F10A02
Personnel
Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change	% Change Prior Year
General Fund	$5,757	$7,384	$40,466	$33,083	448.0%
Adjusted General Fund	**$5,757**	**$7,384**	**$40,466**	**$33,083**	**448.0%**
Special Fund	0	3,013	8,080	5,066	168.1%
Adjusted Special Fund	**$0**	**$3,013**	**$8,080**	**$5,066**	**168.1%**
Federal Fund	0	0	5,231	5,231	
Adjusted Federal Fund	**$0**	**$0**	**$5,231**	**$5,231**	
Reimbursable Fund	7,127	7,728	7,547	-182	-2.3%
Adjusted Reimbursable Fund	**$7,127**	**$7,728**	**$7,547**	**-$182**	**-2.3%**
Adjusted Grand Total	**$12,884**	**$18,125**	**$61,323**	**$43,198**	**238.3%**

- A $10.5 million general fund deficiency appropriation provides funds for the State's workers' compensation claims based on increased claims activity that created a carryover balance of $6.8 million from fiscal 2011 and a projected need for an additional $3.7 million in fiscal 2012.

- Three centrally budgeted items in the agency's statewide expenditure allotment represents nearly all of the change in the fiscal 2013 allowance. Funding for a 2% cost-of-living adjustment (COLA) adds $46.9 million ($33.8 million in general funds, $8.0 million in special funds, and $5.1 million in federal funds), while the planned cancelation of $3.0 million in special funds and reversion of $1.3 million in general funds for unspent bonus monies partially offset the growth.

- The remainder of the Department of Budget and Management's (DBM) budget decreases by a net of $169,160 as personnel expenditures fall from fiscal 2012 working appropriation levels to reflect final adjustments related to the department's reduced staff, while savings from reduced outlays on consulting services and computer equipment lower overall operating costs.

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

For further information contact: Dylan R. Baker Phone: (410) 946-5530

Personnel Data

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change
Regular Positions	121.50	115.50	115.50	0.00
Contractual FTEs	0.90	1.20	1.50	0.30
Total Personnel	**122.40**	**116.70**	**117.00**	**0.30**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	1.69	1.46%
Positions and Percentage Vacant as of 12/31/11	10.00	8.66%

- The only change in the agency's staffing level is a 0.3 expansion of a contractual full-time equivalent position.

- The reduction to compensation for anticipated vacancies is only a quarter of what the actual offset plans to remove given current vacancies. The agency intends to fill the vacancies in the current fiscal year.

Analysis in Brief

Major Trends

Personnel Transactions Tallies Stabilize: Fiscal 2011 saw the major categories of personnel transaction stabilize after having been in a steep decline since fiscal 2008.

Issues

Overview of State Employee Compensation: Total proposed personnel spending in the allowance increases by $86.7 million over fiscal 2012 levels to $7,126.2 million, a growth of 1.2%. The proposed increases are principally fueled by fringe benefit payments for employee and retiree health insurance and retirement contributions. Salary items net of turnover, post a decrease of $2.8 million across State government, while the fiscal 2012 one-time bonus funds are removed and replaced by a COLA.

Statewide Position Changes: The fiscal 2013 allowance contains 149.2 full-time equivalent abolitions and 273.0 position creations across the agency budgets. The net impact of these actions leaves a total of 79,244.3 positions in State service for fiscal 2013. Yet, in context of the Spending Affordability Committee's recommendation, the limit has been observed as 128.5 of the new positions in the allowance qualify under the specified exceptions.

Employee and Retiree Health Insurance: DBM forecasts that $993.0 million will be paid into the State and Employee Health and Welfare Benefits Fund in fiscal 2013 for the State's subsidization of this benefit – $57.6 million more than the current fiscal year. The amount is lowered by several proposed plan changes that alter the medical portion of the health insurance benefit. **The Department of Legislative Services (DLS) recommends that all employees and retirees not represented by a bargaining unit be allowed to choose between the terms of health insurance plans negotiated by the American Federation of State, County, and Municipal Employees and those negotiated by the State Law Enforcement Officers Labor Alliance**.

Injured Workers' Insurance Fund Transfer: Section 11 of the Budget Reconciliation and Financing Act (BRFA) of 2012 authorizes a $50 million transfer from the reserves of the Injured Workers' Insurance Fund (IWIF) to the general fund. The bill's language states that the payment resolves all State claims on IWIF's assets, but there are numerous unresolved issues related to the value of the transfer and the means to completely resolve such State claims. **DLS recommends that the BRFA of 2012 be amended to make the transfer and resolution of State claims on IWIF's assets found in Section 11 contingent upon the passage of SB 745 or HB 1017 of 2012.**

Recommended Actions

1. Add language requiring employees/retirees not in collective bargaining units to have a choice on revised medical insurance benefits.
2. Add section for the annual Rule of 100 limit on position creation.
3. Add section for annual position reporting language.
4. Add section for annual language requiring Executive Pay Plan reporting.
5. Add section for annual language restricting the movement of employees into abolished positions.
6. Add section for annual language requiring employee health insurance receipts and spending reporting.

Updates

Audit Follow-up: This update provides the latest information on DBM's efforts to correct deficiencies identified in a recent audit.

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 through its oversight of the State Personnel Management System (SPMS). All positions in the Executive Branch of State government are in the SPMS, except for employees of higher education institutions and the Maryland Department of Transportation (MDOT). Positions in the Legislative and Judicial Branches of State government are also outside of the SPMS. 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.

Performance Analysis: Managing for Results

OPSB's Managing for Results measures deal with the statewide employee retention rate and settlement of grievance and disciplinary appeals. The reported figures are effectively static from fiscal 2008 to 2012. More telling data on the activities of OPSB, however, is available in quarterly data that the Department of Budget and Management (DBM) has provided the Department of Legislative Services (DLS) regarding the various transactions overseen by the agency in the course of its duties as the central administrator of statewide personnel issues.

Personnel Transactions Tallies Stabilize

Exhibit 1 lists the major personnel transactions in the SPMS since fiscal 2008. The transactions involving hiring totals and career advancement figures are listed in the upper portion of the table and are followed below by those dealing with separation from State service.

The declines in nearly every major category that have been seen since fiscal 2008 started to reverse in the final quarters of fiscal 2011 and continue to do so, although minimally, as partial tallies from fiscal 2012 are considered. As the restraints of the ongoing hiring freeze loosened, SPMS agencies made 3,310 appointments in fiscal 2011, an addition of nearly 600 more hires than in fiscal 2010, which had marked the lowest count in over a decade. This figure has been further lowered in recent years by the abolition of recently vacated positions in lieu of their being filled by new employees. Notably, the fiscal 2013 allowance creates a net of 136 new SPMS positions to be filled, so the increase could continue if departmental vacancies are permitted to be filled. For transactions dependent on restricted salary funds, such as promotions and reclassifications, the

Exhibit 1
Personnel Activities for State Employees
As of June 30 of Each Year
Fiscal 2008-2012

	2008	2009	2010	2011	2012
Career Track					
Appointments	4,482	3,794	2,720	3,310	1,521
Reinstatements	582	382	346	302	100
Transfers	382	365	269	285	113
Promotions	3,836	2,678	2,596	2,240	1,319
Reclassifications	2,683	1,130	341	476	135
Demotions	360	252	253	225	122
Subtotal	***12,325***	***8,601***	***6,525***	***6,838***	***3,310***
Separations					
Deceased	75	49	73	56	22
Failed to Report for Duty	88	45	27	28	13
Layoffs/Filled Position Abolition[1]	10	102	123	3	10
Leave of Absence	140	80	83	70	31
Resignations	2,782	1,767	1,626	1,838	801
Retired	1,625	1,146	1,474	1,797	436
Terminated	333	318	482	224	113
Terminated on Probation	128	133	87	118	47
Subtotal	***5,181***	***3,640***	***3,975***	***4,134***	***1,473***

[1] Includes employees who had not vacated their positions prior to the abolition but may have done so after the position was designated for abolition, *i.e.*, via retirement.

Note: Fiscal 2012 figure represents six months of data through January 1, 2012.

Source: Department of Budget and Management

turnaround is slow in taking hold but will likely accelerate in fiscal 2012, being facilitated by language included in Chapter 397 of 2011 (the Budget Reconciliation and Financing Act (BRFA) of 2011) that allows for greater managerial flexibility in pay increases for employees deemed operationally critical. Reclasses will also receive a boost if the annual salary review (ASR) changes included in the allowance are approved by the General Assembly.

