies in the Executive Branch with vacancy rates in excess of 8 percent on June 30, 2007. Exceptions shall be made for positions needed to staff facilities scheduled to open in fiscal 2008; necessary to implement legislation; rejected for deletion by the General Assembly during the 2007 legislative session; and at the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College. The Secretary of Budget and Management shall provide to the budget committees a list of new positions in the allowance and the status of each of those positions relative to the requirements of this section on or before July 15, 2007.

Explanation: The Spending Affordability Committee recommended in its 2006 report that new positions should be created only when it can be demonstrated that existing vacant positions are filled to the extent feasible. To encourage agencies to fill vacancies, the committee recommended that no new positions be authorized in principal units in the Executive Branch, exclusive of higher education, with vacancy rates in excess of 8%. Exceptions were made for positions necessary to staff new facilities to implement legislation.

Information Request	**Author**	**Due Date**
Status of new positions	DBM	July 15, 2007

6. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Secretary of Budget and Management shall include as an appendix in the fiscal 2009 Governor's budget book an accounting of the fiscal 2007 actual, fiscal 2008 working appropriation, and fiscal 2009 estimated revenues and expenditures associated with the employees' and retirees' health plan. This accounting shall include:

(1) any health plan receipts received from State agencies, employees, and retirees, as well as prescription rebates or recoveries, or audit and other miscellaneous recoveries;

(2) any premium, capitated, or claims expenditures paid on behalf of State employees and retirees for any health, mental health, dental, or prescription plan, as well as any administrative costs not covered by these plans; and

(3) any balance remaining and held in reserve for future provider payments.

Explanation: This language provides an accounting of the health plan revenues received and expenditures made on behalf of State employees and retirees.

Information Request	**Author**	**Due Date**
Accounting of the employee and retiree health plan revenues and expenditures	DBM	With submission of Governor's fiscal 2009 budget books

7. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall create a statewide subobject to provide for budgeting in all fund accounts in individual agency budgets for Other Post Employment Benefits (OPEB) expenditures. Allocation among funding sources shall be based on the percentage of payroll covered by each fund.

Explanation: This section provides for the establishment of a subobject to capture OPEB expenditures.

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

Provided that $150,000 of this appropriation is contingent upon the Department of Budget and Management submitting reports to the budget committees concerning the employees' and retirees' health insurance and prescription drug programs by September 15, 2007, December 15, 2007, and March 15, 2008. The reports shall include the information specified below.

(1) For the prescription drug program, the reports shall include year-to-date data on total expenditures and the number of prescriptions filled. Data for the same period in fiscal 2006 shall also be provided.

(2) For the employees' and retirees' health insurance program, the reports shall include year-to-date data and data from the same period in the prior year concerning:

(a) expenditures and enrollment for the health maintenance organization, preferred provider, and point-of-service plan options;

(b) the number of in-patient hospital and out-patient hospital visits paid for through the preferred provider organization and point-of-service plans;

(c) expenditures for in-patient and out-patient hospital visits paid for through the preferred provider organization and point-of-service plans;

(d) for both specialist and primary care physicians, the number of claims for physician services received by the preferred provider organization and point-of-service plans;

(e) for both specialist and primary care physicians, the payments for physician services made by the preferred provider organization and point-of-service plans;

(f) the number of claims for emergency room physician services and for emergency room facility services received by the preferred provider organization and point-of-service plans; and

(g) the payments for emergency room physician services and for emergency room facility services made by the preferred provider organization and point-of-service plans.

(3) The fund balance remaining in the State Employees and Retirees Health and Welfare Benefits Fund to pay fiscal 2008 bills.

Explanation: These data are necessary for the Department of Legislative Services to track health insurance expenditures and to project future expenditures.

Information Request	**Author**	**Due Date**
State Health Insurance Reports	Office of Personnel Services and Benefits	September 15, 2007 December 15, 2007 March 15, 2008

		Amount Reduction		**Position Reduction**
9.	Reduce payment for technical oversight of new personnel system. This reduction decreases funding for contractual services to provide oversight of the new personnel system. The remaining funding of $90,000 provides 10% over the average salary paid in the Office of Information Technology.	$ 10,000	GF	

10. Adopt the following narrative:

Annual Report of State Personnel: The Department of Budget and Management (DBM), Office of Personnel Services and Benefits, shall produce an annual report for agencies in the State Personnel Management System (SPMS) and for select groups not in 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 of State Personnel, Fiscal Year 2006. As with the fiscal 2006 version, dollars used in the report shall not be expressed in anything less than the full number. If complete information is not available for certain sections as of the due date of October 1, 2007, updated information shall be provided when it is available.

Information Request	**Author**	**Due Date**
Annual Report of State Personnel, Fiscal 2007	DBM	October 1, 2007

11. Adopt the following narrative:

Health Plan Vendor Audit Results: It is unclear whether or not assessments that health plan vendors have paid to the State for poor performance have been successful as incentives to improve the quality of health care and insurance provided to State employees, retirees, and other enrollees. The Department of Budget and Management (DBM), Office of Personnel Services and Benefits, shall provide a report showing health plan vendor performance results from the January 1, 2005, to June 30, 2006, audit period under each contract's performance guarantees. The report shall include the following:

- A summary of liquidated damages to be assessed for underperformance for each of the guarantees. If assessed damages are not collectible for any reason, that fact and the reason shall also be included in the report.

- A review of clinical processes for each vendor.

- Suggestions for more effectively incentivizing vendor performance, including but not limited to an analysis of the feasibility of increasing assessments for poor performance, revising performance guarantees to include quality measures, and providing positive incentives.

This report shall be made available to the budget committees on or before October 15, 2007.

Information Request	**Author**	**Due Date**
Report on health plan vendors' audit results	DBM	October 15, 2007

12. Adopt the following narrative:

Report on Appropriateness of Agency Vacancy Rates: The easing of restrictions on adding new positions by the Spending Affordability Committee should not be construed as encouragement to do so, but recognition that agencies should possess the ability to manage their workforces, consistent with their mission, legislative intent, and the limits imposed by the budget. To help determine whether agencies are appropriately utilizing existing resources, the budget committees request that the Department of Budget and Management produce a report in which a determination of the appropriateness of vacancy levels in each agency is made. The standards used should include historical vacancy rates and turnover rates, the actual time necessary to fill vacancy positions, and the relationship between the vacancy rate and the budgeted turnover expectancy rate.

Information Request	**Author**	**Due Date**
Report on appropriateness of agency vacancy rates	DBM	November 15, 2007

Total General Fund Reductions	**$ 10,000**

Updates

1. Special Committee on State Employee Rights and Protections

During the 2005 interim, the Legislative Policy Committee appointed a Special Committee on State Employee Rights and Protections to examine numerous matters regarding SPMS and terminations and separations of at-will employees. In fall 2006, the committee concluded its proceedings and issued a final report. The State Employees' Rights and Protection Act of 2007 (SB 2/HB 162) and the Governor's Appointments Office and Appointing Authorities – Duties bill (SB 50/HB 161) both address recommendations made by the special committee. The special committee made a number of recommendations for changes to the State's personnel systems. Those recommendations and the bill addressing each individual response follow:

- Clarify the law to emphasize that only the lawfully designated appointing authority of a State employee may terminate that employee (addressed in the State Employees' Rights and Protection Act of 2007).

