F10A02
Personnel
Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$6,540	$32,408	$94,865	$62,457	192.7%
Deficiencies and Reductions	0	2,402	-19	-2,422	
Adjusted General Fund	**$6,540**	**$34,811**	**$94,846**	**$60,035**	**172.5%**
Special Fund	0	5,575	15,649	10,073	180.7%
Deficiencies and Reductions	0	343	0	-343	
Adjusted Special Fund	**$0**	**$5,918**	**$15,649**	**$9,730**	**164.4%**
Federal Fund	0	3,261	8,791	5,530	169.6%
Adjusted Federal Fund	**$0**	**$3,261**	**$8,791**	**$5,530**	**169.6%**
Reimbursable Fund	7,451	8,071	10,021	1,949	24.2%
Adjusted Reimbursable Fund	**$7,451**	**$8,071**	**$10,021**	**$1,949**	**24.2%**
Adjusted Grand Total	**$13,991**	**$52,061**	**$129,306**	**$77,245**	**148.4%**

- The budget provides two deficiencies totaling $2.7 million; $2.5 million ($2.2 million in general funds and $0.3 million in special funds) for the State Law Enforcement Officers Labor Alliance and $0.2 million of general funds for shared services. **The Department of Legislative Service (DLS) recommends that these funds are contingent on SB 378 and HB 454, which remove the prohibition on increments.**

- After adjusting for deficiencies and an across-the-board reduction in fiscal 2017 health insurance costs, the allowance increases to $129.3 million, which is $77.2 million more than fiscal 2016.

- Most of the costs are attributable to the Department of Budget and Management's (DBM) statewide program, which has a $111.8 million budget that exceeds the fiscal 2016 working appropriation by $75.2 million.

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

For further information contact: Patrick S. Frank and Laura M. Vykol Phone: (410) 946-5530

- Funding for operations totals $17.5 million and exceeds fiscal 2016 by $2.0 million.

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	113.50	127.00	127.00	0.00
Contractual FTEs	2.46	0.70	3.20	2.50
Total Personnel	**115.96**	**127.70**	**130.20**	**2.50**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions		2.67	2.10%
Positions and Percentage Vacant as of 12/31/15		18.80	14.80%

- From fiscal 2015 to 2016, 13.5 positions were added to the department's budget.

- The Division of Employee Benefits received 2.0 regular positions in the fiscal 2016 legislative appropriation to support new contractual health care analysis requirements and convert a long-time contractual full-time equivalent (FTE).

- An additional 11.5 positions were transferred from other agencies to support the human resources shared services initiative.

- DBM also received 2.0 additional contractual FTEs from other agencies to support the human resources shared services initiative.

Analysis in Brief

Major Trends

Personnel Transaction Tallies Reverse Recent Declines: From fiscal 2009 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 and reclassifications increased but other transactions tended to remain steady. In fiscal 2015, transfers, promotions, reclassifications, and retirements increased substantially.

Issues

Statewide Employee Compensation: Employee costs are 18.9% of State spending, which totals $42.3 billion. In fiscal 2017, employee costs increase by $329.7 million, or 4.1%. The largest increases are attributable to increments ($108.9 million), health insurance ($118.2 million), and pension ($100.2 million) costs. Since fiscal 2004, employee salaries have increased at an annual rate of 2.4% per year, while health insurance costs have increased at an annual rate of 3.9% and pension costs at an annual rate of 14.7%. The limited salary growth is attributable to years without general salary increases or merit pay increases. DBM has completed collective bargaining agreements with public safety unions that give them additional increments and general salary increases. Funds for the additional increment and general salary increase do not appear to be in the budget. **DBM should brief the committees on the negotiations. This should include a discussion of what concessions the public safety unions made to receive these salary enhancements from the State. The department should also discuss the cost of the additional increment and salary increase, and how this will be funded.** DBM was unable to reach any agreements with the other bargaining units. The budget includes increments in fiscal 2017 for the remaining employees but does not include a general salary increase. There are also no additional increments for employees that missed increments from fiscal 2009 to 2013 and in fiscal 2016. The budget prepared in fiscal 2017 was prepared under the best conditions any budget has been prepared since fiscal 2009; both fiscal 2016 and 2017 budgets have a structural surplus, and fiscal 2017 is expected to begin with $502.4 million fund balance. The most recent comparison of State salaries to local and federal government salaries was prepared in fiscal 2008. The study concluded that Maryland State salaries were 5.0% below average at the minimum pay level, and 3.0% below the average at the maximum level. **The department should brief the committees on its policies toward State employee salary increases. This should include a discussion of the economic conditions under which general salary increases are affordable and appropriate. DBM should also discuss the extent to which low salaries affect retention, productivity, and effectiveness.**

Statewide Position Changes: The Spending Affordability Committee (SAC) set a position cap of 80,831 regular full-time equivalents across State government for fiscal 2017. This year, the committee did not include any exemptions. The proposed budget includes 80,321 positions in fiscal 2017, net of an across-the-board reduction of 657 positions in Section 20 of the budget bill. This is below the SAC limit. **DLS recommends that the committees adopt narrative expressing intent that the fiscal 2018 budget bill include a full and complete accounting of positions and that the Administration**

refrain from abolishing unspecified positions through across-the-board reductions in the budget bill. To maximize savings and have a full and complete budget at the beginning of the fiscal year, DLS recommends that the General Assembly add language requiring that Section 20 position abolitions be made prior to the start of the fiscal year on July 1, 2016. DLS recommends language requiring approval of the position abolitions by the Board of Public Works and that the Governor submit a schedule of abolished positions to the budget committees by July 1, 2016, be added to Section 20.

Human Resources Shared Services: In fiscal 2016, DBM introduced a new human resources (HR) shared services initiative. DBM advises that the objective is to bring consistency to all HR-related activities throughout the employment life cycle. DBM expects to realize cost savings as it refines the pool of individuals providing HR services and streamlines processes. **DBM should be prepared to brief the committees on its new HR shared service initiative. The department should also prepare Managing for Results (MFR) indicators that measure how effectively DBM is providing HR services to State agencies.**

Supervisors to Supervised Employees Ratios in State Agencies: The fiscal 2016 *Joint Chairmen's Report* required that State agencies submit a report on the ratio of supervisors and managers to employees for agencies. DBM submitted a report that examined this issue and provided ratios for Executive Branch agencies. **DLS recommends that DBM examine the high number of 1:1 ratios. This should include determining where an increased use of the lead worker role is appropriate. DBM should also examine if salary levels are competitive and make improvements if they are not. A more aggressive use of Annual Salary Reviews may be effective if the Administration continues to be reluctant to provide general salary increases.**

Ongoing Hiring Freeze: The State has been operating under a hiring freeze to varying degrees since 2004. Based on February 2016 vacancy data, 772 positions were frozen. **DLS recommends that the committees adopt language requiring DBM to prepare a report on the hiring freeze that describes the administrative procedures and what positions are exempted. DBM should also develop MFR indicators that measure how long it takes to process hiring freeze exemption requests.**

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 Postemployment Benefits (OPEB) pay benefits on an annual basis. This has resulted in an unfunded liability totaling $9.4 billion at the beginning of fiscal 2016. 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.**

Statewide Personnel System Implementation Delays: Since January 2008, DBM has been working on replacing its Statewide Personnel System. The first phase of the project included recruiting, compensation, and performance management. Initially, the second phase included benefits administration, compensation, and timekeeping. The department has delayed the benefits administration, and this is now the third phase. The revised plan is to implement benefits administration in spring 2017, instead of late 2015. The total cost of the project has also increased. Last year, DBM reported that the total cost was $60.4 million. The updated total project cost is $72.3 million. **The department should be prepared to brief the committees on the status of the Statewide Personnel System.**

Missing Personnel Data: Section 7-121 of the State Finance and Procurement Article requires that the budget books include personnel data. The fiscal 2017 budget books did not include the required personnel data. **The Administration should be expected to include all required personnel data in the fiscal 2018 budget books.**

Employee and Retiree Health Insurance Account: The account closed with a substantial fund balance in fiscal 2014; however, due to increasing costs, the account closed with a negative fund balance in fiscal 2015 after accounting for expected accruals. Contributions increase in fiscal 2016 and 2017 in order to eliminate the deficit, and favorable trends in pharmacy rebates results in additional revenue. DLS is concerned that growth in payments in fiscal 2016 and 2017 is underestimated, which could result in a negative fund balance in fiscal 2017**. DBM should explain recent and predicted cost trends in health insurance spending in fiscal 2017 and whether funding is sufficient.**

New Health Plans and Wellness Program: In an effort to address escalating medical and prescription costs, DBM implemented a wellness program along with other plan changes beginning on January 1, 2015. The program includes the use of incentives and disincentives, education, and discounted resources to encourage employee wellness and reduce out-year costs. Based on initial feedback, fewer employees completed the required wellness activities than anticipated. As of January 2016, wellness requirements for calendar 2015 and 2016 have been extended and surcharges eliminated. **DBM should discuss the decision to waive surcharges in calendar 2016 and 2017, current plans to implement the wellness program and improve participation, and provide revised costs and savings estimates of the program given recent changes. DLS recommends DBM submit a report January 1, 2017, on the revised wellness program.**

Recommended Actions

		Funds
1.	Add language requesting a report on hiring freeze policy.	
2.	Add budget language requiring a report on fiscal 2016 closeout data for the Employee and Retiree Health Insurance Account.	

		Funds
3.	Add language to restrict funds pending a report on the department's human resources services consolidation.	
4.	Reduce higher education merit pay increase to reflect the statewide average.	$ 1,466,143
5.	Reduce appropriation for increments to reflect the 657 position reduction.	640,000
6.	Adopt committee narrative requesting that the Administration submit a full and complete accounting of positions in the fiscal 2018 budget bill.	
7.	Adopt committee narrative requesting the Department of Budget and Management to submit a report on the revised wellness program.	
8.	Amend Section 19 to reduce overbudgeted health care spending in the Legislative and Judicial branches.	
9.	Add language limiting the Administration's across-the-board position reduction to vacant positions.	
10.	Add language requiring the Administration to receive the Board of Public Works approval for across-the-board position reductions prior to the start of fiscal 2017.	
11.	Add a section for the annual "Rule of 100" limit on position creation.	
12.	Add a section for annual language requiring a report on State positions.	
13.	Add a section requiring annual language of all Executive Pay Plan reporting.	
14.	Add a section on annual language restricting the movement of employees into abolished positions.	
15.	Add a section requiring reporting of employee and retiree health insurance receipts and spending.	
	Total Reductions	**$ 2,106,143**

Updates

Impact of the Cadillac Tax: The Cadillac Tax is a 40% excise tax on employer-sponsored health coverage on the portion of total health insurance premiums that exceed $10,200 for individuals and $27,500 for a family. The Cadillac Tax was scheduled to take effect in calendar 2018, but has been delayed until calendar 2020.

Operating Budget Analysis

Program Description

The Office of Personnel Services and Benefits (OPSB) provides policy direction for the human resources (HR) 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.

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

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 2009. 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. The macro trend is that there was more churning of the State workforce in fiscal 2015, more employees than in any of the previous six years.

- Appointments, or new hires, increased to over 4,100 in fiscal 2014 and 3,600 in fiscal 2015. This is still significantly lower than the peak levels before the recession and even fiscal 2009 (which saw the first declines of the recession) but hiring has recovered after the recession.

Exhibit 1
Personnel Activities for State Employees
As of June 30 of Each Year
Fiscal 2009-2016

	2009	2010	2011	2012	2013	2014	2015	2016
Career Track								
Hires and Rehires[1]	4,176	3,066	3,612	3,344	3,549	4,112	3,604	1,461
Transfers	365	269	285	224	399	311	792	462
Promotions	2,678	2,596	2,240	2,439	2,651	2,596	3,523	1,135
Reclassifications	1,130	1,410	1,522	221	729	1,036	2,104	1,669
Demotions	252	253	225	222	237	252	211	123
Separations								
Deceased	49	73	56	48	47	39	54	29
Failed to Report for Duty	45	27	28	28	30	38	42	8
Layoffs/Filled Position Abolition[2]	102	123	3	10	63	4	9	3
Leave of Absence	80	83	70	74	64	53	67	22
Resignations	1,767	1,626	1,838	1,669	1,805	1,780	2,028	1,220
Retired	1,146	1,474	1,797	992	1,170	1,112	1,764	690
Terminated	318	482	224	216	236	188	210	149
Terminated on Probation	133	87	118	93	96	89	108	49
Subtotal	***3,640***	***3,975***	***4,134***	***3,130***	***3,511***	***3,303***	***4,282***	***2,170***

[1] Prior to fiscal 2015, hires and rehires were tracked separately.
[2] 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.

Note: Fiscal 2016 data is through December 31, 2015, and does not include the full year.

Source: Department of Budget and Management

- After declining in fiscal 2010 and 2011, promotions have recovered since fiscal 2011. There was a large increase in fiscal 2015.