On the separation side, the most pronounced change was the large increase in retirements, which grew from 1,146 people in fiscal 2009 to 1,797 in fiscal 2011. The Voluntary Separation Program (VSP) that ended in February 2011 boosted the retirement figures by several hundred people as did the impending benefit changes of the 2011 pension reform. With only 436 retirements to date in fiscal 2012, these actions appear to have pushed forward the decision of many employees to retire. There was an uptick in terms of resignations in fiscal 2011, but the figure is still well below the annual average, which was over 2,300 annual resignations in the previous decade. The continued reduced rate of separation can be attributed to the difficulty of finding alterative employment and the lower total jobs in the State from which one could resign.

Fiscal 2012 Actions

Section 47 of the fiscal 2012 budget bill required the Governor to abolish 450 positions as of January 1, 2012. This agency's share of the reduction was 1 position. The annualized salary savings due to the abolition of this position is expected to be $46,563 in general funds.

Proposed Deficiency

A $10.5 million general fund deficiency appropriation provides funds for the costs of the State's workers' compensation claims based on increased claims activity that created a carryover balance of $6.8 million from fiscal 2011 and a projected need for an additional $3.7 million in fiscal 2012.

Proposed Budget

As shown in **Exhibit 2**, three centrally budgeted items in the agency's statewide expenditure allotment represents nearly all of the change in the fiscal 2013 allowance. Funding for a 2% cost-of-living adjustment (COLA) adds $46.9 million ($33.8 million in general funds, $8.0 million in special funds, and $5.1 million in federal funds), while the planned cancelation of $3.0 million in special funds and reversion of $1.3 million in general funds for unspent one-time bonus monies partially offset the growth. These funds represent all of the growth in DBM's budget allowance.

In fact, the remainder of the budget decreases by a net of $169,160 as personnel expenditures fall from fiscal 2012 working appropriation levels by $25,784, while savings from reduced outlays on consulting services ($220,980) and computer equipment ($48,240) lower overall operating costs.

Exhibit 2
Proposed Budget
Department of Budget and Management – Personnel
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2012 Working Appropriation	$7,384	$3,013	$0	$7,728	$18,125
2013 Allowance	40,466	8,080	5,231	7,547	61,323
Amount Change	$33,083	$5,066	$5,231	-$182	$43,198
Percent Change	448.0%	168.1%		-2.3%	238.3%
Contingent Reduction	$0	$0	$0	$0	$0
Adjusted Change	$33,083	$5,066	$5,231	-$182	$43,198
Adjusted Percent Change	448.0%	168.1%		-2.3%	238.3%

Where It Goes:	
Personnel Expenses	
Turnover adjustment	$93
Retirement contributions	83
Accrued leave payout	70
Employee and retiree health insurance	57
Social Security contributions	-15
Reclassifications	-43
Bonus funds	-55
Salary adjustments	-240
Other fringe benefit expenses	25
Statewide Expenses	
Centrally budgeted 2% cost-of-living adjustment	46,923
Annual Salary Review	389
Teacher pension reinvestment funds	200
Death benefit fund	200
Undistributed general fund bonus fund reversion	-1,332
Undistributed special fund bonus fund cancelation	-3,013

Where It Goes:	
Other Changes	
Printing costs	122
Statewide Personnel System allocation	23
Communication expense	18
Fiscal services	-32
Computer equipment	-48
Consulting services	-221
Other	-6
Total	**$43,198**

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

Issues

1. Overview of State Employee Compensation

The changes to statewide employee compensation in the fiscal 2013 allowance are detailed in **Exhibit 3**. Total proposed personnel spending in the allowance increases by $86.7 million over fiscal 2012 levels to $7,126.2 million, a growth of 1.2%. The proposed increases are principally fueled by fringe benefit payments for employee and retiree health insurance and retirement contributions. Salary items net of turnover post a decrease of $2.8 million across State government while the fiscal 2012 one-time bonus funds are removed and replaced by a COLA that does not begin until the middle of fiscal 2013 and, thus, requires funding for only half of its annualized cost. No funding for increments are provided for State employees following the long-term suspension of this performance review-related salary adjustment mechanism in Chapter 397 of 2011 (the BRFA of 2011). **Appendix 3** details statewide salary actions undertaken during the previous decade.

Two Percent Cost-of-living Adjustment

The allowance contains $46.9 million for a planned 2% COLA, effective January 1, 2013, as per the 2011 collective bargaining agreement. These funds are centrally budgeted in DBM and are to be transferred to non-higher education agencies supporting personnel with general funds ($18.8 million) and special funds ($8.0 million), as well as to higher education institutions ($13.9 million). The federal funds necessary to fund the COLA ($5.1 million) will likewise be distributed through budget amendment to the individual agencies. Other expenditures related to the COLA, such as additional funding for local health agencies and funds for agencies with a large reimbursable fund impact, total $1.1 million.

Annual Salary Reviews

ASR represent adjustments in the salaries of classifications that DBM and departmental staff have jointly targeted for improved compensation to facilitate the State's competition for qualified applicants in the labor market. The fiscal 2013 allowance contains $389,246 in ASR. There are four existing classifications with a proposed alteration to their designated pay grade and two new classifications created. A one-grade increase equates to a 6.4% salary increase. **Exhibit 4** provides further detail of the proposed increases.

Exhibit 3
Regular Employee Personnel Changes
Fiscal 2012 Working Appropriation to Fiscal 2013 Allowance
($ in Millions)

2012 Working Appropriation	**$7,039.5**
Fiscal 2012 deficiencies	-$20.8
Salary Changes	
2% cost-of-living adjustment on January 1, 2013	$46.9
Salary adjustments	7.9
Annual Salary Review	.4
Bonus funds	-51.3
Position-based Changes	
New full-time equivalent positions in the allowance	$11.9
Other abolitions	-7.1
Fringe Benefits	
Active and retired employee insurance cost increases	$57.0
Retirement contributions	56.0
Overtime	5.3
Workers' compensation insurance	4.1
Social Security	1.2
Adjustment to turnover	-6.6
Other salary (additional assistance, shift differential, accrued leave payout, tuition waivers, and remainder)	-7.3
Miscellaneous adjustments	-10.9
Fiscal 2013 Allowance	**$7,126.2**
Increase over fiscal 2011 working appropriation	$86.7
Percentage increase	1.23%

Source: Department of Budget and Management

Exhibit 4
Annual Salary Review Adjustments by Classification
Fiscal 2013 Allowance

Department	Classification	Total Funds	General Funds	Special Funds	Federal Funds	Change
Agriculture	Nutrient Management Specialist III	**$29,421**	$29,421	-	-	New class
Heath and Mental Hygiene	New Classification for Forensic Behavioral Specialist	**183,253**	183,253	-	-	New class
Labor, Licensing, and Regulation	Contribution Tax Auditor Series	**100,655**	-	-	$100,655	1-grade increase
Public Safety and Correctional Services	Maryland Correctional Enterprises Regional Manager	**28,780**	-	$28,780	-	1-grade increase
	Maryland Correctional Enterprises Industries Representatives I and II	**47,137**	-	47,137	-	2-grade increase
Total		**$389,246**	**$212,674**	**$75,917**	**$100,655**	

Source: Department of Budget and Management

2. Statewide Position Changes

The Spending Affordability Committee (SAC) set a position cap of 79,119 regular full-time equivalent (FTE) positions across State government for fiscal 2013 but stipulated that three permissible motives for position creation beyond this limit would be allowed: positions required for critical security of State facilities, those created by in-sourcing of contractual services to generate ongoing budgetary savings, and positions that implement an accelerated capital program.

In fiscal 2012, the Administration has implemented Section 47 of the fiscal 2012 budget bill, in which the General Assembly instructed the Governor to abolish 450.0 positions across the Executive Branch by January 1, 2012. The action deleted 385.5 positions in the Executive Branch and 64.5 positions from higher education institutions for this purpose. All of the positions abolished in this action were vacancies accumulated through hiring freeze attrition. **Appendix 4** shows the departmental distribution of vacancies as of January 1, 2012. Yet, any potential flexibility for the

Executive Branch agencies was erased as the higher education institutions utilized their "flex" personnel autonomy, as defined by Chapters 239 and 273 of 2004, to create 570.7 positions during the 2011 interim. Also, 11.0 positions have been created to date at the Board of Public Works during fiscal 2012.