- Implement management service reforms including providing additional protection to employees in the management service up to a certain grade level, but not to the full extent of protections afforded to skilled or professional service employees; requiring that personnel actions for management service employees be made without regard to the employee's political affiliation, belief, or opinion or any other nonmerit factor; requiring the appointing authority to give a terminated management service employee the reason for the termination; and in the appeals process, placing the burden on the employee to prove that the reason was arbitrary, capricious, illegal, or in violation of the employee's constitutional rights (addressed in the State Employees' Rights and Protection Act of 2007).

- Implement special appointment reforms including clarifying which special appointments are patronage positions and requiring that employees be notified of that status; and requiring personnel actions for special appointments be made without regard to the employee's political affiliation, belief, or opinion unless the Secretary of Budget and Management has determined, pursuant to controlling case law, that the position is a patronage position (addressed in the State Employees' Rights and Protection Act of 2007).

- Clarify the law so that illegal political terminations include a termination to create a position for a new employee based on the new employee's political affiliation, belief, or opinion (addressed in the State Employees' Rights and Protection Act of 2007).

- Create a private right of action in State court for political firings in violation of State law and Article 40 of the Maryland Declaration of Rights that would provide for damages and attorneys' fees and would not require exhaustion of administrative remedies (addressed in the State Employees' Rights and Protection Act of 2007).

- Provide that State employees be notified in writing of their classification and the rights pertaining to it when they are hired and if their classification changes (addressed in the State Employees' Rights and Protection Act of 2007).

- Consider a legislative study of the number of at-will management service employees and the rationale for having entire departments or substantial parts of them designated "at-will" (addressed in the State Employees' Rights and Protection Act of 2007).

- Consider requiring DBM to report to the General Assembly on the designation of positions as special appointments (addressed in the State Employees' Rights and Protection Act of 2007).

- Clarify the law to state that neither the Governor's Office nor the Governor's Appointments Office may utilize DBM to effectuate separations; and separate the function of the Director of the Office of Personnel Services and Benefits from the appointment activity of the Governor's Office or the Governor's Appointments Office (addressed in the Governor's Appointments Office and Appointing Authorities – Duties bill).

- Consider implementing certain retirement options, including restoring the pension benefit to at-will employees terminated after 16 years of service for no cause and allowing employees who are terminated without cause to buy additional time in service to qualify for the State's retirement program (a request was made to the Joint Committee on Pensions to consider this recommendation during the 2007 interim).

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
DBM – Office of Personnel Services and Benefits
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2006					
Legislative Appropriation	$77,157	$0	$0	$3,951	$81,108
Deficiency Appropriation	11,500	0	0	0	11,500
Budget Amendments	-66,444	9	0	2,223	-64,212
Reversions and Cancellations	-378	0	0	-411	-789
Actual Expenditures	**$21,835**	**$9**	**$0**	**$5,763**	**$27,607**
Fiscal 2007					
Legislative Appropriation	$103,679	$14,938	$0	$3,903	$122,520
Budget Amendments	-86,460	-13,457	0	2,346	-97,571
Working Appropriation	**$17,219**	**$1,481**	**$0**	**$6,249**	**$24,948**

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

Fiscal 2006

- A $35,523,447 general fund decrease represents a transfer to various State agencies for the purpose of funding the general salary increase.

- General funds decrease by another $23,133,277 due to the reallocation of health insurance funding.

- There are two deficiency expenditures in fiscal 2006. The first, for $6,500,000 in general funds, is to provide funds to implement a correctional officer recruitment and retention program; $6,428,984 of that amount was transferred to the Department of Public Safety and Correctional Services. The second general fund deficiency provided $5,000,000 for the revised estimated cost of the State's fiscal 2006 workers' compensation claims.

- A reimbursable fund increase of $2,223,000 is due to the inclusion of expenditures into the budget that had previously been paid through the health program claims process. Expenditures include payments made to AON Consulting, Mercer Consulting, and flexible spending account providers. Additionally, increased expenditures for Medicare Part D forms and mailings and other miscellaneous items are covered by this increase.

- A net $1,067,512 in general funds was transferred to the Judiciary, Office of the Public Defender, and State Prosecutor to fund Judicial Compensation Commission recommendations.

- A decrease of $301,979 in general funds is due to the need to fund the general salary increase within the Department of Health and Mental Hygiene for capped salaries supported by indirect funds and to fund a one-grade increase for the deputy State fire marshal.

- A net general fund increase of $11,081 is due to a realignment of funds within the agency.

- A special fund increase of $9,082 is made due to a grant from the International Public Management Association for Human Resources to implement a high school work-study program in Baltimore City public schools.

Fiscal 2007

- General funds decrease by a net $55,736,210 and special funds decrease by $12,733,592 through transfers to various State agencies for the reallocation of funding for the general salary increase.

- General funds decrease by $31,167,597 and special funds decrease by $723,394 through transfers to various State agencies for the reallocation of funding for Annual Salary Review upgrades, reclassifications, performance bonuses, and other enhancements.

- A reimbursable fund increase of $2,400,000 is due to the inclusion of expenditures into the budget that had previously been paid through the health program claims process, to fund a new contract for claims verification to resolve an audit issue, and for other purposes.

- General funds increase by $500,000 through transfers from various State agencies to fund a comprehensive salary study.

- A decrease of $53,976 in reimbursable funds and $56,519 in general funds represents a transfer of funds to the Executive Department – Boards, Commissions, and Offices, for the State Labor Relations Board, as directed by Chapter 62 of 2006.

Object/Fund Difference Report
DBM – Office of Personnel Services and Benefits

Object/Fund	FY06 Actual	FY07 Working Appropriation	FY08 Allowance	FY07-FY08 Amount Change	Percent Change
Positions					
01 Regular	121.00	121.00	121.00	0	0%
02 Contractual	0.15	0.10	1.10	1.00	1,000.0%
Total Positions	**121.15**	**121.10**	**122.10**	**1.00**	**0.8%**
Objects					
01 Salaries and Wages	$ 23,245,048	$ 20,125,534	$ 85,103,839	$ 64,978,305	322.9%
02 Technical and Spec. Fees	89,078	79,042	210,150	131,108	165.9%
03 Communication	157,254	294,875	253,391	-41,484	-14.1%
04 Travel	23,563	35,000	31,500	-3,500	-10.0%
08 Contractual Services	3,849,688	4,281,280	3,130,907	-1,150,373	-26.9%
09 Supplies and Materials	19,188	44,658	25,000	-19,658	-44.0%
10 Equipment – Replacement	177,591	42,400	18,400	-24,000	-56.6%
12 Grants, Subsidies, and Contributions	9,082	0	0	0	0.0%
13 Fixed Charges	36,542	45,677	47,675	1,998	4.4%
Total Objects	**$ 27,607,034**	**$ 24,948,466**	**$ 88,820,862**	**$ 63,872,396**	**256.0%**
Funds					
01 General Fund	$ 21,835,085	$ 17,218,928	$ 68,352,177	$ 51,133,249	297.0%
03 Special Fund	9,082	1,480,618	14,651,016	13,170,398	889.5%
09 Reimbursable Fund	5,762,867	6,248,920	5,817,669	-431,251	-6.9%
Total Funds	**$ 27,607,034**	**$ 24,948,466**	**$ 88,820,862**	**$ 63,872,396**	**256.0%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Fiscal Summary
DBM – Office of Personnel Services and Benefits

