F10A02
Personnel
Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 16 Actual	FY 17 Working	FY 18 Allowance	FY 17-18 Change	% Change Prior Year
General Fund	$32,348	$8,557	$11,320	$2,762	32.3%
Adjustments	0	0	-29	-29	
Adjusted General Fund	**$32,348**	**$8,557**	**$11,291**	**$2,733**	**31.9%**
Special Fund	0	212	516	305	144.1%
Adjusted Special Fund	**$0**	**$212**	**$516**	**$305**	**144.1%**
Federal Fund	0	261	6	-256	-97.8%
Adjusted Federal Fund	**$0**	**$261**	**$6**	**-$256**	**-97.8%**
Reimbursable Fund	7,940	10,021	9,005	-1,015	-10.1%
Adjusted Reimbursable Fund	**$7,940**	**$10,021**	**$9,005**	**-$1,015**	**-10.1%**
Adjusted Grand Total	**$40,287**	**$19,051**	**$20,818**	**$1,767**	**9.3%**

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

- The fiscal 2018 allowance increases by $1.8 million, or 9.3%, over the fiscal 2017 working appropriation, including an across-the-board contingent reduction to pension costs. This increase is primarily attributable to the statewide program, which has a $3.5 million budget in fiscal 2018 to provide step increases to sworn officers who missed step increases from fiscal 2010 to 2013 per a collective bargaining agreement with the State Law Enforcement Officers' Labor Alliance (SLEOLA).

- Funding for the department's operations totals $17.3 million in fiscal 2018, which is a decrease of $1.1 million, or 6.0%, from fiscal 2017. This decrease is primarily due to an $800,000 decrease in funding to maintain the Benefit Administration System (BAS) and a $159,000 decrease in personnel costs.

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

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Personnel Data

	FY 16 Actual	FY 17 Working	FY 18 Allowance	FY 17-18 Change
Regular Positions	127.00	137.40	137.40	0.00
Contractual FTEs	1.90	3.20	0.00	-3.20
Total Personnel	**128.90**	**140.60**	**137.40**	**-3.20**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions		2.09	1.52%	
Positions and Percentage Vacant as of 12/31/16		10.00	7.28%	

- In fiscal 2016, 11.5 positions were transferred from other agencies to support the human resources (HR) shared services initiative. The Division of Employee Benefits also added 2.0 positions to support new contractual health analysis requirements and converted 1.0 long-time contractual full-time equivalent (FTE).

- The department abolished 2.0 positions as a result of Section 20 of the fiscal 2017 budget bill, as reflected in the fiscal 2017 legislative appropriation. The department receives an additional 14.0 positions transferred from other agencies for the HR shared services initiative in fiscal 2017, as reflected in the working appropriation. The Department of Budget and Management (DBM) Office of Personnel Services and Benefits transferred 1.0 position to DBM Secretary's Executive Direction program to provide a director of government efficiency and 1.0 position to DBM Secretary's Capital Budget Analysis program to provide a capital budget analyst in fiscal 2017.

- There are no changes in regular positions in the fiscal 2018 allowance. The department eliminates 3.2 contractual FTEs in fiscal 2018 that are no longer needed to support the HR shared services initiative.

Analysis in Brief

Major Trends

Separations Increase While Hiring Drops: Since a low point in fiscal 2012, personnel transactions (such as hiring, reclassifications, and promotions) have increased substantially from fiscal 2013 to 2016 as the economy showed signs of improvement. Hires and rehires were highest in fiscal 2014 while promotions spiked in fiscal 2015, coinciding with the second consecutive year that employee increments were included in the budget. Fiscal 2016 shows drops in both hiring and promotions but a substantial increase in reclassifications as agencies attempt to utilize currently authorized positions to meet agency needs. Resignations and retirements both show increases in fiscal 2015 and 2016, coinciding with improved job availability and a Voluntary Separation Program. **The Department of Legislative Services (DLS) recommends adopting budget bill language restricting $100,000 until DBM submits a report on employee churn from fiscal 2007 to 2016.**