- Reclassifications also spiked in fiscal 2015. More funding of Annual Salary Reviews (ASR) in fiscal 2015 and 2016 may somewhat increase reclassifications. To some extent, the higher reclassifications are attributable to the new Statewide Personnel System. Previously, reclassifications were processed through paperwork. The new system processes reclassifications electronically. This has led the system to include vacant and filled positions as reclassifications, instead of only filled reclassifications.

As it relates to separations, the major trends were that:

- resignations were fairly consistent, ranging between 1,626 and 1,838 from fiscal 2009 to 2014, increasing to over 2,000 in fiscal 2015. Given the difficulty of finding alternative employment, it is not surprising that this number was low; and

- retirements have been uneven in recent years. Since fiscal 2009, retirements were higher in fiscal 2010, 2011, and 2015, which may be due to the fiscal 2010 Voluntary Separation Program (VSP), pension reform in the 2011 legislative session, and another VSP in fiscal 2015.

Fiscal 2016 Actions

Proposed Deficiency

The DBM personnel budget includes two deficiency appropriations in fiscal 2016: $2,527,977 ($2,185,060 in general funds and $342,917 in special funds) to increase salaries and benefits for employees in the State Law Enforcement Officers Labor Alliance (SLEOLA) and $217,340 in general funds to implement the HR shared services initiative. The details of SLEOLA and other union issues are discussed in Issue 1. The HR shared services initiative is discussed in Issue 3. **DLS recommends approving these deficiencies.**

Cost Containment

The fiscal 2016 budget bill included an across-the-board 2% reduction to spending in State agencies. DBM personnel was included in this reduction. To implement this, DBM deleted $200,000 supporting death benefits in the statewide program and increased turnover by $8,409 in Executive Direction, $35,000 in the Division of Classification and Salary, and $15,000 in the Division of Recruitment and Salary.

Proposed Budget

The fiscal 2017 allowance totals $129.3 million, which is $77.2 million more than the fiscal 2016 working appropriation, as seen in **Exhibit 2**. Most of the costs are attributable to the statewide program, which has a $111.8 million budget that exceeds the fiscal 2016 working appropriation by $75.2 million. Funding for operations totals $17.5 million and exceeds fiscal 2016 by $2.0 million. Funding changes include:

- adding $105.3 million for employee increments in the statewide program;

- removing $34.0 million in one-time health insurance premiums in the statewide program;
- adding $5.6 million to the statewide program for SLEOLA benefits and annualizing fiscal 2016 increments;
- reducing the statewide program $2.5 million by removing fiscal 2016 SLEOLA increments;
- adding approximately $918,000 to maintain the Benefits Administration System (BAS) an additional year; and
- providing an additional $222,000 for employee salaries, primarily to implement the HR shared services initiative.

Excluded from the exhibit are costs associated with employee increments for OPSB employees. Employee increments and associated fringe benefits are included in the budget of DBM. These funds, which total $168,564 ($107,420 in general funds and $61,144 in special funds), will be distributed to each agency by budget amendment for the start of the fiscal year.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $19,305 in general funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

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

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2015 Actual	$6,540	$0	$0	$7,451	$13,991
Fiscal 2016 Working Appropriation	34,811	5,918	3,261	8,071	52,061
Fiscal 2017 Allowance	94,846	15,649	8,791	10,021	129,306
Fiscal 2016-2017 Amount Change	$60,035	$9,730	$5,530	$1,949	$77,245
Fiscal 2016-2017 Percent Change	172.5%	164.4%	169.6%	24.2%	148.4%

Where It Goes:

Personnel Expenses	
Additional salaries and wages	$222
Employee and retiree health insurance	323
Employee pensions	199
Reclassifications	-33
Accrued leave payout	-13
Workers' compensation premium assessment	-10
Turnover adjustments	118
Statewide Program	
State employee increments	105,312
Annual Salary Review	826
Annualize fiscal 2016 increments for SLEOLA employees	4,440
Fitness and education bonus for SLEOLA employees	493
Shift differential for SLEOLA employees	287
Uniform allowance for SLEOLA employees	425
SLEOLA employee deficiency	-2,528
Remove fiscal 2016 employee and retiree health insurance costs	-34,036
Agency Operations	
Extend maintenance for current Benefits Administration System (BAS)	800
Unexpected information technology equipment required to maintain BAS	118
Contractual full-time equivalents supporting shared human resources services	137
Health actuary contract	125
Postage at the Division of Employee Benefits	45
Other	-5
Total	**$77,245**

SLEOLA: State Law Enforcement Officers Labor Alliance

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

Issues

1. Statewide Employee Compensation

Exhibit 3 shows that the amount budgeted for employee salaries and benefits increases to $8.3 billion in fiscal 2017. Employee costs are 18.9% of State spending, which totals $42.3 billion. In fiscal 2017, employee costs increase by $329.7 million, or 4.1%. The largest increases are attributable to increment ($108.9 million), health insurance ($118.2 million), and pension ($100.2 million) costs.

Exhibit 3
Regular Employee Statewide Personnel Cost Changes
Fiscal 2016-2017
($ in Millions)

2016 Working Appropriation	**$7,993.6**
Statewide Salary Changes	
Increments and other compensation	$108.9
Annual Salary Review	0.8
Position-based Changes	
New full-time equivalent positions in the allowance	$23.6
Position abolitions	-42.9
Operational Expenditures	
Adjustments to turnover	$14.7
Reclassifications	-0.4
State Law Enforcement Labor Alliance salary and benefit increases	5.6
Overtime	20.2
Fringe Benefits	
Pension contributions	$100.2
Active and retired employee health insurance costs	118.2
Workers' compensation insurance	-4.1
Unemployment insurance	-0.2
Miscellaneous adjustments	-15.1
Fiscal 2017 Allowance	**$8,323.4**
Increase over fiscal 2016 working appropriation	$329.7
Percentage increase	4.1%

Note: Excludes nonbudgeted agencies and fiscal 2016 deficiency appropriations.

Source: Department of Budget and Management

Annual Salary Review

ASRs represent adjustments in the salaries of classifications that DBM and departmental staff have jointly targeted for improved compensation to facilitate the State's competition for qualified applicants in the labor market. 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. **Exhibit 4** shows that the Administration's fiscal 2017 budget includes approximately $826,000 in total funds and $540,000 in general fund ASRs.

Exhibit 4
Positions Adjusted through the Annual Salary Review Process

Agency	Description	General Funds	Special Funds	Federal Funds	Total Funds	Total Positions	Per Position
Statewide	Building Security Officer Step Increases	$323,987	$470	$9,977	$334,434	173	$1,933
DGS	DGS Procurement Officer One Grade Increase	150,265	0	0	150,265	18	8,348
DPSCS	Warrant Apprehension Job Series Salary Parity with Detectives	65,720	0	0	65,720	34	1,933
DHCD	Fiscal Staff Step Increases	0	229,748	45,949	275,697	27	10,211
Total		**$539,972**	**$230,218**	**$55,926**	**$826,116**	**252**	**$3,278**

DGS: Department of General Services
DHCD: Department of Housing and Community Development
DPSCS: Department of Public Safety and Correctional Services

Source: Department of Budget and Management

Since the budget was completed, DBM has proposed additional ASRs for polygraph operators at the Maryland State Police and the Department of Public Safety and Correctional Services (DPSCS). This is a two-grade increase of $73,051 in general funds.

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 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 2016, fringe benefits were almost one-third of employee costs. Pension contributions increased most substantially at a rate of 13% annually. Health insurance and other fringe benefit costs also increased at higher rates than salaries. The increasing pension costs were 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 5
Change in Direct Salary and Benefit Costs for the Average Employee
Fiscal 2004 and 2016

State Budgeted Compensation	**2004**	**2016**	**Total Change**	**Annual Percent Change**
Salary	$42,505	$55,164	$12,659	2.2%
Health Insurance Premium	6,483	9,863	3,380	3.6%
Pension Contributions	2,067	9,312	7,245	13.4%
Other Fringe Benefits	3,832	5,234	1,402	2.6%
Total	**$54,887**	**$79,573**	**$24,686**	**3.1%**
Benefit Share of Total Cost	22.6%	30.7%		

Source: Department of Budget and Management Annual Personnel Reports

The average employee salary increased from approximately $42,500 in fiscal 2004 to $55,200 in fiscal 2016. Although the trend was for salaries to increase, this was not always the case. For example, average salaries decreased in fiscal 2010 and 2011, due to employee furloughs. From fiscal 2009 to 2013, salaries remained constant.

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

From fiscal 2014 to 2015, the average annual salary increased from $50,700 to $55,275, which is 9%. Such a large increase is quite unusual and could be influenced by two factors:

- ***Change in Methodology:*** Prior to fiscal 2015, this average was provided by the Department of Information Technology (DoIT). Beginning with fiscal 2015, DBM used the new Statewide Personnel System to compute the average salary. Under the DBM methodology, hourly, daily, temporary, and contractual employees were excluded. Including them may have systematically underestimated the average salary. Using data that DLS receives every July from DBM, DLS estimated average salaries for fiscal 2014 and 2015. Using the current methodology, DLS estimates that the average salary in July 2014 was $53,659 and that the average salary in July 2015 was $55,429. The 2015 estimate is close to the DBM estimate, while the fiscal 2014 estimate is quite a bit higher. This suggests that a change in methodology did have some effect on the increase; and

- ***Actions Taken to Increase Salary:*** After years without any general salary increases or merit increases, State employees received salary increases. From fiscal 2014 to 2015, factors that raised salaries include a 2% general salary increase, receiving increments as scheduled without delay, ASRs affecting approximately 2,000 employees, and a new civilian pilot salary schedule that established a minimum entry salary of $70,000 for 70 employees.

Although changes in the methodology for computing average salary may exaggerate recent salary increases, this should not have too much effect on the slope from fiscal 2004 to 2014. During that period, salary changes are consistent with salary actions taken. **Exhibit 6** shows that State employees did not receive any general salary increases or increments in fiscal 2003, 2004, 2010, or 2011. A one-time $750 bonus was received in fiscal 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.

Collective Bargaining

Approximately 27,000 State employees, excluding higher education employees, were covered by collective bargaining as of April 1, 2014. While most Executive Branch employees have collective bargaining rights, management service employees, special appointees, the Governor's personal staff, and elected officials do not. Generally, employees of all Executive Branch agencies have collective bargaining rights. Certain Maryland Transit Administration (MTA) employees also have binding arbitration. Except for higher education employees, covered employees are divided into 10 bargaining units. The State Labor Relations Board conducts the elections in which employees choose their exclusive bargaining representative. **Exhibit 7** contains a list of the bargaining units and their exclusive representatives.

Exhibit 6
Permanent Employee Statewide Salary Actions
Fiscal 2003-2017

Fiscal Year	Date of General Salary Increase	General Salary Increase	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
2009[1]	July 1, 2008	2.0%	On time
2010[2]	July 1, 2009	None	None
2011[2]	July 1, 2010	None	None
2012	July 1, 2011	$750 One-time Bonus	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	None	None
2017	July 1, 2016	None	On time

Temporary statewide salary actions:

[1] 2- to 5-day furlough.
[2] 3- to 10-day furlough.

Source: Department of Budget and Management

Exhibit 7
Bargaining Units and Representatives
As of April 2, 2014

Unit	Title	Exclusive Representative	Employees	Expiration Dates
A	Labor and Trades	American Federation of State, County, and Municipal Employees (AFSCME)	727	December 31, 2017
B	Administrative, Technical, and Clerical	AFSCME	3,751	December 31, 2017
C	Regulatory, Inspection, and Licensure	AFSCME	592	December 31, 2017
D	Health and Human Service Nonprofessionals	AFSCME	1,680	December 31, 2017
E	Health Care Professionals	AFT – Healthcare Maryland	1,703	December 31, 2017
F	Social and Human Service Professionals	AFSCME	3,769	December 31, 2017
G	Engineering, Scientific, and Administrative Professionals	Maryland Professional Employees Council	3,700	December 31, 2017
H	Public Safety and Security	AFSCME/Teamsters	9,912	December 31, 2017
H	Baltimore/Washington International Airport Fire Fighters (I.A.F.F.)	International Airport Professional Firefighters Local 1742 I.A.F.F., AFL-CIO, CLC	64	June 30, 2017
I	Sworn Police Officers	State Law Enforcement Officers Labor Alliance	1,705	June 30, 2019
J	Maryland Transportation Authority Sworn Officers	Maryland Transportation Authority Police Lodge #34	449	June 30, 2019
	Total		**28,052**	

AFL-CIO: American Federation of Labor and Congress of Industrial Organizations
CLC: Canadian Labor Congress

Sources: Department of Budget and Management; Maryland Department of Transportation

DBM represents the State in negotiations with each unit's bargaining representative. These negotiations may include any matters relating to wages, hours, and terms and conditions of employment. The Governor is not required to negotiate any matter that is inconsistent with State law;

however, the Governor can negotiate items that require a statutory change or an appropriation as long as the parties understand that the item cannot become effective until the General Assembly takes action. The General Assembly, however, is not bound by the agreement. The collective bargaining statute does not provide for binding arbitration; instead, the State and bargaining representatives must meet and confer about negotiable terms. However, if no agreement is reached for the next fiscal year by October 25, a fact finder may be appointed.