Program/Unit	FY06 Actual	FY07 Wrk Approp	FY08 Allowance	Change	FY07-FY08 % Change
01 Executive Direction	$ 1,905,491	$ 1,846,265	$ 1,618,199	-$ 228,066	-12.4%
02 Division of Employee Benefits	5,618,773	5,998,920	5,667,669	-331,251	-5.5%
04 Division of Employee Relations	1,005,060	1,131,061	1,081,062	-49,999	-4.4%
06 Division of Salary Administration and Classificati	1,087,502	1,800,256	1,277,845	-522,411	-29.0%
07 Division of Recruitment and Examination	2,181,167	2,260,051	2,277,413	17,362	0.8%
08 Statewide Expenses	15,809,041	11,911,913	76,898,674	64,986,761	545.6%
Total Expenditures	**$ 27,607,034**	**$ 24,948,466**	**$ 88,820,862**	**$ 63,872,396**	**256.0%**
General Fund	$ 21,835,085	$ 17,218,928	$ 68,352,177	$ 51,133,249	297.0%
Special Fund	9,082	1,480,618	14,651,016	13,170,398	889.5%
Total Appropriations	**$ 21,844,167**	**$ 18,699,546**	**$ 83,003,193**	**$ 64,303,647**	**343.9%**
Reimbursable Fund	$ 5,762,867	$ 6,248,920	$ 5,817,669	-$ 431,251	-6.9%
Total Funds	**$ 27,607,034**	**$ 24,948,466**	**$ 88,820,862**	**$ 63,872,396**	**256.0%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 4

Contractual Full-time Equivalent Positions
Fiscal 2007 Working Appropriation and 2008 Allowance

Department/Service Area	2007 Wkg. Approp.	2008 Allowance	Change 2007-08 FTEs	Change 2007-08 %
Judiciary	371	354	-17	-4.6%
Executive Branch				
Legal	114	98	-17	-14.6%
Executive and Administrative Control	168	165	-4	-2.3%
Financial and Revenue Administration	39	40	1	2.3%
Budget and Management	16	22	6	37.5%
Retirement	29	29	0	0.0%
General Services	28	26	-2	-7.0%
Transportation	176	182	7	3.7%
Natural Resources	374	420	46	12.3%
Agriculture	42	47	4	10.1%
Health and Mental Hygiene	458	479	21	4.6%
Human Resources	136	135	-1	-0.8%
Labor, Licensing, and Regulation	191	177	-14	-7.4%
Public Safety and Correctional Services	411	396	-16	-3.9%
MSDE and Other Education	225	247	22	9.7%
Housing and Community Development	40	40	0	0.0%
Business and Economic Development	33	33	0	-1.2%
Environment	38	45	7	18.7%
Juvenile Services	144	144	0	0.0%
Police and Fire Marshal	49	37	-12	-24.1%
Non-higher Education Executive Branch Subtotal	**2,712**	**2,760**	**48**	**1.8%**
Higher Education	5,929	6,274	345	5.8%
Total	**9,011**	**9,387**	**376**	**4.2%**

Employee Compensation
Fiscal 2008 Allowance Increase over Fiscal 2007 Working Appropriation Expenditures
($ in Millions)

	FY 2006 Actual	FY 2007 Working	% Change	FY 2008 Allowance	Change	% Change
Regular FTE Positions	78,754	80,374	0	81,446	1,071	1.3%
Contractual FTE Positions	8,638	9,011	0	9,387	376	4.2%
Salary						
Base Salary	$3,815.3	$4,308.5	$0.0	$4,299.0	-$9.6	-0.2%
2008 General Salary Increase (GF and SF)				76.7	76.7	
2008 Increments (Total Funds)				99.1	99.1	
Salary Subtotal[1]	**$3,815.3**	**$4,308.5**		**$4,474.8**	**$166.3**	**3.9%**
Additional Assistance	12.5	15.1	20.6%	13.9	-1.1	-7.4%
Overtime Earnings	125.4	93.2	-25.7%	91.5	-1.7	-1.8%
Shift Differential	10.0	11.5	14.8%	11.4	-0.2	-1.4%
Student Payments (USM Only)	31.3	28.3	-9.5%	28.3	0.0	0.0%
Other Salary	29.4	36.4	23.9%	21.4	-15.1	-41.4%
Total Salaries	**$4,023.9**	**$4,493.0**	**$0.0**	**$4,641.3**	**$148.2**	**3.3%**
New Employees				**$67.6**		
Abolished Positions				**-$3.6**		
Non-discretionary Employee Benefits						
Health Insurance						
Active Employees	555.3	616.4	11.0%	670.4	54.0	8.8%
Retirees	168.2	202.3	20.3%	0.0	-202.3	-100.0%
Excesss Nonbudgeted Health Funds Used for Fiscal 2008 Costs				175.6	175.6	
Active and Retiree Subtotal	**$723.4**	**$818.6**	**13.2%**	**$846.0**	**$27.3**	**3.3%**
Special Subsidies	20.6	18.8	-8.7%	26.3	7.5	39.6%
Excess Health Funds Set Aside for Retirement Benefits		51.5		0.0	-51.5	
Total Health Insurance	**$744.1**	**$889.0**	**19.5%**	**$872.3**	**-$16.7**	**-1.9%**
Retirement						
Employees' Retirement System	142.5	186.3	30.8%	251.2	64.8	34.8%
Teachers' Retirement System	12.6	16.6	32.0%	21.0	4.3	26.1%
State Police Retirement System	7.2	12.5	74.3%	13.8	1.3	10.4%
Judges' Retirement System	13.9	15.5	11.5%	17.1	1.5	9.9%
Maryland Transit Administration Pension System	20.4	18.2	-10.7%	20.9	2.6	14.5%
Optional Retirement/Pension System	57.0	65.8	15.5%	66.8	1.0	1.5%

Appendix 5 (Cont.)