Issues

Statewide Employee Compensation: Employee costs are 18.3% of State spending, which totals $8.3 billion. In fiscal 2018, employee costs decrease by $86.2 million, or 1.0%. The largest decreases are attributable to retirement ($46.3 million), abolished positions ($30.5 million), and health insurance ($23.9 million). Since fiscal 2004, employee salaries have increased by 2.2% annually, health insurance costs have increased by 3.5% annually, and pension costs have increased by 13.4% annually. The limited salary growth is attributable to years without salary enhancements. The fiscal 2018 allowance does not include funds for employee increments or a cost-of-living adjustment (COLA), and, as a result, employee salaries are flat from fiscal 2017. The Governor’s out-year forecast budgets employee increments, but not COLAs. **Given rising separations as employees seek employment elsewhere, stunted salary growth with no forecasted COLAs, and more costly, yet reduced, benefits, DBM should comment on what the State will do to improve employee recruitment and retention.**

Statewide Position Changes: The Spending Affordability Committee (SAC) set a cap of 80,323 regular FTE positions across State government for fiscal 2018. The fiscal 2018 allowance authorizes 80,123 regular FTE positions, staying within the cap set by SAC. This year, the committee did not include any exemptions and recommended that agencies make maximum use of existing vacant positions to address staffing needs. Given the relatively few new positions created and the increase in reclassification funding to State agencies, the fiscal 2018 allowance appears to be following SAC’s recommendations.

Statewide Hiring Freeze Policies: The 2016 *Joint Chairmen’s Report* (JCR) requested a report on statewide hiring freeze policies that addresses the rationale for continuing the freeze as well as procedures, exemptions, and processing times. The State Executive Branch has operated under a hiring freeze in some form since fiscal 2001. **DBM should comment on whether any State agencies are experiencing performance or service level reductions due to the inability to fill frozen positions.**

Statewide Personnel System Implementation: DBM has been working to replace the State's legacy personnel system since January 2008. The first phase of the project included recruiting, compensation, and performance management. The second phase of the project was supposed to include benefits administration, compensation, and timekeeping, but the department has had to delay implementation of the benefits administration phase. The total cost of the project increased from $72.0 million in fiscal 2017 to $81.1 million in fiscal 2018, primarily due to the unexpected delay in BAS implementation. Since the rollout of components of the new personnel system, there have been issues involving employee payroll. DBM has investigated these issues and feels confident they have been resolved. **DBM should update the committees on the status of replacing the State's legacy personnel system. The department should provide an update on the recent issues with employee payroll that occurred in 2016 and discuss how the department intends to deal with the cultural change of State agencies switching to the new system to limit user error. The department should also update the budget committees on the concern that the legacy personnel system had been miscalculating overtime and whether the State will need to take action to address mispayments.**

Employee and Retiree Health Insurance Account: Despite high fund balances in fiscal 2013 and 2014 as a result of plan changes, the State Employee and Retiree Health Insurance Account closed fiscal 2015 with a deficit due to medical and prescription costs growing faster than expected. Contributions increased in fiscal 2016 to address the deficit. More contributions were collected than anticipated in fiscal 2016 as a result of vacant positions and pay period timing. The fiscal 2018 allowance anticipates a positive fund balance of $20 million with contribution growth lessened by the fiscal 2016 surplus and pharmacy rebate revenue, but health costs are expected to continue to grow in the out-years. The State has mitigated rising health care costs in previous years with plan changes that frequently shifted more costs onto employees and retirees. **DBM should comment on whether agencies will be expected to absorb the additional charges. DBM should comment on the current access members have to health care provider cost information and discuss ways the State could improve transparency of these costs. DBM should also discuss if the State has considered any options to better connect members with the costs of health care through financial incentives for choosing less expensive providers.**