As shown in **Exhibit 5,** the fiscal 2013 allowance contains 149.0 FTE abolitions and 273.0 position creations across the agency budgets. The net impact of these actions leaves a total of 79,244.3 positions in State service for fiscal 2013. Yet, in context of the SAC recommendation, the limit has been observed as 128.5 of the new positions in the allowance qualify under the specified exceptions. The remaining 144.5 new positions, which have been included to fulfill legislation enacted in prior sessions or expanded functional responsibilities, are more than offset by the 149.2 abolitions. A detailed description of the significant position changes in the allowance is provided in **Appendix 5**. After accounting for the specified exceptions, there are 79,116.0 total FTEs in the allowance, 2.2 positions below the SAC limit.

Contractual Full-time Equivalents

Finally, contractuals grew by 211.0 FTEs statewide, as **Exhibit 6** indicates. SPMS agencies post a total increase of 131.1 contractual FTEs, and MDOT's ranks fell by 7.5, while higher education institutions increase their complement by 38.9 positions. The net growth in FTEs coincides with increased spending on contractual employees. Total expenditures for contractual employees net of turnover will increase by $2.3 million over fiscal 2012 levels.

3. Employee and Retiree Health Insurance

Employee and retiree health insurance is the second largest personnel expense for the State workforce, after salaries. **Exhibit 7** shows the nonbudgeted State and Employee Health and Welfare Benefits Fund's expenditures and revenues from fiscal 2011 to 2013. DBM forecasts $993.0 million will be paid into the fund in fiscal 2013 for the State's subsidization of this benefit. This amount is $57.6 million more than the projected State contributions in the current fiscal year but is lowered by the State's share of proposed plan changes that alter the medical portion of the health insurance benefit, as described below.

Exhibit 5
Regular Full-time Equivalent Position Changes
Fiscal 2010 Actual to Fiscal 2013 Allowance

Department/Service Area	2010 Actual	2011 Actual	2012 Leg. Approp.	BPW/ Flex	450 Positions	2012 Work. Approp.	Abolished Positions	New Positions	2013 Allow.	Difference 2012 Wrk. to 2013 Allow.
Health and Human Services										
Health and Mental Hygiene	6,584	6,388	6,411	10	-71	6,350	-14	127	6,457	*107*
Human Resources	6,742	6,677	6,568		-23	6,545	-17	12	6,539	*-6*
Juvenile Services	2,254	2,219	2,184		-21	2,140	-7		2,133	*-7*
Subtotal	***15,580***	***15,284***	***15,163***	***10***	***-115***	***15,035***	***-38***	***139***	***15,129***	***94***
Public Safety										
Public Safety and Correctional Services	11,396	11,223	11,168		-116	11,053	-20	21	11,051	*-2*
Police and Fire Marshal	2,416	2,402	2,395		-28	2,367	-6	32	2,393	*26*
Subtotal	***13,811***	***13,625***	***13,563***	***0***	***-144***	***13,420***	***-26***	***53***	***13,444***	***24***
Transportation	9,012	8,849	8,806		-59	8,745	-20	8	8,733	*-13*
Other Executive										
Legal (Excluding Judiciary)	1,504	1,465	1,444	1	-21	1,426	-1	2	1,426	*0*
Executive and Administrative Control	1,637	1,601	1,580	1	-6	1,574	-7	11	1,579	*5*
Financial and Revenue Administration	1,997	1,979	1,972		-3	1,969	-2	3	1,970	*1*
Budget and Management	450	436	423		-3	420		6	435	*15*
Retirement	204	207	202		-2	200		2	202	*2*
General Services	593	588	586		-6	574		2	576	*2*
Natural Resources	1,287	1,289	1,271		-2	1,279	-10	29	1,299	*20*
Agriculture	406	406	399		-4	392	-6		386	*-6*

Department/Service Area	2010 Actual	2011 Actual	2012 Leg. Approp.	BPW/ Flex	450 Positions	2012 Work. Approp.	Abolished Positions	New Positions	2013 Allow.	Difference 2012 Wrk. to 2013 Allow.
Labor, Licensing, and Regulation	1,675	1,665	1,655		-3	1,652	-2		1,650	*-2*
State Department of Education	1,959	1,938	1,902		-7	1,918	-21		1,897	*-21*
Housing and Community Development	311	308	305		-3	302			302	*0*
Business and Economic Development	238	233	228		-3	225		2	227	*2*
Environment	970	959	937		-5	931	0		931	*0*
Subtotal	***13,230***	***13,073***	***12,902***	***2***	***-68***	***12,861***	***-49***	***57***	***12,878***	***17***
Executive Branch Subtotal	**51,633**	**50,831**	**50,434**	**12**	**-386**	**50,061**	**-133**	**256**	**50,183**	***123***
Higher Education	23,864	24,222	24,224	571	-65	24,730	-16	10	24,724	*-6*
Judiciary	3,581	3,581	3,581			3,581		7	3,589	*7*
Legislature	747	747	747	1		748			748	*0*
Grand Total	**79,825**	**79,382**	**78,987**	**584**	**-450**	**79,121**	**-149**	**273**	**79,244**	***124***

BPW: Board of Public Works

Note: Fiscal 2012 working appropriation and fiscal 2013 allowance figures also reflect inter-agency transfers.

Source: Department of Budget and Management

Exhibit 6
Contractual Full-time Equivalent Positions
Fiscal 2010 Actual to 2013 Allowance

Department/Service Area	2010 Actual	2011 Actual	2012 Wrk. Approp.	2013 Allowance	Difference
Health and Human Services					
Health and Mental Hygiene	307	319	370	396	26
Human Resources	111	102	73	73	0
Juvenile Services	75	86	108	107	0
Subtotal	***492***	***508***	***550***	***576***	***26***
Public Safety					
Public Safety and Correctional Services	261	270	345	404	59
Police and Fire Marshal	30	31	29	29	0
Subtotal	***291***	***301***	***374***	***433***	***59***
Transportation	101	86	140	132	-7
Other Executive					
Legal (Excluding Judiciary)	45	53	51	52	1
Executive and Administrative Control	207	236	204	205	2
Financial and Revenue Administration	34	49	43	53	10
Budget and Management	15	16	10	13	3
Retirement	10	11	15	15	-1
General Services	21	25	36	33	-3
Natural Resources	394	401	389	386	-3
Agriculture	49	45	45	44	-1
Labor, Licensing, and Regulation	311	237	245	263	18
MSDE and Other Education	221	242	286	304	18
Housing and Community Development	31	33	76	78	2
Business and Economic Development	12	10	14	16	2
Environment	35	30	51	56	5
Subtotal	***1,385***	***1,388***	***1,463***	***1,516***	***54***
Executive Branch Subtotal	**2,269**	**2,282**	**2,527**	**2,658**	**131**
Higher Education	6,542	6,356	6,247	6,286	39
Judiciary	384	390	405	446	41
Grand Total	**9,195**	**9,028**	**9,179**	**9,390**	**211**

MSDE: Maryland State Department of Education

Source: Department of Budget and Management

Exhibit 7
State Employee Health and Welfare Benefits Fund
Fiscal 2011-2013
($ in Millions)

	2011 Actual	2012 Projected	2013 Projected	2012-13 Change
Beginning Balance	**$184.6**	**$165.8**	**$131.7**	**-$34.1**
Expenditures				
DBM – Personnel Administrative Cost	$7.6	$7.7	$8.2	$0.5
Payments of Claims				
Medical	758.5	791.4	816.1	$24.7
Mental Health	18.8	19.6	20.2	0.6
Rx	373.4	389.6	401.7	12.1
Dental	40.9	42.7	44.0	1.3
Other	2.1	2.2	2.3	0.1
Payments to Providers	**$1,201.3**	**$1,253.2**	**$1,292.5**	**$39.3**
% Growth in Payments	*8.2%*	*4.3%*	*3.1%*	
Receipts				
State Agencies	$897.5	$935.4	$993.0	$57.6
Employee Contributions	166.3	167.7	178.0	10.3
Retiree Contributions	72.6	75.2	79.8	4.6
Rx Rebates, Recoveries, and Interest	36.4	32.5	16.3	-16.3
Federal Health Reform Reinsurance	9.7	8.3	0.0	-8.3
Total Receipts	**$1,182.5**	**$1,219.1**	**$1,267.1**	**$47.9**
% Growth in Receipts	*18.0%*	*3.1%*	*3.9%*	
Ending Balance	**$165.8**	**$131.7**	**$106.3**	**-$25.5**
Estimated Incurred but Not Received	-$75.9	-$83.7	-$91.4	
Reserve for Future Provider Payments	$89.8	$48.0	$14.9	

DBM: Department of Budget and Management

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

Plan Changes

Collective bargaining agreements in 2011 included changes to the prescription drug program that took effect during fiscal 2012 and raised member copays for generic and brand name drugs.

