F10A02

Personnel

Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 14 Actual	FY 15 Working	FY 16 Allowance	FY 15-16 Change	% Change Prior Year
General Fund	$6,393	$8,459	$33,147	$24,688	291.9%
Deficiencies and Reductions	0	0	-199	-199	
Adjusted General Fund	**$6,393**	**$8,459**	**$32,948**	**$24,489**	**289.5%**
Special Fund	0	6,933	5,776	-1,157	-16.7%
Adjusted Special Fund	**$0**	**$6,933**	**$5,776**	**-$1,157**	**-16.7%**
Federal Fund	0	4,429	3,261	-1,168	-26.4%
Adjusted Federal Fund	**$0**	**$4,429**	**$3,261**	**-$1,168**	**-26.4%**
Reimbursable Fund	7,042	7,553	8,071	518	6.9%
Adjusted Reimbursable Fund	**$7,042**	**$7,553**	**$8,071**	**$518**	**6.9%**
Adjusted Grand Total	**$13,436**	**$27,374**	**$50,056**	**$22,682**	**82.9%**

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- After adjusting for reductions to employee salaries, the fiscal 2016 allowance totals $50.1 million, which is $22.7 million more than the fiscal 2015 working appropriation.

- Most of the costs are attributable to the statewide health insurance program, which has a $34.5 million budget that exceeds the fiscal 2015 working appropriation by $21.6 million.

- Administration cost increases are largely attributable to agency staff costs, such as health care and retirement contributions.

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

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Personnel Data

	FY 14 Actual	FY 15 Working	FY 16 Allowance	FY 15-16 Change
Regular Positions	115.50	118.50	120.50	2.00
Contractual FTEs	2.70	1.70	0.70	-1.00
Total Personnel	**118.20**	**120.20**	**121.20**	**1.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions		2.37	2.00%	
Positions and Percentage Vacant as of 12/31/14		6.00	5.06%	

- New positions were created by the Board of Public Works and added to the fiscal 2015 working appropriation to support a newly procured Statewide Learning Management System.

- The allowance includes 2 new positions supporting employee benefits, 1 new position will support contractual health care analysis, and the second position is a long-time contractual position that is being converted.

- As a result of converting a long-term contractual position, the number of contractual full-time equivalents is reduced by 1.

Analysis in Brief

Major Trends

Personnel Transaction Tallies Reverse Recent Declines: From fiscal 2008 to 2012, there were declines in personnel transactions (such as hiring, reclassifications, and promotions). The decline began to reverse in fiscal 2013, and there were increases particularly for reclassifications. In fiscal 2014, appointments increased, but other transactions tended to remain steady. This trend is holding through the first three months of fiscal 2015.

Issues

Employee Compensation: Personnel increases are attributable to inflation in employee and retiree health insurance costs, increased pension contributions, and new positions. These costs are offset by the abolition of the 500 positions by the Voluntary Separation Program (VSP) and, if necessary, vacant positions. The budget bill includes increments and funds salary at the pay scale adopted on January 1, 2015. Sections 20 and 21 of the budget bill reduce employee salaries by 2%, which returns salaries to the salary scale effective in December 2014, and eliminates merit increases. Over the last decade, State employee salary increases have been irregular, with periods of increases followed by periods in which average salaries remain flat or decline. In the 1996 legislative session, personnel reform removed a requirement that the budget bill include merit increases for State employees. **The Department of Legislative Services (DLS) recommends that the General Assembly consider legislation to reestablish a statutory basis for awarding increments subject to the State budget.**

Statewide Position Changes: The Spending Affordability Committee (SAC) proposes a position cap of 81,081 positions. Agency budgets include 81,422 positions. To reduce positions and costs, the Administration proposes a VSP that abolishes 500 positions. If the program does not meet the target, vacant positions will be deleted. After implementing the program, State positions will be within the SAC limit. **Consistent with the intent of the VSP, DLS recommends that annual budget bill language relating to incumbents in abolished positions specifically prohibit participants in the VSP from continuing employment in another position. To determine costs incurred and saved by implementing a VSP in fiscal 2015, DLS also recommends that the committees adopt committee narrative requiring a report.**

Employee and Retiree Health Insurance Account: The account ended fiscal 2013 with a substantial balance. Higher costs and reduced contributions have eroded this balance. **The department should be prepared to brief the committees on the increases in fiscal 2014 and 2015 health care provider payments.** Having timely and accurate account data from the Department of Budget and Management (DBM) is necessary to prepare reliable cost estimates. **To provide timely closeout data, DLS recommends that before October 1, 2015, DBM complete a closeout report on fiscal 2015 expenditures.** DBM advises that health care data provided in the budget books is presented on a cash basis, while electronic data provided with the budget bill is presented on a modified accrual basis. **DLS recommends that the General Assembly add a requirement to the annual health care account**

report language. The new language should require that the data shown in the annual report on Health Insurance Receipts and Spending be consistent with the electronic budget bill data that DLS receives.

No Plan to Address Unfunded Retiree Health or Workers' Compensation Liabilities: Certain State employees are eligible to receive health care benefits when they retire. These Other Post Employment Benefits (OPEB) pay benefits on an annual basis. This has resulted in an unfunded liability totaling $8.7 billion at the end of fiscal 2014. The State also provides benefits to employees injured at work. This unfunded liability totals $413 million. Prior to the recession of 2008, annual appropriations were made to reduce both unfunded liabilities. The State does not have a plan to fund these liabilities. **The department should be prepared to discuss plans to reduce the OPEB liability and fully fund the annual required contribution. The department should also be prepared to brief the committees on any plans to begin appropriating funds to reduce the unfunded workers' compensation liability.**

New State Personnel System Implementation: In fall 2014, DBM implemented a new Statewide Personnel System. Components implemented include recruiting, human resources, compensation, and performance management. Though implementation has generally been smooth, there have been problems, including some employees not getting paid after being hired. **DBM should brief the committees on its implementation of the new Statewide Personnel System. This should include a discussion of problems encountered and how those problems are being resolved.**

Executive Pay Plan: State law requires that Executive Pay Plan salaries are listed in the budget bill. There are some errors in the bill. **So that the budget bill includes correct Executive Pay Plan data, it is recommended that the Administration submit a supplemental budget that provides corrected salary data.**

Recommended Actions

1. Report requiring fiscal 2015 closeout data for the Employee and Retiree Health Insurance Account.
2. Adopt narrative requiring the department to report on the Voluntary Separation Program.
3. Amend Section 20 to include the General Assembly and Judiciary in the statewide salary reduction.
4. Amend Section 21 to include the Judiciary in the statewide increment reduction.
5. Add a section for the annual "Rule of 100" limit on position creation.
6. Add a section for annual language requiring a report on State positions.

7. Add a section requiring for annual language requiring Executive Pay Plan Reporting.

8. Add a section on annual language restricting the movement of employees into abolished positions.

9. Add a section requiring reporting of employee and retiree health insurance receipts and spending.

Updates

Changes to Employee and Retiree Health Care Plan – A New Wellness Program Is Added: The update provides an overview of the changes to the new employee and retiree health plan. The most significant change is a new wellness program.

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 benefits program. This program is funded with the Employee and Retiree Health Insurance Account. 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

1. Personnel Transaction Tallies Reverse Recent Declines

OPSB's Managing for Results (MFR) measures deal with the statewide employee retention rate and settlement of grievance and disciplinary appeals. Data on activities of OPSB is available in quarterly data that the Department of Budget and Management (DBM) has provided to 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.

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. There are several trends to note about the career track figures.

- Appointments, or new hires, increased to over 3,800 in fiscal 2014, and are on pace to exceed 4,000 in fiscal 2015. This is still significantly lower than the peak of fiscal 2008, but hiring has recovered after the recession.

Exhibit 1
Personnel Activities for State Employees
As of June 30 of Each Year
Fiscal 2008-2015

	2008	2009	2010	2011	2012	2013	2014	2015*
Career Track								
Appointments	4,482	3,794	2,720	3,310	3,125	3,268	3,837	1,006
Reinstatements	582	382	346	302	219	281	275	82
Transfers	382	365	269	285	224	399	311	105
Promotions	3,836	2,678	2,596	2,240	2,439	2,651	2,596	839
Reclassifications	2,683	1,130	1,410	1,522	221	729	1,036	212
Demotions	360	252	253	225	222	237	252	72
Subtotal	***12,325***	***8,601***	***7,594***	***7,884***	***6,450***	***7,565***	***8,307***	***2,316***
Separations								
Deceased	75	49	73	56	48	47	39	15
Failed to Report for Duty	88	45	27	28	28	30	38	8
Layoffs/Filled Position Abolition**	10	102	123	3	10	63	4	3
Leave of Absence	140	80	83	70	74	64	53	26
Resignations	2,782	1,767	1,626	1,838	1,669	1,805	1,780	569
Retired	1,625	1,146	1,474	1,797	992	1,170	1,112	240
Terminated	333	318	482	224	216	236	188	62
Terminated on Probation	128	133	87	118	93	96	89	29
Subtotal	***5,181***	***3,640***	***3,975***	***4,134***	***3,130***	***3,511***	***3,303***	***952***

* Through October 1, 2014.
**Includes employees who had not vacated their positions prior to the abolition but may have done so after the position was designated for abolition, such as through retirement.

Source: Department of Budget and Management

- Promotions declined 30% from fiscal 2008 to 2009. Promotions declined further in fiscal 2010 and 2011 and have recovered somewhat since fiscal 2011. They have remained relatively constant since fiscal 2013.

- Reclassifications declined in fiscal 2009 and are still less than half than the fiscal 2008 level. Limited funding of annual salary reviews (ASR) in fiscal 2015 and 2016 may somewhat increase reclassifications.

As it relates to separations, the major trends were:

- Since fiscal 2009, resignations have been fairly consistent, ranging between 1,626 and 1,838. This is lower than in previous years. Given the difficulty of finding alternative employment, it is not surprising that this number is low, but it could increase in the coming fiscal years as the economy improves.

- Retirements have been uneven in recent years. Since fiscal 2008, retirements peaked in fiscal 2010 and 2011, which may be due to the fiscal 2010 Voluntary Separation Program (VSP) and pension reform in the 2011 legislative session.