	FY 2006 Actual	FY 2007 Working	% Change	FY 2008 Allowance	Change	% Change
DNR Police Retirement System	19.1	22.7	18.6%	24.8	2.1	9.4%
Other Retirement Systems	3.3	0.6	-81.2%	0.7	0.1	10.0%
Total Retirement[1]	**$276.0**	**$338.3**	**22.6%**	**$416.1**	**$77.8**	**23.0%**
Social Insurance						
Social Security Contributions[1]	282.2	310.6	10.1%	322.4	11.8	3.8%
Unemployment Compensation[1]	10.2	8.6	-15.3%	8.8	0.2	2.2%
Workers' Compensation	66.6	66.2	-0.6%	64.7	-1.5	-2.2%
Total Social Insurance	**$358.9**	**$385.4**	**7.4%**	**$395.9**	**$10.5**	**2.7%**
Discretionary Employee Benefits:						
Deferred Compensation Match	12.9	20.0	54.5%	20.9	0.9	4.5%
Employee Awards	0.7	0.5	-35.0%	0.5	0.0	0.1%
Tuition waivers	21.3	23.9	12.5%	24.3	0.3	1.4%
Other incentives	5.8	-0.1	-101.3%	0.1	0.2	-237.5%
Total Incentives	**$40.7**	**$44.3**	**8.8%**	**$45.7**	**$1.4**	**3.2%**
Turnover Expectancy	**$5.6**	**-$203.7**	n/a	**-$206.4**	**-$2.7**	-1.3%
Turnover Expectancy Rate		4.1%		4.0%		
Other	**$10.8**	**$3.1**	-71.5%	**$4.9**	**$1.8**	59.9%
Total Regular Personnel Expenditures	**$5,460.0**	**$5,949.4**	**9.0%**	**$6,233.8**	**$284.4**	**4.8%**
Contractual Employee Expenses						
Special Payments Payroll[2]	174.3	199.9	14.6%	207.7	7.9	3.9%
Contractual Expenses – USM	200.4	225.8	12.7%	243.7	17.9	7.9%
Social Security Contributions[2]	13.0	14.8	13.5%	15.1	0.3	1.8%
Unemployment Compensation[2]	0.5	0.5	15.8%	0.5	0.0	-9.0%
Contractual Turnover Expectancy[2]	0.4	-14.5	n/a	-13.0	1.5	-10.1%
Turnover Expectancy Rate		6.7%		5.8%		
Total Contractual Expenses	**$388.7**	**$426.5**	**9.7%**	**$454.0**	**$27.5**	**6.4%**
Total Personnel Expenditures	**$5,848.6**	**$6,375.9**	**9.0%**	**$6,687.8**	**$311.9**	**4.9%**

[1] Included in the turnover expectancy calculation for regular positions.

[2] Included in the turnover expectancy calculation for contractual positions.

Net New Positions
Fiscal 2008 Allowance

Department/Service Area	Contractual Conversions	Legislation Related	Program Related	Workload Related	Unknown	Subtotal New	Abolition/ Transfers	Net Change
Legislative Branch	-	-	-	-	-	-	-	-
Judicial Branch	32.0	-	-	154.5	-	**186.5**	-	**186.5**
Executive Branch								
Legal								
Office of the Public Defender	-	-	-	-	-	-	-2.0	**-2.0**
Office of the Attorney General	-	-	-	17.0	-	**17.0**	-	**17.0**
Office of the State Prosecutor	-	-	-	-	1.0	**1.0**	-	**1.0**
Executive and Administrative Control								
Executive Dept. – Boards, Commissions, and Offices	4.0	-	-	-	-	**4.0**	-1.0	**3.0**
Historic St. Mary's City	-	-	-	-	1.0	**1.0**	-	**1.0**
Governor's Office for Children	-	-	-	1.5	-	**1.5**	1.0	**2.5**
Maryland Commission on Human Relations	-	3.0	-	-	-	**3.0**	-	**3.0**
Military Department	-	-	-	11.0	-	**11.0**	-	**11.0**
MD Institute Emergency Medical Services Systems	1.0	-	-	-	-	**1.0**	-	**1.0**
Maryland Insurance Administration	-	-	-	5.0	-	**5.0**	-	**5.0**
Office of Administrative Hearings	1.0	-	-	-	-	**1.0**	-	**1.0**
Planning	-	-	-	-	-	-	-3.0	**-3.0**
Financial and Revenue Administration								
Assessments and Taxation	-	-	-	2.0	-	**2.0**	-3.5	**-1.5**
State Lottery Agency	1.0	-	-	-	-	**1.0**	-	**1.0**
Budget and Management								
Budget and Management – Secretary	-	2.0	-	1.0	-	**3.0**	-	**3.0**
Retirement								
State Retirement Agency	-	-	-	2.0	-	**2.0**	-	**2.0**
General Services	-	-	-	16.0	-	**16.0**	-6.0	**10.0**

Appendix 6 (Cont.)

Department/Service Area	Contractual Conversions	Legislation Related	Program Related	Workload Related	Unknown	Subtotal New	Abolition/ Transfers	Net Change
Transportation								
The Secretary's Office	-	-	3.0	-	-	**3.0**	-	**3.0**
State Highway Administration	-	-	4.0	5.0	-	**9.0**	-	**9.0**
Maryland Port Administration	-	-	1.0	-	-	**1.0**	-	**1.0**
State Motor Vehicle Administration	-	-	9.0	-	-	**9.0**	-	**9.0**
Maryland Transit Administration	15.0	-	3.0	5.0	30.0	**53.0**	-	**53.0**
State Aviation Administration	-	-	1.0	-	-	**1.0**	-	**1.0**
Natural Resources	-	-	-	-	-	-	-2.0	**-2.0**
Agriculture	-	-	-	13.0	-	**13.0**	-1.0	**12.0**
Health and Mental Hygiene								
Health Occupation Boards	12.0	-	-	1.0	-	**13.0**	-2.0	**11.0**
Health Regulatory Commissions	-	-	-	2.0	0.5	**2.5**	-	**2.5**
Other	-	-	-	-	-	-	-19.5	**-19.5**
Human Resources								
Administration	-	-	6.0	-	-	**6.0**	-3.0	**3.0**
Child Welfare	-	-	-	-	4.0	**4.0**	-3.0	**1.0**
Child Support Enforcement	-	-	-	-	38.0	**38.0**	-4.0	**34.0**
Other	-	-	-	-	-	-	-5.0	**-5.0**
Labor, Licensing, and Regulation	-	-	-	7.0	-	**7.0**	-1.4	**5.6**
Public Safety and Correctional Services								
Division of Correction	-	-	-	178.0	-	**178.0**	-1.0	**177.0**
Police and Correctional Training Commissions	8.0	-	-	-	-	**8.0**	-	**8.0**
Division of Pretrial and Detention Services	-	-	-	23.0	-	**23.0**	-	**23.0**
Other	-	-	-	-	-	-	-2.0	**-2.0**
MSDE and Other Education								
MSDE Headquarters	8.0	-	6.0	3.0	-	**17.0**	-3.0	**14.0**
Public Broadcasting Commission		-	-	-	-	-	-1.0	**-1.0**

Appendix 6 (Cont.)

Department/Service Area	Contractual Conversions	Legislation Related	Program Related	Workload Related	Unknown	Subtotal New	Abolition/ Transfers	Net Change
Housing and Community Development	-	-	-	-	0.1	**0.1**	-	**0.1**
Business and Economic Development	-	-	-	-	-	-	-2.0	**-2.0**
Environment	-	-	-	6.0	-	**6.0**	-2.0	**4.0**
Juvenile Services	-	-	-	13.0	-	**13.0**	-4.0	**9.0**
Police and Fire Marshal	-	-	-	4.0	-	**4.0**	-1.0	**3.0**
Executive Branch Subtotal	**50.0**	**5.0**	**33.0**	**315.5**	**74.6**	**478.1**	**-71.4**	**406.7**
Higher Education	-	-	-	-	477.5	477.5	-	**477.5**
Total	**82.0**	**5.0**	**33.0**	**470.0**	**552.1**	**1,142.1**	**-71.4**	**1,070.7**

Appendix 7

The State Workforce: Where Are the New Positions in 2008?