Changes to the medical benefit were not negotiated at the time, but a target of savings equal to 5% of the total spent on medical plans was settled upon. The dollar value of this target is approximately $42 million for fiscal 2013 and is based on projections made by DBM's health actuary as to the program's forecasted outlay for the medical and mental health claims of active and retired members in the upcoming fiscal year. The agreements reached between the Administration and the bargaining units allowed the savings to be generated by higher employee/retiree premium contributions, plan changes that lower the value of the fundamental benefit offered through use-based cost shifting, or some combination thereof. The Administration has provided detail of the proposed alterations, which derive all of the savings from plan design changes. The changes are listed in **Exhibit 8**.

Exhibit 8

Proposed Administration Employee/Retiree Medical Plan Design Changes

Fiscal 2013 Plan Year

	Current		**Effective July 1, 2012**	
PPO and POS Plans Only	**In-network**	**Out of Network**	**In-network**	**Out of Network**
Plan Year Deductible				
Per Individual	$0	$250	$0	$250
Family Combined Maximum	Not applicable	$500	Not applicable	$500
Coinsurance Percentage	100% of allowed benefit	80% of allowed benefit after deductible	90% of allowed benefit	70% of allowed benefit after deductible
Plan Year Out of Pocket Max				
Per Individual	Not Applicable	$3,000	$1,000	$3,000
Family Combined Maximum	Not Applicable	$6,000	$2,000	$6,000

PPO, POS, and EPO Plans	**Current**	**Effective July 1, 2012**
	In-Network Per Visit Copay	**In-network Per Visit Copay**
Specialist Office Visit	$25	$30
Urgent Care Facility	$20	$30
Emergency Room Physician Services copay	$50 plus	$75 plus
Plus facility copay	$50	$75

EPO: Exclusive Provider Organization
POS: Point of Service
PPO: Preferred Provider Organization

Source: Department of Budget and Management

Implications of Changes on Costs and Member Behavior

The addition of coinsurance to the Preferred Provider Organization (PPO) and Point of Service (POS) plans increases the cost of services to users in these plans that require hospital services. Exclusive Provider Organizations (EPO) are not included in the change, ostensibly as a means of providing participants with an option that still offers 100% hospital coverage, provided that one stays within the EPO network. This is the first inclusion of in-network coinsurance to any State medical plan and will affect the vast majority of enrollees as over 85% of all employees/retirees in the State program subscribe to either a PPO (57%) or POS (28%). Due to the significance of the shift, there are several implications inherent in these plan alterations that bear highlighting.

Savings Concentrated to a Certain Group

Coinsurance is a use-based cost-assignment tool. Those with higher medical costs bear more of the burden. This method is the opposite of the premium system, which pools all of the participating individuals' risk and spreads it across the group evenly through the monthly premium for coverage with copays providing nominal use-specific charges. The proposed coinsurance charge will require all members with a hospital stay to pay out-of-pocket expenses equal to 10% of the cost. An out-of-pocket (OOP) maximum of $1,000 for an individual and $2,000 for a family puts a cap on the new coinsurance exposure that will be faced by PPO/POS members. But, with the average hospital stay valued at $11,800, a sum approaching $1,000 coming directly out of the member's pocket is a likely outcome. Unlike premiums, which are deducted pre-tax from an enrollee's payroll checks, these OOP expenses will be post-tax dollars. Use of pre-tax Flexible Spending Accounts is possible, but given the difficulty in anticipating many conditions that will require hospital stays in advance of the plan year, this avenue will not always be available. As shown in **Exhibit 9,** over 32,500 POS participants and 79,300 PPO members will be subject to the charge based on fiscal 2011 actual service usage data. This is a significant portion of the total, but by nature the burden is not shared with over 12,000 EPO members and does not reach another 92,000 participants in the PPO/POS who were fortunate enough not to be hospitalized.

Nearly 90% of the savings to the program are generated by the coinsurance charge. The alternative to the coinsurance model, an increase in the percentage of the premium paid by members, would generate similar savings, with the $42.0 million target being satisfied by all members contributing 5 percentage points more for the premium than is currently the case. Currently, PPO members pay 20% of the premium, POS members pay 17%, and EPO members pay 15%. In the most expensive case of the Carefirst PPO premium, an enrollee with a spouse and two children, would pay roughly $675 more per year. On the low cost end of the spectrum, the 5% premium bump would cost a single individual in the Aetna EPO $105 more per year. This argument assumes that EPO members would participate in the premium cost shift, whereas they do not in the coinsurance move. By spreading the cost to all participants, the total potential exposure for an employee is lower than $1,000, and everyone would participate. Again, these figures would be pre-tax, so the impact on available personal funds would be lessened. However, it should be noted that the premiums are periodically reset to reflect the actuarial value of the benefit, and these tax advantages may be eroded through an absolute increase in the premium as the value of the current benefit set increases.

Exhibit 9
Employee/Retiree Health Plan Changes
Projected Savings and Distinct Patient Count of Affected Population
Fiscal 2013
($ in Millions)

	Point of Service			Preferred Provider Organization			Exclusive Provider Organization		
Change	**Patients**	**Savings**	***Retiree Portion***	**Patients**	**Savings**	***Retiree Portion***	**Patients**	**Savings**	***Retiree Portion***
Co-insurance – In-network	32,568	$11.72	*33.0%*	79,329	$24.74	*47.6%*	-	-	-
Co-insurance – Out of Network	6,941	$1.09		9,386	$1.23		-	-	-
Specialist Copay – In-network	22,268	$0.36	*16.0%*	45,954	$0.74	*20.1%*	10,952	$0.18	*13.1%*
Specialist Copay – Out of Network	717	$0.03		198	$0.04		43	$0.01	
Urgent Copay – In-network	4,856	$0.22	*12.0%*	17,536	$0.66	*15.0%*	3,549	$0.14	*7.8%*
Urgent Copay – Out of Network	242	$0.01		328	$0.01		20	$0.00	
ER Copay – In-network	10,238	$0.47	*26.1%*	22,099	$0.83	*36.4%*	5,569	$0.23	*19.8%*
ER Copay – Out of Network	4,502	$0.06		3,666	$0.06		1,106	$0.01	
									Total
In-network		$12.77			$26.97			$0.55	**$40.29**
Out of Network		$1.19			$1.34			$0.02	**$2.55**
Total Savings – Medical		**$13.96**			**$28.31**			**$0.57**	**$42.84**
Projected Savings – Mental Health									**$1.15**
Total Savings									**$43.99**

Note: Affected patients figure based on fiscal 2011 incurred data from actual usage; savings figures based on actuary's projected fiscal 2013 medical spend.

Source: Department of Budget and Management; Gabriel, Roeder, Smith

Behavioral Change

Two major behavioral changes can be anticipated by the institution of the proposed changes. First, the EPO plan becomes highly attractive because there is no coinsurance exposure on its hospital visit coverage. This can be advantageous to the State because the EPOs represent the lowest cost option due chiefly to the limitations of covered physicians to a pre-determined network with which the provider has negotiated preferentially lower rates. However, a mass movement into this plan would potentially increase the premium cost, as more high risk individuals join the insured pool. The disadvantage falls to the user, whose current and possibly long-time doctor may not be part of the EPO network, so a switch may require users to change physicians.

Second, on a more positive note, the three copays should engender more responsible use of particular services. For example, the emergency room (ER) copay increase is designed to deter members from utilizing expensive ER visits to treat non-emergency situations. DBM advises that such use has increased by 6% over the past two fiscal years. In fact, DBM's actuary reports that in fiscal 2011, 4,754 ER visits were for a diagnosis that did not correspond to admittance or an emergency situation, such as sinusitis or anxiety that could have been treated by the member's primary care provider. Reduction of such inappropriate use of ER facilities will likely save the plan something on the order of the $1.7 million those visits cost in fiscal 2011, while the higher copay increases collections.