Fiscal 2015 Actions

Cost Containment

DBM's personnel budget was not reduced by cost containment during July 2014. However, the agency is subject to the across-the-board 2% reduction approved in January 2015. For the entire department, the reduction totals $347,991. **Exhibit 2** shows that if this is distributed proportionally by general fund expenditures, DBM's personnel reduction would be $151,743. However, the actual reduction varies substantially since the reduction is at the discretion of the Secretary. DBM has not indicated how this reduction will affect operations. **The department should brief the committees on how the fiscal 2015 budget will be reduced by 2% and how this will affect operations.**

Exhibit 2
Fiscal 2015 Reconciliation
Department of Budget and Management – Personnel
($ in Thousands)

Action	Description	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Legislative Appropriation with Budget Amendments		**$8,459**	**$6,933**	**$4,429**	**$7,553**	**$27,374**
Working Appropriation		**$8,459**	**$6,933**	**$4,429**	**$7,553**	**$27,374**

Action	**Description**	**General Fund**	**Special Fund**	**Federal Fund**	**Reimb. Fund**	**Total**
January BPW Across the Board	This unit is part of the Department of Budget and Management, which received a 2% across-the- board general fund reduction totaling $347,991. If allocated proportionally, it would equal $169,180 in this program.					
Adjusted Working Appropriation		**$8,459**	**$6,933**	**$4,429**	**$7,553**	**$27,374**

BPW: Board of Public Works

Source: Department of Budget and Management

Proposed Budget

After adjusting for reductions to employee salaries, the fiscal 2016 allowance totals $50.1 million, which is $22.7 million more than the fiscal 2015 working appropriation, as seen in **Exhibit 3**. Most of the costs are attributable to the statewide program, which has a $34.5 million budget that exceeds the fiscal 2015 working appropriation by $21.6 million. Funding for operations totals $15.7 million and exceed fiscal 2015 by $1.3 million.

Exhibit 3
Proposed Budget
Department of Budget and Management – Personnel
($ in Thousands)

How Much It Grows:	**General Fund**	**Special Fund**	**Federal Fund**	**Reimb. Fund**	**Total**
Fiscal 2014 Actual	$6,393	$0	$0	$7,042	$13,436
Fiscal 2015 Working Appropriation	8,459	6,933	4,429	7,553	27,374
Fiscal 2016 Allowance	32,948	5,776	3,261	8,071	50,056
Fiscal 2015-2016 Amt. Change	$24,489	-$1,157	-$1,168	$518	$22,682
Fiscal 2015-2016 Percent Change	289.5%	-16.7%	-26.4%	6.9%	82.9%

Where It Goes:

Personnel Expenses	
New positions	$116
Increments and other compensation (prior to cost containment)	294
Section 20: Abolition of prior year 2% general salary increase	-115
Section 21: Abolition of employee increments	-85
Reclassifications	137
Employee and retiree health insurance	229
Retirement contributions	99
Turnover adjustments	70
Accrued leave payout	51
Workers' compensation premium assessment	27
Statewide Program	
Appropriation to reduce health care account deficit	29,036
Cancel unused fiscal 2015 agency transfers	-12,708
Contractual employee health insurance costs	5,000
Net annual salary review	290
Agency Operations	
Benefits administration system maintenance and data transfer	200
Bank fees for credit card payments	90
Open enrollment printing costs	-50
Convert long-term contractual employee benefits full-time equivalent into regular position	-41
Drug testing fees	25
Other Changes	17
Total	**$22,682**

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

DBM is subject to the 2% across-the-board reduction. For the entire department, the reduction totals $327,000. If this is distributed proportionally by general fund expenditures, DBM's personnel reduction would be $158,975. However, the actual reduction varies substantially since the reduction is at the discretion of the Secretary. DBM has not indicated what will be reduced or how this reduction will affect operations. **The department should brief the committees on what will be reduced from the fiscal 2016 budget and how this will affect operations. This should also include a discussion of which fiscal 2015 reductions are carried forward.**

New Positions

The allowance includes 2 new positions. One new position will support employee benefits administration. The position will analyze costs and prepare reports. The position will also support additional work attributable to providing health coverage to contractual employees. The salary is $43,738, and fiscal 2016 total costs, including fringe benefits and turnover, are $54,884. The second position is a contractual conversion that also supports the employee benefits administration. The position's incumbent has been in the position for more than two years. The annual salary is $38,636 and total fiscal 2016 costs are $61,247.

Issues

1. Employee Compensation

The changes to statewide employee compensation in the fiscal 2016 allowance are detailed in **Exhibit 4**. Proposed statewide personnel spending in the allowance increase by $338.9 million (3.2% growth) over fiscal 2015 levels to $11,067.8 million in fiscal 2016. Three items, health care, pensions, and new positions, account for $349.9 million of this increase. The most significant changes are:

- an additional $219.0 million in employee health insurance costs which is discussed in Issue 3;
- $78.5 million in new positions, which is discussed in Issue 2 and **Appendix 2**, provide details on new positions;
- $52.3 million in additional pension contributions, which shows some moderation compared to the high growth this has experienced in recent years;
- $183.5 million in increased employee compensation offset by $196.1 million in back of the bill reductions in Sections 20 and 21; and
- $30.0 is reduced to offset other increases by the VSP, which is discussed in Issue 2.

Annual Salary Review

ASR represents 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. These salary increases are proposed after DBM has reviewed State and non-State salaries for a particular classification and determined that the salary increase is appropriate. The fiscal 2016 allowance contains $290,192 ($89,713 in general funds and $200,479 in special funds) to give 26 wage and hour investigators and their administrators in the Employment Standards and Prevailing Wage Programs at the Department of Labor, Licensing, and Regulation a one-grade increase. A one-grade increase equates to a 6.4% salary increase.

Salary and Benefit History

In its Annual Personnel Report, DBM provides personnel cost data. This includes data about average employee salary and fringe benefits. The State offers fringe benefits such as health care and pension plans, and is required to pay Social Security, unemployment insurance, and workers' compensation costs. From fiscal 2006 to 2009, the State provided up to $600 per year to match contributions to 401(k) type deferred compensation plans, but this has since been discontinued.

Exhibit 4
Regular Employee Personnel Changes
Fiscal 2015 Working Appropriation to Fiscal 2016 Allowance
($ in Millions)

2015 Working Appropriation	**$10,728.9**
Statewide Salary Changes	
Increments and Other Compensation	$183.5
Section 20: Abolition of Prior Year 2% General Salary Increase	-93.6
Section 21: Abolition of Employee Increments	-102.5
Annual Salary Review	0.3
Position-based Changes	
New Full-time Equivalent Positions in the Allowance	$78.5
Position Abolitions	-5.8
Voluntary Separation Program	-30.0
Operational Expenditures	
Adjustments to Turnover	$31.3
Reclassifications	9.3
Overtime	3.2
Fringe Benefits	
Retirement Contributions	$52.3
Active and Retired Employee Health Insurance Costs	219.0
Workers' Compensation Insurance	-1.8
Unemployment Insurance	-0.3
Miscellaneous Adjustments	-4.5
Fiscal 2016 Allowance	**$11,067.8**
Increase Over Fiscal 2015 Working Appropriation	$338.9
Percentage Increase	3.2%

Note: Excludes nonbudgeted agencies and fiscal 2015 deficiency appropriations.

Source: Department of Budget and Management

Exhibit 5 shows that fringe benefit costs have been increasing at a higher rate than salary costs. In fiscal 2004, fringe benefits were less than one quarter of the average employees' salary; by fiscal 2015, fringe benefits were one-third of employee costs. Pension contributions increased most substantially at a rate of almost 14% annually. Though health insurance costs increased at a higher rate than salaries, their costs are somewhat understated. In fiscal 2015, the State contributed less than in previous years. This was done because the Employee and Retirees' Health Insurance Account had

Exhibit 5
Change in Direct Salary and Benefit Costs for the Average Employee
Fiscal 2004 and 2015

	2004	2015	Total Change	Annual Percent Change
Salary[1]	$42,505	$52,221	$9,716	1.9%
Health Insurance Payments	6,483	8,862	2,379	2.9%
Pension Contributions	2,067	8,692	6,625	13.9%
Other Fringe Benefits	3,832	4,904	1,072	2.3%
Total	**$54,887**	**$74,679**	**$19,792**	**2.8%**
Fringe Benefit Share of Total Cost	23%	30%		

[1]Fiscal 2015 numbers are unusually low. To adequately fund fiscal 2016, costs increase by $219 million which is approximately $2,700 per employee and increases the annual percent increase to 4.9%.

Source: Department of Budget and Management Annual Personnel Reports

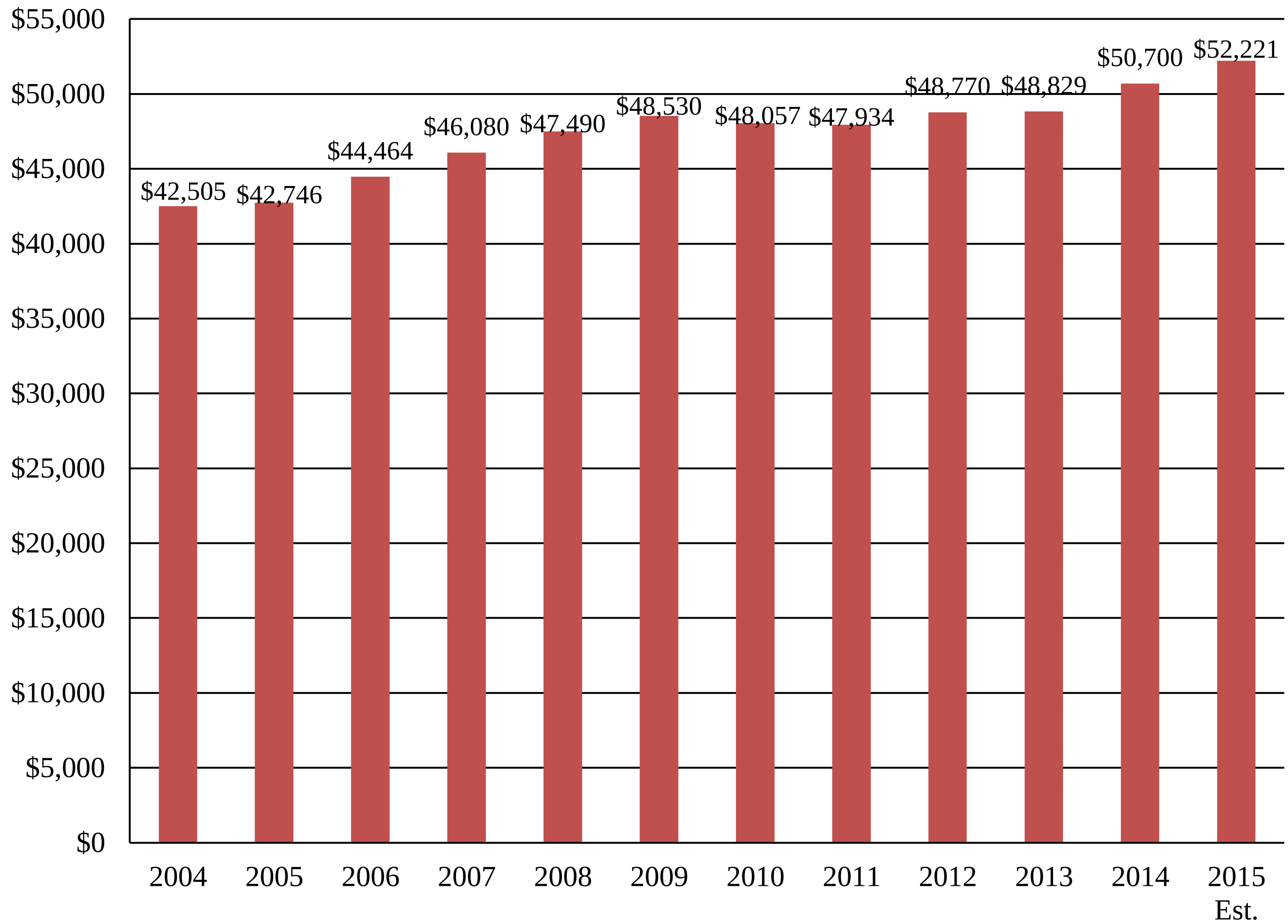
accumulated a large balance at the end of fiscal 2014. To reduce this balance, fiscal 2015 State payments were reduced. As discussed earlier, fiscal 2016 costs are budgeted to increase by $219 million. This is approximately $2,700 per employee and increases the annual percent increase from fiscal 2004 to 2015 to 4.9%.