After negotiations have concluded, a Memorandum of Understanding (MOU) is prepared that delineates all agreements the bargaining parties have reached. Upon approval by the Governor and a majority of the employees in the bargaining unit, the terms of the memorandum are agreed upon. The MOU may be effective for a period of one to three years.

The statute also prohibits certain activities. Employees may not strike nor may the State engage in a lockout. If a strike or a lockout occurs or appears imminent, the State or an employee organization may petition the circuit court for relief.

DBM Reaches Agreement with Three Public Safety Unions

DBM has reached agreement with SLEOLA, which bargains for sworn police officers. The agreement provides for regular increments, beginning with fiscal 2016, a general salary increase in fiscal 2017, and provides step increases for officers employed in the recent four years (fiscal 2010 to 2013) in which State employees did not receive step increases. DBM estimates that the agreement will require an additional $2.5 million in fiscal 2016 and $5.7 million in fiscal 2017. DBM advises that the contract includes the following:

- three-year contract from July 1, 2016, to June 30, 2019;
- increments in fiscal 2016 and 2017;
- one step for all who missed steps on January 1, 2017;
- one step for all who missed steps on January 1, 2018;
- increased starting salary for police officer scale to $36,800;
- one grade increase for DPSCS officers Warrant Apprehension Unit;
- no shift differential would be paid for any hours that are designated as a scheduled day shift, so that all hours worked from 2:00 p.m. to 7:00 a.m. qualify for shift differential;
- 2% general salary increase in fiscal 2017; and

- limited reopener language, which allows the union and State to negotiate again depending on economic conditions.

DBM also reached agreements with Baltimore/Washington International Thurgood Marshall Airport's (BWI Marshall Airport) firefighters and Maryland Transportation Authority (MDTA) sworn officers' unions. Though not identical, the MDTA agreement shares some similarities with the SLEOLA agreement. Both of these agreements receive increments and a 2% general salary increase in fiscal 2017. They also give extra increments to officers that missed them in fiscal 2017 and 2018. The BWI Marshall Airport agreement is less generous. The firefighters will not be receiving a general salary increase. They did receive an extra increment in fiscal 2017. Their contract ends at the end of fiscal 2017, so it is unclear what fiscal 2018 will bring. **DBM should brief the committees on the negotiations. This should include a discussion of what concessions the public safety unions made to receive these salary enhancements from the State.**

Funds for the additional fiscal 2017 increment and general salary increase do not appear to be in the budget. **The department should also discuss the cost of the additional increment and salary increase, and how this will be funded.**

No Agreements Reached Between DBM and the Other Bargaining Units

DBM was unable to reach any agreements with the other bargaining units. The budget includes increments in fiscal 2017 for the remaining employees but does not include a general salary increase. There are also no additional increments for employees that missed increments from fiscal 2009 to 2013 and in fiscal 2016. The budget in fiscal 2017 was prepared under the best conditions that any budget has been prepared since fiscal 2009; both fiscal 2016 and 2017 budgets have a structural surplus, and fiscal 2017 is expected to begin with a $502.4 million fund balance.

The most recent comparison of State salaries to local and federal government salaries was prepared in fiscal 2008. The report examined benchmark classifications covering 45,000 State employees. These were compared to State employees in seven neighboring states (including Ohio, North Carolina, and New Jersey), local jurisdictions (including the District of Columbia), and the federal Social Security Administration and Department of Health and Human Services. The study concluded that Maryland State salaries were 5% below average at the minimum pay level and 3% below the average at the maximum level. Anecdotal evidence suggests that the disparity is higher in central Maryland. As we have seen, State salaries have been flat in many years since calendar 2008, at a time while other public employees, such as the federal government, offered general salary increases.

The department should brief the committees on its policies toward State employee salary increases. This should include a discussion of the economic conditions under which general salary increases are affordable and appropriate. DBM should also discuss the extent to which low salaries affect retention, productivity, and effectiveness.

2. Statewide Position Changes

The Spending Affordability Committee (SAC) set a position cap of 80,831 regular full-time equivalents (FTE) across State government for fiscal 2017. The committee did not include any exemptions this year. The proposed budget includes 80,321, which is below the SAC limit. The number is net of an across-the-board abolition of 657 positions in Section 20 of the budget bill.

Statewide Position Overview

Exhibit 8 provides a summary of the position changes from the fiscal 2016 legislative appropriation to the fiscal 2017 allowance. In total, the allowance includes 80,321 positions, a decrease of 519 positions from the fiscal 2016 legislative appropriation. In fiscal 2016, higher education institutions used their flex personnel autonomy, as defined by Chapters 239 and 273 of 2004, to create 281 positions. Also, 11 positions were created by the Board of Public Works (BPW) during fiscal 2016. This includes 5 foreclosure mediation and health benefits positions at the Office of Administrative Hearings, 2 positions to support the Public Information Act at the Office of the Attorney General (OAG), 2 positions to create an Office of Public Access at BPW, 1 position to implement the Maryland Solicitations Act at the Secretary of State, and 1 director at the Behavioral Health Administration to support medication-assisted treatment for prescription drugs and opioids.

The fiscal 2016 budget included a 2% across-the-board reduction to agency budgets that abolished 278 positions. The largest reduction was in higher education, where 187 positions were abolished. Other agencies losing positions were the Department of Human Resources (DHR) that lost 82 vacant positions and the Department of Health and Mental Hygiene (DHMH) that lost 6 vacant positions at the Holly Center.

Specific agencies also lost positions early in fiscal 2016 through targeted actions. The Department of Commerce receives services from the Maryland Technology Development Corporation (TEDCO) making 6 positions no longer necessary. Corresponding positions were created by TEDCO, but since TEDCO is a nonbudgeted agency, these are not State-controlled positions. The Department of Housing and Community Development also lost 6 positions to trim costs. The budget also includes a deficiency appropriation for 40 MTA positions supporting the BaltimoreLink initiative.

The fiscal 2017 allowance includes 330 new positions. Notable increases include 90 new positions at MTA to support the BaltimoreLink initiative, 58 federally funded contractual conversions in DHMH's Prevention and Health Promotion Administration, 34 positions at the Judiciary for judges and their staff, 34 positions in the Maryland State Department of Education for the Charles H. Hickey, Jr. School and the Library for the Blind, 28 State Highway Administration positions supporting capital planning, 20 contractual conversions at the Department of Natural Resources (DNR), 18 positions at the Motor Vehicle Administration (MVA) to move the Maryland Highway Safety Office from the University of Baltimore into MVA, 13 positons for the lottery to provide oversight for the Prince George's County casino, and 11 contractual conversions for the Maryland School for the Deaf.

Exhibit 8
Regular Position Changes
Fiscal 2016 Legislative Appropriation to Fiscal 2017 Allowance

Department/Service Area	2016 Leg. Approp.	BPW/ Flex Adjust.	Cost Contain.	Abolish	Transfer	Def.	2016 Work. Approp.	Transfer	Abolish	New	2017 Allow.
Health and Human Services											
Health and Mental Hygiene	6,363	-5	-6	0	1	0	6,353	-3	-129	62	6,283
Human Resources	6,442	0	-82	-1	0	0	6,360	-2	-21	0	6,337
Juvenile Services	2,055	0	0	0	0	0	2,055	-2	-2	0	2,051
Subtotal	***14,860***	***-5***	***-88***	***-1***	***1***	***0***	***14,768***	***-7***	***-152***	***62***	***14,672***
Public Safety											
Public Safety and Correctional Services	11,025	0	0	0	0	0	11,025	-8	-3	0	11,014
Police and Fire Marshal	2,438	0	0	0	0	0	2,438	-1	-1	0	2,436
Subtotal	***13,463***	***0***	***0***	***0***	***0***	***0***	***13,463***	***-9***	***-4***	***0***	***13,450***
Transportation	**9,086**	**1**	**0**	**-1**	**0**	**40**	**9,126**	**0**	**-3**	**136**	**9,259**
Other Executive											
Legal (Excluding Judiciary)	1,498	0	0	0	3	0	1,501	0	-18	1	1,484
Executive and Administrative Control	1,631	8	-2	0	-11	0	1,626	-4	-21	11	1,613
Financial and Revenue Administration	2,117	1	0	0	1	0	2,119	0	0	13	2,132
Budget and Management and DoIT	448	0	0	0	12	0	460	22	-1	0	480
Retirement	216	0	0	0	-3	0	213	0	0	2	215

Department/Service Area	2016 Leg. Approp.	BPW/ Flex Adjust.	Cost Contain.	Abolish	Transfer	Def.	2016 Work. Approp.	Transfer	Abolish	New	2017 Allow.
General Services	578	0	0	0	0	0	578	0	0	4	582
Natural Resources	1,321	0	0	0	0	0	1,321	0	0	20	1,341
Agriculture	382	0	-2	0	0	0	380	0	-4	0	376
Labor, Licensing, and Regulation	1,603	0	0	0	0	0	1,603	2	-16	0	1,589
MSDE and Other Education	1,940	0	0	0	0	0	1,940	-4	0	45	1,981
Housing and Community Development	343	0	0	-6	0	0	337	0	0	2	339
Department of Commerce	217	0	0	-6	-3	0	208	0	-2	0	206
Environment	939	0	0	0	0	0	939	0	-5	0	934
Subtotal	***13,232***	***9***	***-4***	***-12***	***-1***	***0***	***13,223***	***16***	***-66***	***98***	***13,271***
Section 20 Position Abolition									-657		-657
Executive Branch Subtotal	***50,640***	***5***	***-92***	***-14***	***0***	***40***	***50,579***	***0***	***-882***	***296***	***49,994***
Higher Education	25,537	281	-187	0	0	0	25,632	0	-1	0	25,631
Judiciary	3,914	0	0	0	0	0	3,914	0	0	34	3,948
Legislature	749	0	0	0	0	0	749	0	0	0	749
Grand Total	**80,840**	**286**	**-278**	**-14**	**0**	**40**	**80,874**	**0**	**-883**	**330**	**80,321**

BPW: Board of Public Works
Def.: fiscal 2016 deficiency
DoIT: Department of 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

The fiscal 2017 allowance also abolishes 226 specific positions, most of which (129) are in DHMH to privatize dietary and possibly housekeeping services. Other abolitions include 21 at DHR related to information technology consolidation and unused vacant positions, 16 vacant unemployment insurance positions at the Department of Labor, Licensing, and Regulation (DLLR), and 15 vacant public defender intake specialists.

Fiscal 2017 personnel actions include abolishing filled positions, as shown in **Exhibit 9**.

Exhibit 9
Filled Abolished Positions
Fiscal 2017

Agency	Position Description	Position Count
IAC	Agency would like to move the position into a vacant position, but no positions are vacant	1
MDA	Plant Protection and Weed Control program is eliminated, and all positions are filed	4
MDE	1 Science Services Administration, 1 regulatory compliance engineer-architect in the Land Management Administration, as well as 2 computer specialists and 1 administrator in the information technology office	5
DHMH	Springfield Hospital Center dietary positions	51
DHMH	RICA – Gildner dietary positions	12
DHMH	Closing the Renal Dialysis Unit at the Western Maryland Hospital Center	2.5
DHMH	Western Hospital Center 1 X-ray services position and 1 therapeutic recreator	2
Total		**77.5**

DHMH: Department of Health and Mental Hygiene
IAC: Interagency Committee on School Construction
MDA: Maryland Department of Agriculture
MDE: Maryland Department of the Environment
RICA: Regional Institute for Children and Adolescents

Source: Interagency Committee on School Construction; Maryland Department of Agriculture; Maryland Department of the Environment; Department of Health and Mental Hygiene

Voluntary Separation Program

The Administration's fiscal 2016 budget plan included a VSP with a goal to abolish 500 Executive Branch positions, resulting in $7.5 million in savings in fiscal 2015 and $30 million in fiscal 2016 general fund savings. If 500 positions would not be not abolished by the VSP, the Administration would reach the 500-position target by abolishing vacant positions. The plan excluded the Legislative and Judicial branches. Higher education was not covered but was authorized to create similar programs, if desired. The VSP included the following features:

- the program is voluntary for employees;
- agencies determine which positions would be eliminated;
- eliminated positions will not be replaced;
- employees receive a one-time payment of $15,000 and $200 for every year of service;
- employees accepted into the VSP agree 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, are not eligible.

A similar plan was proposed in 2010. The 2010 VSP proposed to eliminate 1,000 positions in fiscal 2011. BPW eliminated 656 budgeted Executive Branch positions and another 11 positions at the nonbudgeted MDTA. 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.

In September 2015, DBM reported the results of the VSP to the budget committees. The program abolished 468 positions, including 10 nonbudgeted positions at MDTA and 7 positions at the Baltimore City Community College (BCCC), the only higher education institution to participate. An additional 48 vacant positions were abolished to meet the 500-position abolition minimum, resulting in a total of 516 abolished positions. **Appendix** 4 shows abolitions by department and service area.

Exhibit 10 shows that the VSP yielded $7.5 million in fiscal 2015 savings but required $7.7 million in expenditures, for a net cost of $0.2 million.