The Revised Wellness Program: The State was slated to begin implementing a wellness program in calendar 2015 and intended to phase in delivery system reforms, cost-sharing incentives and disincentives for employees to engage in wellness activities, and health education over the course of six years. As of January 2016, the Administration has suspended many components of the program. Per the 2016 JCR, DBM has submitted a report on the revised wellness program, including updated costs and savings of the program. **DBM should discuss the results of the wellness program so far. In particular, the department should expound on how projected savings and costs are determined. Additionally, DBM should comment on the impact of eliminating disincentives on the outcomes of the program, particularly in regard to compliance rates for preventive screenings and diabetes treatment, and any anticipated revenue lost.**

Employee Assistance Program: The Employee Assistance Program (EAP) is a confidential service offered to help State employees who face personal matters that adversely affect job performance. Employees are referred by a supervisor when an employee's personal issues have begun to negatively impact work performance. The percent of employees who judged that the EAP has significantly helped with their problem dropped from 82% in fiscal 2015 to 67% in fiscal 2016. Also, employees who showed improvement post-referral, as judged by their supervisors, decreased from 67% in fiscal 2015 to 61% in fiscal 2016. **DBM should describe the kinds of services that the EAP offers and discuss why fewer employees appear to be getting positive results from the program. The department should also comment on the feasibility of expanding services provided by State health plans to create a more accessible resource to encourage employees to seek help with substance abuse, stress management, depression, anxiety, or other mental illnesses prior to having an impact on work performance.**

Recommended Actions

1. Add language restricting funds until the department submits closeout information on the Employee and Retiree Health Insurance Account.
2. Add language restricting $100,000 until a report is submitted on employee churn from fiscal 2007 to 2016.
3. Amend Section 19 reducing funds for retirement reinvestment to include the General Assembly and Judiciary.
4. Add a section for the annual "Rule of 100" limit on position creation.
5. Add a section for annual language requiring a report on State positions.
6. Add a section requiring annual language for Executive Pay Plan reporting.
7. Add a section for annual language restricting the movement of employees into abolished positions.
8. Add a section for annual language requiring reporting of employee and retiree health insurance receipts and spending.

Updates

2016 JCR Requested Reports Submitted: The 2016 JCR requested that DBM submit the following reports: (1) detail on the positions abolished under Section 20 of the fiscal 2017 budget bill; (2) an update on the HR shared services initiative; (3) an update on the Innovative Idea Awards Program; and (4) a review of State employee leap year pay. DBM submitted all of these requested reports on time.

Collective Bargaining Agreements Set to Expire in 2017: Approximately 30,000 State employees, excluding higher education, were covered by collective bargaining as of February 2, 2017. DBM reached an agreement with SLEOLA last year, which provided for regular increments, a COLA in fiscal 2017, and step increases for officers employed in the years State employees did not receive step increases (fiscal 2010 to 2013); this agreement expires June 30, 2019. DBM also reached agreements with Baltimore/Washington International Thurgood Marshall Airport firefighters and the Maryland Transportation Authority sworn officers' union, but that agreement expires June 30, 2017. Eight bargaining units have agreements set to expire December 31, 2017. The State has reached agreements on economic reopeners with the Maryland Professional Employees Council and AFT-Healthcare Maryland but not with the American Federation of State, County, and Municipal Employees. Full contracts will be negotiated later this year.

Fair Labor Standards Act Updated Overtime Regulations on Hold Indefinitely: Federal overtime provisions contained in the Fair Labor Standards Act (FLSA) state that, unless exempt, employees covered under FLSA must receive overtime pay for hours worked over 40 in a workweek at a rate of not less than time and one-half regular pay. On May 18, 2016, the U.S. Department of Labor published the final rule updating overtime regulations, which focuses primarily on updating the salary and compensation levels needed for executive, administrative, and professional workers to be exempt. However, an injunction delaying the effective date of these new rules has been granted. If this change in regulations occurs, it will have an impact on State employees and most likely result in additional costs. As of February 2017, these regulations were still on hold.