Higher Education	477
Department of Public Safety and Correctional Services: Positions are primarily new correctional officer, recreational officer, and chaplain posts created in the Division of Corrections in response to new security assessments and a recalculation of the relief factor (177). Also includes 23 new correctional officer positions for the Division of Pretrial and Detention Services and 8 new clerical and maintenance positions for the Police and Correctional Training Commissions.	209
The Judiciary: Positions are primarily for criminal, civil, traffic, and juvenile courtroom clerk positions (128). There are also 25 positions requested that include 2 new circuit court judges and 2 new District Court judges with supporting personnel.	187
Maryland Department of Transportation: Positions include 15 contractual conversions for a Maryland Transit Administration reservation center for the mobility program and replacement for 30 bus operators that have been transferred to the program, 13 to implement a departmentwide environmental management system, 8 for a Spanish-speaking unit at the Gaithersburg office, and 5 for the Coordinated Highway Action Response Team program.	76
Department of Human Resources: The allowance includes 38 positions in Child Support Enforcement; the work these positions will provide is currently provided through a contractual arrangement. In addition, 6 positions will be used to track Medicaid dollars used for non-room and board expenses in the foster care system and, in response to a *Joint Chairmen's Report*, 4 positions will provide group home licensing and monitoring.	48
Executive and Administrative Agencies: Positions (11) are primarily in the Maryland Emergency Management Agency to staff the Maryland Joint Operations Center and in the Maryland Insurance Administration (5) to address workload issues.	
The Office of the Attorney General (OAG): Positions are for attorneys and staff for the OAG's criminal appeals division and gang prosecution, environmental crimes, consumer protection, gun trafficking, and identity theft units.	17
Other Agencies	101
Total New Positions[1]	**1,143**

[1] New positions are offset by 71 abolitions spread across the allowance, for a net addition of 1,071 positions.

General Salary Increases, Increments, and Other Compensation
Fiscal 2000-2008 allowance

		State Employees						
Fiscal Year		**General Salary Increase**	**Increments**	**Additional Police, Natural Resources Police, and Park Ranger Salary Increases**	**Maximum Deferred Compensation Match by State**	**Pay-for-Performance Bonuses**	**Annual Salary Review Reclassifications**	**Other**
2000	7/1/1999 1/1/2000	$638 $637	On time	4.0%	$600	Outstanding: $1,000 Exceeds standards: $500		Salary schedules expand from 6 to 16 steps on 7/1/99[1]
2001	11/15/2000 1/1/2001	4.0%	On time		$600	Outstanding: $1,000 Exceeds standards: $500	Yes[3]	Standard salary schedule expands by 4 grades on 7/1/00[2] and a new physicians' schedule is developed.
2002	7/1/2001 1/1/2002	4.0%	On time	$850	$600	Outstanding: $500 Exceeds standards: $250	Yes[4]	Salary schedules expand from 16 to 18 steps on 7/1/01[1]
2003		None	None		$500	None	None	
2004		None	None		None	None	None	
2005	7/1/2004	$752	On time		None	None	Yes[5]	
2006	7/1/2005	1.5%	On time		$400	None	Yes[6]	
2007	7/1/2006	$900, $1,400, or 2%[7]	On time	2% extra, 9% extra for other sworn police (primarily DGS and DHMH officers)	$600	None	Yes[8]	2 steps added to the standard salary schedule; 1 step added to the physicians' salary schedule
2008 Allow.	7/1/2007	2.0%	On time		$600	None	None	

[1] The executive pay plan (EPP) and physicians' schedules did not expand.

[2] The standard salary schedule expanded to accommodate management service positions moved off the executive salary schedule.

[3] The following classifications were given upgrades effective January 1, 2001, most of which were in the 1 to 2 grade range: clerical workers, social workers in criminal justice and health services, computer operations and related classifications, professional fiscal and related classifications, election workers (local funds), and assistant superintendents at State hospitals.

[4] Three groups of employees received reclassifications in fiscal 2002: nurses, institutional educators, and addictions counselors who work in local health departments and nonprofits. Statewide increases went to nurse classifications through two grade increases, one on July 1, 2001, and one on January 1, 2002. Institutional educators received increases through an adjustment to their pay plan.

[5] The following classifications are provided upgrades: public defenders, social services attorneys, assistant general counsels (human relations), assistant State prosecutors, direct service workers in the Department of Juvenile Services, property assessors, lab scientists, administrative law judges, and banking financial examiners.

[6] The fiscal 2006 annual salary review provides a one-grade salary adjustment for the Deputy State Fire Marshal classification series.

[7] Fiscal 2007 general salary increases are $900 for employees making less than $45,000 at the end of fiscal 2006, $1,400 for employees making $70,000 or more, and 2% for those remaining.

[8] The fiscal 2007 annual salary review provides reclassifications and other enhancements for correctional officers and correctional support personnel, registered nurses, licensed practical nurses, direct care assistants, forensic scientists, institutional educators, administrative law judges, and teachers aides.

Appendix 9

Salary Grades in the Standard Salary Schedule
Fiscal 2007 Working Appropriation

Grade	Minimum Salary	Average Salary	Maximum Salary	Filled FTEs
5	$20,364	$24,916	$31,386	712
6	21,575	25,890	33,367	662
7	22,871	28,956	35,493	1,750
8	24,258	30,482	37,760	1,488
9	25,742	32,813	40,192	1,673
10	27,329	34,618	42,791	2,752
11	29,026	36,884	45,578	2,974
12	30,844	37,965	48,599	4,127
13	32,788	41,024	51,849	6,088
14	34,870	44,436	55,331	3,954
15	37,095	48,503	59,041	2,842
16	39,478	51,873	63,021	4,149
17	42,026	56,414	67,280	3,015
18	44,754	61,200	71,822	1,936
19	47,709	65,792	76,598	1,318
20	50,893	68,441	81,715	926
21	54,301	73,764	87,183	697
22	57,948	81,070	93,048	871
23	61,850	88,609	99,314	304
24	66,024	92,996	106,013	338
25	70,492	102,588	113,178	87
26	75,195	109,783	120,859	70
Total		**$45,904**		**42,732**

Appendix 10

Classifications with the Largest Number of Filled Positions in Each Salary Grade
Standard Salary Schedule
Fiscal 2007 Working Appropriation

Grade		Filled FTEs
5	Building Services Worker II	222
6	Building Security Officer II	115
7	Direct Care Assistant II	721
8	Office Services Clerk	617
9	Office Secretary II	508
10	Office Secretary III	628
11	Income Maintenance Specialist II	782
12	Correctional Officer I	541
13	Correctional Officer II	3,604
14	Correctional Officer Sergeant	776
15	Family Services Caseworker III	330
16	Correctional Officer Lieutenant	471
17	Administrator II	285
18	Administrator III	197
19	Program Manager I	191
20	Program Manager II	163
21	Program Manager III	148
22	Assistant Public Defender III	166
23	Program Manager Senior I	87
24	Program Manager Senior II	94
25	Program Manager Senior III	37
26	Division Director Office of the Attorney General	26