Long-term Savings

By reducing the value of the benefit through plan design changes, the State reduces its long-term obligations, or Other Post Employment Benefits (OPEB) liabilities. The total unfunded OPEB liability as of July 1, 2011, was $9.54 billion. This amount represents a significant reduction to the State's out-year cost exposure generated by the elimination of prescription coverage in 2020 and the other prescription plan changes adopted during the 2011 session, which eliminated over $6.5 billion from the State's outstanding obligation. An actuarial calculation of the proposed changes is pending. However, given the fact that over 70% of retirees enrolled in the State's health plan have Medicare as their primary insurer, the potential OPEB savings will be much more modest in magnitude than those adopted in 2011.

Change Not Readily Apparent to Members

Because no change is made to the premium split between the State and employees, an individual's fiscal 2013 take-home pay will not be reduced by the changes, and the cost is not immediately evident to users. Details of the change would not reach members until after the conclusion of the 2012 session, during the open enrollment period in April/May 2012; even at that time, because it is usage-based, the impact will not be felt until one's first hospital visit.

Population Covered

This last point may be relevant because the medical plan changes come as a result of the concessions accepted by the American Federation of State, County, and Municipal Employees

(AFSCME) and five smaller bargaining units during the collective bargaining process. As of July 2011, AFSCME represented 19,742 of the total of nearly 79,000 State employees, with the remaining bargaining units that represent 5,475 employees also accepting the same terms. However, the State Law Enforcement Officers Labor Alliance (SLEOLA) decided that this package was not advantageous to its 1,640 members. As such, for fiscal 2013, SLEOLA opted for changes to the employee premium share that, as described above, increased by 5 percentage points across all medical plans. Its members will now pay 25% of the PPO, 22% of the POS, and 20% of the EPO premiums with no coinsurance change.

OPSB has designed a unique premium and payment schedule particular to SLEOLA. This situation echoes SLEOLA's decision during the 2011 session to not agree to higher prescription copays. Because SLEOLA's prescription benefit is richer, its members pay an average of roughly $5 more a month in premium cost for their prescription plan than those covered by the ASFCME concessions. But it appears that SLEOLA's negotiators have chosen wisely on how to accept the plan changes. It costs the State an average of $18.44 more per SLEOLA employee per month to provide the benefit than the vast majority of State employees who are in the higher copay system, a net benefit to SLEOLA members of $260,000 annually that is borne across the remainder of the State program's participants.

How the varying choice on concessions for medical benefit changes plays out is uncertain, but the results will reflect the plan choices and usage needs of the affected members. The problem is that over three quarters of the State's employees are not represented by a bargaining unit. Neither are the nearly 38,000 retirees. These enrollees are simply defaulted into the AFSCME option with no choice. So, while an increased premium may indeed be the most beneficial to many State employees, only SLEOLA members can accede to this form of plan alteration. Granted, the AFSCME option, and that of the five other units that agreed to it, represents the will of their representatives. But their will may represent aims at cross-purposes with those of many active employees and retirees that participate in the State health insurance program whom they do not represent.

DLS recommends that all employees and retirees not represented by a bargaining unit be allowed to choose between the terms of health insurance plans negotiated by AFSCME and those negotiated by SLEOLA. DLS recommends budget bill language expressing the policy intent of the General Assembly that employees and retirees who have no representation in the collective bargaining process be allowed to choose between the revised medical health insurance benefits negotiated by different labor groups, rather than have one of the structures be the default option.

4. Injured Workers' Insurance Fund Transfer

Section 11 of the BRFA of 2012 authorizes a $50 million transfer from the funds of the Injured Worker's Insurance Fund (IWIF) to the general fund. The bill's language references the resolution of "any claim the State has or may have to the property or assets of the Injured Workers' Insurance Fund, except as provided under federal tax law for the dissolution of state sponsored workers' compensation reinsurance organizations."

Relationship Between State and IWIF

IWIF was created by the Maryland General Assembly by statute in 1914 as the State Accident Fund to ensure workers' compensation insurance coverage for all Maryland-based businesses. Since being renamed IWIF in 1990, it acts as an independent provider of workers' compensation insurance and is governed by a board of nine directors, all appointed by the Governor. The State has provided financial assistance to IWIF since its inception. DBM advises that the $50 million amount relates to a variety of benefits IWIF has realized from its association with the State including:

- the entity's start-up capital of $15,000 provided by Chapter 800 of 1914;

- the majority of IWIF's plant assets, particularly four parcels of land on which IWIF's headquarters is located, that were purchased when IWIF was part of the State's Department of Personnel and were recently valued by the State Department of Assessments and Taxation at $15.2 million for the period beginning July 1, 2012;

- the accumulated benefit of being exempt from Property and Transfer Taxes due to IWIF's status as a government entity;

- the benefit of a long-time exemption from the premium tax, although this was ended by Chapter 397 of 2011, which included IWIF in § 6–101 of the Insurance Article – while IWIF did not collect the premium tax from its policyholders because it was exempt from this tax, IWIF may have had a competitive edge from lower premium rates than other insurers who were subject to the tax; and

- the longstanding relationship with State, which has directed administration of State workers' compensation claims to IWIF without a formal procurement. The activity yields approximately $11.0 million annually and employs a cost formula that increases State payments to IWIF when the State represents a greater share of IWIF's overall book of business.

Yet, whether or not the above factors equate to $50.0 million has not been substantiated by the Administration through an official accounting. Neither has an independent valuation of the State's claim on IWIF's assets been undertaken, so the value of the State contribution thereto could exceed or fall short of this amount. A valuation should also consider that IWIF is a nonprofit entity with would-be profits passed on to its policyholders and that IWIF was required, as the insurer of last resort and provider of the residual market, to take any and all risks, including the high risks that other insurers did not want to insure. Ensuring that all businesses could obtain workers' compensation is a benefit to the State, other insurers, and injured workers.

Nor does the language as introduced, in its brevity, provide sufficient coverage to deliver the stated result of resolving State claims against any IWIF property or assets. Consequently, several questions need to be answered for this transfer to provide an equitable outcome to the State, to IWIF, and to its policyholders.

Need for Refinement of Transfer Value and Exchange Terms

The first question to be answered is whether IWIF can responsibly make the transfer. A 2011 Attorney General opinion supports the State's authority to transfer funds held by IWIF in excess of reserves and surplus required by the Insurance Article. However, as a self-supporting insurance company that operates solely from premium and investment income, IWIF cannot be reasonably expected to participate in periodic and unplanned withdrawals from its reserves that have the potential to interrupt its strategic planning.

For this reason, DLS has consulted the State's Insurance Commissioner (IC) to adjudge whether IWIF will be able to meet its financial obligations in the near future and be considered solvent for insurance purposes after a $50.0 million transfer. The IC's decision is pending and should be delivered by early March 2012. On the surface, IWIF should be able to accommodate the transfer because it ended calendar 2010 with a $306.8 million surplus above its $1.44 billion liabilities. This amount is $182.4 million above the statutory risk-based capital threshold that would oblige IWIF to take immediate action to boost its surplus. However, the IC's risk-modeling of IWIF's outstanding obligations to its policyholders and creditors needs to be completed to ensure the intended outcome. No transfer should be made until this assurance is in place.

Second, as mentioned, the actual value of the State's contribution to IWIF's current asset levels is unclear. Numerous interpretations for each of the State contributions cited by the Administration as motives for compensation can be applied that produces widely varied values. For example, the start-up capital monies appropriated nearly 100 years ago can be valued in the present using a wide variety of discounting methods, such as simple interest, the rate of return of IWIF's investments, or at a much higher venture capital-like level given its use to found an ongoing concern. An independent, third-party valuation could delineate the appropriate value to be placed on each of the State's interests and define what liability exposure the transfer would close for IWIF. The likelihood of such a study placing the value at exactly $50 million is remote, so some provision to true-up the sum transferred would also be needed. None of these concerns are addressed by the BRFA section.