Personnel

Department of Budget and Management

Operating Budget Analysis

Program Description

The Department of Budget and Management (DBM) 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 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 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. Separations Increase While Hiring Drops

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 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 SPMS since fiscal 2010. Major trends in career track include the following:

- Hires and rehires were the highest in fiscal 2014 with over 4,100 and stayed high in fiscal 2015 with 3,600. In fiscal 2016, hiring dropped to 2,900, the lowest level even compared to recession years, as the State agencies attempt to utilize current staff to meet agency needs. Cost containment measures were enacted in fiscal 2016, including a 2% across-the-board (ATB) reduction resulting in position abolitions and an ongoing hiring freeze.

Exhibit 1
Personnel Activities for State Employees
As of June 30 of Each Year
Fiscal 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017[1]
Career Track								
Hires and Rehires[2]	3,066	3,612	3,344	3,549	4,112	3,604	2,919	1,554
Transfers	269	285	224	399	311	792	906	509
Promotions	2,596	2,240	2,439	2,651	2,596	3,523	2,699	1,372
Reclassifications	1,410	1,522	221	729	1,036	2,104	3,580	1,851
Demotions	253	225	222	237	252	211	212	118
Separations								
Deceased	73	56	48	47	39	54	55	27
Failed to Report for Duty	27	28	28	30	38	42	23	10
Layoffs/Filled Position Abolition[3]	123	3	10	63	4	9	11	1
Leave of Absence	83	70	74	64	53	67	42	19
Resignations	1,626	1,838	1,669	1,805	1,780	2,028	2,351	1,259
Retired	1,474	1,797	992	1,170	1,112	1,764	1,432	583
Terminated	482	224	216	236	188	210	248	100
Terminated on Probation	87	118	93	96	89	108	78	30
Subtotal	***3,975***	***4,134***	***3,130***	***3,511***	***3,303***	***4,282***	***4,240***	***2,029***

[1] Fiscal 2017 data is through December 31, 2016, and does not include the full year.
[2] Prior to fiscal 2015, hires and rehires were tracked separately.
[3] Includes employees who had not vacated their positions prior to abolitions but may have done so after the position was designated for abolition, such as through retirement.

Source: Department of Budget and Management

- Transfers increased in fiscal 2015 and 2016 in comparison to prior years. The HR shared services initiative and the Department of Information Technology (DoIT) consolidation had some impact as the initiatives geared up, but DBM also attributes this increase in transfers to employees seeking promotional opportunities in other agencies.

- Promotions were the highest in fiscal 2015, coinciding with the second consecutive year that employee increments were included in the budget. Promotions dropped in fiscal 2016 in comparison to fiscal 2015 but still remained high relative to promotions in prior years.

- Reclassifications reached highs of 2,100 and almost 3,600 in fiscal 2015 and 2016, respectively. This is partially due to changes implemented in the new Statewide Personnel System (SPS) that allowed for the system to include vacant positions as reclassifications in addition to filled positions. Increased funding for annual salary reviews (ASR) and a focus on agencies utilizing positions currently authorized rather than requesting new positions are most likely other contributing factors to increases in reclassifications.

As it relates to separations, the major trends include:

- Resignations were fairly consistent from fiscal 2010 to 2014, ranging from 1,626 to 1,838, but increased to over 2,000 in both fiscal 2015 and 2016. Improvement in the economy and availability of jobs most likely had an impact on resignations as State employees left State service to seek other jobs.

- Retirements were higher in fiscal 2010, 2011, and 2015. Voluntary Separation Programs in fiscal 2010 and 2015 most likely contributed to more retirements in those years.

OPSB strives to maintain or improve the retention rate of permanent employees in SPS in grades 5 through 26 as one of the department's MFR goals. From fiscal 2012 to 2015, the retention rate of permanent employees was over 90% while in fiscal 2016 employee retention dropped to 88%. This means that 12% of employees hired in fiscal 2016 left State service within a year. Given the recent increase in employee separation, in December 2016, DLS asked DBM for information on employees who left the State with five years or less of service from fiscal 2007 to 2016. DBM responded with preliminary information in January 2017 but indicated that gathering the requested information may take some time. Despite repeated requests from DLS, as of February 2017, DBM has not provided the information nor suggested a timeframe of when the information could be available. This information is vital to evaluate the State's ability to retain employees.