The increasing cost of benefits was mitigated by increasing employees' share of the costs. Retirement contributions in the employees' and teachers' plans increased from 2% of salary in fiscal 2004 to 7% of salary[1]. State health insurance costs were mitigated by actions such as increasing the employee share of premium costs, increasing coinsurance costs, and increasing prescription drug deductibles.

Exhibit 6 shows that the average employee salary increased from approximately $42,500 in fiscal 2004 to $52,200 in fiscal 2015. Although the trend was for salaries to increase, this was not always the case. For example, salaries decreased in fiscal 2010 and 2011.

[1] Employee contributions were increased to 3% in fiscal 2007, 4% in fiscal 2008, 5% in fiscal 2009, and 7% in fiscal 2012.

Exhibit 6
Average State Employee Salary
Fiscal 2004-2015



Source: Department of Budget and Management Annual Personnel Reports

The exhibit also shows that salary changes resemble a stairway; periods with little growth are followed by periods of steady growth, which are again followed by periods with little growth. **Exhibit 7** shows that salaries were flat and increased at less than 1% annually in the periods following the 2001 recession and the Great Recession. From fiscal 2005 to 2009 and again from fiscal 2013 to 2015, the average salary increased at over 3% annually.

Exhibit 7
Annual Percent Increases in the Average State Employees Salary
Fiscal 2004-2015

Fiscal Years	Annual Percent Change
2004 to 2005	0.6%
2005 to 2009	3.2%
2009 to 2013	0.2%
2013 to 2015	3.4%

Source: Department of Budget and Management Annual Personnel Reports

Not surprisingly, periods of slow salary growth correspond with the State withholding increments[2] and not providing for a general salary increase. **Exhibit 8** shows that State employees did not receive any general salary increases or increments in fiscal 2003, 2004, 2010, 2011, and 2012. These were periods of little or no salary growth. Increments and general salary increases were received in fiscal 2005 to 2009, as well as fiscal 2014 and 2015. The strongest sustained salary growth of the period was from fiscal 2005 to 2009. Fiscal 2015 is unique; employees receive both increments and a general salary increase, but the general salary increase is reversed the following year and the salary scale reverts to the fiscal 2014 level.

Exhibit 8
Permanent Statewide Salary Actions
Fiscal 2003-2016

Fiscal Year	Date of Increase (Decrease)	General Salary Increase (Decrease)	Increments
2003	July 1, 2002	None	None
2004	July 1, 2003	None	None
2005	July 1, 2004	$752	On time
2006	July 1, 2005	1.5%	On time
2007	July 1, 2006	2.0% with $900 Floor and $1,400 Ceiling	On time
2008	July 1, 2007	2.0%	On time

[2]Personnel reform in 1996 (Chapter 347) implemented a pay-for-performance plan for employees. The Department of Budget and Management has developed strategies to reward satisfactory service to the State, based on the results of employee performance appraisals. One such strategy is to allow advancement from one step to the next within a grade, and an employee must be rated as "satisfactory" in the evaluation to move to the next step. These increases are referred to as increments.

Fiscal Year	Date of Increase (Decrease)	General Salary Increase (Decrease)	Increments
2009[1]	July 1, 2008	2.0%	On time
2010[2]	July 1, 2009	None	None
2011[2]	July 1, 2010	None	None
2012[3]	July 1, 2011	None	None
2013	January 1, 2013	2.0%	None
2014	January 1, 2014	3.0%	April 1, 2014
2015	January 1, 2015	2.0%	On time
2016	July 1, 2015	-2.0%	None

Temporary Statewide salary actions:

[1] 2- to 5-Day Furlough
[2] 3- to 10-Day Furlough
[3] One-time $750 bonus

Source: Department of Budget and Management

Sections 20 and 21 Eliminate Employee Salary Enhancements

As the previous exhibit shows, State employees received a 2% salary increase on January 1, 2015. When the budget bill was prepared, it provided for increments in fiscal 2016 and kept salaries at the level that became effective on January 1, 2015.

To contain costs, the Administration's fiscal 2016 budget plan funds positions at the December 31, 2014 salary scale, and does not provide any increments in fiscal 2016. As a practical matter, the new Administration did not have sufficient time to reduce salaries to the December 2014 level and remove increments from the budget bill. As has been done in previous budgets, the Administration has added sections to the bill that make these reductions to agency appropriations. Specifically:

- **Section 20 Reduces Appropriations to Implement a 2% Salary Reduction**: Appropriations are reduced by $93.6 million, which totals to $68.7 million in general funds, $15.6 million in special funds, and $9.3 million in federal funds. The general fund share of current unrestricted funds budgeted in higher education institutions is also reduced by $31.0 million. The section does not reduce expenditures for reimbursable funds or current restricted funds; and

- **Section 21 Reduces Appropriations to Eliminate Employee Increments**: Appropriations are reduced by $102.5 million, which totals to $81.2 million in general funds, $12.9 million in special funds, and $8.4 million in federal funds. The general fund share of current unrestricted funds budgeted in higher education institutions is also reduced by $43.7 million. The section does not reduce expenditures for reimbursable funds or current restricted funds.

Legislation to Reinstate Increments

Title 8, Subtitle 1, of the State Personnel and Pensions Article governs the compensation of State employees in the State Personnel Management System and MDOT, by setting up the Standard Pay Plan and Executive Pay Plan. Section 8-106 generally requires that regulations adopted by the Secretary provide for increases of the pay rates set by the Standard Pay Plan. Despite the requirements, there is no specific State law or regulation that mandates that State employees are entitled to annual automatic salary increases. Although State law does not specifically address automatic salary increases for State employees, salary guidelines established by the Secretary provide that employees who receive positive performance evaluations are entitled to step increases in their salary grade. These guidelines are not found in the Annotated Code, COMAR, or on the DBM website and may be altered in the Secretary's discretion.

The law was not always silent, however, on automatic salary increases for State employees. Prior to 1996, Section 8-106 of the State Personnel and Pensions Article specifically stated that "the regulations adopted under this subtitle shall provide for automatic increases, from minimum to maximum, of the pay rates set by the Standard Pay Plan."

In 1996, legislation was enacted that reformed the SPMS. The legislation implemented the recommendations of the Task Force to Reform the State Personnel Management System, which was established by executive order. The current laws governing SPMS employees (the majority of State employees) stem largely from the 1996 reforms.

Automatic was struck from the law by the General Assembly in 1996 at the suggestion of the former State Department of Personnel because once the State adopted pay-for-performance as proposed by the task force, the concept of automatic increases would be inconsistent with the pay-for-performance proposal. The concept behind pay-for-performance is that an employee is not guaranteed an "automatic" salary adjustment since any salary adjustment would be based on the employee's performance. In addition, the task force envisioned that the State would move away from "grades and steps" pay rates to "minimum and maximum" pay rates within employee classifications.

Pay-for-performance was to officially commence for all SPMS employees during fiscal 1999, and the grades and steps Standard Pay Plan put into effect was to terminate in fiscal 2000. Instead of adopting pay-for-performance as envisioned by the task force, and adopted by the General Assembly in 1996, DBM continued with grades and steps pay rates in the Standard Pay Plan.

Providing employee increments in the State budget gives employees with a positive employee evaluation a salary enhancement. On their own, increments do not increase salary levels of the pay plan adopted by DBM. But increments do provide an incentive for, and reward to employees that are performing well. **DLS recommends that the General Assembly consider legislation to reestablish a statutory basis for awarding increments, subject to the State budget.**

2. Statewide Position Changes

The Spending Affordability Committee (SAC) set a position cap of 81,081 regular full-time equivalents (FTE) across State government for fiscal 2016. This year the committee did not include any exemptions. The proposed budget includes 81,422 positions in fiscal 2016. To reduce positions, a VSP is being implemented in fiscal 2015. The goal is to reduce the number of positions by 500. If the program does not realize its goal, additional vacant positions will be abolished. Taken together, these initiatives should reduce fiscal 2016 State positions to 80,922, which is 159 positions less than the SAC limit. **Appendix 3** provides detail on the SAC personnel calculation.

Statewide Position Overview

Exhibit 9 provides a summary of the position changes from the fiscal 2015 working appropriation to the fiscal 2016 allowance. In total, the allowance includes 80,922 positions, an increase of 135 positions from the fiscal 2015 legislative appropriation. In fiscal 2015, higher education institutions used their flex personnel autonomy, as defined by Chapters 239 and 273 of 2004, to create 306 positions. Also, 56 positions were created by the Board of Public Works (BPW) during fiscal 2015. Additional BPW-created positions include 45 local social services employees at the Department of Human Resources, 4 production staff at the Maryland Public Broadcasting Commission, 2 Injured Workers' Insurance Fund (IWIF) positions at the State Treasurer's Office, 2 federal grant positions in the Department of Business and Economic Development, a position at the Office of Minority Affairs, a position at the Maryland Institute Emergency Medical Services System, and a position at the Department of Health and Mental Hygiene (DHMH) Community Health Resources Commission.

In July 2014, a round of cost containment approved by BPW abolished 61 positions. These positions include 42 in higher education, 12 case managers in the Department of Juvenile Services, 2 building security positions at the Military Department, 2 information technology positons at the Department of General Services, 2 lab and inspector positions at the Maryland Department of Agriculture, and 1 communications position at the Maryland Department of Planning.

The budget also proposes that 17 positions be created through deficiency appropriations. This includes 12 positions to support the Comptroller's tax collections and 5 positions for the Disabilities Unit of DHMH's Office of Health Care Quality.

The fiscal 2016 allowance includes 358 new positions, 233 of which are in the Judiciary. Other notable increases include DHMH, which receives 34 new positions supporting health occupation boards, Medicaid, federal State Innovation Models grants, and the Office of Health Care Quality; and the Department of Natural Resources (DNR) which receives 27 new positions, 17 of which are DNR police positions and the remainder are spread throughout the department and funded with special, federal, and reimbursable funds. The fiscal 2016 allowance also reflects 40 vacant positions that were abolished.

