

C98F00
Workers' Compensation Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$14,341	\$14,721	\$16,296	\$1,575	10.7%
Adjustments	0	0	-31	-31	
Adjusted Special Fund	\$14,341	\$14,721	\$16,265	\$1,544	10.5%
 Adjusted Grand Total	 \$14,341	 \$14,721	 \$16,265	 \$1,544	 10.5%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The fiscal 2018 allowance for the Workers' Compensation Commission (WCC) is \$16.3 million, an increase of \$1.5 million, or 10.5%, above the fiscal 2017 working appropriation. This increase is entirely attributable to a new major information technology project to replace the agency's enterprise and case management systems.

Personnel Data

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>
Regular Positions	117.00	115.00	115.00	0.00
Contractual FTEs	<u>7.67</u>	<u>11.25</u>	<u>11.25</u>	<u>0.00</u>
Total Personnel	124.67	126.25	126.25	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.49	3.90%
Positions and Percentage Vacant as of 12/31/16	4.50	3.91%

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

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- The fiscal 2018 allowance includes 115.0 regular positions and 11.25 contractual full-time equivalents, the same as the fiscal 2017 working appropriation.
- The turnover expectancy for the agency is 3.9%, which requires a total of 4.5 vacant positions. As of December 21, 2016, the agency had 4.5 vacant positions.

Analysis in Brief

Major Trends

Agency Performance Remains Strong on Steady Caseload: The WCC principle performance metric is the number of nonpermanency hearings it sets within 60 days of filing. In fiscal 2016, WCC set a total of 22,368 such hearings, a 0.8% increase over fiscal 2015, and set 91.5% of the cases within 60 days, a slight decrease attributable to several hearing days being lost due to inclement weather.

Recommended Actions

	<u>Funds</u>
1. Reduce special funds to eliminate compensation increase for contractual employees.	\$ 85,872
Total Reductions	\$ 85,872

Updates

Fiscal 2016 Caseload Levels and Insurer Assessments: WCC levies an annual assessment on insurers. The assessment is based on the insurer payroll base, the WCC operating budget, and the cost of a Department of Labor, Licensing, and Regulation safety program. In fiscal 2016, WCC had a lower insurer assessment rate than in fiscal 2015 despite an increase in expenses due to large growth in the payroll base.

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Operating Budget Analysis

Program Description

The Workers' Compensation Commission (WCC) administers the State Workers' Compensation Law, which requires most Maryland employers to obtain and maintain insurance in order to provide benefits to employees who sustain an accidental personal injury, occupational disease, or death in the course of their employment. WCC receives, processes, and adjudicates claims for injured employees and refers appropriate claimants for medical and rehabilitation vocational services. WCC is a special fund agency that covers expenditures with an annual maintenance assessment levied on insurance carriers and self-insured employers. The WCC mission addresses the need for effective and timely delivery of services provided to its customers; a system for electronic exchange of all claims information documents; and the establishment of an effective system for the collection and analysis of all costs associated with the delivery of workers' compensation benefits.