Vacant Positions, Turnover Rate, and Necessary Vacancies
Fiscal 2008 Allowance

Department/Service Area	12/28/06 Vacancy Rate	2008 Allowance Turnover Rate	2008 Necessary Vacancies	Funded/ (Unfunded) Vacancies
Legislative Branch	1.9%	1.5%	12	5
Judicial Branch	4.4%	3.1%	112	38
Executive Branch				
Legal	8.7%	6.5%	105	31
Executive and Administrative Control	9.4%	3.6%	61	92
Financial and Revenue Administration	6.1%	3.5%	71	50
Budget and Management	11.5%	4.1%	18	33
Retirement	6.6%	5.9%	11	1
General Services	7.4%	5.8%	37	4
Transportation	5.9%	5.3%	484	52
Natural Resources	7.5%	5.0%	68	33
Agriculture	8.6%	7.0%	31	5
Health and Mental Hygiene	9.7%	4.9%	378	348
Human Resources	6.7%	4.8%	336	116
Labor, Licensing, and Regulation	7.3%	3.8%	56	51
Public Safety and Correctional Services	9.6%	3.8%	450	648
MSDE and Other Education	7.5%	5.5%	120	40
Housing and Community Development	6.6%	3.0%	9	12
Business and Economic Development	3.8%	4.0%	12	-3
Environment	7.7%	6.5%	62	9
Juvenile Services	6.5%	3.0%	63	68
Police and Fire Marshal	6.8%	4.6%	115	53
Subtotal	**7.9%**	**4.6%**	**2,489**	**1,639**
Higher Education*	4.3%	3.3%	719	193
Subtotal Executive Branch	**6.8%**	**4.1%**	**3,208**	**1,832**
Total State	**6.6%**	**4.1%**	**3,243**	**1,965**

*Vacancies and turnover data are for the University System of Maryland and Baltimore City Community College only; Morgan State University, and St. Mary's College are excluded from the vacancy rate calculation.

Selected Performance Guarantees in the State Employee and Retiree Benefits Program Contracts Valued at Over $1.0 Million

Contract	FY 2006 Contract Value ($ in Millions)	List Performance Measures	Targets Included in Contract	What Are the Incentives/ Penalties?	How Attainable Are the Targets?	Do Performance Measures Link to MFR?	Does Contract Make Payment Contingent Upon Submission of Acceptable Deliverables?
• Preferred Provider Option (PPO) Health Plans: • MAMSI Life and Health Insurance Company; CareFirst of Maryland, Inc. (dba CareFirst BlueCross BlueShield) • Point of Service (POS) Plans: • M.D. Individual Practice Association (M.D. IPA); CareFirst of Maryland, Inc. (dba CareFirst BlueCross BlueShield) Aetna • Health Maintenance Organization (HMO) Plans: • CareFirst BlueChoice, Inc.; Optimum Choice, Inc.; Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc.	• CareFirst PPO: $275 • MAMSI PPO: $23 • CareFist POS: $82 • MAMSI POS: $85 • Aetna POS: $25 • CareFirst HMO: $46 • MAMSI HMO: $31 • Kaiser HMO: $26	Telephone call availability (if system unable to measure A, provide B). Measurement must be State-specific or for only the service center handling the State account.	A) 90% of telephone calls are answered by a live service representative (with knowledge of State of Maryland account) within 60 seconds. The representative must be able to address the member's issue/question.	A) $250 per second per quarter for each second, or fraction thereof, over 60 seconds.	Very attainable.	Indirectly.[1]	There is an option to refuse or limit approval of any invoice for payment until the contractor meets performance standards established by the Procurement Officer "pursuant to this contract."
			B) % of calls answered by a service representative (with knowledge of State of Maryland account) in 60 seconds. The representative must be able to address the member's issue/question.	A) $250 per second per quarter for each second, or fraction thereof, below 90% per quarter.	Very attainable.	Indirectly.[1]	See above.
		Vendor attendance at State plan management meetings and State-sponsored open enrollment meetings.	Attendance by plan representatives trained on State of Maryland plan benefits at 100% of meetings scheduled by the State, for 100% of the meeting's duration.	$500 for each scheduled meeting date that vendor fails to attend.	Very attainable.	Indirectly.[1]	See above.

Appendix 12 (Cont.)

Contract	FY 2006 Contract Value ($ in Millions)	List Performance Measures	Targets Included in Contract	What Are the Incentives/ Penalties?	How Attainable Are the Targets?	Do Performance Measures Link to MFR?	Does Contract Make Payment Contingent Upon Submission of Acceptable Deliverables?
		Delivery of Quarterly Plan Performance Measurement Report Card to the State.	Delivery to the State by 6:00 p.m. on the following dates*: May 1 – first quarter (January – March) August 1– second quarter (April – June) November 1 – third quarter (July – September) February 1 – fourth quarter (October – December). * If due date falls on a State/vendor holiday or a weekend, the report card is due the next business day.	$50 per day for each calendar day that the report card is not received.	Very attainable.	Indirectly.[1]	See above.
		Claims guarantee: Financial accuracy measures the gross dollars paid incorrectly (overpayments plus underpayments) subtracted from total paid claim dollars, divided by total paid claim dollars within the audit sample.	99% of claim dollars processed accurately.	PPO and POS plans: 97 to 98.99% accuracy: 2% of administrative fees; less than 97%: 4% of administrative fees. HMO plans: Remedial action plan provided to and approved by the State.	Very attainable.	Indirectly.[1]	See above.

Appendix 12 (Cont.)

Contract	FY 2006 Contract Value ($ in Millions)	List Performance Measures	Targets Included in Contract	What Are the Incentives/ Penalties?	How Attainable Are the Targets?	Do Performance Measures Link to MFR?	Does Contract Make Payment Contingent Upon Submission of Acceptable Deliverables?
		Processing of enrollment eligibility update information.	Will process tape or electronic interchange of State enrollment information by 5:00 p.m. of the second State business day after receipt. Will process paper enrollment information by 5:00 p.m. of the third State business day after receipt.	$500 for each calendar day of delay (5:01 p.m. is considered late).	Very attainable.	Indirectly.[1]	See above.
		Provision of claims and eligibility data to third party vendors (PPO and POS only).	Delivery of agreed-upon claims and eligibility data to third party disease management and/or utilization review vendors in the format and frequency required by the applicable vendor(s).	$200 per day of each calendar day the data are not received or are incomplete.	Very attainable.	Indirectly.[1]	See above.
		Annual hospital records claims audit (PPO and POS only).	Conduct hospital records (including clinical and billing issues) audits for every admission with paid claims in excess of $25,000, subject to a minimum of 2% of all hospital claims. Audits are to be conducted on-site to ensure accuracy of billed charges in relation to the clinical services delivered.	If performance is less than the standards, 2% of administrative fees.	Very attainable.	Indirectly.[1]	See above.