Exhibit 9
Regular Position Changes
Fiscal 2015 Legislative Appropriation to Fiscal 2016 Allowance

Department/Service Area	Leg Approp. 2015	BPW/ Flex Adjust.	Cost. Cont.	Transfer	New/ Abol.	Working Approp. 2015.	Transfer	Abolished Positions	New Positions	FY 16 Allowance
Health and Human Services										
Health and Mental Hygiene	6,388	1	0	0	5	6,394	0	0	34	6,428
Human Resources	6,487	45	0	0	0	6,532	0	-23	0	6,509
Juvenile Services	2,074	0	-12	0	0	2,062	0	0	0	2,062
Subtotal	***14,949***	***46***	***-12***	***0***	***5***	***14,988***	***0***	***-23***	***34***	***14,999***
Public Safety										
Public Safety and Correctional Services	11,126	0	0	0	0	11,126	0	-3	0	11,123
Police and Fire Marshal	2,445	0	0	1	0	2,446	0	0	0	2,446
Subtotal	***13,571***	***0***	***0***	***1***	***0***	***13,572***	***0***	***-3***	***0***	***13,569***
Transportation	**9,179**	**0**	**0**	**0**	**0**	**9,179**	**0**	**0**	**0**	**9,179**
Other Executive										
Legal (Excluding Judiciary)	1,503	0	0	0	0	1,503	0	0	10	1,513
Executive and Administrative Control	1,650	2	-3	-2	0	1,648	-1	-5	4	1,646
Financial and Revenue Administration	2,107	2	0	0	12	2,121	0	-2	17	2,136
Budget and Management and IT	450	0	0	6	0	456	0	-4	6	458
Retirement	205	0	0	0	0	205	0	0	12	217

Department/Service Area	Leg Approp. 2015	BPW/ Flex Adjust.	Cost. Cont.	Transfer	New/ Abol.	Working Approp. 2015.	Transfer	Abolished Positions	New Positions	FY 16 Allowance
General Services	592	0	-2	-5	0	585	0	0	0	585
Natural Resources	1,302	0	0	0	0	1,302	0	-2	29	1,329
Agriculture	385	0	-2	0	0	383	0	0	1	384
Labor, Licensing, and Regulation	1,641	0	0	0	0	1,641	0	-1	0	1,640
MSDE and Other Education	1,980	4	0	0	0	1,984	1	0	2	1,987
Housing and Community Development	339	0	0	0	0	339	0	0	6	345
Business and Economic Development	219	2	0	0	0	221	0	0	0	221
Environment	955	0	0	0	0	955	0	0	3	958
Subtotal	***13,327***	***10***	***-7***	***-1***	***12***	***13,341***	***0***	***-14***	***90***	***13,417***
Executive Branch Subtotal	***51,025***	***56***	***-19***	***0***	***17***	***51,079***	***0***	***-40***	***124***	***51,164***
Higher Education	25,282	306	-42	0	-3	25,543	0	0	1	25,544
Judiciary	3,733	0	0	0	0	3,733	0	0	233	3,966
Legislature	748	1	0	0	0	749	0	0	0	749
Across-the-board Reduction								**-500**		**-500**
Grand Total	**80,787**	**363**	**-61**	**0**	**14**	**81,104**	**0**	**-540**	**358**	**80,922**

BPW: Board of Public Works

IT: information technology

MSDE: Maryland State Department of Education

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

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

Voluntary Separation Program

The Administration's budget plan includes a VSP with a goal to abolish 500 Executive Branch positions, $7.5 million in savings in fiscal 2015, and $30 million in fiscal 2016 general fund savings. If 500 positions are not abolished by VSP, the Administration will reach the 500 position target by abolishing vacant positions. At the time that this analysis was completed, DLS had not received details about the VSP program.

A similar plan was proposed in 2010 with Executive Order 01.01.2010.23. This VSP proposed to eliminate 1,000 positions in fiscal 2011. The plan excluded the Legislative and Judicial branches. Higher education was not covered, but was authorized to create similar programs, if desired.

On February 23, 2011, BPW eliminated 656 budgeted Executive Branch positions and another 11 positions at the nonbudgeted Maryland Transportation Authority. DBM estimated that the severance costs totaled $21.5 million, including $11.0 million in general funds. Salary savings totaled $39.3 million, of which $19.1 million was in general funds.

The VSP Executive Order 01.01.2015.10 included the following features:

- the program was voluntary for employees;
- agencies determined which positions would be eliminated;
- eliminated positions would not be replaced;
- employees received a one-time payment of $15,000 and $200 for every year of service;
- employees accepted into VSP agreed not to seek or accept State or contractor employment for 18 months following their separation; and
- a number of employees, such as agency heads, direct care employees, and police officers, were not eligible.

The department should brief the committees on details of the VSP, including how the abolition of 500 positions will yield $30 million in savings when the experience in 2010 yielded a savings of only $19 million when 656 positions were abolished.

Each year, the General Assembly adds language to the budget bill that allows incumbents in abolished positions to transfer to other State agencies. **Consistent with the intent of the VSP, DLS recommends that annual budget bill language relating to incumbents in abolished positions specifically prohibit participants in the VSP from continuing employment in another position.**

To determine costs incurred and saved by implementing a VSP in fiscal 2015, DLS recommends that the committees adopt committee narrative.

Overview of Contractual Full-time Equivalents

The fiscal 2016 allowance includes 9,061 FTE contractual positions. Two-thirds of these positions are in higher education institutions. The number of contractual FTEs are 155 less than in fiscal 2015, as shown in **Exhibit 10**. Many of the reductions are with the Judiciary, which reduces its contractual FTEs by 97.

Exhibit 10
Contractual Full-time Equivalent Positions
Fiscal 2014 Actual to Fiscal 2016 Allowance

Department/Service Area	2014 Actual	2015. Working	2015 Allowance	2015-2016 Change
Health and Human Services				
Health and Mental Hygiene	362	420	450	29
Human Resources	146	83	74	-9
Juvenile Services	161	142	143	1
Subtotal	***669***	***645***	***667***	***22***
Public Safety				
Public Safety and Correctional Services	272	400	398	-2
Police and Fire Marshal	26	57	68	11
Subtotal	***297***	***457***	***466***	***9***
Transportation	**131**	**41**	**41**	**0**
Other Executive				
Legal (Excluding Judiciary)	38	63	62	-1
Executive and Administrative Control	227	188	201	13
Financial and Revenue Administration	64	64	50	-14
Budget and Management and DoIT	16	16	11	-4
Retirement	16	17	10	-7
General Services	15	24	24	0
Natural Resources	370	445	438	-7
Agriculture	42	40	43	3

	2014 Actual	2015. Working	2015 Allowance	2015-2016 Change
Labor, Licensing, and Regulation	258	276	294	17
MSDE and Other Education	303	339	296	-43
Housing and Community Development	48	80	55	-25
Business and Economic Development	18	18	18	0
Environment	25	53	48	-5
Subtotal	***1,441***	***1,622***	***1,548***	***-74***
Executive Branch Subtotal	***2,539***	***2,764***	***2,722***	***-42***
Department/Service Area				
Higher Education	**6,645**	**6,021**	**6,005**	**-16**
Judiciary	446	431	334	-97
Grand Total	**9,630**	**9,216**	**9,061**	**-155**

DoIT: Department of Information Technology
MSDE: Maryland State Department of Education

Note: Numbers may not sum due to rounding.

Source: Department of Budget and Management

3. Employee and Retiree Health Insurance Account

The Employee and Retiree Health Insurance Account ended fiscal 2013 with a substantial end-of-year surplus. To reduce this surplus, payments into the account were reduced in fiscal 2014 and 2015. Fiscal 2014 and 2015 claims paid by the State also exceeded projections. By the end of fiscal 2015, the account has a slight cash surplus. However, fiscal 2015 revenues and prior year fund balances supporting payments that are accrued in fiscal 2015 are insufficient. As a result, fiscal 2015 ends with a balance that is less than accrued expenditures. This higher spending level is expected to be ongoing. To remedy this, the Administration substantially increases fiscal 2016 State employee and retiree contributions. Despite this, the account is still projected to be short by $31.7 million at the end of fiscal 2016.

Analysis of Fiscal 2014 to 2016 Account Activity and Closing Balance

Exhibit 11 shows that the account began fiscal 2014 with a $288 million balance. Fiscal 2014 ended with a $216 million balance, which was $19 million less than projected. As usual, there were a number of payments and receipts that were either less or more than anticipated. But one payment does stand out, prescription drug payments totaled $393 million, which is $45 million more than anticipated.

Exhibit 11
Fiscal 2014 Health Insurance Account Closeout
($ in Millions)

	2014 Working	2014 Actual	Difference
Beginning Balance	$287.8	$287.8	$0.0
Expenditures			
DBM – Personnel Administrative Cost	$7.0	$7.3	$0.3
Payments of Claims			
Medical	$872.1	$858.0	-$14.1
Mental Health	13.6	13.6	0.0
Prescription	348.2	392.8	44.6
Dental	48.1	48.2	0.1
Payments to Providers	**$1,282.0**	**$1,312.6**	**$30.6**
Receipts			
State Agencies	$978.1	$955.1	-$23.0
Employee Contributions	157.2	152.0	-5.2
Retiree Contributions	77.9	79.2	1.3
Prescription Rebates, Recoveries, and Other	22.9	61.6	38.7
Total Receipts	**$1,236.1**	**$1,247.9**	**$11.8**
Ending Balance	$234.9	$215.8	-$19.1

DBM: Department of Budget and Management

Source: Department of Budget and Management

The increase in prescription drug costs is significant because these increased costs are not one-time increases that decline again in the following year, but instead are expected to result in ongoing cost increases. Consequently, DBM has revised its total fiscal 2015 estimate of payments from $1,343 million in January 2014 to $1,401 million in January 2015. Taken together, fiscal 2014 and 2015 expenditures are now projected to be $90 million more than anticipated in January 2014. **Exhibit 12** shows that the account's balance is expected to be $42 million at the end of fiscal 2015. Last year, DBM projected that this account balance would be $136 million. In short, the decline in the projected end of the fiscal 2015 account balance can be explained by provider payments increasing more than anticipated. **The department should be prepared to brief the committees on the increases in fiscal 2014 and 2105 health care provider payments.**

Each fiscal year includes an estimate of costs that are incurred but not received (IBNR). These are services that are rendered in the fiscal year, whose provider is reimbursed in the following fiscal year. An example of this is a doctor's visit at the end of June 2015 for which the doctor is not paid in full until July 2015. Since the services were provided in June (fiscal 2015) and paid in July (fiscal 2016), a balance is kept in fiscal 2015 to recognize costs that accrued in fiscal 2015.