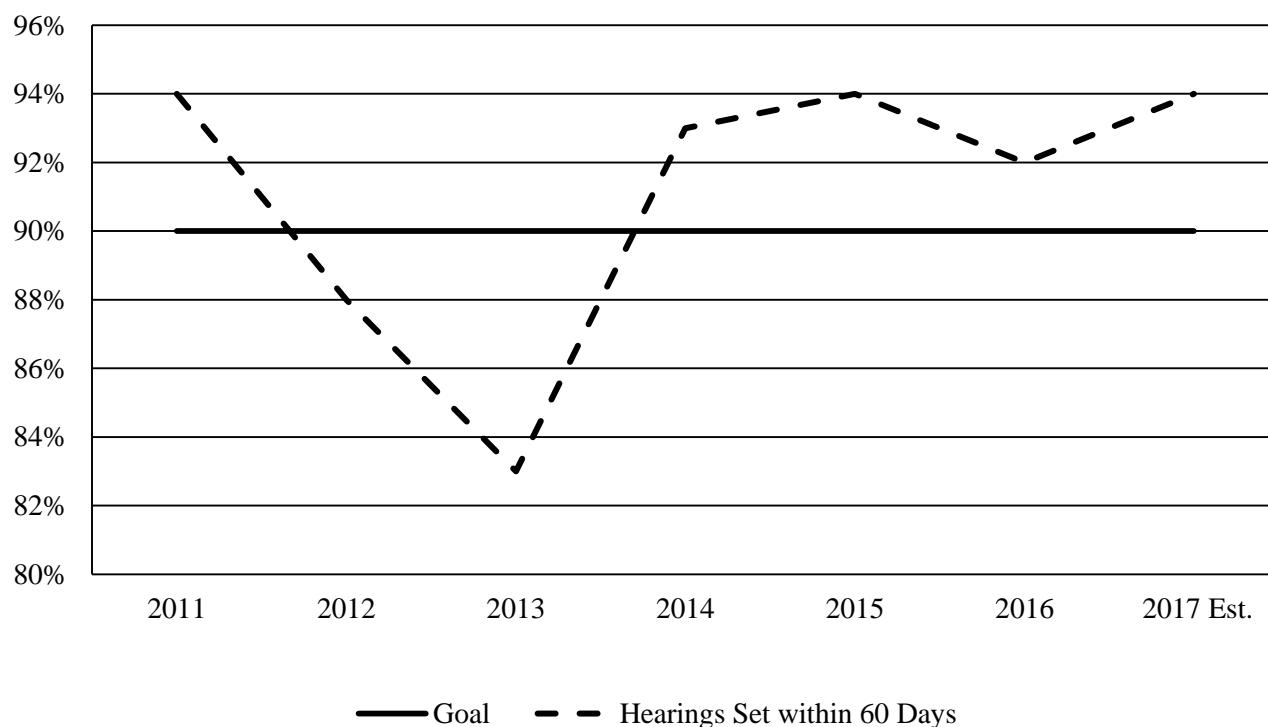
Performance Analysis: Managing for Results

1. Agency Performance Remains Strong on Steady Caseload

The principle measure used by WCC to track its performance is the percentage of nonpermanency hearings it sets within 60 days of the filing date of the claim. In fiscal 2010, the first year in which the new metric was tracked, WCC scheduled hearings for 85% of the 23,370 nonpermanency hearings within this 60-day timeframe. Based on that result, the agency adopted a goal of scheduling 90% of hearings within 60 days. **Exhibit 1** shows the agency's performance since fiscal 2011.

WCC set 22,358 hearings in fiscal 2016, a slight increase over the 22,172 set in fiscal 2015, and achieved a similar timeliness rate of 92% (compared to 94% in fiscal 2015). While performance remained strong, WCC reports that its schedule was negatively impacted by inclement winter weather, which required several days of hearings to be canceled.

Exhibit 1
Nonpermanency Hearings Set within 60 Days
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

Proposed Budget

As shown in **Exhibit 2**, the fiscal 2018 allowance for WCC increases by \$1.5 million, or 10.5%, above the fiscal 2017 working appropriation. This increase is largely attributable to a new major information technology (IT) project to replace the agency’s computer systems and is partially offset by reduced personnel expenditures. WCC is entirely special funded, mostly from maintenance assessments on employers in the State.

Exhibit 2
Proposed Budget
Workers' Compensation Commission
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Total</u>
Fiscal 2016 Actual	\$14,341	\$14,341
Fiscal 2017 Working Appropriation	14,721	14,721
Fiscal 2018 Allowance	<u>16,265</u>	<u>16,265</u>
Fiscal 2017-2018 Amount Change	\$1,544	\$1,544
Fiscal 2017-2018 Percent Change	10.5%	10.5%

Where It Goes:

Personnel Expenses

Compensation.....	\$23
Workers' compensation premium assessment	23
Other fringe benefit adjustments	15
Employee retirement payments.....	11
Turnover adjustments.....	-55
Employee and retiree health insurance	-143

Other Changes

New enterprise and case management system	1,575
Contractual employees	86
Other	9

Total	\$1,544
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Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2018 budget bill includes a \$54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. This agency's share of these reductions is \$30,760 in special funds. This action is tied to a provision in the Budget Reconciliation and Financing Act of 2017.