Contract	FY 2006 Contract Value ($ in Millions)	List Performance Measures	Targets Included in Contract	What Are the Incentives/ Penalties?	How Attainable Are the Targets?	Do Performance Measures Link to MFR?	Does Contract Make Payment Contingent Upon Submission of Acceptable Deliverables?
Behavioral Health and Employee Assistance Plan: APS Healthcare Bethesda, Inc. (performance guarantees for the Mental Health Contract effective July 1, 2006).	$13	Telephone call availability (if system unable to measure A, provide B). Measurement must be State-specific or for only the service center handling the State account.	A) 90% of telephone calls are answered by a live service representative (with knowledge of State of Maryland account) within 60 seconds. The representative must be able to address the member's issue/question.	A) $250 per second per quarter for each second, or fraction thereof, over 60 seconds.	Very attainable.	Indirectly.[1]	There is an option to refuse or limit approval of any invoice for payment until the contractor meets performance standards established by the Procurement Officer "pursuant to this contract."
			B) % of calls answered by a service representative (with knowledge of State of Maryland account) in 60 seconds. The representative must be able to address the members' issue/question.	A) $250 per second per quarter for each second, or fraction thereof, below 90% per quarter.	Very attainable.	Indirectly.[1]	See above.
		Delivery of Quarterly Plan Performance Measurement Report Card to the State.	Delivery to the State by 6:00 p.m. on the following dates*: May 1 – first quarter (Jan – March) August 1 – second quarter (April – June) November 1 – third quarter (July – September) February 1 – fourth quarter (October – December). * If due date falls on a State/vendor holiday or a weekend, the report card is due the next business day.	$50 per day for each calendar day that the report card is not received.	Very attainable.	Indirectly.[1]	See above.

Appendix 12 (Cont.)

Contract	FY 2006 Contract Value ($ in Millions)	List Performance Measures	Targets Included in Contract	What Are the Incentives/ Penalties?	How Attainable Are the Targets?	Do Performance Measures Link to MFR?	Does Contract Make Payment Contingent Upon Submission of Acceptable Deliverables?
		Claims guarantee: Financial accuracy measures the gross dollars paid incorrectly (overpayments plus underpayments) subtracted from total paid claim dollars, divided by total paid claim dollars within the audit sample.	99% of claim dollars processed accurately (HMO only).	A remedial action plan is provided to and approved by the State (HMO only).	Attainable.	Indirectly.[1]	See above.
		Claims guarantee: Financial accuracy measures the gross dollars paid incorrectly (overpayments plus underpayments) subtracted from total paid claim dollars, divided by total paid claim dollars within the audit sample.	99% of claim dollars processed accurately.	97 to 98.99% accuracy: 2% of administrative fees; less than 97%: 4% of administrative fees.	Attainable.	Indirectly.[1]	See above.
		Processing of enrollment eligibility update information.	Will process tape or electronic interchange of State enrollment information by 5:00 p.m. of the second State business day after receipt. Will process paper enrollment information by 5 p.m. of the 3rd State business day after receipt.	$500 for each calendar day of delay (5:01 p.m. is considered late).	Very attainable.	Yes.	See above.

Contract	FY 2006 Contract Value ($ in Millions)	List Performance Measures	Targets Included in Contract	What Are the Incentives/ Penalties?	How Attainable Are the Targets?	Do Performance Measures Link to MFR?	Does Contract Make Payment Contingent Upon Submission of Acceptable Deliverables?
		Provision of claims and eligibility data to third party vendors (PPO and POS only).	Delivery of agreed-upon claims and eligibility data to third party disease management and/or utilization review vendors in the format and frequency required by the applicable vendor(s).	$200 per day of each calendar day the data are not received or are incomplete.	Attainable.	Indirectly.[1]	See above.
		Inpatient pre-authorization crisis response.	Respond within one hour to crisis call for inpatient services 95% of the time annually.	0.10% of administrative fees if less than 95%.	Very attainable.	Indirectly.[1]	See above.
Pharmacy Contract: CaremarkPCS Health, L.P.	$271	System availability.	System will be available 99.9%.	0.10% of annual administrative fees if system is not available, measured on an annual basis.	Attainable.	Indirectly.[1]	There is an option to refuse or limit approval of any invoice for payment until the contractor meets performance standards established by the Procurement Officer "pursuant to this contract."
		Calls answered by member services.	Average speed of answer should not exceed 25 seconds.	0.10% of annual administrative fees, measured on an annual basis.	Attainable.	Indirectly.[1]	See above.
		Customer satisfaction survey.	90% satisfaction rating, measured on an annual basis.	None.	Attainable.	There is an MFR measure, but standard is 85%.	See above.
		Financial accuracy.	Accuracy rate greater than 98.5% based on paid claims, measured on an annual basis.	None.	Attainable.	Indirectly.[1]	See above.

Appendix 12 (Cont.)

Contract	FY 2006 Contract Value ($ in Millions)	List Performance Measures	Targets Included in Contract	What Are the Incentives/ Penalties?	How Attainable Are the Targets?	Do Performance Measures Link to MFR?	Does Contract Make Payment Contingent Upon Submission of Acceptable Deliverables?
		Member complaints.	95% of member complaints responded to within 10 business days, measured on an annual basis.	0.10% of annual administrative fees if standard is not met.	Very attainable.	Indirectly.[1]	See above.
Dental Plans: Dental Benefit Providers of Maryland (DHMO) United Concordia Dental Plans, Inc. (DHMO and PPO)	Dental Benefit Providers DHMO: $5 United Concordia DHMO: $9 United Concordia DPPO: $17	Telephone call availability (if system unable to measure A, provide B). Measurement must be State-specific or for only the service center handling the State account.	A) 90% of telephone calls are answered by a live service representative (with knowledge of State of Maryland account) within 60 seconds. The representative must be able to address the member's issue/question.	$250 per second per quarter for each second, or fraction thereof, over 60 seconds.	Very attainable.	Indirectly.[1]	There is an option to refuse or limit approval of any invoice for payment until the contractor meets performance standards established by the Procurement Officer "pursuant to this contract."
			B) % of calls answered by a service representative (with knowledge of State of Maryland account) in 60 seconds. The representative must be able to address the members' issue/question.	$250 per second per quarter for each second, or fraction thereof, below 90% per quarter.	Very attainable.	Indirectly.[1]	See above.
		Processing of enrollment eligibility update information.	Will process tape or electronic interchange of State enrollment information by 5:00 p.m. of the second State business day after receipt. Will process paper enrollment information by 5 p.m. of the 3rd State business day after receipt.	$500 for each calendar day of delay (5:01 p.m. is considered late).	Very attainable.	Yes.	See above.

Appendix 12 (Cont.)

Contract	FY 2006 Contract Value ($ in Millions)	List Performance Measures	Targets Included in Contract	What Are the Incentives/ Penalties?	How Attainable Are the Targets?	Do Performance Measures Link to MFR?	Does Contract Make Payment Contingent Upon Submission of Acceptable Deliverables?
		Vendor attendance at State plan management meetings and State-sponsored open enrollment meetings.	Attendance by plan representatives trained on State of Maryland plan benefits at 100% of meetings scheduled by the State, for 100% of the meeting's duration.	$500 for each scheduled meeting date that vendor fails to attend.	Very attainable.	Indirectly.[1]	See above.
		Delivery of Quarterly Plan Performance Measurement Report Card to the State.	Delivery to the State by 6:00 p.m. on the following dates*: May 1 – first quarter (Jan – March) August 1 – second quarter (April – June) November 1 – third quarter (July – September) February 1 – fourth quarter (October – Dec.) * If due date falls on a State/vendor holiday or a weekend, the report card is due the next business day.	$50 per day for each calendar day that the report card is not received.	Very attainable.	Indirectly.[1]	See above.
		Claims guarantee: Financial accuracy measures the gross dollars paid incorrectly (overpayments plus underpayments) subtracted from total paid claim dollars, divided by total paid claim dollars within the audit sample.	99% of claim dollars processed accurately.	A remedial action plan is provided to and approved by the State.	Attainable.	Indirectly.[1]	See above.