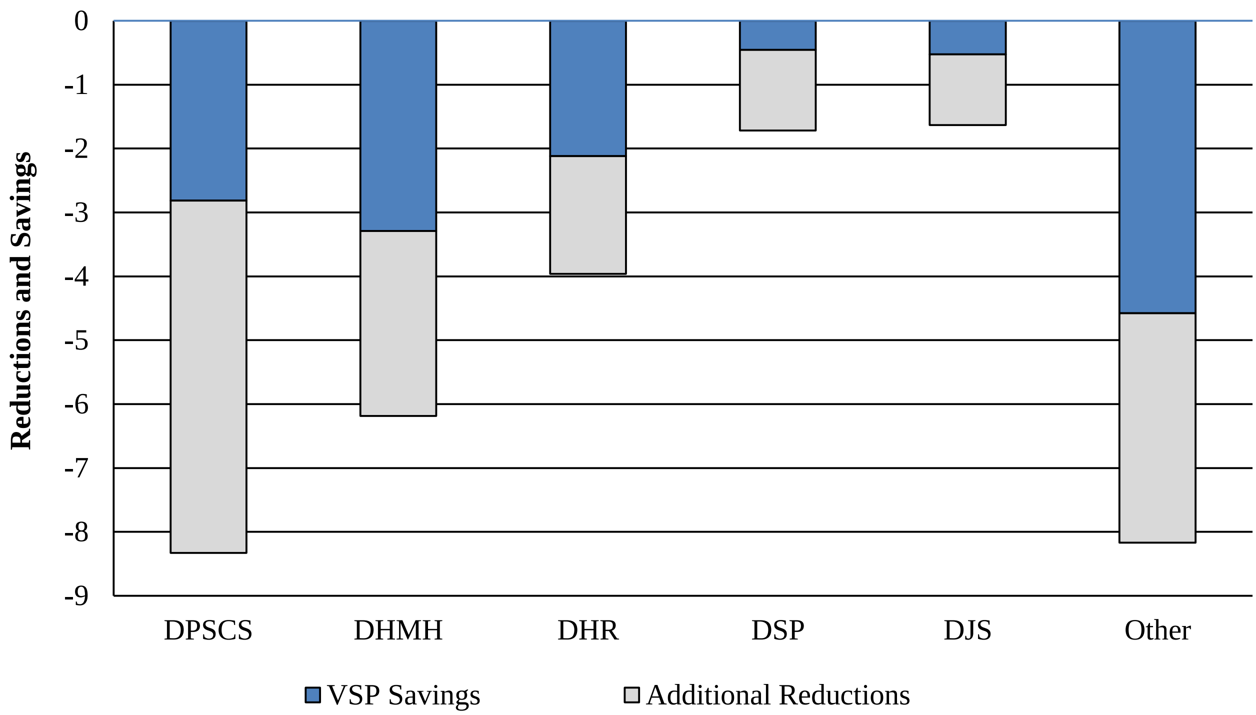
Exhibit 10
Voluntary Separation Program
Fiscal 2015 Costs and Savings

	General Funds
Savings	
VSP Position Abolition Savings	$2.5
Additional Reductions	5.0
Total Savings	**$7.5**
Expenditures	
Lump Sum Payment	$4.1
$200 Creditable Service Payouts	1.6
Leave Payout	2.1
Total Expenditures	**$7.7**
Net Savings	**-$0.2**

Source: Department of Budget and Management

Fiscal 2016 VSP savings total $13.8 million. To achieve $30.0 million in savings, State agency budgets were reduced an additional $16.2 million. **Exhibit 11** shows that almost half of the savings were generated in DPSCS and DHMH. Since these additional savings did not result in a decline in positions, DLS anticipates that savings are generated by keeping positions vacant, which is an increase to turnover expectancy. Consequently, the additional reductions are generally one-time reductions.

Exhibit 11
Fiscal 2016 Voluntary Separation Program Savings and Additional Reductions
($ in Millions)



DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources
DJS: Department of Juvenile Services
DPSCS: Department of Public Safety and Correctional Services
DSP: Department of State Police
VSP: Voluntary Separation Program

Source: Department of Budget and Management

Overview of Contractual Full-time Equivalents

Fiscal 2017 includes 9,446 contractual FTEs. Two-thirds of these FTEs are in higher education institutions. The number of contractual FTEs are 155 less than in fiscal 2016, as shown in **Exhibit 12**. The majority of the reductions are attributable to DLLR needing less employees to process unemployment insurance claims. Decreases in Executive Branch agencies are partially offset by increases in higher education institutions. Despite the reductions, the number of Executive Branch contractuals still exceeds the actual fiscal 2015 level by 106.

Exhibit 12
Contractual Full-time Equivalent Positions
Fiscal 2015 Actual to Fiscal 2017 Allowance

	2015 Actual	2016 Working Appropriation	2017 Allowance	2016-17 Change
Department/Service Area				
Health and Human Services				
Health and Mental Hygiene	385	440	429	-11
Human Resources	136	74	74	0
Juvenile Services	159	142	142	-1
Subtotal	***680***	***656***	***645***	***-11***
Public Safety				
Public Safety and Correctional Services	266	367	364	-3
Police and Fire Marshal	28	70	66	-4
Subtotal	***293***	***437***	***431***	***-6***
Transportation	**40**	**41**	**41**	**0**
Other Executive				
Legal (Excluding Judiciary)	42	61	50	-10
Executive and Administrative Control	210	193	184	-8
Financial and Revenue Administration	54	47	51	4
Budget and Management and DoIT	14	11	13	3
Retirement	16	10	10	0
General Services	24	25	24	-1
Natural Resources	361	447	423	-23
Agriculture	39	45	44	-1
Labor, Licensing, and Regulation	191	290	144	-146
MSDE and Other Education	295	295	271	-24
Housing and Community Development	51	71	72	1
Department of Commerce	18	18	20	2
Environment	28	60	41	-19
Subtotal	***1,342***	***1,570***	***1,346***	***-224***
Executive Branch Subtotal	**2,356**	**2,704**	**2,462**	**-241**
Higher Education	**7,006**	**6,568**	**6,650**	**83**
Judiciary	431	330	334	**4**
Grand Total	**9,793**	**9,601**	**9,446**	**-155**

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

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

Source: Department of Budget and Management

Administration's Fiscal 2017 Budget Includes another Round of Across-the-board Position Abolitions

Section 20 of the budget bill requires that the Governor abolish 657 regular positions in the Executive Branch. The *Budget Highlights* position summary excluded higher education institutions from this reduction. The Governor is also required to reduce general fund appropriations by at least $20 million and special fund appropriations by at least $5 million.

This is the third consecutive year in which unspecified reductions in positions are made. In fiscal 2015, there was the VSP, and fiscal 2016 included a 2% across-the-board reduction that abolished 278 positions. **DLS recommends that the committees adopt narrative that it is the intent of the committees that the fiscal 2018 budget bill include a full and complete accounting of positions and that the Administration refrain from abolishing unspecified positions through across-the-board reductions in the budget.**

Section 20 notes that the 657 position reductions are "inclusive of any legislative positions reductions." OAG advises that any specific position reductions made by the General Assembly can offset the 657-position reduction proposed by the Administration in Section 20. OAG also notes that the General Assembly could increase or decrease the required position reductions and may condition the types of positions that may be abolished. **Since there are approximately 4,500 vacant positions in State government, DLS recommends that the General Assembly amend the budget bill to limit the position abolitions to vacant positions.**

The section is silent on timing of these reductions. Presumably, the department can make the reductions at any time throughout the fiscal year. Also, delaying reductions delays savings and may force the department to make other unspecified reductions to achieve the required savings. **To maximize savings and have a full and complete budget at the beginning of the fiscal year, DLS recommends that the General Assembly add language requiring that Section 20 position abolitions be made prior to the start of the fiscal year on July 1, 2016, and that the Administration submit a schedule of abolitions by agency to the budget committees and DLS.**

Section 7-213 of the State Finance and Procurement Article is as follows:

7-213. Reductions.

(a) *Authorized* – Except as provided in subsection (b) of this section, with the approval of the Board of Public Works, the Governor may reduce, by not more than 25%, any appropriation:

(1) that the Governor considers unnecessary; or

(2) that is subject to budgetary reductions required under the budget bill as approved by the General Assembly.

DLS recommends that language requiring BPW approval be added to Section 20.

3. Human Resources Shared Services

In fiscal 2016, DBM introduced a new HR shared services initiative. DBM advises that the objective is to bring consistency to all HR-related activities throughout the employment life cycle, improve bench strength for many of the affected agencies that currently have one or more individuals who are performing personnel work along with other job duties, and expand available HR-related services to the staff of participating agencies, such as access to individuals within OPSB who can provide agency managers and supervisors with coaching and counseling skills, expert assistance with performance and conduct-related issues, and training on a wide variety of HR-related topics. DBM expects to realize cost savings as it refines the pool of individuals providing HR services and streamlines processes. DBM also expects to achieve cost savings by reducing the number of employees needed to provide HR-related services to the participating agencies and by reducing the number of high-grade HR positions, such as director and deputy director level positions. Generally, DBM's plan is to reduce the number of positions through attrition, although the department does recognize that some individuals may be underperforming.

After the initial start-up phase, DBM will measure success by user agency feedback on the level of service received, by the ability of staff members to address HR issues as these arise in their assigned agencies, and by the ability of HR staff to partner with their assigned agencies to meet their needs.

The shared services model requires DBM to provide a full array of HR services, so geographical accessibility is necessary. As such, the location of the agency was a key factor in selecting agencies. Since this is the first such consolidation in State government, DBM selected agencies that are not too large. DBM found that small to mid-size agencies (generally, those with less than 500 employees) had HR staffs that were not always fully dedicated to HR work (and may not be HR professionals), or who did not routinely engage in all aspects of HR work. This resulted in frequent relearning of processes and overall inefficiencies in the provision of services. **Exhibit 13** shows that 17 agencies with 982 employees are participating in the HR shared services initiative.

Exhibit 13
Agencies Participating in Human Resources Shared Service
Position Count in Fiscal 2017

Agency	Position Count
Department of Aging	48
State Archives	63
Commission on Civil Rights	34
Department of Disabilities	27

Agency	Position Count
Maryland Higher Education Commission	56
Maryland Institute for Emergency Medical Services Systems	95
Maryland Supplemental Retirement Plan	13
Maryland Tax Court	8
Office of the Peoples Counsel	19
Department of Planning	145
Property Tax Assessments Appeals Boards	8
Interagency Committee on School Construction	19
Public Service Commission	137
Office of the State Prosecutor	13
State Retirement and Pension System	202
Uninsured Employer's Fund	13
Department of Veterans Affairs	84
Total	**982**

Note: Total may not sum due to rounding.

Source: Department of Budget and Management

To implement this initiative, OPSB has received 11 regular full-time and 1 regular part-time position. The Division of Recruitment and Examination received 2 regular full-time positions, and the Division of Personnel Services received the remaining positions. **Exhibit 14** shows that total costs are expected to be $1.1 million.

Exhibit 14

Fiscal 2017 Personnel Costs for Additional Shared Services Positions

Division	Position	Position Count	Salary and Benefits	Average Salary
Personnel Services	HR Administrators	4.00	$449,718	$81,061
Personnel Services	HR Officers	5.50	504,799	63,202
Recruitment and Examination	HR Administrator	1.00	99,954	71,172
Recruitment and Examination	HR Officer	1.00	86,728	59,202
Total		**11.50**	**$1,141,199**	

HR: human resources

Source: Department of Budget and Management

OPSB does not receive new positions for HR shared services. Instead, positions are transferred from other agencies. **Exhibit 15** shows the affected agencies.

Exhibit 15
Agency Transferring Positions into the Office of Personnel Services and Benefits

Agency	Position Count	Total Funds	General Funds
Public Service Commission	2.00	$216,256	$0
Department of Aging	2.00	196,869	196,869
Commission on Civil Rights	0.50	52,311	52,311
Department of Planning	2.00	194,790	194,790
Maryland Institute for Emergency Medical Services Systems	1.00	85,968	0
State Archives	1.00	90,015	90,015
State Retirement Agency	3.00	304,991	0
Total	**11.50**	**$1,141,199**	**$533,985**

Source: Department of Budget and Management

At this point, DBM does not have any plans to add other agencies into HR shared services.

DLS has two concerns about HR shared services, specifically:

- ***Can the Quality of Services Be Measured?*** DBM advises that it will measure user agency feedback on the level of service received and an annual satisfaction survey that will begin after a stabilization period. The department should also develop measures for these new day-to-day support services that it will be providing and should report these measures with its MFR data provided in the budget. The concern is that service could be deteriorating, but the budget committees would be unaware because there are no reliable measures. How will DBM measure the quality of the services it provides?

- ***What Will Be Saved?*** DBM will receive a mix of general funds appropriated in its budget and reimbursable funds from other agencies. The department also anticipates that savings will be realized. However, DBM advises that savings estimates have not yet been prepared. The department should report on savings.