DBM estimates that fiscal 2015 payments due, referred to as IBNR in the exhibit, is $106 million. Although fiscal 2015 ends with a $42 million cash balance, DBM projects that this is $64 million less than is required to fund fiscal 2015 payments to providers. To reduce this deficit approximately in half, DBM includes a $29 million appropriation in the statewide program for the health insurance account. If DBM's estimates are correct, fiscal 2016 will end with a $74 million cash surplus and the spending deficit will be reduced to $32 million. **The department should be prepared to brief the committees on its plans to fund IBNR provider costs.**

Eligible Contractual Employees Receive Health Care Coverage

The Affordable Care Act (ACA) provides that under certain conditions, employer-subsidized health insurance must be made available to contractual employees, or the employer would be required to pay a penalty. Employees that work 30 hours per week, or 130 hours per month, are eligible for the alternative subsidy of 75% of the premium for medical and prescription drug coverage only for employee and dependent coverage levels.

Maryland has been offering all employees health care benefits prior to ACA. Permanent part-time employees working at least 50% (generally 20 hours per week) were offered subsidized benefits. Part-time employees working less than 20 hours and contractual employees were offered unsubsidized benefits.

Exhibit 12
Health Insurance Account Revenues and Expenditures
Fiscal 2014-2016
($ in Millions)

	2014 Actual	2015 Working	2016 Allowance
Beginning Balance	$287.8	$215.8	$42.0
Expenditures			
DBM – Personnel Administrative Cost	$7.3	$7.5	$7.5
Payments of Claims			
Medical	$858.0	$910.8	$965.6
Mental Health	13.6	12.5	13.4
Prescription	392.8	428.3	453.4
Dental	48.2	46.2	49.4
Contractual Employee Claims	0	3.8	14.9
Payments to Providers	$1,312.6	$1,401.6	$1,496.7
% Growth in Payments	7.9%	6.8%	6.8%
Receipts			
State Agencies	$955.1	$931.8	$1,177.3
Employee Contributions	152.0	160.5	201.9
Retiree Contributions	79.2	78.6	99.4
Prescription Rebates, Recoveries, and Other	61.6	64.4	57.4
Total Receipts	$1,247.9	$1,235.3	$1,536.0
% Growth in Receipts	-6.7%	-1.0%	24.3%
Ending Balance	$215.8	$42.0	$73.8
Estimated IBNR	-$105.5	-$105.5	-$105.5
Reserve for Future Provider Payments	$110.3	-$63.5	-$31.7

DBM: Department of Budget and Management
IBNR: Incurred but Not Received
Source: Department of Budget and Management

In February 2015, DBM responded to a request from the 2014 *Joint Chairmen's Report* to report to the committees on the eligibility, cost, and enrollment numbers of contractual employee health care. Maryland began offering retiree benefits on January 1, 2015. DBM developed its benefits plan with its consultant, Segal and Company. The subsidy amount offered contractual employees is 75% of the full premium for medical and prescription drug coverage. This was offered to employees only and employee-plus-dependent coverage. DBM refers to this as the alternative subsidy. Other benefits, such as dental insurance, are unsubsidized.

The alternative subsidy was available to contractual employees hired before October 15, 2014, that were working at least 30 hours per week. Employees hired on or after October 15, 2014, must work 30 hours per week for at least 90 days to be eligible for the alternative subsidy. They may file for coverage the first of each month when the Employee Benefits Division is processing enrollments, as long as the enrollment is received within 60 days of hire.

These benefits were offered to contractual employees by open enrollment in the fall of 2014 so that they could begin receiving subsidies beginning January 1, 2015. DBM advises that a total of 1,486 contractual employees enrolled and are receiving the alternative subsidy. DBM estimates that the annual State cost is $4.2 million, requiring $2.1 million in the last half of fiscal 2015 and an equivalent amount in the first half of fiscal 2016. The statewide program includes $5.0 million for the annual fiscal 2016 subsidy. DBM projected that 500 contractual employees would enroll at a cost of $3.8 million per year.

When DBM analyzes payment data, costs of employees are differentiated from the cost of retirees. In terms of tracking costs, DBM advises that contractual employees will be included with regular employees. Since the employee data is commingled, the State will not be able to differentiate between the cost of providing services to regular and contractual employees.

DBM advises that preliminary data suggest that the demographic profile of enrolled contractual employees is similar to regular employees. There is some anecdotal data that these employees tend to be a little younger (more likely to be in their twenties) and older (more likely to be over 50) but that the average age is similar. It is unclear at this time how this will affect out-year costs.

Migration into Exclusive Provider Organization Plans

An unmistakable trend in recent years has been the migration of members into the Exclusive Provider Organization (EPO) plans. Under EPO plans, members receive their service within a network. These plans are insured by the State, which means that the State assumes cost risks. The other popular alternative is the Preferred Provider Organization (PPO). This plan gives members the ability to choose their own providers so they are not tied to any network. The State discontinued the Point of Service Plans (POS) in 2015 and replaced them with the Integrated Health Model (IHM) plan. POS plans have coverage managed by a primary care physician and members may go out of network. IHM plans offer comprehensive support with the State paying a fixed fee and the provider assuming the risk.

How Will Plan Changes Affect Out-year Costs?

In recent years, there have been a number of plan changes. Some plan design changes, such as increased copays and co-insurance have been introduced. The State has eliminated the POS plan and added an IHM plan. There has been a migration into EPO plans. For retirees, a new Employee Group Waiver Plan was introduced for prescription drugs. A wellness program is required for members and their covered spouses (see Update 1 for details).

Taken together, these changes could have a substantial effect on out-year growth rates. Insofar as health care account expenditures are estimated to be $1.5 billion in fiscal 2016, even a 1% change is $15 million. Each fall, DLS prepares a baseline budget forecast of health care spending. Having actual spending data from the fiscal year that ended provides data about actual spending patterns and trends from recent history. **To provide timely closeout data, DLS recommends that before October 1, 2015, DBM complete a closeout report on fiscal 2015 expenditures.**

In June 2012, EPO plans served approximately 1 out of 7 members while PPO plans served over half. **Exhibit 13** shows that EPO members increased to almost half of all members in January 2015, while PPO membership dropped to just under half. This migration into EPO plans began in July 2012 when the State introduce increased co-insurance[3] payments for PPO and POS plans. At the 2012 open enrollment, EPO plans gained approximately 18,500 members, while PPO organizations lost 9,700 and POS lost 7,700 members. Abolishing POS plans resulted in gains for both EPO and PPO plans. Once again, more members migrated to the EPO plans.

[3] Coinsurance is use-based. 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 coinsurance charge requires all members with a hospital stay to pay out-of-pocket (OOP) expenses equal to 10% of the cost. An 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 Preferred Provider Organization and Point of Service members.

Exhibit 13
Health Care Enrollment by Type of Plan
June 2012 to January 2015

	June 2012	2012 Share of Total	December 2014	2014 Share of Total	January 2015	2015 Share of Total
EPO	16,063	14.7%	45,864	39.1%	57,725	48.8%
PPO	62,010	56.8%	49,305	42.1%	58,785	49.7%
POS	31,103	28.5%	22,029	18.8%	0	0.0%
IHM	0	0.0%	0	0.0%	1,804	1.5%
Total	**109,176**	**100.0%**	**117,198**	**100.0%**	**118,314**	**100.0%**

EPO: Exclusive Provider Organization – Member receives all health care from providers in-network.
PPO: Preferred Provider Organization – Member can choose providers, in or out of a plan's network.
POS: Point of Service – Similar member coverage to EPO, but not confined to a certain network of providers.
IHM: Integrated Health Model – Provider's support is comprehensive; the State pays a fixed fee and the provider assumes the risk.

Source: Department of Budget and Management

Reconciling Employee and Retiree Health Insurance Account Data with Budget Data

Each year, the legislature adds a section to the back of the budget bill that requires DBM to prepare an Annual Report on Health Insurance Receipts and Spending. DLS is concerned that budget data and health care account data do not always reconcile. **Exhibit 14** shows that the electronic data received from DBM, which corresponds to the budget bill, shows more State health care contributions in fiscal 2015 and less contributions in fiscal 2106 than the data included in Appendix O of the budget books. DBM advises that the difference is that budget data is reported on a modified accrual basis while the data in the appendix is presented on a cash basis. **DLS recommends that the General Assembly add a requirement to the annual health care account report language to require that the data shown in the Annual Report on Health Insurance Receipts and Spending is consistent with the electronic budget bill data that DLS receives.**

Exhibit 14
Comparing Data in the Budget Books with Budget Data Received
($ in Millions)

	2015	2016
Fiscal 2016 Budget Books Appendix O	$932	$1,177
Budget System Data from DBM	945	1,126
Difference	13	-52

DBM: Department of Budget and Management

Source: Department of Budget and Management

4. No Plan to Address Unfunded Retiree Health or Workers' Compensation Liabilities

Retiree health care and workers' compensation benefits are offered to State employees. Both of these accounts have liabilities. The accounts are essentially funded under a pay-as-you-go (PAYGO) approach. The State does not have a long-term plan to fund these liabilities. This issue examines each of these liabilities.

Retiree Health Insurance

Upon their retirement, eligible retired State employees are entitled to enroll and participate in any of the health insurance options provided by the State Employee and Retiree Health and Welfare Benefits Program. In effect, this entitles retired State employees to retain the same health coverage they had as active employees. In addition, active State employees accrue eligibility for a partial State subsidy of the cost of health insurance coverage under the program.

In 2004, the Governmental Accounting Standards Board (GASB) released new standards that require the State to apply an accounting methodology similar to the one used for pension liabilities to account for retiree health benefits. GASB is an independent, nonprofit foundation that establishes accounting standards for local and state governments. The new standards affect governmental accounting of Other Post Employment Benefits (OPEB), which are defined as post employment benefits other than pensions. Under the new standards, incorporated into GASB's Statements 43 and 45, the State must account for the cost of OPEB as they accrue to employees based on their employment with the State rather than on a PAYGO basis. Prior to the release of Statements 43 and 45, almost all states, including Maryland, had accounted for OPEB on a PAYGO basis.

The new standards require the State to conduct an actuarial valuation of its OPEB liability at least every two years. The valuations must determine the State's accrued OPEB liabilities, defined as the value of the retiree health benefits promised to current and retired employees based on their actual and projected employment with the State. Each valuation credits the State with the value of any assets (including PAYGO expenditures) deposited in an irrevocable OPEB trust for the purpose of funding its OPEB liabilities. The difference between the State's OPEB and its trust fund assets represents the unfunded actuarial accrued liability.

GASB allows governments to amortize the unfunded actuarial accrued liability over a period not exceeding 30 years. A combination of legislative changes, positive claims experience, and updated actuarial assumptions helped reduce the State's overall unfunded liability for OPEB by almost 50% from fiscal 2010 levels, but the State's financial obligation for those benefits continues to grow due to repeated underfunding. Chapter 397 of 2011 altered eligibility for those retiree health benefits for State employees hired after June 30, 2011, and eliminated prescription drug coverage for all Medicare-eligible retirees beginning in fiscal 2020.