[1] There is a performance standard that requires that, "[e]ach calendar year at least 85% or more of health plan vendors will meet 80% of contractual Performance Standards criteria as defined in the State's contract."

Appendix 13

Excerpt from the Request for Proposals for a Pharmacy Benefits Purchasing Pool Management and Pharmacy Benefits Plan Administration Service

4.4.2.4 Performance Guarantees

The Offeror shall detail the performance guarantees that will be provided to the State for each of the parameters listed below. This should include specific targets, financial impact of achieving/not achieving the targets, how performance will be measured and reported to the State (including frequency) and Offeror's willingness to further refine any of these terms if so desired by the State. At a minimum, performance guarantees shall be included for the following parameters:

- Implementation (*e.g.*, completion of specific implementation tasks by effective date, etc.);
- Member services (*e.g.*, telephone response time, responses to written inquiries, etc.);
- Administration (*e.g.*, eligibility posting, claims processing time, mail order turnaround, etc.);
- Claims Processing (*e.g.*, Financial and Payment accuracy);
- Utilization (*e.g.*, generic substitution, formulary implementation, etc.);
- Network (*e.g.*, access, audits, etc.);
- Reporting (*e.g.*, timeliness, level of interpretation provided by Offeror);
- Medicare Part D Subsidy Support; and
- Other (feel free to submit additional performance guarantees).

Standard Salary Schedule
Effective July 1, 2007

	Base	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Mid Point Step 9
5	$20,771	$21,477	$22,212	$22,976	$23,769	$24,595	$25,025	$25,461	$25,909	$26,365
6	22,007	22,762	23,547	24,365	25,212	26,097	26,557	27,025	27,503	27,991
7	23,328	24,137	24,978	25,852	26,762	27,707	28,198	28,700	29,211	29,733
8	24,743	25,608	26,507	27,442	28,414	29,427	29,951	30,489	31,035	31,593
9	26,257	27,182	28,144	29,144	30,186	31,268	31,830	32,404	32,990	33,588
10	27,876	28,866	29,895	30,966	32,080	33,238	33,841	34,454	35,081	35,720
11	29,607	30,667	31,769	32,914	34,105	35,344	35,990	36,648	37,318	38,001
12	31,461	32,594	33,773	34,999	36,275	37,600	38,290	38,993	39,711	40,441
13	33,444	34,657	35,919	37,231	38,593	40,013	40,750	41,502	42,272	43,054
14	35,567	36,865	38,215	39,618	41,076	42,595	43,386	44,189	45,013	45,850
15	37,837	39,227	40,670	42,172	43,735	45,359	46,204	47,070	47,968	48,880
16	40,268	41,754	43,300	44,907	46,578	48,346	49,268	50,208	51,167	52,145
17	42,867	44,457	46,109	47,849	49,674	51,572	52,558	53,562	54,589	55,637
18	45,649	47,361	49,166	51,044	52,995	55,025	56,081	57,155	58,254	59,374
19	48,663	50,521	52,450	54,458	56,546	58,718	59,846	60,999	62,175	63,374
20	51,911	53,899	55,962	58,112	60,346	62,670	63,879	65,111	66,368	67,649
21	55,387	57,513	59,725	62,022	64,413	66,900	68,192	69,512	70,857	72,228
22	59,107	61,381	63,746	66,206	68,764	71,426	72,808	74,193	75,602	77,043
23	63,087	65,521	68,051	70,684	73,409	76,200	77,651	79,131	80,640	82,179
24	67,344	69,950	72,658	75,422	78,292	81,279	82,831	84,417	86,032	87,679
25	71,902	74,652	77,492	80,445	83,519	86,714	88,375	90,071	91,800	93,562
26	76,699	79,622	82,660	85,823	89,111	92,529	94,306	96,120	97,970	99,857

Standard Salary Schedule (Cont.)
Effective July 1, 2007

	Step 10	Step 11	Step 12	Step 13	Step 14	Third Quartile Step 15	Step 16	Step 17	Step 18	Step 19	Step 20
5	$26,829	$27,303	$27,787	$28,281	$28,783	$29,296	$29,819	$30,352	$30,896	$31,450	$32,014
6	28,489	28,997	29,514	30,040	30,579	31,128	31,688	32,260	32,840	33,432	34,034
7	30,265	30,808	31,361	31,925	32,502	33,090	33,689	34,301	34,923	35,557	36,203
8	32,163	32,744	33,337	33,939	34,557	35,186	35,826	36,481	37,146	37,825	38,515
9	34,197	34,819	35,451	36,098	36,759	37,431	38,115	38,815	39,528	40,255	40,996
10	36,372	37,037	37,716	38,407	39,112	39,832	40,565	41,313	42,076	42,854	43,647
11	38,699	39,411	40,136	40,875	41,630	42,401	43,188	43,991	44,808	45,641	46,490
12	41,189	41,950	42,726	43,517	44,325	45,150	45,991	46,848	47,738	48,647	49,571
13	43,853	44,666	45,497	46,345	47,217	48,116	49,033	49,968	50,921	51,895	52,886
14	46,704	47,590	48,498	49,424	50,367	51,328	52,312	53,312	54,334	55,376	56,438
15	49,814	50,764	51,734	52,725	53,734	54,763	55,812	56,883	57,975	59,088	60,222
16	53,143	54,161	55,200	56,259	57,339	58,440	59,565	60,711	61,878	63,069	64,281
17	56,705	57,792	58,904	60,037	61,193	62,370	63,575	64,800	66,050	67,326	68,626
18	60,518	61,682	62,871	64,084	65,320	66,579	67,866	69,177	70,515	71,877	73,258
19	64,595	65,842	67,114	68,410	69,733	71,083	72,460	73,843	75,244	76,673	78,130
20	68,958	70,292	71,653	73,037	74,424	75,841	77,285	78,756	80,258	81,789	83,349
21	73,611	75,012	76,439	77,894	79,380	80,895	82,439	84,015	85,621	87,258	88,927
22	78,509	80,008	81,534	83,093	84,682	86,302	87,957	89,645	91,365	93,120	94,909
23	83,751	85,354	86,988	88,656	90,356	92,090	93,859	95,664	97,506	99,385	101,300
24	89,359	91,074	92,823	94,607	96,427	98,282	100,175	102,107	104,077	106,085	108,133
25	95,360	97,195	99,065	100,976	102,921	104,907	106,932	108,997	111,104	113,252	115,442
26	101,781	103,743	105,745	107,790	109,871	111,995	114,165	116,376	118,631	120,931	123,276