Third, and finally, is the question as to whether the BRFA section closes all State exposure for IWIF. An argument can be made that the BRFA language is insufficient because it does not remove § 10-127 of the Labor and Employment article. This section gives the General Assembly ultimate authority to dissolve IWIF and distribute its assets to settle all obligations. While IWIF's board of directors tentatively supports a transfer, it believes that providing any amount of funds to the State would be undesirable without assurance that all State claims on its assets are at an end.

DLS believes these items cannot be given proper treatment as amendments to the BRFA. The most direct route would be address them in a recently introduced bill (SB 745 or HB 1017 of 2012), which proposes to officially sever all past IWIF-State financial relationships and create an independent entity named Chesapeake Employer's Insurance Company (CEIC). Importantly, CEIC would maintain IWIF's current critical social function as the workers' compensation insurer of last resort in the State. Its board structure and general business model as a workers' compensation insurer only in Maryland would also be unchanged. Technical structuring of the BRFA's transfer could also be addressed in the bill, if so desired, to ensure that both the State and IWIF feel the transfer is equitable.

For these reasons, DLS recommends that the BRFA be amended to make the transfer and resolution of State claims on IWIF's assets found in Section 11 contingent upon the passage of SB 745 or HB 1017.

Recommended Actions

1. Add the following language:

   It is the policy of the General Assembly that any State employee or retiree not within a collective bargaining unit has the option to choose between the two revised medical health insurance benefits available through the respective agreements reached by the Administration with the State Law Enforcement Labor Alliance and with the American Federation of State, County, and Municipal Employees. Any such employee will make the choice during the 2012 open enrollment period and will be bound by that decision during the fiscal 2013 plan year. Further provided it is the intent of the General Assembly that this structure be provided to employees and retirees in all future plan years.

   Explanation: This policy statement allows employees and retirees who have no representation in the collective bargaining process to choose between the revised medical health insurance benefits negotiated by different labor groups, rather than have one of the structures be the default option.

2. Add the following section:

   Section __ The "Rule of 100"

   SECTION XX. AND BE IT FURTHER ENACTED, That the Board of Public Works (BPW), 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 100 positions in excess of the total number of authorized State positions on July 1, 2012, 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 100 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, BPW 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.

   BPW 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 100 under this section.

The numerical limitation on the creation of positions by BPW 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;

(2) the position's classification is not one for which another position was abolished through the Voluntary Separation Program; and

(3) 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, 2013, the status of positions created with non-State funding sources during fiscal 2009, 2010, 2011, 2012, and 2013 under this provision as remaining authorized or abolished due to the discontinuation of funds.

Explanation: This annual language, the "Rule of 100," limits the number of positions that may be added after the beginning of the fiscal year to 100 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 2009, 2010, 2011, 2012, and 2013	Department of Budget and Management	June 30, 2013

3. Add the following section:

Section __ Annual Report on Authorized Positions

SECTION XX. AND BE IT FURTHER ENACTED, That immediately following the close of fiscal 2012, the Secretary of Budget and Management shall determine the total number of full-time equivalent (FTE) positions that are authorized as of the last day of fiscal 2012 and on the first day of fiscal 2013. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2012 and 2013 including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self supported activities, and the Maryland Correctional Enterprises.

The Department of Budget and Management shall also prepare during fiscal 2013 a report for the budget committees upon creation of regular 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 2014 Governor's budget books. 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 2014 Governor's budget books 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, 2012	Department of Budget and Management	July 14, 2012
Report on the creation, transfer, or abolition of regular positions	Department of Budget and Management	As needed

4. Add the following section:

Section __ Annual Executive Pay Plan Report

SECTION XX. 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 in Excel format listing the grade, salary, title, and incumbent of each position in the Executive Pay Plan (EPP) as of July 1, 2012, October 1, 2012, January 1, 2013, and April 1, 2013; 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	**Author**	**Due Date**
Report of all Executive Pay Plan positions	Department of Budget and Management	July 15, 2012; October 15, 2012; January 15, 2013; and April 15, 2013

5. Add the following section:

Section __ Positions Abolished in the Budget

SECTION XX. 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, except participants in the Voluntary Separation Program, 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.

6. Add the following section:

Section __ Annual Report on Health Insurance Receipts and Spending

SECTION XX. AND BE IT FURTHER ENACTED, That the Secretary of Budget and Management shall include as an appendix in the fiscal 2014 Governor's budget books an accounting of the fiscal 2012 actual, fiscal 2013 working appropriation, fiscal 2014, and fiscal 2015 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	Department of Budget and Management	With submission of Governor's fiscal 2014 budget books

Updates

1. Audit Follow-up

The Office of Legislative Audits (OLA) published its review of OPSB activities in December 2011. While a complete list of the audit findings can be found in **Appendix 2**, this update will provide further detail on the department's efforts to address the concerns highlighted by OLA. In its response to the audit, DBM indicated that solutions were being implemented in the short-term to correct many of the cited deficiencies, none of which represented grave problems to operational integrity. This update provides the latest information on the agency's corrective measures.

OPSB Corrective Actions

- The audit cited the need to establish procedures with the General Accounting Division (GAD) to avoid excess balances and requests for reimbursement above predetermined limits. Since the audit's release, the agencies have conferred, and GAD now requires that the Employee Benefits Division (EBD) certify that transmittal requests equal the exact amounts paid and forward copies of such prior to reimbursement. A formal response by GAD to DBM's other proposed procedures is pending.

- One finding called for uniform policies on hiring previously dismissed employees across the State's various personnel systems. This recommendation was based on currently incompatible criteria and a lack of communication between the departments governing each system that would allow the records of an individual terminated for negligence, for example, by MDOT not to be shared with DBM and the SPMS. DBM pledged to create a task force to accomplish this goal. The first meeting of the task force has been set for March 1, 2012. DBM has invited the following entities to the meeting to encompass all possible personnel systems: the Maryland African American Museum Corporation; Maryland Stadium Authority; Maryland Environmental Service; Maryland Food Center Authority; Historic St. Mary's City Commission; MDOT; Maryland Automobile Insurance Fund; IWIF; Judiciary; General Assembly; and all of the higher education institutions.

- One finding related to unsecure addresses from EBD databases that were to be removed by December 31, 2011, was completed on time by the Department of Information Technology.

- To comply with the supervisory reviews and approvals of manual fiscal transactions mentioned in one finding, EBD implemented new procedures effective January 1, 2012, to audit the entries of enrollment transactions to the Benefits Administration System. There are now two primary "keyers" who enter enrollment transactions to the system independently and then review the entries made by the other, providing a check for potential errors. Forms are reviewed during the same day they are entered to ensure the accuracy of files being transmitted each evening.

- DBM pledged to provide separation of duties on the calculation of administration fees and their payments, and did so before the end of calendar 2011.

- In response to the audit's call for improving DBM's internal auditing process for the health plan administration contracts, the agency has met its promised January 31, 2012 deadline and assigned each auditor to a particular plan to follow up on contract resolution. This includes over- and under-payment resolution due to manual or systems claims process errors, payments of remedies, and follow-up on further examination of audit appendage and subsequent resolution. Copies of final resolution of all current audits will be retained in the contract files.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of Budget and Management – Personnel
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2011					
Legislative Appropriation	$6,633	$0	$0	$7,320	$13,953
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-275	0	0	365	90
Reversions and Cancellations	-601	0	0	-558	-1,159
Actual Expenditures	**$5,757**	**$0**	**$0**	**$7,127**	**$12,884**
Fiscal 2012					
Legislative Appropriation	$50,985	$11,226	$7,361	$7,693	$77,265
Budget Amendments	-43,601	-8,213	-7,361	36	-59,139
Working Appropriation	**$7,384**	**$3,013**	**$0**	**$7,728**	**$18,125**

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

Fiscal 2011

- A general fund amendment decreased the agency appropriation by $275,000 as budgeted expenditures were aligned among the agency's various units according to actual usage.

- A reimbursable fund amendment increased the agency appropriation by $15,000 to support salaries related to increased activity in the Employee and Retiree Health program.

- A reimbursable fund amendment increased the agency appropriation by $350,000 to fund equipment purchases and contract costs for the Employee and Retiree Health program's Benefit Analysis System.

- A general fund reversion of $600,833 primarily resulted from $250,000 being unspent from centrally budgeted death benefit funds, $245,000 of salary and benefits savings from positions being held vacant, and $105,000 not being required in fiscal 2011 for the State Personnel System project.