DBM should be prepared to brief the committees on its new HR shared service initiative. The department should also prepare MFR indicators that measure how effectively DBM is providing HR services to State agencies.

4. Supervisors to Supervised Employees Ratios in State Agencies

The fiscal 2016 *Joint Chairmen's Report* required that State agencies submit a report on the ratio of supervisors and managers to employees for agencies. DBM submitted a report that examined this issue and provided ratios for Executive Branch agencies. In addition, Morgan State University, St. Mary's College of Maryland, BCCC, MDOT, the Maryland Environmental Service, the Maryland Automobile Insurance Fund, and the Maryland Food Center Authority reported the ratio of supervisors and managers to employees but did not provide a qualitative assessment of these ratios. The University System of Maryland (USM) also provided a report on the ratio of supervisors and managers to employees. The report provides USM's perspective on this issue.

DBM's personnel system delineates the following positions:

- executive;
- director;
- manager;
- supervisor;
- lead;
- advanced;
- individual contributor; and
- board member.

In the DBM report, executive, director, manager, and supervisor positions are considered supervisory positions, and the remaining positions are considered nonsupervisory.

The report also calculated statewide average supervisor or manager to supervised employee ratios by the size of the agency. **Exhibit 16** shows that agencies have a wide variation in the ratios.

Exhibit 16
Supervisor/Manager to Supervised Employee Ratios by Agency Size

Agency Size	Average Ratio	Minimum Ratio	Maximum Ratio
1 to 100 employees	1:6	1:1	1:16
101 to 500 employees	1:21	1:2	1:114
501 to 1,000 employees	1:5	1:3	1:8
1,001 to 5,000 employees	1:7	1:5	1:10
5,001 or more employees	1:5	1:5	1:6

Source: Department of Budget and Management

The report identifies factors that lead to lower spans of control and lower supervisor and manager to supervised employee ratios. They include:

- highly complex work;
- different activities performed by supervised workers;
- low-degree of task certainty (as opposed to definite, clear, and simple rules);
- higher degree of risk in the work for the organization;
- high-degree of public scrutiny;
- high-degree of coordination required; and
- dispersed geographic location of employees.

The report also prepared five case studies. One agency in each of the five agency-size categories was chosen. Agencies examined were the Department of Veterans Affairs (DVA) with 83 employees, OAG with 275 employees, State Department of Assessments and Taxation (SDAT) with 623 employees, DNR with 2,034 employees, and DHMH with 11,113 employees.

DVA administers five major programs that include assisting veterans and their dependents obtain benefits from various programs, running a veterans' home, and operating cemeteries. The work of the programs is diverse, and there is a high level of scrutiny that suggests lower supervisor employee ratios. Operations are statewide, which tends to further reduce the ratios. The ratio of supervisors and managers to supervised employees is 1:5. The ratio of supervisors to supervised employees is 1:6.

OAG acts as legal advisor and representative to State agencies. The nature of the work is complex, and there is a high-degree of risk and public scrutiny. The office staff is well trained and rules-driven, which suggests higher ratios. The ratio of supervisors and managers to supervised employees is 1:23. The ratio of supervisors to supervised employees is 1:122.

SDAT appraises the market rate of property in the State. DBM notes that over half of the employees in SDAT are at the lower end of the salary grades, and that may be a driving factor behind the low ratios. The ratio of supervisors and managers to supervised employees is 1:3. The ratio of supervisors to supervised employees is 1:5.

DNR coordinates natural resource activities, evaluates natural resource policies, plans, programs and practices, and administers three main programs: aquatic resources, land resources, and mission support. The department manages a police force that enforces conservation, boating, and criminal laws. The complexity of DNR's work is attributable to the heavy interplay between DNR and a variety of other jurisdictions, such as counties and the federal government. Employees are widely dispersed, and supervisors tend be heavily involved with daily operations. The department also employees a high number of contractual and seasonal workers. The ratio of supervisors and managers to supervised employees is 1:6. The ratio of supervisors to supervised employees is 1:14.

DHMH includes many programs and agencies with varied responsibilities. Some of the activities include promoting disease control and prevention, supporting substance abuse efforts, providing public services through local health departments, and operating hospitals and facilities with such a varied clientele as a maximum security mental hygiene facility, residential facilities for intellectually disabled individuals, and public laboratories. Many of the units within DHMH operate independently from other units. The complexity of the department's mission is compounded by layers of State and federal legal and regulatory requirements. Some programs have high levels of highly trained staff, while low-trained staff predominate in others. It is likely that supervisors to supervised employees ratios vary from program to program. Departmentwide, the ratio of supervisors and managers to supervised employees is 1:5. The ratio of supervisors to supervised employees is 1:7.

Issues

The report raises a number issues, including:

- ***Complexity of State Government:*** DBM notes that the "complexity of State operations makes the development of a one-size-fits-all supervisory ratio that applies across all agencies a difficult exercise." The agencies selected for case study provide examples of the differences in responsibilities of agencies. Even within small agencies, like DVA, the work can be quite different. This suggests that having one statewide ratio is not appropriate;

- ***High Number of 1:1 Supervisor and Manager to Supervised Employee:*** The report notes that there are approximately 255 1:1 supervisor to supervised employee ratios in DHMH and 86 in DNR (25% involve contractual or seasonal employees). This is a fairly high number, and the report does not provide details about why there are so many, what these employees do, or why they are necessary. One reason for this could be that these positions previously supervised more individuals, but after years of cost containment and position reductions, they have lost their staff. Another reason could be that they manage a number of complex contracts, which could be a managerial-level job, but do not manage other permanent employees;

- ***Underuse of Lead Worker:*** The high amount of 1:1 ratios may also be due to the underuse of the lead worker role. Anecdotally, there are a number instances in State government in which high-performing employees are promoted into supervisory positions in order to keep them. The work may not change much, but the salary and prestige does. The report notes that "we believe that by increasing the lead worker role, continued effective management of State operations is achievable;" and

- ***Low State Salaries:*** As previously mentioned, State salaries tend to be lower than other government salaries. State salaries have been flat in many years since calendar 2008, at a time while other public employees, such as the federal government, offered general salary increases. The high number of 1:1 ratios may reflect agencies attempts to address low pay by promoting more employees into higher paid supervisory positions.

DLS recommends that DBM examine the high number of 1:1 ratios. This should include determining where an increased use of the lead worker role is appropriate. DBM should also examine if salary levels are competitive and make improvements if they are not. A more aggressive use of ASRs may be effective if the Administration continues to be reluctant to provide general salary increases.

5. Ongoing Hiring Freeze

The State has been operating under varying degrees of a hiring freeze since October 2001. DBM exempts certain classifications from this hiring freeze. The most prominent are positions in 24/7 institutions and positions that generate revenues, like the Office of the Comptroller. While revenues were underattaining, the freeze kept positions vacant, which reduced spending. As currently structured, many agencies must request permission from DBM to fill positions.

Based on the February vacancy data, 772 out of approximately 4,500 positions were vacant. DLS recognizes that there are administrative reasons to occasionally freeze positions. For example, there may be legal requirements that the State keep certain positions open or certain positions may be abolished at the end of the fiscal year; so, DBM may want to keep agencies from filling the position. There may also be cases where agencies chronically overspend and additional control from DBM is necessary.

DLS has the following concerns about the State's current hiring freeze policies:

- ***The Freeze Is Inefficient:*** Freezing substantial numbers of positions limits agencies, adds more time to recruit and fill vacant positions, and thus makes it more difficult to meet their responsibilities;

- ***The Fiscal Crisis Is Over:*** During the Great Recession, the State had a structural deficit that exceeded $2 billion. These were difficult years, and cost containment was a priority. Fiscal 2016 and 2017 have a structural surplus. It is no longer necessary to aggressively contain agencies operations to limit spending;

- ***No Rules Regulate When to Begin or End a Freeze:*** This incarnation of the hiring freeze has been in operation at least since fiscal 2004. The freeze has become a management tool that has stayed with the State indefinitely in spite of changing economic conditions; and

- ***Unclear What Positions Are Exempted:*** While there are some guidelines about which positions are exempted, there are no clear rules. As such, it is unclear what kinds of positions are exempted.

DLS recommends that the committees adopt language requiring DBM to prepare a report on the hiring freeze that describes the administrative procedures and what positions are exempted. DBM should also develop MFR indicators that measure how long it takes to process hiring freeze exemption requests.

6. 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 retiree 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 Postemployment Benefits (OPEB), which are defined as postemployment benefits other than pensions. Under the 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 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 liability 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. 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 17 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. Increases in unfunded liabilities in fiscal 2014 and 2015 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 Affordable Care Act (ACA), beginning in fiscal 2020.

The exhibit also shows that the annual required contribution (ARC) necessary to pay off the State's liabilities over 25 years dropped to below $600 million in fiscal 2014 and 2015, and then increased to $635 million in fiscal 2015. The drop was due to positive claims experience and updated actuarial assumptions. Increases in the ARC are expected in the out-years.

Exhibit 17
State Retiree Health Liabilities and Required Contributions
Fiscal 2010-2015
($ in Millions)

	2010	2011	2012	2013	2014	2015
OPEB Actuarial Liability	$16,099	$9,732	$9,825	$8,344	$8,964	$9,644
Actuarial Value of Assets	183	196	209	223	250	275
Unfunded OPEB Liability	**$15,915**	**$9,536**	**$9,617**	**$8,121**	**$8,714**	**$9,368**
Normal Cost	$583	$323	$274	$229	$224	$249
Amortization Payment	642	381	382	347	350	385
Annual Required Contribution	**$1,225**	**$704**	**$656**	**$576**	**$574**	**$635**

OPEB: Other Postemployment Benefits

Source: The Segal Group, Inc.

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. The State has been calculating the NOO since GASB standards were implemented in fiscal 2008. Fiscal 2015 ended with a $4.1 billion NOO.[2] **Appendix 5** shows the net OPEB obligation since fiscal 2008.

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 2015, the fund's balance was $275.3 million.

This unfunded liability has not escaped the attention of the credit rating agencies. For example, Moody's July 2015 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." This comment was repeated from previous ratings.

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

[2] The $4.1 million unfunded liability is identified in the State's *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015,* in note 16, on pages 105 to 109.

Workers' 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-the-course 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 the Injured Workers' Insurance Fund (IWIF) that 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) 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 2015, the total unfunded liability is $417.9 million and that the discounted[3] liability is $294.6 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.**

7. Statewide Personnel System Implementation Delays

Since January 2008, DBM has been working on replacing its Statewide Personnel System. The prior 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.

---

[3] 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%. The discounted reserves are based on selected ultimate losses and recoverables and the appropriate loss payout patterns based on historical State Account experience."

The first phase of the project included recruiting, human resources, compensation, and performance management. A cloud application was chosen, and the vendor is Workday. The total cost of implementing the new personnel system is $72 million, of which $53 million has been spent through fiscal 2015. In November 2014, the first phase of the new Statewide Personnel System was implemented. There were no reports of major problems.

Initially, the second phase included benefits administration, compensation, and timekeeping. The department has delayed the benefits administration to the third phase. The second phase (timekeeping and compensation) will be going live in March 2016. DBM will not be running parallel systems. The plan is to begin with DoIT and DBM in March 2016 and then launch the remainder of the agencies in April.

DBM advises that key lessons learned from implementing the first phase was to begin the knowledge transfer while the system is being designed. State subject matter experts, such as the leadership of the Employee Benefits Division, can then better align training materials to the various employees performing the operational tasks. Also, a train-the-trainer approach will be used for the Agency Benefits Coordinators (ABCs). Training will be scheduled for one-and-a-half months for a total of 1,400 trainees. Training for the second phase will support:

- benefits division super users (two days of instructor-led training);
- ABCs (one day of instructor-led training);
- HR coordinators (two hours of instructor-led training); and
- HR partners (two hours of web-based training).

Benefits Administration System Delays

The benefits administration implementation has been delayed. The revised plan is to implement the benefits administration in spring 2017, instead of late 2015. Workday reported serious performance issues at the time of system testing, which required more time to address. Workday reported performance issues because of its overall module design and the State of Maryland's configuration complexity. For example, the State system has unique legal requirements that are complicated and difficult to adopt to the Workday product. The State's project team has been working with the Workday product team to resolve these performance issues. The team meets biweekly to keep the project on this new schedule.

DBM advises that delaying the system requires the State to maintain its current BAS longer. The vendor, MS Technologies, Inc., will receive an additional $2.2 million over the two years to make upgrades. The upgrades include fixing a May 2015 audit issue. The audit notes that DBM inappropriately stored personally identifiable information (PII), such as Social Security numbers, full names, and dates of birth, in clear text in BAS.

The total cost of the project has also increased. Last year, DBM reported that the total cost was $60.4 million. The updated total project cost is $72.3 million.

The department should be prepared to brief the committees on the status of the Statewide Personnel System.