Exhibit 15 shows that these changes reduced the State's unfunded liability for those benefits from $15.9 billion in fiscal 2010 to $9.5 billion in fiscal 2011. The unfunded liability dropped again to $8.1 billion in fiscal 2013 due to positive claims experience and updated actuarial assumptions. A modest increase in unfunded liabilities in fiscal 2014 can be attributed to multiple factors, including negative claims experience, a decrease in the rate used to discount liabilities, and recognition of the excise tax that will likely be assessed under the federal ACA, beginning in 2018.

Exhibit 15
State Retiree Health Liabilities and Required Contributions
Fiscal 2010-2014
($ in Millions)

	2010	2011	2012	2013	2014
OPEB Actuarial Liability	$16,099	$9,732	$9,825	$8,344	$8,964
Actuarial Value of Assets	183	196	209	223	250
Unfunded OPEB Liability	**$15,915**	**$9,536**	**$9,617**	**$8,121**	**$8,714**
Normal Cost	$583	$323	$274	$229	$224
Amortization Payment	642	381	382	347	350
Annual Required Contribution	**$1,225**	**$704**	**$656**	**$576**	**$574**

OPEB: Other Post Employment Benefits

Source: The Segal Group, Inc.

The exhibit also shows that the annual required contribution (ARC) necessary to pay off the State's liabilities over 25 years has dropped to $574 million in fiscal 2014. However, this figure now understates Maryland's financial obligation to pay for the benefits it provides because it has never fully funded the ARC in previous years. From an accounting standpoint, the cumulative underfunding of the ARC results in interest charges on the unpaid balance. Under GASB accounting standards, the State's net OPEB obligation (NOO) that is reported on its financial statements reflects the cumulative effect of underfunded ARCs and interest charges on the unfunded balances. **Exhibit 16** shows the calculation of the State's NOO since new GASB standards were implemented in fiscal 2008. Fiscal 2014 ended with a $4.0 billion NOO.[4]

Chapter 466 of 2004 established the Post-retirement Health Benefits Trust Fund. Funds were appropriated in fiscal 2007, 2008, and 2009. There have been no appropriations since $51.1 million was deposited in fiscal 2009. At the end of fiscal 2014, the fund's balance was $250.1 million.

Exhibit 16
Maryland's Net OPEB Obligation
Fiscal 2008-2014
($ in Thousands)

	2008	2009	2010	2011	2012	2013	2014
Beginning NOO	n/a	$696	$1,478	$2,336	$3,199	$3,532	$3,787
Adjusted ARC	$1,086	$1,119	$1,127	$1,135	$581	$498	$420
Interest on NOO	0	30	64	101	138	150	161
Annual OPEB Cost	**$1,086**	**$1,149**	**$1,191**	**$1,235**	**$719**	**$640**	**$580**
PAYGO costs	$271	$315	$336	$369	$386	$393	$403
Pre-funding	119	51	0	0	0	0	0
Annual Payments	**$390**	**$367**	**$336**	**$369**	**$386**	**$393**	**$403**
End-of-year NOO	**$696**	**$1,478**	**$2,333**	**$3,199**	**$3,532**	**$3,787**	**$3,965**

Numbers may not sum to total due to rounding.

ARC: annual required contribution
NOO: net Other Post Employment Benefits obligation
OPEB: Other Post Employment Benefits
PAYGO: pay-as-you-go

Source: The Segal Group, Inc.

[4] The $3.97 billion unfunded liability is identified in the State's *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014,* in note 16, on pages 99-101.

This unfunded liability has not escaped the attention of the credit rating agencies. For example, Moody's July 2014 rating noted that while the State has "established a trust fund to accumulate assets to offset accrued OPEB liabilities, it does not regularly contribute to it and instead pays for current benefits on an annual basis."

The department should be prepared to discuss plans to reduce the OPEB liability and fully fund the annual required contribution.

Worker's Compensation

The State of Maryland provides workers' compensation benefits if the harm suffered by the employee was by an accidental personal injury arising out-of and in-the-course of covered employment. An employee has the responsibility of filing a claim with the Workers' Compensation Commission. If the accidental personal injury causes a disability for more than three days or death, the employer is required to report the accident to the commission. The State's third-party administrator for workplace injuries is IWIF, which is part of the Chesapeake Employers' Insurance Company (CEIC). Chapter 570 of 2012 converted IWIF from an independent State entity to a statutorily created, private, nonprofit, nonstock, workers' compensation insurer. The legislation allowed employees to remain IWIF employees or elect to become CEIC employees. At the time, 321 employees chose to remain with IWIF, which still administers the State's self-insured workers' compensation account for State employees. For compensable injuries, workers' compensation benefits include wage replacement, medical treatment, death and funeral costs, and vocational rehabilitation expenses. Wage replacement benefits are based on the employee's average weekly wage, which is generally capped by the State average weekly wage and on the type of injury as prescribed in statute.

From fiscal 1999 to 2003, $20 million was appropriated into this fund annually. Chapter 203 of 2003, the Budget Reconciliation and Financing Act of 2003, transferred $75 million from IWIF into the general fund. The State has not made any appropriations to reduce the unfunded liability since fiscal 2003.

Claims can be paid in full or they can be paid over a period of years. Claims that are due in subsequent years are a liability that the State will need to pay. If the State does not appropriate funds into an account, the liabilities are unfunded liabilities. DBM advises that, at the end of fiscal 2014, the total unfunded liability is $417.9 million and that the discounted[5] liability is $296.8 million. The account includes $4.8 million, so the unfunded liability is $413.1 million. **The department should also be prepared to brief the committees on any plans to begin appropriating funds to reduce the unfunded workers' compensation liability.**

[5] DBM advises that the actuarial report from Deloitte Consulting notes that the "outstanding liabilities and the offsetting recoverables have been discounted at a rate of return of 4.0%. The discounted reserves are based on selected ultimate losses and recoverables and the appropriate loss payout patterns based on historical State Account experience."

5. New State Personnel System Implementation

Since January 2008, DBM has been working on replacing its statewide personnel system. The system was developed in 1975. It served State agencies with 600 core users, who managed personnel activities for approximately 48,000 employees, as well as benefits of 250,000 combined employees, retirees, and dependents with millions of transactions processed annually.

The first phase of the project included recruiting, human resources, compensation, and performance management. The second phase includes benefits administration and timekeeping. The department is reviewing the requirements for the second phase and is expected to end design before the end of April 2015. For phase 1, a cloud application was chosen and a cloud application is also expected to be selected for phase 2. The total cost of implementing the new personnel system is $60 million, of which $42 million has been spent through fiscal 2015.

In November 2014, phase 1 of the new statewide personnel system was implemented. Data continues to be processed and there are no reports of major failures.

From the beginning, a concern was how the organizational culture, which had been working with a system for almost 40 years, would adapt to a modern cloud application. In its project documents, DBM noted that changes will require significant training. DBM advises that training classes were offered. DBM had initially anticipated that agencies would be relatively self-sufficient within two months and be able to process routine transactions. While this is the case for many agencies, many other agencies are still struggling with the change to an automated system.

One concern raised is that there have been instances of employees being hired and not receiving pay. DBM advises that these anomalies are a direct result of human resources office user errors. As a result, DBM is again offering training sessions and working labs for agencies that need additional assistance. **DBM should brief the committees on its implementation of the new Statewide Personnel System. This should include a discussion of problems encountered and how those problems are being resolved.**

6. Executive Pay Plan

Section 8-101 of the State Finance and Procurement Article establishes the Executive Pay Plan (EPP). Section 7-109 of the State Finance and Procurement Article requires that each budget bill includes a separate section for the EPP. This section should include the job classification, title, and salary of each position. In addition, the budget bill should include each position with flat rate or per diem salary in excess of the minimum salary in the proposed EPP. The section also notes that the EPP is subject to approval by the General Assembly.

DBM advises that the positions in the EPP have not been adjusted downward to reflect the 2% salary reduction in Section 20. Errors have also been found in Section 3, the flat rate pay plan, and it is not clear if the EPP section of the bill reflects the correct salary levels for positions. This is important for two reasons. First, with the transition to a new administration it should generally be expected that

EPP salaries will return to base levels. Second, advice of counsel from the Attorney General indicates that the salary levels for the EPP in the back of the budget bill are legally binding. If the erroneous salary levels are not corrected during the session, then those levels will become the legal salaries for each position. **So that the budget bill includes correct Executive Pay Plan data, it is recommended that the Administration submit a supplemental budget that provides corrected salary data.**

Recommended Actions

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

, provided that $100,000 of this appropriation may not be expended until the Department of Budget and Management develops a report on fiscal 2015 closeout of the Employee and Retiree Health Insurance Account. This report shall include the (1) closing fiscal 2015 fund balance; (2) actual provider payments due in the fiscal year; (3) State, employee, and retiree contributions; (4) an accounting of rebates, recoveries, and other costs; and (5) any closeout transactions processed after the fiscal year ended. The report shall be submitted to the budget committees by October 1, 2015. The budget committees shall have 45 days to review and comment following the receipt of the report. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund.

Explanation: Requires the Department of Budget and Management to submit a report with fiscal 2015 closeout data for the Employee and Retiree Health Insurance Account.

Information Request	Author	Due Date
Report requiring fiscal 2015 closeout data for the Employee and Retiree Health Insurance Account	Department of Budget and Management	October 1, 2015

2. Adopt the following narrative:

Voluntary Separation Program Costs Incurred and Avoided: Included in the Administration's fiscal 2016 budget plan is implementation of a Voluntary Separation Program (VSP). This program is to be implemented in fiscal 2015, in order to reduce general fund expenditures in fiscal 2015 and 2016. To provide incentives for employees, the program includes a one-time payment to employees leaving State service. The program proposes to permanently abolish positions for employees that are accepted into the plan. Agencies are able to determine which positions will be accepted into the plan and abolished. To determine what costs have been incurred and saved by VSP, the Department of Budget and Management (DBM) should report to the committees on the results of the program by September 1, 2015. This report should identify which positions were abolished by Position Identification Number and program code, how much was provided in incentives, how much of fiscal 2015 and 2016 salary and benefit costs were avoided, what the fund source of any costs and savings is, when positions were vacated, and when the positions were abolished. The report should include data concerning any vacant positions that were abolished to meet the target that 500 positions be abolished.