- A reimbursable fund cancelation of $557,774 resulted from salary and benefits savings accrued from vacancies and underspending on contracts.

Fiscal 2012

- Amendments transferred $38.0 million in general funds, $7.7 million in special funds, and $5.5 million in federal funds from the centrally budgeted statewide account to fund a one-time $750 employee bonus.

- An amendment transferred $2.9 million in general funds and $1.8 million in federal funds from the centrally budgeted statewide account to fund a COLA for community providers.

- An amendment transferred $2.7 million in general funds and $495,300 in special funds from the centrally budgeted statewide account to fund State Law Enforcement Labor Alliance salary-related bargaining items.

Appendix 2

Audit Findings

Audit Period for Last Audit:	November 16, 2007 – November 2, 2010
Issue Date:	December 2011
Number of Findings:	8
Number of Repeat Findings:	2
% of Repeat Findings:	25%
Rating: (if applicable)	

Finding 1: Reimbursements requested by OSPB exceeded amounts paid to healthcare plan administrators resulting in an accumulation of funds in OPSB's special bank accounts. As of February 2011, the account balances were $18.9 million greater than the authorized advance.

Finding 2: Policies governing the rehiring of employees terminated from State service were not uniform among the State's various personnel systems, and certain termination information was not being shared.

Finding 3: **Sensitive personally identifiable information was not properly secured.**

Finding 4: **Monitoring of the Benefits Administration System (BAS) database was not adequate.**

Finding 5: OPSB had not established sufficient controls over the health insurance and prescription drug program eligibility and insurance premium payment records maintained in the BAS.

Finding 6: An independent review was not performed of OPSB's calculation of administrative fee payments that totaled $50.5 million during fiscal 2011.

Finding 7: OPSB did not adequately monitor certain aspects of the contracts for audits of health plan administrators.

Finding 8: OPSB had not established adequate controls over certain aspects of the cash receipts process.

*Bold denotes item repeated in full or part from preceding audit report.

General Salary Increases, Increments, and Other Compensation

Fiscal 2003 to 2013

		State Employees						
Fiscal Year	Date of Increase	General Salary Increase	Increments	Police, Natural Resources Police, and Park Ranger Salary Increases	Maximum Deferred Compensation Match by State	Pay-for-Performance Bonuses	Annual Salary Review Reclassifications	Other
2003		None	None		$500	None	None	
2004		None	None		None	None	None	
2005	7/1/2004	$752	On time		None	None	Yes[1]	
2006	7/1/2005	1.5%	On time		$400	None	Yes[2]	
2007	7/1/2006	$900, $1,400, or 2%[3]	On time	2% extra, 9% extra for State police (primarily DGS and DHMH officers)	$600	None	Yes[4]	2 steps on standard salary schedule; 1 step on the physician's salary schedule
2008	7/1/2007	2.0%	On time		$600	None	None	
2009	7/1/2008	2.0%	On time		$600	None	Yes[5]	2-5 day furlough enacted [6]
2010	7/1/2009	None	None		$0	None	None	3-10 day furlough enacted [7]
2011	7/1/2010	None	None		$0	None	None	3-10 day furlough enacted [8]
2012	7/1/2011	None	None		$0	$750 bonus[9]	None	Furloughs ended
2013	1/1/2013	2.0%	None		$0	None	Yes[10]	

[1] The following classifications were 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, laboratory scientists, administrative law judges, and banking financial examiners.

[2] Provided a one-grade salary adjustment for the Deputy State Fire Marshal classification series.

[3] 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.

[4] 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.

[5] The fiscal 2009 annual salary review provides reclassifications and other enhancements for scientists, investigators, engineers, public defender intake specialist, veteran service, cemetery workers, call center specialists, complex tax auditor, tax consultant, retirement benefits counselor, medical care specialist, dental workers, financial regulation, deputy fire marshal, lead aviation maintenance technician, police communications operators, and civilian helicopter pilots.

[6] State employee salaries were reduced through furlough in fiscal 2009 by Executive Order 01.01.2008.20 in December 2008. The salaries for employees earning $40,000 were reduced by the value of 2 days' salary; those earning between $40,000 and $59,999 were reduced by the value of 4 days' salary; and those earning $60,000 or above were reduced by 5 days' salary. Public safety and positions required to maintain 24/7 facilities were exempted from the action. The result was an average salary reduction of approximately 1.5%.

[7] State employee salaries were reduced through furloughs and salary reductions in fiscal 2010 by Executive Order 01.01.2009.11 in August 2009. All employees are subject to a temporary salary reduction of 5 salary days, while non-24/7 employees with salaries between $40,000 and $49,999 are furloughed for an additional 3 days, those between $50,000 and $99,999 for an extra 4 days; and those earning over $100,000 are furloughed for an additional 5 days. The result was an average salary reduction of approximately 2.6%.

[8] State employee salaries were reduced through furloughs and salary reductions in fiscal 2011 by Executive Order 01.01.2010.11 in May 2010. The structure mirrors the fiscal 2010 program.

[9] The fiscal 2012 budget provided employees with a one-time $750 bonus.

[10] The fiscal 2013 allowance provides upgrades to the following classifications: contribution tax auditors, Maryland Correctional Enterprises industries representative I, II, and regional managers. Two new classes were also created: nutrient management specialist III and forensic behavioral specialists.

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

Appendix 4

Executive Branch Vacancy Rates
Calendar 2008-2012

Department/Service Area	January 2008	January 2009	January 2010	January 2011	January 2012
Health and Human Services					
Health and Mental Hygiene	9.0%	7.0%	7.1%	8.4%	7.1%
Human Resources	7.5%	7.3%	6.7%	6.2%	7.3%
Juvenile Services	7.4%	3.6%	6.2%	7.0%	9.1%
Subtotal	***8.2%***	***6.7%***	***6.8%***	***7.2%***	***7.4%***
Public Safety					
Public Safety and Correctional Services	9.9%	7.2%	4.1%	5.3%	4.2%
Police and Fire Marshal	6.9%	7.4%	7.7%	9.5%	8.3%
Subtotal	***9.4%***	***7.2%***	***4.8%***	***6.0%***	***4.9%***
Transportation	***5.6%***	***4.2%***	***3.6%***	***5.6%***	***4.5%***
Other Executive					
Legal (Excluding Judiciary)	6.6%	7.1%	5.6%	6.5%	6.0%
Executive and Administrative Control	9.4%	8.8%	7.3%	7.7%	6.7%
Financial and Revenue Administration	5.4%	4.2%	6.1%	6.2%	6.3%
Budget and Management	8.6%	8.6%	10.1%	9.4%	10.8%
Retirement	8.0%	5.4%	5.9%	4.8%	1.0%
General Services	10.1%	7.5%	6.9%	9.9%	8.2%
Natural Resources	9.1%	6.6%	4.4%	6.5%	7.1%
Agriculture	14.5%	6.7%	5.3%	7.9%	8.7%
Labor, Licensing, and Regulation	6.6%	6.4%	8.4%	7.3%	7.1%
MSDE and Other Education	6.3%	5.1%	5.8%	5.1%	5.8%
Housing and Community Development	7.8%	6.0%	4.1%	4.2%	6.6%
Business and Economic Development	13.4%	2.3%	3.3%	4.7%	7.1%
Environment	9.2%	6.0%	4.0%	4.4%	5.6%
Subtotal	***11.0%***	***8.8%***	***8.6%***	***9.1%***	***9.3%***
Executive Branch Vacancy Rate	**8.0%**	**6.3%**	**5.5%**	**6.5%**	**6.0%**
Total Positions in Executive Branch	**53,753**	**52,949**	**51,543**	**51,058**	**51,064**
Total Vacancies	**4,283**	**3,329**	**2,848**	**3,295**	**3,023**

MSDE: Maryland State Department of Education

Note: The percentage of vacancies remains relatively stable after three years of significant position reductions as Administration directives that utilize attrition to realize savings limit a sharper decline in this rate.

Source: Department of Budget and Management

Appendix 5

Description of Significant Position Changes in Fiscal 2013 Budget

Interim Position Creations

- The fiscal 2012 working appropriation includes 571.2 full-time equivalent (FTE) positions created by the higher education institutions through "flex" personnel autonomy.