Personnel and Vacancy Data Inaccuracies

The new system does seem to have some growing pains. The January vacancy data received by DLS from the personnel system included numerous inaccuracies. In a number of agencies, vacant positions are missing or filled positions are grouped with vacant positions. There seem to be problems determining which positions are regular and are eligible to receive pension benefits and which positions are contractual or per diem positions that do not receive pension benefits. For example, the Department of Labor, Licensing, and Regulation included over 20 per diem positions among its regular positions. Other problems include missing data in key fields. Keeping correct vacancy data is critical when making managerial decisions. **DLS recommends that DBM review its processes and make improvements to the quality of the personnel data in the new Statewide Personnel System.**

8. Missing Personnel Data

Section 7-121 of the State Finance and Procurement Article requires that the budget books include personnel data. The section is as follows:

7-121. Operating expenses of State units.

(a) *Budget books requirements* – The budget books shall contain a section that, by unit of the State government, sets forth, for each program or purpose of that unit:

(1) the total number of officers and employees and the number in each job classification:

(i) authorized in the State budget for the last full fiscal year and the current fiscal year; and

(ii) requested for the next fiscal year;

(2) the total amount for salaries of officers and employees and the amount for salaries of each job classification:

(i) spent during the last full fiscal year;

(ii) authorized in the State budget for the current fiscal year; and

(iii) requested for the next fiscal year;

The fiscal 2017 budget books did not include the required personnel data. **The Administration should include all required personnel data in the fiscal 2018 budget books.**

9. Employee and Retiree Health Insurance Account

Due to plan changes in fiscal 2012, the Employee and Retiree Health Insurance Account closed with substantial fund balances in fiscal 2013 and 2014. As a result, contributions required of State agencies, employees, and retirees were lowered in fiscal 2014 and 2015 to work down this fund balance; however, at the same time, claims paid by the State exceeded projections. By the end of fiscal 2015, the account closed with a negative fund balance after accounting for unpaid liabilities.

To address the deficit, required State agency, employee, and retiree contributions in fiscal 2016 and 2017 increase overall by 19.6% and 6.9%, respectively. Favorable trends in pharmacy rebates also result in additional revenue, starting in fiscal 2015 when rebates and recoveries increased by $20.0 million to a total of $81.4 million; rebates increase to $104.0 million in fiscal 2016 and are anticipated to stay at this raised level in fiscal 2017. As a result of both increased contributions and rebates, the Administration predicts a positive fund balance of $6.3 million in fiscal 2017 after deducting unpaid liabilities.

Health Care Expenditures Continue to Rise

Two trends are prevalent in health insurance: costs have continued to rise, and the State has needed to shift more costs to employees and retirees in an attempt to control health insurance spending. Rising costs, predominately medical and prescription, have required plan changes and increased contributions to allow receipts to keep pace with payments. After plan changes in fiscal 2012 reduced medical expenses (which now include mental health costs) to $824 million, medical costs experienced an annual growth rate of 4.9% from fiscal 2013 to 2015, amounting to $906 million in fiscal 2015. **Exhibit 18** shows that the account began fiscal 2015 with a $215 million balance and ended with a balance of $60 million as expenditures outstripped receipts. Each fiscal year includes an estimate of costs that are incurred but not received (IBNR) – these are services that are rendered in one fiscal year and the provider is not reimbursed until the following fiscal year. When IBNR costs are included, fiscal 2015 closed with a negative $46 million fund balance.

Despite greater use of generic medications by plan members, prescription drug costs have increased substantially in recent years. From fiscal 2013 to 2015, prescription costs for the State increased by $117 million, experiencing an annual growth rate of 15.7%. DBM is expecting this trend to continue, as evident in fiscal 2016 and 2017 where prescription drug costs show an increase of $58 million (12.4%) and $68 million (13.0%), respectively. Rising costs of prescriptions is a nationwide trend due to price increases and utilization of expensive specialty drugs, such as treatment for Hepatitis C that can cost $100,000 or more per patient. Medications for treatment of chronic illnesses, such as diabetes and high cholesterol, also top the charts as cost drivers for the State.

DBM assumed a 2.7% growth rate in fiscal 2016 and 2017 for medical costs, which is the lower range of inflation proposed by the actuary Segal, rather than actual growth in expenditures in recent years. DLS is concerned that this growth estimate is optimistic. **Exhibit 19** adjusts the health account forecast to include a revised growth rate of 4.9% in fiscal 2016 and 2017 for medical costs based on actual growth from fiscal 2012 to 2015.

Exhibit 18
Employee and Retiree Health Insurance Account
Fiscal 2015-2017
($ in Millions)

	2015 Actual	2016 Working	2017 Allowance
Beginning Balance	**$215.4**	**$60.0**	**$78.4**
Expenditures			
DBM – Personnel Administrative Cost	**$19.0**	**$17.5**	**$17.5**
Payments of Claims			
Medical	$906.3	$930.8	$956.1
Prescription	463.4	521.1	588.9
Dental	46.9	49.7	49.7
Contractual Employee Claims	0.0	11.0	11.0
Payments to Providers	**$1,416.7**	**$1,512.6**	**$1,605.7**
% Growth in Payments	*7.9%*	*6.8%*	*6.2%*
Receipts			
State Agencies	$958.5	$1,166.7	$1,248.4
Employee Contributions	162.0	178.2	189.4
Retiree Contributions	78.4	88.6	94.2
Contractual – State Agencies	0.0	7.3	16.5
Contractual – Employees	0.0	3.7	4.1
Prescription Rebates, Recoveries, and Other	81.4	104.0	104.0
Total Receipts	**$1,280.3**	**$1,548.5**	**$1,656.6**
% Growth in Receipts	*2.6%*	*20.9%*	*7.0%*
Ending Balance	**$60.0**	**$78.4**	**$111.8**
Estimated Incurred but Not Received Bills	**-$105.5**	**-$105.5**	**-$105.5**
Reserve for Future Provider Payments	**-$45.5**	**-$27.1**	**$6.3**

DBM: Department of Budget and Management

Note: Mental health costs are consolidated within medical costs.

Source: Department of Budget and Management

Exhibit 19
Employee and Retiree Health Insurance Account
Department of Legislative Services' Assumptions
Fiscal 2015-2017
($ in Millions)

	2015 Actual	2016 Working	2017 Allowance
Beginning Balance	**$215.4**	**$60.0**	**$58.5**
Expenditures			
DBM – Personnel Administrative Cost	**$19.0**	**$17.5**	**$17.5**
Payments of Claims			
Medical	$906.3	$950.7	$997.3
Prescription	463.4	521.1	588.9
Dental	46.9	49.7	49.7
Contractual Employee Claims	0.0	11.0	11.0
Payments to Providers	**$1,416.7**	**$1,532.5**	**$1,646.9**
% Growth in Payments	*7.9%*	*8.2%*	*7.5%*
Receipts			
State Agencies	$958.5	$1,166.7	$1,248.4
Employee Contributions	162.0	178.2	189.4
Retiree Contributions	78.4	88.6	94.2
Contractual – State Agencies	0.0	7.3	16.5
Contractual – Employees	0.0	3.7	4.1
Prescription Rebates, Recoveries, and Other	81.4	104.0	104.0
Total Receipts	**$1,280.3**	**$1,548.5**	**$1,656.6**
% Growth in Receipts	*2.6%*	*20.9%*	*7.0%*
Ending Balance	**$60.0**	**$58.5**	**$50.7**
Estimated Incurred but Not Received Bills	**-$105.5**	**-$105.5**	**-$105.5**
Reserve for Future Provider Payments	**-$45.5**	**-$47.0**	**-$54.8**

DBM: Department of Budget and Management

Note: Mental health costs are consolidated within medical costs.

Source: Department of Budget and Management

Using the revised assumptions, the health account shows negative fund balances of $47.0 million and $55.0 million after deducting IBNR in fiscal 2016 and 2017, respectively. Contributions will need to be increased in order to address the deficit left after taking into account IBNR expenses should costs come in higher than what DBM is assuming.

DBM should explain recent and predicted cost trends in health insurance spending in fiscal 2017 and discuss whether funding is sufficient.

Eligible Contractual Employees Receive Health Care Coverage

The ACA requires large employers to provide affordable health insurance to employees that work at least 30 hours per week or 130 hours per month, or be subject to a penalty. As a result, contractual employees of the State became eligible for the alternative subsidy of 75% of the premium for medical and prescription drug coverage effective January 1, 2015; other benefits, such as dental insurance, are unsubsidized. Maryland had been offering all employees health care benefits prior to the ACA, but only permanent part-time employees working at least 50% (generally 20 hours per week) were offered subsidized benefits; employees working less than 20 hours per week were offered unsubsidized benefits.

As of January 1, 2016, DBM has a total of 1,459 contractual employees enrolled and receiving the alternative subsidy. Costs and receipts associated with contractual employees appear on the forecast beginning in fiscal 2016. DBM is unable to distinguish contractual costs from regular employee costs, so costs in fiscal 2016 and 2017 are estimates. DBM currently estimates contractual employee claims at $11.0 million in fiscal 2016 and 2017.

10. New Health Plans and Wellness Program

In an effort to address escalating medical and prescription costs, DBM implemented a new wellness program along with other plan changes beginning January 1, 2015. The wellness program was intended to be phased in over a six-year period and includes the use of incentives and disincentives, education, and discounted resources to encourage employee wellness and reduce out-year costs. Completing wellness requirements each year would result in waived Primary Care Physician (PCP) copays. Failure to complete requirements would result in an annual premium or surcharge.

Wellness requirements in calendar 2015 included (1) designating a PCP; (2) completing an annual health risk assessment online; and (3) obtaining a signature from the PCP indicating that the risk assessment results were reviewed. Requirements in calendar 2016 are the same as calendar 2015, plus employees would have to complete recommended age- and gender-specific biometric screenings, participate in nutrition or weight management education, and engage in the disease management program if identified to participate in order to avoid a surcharge. However, as of January 2016, wellness requirements for calendar 2015 and 2016 have been extended and surcharges waived through calendar 2017, making required screenings, education, and disease management voluntary activities. Employees who completed calendar 2015 requirements will continue to receive waived PCP copays and will not be required to complete calendar 2016 activities. Additionally, employees can choose to take the State's health risk assessment or an assessment from their own medical plan.

Based on initial feedback, fewer employees completed the required wellness activities than anticipated. As of September 1, 2015, over 25,000 individuals had completed all the requirements of the wellness plan for calendar 2015, or approximately 27.8% of eligible members. Generally, wellness plans that use incentives to increase participation, such as the State's wellness plan, have a median participation of 40.0% of members according to the Rand Corporation's April 2015 report on workplace wellness programs.

Under the initial wellness plan, failure to complete wellness plan requirements in the prior year would result in an annual premium or surcharge starting in calendar 2016. In calendar 2016, the surcharge would have been $50 for the entire year for failure to complete calendar 2015 requirements (*i.e.*, designating a primary care physician and completing an annual health risk assessment). In calendar 2017, the surcharge would have been $75 for the entire year for failure to complete the same requirements as calendar 2015 as well as not completing recommended age/gender specific biometric screenings and nutrition or weight management education. For those eligible for the disease management program, failure to complete the aforementioned requirements and actively participate in the disease management program would have resulted in a $250 surcharge for the entire year in calendar 2016 and $375 in calendar 2017. By waiving the surcharge for calendar 2016 and 2017, DBM is choosing not to collect on potentially $3.2 million and $4.7 million in surcharge revenue, respectively (not including additional revenue from identified participants not engaging with the disease management program, which cannot be estimated without more information). At the same time, the State is paying the cost of waived copays for the 25,000 individuals who have completed the wellness program requirements in calendar 2015 and will continue to do so for individuals who complete requirements in calendar 2016.

DBM should discuss the decision to waive surcharges in calendar 2016 and 2017, current plans to implement the wellness program and improve participation, and provide revised costs and savings estimate of the program given recent changes. DLS recommends that DBM submit a report by January 1, 2017, on the revised wellness program. The report should include the following information:

- **revised program plan information, including requirements and surcharges;**
- **estimated costs and savings of the program for calendar 2016 and 2017;**
- **total cost of waived copays for individuals who completed requirements during calendar 2015 and the first nine months of calendar 2016;**
- **number of individuals who completed the requirements by September 30, 2016;**

- **number of individuals identified for the disease management program by September 30, 2016; and**

- **a detailed estimate of revenue lost due to waived surcharges in calendar 2016.**

Recommended Actions

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

   , provided that $250,000 of this appropriation made for the purpose of the Executive Direction program may not be expended until the Department of Budget and Management (DBM) submits a report to the budget committees on statewide hiring freeze policies. The report should discuss hiring freeze procedures, positions subject to the freeze, the rationale for maintaining the freeze during favorable economic times, and how long it takes to process vacant positions subject to the freeze. DBM should also develop managing for results indicators that measure how long it takes to process positions subject to the hiring freeze. The report shall be submitted by September 2, 2016, and the budget committees shall have 45 days to review and comment from the receipt of the report. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

   Explanation: The State has been under varying degrees of a hiring freeze since at least fiscal 2004. Based on February 2016 vacancy data, 772 positions were frozen. The language requires DBM to prepare a report that develops a statewide position freeze policy. The report should address hiring freeze procedures, which positions are frozen, and how long it takes to process vacant positions subject to the freeze. DBM should also develop managing for results indicators that measure how long it takes to process positions subject to the hiring freeze.