Information Request	**Author**	**Due Date**
Report on the Voluntary Separation Program	DBM	September 1, 2015

3. Amend the following section:

SECTION 20. AND BE IT FURTHER ENACTED, That for fiscal year 2016 funding for salaries and wages shall be reduced by ~~$93,606,000~~ 98,149,866 in ~~Executive Branch~~ agencies to provide a 2% reduction in State salary schedules, including the Executive Pay Plan. Funding for this purpose shall be reduced in the appropriate sub–object of expenditure applicable to the salary reduction within the ~~Executive Branch~~ agencies in fiscal year 2016 by the following amounts in accordance with a schedule determined by the Governor, Chief Judge, and Presiding Officers:

	Agency	General Funds
B75	General Assembly	937,858
C00	Judiciary	3,606,008
C80	Office of the Public Defender	1,398,000
C81	Office of the Attorney General	246,000
C82	State Prosecutor	22,000
C85	Maryland Tax Court	8,000
D05	Board of Public Works (BPW)	18,000
D10	Executive Department – Governor	178,000
D11	Office of the Deaf and Hard of Hearing	4,000
D12	Department of Disabilities	24,000
D15	Boards and Commissions	118,000
D16	Secretary of State	28,000
D17	Historic St. Mary's City Commission	34,000
D18	Governor's Office for Children	22,000
D25	BPW Interagency Committee for School Construction	28,000
D26	Department of Aging	30,000
D27	Maryland Commission on Civil Rights	40,000
D38	State Board of Elections	58,000
D39	Maryland State Board of Contract Appeals	12,000
D40	Department of Planning	190,000
D50	Military Department1	42,000
D55	Department of Veterans Affairs	66,000
D60	Maryland State Archives	34,000
E00	Comptroller of Maryland	1,018,000
E20	State Treasurer's Office	42,000
E50	Department of Assessments and Taxation	378,000

E75	State Lottery and Gaming Control Agency	142,000
E80	Property Tax Assessment Appeals Board	16,000
F10	Department of Budget and Management	248,000
F50	Department of Information Technology	144,000
H00	Department of General Services	562,000
K00	Department of Natural Resources	718,000
L00	Department of Agriculture	322,000
M00	Department of Health and Mental Hygiene	6,344,000
N00	Department of Human Resources	3,278,000
P00	Department of Labor, Licensing and Regulation	1,154,000
Q00	Department of Public Safety and Correctional Services	12,080,000
R00	State Department of Education – Headquarters	1,320,000
R00	Maryland Longitudinal Data System Center	20,000
R15	Maryland Public Broadcasting Commission	86,000
R62	Maryland Higher Education Commission	74,000
R75	Support for State Operated Institutions of Higher Education	30,950,000
R99	Maryland School for the Deaf	402,000
T00	Department of Business and Economic Development	302,000
U00	Department of the Environment	470,000
V00	Department of Juvenile Services	2,374,000
W00	Department of State Police	3,546,000
	~~Total General Funds~~	~~68,690,000~~
	Total General Funds	73,233,866

Explanation: This section adds the General Assembly and Judiciary to the 2% reduction in salaries. It also clarifies that Executive Pay Plan Positions are also reduced 2%.

4. Amend the following section:

SECTION 21. AND BE IT FURTHER ENACTED, That for fiscal year 2016 funding for salaries and wages shall be reduced by ~~$102,520,296~~ $108,038,115 in ~~Executive Branch~~ agencies to eliminate the July 1, 2015, and January 1, 2016, merit increases. Funding for this purpose shall be reduced in the appropriate sub–object expenditure applicable to the merit increases funding within the ~~Executive Branch~~ agencies in fiscal year 2016 by the following amounts in accordance with a schedule determined by the Governor and Chief Judge:

	Agency	General Funds
C00	Judiciary	5,159,158
C80	Office of the Public Defender	1,210,139
C81	Office of the Attorney General	259,744
C82	State Prosecutor	12,206
C85	Maryland Tax Court	2,259
D05	Board of Public Works (BPW)	13,002

D10	Executive Department – Governor	78,005
D11	Office of the Deaf and Hard of Hearing	6,804
D12	Department of Disabilities	27,798
D15	Boards and Commissions	140,185
D16	Secretary of State	52,030
D18	Governor's Office for Children	27,788
D25	BPW Interagency Committee for School Construction	27,940
D26	Department of Aging	27,201
D27	Maryland Commission on Civil Rights	70,087
D38	State Board of Elections	40,453
D39	Maryland State Board of Contract Appeals	2,951
D40	Department of Planning	184,579
D50	Military Department	100,746
D55	Department of Veterans Affairs	55,353
D60	Maryland State Archives	29,022
E00	Comptroller of Maryland	930,591
E20	State Treasurer's Office	44,878
E50	Department of Assessments and Taxation	423,242
E75	State Lottery and Gaming Control Agency	174,660
E80	Property Tax Assessment Appeals Board	11,179
F10	Department of Budget and Management	182,809
F50	Department of Information Technology	162,129
H00	Department of General Services	542,162
K00	Department of Natural Resources	1,203,933
L00	Department of Agriculture	261,121
M00	Department of Health and Mental Hygiene	7,552,124
N00	Department of Human Resources	3,562,224
P00	Department of Labor, Licensing and Regulation	176,967
Q00	Department of Public Safety and Correctional Services	9,601,868
R00	State Department of Education	588,050
R15	Maryland Public Broadcasting Commission	164,000
R62	Maryland Higher Education Commission	66,533
R75	Support for State Operated Institutions of Higher Education	43,699,000
R99	Maryland School for the Deaf	350,000
T00	Department of Business and Economic Development	216,741
U00	Department of the Environment	281,044
V00	Department of Juvenile Services	3,748,066
W00	Department of State Police	4,908,311
	~~Total General Funds~~	~~81,219,924~~
	Total General Funds	86,379,082

	Agency	Special Funds
C00	Judiciary	301,347
C81	Office of the Attorney General	58,860
C90	Public Service Commission	193,699
C91	Office of the People's Counsel	32,881
C94	Subsequent Injury Fund	25,199
C96	Uninsured Employers Fund	19,436
C98	Workers' Compensation Commission	137,058
D12	Department of Disabilities	1,450
D13	Maryland Energy Administration	48,787
D15	Boards and Commissions	2,114
D26	Department of Aging	1,975
D38	State Board of Elections	2,345
D40	Department of Planning	13,999
D53	Maryland Institute for Emergency Medical Services Systems	128,768
D55	Department of Veterans Affairs	2,009
D60	Maryland State Archives	54,964
D80	Maryland Insurance Administration	287,559
D90	Canal Place Preservation and Development Authority	1,943
E00	Comptroller of Maryland	168,787
E20	State Treasurer's Office	1,371
E50	Dept. of Assessments and Taxation	437,239
E75	State Lottery and Gaming Control Agency	113,213
F10	Department of Budget and Management	156,634
F50	Department of Information Technology	12,857
G20	State Retirement Agency	142,420
G50	Teachers and State Employees Supplemental Retirement Plans	11,868
H00	Department of General Services	10,482
J00	Department of Transportation	6,382,000
K00	Department of Natural Resources	866,074
L00	Department of Agriculture	97,027
M00	Department of Health and Mental Hygiene	397,204
N00	Department of Human Resources	98,322
P00	Department of Labor, Licensing and Regulation	345,013
Q00	Department of Public Safety and Correctional Services	364,150
R00	State Department of Education	38,710
R15	Maryland Public Broadcasting Commission	196,000
S00	Department of Housing and Community Development	300,805
T00	Department of Business and Economic Development	78,534
U00	Department of the Environment	580,556
W00	Department of State Police	1,102,022
	Total Special Funds	~~12,914,334~~
		13,215,681

	Agency	Federal Funds
C00	Judiciary	57,314
C81	Office of the Attorney General	32,536
D12	Department of Disabilities	9,868
D15	Boards and Commissions	23,428
D26	Department of Aging	21,116
D27	Maryland Commission on Civil Rights	10,136
D40	Department of Planning	13,985
D50	Military Department	279,078
D55	Department of Veterans Affairs	16,933
J00	Department of Transportation	695,000
K00	Department of Natural Resources	129,242
L00	Department of Agriculture	9,502
M00	Department of Health & Mental Hygiene	952,099
N00	Department of Human Resources	3,125,861
P00	Department of Labor, Licensing and Regulation	1,216,866
Q00	Dept. of Public Safety and Correctional Services	174,628
R00	State Department of Education	1,212,579
R62	Maryland Higher Education Commission	1,649
S00	Department of Housing and Community Development	106,697
T00	Department of Business and Economic Development	8,179
U00	Department of the Environment	334,411
V00	Department of Juvenile Services	12,245
	Total Federal Funds	~~8,386,038~~
		8,443,352

Explanation: This adds the Judiciary to the Section 21 increment reduction.

5. Add the following section:

Section XX 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, 2015, 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 man, that 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 contractual positions for at least two years. Any position created by this method may 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 may 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, 2016, the status of positions created with non-State funding sources during fiscal 2012, 2013, 2014, 2015, and 2016 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 the non-State funding sources during fiscal 2012, 2013, 2014, 2015, and 2016	DBM	June 30, 2016

6. Add the following section:

Section XX Annual Report on Authorized Positions

SECTION XX. AND BE IT FURTHER ENACTED, That immediately following the close of fiscal 2015, 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 2015 and on the first day of fiscal 2016. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2015 and 2016, 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 (DBM) shall also prepare during fiscal 2016 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 2017 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 2017 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, 2015	DBM	July 14, 2015
Report on the creation, transfer, or abolition of regular positions	DBM	As needed

7. Add the following section:

Section XX 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 15, 2015; October 15, 2015; January 15, 2016; and April 15, 2016; 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 that 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 the 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 EPP positions	Department of Budget and Management Maryland Department of Education	July 15, 2015; October 15, 2015; January 15, 2016; and April 15, 2016

8. Add the following section:

Section XX 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. **The language also includes a temporary clause that excludes participants in the Voluntary Separation Program from continuing employment in other positions. This is consistent with the goals of the program.**

9. Add the following section:

Section XX 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 2017 Governor's budget books an accounting of the fiscal 2015 actual, fiscal 2016 working appropriation, and fiscal 2017 estimated revenues and expenditures associated with the employees' and retirees' health plan. **The data in this report should be consistent with the data submitted to the budget data submitted to the Department of Legislative Services.** 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 recoveries, 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. The language proposes that the language in the report be consistent with the budget data submitted with the budget bill.

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 2017 budget books

Updates

1. Changes to Employee and Retiree Health Care Plan – A New Wellness Program Is Added

State employees' and retirees' new health care plans began on January 1, 2015, and will be effective throughout the calendar year. As with previous plans, medical, mental health, vision, dental, life insurance, and accidental death and dismemberment benefits are offered.

Prescription drug, life insurance, and accidental death and dismemberment services are each offered through a single vendor. Dental insurance is provided through a dental health maintenance organization (HMO) or a PPO. An HMO is a network of providers that provide care. Individuals who elect an HMO only receive benefits if they use this network. A PPO allows individuals to use any provider. HMO plans tend to have lower costs, deductibles, and copayments.

Mental health and vision benefits are provided through the medical plan. Employees and retirees have three choices: an EPO plan; a PPO plan; and an IHM plan. EPOs are State-insured HMOs. PPOs are also State insured. IHM services are provided by an organization that allows doctors, hospitals, and the plan to work together to coordinate a patient's care. Selecting this option requires an individual to use the provider's facilities, except in the case of an emergency. With an IHM, the State pays a fixed rate, and the provider assumes the cost risk.