Personnel

Personnel expenditures decrease by \$125,278, net of back of the bill reductions. Significant changes include decreases for health insurance (\$142,672) and turnover (\$54,962).

Other Changes

There are two significant other changes, an increase of \$1.6 million for a new major IT project to replace WCC's aging systems and \$85,872 to increase contractual employee compensation. **The Department of Legislative Services (DLS) recommends that the agency discuss the purpose and goals of its new IT system. DLS further recommends that the agency discuss its plan to ensure the success of the project and why it is expected to cost a total of \$7.2 million.**

Recommended Actions

	<u>Amount Reduction</u>
1. Eliminate funding for an increase in contractual employee compensation. These funds are being denied due to the fiscal condition of the State and as a matter of equity for other contractual State employees.	\$ 85,872 SF
Total Special Fund Reductions	\$ 85,872

Updates

1. Fiscal 2016 Caseload Levels and Insurer Assessments

There are five key areas that drive the WCC workload: first reports of injury, claims filed, issues filed, hearings, and appeals. **Exhibit 3** shows how these areas affect the WCC workload annually. In fiscal 2016, total first reports of injury, total filed claims, and appeals all decreased from fiscal 2015 levels. However, the number of issues filed increased by 3.5%, and the number of hearings set grew by 9.5% from fiscal 2015.

Exhibit 3
Commission Claim Actions
Fiscal 2013-2016

	<u>Actual 2013</u>	<u>Actual 2014</u>	<u>Actual 2015</u>	<u>Actual 2016</u>	<u>% Change 2015-2016</u>
First Reports of Injury	106,715	110,783	96,581	91,109	-5.7%
Total Filed Claims	23,241	24,113	23,706	23,683	-0.1%
Issues Filed	43,838	44,570	42,813	44,295	3.5%
Hearings Set	42,847	43,382	40,059	43,870	9.5%
Appeals	2,016	2,018	1,975	1,907	-3.4%

Source: Workers' Compensation Commission

The agency levies an annual assessment on all licensed insurers and authorized self-insured entities. This assessment funds the agency's operating budget. To determine the assessment amount, the agency sums its own operating budget cost with the cost of the Department of Labor, Licensing, and Regulation's safety program. **Exhibit 4** lists the payroll base, commission expense, safety program, and the resulting assessment for fiscal 2009 to 2016. Total expenditures in fiscal 2016 increased by \$339,265, and the payroll base increased by \$6.4 billion. Growth in the payroll base was sufficient to decrease the assessment rate in fiscal 2016.

Exhibit 4
Total Payrolls and Insurer Assessments
Fiscal 2009-2016

	<u>Assessment Base Insurer Payroll</u>	<u>Commission Expense</u>	<u>Safety Program Cost</u>	<u>Total Expenses</u>	<u>Insurer Assessments</u>	<u>Assessment Per \$1,000 of Payroll</u>
2016	\$130,198,576,239	\$13,243,481	\$12,278,948	\$25,522,429	\$25,522,429	0.196
2015	123,788,020,927	13,850,624	11,332,540	25,183,164	24,742,542	0.200
2014	121,027,528,186	13,898,109	12,157,148	26,055,257	25,684,112	0.212
2013	113,830,536,789	13,736,289	11,660,527	25,396,816	24,923,537	0.219
2012	110,175,781,742	13,739,984	11,319,662	25,059,646	25,059,646	0.227
2011	112,656,771,036	13,496,037	9,985,427	23,481,464	24,428,360	0.217
2010	108,195,546,586	12,263,369	10,177,248	22,440,617	22,440,617	0.207
2009	112,282,039,829	12,796,532	10,095,153	22,891,685	20,879,634	0.185

Source: Workers' Compensation Commission

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Appendix 1
Current and Prior Year Budgets
Workers’ Compensation Commission
(\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2016					
Legislative Appropriation	\$0	\$14,170	\$0	\$0	\$14,170
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	175	0	0	175
Reversions and Cancellations	0	-5	0	0	-5
Actual Expenditures	\$0	\$14,341	\$0	\$0	\$14,341
Fiscal 2017					
Legislative Appropriation	\$0	\$14,568	\$0	\$0	\$14,568
Cost Containment	0	0	0	0	0
Budget Amendments	0	153	0	0	153
Working Appropriation	\$0	\$14,721	\$0	\$0	\$14,721

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

The agency finished fiscal 2016 \$170,162 above its legislative appropriation. This increase is attributable to a budget amendment that added \$175,000 to restore employee salaries that would otherwise have been reduced by 2% effective July 1, 2015. This increase is offset by the cancellation of \$4,838 in unspent funds.