Information Request	Author	Due Date
Hiring freeze policy report	DBM	September 2, 2016

2. 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 2016 closeout of the Employee and Retiree Health Insurance Account. This report shall include the (1) closing fiscal 2016 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, 2016. 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: This annual budget bill language requires the Department of Budget and Management to submit a report with fiscal 2016 closeout data for the Employee and Retiree Health Insurance Account.

Information Request	**Author**	**Due Date**
Report requiring fiscal 2016 closeout data for the Employee and Retiree Health Insurance Account	Department of Budget and Management	October 1, 2016

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

, provided that $200,000 of this appropriation made for the purposes of funding the Division of Personnel Services may not be expended until the Department of Budget and Management (DBM) submits a report to the budget committees on its efforts to consolidate human resources services. The report should discuss which agencies are supported by DBM, the cost to DBM for supporting these agencies, costs saved or avoided, and how the quality of the support provided by DBM will be measured. The report shall be submitted by January 1, 2017, and the budget committees shall have 45 days to review and comment from the date of receipt. Funds restricted pending the receipt of the report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

Explanation: DBM is proposing a human resources (HR) shared services initiative. By fiscal 2017, DBM will be providing all HR services for approximately 1,000 employees in 17 agencies. The department should provide a status report on the progress made. The report should discuss which agencies are supported by DBM, the cost to DBM for supporting these agencies, costs saved or avoided, and how the quality of the support provided by DBM will be measured. This report should be submitted to the budget committees by January 1 2017.

Information Request	**Author**	**Due Date**
HR shared services report	DBM	January 1, 2017

	Amount Reduction	
4. The statewide program allowance includes $40.3 million for merit-based salary increases at the University System of Maryland (USM) and Morgan State University (MSU). The increase is 2.5% of the salary base. Insofar as the State average for salary increments is 2.4%, the appropriation for increments at USM and MSU is reduced to reflect the State's average.	$ 1,466,143	GF

5. Reduce appropriation for increments to reflect the 657 position reduction. The statewide program includes $57 million for merit increments in fiscal 2017. Section 20 of the budget bill eliminates 657 positions. This is a little over 1% of the Executive Branch workforce. The reduction adjusts the appropriation to reflect the reduction in positions. This reduction is adjusted so that the appropriations include sufficient funding for increments and the $73,000 for the polygraph positions Annual Salary Review (ASR) salary adjustments in the Department of Public Safety and Correctional Services and the Maryland State Police. These increments were approved after the budget was completed and are not included in the appropriation for ASRs.	440,000 90,000 110,000	GF SF FF

6. Adopt the following narrative:

Full and Complete Personnel Plan: The committees are concerned that this is the third consecutive year in which unspecified reductions in positions are made in the budget bill as introduced. This impedes transparency for citizens, legislators, and agency heads trying to determine the adequacy of each agency's personnel complement. In fiscal 2015, there was the Voluntary Separation Program, and fiscal 2016 included a 2% across-the-board reduction that abolished 278 positions. It is the intent of the committees that in the fiscal 2018 budget bill, the Administration should include a full and complete accounting of positions and that the Administration refrain from abolishing unspecified positions through across-the-board sections in the budget bill.

7. Adopt the following narrative:

Revised Wellness Program: It is the intent of the budget committees that the Department of Budget and Management (DBM) submit a report to the committees by January 1, 2017, on the revised wellness program. The report should include the following information:

- revised program plan information, including requirements and surcharges;
- estimated costs and savings of the program for calendar 2016 and 2017;
- total cost of waived copays for individuals who completed requirements during calendar 2015 and the first nine months of calendar 2016;
- number of individuals who completed requirements by September 30, 2016;

- number of individuals identified for the disease management program by September 30, 2016; and

- a detailed estimate of revenue lost due to waived surcharges in calendar 2016.

Information Request	**Author**	**Due Date**
Report on the revised wellness program	DBM	January 1, 2017

8. Add the following section:

SECTION 19. AND BE IT FURTHER ENACTED, That for fiscal 2017 funding for health insurance shall be reduced by ~~$17,531,823~~ $19,042,897 in Executive Branch agencies to reflect health insurance savings due to a revised collections estimate. Funding for this purpose shall be reduced in Comptroller Object 0154 (Retirees Health Insurance) within Executive Branch agencies in fiscal 2017 by the following amounts in accordance with a schedule determined by the Governor:

	Agency	General Funds
B75	General Assembly of Maryland	222,983
C00	Judiciary	1,209,001
C80	Office of the Public Defender	263,021
C81	Office of the Attorney General	43,536
C82	State Prosecutor	2,586
C85	Maryland Tax Court	1,854
D05	Board of Public Works (BPW)	2,717
D10	Executive Department – Governor	19,811
D11	Office of the Deaf and Hard of Hearing	863
D12	Department of Disabilities	4,121
D15	Boards and Commissions	20,556
D16	Secretary of State	4,486
D17	Historic St. Mary's City Commission	7,454
D18	Governor's Office for Children	5,112
D25	BPW – Interagency Committee for School Construction	7,575
D26	Department of Aging	7,618
D27	Maryland Commission on Civil Rights	8,098
D38	State Board of Elections	6,445
D40	Department of Planning	35,360
D50	Military Department	26,700
D55	Department of Veterans Affairs	13,293
D60	Maryland State Archives	6,468
E00	Comptroller of Maryland	232,043

E20	State Treasurer's Office	6,997
E50	Department of Assessments and Taxation	86,694
E75	Maryland Lottery and Gaming Control Agency	36,294
E80	Property Tax Assessment Appeals Board	2,029
F10	Department of Budget and Management	38,663
F50	Department of Information Technology	29,068
H00	Department of General Services	69,222
K00	Department of Natural Resources	144,850
L00	Department of Agriculture	75,273
M00	Department of Health and Mental Hygiene	1,424,451
N00	Department of Human Resources	871,985
P00	Department of Labor, Licensing, and Regulation	72,985
Q00	Department of Public Safety and Correctional Services	3,260,505
R00	State Department of Education	124,955
R15	Maryland Public Broadcasting Commission	20,069
R62	Maryland Higher Education Commission	6,883
R75	Support for State Operated Institutions of Higher Education	3,835,064
R99	Maryland School for the Deaf	91,119
T00	Department of Commerce	48,934
U00	Department of the Environment	81,574
V00	Department of Juvenile Services	575,868
W00	Department of State Police	610,389
Total General Funds		~~12,233,588~~ 13,665,572

	Agency	Special Funds
C00	Judiciary	79,090
C81	Office of the Attorney General	17,478
C90	Public Service Commission	40,214
C91	Office of the People's Counsel	7,039
C94	Subsequent Injury Fund	5,036
C96	Uninsured Employers Fund	4,558
C98	Workers' Compensation Commission	35,040
D12	Department of Disabilities	366
D13	Maryland Energy Administration	5,707
D15	Boards and Commissions	263
D16	Secretary of State	1,718
D17	Historic St. Mary's City Commission	1,368
D26	Department of Aging	798
D38	State Board of Elections	556
D40	Department of Planning	2,617
D53	Maryland Institute for Emergency Medical Services Systems	27,590

D55	Department of Veterans Affairs	1,802
D60	Maryland State Archives	9,909
D78	Maryland Health Benefit Exchange	13,086
D80	Maryland Insurance Administration	78,214
D90	Canal Place Preservation and Development Authority	386
E00	Comptroller of Maryland	45,148
E20	State Treasurer's Office	756
E50	Department of Assessments and Taxation	94,335
E75	Maryland Lottery and Gaming Control Agency	39,686
F10	Department of Budget and Management	36,598
F50	Department of Information Technology	1,853
G20	State Retirement Agency	43,266
G50	Teachers and State Employees Supplemental Retirement Plans	4,348
H00	Department of General Services	2,337
J00	Department of Transportation	1,842,652
K00	Department of Natural Resources	203,033
L00	Department of Agriculture	31,338
M00	Department of Health and Mental Hygiene	132,440
N00	Department of Human Resources	25,722
P00	Department of Labor, Licensing, and Regulation	82,890
Q00	Department of Public Safety and Correctional Services	78,308
R00	State Department of Education	7,596
R15	Maryland Public Broadcasting Commission	23,772
R62	Maryland Higher Education Commission	1,165
S00	Department of Housing and Community Development	70,408
T00	Department of Commerce	14,670
U00	Department of the Environment	126,696
W00	Department of State Police	148,943
	Total Special Funds	~~3,311,705~~ 3,390,795

	Agency	Federal Funds
C81	Office of the Attorney General	9,013
C90	Public Service Commission	1,244
D12	Department of Disabilities	3,058
D13	Maryland Energy Administration	1,125
D15	Boards and Commissions	5,977
D26	Department of Aging	5,057
D27	Maryland Commission on Civil Rights	2,025
D40	Department of Planning	2,725
D50	Military Department	48,497

D55	Department of Veterans Affairs	2,253
D78	Maryland Health Benefit Exchange	9,984
D80	Maryland Insurance Administration	1,346
H00	Department of General Services	1,260
J00	Department of Transportation	264
K00	Department of Natural Resources	28,479
L00	Department of Agriculture	3,976
M00	Department of Health and Mental Hygiene	251,138
N00	Department of Human Resources	873,521
P00	Department of Labor, Licensing, and Regulation	282,858
Q00	Department of Public Safety and Correctional Services	65,485
R00	State Department of Education	281,098
R15	Maryland Public Broadcasting Commission	1,235
R62	Maryland Higher Education Commission	456
R99	Maryland School for the Deaf	1,860
S00	Department of Housing and Community Development	24,957
T00	Department of Commerce	2,162
U00	Department of the Environment	70,976
V00	Department of Juvenile Services	4,501
	Total Federal Funds	1,986,530

	Agency	Current Unrestricted Funds
R13	Morgan State University	183,701
R30	University System of Maryland	3,651,363
	Total Current Unrestricted Funds	3,835,064
	Less: General Funds in Higher Education	3,835,064
	Net Current Unrestricted Funds	– 0 –

Explanation: The Administration cannot reduce the legislature or Judiciary's budgets. This action applies the State employee and retiree health insurance reductions to those budgets.

9. Amend the following section:

SECTION 20. AND BE IT FURTHER ENACTED, That the Governor shall abolish 657 vacant regular full-time equivalent positions, inclusive of any legislative position reductions, and reduce general funds of $20,000,000 and special funds of $5,000,000 in fiscal 2017. Positions and funding for this purpose shall be reduced within Executive Branch agencies in fiscal 2017 in accordance with a schedule determined by the Governor.

Explanation: The amendment requires that abolished positions be vacant. As introduced, the Governor may abolish filled positions.

10. Amend the following section:

Further provided that the Administration shall have the Board of Public Works approve the position abolitions before July 1, 2016. The Administration shall also provide a list of abolished positions to the budget committees and the Department of Legislative Services.

Explanation: This requires the Administration to abolish the positions before the start of fiscal 2017. It also requires the Administration to provide a list of abolished positions to the budget committees and Department of Legislative Services.

Information Request	**Author**	**Due Date**
Report on abolished positions	DBM	Prior to July 1, 2016

11. 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, 2016, as determined by the Secretary of the Department of Budget and Management (DBM). 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) any positions created will be abolished in the event that non-State funds are no longer available.

The Secretary of DBM shall certify and report to the General Assembly by June 30, 2017, the status of positions created with non-State funding sources during fiscal 2013 through 2017 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 2013 through 2017	DBM	June 30, 2017

12. 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 2016, the Secretary of the Department of Budget and Management (DBM) shall determine the total number of full-time equivalent (FTE) positions that are authorized as of the last day of fiscal 2016 and on the first day of fiscal 2017. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2016 and 2017, including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self-supported activities, and the Maryland Correctional Enterprises.

DBM shall also prepare a report during fiscal 2017 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 2018 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 2018 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, 2016	DBM	July 14, 2016
Report on the creation, transfer, or abolition of regular positions	DBM	As needed

13. 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, 2016; October 15, 2016; January 15, 2017; and April 15, 2017; 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 Transportation	July 15, 2016; October 15, 2016; January 15, 2017; and April 15, 2017

14. 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 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.

15. 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 the Department of Budget and Management shall include as an appendix in the fiscal 2018 Governor's budget books an accounting of the fiscal 2016 actual, fiscal 2017 working appropriation, and fiscal 2018 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	DBM	With submission of the Governor's fiscal 2018 budget books

Total Reductions	**$ 2,106,143**
Total General Fund Reductions	**$ 1,906,143**
Total Special Fund Reductions	**$ 90,000**
Total Federal Fund Reductions	**$ 110,000**

Updates

1. Impact of the Cadillac Tax

The Cadillac Tax is an excise tax established by the ACA. The Cadillac Tax is a tax of 40% on health plans whose value is more than $10,200 for individual coverage and $27,500 for a family; the tax only applies to the amounts that exceed the threshold. Originally, the Cadillac Tax was scheduled to take effect beginning in calendar 2018, but on December 18, 2015, Congress passed, and the President signed, a two-year delay, until calendar 2020. The December 2015 change also makes the tax deductible for employers who pay it.