New Wellness Program

In a substantial departure from previous health insurance plans, the new plan includes a wellness program. Chapter 208 of 2013 requires the Secretary of DBM to include a wellness program with this new health plan. The goal of the wellness program is to improve the health of State employees. To do this, the wellness plan includes several new plan design elements that will change the type of care that individuals receive and the level of information collected about their health.

DBM is concerned that the State pays a substantial amount of its health care budget to support chronic conditions and that employees and retirees are not complying adequately with treatment options. For example, DBM advises that 30% of patients keep glucose under control (diabetes care) compared to 62% nationally, and 46% of patients receive cholesterol testing, compared to over 80% in other providers. The hypothesis is that a wellness program can improve statistics like these, which will improve health and reduce costs.

The new plans provide additional services and include incentives to encourage healthier outcomes. The wellness program is for employees, retirees, and their covered spouses. In the new plan, the physician that each patient sees most often will be designated a primary care physician (PCP). Patients will be required to complete a State-administered health risk assessment. The assessment's questions relate to age, diet, and exercise, as well as alcohol and tobacco usage. Individuals will receive a report and provide an overview of current health that also identifies potential current risks. This report should be discussed with their PCP. After the assessment is completed, the individuals' visits to their PCP will not require a copayment. If the assessment is not completed and discussed with their PCP, an additional $50.00 ($2.08 from a biweekly paycheck) will be assessed on January 1, 2016.

The assessment is required to be completed annually. In 2016, individuals will also be required to complete an online nutrition education or weight management program. Individuals will also be required to complete all recommended age- and gender-specific biometric screenings. If they do not complete these, individuals will be assessed $75.00 ($3.12 from a biweekly paycheck), beginning on January 1, 2017. After the assessment is completed, the individuals' visits to their PCP will not require a copayment.

Individuals with chronic conditions could be identified to participate in the Disease Management Program. If identified, patients are required to engage with the plan's nurse and follow the recommended treatment. Identified patients that do not follow the treatment plan will be assessed $250.00 ($10.42 from a biweekly paycheck), beginning on January 1, 2017.

Other Changes

Other change to the plan include:

- The State no longer offers a POS plan. POS plans have member care managed by a PCP, but services are not necessarily required to be provided by a network.

- An IHM was not offered in recent plans.

- Prior plans had a separate mental health plan. The current plan integrates it into the medical plan.

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 2014					
Legislative Appropriation	$80,642	$17,562	$10,026	$7,112	$115,342
Deficiency Appropriation	-208	0	0	0	-208
Budget Amendments	-69,204	-15,960	-9,798	10	-94,952
Reversions and Cancellations	-4,836	-1,602	-228	-80	-6,746
Actual Expenditures	**$6,393**	**$0**	**$0**	**$7,042**	**$13,436**
Fiscal 2015					
Legislative Appropriation	$69,121	$14,991	$9,369	$7,553	$101,033
Cost Containment	0	0	0	0	0
Budget Amendments	-60,662	-8,058	-4,940	0	-73,660
Working Appropriation	**$8,459**	**$6,933**	**$4,429**	**$7,553**	**$27,374**

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

Fiscal 2014 actual spending totaled $13.4 million, which is $101.9 million less than appropriated. Retirement contributions were reduced by $93,540 and health care contributions were reduced by $114,812 through deficiency appropriations. DBM personnel also processed the following budget amendments:

- $52.2 million in general funds, $10.9 million in special funds, and $6.9 million in federal funds were transferred to State agencies for employee general salary increases;
- $12.7 million in general funds, $3.8 million in special funds, and $2.7 million in federal funds were transferred to State agencies for employee increments;
- $2.4 million in general funds, $0.9 million in special funds, and $0.2 million in federal funds were transferred to State agencies for the annual salary review; and
- $2.0 million in general funds and $0.4 million in special funds were transferred for the State Law Enforcement Officers Labor Alliance collective bargaining additional increments.

Fiscal 2014 reversions totaled $6.7 million in all funds. Specific reversions include:

- $3.4 million for the statewide general salary increase, including $1.6 million in general funds, $1.5 million in special funds, and $0.2 million in federal funds;
- $3.0 million in general funds for IWIF balances, that were not needed because agency appropriations were sufficient;
- $0.2 million in general fund employee compensation primarily due to vacant positions; and
- $0.2 million in general funds for death benefits in the statewide program that were not needed.

Fiscal 2015

The fiscal 2015 legislative appropriation included $101.0 million for DBM personnel. To date, $73.7 million in budget amendments have been processed, including:

- -$50.5 million to allocate the general salary increase, including -$37.7 million in general funds, -$7.9 million in special funds, and -$4.9 million in federal funds;
- -$19.4 million in general funds for cost containment; and

- -$3.7 million for the annual salary review, including -$3.6 million in general funds, -$0.1 million in special funds, and -$0.1 million in federal funds.

Appendix 2

358 New Positions in the Fiscal 2016 Allowance

- 233 Judiciary positions include:
  - 5 clerks in the court of appeals;
  - 18 in the court of special appeals, including 4 law clerks;
  - 22 in the circuit court, including 10 judges and 12 law clerks;
  - 92 in the District Court, including 2 judges;
  - 27 in the Administrative Office of the Court;
  - 2 in the court-related agencies;
  - 4 in the State Law Library;
  - 8 in the Judicial Information Systems;
  - 55 in the Clerks of the Circuit Court.
- 9 Attorney General positions, 3 in the Securities Division and 6 in the Medical Fraud Division;
- 1 Public Service Commission engineer;
- 1 new administrator at the Secretary of State;
- 2 positions at the Interagency Committee on School Construction, 1 administrator and 1 information technology position;
- 1 Military Department position;
- 1 information technology specialist at the Maryland Institute Emergency Medical Services Systems position;
- 8 new positions in the State Department of Assessments and Taxations' Charter Unit;

- 9 new lottery positions supporting video lottery terminal operations;

- 4 new positions in the Department of Budget and Management, 2 for the Central Collection Unit and 2 for employee benefits;

- the Department of Information and Technology gains 2 positions supporting the 700 megahertz public safety communication system;

- 12 new State Retirement Agency positions, including 4 contractual conversions, 4 Maryland Pension Administration System positions, and 4 in Benefits Administration to relieve backlogs;

- 29 new Department of Natural Resources positions, of which 17 are police and the remaining 12 are funded by fees instead of general funds; and

- 1 new Maryland Department of Agriculture inspector for the State Chemist in the Maryland Department of Agriculture's Office of Plant Industries and Pest Management.

- 34 new positions in the Department of Health and Mental Hygiene include:

  - 15 in health occupation boards, that are supported by fees and not general funds;

  - 10 in Medicaid;

  - 5 in Health System Infrastructure Administration related to federal State Innovation Models project grants; and

  - 4 in Health Care Quality to support the Developmental Disabilities Administration;

- 1 education program specialist at the Maryland State Department of Education;

- 1 position at the University of Maryland Eastern Shore;

- 6 Department of Housing and Community Development positions in finance and accounting, none of which are supported by general funds; and

- 3 Maryland Department of the Environment positions in Water Management Administration, with no general fund spending.

Appendix 3

Position Reconciliation

Positions in Fiscal 2016 Allowance	81,422
Positions Abolished through Voluntary Separation Program and Deleted Vacancies	-500
Proposed Positions	80,922
Spending Affordability Committee Limit	81,081
Positions Over (Under) Spending Affordability Limit	-159

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

Object/Fund	FY 14 Actual	FY 15 Working Appropriation	FY 16 Allowance	FY 15 - FY 16 Amount Change	Percent Change
Positions					
01 Regular	115.50	118.50	120.50	2.00	1.7%
02 Contractual	2.70	1.70	0.70	-1.00	-58.8%
Total Positions	**118.20**	**120.20**	**121.20**	**1.00**	**0.8%**
Objects					
01 Salaries and Wages	$ 9,606,533	$ 23,457,425	$ 41,102,018	$ 17,644,593	75.2%
02 Technical and Spec. Fees	101,546	63,429	5,022,357	4,958,928	7818.1%
03 Communication	282,609	271,123	282,667	11,544	4.3%
04 Travel	20,032	18,500	20,000	1,500	8.1%
08 Contractual Services	3,212,573	3,346,643	3,595,911	249,268	7.4%
09 Supplies and Materials	34,133	25,000	35,000	10,000	40.0%
10 Equipment – Replacement	5,548	13,300	8,800	-4,500	-33.8%
13 Fixed Charges	172,655	178,336	188,300	9,964	5.6%
Total Objects	**$ 13,435,629**	**$ 27,373,756**	**$ 50,255,053**	**$ 22,881,297**	**83.6%**
Funds					
01 General Fund	$ 6,393,288	$ 8,459,037	$ 33,147,302	$ 24,688,265	291.9%
03 Special Fund	0	6,933,190	5,775,767	-1,157,423	-16.7%
05 Federal Fund	0	4,428,808	3,260,852	-1,167,956	-26.4%
09 Reimbursable Fund	7,042,341	7,552,721	8,071,132	518,411	6.9%
Total Funds	**$ 13,435,629**	**$ 27,373,756**	**$ 50,255,053**	**$ 22,881,297**	**83.6%**

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
Department of Budget and Management – Personnel

Program/Unit	FY 14 Actual	FY 15 Wrk Approp	FY 16 Allowance	Change	FY 15 - FY 16 % Change
01 Executive Direction	$ 1,932,067	$ 2,148,264	$ 2,336,688	$ 188,424	8.8%
02 Division of Employee Benefits	6,785,614	7,148,796	7,649,305	500,509	7.0%
04 Division of Employee Relations	1,376,039	1,540,021	1,792,265	252,244	16.4%
06 Division of Classification and Salary	2,082,836	2,230,704	2,406,503	175,799	7.9%
07 Division of Recruitment and Examination	1,259,073	1,397,592	1,543,960	146,368	10.5%
08 Statewide Expenses	0	12,908,379	34,526,332	21,617,953	167.5%
Total Expenditures	**$ 13,435,629**	**$ 27,373,756**	**$ 50,255,053**	**$ 22,881,297**	**83.6%**
General Fund	$ 6,393,288	$ 8,459,037	$ 33,147,302	$ 24,688,265	291.9%
Special Fund	0	6,933,190	5,775,767	-1,157,423	-16.7%
Federal Fund	0	4,428,808	3,260,852	-1,167,956	-26.4%
Total Appropriations	**$ 6,393,288**	**$ 19,821,035**	**$ 42,183,921**	**$ 22,362,886**	**112.8%**
Reimbursable Fund	$ 7,042,341	$ 7,552,721	$ 8,071,132	$ 518,411	6.9%
Total Funds	**$ 13,435,629**	**$ 27,373,756**	**$ 50,255,053**	**$ 22,881,297**	**83.6%**

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.