Fiscal 2017

The fiscal 2017 appropriation for the agency is \$153,079 above the legislative appropriation due to the addition of employee increments to agency budgets by budget amendment.

Appendix 2
Major Information Technology Projects
Workers' Compensation Commission
Enterprise Modernization

Project Status	Planning.			New/Ongoing Project:		New.		
Project Description:	Enterprise modernization to replace 30-year-old agency systems.							
Project Business Goals:	Replace 30-year-old case management system and all other agency information technology (IT) systems with a new unified IT system without compromising efficiency of agency operations.							
Estimated Total Project Cost:	\$7,190,702			Estimated Planning Project Cost:		\$840,702		
Project Start Date:	July 2015.			Projected Completion Date:		n/a.		
Schedule Status:	This project is in the Requirements Analysis phase. The agency is conducting a comprehensive analysis of its current technology and businesses processes. This phase is scheduled to end in July 2017, and, upon successful completion, the agency will begin implementation in fiscal 2018.							
Cost Status:	Total projected budget, including planning, is \$7.2 million, of which \$390,702 has already been appropriated and \$500,000 is currently under review to be added to the fiscal 2017 appropriation by budget amendment. Implementation costs are estimated to be \$4.0 million.							
Scope Status:	n/a.							
Project Management Oversight Status:	Department of Information Technology oversight established.							
Identifiable Risks:	The agency has not identified any significant risks; however, this is a large and complicated project planned to encompass all agency systems. There is always risk inherent in transitioning to a new system, especially when many employees have spent their entire careers with one set of business processes, and the organization is entirely dependent upon the system being replaced.							
Additional Comments:	The Workers' Compensation Commission has been a paperless agency for over two decades. The current case management system has been highly effective but is approaching obsolescence and must be replaced.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	890.7	1,575.0	1,575.0	1,575.0	1,575.0	0.0	7,190.7	0.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$890.7	\$1,575.0	\$1,575.0	\$1,575.0	\$1,575.0	\$0.0	\$7,190.7	\$0.0

Appendix 3
Object/Fund Difference Report
Workers' Compensation Commission

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	117.00	115.00	115.00	0.00	0%
02 Contractual	7.67	11.25	11.25	0.00	0%
Total Positions	124.67	126.25	126.25	0.00	0%
Objects					
01 Salaries and Wages	\$ 10,500,871	\$ 11,003,709	\$ 10,909,191	-\$ 94,518	-0.9%
02 Technical and Spec. Fees	672,569	566,572	678,572	112,000	19.8%
03 Communication	557,258	460,561	477,608	17,047	3.7%
04 Travel	185,864	110,962	110,222	-740	-0.7%
06 Fuel and Utilities	12,169	11,197	12,554	1,357	12.1%
07 Motor Vehicles	74,342	80,094	84,120	4,026	5.0%
08 Contractual Services	523,160	600,806	2,128,578	1,527,772	254.3%
09 Supplies and Materials	155,995	146,684	157,747	11,063	7.5%
10 Equipment – Replacement	75,839	0	0	0	0.0%
11 Equipment – Additional	92,633	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	52,387	52,387	52,387	0	0%
13 Fixed Charges	1,437,474	1,688,019	1,684,915	-3,104	-0.2%
Total Objects	\$ 14,340,561	\$ 14,720,991	\$ 16,295,894	\$ 1,574,903	10.7%
Funds					
03 Special Fund	\$ 14,340,561	\$ 14,720,991	\$ 16,295,894	\$ 1,574,903	10.7%
Total Funds	\$ 14,340,561	\$ 14,720,991	\$ 16,295,894	\$ 1,574,903	10.7%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.