According to DBM, assuming an annual growth of 5.5% in the cost of health care, the cost of the excise tax will fall within the following ranges over the first three years of implementation:

- calendar 2020 – $7.9 million to $8.2 million;
- calendar 2021 – $12.4 million to $12.7 million; and
- calendar 2022 – $16.7 million to $17.1 million.

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 2015					
Legislative Appropriation	$69,121	$14,991	$9,369	$7,553	$101,033
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-19,567	0	0	0	-19,567
Budget Amendments	-41,369	-8,058	-4,940	0	-54,367
Reversions and Cancellations	-1,645	-6,933	-4,429	-102	-13,109
Actual Expenditures	**$6,540**	**$0**	**$0**	**$7,451**	**$13,991**
Fiscal 2016					
Legislative Appropriation	$32,387	$5,775	$3,261	$8,071	$49,494
Budget Amendments	21	-200	0	0	-178
Working Appropriation	**$32,408**	**$5,575**	**$3,261**	**$8,071**	**$49,316**

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

Fiscal 2015

Fiscal 2015 appropriations totaled $101.0 million, which includes $69.1 million in general funds. The largest appropriations were $86.6 million ($62.3 million in general funds) for the statewide program. All funds appropriated into the statewide program were either canceled or transferred to other agencies.

General fund appropriations, which totaled $69.1 million, were reduced $19.6 million in two cost containment actions. In July 2014, $19.4 million in funds supporting health insurance were canceled and the budget was reduced 2%, which is approximately $169,000, in January 2015. The department transferred $41.4 million in general funds out of the agency's budget, including:

- $37.7 million from the statewide program to provide salary increases for State employees;
- $3.6 million from the statewide program to provide salary increases to specified classifications identified through the ASR process; and
- $100,000 reduced to reflect reductions in the VSP.

General fund reversions total $1.6 million, of which:

- approximately $852,000 were from the health account appropriation in the statewide program;
- $150,000 were from the death benefits appropriation in the statewide program;
- approximately $484,000 were from salary increases appropriated into the statewide program; and
- approximately $159,000 in the various administrative programs by keeping positions vacant.

Special fund appropriations totaled $15.0 million, all of which is in the statewide program. The department transferred $8.0 million to support the general salary increase and approximately $96,000 to support ASRs. Cancellations totaled $6.9 million – $6.6 million in health account appropriations and approximately $353,000 appropriated for the general salary increase.

Federal fund appropriations totaled $9.4 million, all of which is in the statewide program. The department transferred $4.9 million to support the general salary increase and approximately $51,000 to support ASRs. Cancellations totaled $4.4 million, $4.3 million in health account appropriations and approximately $95,000 appropriated for salary increases.

Fiscal 2016

The fiscal 2016 legislative appropriation included $49.5 million for DBM personnel. To date, -$178,451 in budget amendments have been processed, including:

- adding $114,557 in general funds to offset a proposed 2% reduction to employee salaries;

- reducing general funds by $3,416 for the 2% across-the-board cost containment action applied to all agencies; and

- reducing the statewide program by $89,713 in general funds and $200,879 in special funds consistent with the ASRs appropriated in the budget of State agencies.

Appendix 2

Audit Findings

Audit Period for Last Audit:	November 3, 2010 – April 15, 2014
Issue Date:	May 2015
Number of Findings:	5
Number of Repeat Findings:	2
% of Repeat Findings:	20%

Finding 1: **The auditor advises that controls were not adequate over the payment of administrative fees for health care and prescription drug programs. Specifically, a supervisor in the Employee Benefits Division calculated the monthly administrative fees and forwarded the calculations, which were not subject to independent review, to a subordinate who entered the payments into the Financial Management Information System. DBM responded that this is now reviewed by the fiscal director. DBM also paid invoices for administrative fees without verifying the counts to independent documentation. DBM responded that these are now compared to the BAS.**

Finding 2: DBM did not adequately pursue and resolve results from an independent audit of the prescription drug program. The audit found that the contractor owes the State $1.5 million. The contractor disputed the charges in a September 2013 letter to DBM. After a regularly scheduled rebidding, a new contractor was awarded the prescription drug contract in May 2012. The auditor advises that no further action was taken by DBM. DBM responded that it mailed a letter in April 2015 and that their Attorney General will review the contractor's response.

Finding 3: DBM had not established a formal policy to ensure the timely initiation and completion of participant eligibility review. According to DBM's records, the combined review of fiscal 2010 and 2011 was not completed until November 2013, and fiscal 2012 was not completed until October 2014. Improper payments from fiscal 2010 to 2012 totaled $3.5 million. DBM responded that it will complete eligibility reviews within one year and that the written policy will be updated. The auditor also found that DBM did not submit delinquent payments to the State Central Collection Unit (CCU) in a timely manner. DBM advises that it has agreed with CCU to provide two notices after 45 days and 90 days delinquent and then submit to CCU 90 days after the first notice.

Finding 4: DBM inappropriately stored PII, such as Social Security numbers, full names, and dates of birth, in clear text in BAS. DBM responded that this should be migrated to a new system in fiscal 2015, which has been delayed to fiscal 2017.

Finding 5: **The auditor advises that prescription drug rebates and premium payment collections were recorded in a manual log but not verified. These payments primarily relate to local governments for their covered employees. DBM advises that there now is an automated master log that is reviewed weekly.**

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

Major Information Technology Projects

Department of Information Technology

Statewide Personnel System

Project Status	Implementation.			**New/Ongoing Project:**	Ongoing.			
Project Description:	The project includes modules such as recruiting, human resources, compensation, performance management, employee self-service, benefits administration, and timekeeping. The first phase has been deployed. The second phase includes timekeeping and payroll. There is now a third phase for benefits management.							
Project Business Goals:	The system should modernize an antiquated legacy system (from 1975), enable automated personnel-related reporting and business analysis, provide centralized data management, reduce administrative redundancies, and provide web-based employee self-service. A successful system will provide faster processing times, increased efficiencies, and robust current and historical reporting.							
Estimated Total Project Cost:	$72,266,446			**Estimated Planning Project Cost:**		$11,309,909		
Project Start Date:	January 2008			**Projected Completion Date:**		June 2017		
Schedule Status:	The benefits module was initially scheduled for October 2015, but due to vendor (Workday) product performance issues, benefits functionality is now scheduled to be implemented as phase III that will go live in March 2017.							
Cost Status:	Costs increased due to benefits module delays.							
Scope Status:	No changes in scope are projected.							
Project Management Oversight Status:	Because the Department of Information Technology is the implementing and oversight agency, the project poses some unique challenges. To address this, project managers have been procured.							
Identifiable Risks:	Risk concerns include user interface (almost all State agencies will be using the system), the organizational culture (the current system has been in place for more than 30 years), and the availability of staff with the skills necessary to manage the system when it is implemented.							
Additional Comments:	Project status is discussed in the Department of Budget and Management Personnel analysis.							
Fiscal Year Funding ($ in Thousands)	**Prior Years**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Balance to Complete**	**Total**
Professional and Outside Services	$52,719.2	$13,168.6	$6,378.6	$0.0	$0.0	$0.0	$0.0	$72,266.4
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	$0.0
Total Funding	**$52,719.2**	**$13,168.6**	**$6,378.6**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$72,266.4**

Appendix 4

Voluntary Separation Program – Positions Abolished by Department

Department/Service Area	VSP	Vacancies	Total	As Percent of Workforce
Health and Human Services				
Health and Mental Hygiene	72	4	76	1.2%
Human Resources	67	0	67	1.0%
Juvenile Services	7	0	7	0.3%
Subtotal	***146***	***4***	***150***	***1.0%***
Public Safety				
Public Safety and Correctional Services	42	16	58	0.5%
Police and Fire Marshal	8	0	8	0.3%
Subtotal	***50***	***16***	***66***	*0.5%*
Transportation[1]	**98**	**0**	**98**	**1.1%**
Other Executive				
Legal (Excluding Judiciary)	15	0	15	1.0%
Executive and Administrative Control	14	2	16	1.0%
Financial and Revenue Administration	19	0	19	0.9%
Budget and Management and DoIT	9	1	10	2.2%
Retirement	0	0	0	0.0%
General Services	7	0	7	1.2%
Natural Resources	8	0	8	0.6%
Agriculture	2	0	2	0.5%
Labor, Licensing, and Regulation	37	0	37	2.3%
MSDE and Other Education	21	25	46	2.3%
Housing and Community Development	2	0	2	0.6%
Business and Economic Development	4	0	4	1.8%
Environment	19	0	19	2.0%
Subtotal	***157***	***28***	***185***	***1.4%***
Executive Branch Subtotal	***451***	***48***	***499***	***1.0%***
Higher Education[2]	**7**	**0**	**7**	**1.6%**
Maryland Transportation Authority	**10**	**0**	**10**	**0.6%**
Total	**468**	**48**	**516**	**1.0%**

DoIT: Department of Information Technology
MSDE: Maryland State Department of Education
VSP: Voluntary Separation Program

[1] Excludes 10 nonbudgeted positions in the Maryland Transportation Authority.
[2] Baltimore City Community College.

Appendix 5

Maryland's Net OPEB Obligation
Fiscal 2008-2015
($ in Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015
Beginning NOO	n/a	$696	$1,478	$2,336	$3,199	$3,532	$3,787	$3,965
Adjusted ARC	1,086	$,119	1,127	1,135	581	498	420	419
Interest on NOO	0	30	64	101	138	150	161	188
Annual OPEB Cost	**$1,086**	**$1,149**	**$1,191**	**$1,235**	**$719**	**$640**	**$580**	**$608**
PAYGO costs	271	315	336	369	386	393	403	450
Pre-funding	119	51	0	0	0	0	0	0
Annual Payments	**$390**	**$367**	**$336**	**$369**	**$386**	**$393**	**$403**	**$450**
End-of-year NOO	**$696**	**$1,478**	**$2,333**	**$3,199**	**$3,532**	**$3,787**	**$3,965**	**$4,123**

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

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

Source: The Segal Group, Inc.

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

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	113.50	127.00	127.00	0.00	0%
02 Contractual	2.46	0.70	3.20	2.50	357.1%
Total Positions	**115.96**	**127.70**	**130.20**	**2.50**	**2.0%**
Objects					
01 Salaries and Wages	$ 9,595,098	$ 40,162,694	$ 123,932,582	$ 83,769,888	208.6%
02 Technical and Spec. Fees	135,643	5,022,357	144,681	-4,877,676	-97.1%
03 Communication	347,641	282,667	328,200	45,533	16.1%
04 Travel	13,272	20,000	20,300	300	1.5%
08 Contractual Services	3,684,556	3,595,911	4,541,728	945,817	26.3%
09 Supplies and Materials	30,814	35,000	35,000	0	0%
10 Equipment – Replacement	4,231	8,800	130,406	121,606	1381.9%
13 Fixed Charges	179,597	188,300	192,343	4,043	2.1%
Total Objects	**$ 13,990,852**	**$ 49,315,729**	**$ 129,325,240**	**$ 80,009,511**	**162.2%**
Funds					
01 General Fund	$ 6,540,308	$ 32,408,457	$ 94,865,290	$ 62,456,833	192.7%
03 Special Fund	0	5,575,288	15,648,523	10,073,235	180.7%
05 Federal Fund	0	3,260,852	8,790,813	5,529,961	169.6%
09 Reimbursable Fund	7,450,544	8,071,132	10,020,614	1,949,482	24.2%
Total Funds	**$ 13,990,852**	**$ 49,315,729**	**$ 129,325,240**	**$ 80,009,511**	**162.2%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 6

Fiscal Summary
Department of Budget and Management – Personnel

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Executive Direction	$ 2,019,204	$ 2,135,242	$ 2,515,234	$ 379,992	17.8%
02 Division of Employee Benefits	7,148,796	7,649,305	8,401,378	752,073	9.8%
04 Division of Employee Relations	1,572,291	1,750,988	2,664,417	913,429	52.2%
06 Division of Classification and Salary	1,876,613	2,315,308	2,451,610	136,302	5.9%
07 Division of Recruitment and Examination	1,373,948	1,428,746	1,510,577	81,831	5.7%
08 Statewide Expenses	0	34,036,140	111,782,024	77,745,884	228.4%
Total Expenditures	**$ 13,990,852**	**$ 49,315,729**	**$ 129,325,240**	**$ 80,009,511**	**162.2%**
General Fund	$ 6,540,308	$ 32,408,457	$ 94,865,290	$ 62,456,833	192.7%
Special Fund	0	5,575,288	15,648,523	10,073,235	180.7%
Federal Fund	0	3,260,852	8,790,813	5,529,961	169.6%
Total Appropriations	**$ 6,540,308**	**$ 41,244,597**	**$ 119,304,626**	**$ 78,060,029**	**189.3%**
Reimbursable Fund	$ 7,450,544	$ 8,071,132	$ 10,020,614	$ 1,949,482	24.2%
Total Funds	**$ 13,990,852**	**$ 49,315,729**	**$ 129,325,240**	**$ 80,009,511**	**162.2%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.