- 11 positions were created at the Board of Public Works, all of which use federal funds:

  - 10 in the Department of Health and Mental Hygiene (DHMH) and 1 in the Office of the Attorney General:

    - 4 will staff the Maryland Health Benefit Exchange;

    - 4 work in a grant program to reduce youth access to tobacco; and

    - 3 staff the Prescription Drug Monitoring Program.

Section 47 – 450 Position Reductions

- The General Assembly instructed the Governor to abolish 450 positions across the Executive Branch by January 1, 2012. The fiscal 2012 working appropriation deleted 326.5 positions in the Executive Branch, 59 positions from the Maryland Department of Transportation (MDOT), and 64.5 positions from higher education institutions for this purpose.

- The annualized salary value of these positions was $13.9 million in all funds ($9.8 million in general funds) for those abolished in the Executive Branch, $2.8 million in special funds for those from MDOT, and $2.0 million from higher education institutions.

Significant Position Changes in the Allowance

- **Position Creations** – *permissible Spending Affordability Committee exceptions (128.5 Positions):*

  - ***DHMH (93 Positions):*** To provide enhanced security to the Perkins facility.

  - ***Department of Natural Resources (28.5 Positions):*** All are in the Fisheries Service to defray the costs of paying the Maryland Environmental Service for contractual services.

- ***State Board of Elections (7 Positions):*** Replace positions previously included in a contract for voting system services.

- **Position Creations** – *other new positions – legislation, expanded functions, etc. (144.45 Positions):*

  - ***DHMH (33.5 Positions):*** 9 positions provide support to various health boards; 6 positions reduce fraud, waste, and abuse in behavioral community services in the Office of the Inspector General; 4 positions are nurse surveyors at the Office of Health Care Quality; 4 positions in Medicaid are federally funded with the Money Follows the Person project; and the remainder are primarily administrative positions.

  - ***Maryland State Police (32 Positions):*** All are trooper first class positions in the Aviation Command to be hired on a staggered schedule throughout fiscal 2013 as medics on new helicopters.

  - ***Department of Public Safety and Correctional Services (21 Positions):*** The 11 positions provided to the Division of Correction are primarily for a new Maryland Correctional Enterprises facility, while 10 new positions at the Maryland Parole Commission accommodate an anticipated increase in inmates paroled each month.

  - ***Department of Human Resources (12.2 Positions):*** For legal support in the Child Support Enforcement Administration for the Baltimore City Office.

  - ***St. Mary's College of Maryland (10 Positions):*** 5 positions are new instructors, 2 positions in student services, 2 new housekeepers, and 1 cashier to address audit findings.

  - ***MDOT (7.5 Positions):*** Implement legislation relating to the Ignition Interlock Program.

  - ***Judiciary (7.25 Positions):*** 6 positions in support of new/expanded information technology systems and 1 position for the Charles County Circuit Court to support case filings and dockets in the Child Support Division.

- **Position Abolitions** *(-149.15 Positions):*

  - ***MDOT (-20 Positions):*** 8 in State Highway Administration – 6 technicians and 2 environmental analysts; 5 from the Motor Vehicle Administration, 4 customer agents and 1 investigator; 5 from the Maryland Transit Administration – 2 repairmen, 1 rail technician, 1 police officer, and 1 engineer; and 2 engineering technicians in the Maryland Aviation Administration.

  - ***Department of Public Safety and Correctional Services (-20 Positions):*** All abolitions were due to cost containment, with 9 positions coming from the Division of Correction, 8 positions from the Division of Parole and Probation, 2 positions from the Division of Pretrial Detention and Services, and 1 position from the Office of the Secretary.

- ***Maryland State Department of Education (-18 Positions):*** All were vacant and 15 positions had been vacant for over 12 months. 5 positions came from the Child Care Licensing function; 4 positions from the Juvenile Services Education Program; 4 positions from the Division of Student, Family, and School Support; 2 positions each from the Division of Instruction and the Office of the State Superintendent and 1 position from the Division of Rehabilitation Services.

- ***Department of Human Resources (-17 Positions):*** All positions abolished were vacant with 4 positions coming from Child Support Enforcement Administration and 3 positions each from local Adult Services, local Child Welfare Services, the Office of Technology, and the Office of Human Services.

- ***Baltimore City Community College (-16 Positions):*** 5 advisors and instructors, 5 facilities and maintenance positions, 3 administrative assistants, 1 procurement officer, 1 programmer, and 1 grants supervisor.

- ***DHMH (-14 Positions):*** 3 positions provided support to the HIV prevention and risk reduction program, 3 positions were administrative in the Women, Infants, and Children's Program, and 1 administrative position was reduced from eight different offices.

- ***Department of Natural Resources (-10 Positions):*** All were abolished for cost containment, principally in the Maryland Park Service.

Object/Fund Difference Report
Department of Budget and Management – Personnel

Object/Fund	FY 11 Actual	FY 12 Working Appropriation	FY 13 Allowance	FY 12 - FY 13 Amount Change	Percent Change
Positions					
01 Regular	121.50	115.50	115.50	0.00	0%
02 Contractual	0.90	1.20	1.50	0.30	25.0%
Total Positions	**122.40**	**116.70**	**117.00**	**0.30**	**0.3%**
Objects					
01 Salaries and Wages	$ 8,858,543	$ 13,671,002	$ 57,012,430	$ 43,341,428	317.0%
02 Technical and Spec. Fees	23,760	52,046	50,709	-1,337	-2.6%
03 Communication	258,345	242,221	260,278	18,057	7.5%
04 Travel	17,303	19,700	19,100	-600	-3.0%
08 Contractual Services	3,461,012	3,895,474	3,775,173	-120,301	-3.1%
09 Supplies and Materials	37,037	30,000	37,000	7,000	23.3%
10 Equipment – Replacement	130,013	49,240	1,000	-48,240	-98.0%
12 Grants, Subsidies, and Contributions	23,130	0	0	0	0.0%
13 Fixed Charges	75,273	165,723	167,768	2,045	1.2%
Total Objects	**$ 12,884,416**	**$ 18,125,406**	**$ 61,323,458**	**$ 43,198,052**	**238.3%**
Funds					
01 General Fund	$ 5,756,924	$ 7,383,670	$ 40,466,195	$ 33,082,525	448.0%
03 Special Fund	0	3,013,378	8,079,570	5,066,192	168.1%
05 Federal Fund	0	0	5,230,885	5,230,885	N/A
09 Reimbursable Fund	7,127,492	7,728,358	7,546,808	-181,550	-2.3%
Total Funds	**$ 12,884,416**	**$ 18,125,406**	**$ 61,323,458**	**$ 43,198,052**	**238.3%**

Note: The fiscal 2012 appropriation does not include deficiencies.

Appendix 6

Fiscal Summary
Department of Budget and Management – Personnel

Program/Unit	FY 11 Actual	FY 12 Wrk Approp	FY 13 Allowance	Change	FY 12 - FY 13 % Change
01 Executive Direction	$ 1,487,065	$ 1,786,931	$ 1,845,332	$ 58,401	3.3%
02 Division of Employee Benefits	6,894,016	7,469,494	7,295,578	-173,916	-2.3%
04 Division of Employee Relations	857,409	885,492	855,347	-30,145	-3.4%
06 Division of Classification and Salary	1,934,977	2,026,556	2,032,488	5,932	0.3%
07 Division of Recruitment and Examination	1,710,949	1,611,521	1,582,089	-29,432	-1.8%
08 Statewide Expenses	0	4,345,412	47,712,624	43,367,212	998.0%
Total Expenditures	**$ 12,884,416**	**$ 18,125,406**	**$ 61,323,458**	**$ 43,198,052**	**238.3%**
General Fund	$ 5,756,924	$ 7,383,670	$ 40,466,195	$ 33,082,525	448.0%
Special Fund	0	3,013,378	8,079,570	5,066,192	168.1%
Federal Fund	0	0	5,230,885	5,230,885	N/A
Total Appropriations	**$ 5,756,924**	**$ 10,397,048**	**$ 53,776,650**	**$ 43,379,602**	**417.2%**
Reimbursable Fund	$ 7,127,492	$ 7,728,358	$ 7,546,808	-$ 181,550	-2.3%
Total Funds	**$ 12,884,416**	**$ 18,125,406**	**$ 61,323,458**	**$ 43,198,052**	**238.3%**

Note: The fiscal 2012 appropriation does not include deficiencies.