DLS recommends adopting budget bill language restricting $100,000 until DBM submits a report on employee churn from fiscal 2007 to 2016.

Fiscal 2017 Actions

Cost Containment

On November 2, 2016, the Board of Public Works (BPW) approved an ATB reduction for cost containment purposes in fiscal 2017. This department's share of that reduction was $103,191 in general funds, which eliminated funding for reclassifications.

Section 20 Position Abolitions

Section 20 of the fiscal 2017 budget bill as introduced required the Governor to abolish 657 regular positions in the Executive Branch. The General Assembly amended the language to restrict abolished positions to only vacant positions. DBM OPSB abolished 2 positions, which amounted to $157,000 in savings: $110,000 in general funds and $47,000 in reimbursable funds.

Proposed Budget

The fiscal 2018 allowance totals $20.8 million, which is $1.8 million more than the fiscal 2017 working appropriation, as seen in **Exhibit 2**. Agency operations amount to $17.3 million while the statewide program amounts to $3.5 million in fiscal 2018.

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 2016 Actual	$32,348	$0	$0	$7,940	$40,287
Fiscal 2017 Working Appropriation	8,557	212	261	10,021	19,051
Fiscal 2018 Allowance	11,291	516	6	9,005	20,818
Fiscal 2017-2018 Amount Change	$2,733	$305	-$256	-$1,015	$1,767
Fiscal 2017-2018 Percent Change	31.9%	144.1%	-97.8%	-10.1%	9.3%

Where It Goes:

Personnel Expenses

Reclassification, including restored funds from November BPW cost containment	$95
Turnover adjustments	68
Accrued leave payout and overtime	-6
Workers’ compensation	-15
Employee retirement, with Section 19 contingent reduction	-25
Increments and other compensation	-85
Employee and retiree health insurance	-189
Other personnel changes	-2

Where It Goes:

Statewide Program	
Funds for one step for all SLEOLA members who missed steps	3,522
Cost-of-living adjustments reserve funding	-619
Agency Operations	
Supplies, equipment, publication costs, and association dues	80
Upgrade to Workday workstations	-118
Elimination of contractual employees	-145
Maintain current Benefit Administration System due to replacement delay	-800
Other changes	6
Total	**$1,767**

BPW: Board of Public Works
SLEOLA: State Law Enforcement Officers Labor Alliance

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

ATB Reductions

The fiscal 2018 budget bill includes a $54.5 million (all funds) ATB 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 $28,947 in general funds. This action is tied to a provision in the Budget Reconciliation and Financing Act of 2017.

Personnel Changes

Personnel costs decrease overall by $159,000 in fiscal 2018 when compared to the fiscal 2017 working appropriation. Employee and retiree health insurance decreases by $189,000, which reflects a reduction in agency contributions statewide. Regular earnings decrease by $85,000 due to vacated positions being funded at base salaries. Retirement costs decrease by $25,000, including the contingent reduction. Reclassification costs increase by $95,000 in fiscal 2018; the agency eliminated $103,000 in reclassification funding in fiscal 2017 as a cost containment measure, which contributes to the increase in fiscal 2018 as funding is partially restored. The department's turnover expectancy is lowered, resulting in an increase of $68,000 in fiscal 2018, in order to fill vacancies to more effectively implement the HR shared services initiative.

Issues

1. Statewide Employee Compensation

The amount budgeted for employee salaries and benefits in fiscal 2018 is $8.3 billion, as shown in **Exhibit 3**. Employee costs are 18.3% of State spending, which totals $45.7 billion. Fiscal 2018 employee costs decrease by $86.2 million, or 1.0%, below the fiscal 2017 working appropriation, including deficiencies and contingent reductions. The biggest decreases are in net retirement contributions ($46.3 million), primarily due to the ATB contingent reduction, abolished positions ($30.5 million), and health insurance costs ($23.9 million).

Exhibit 3
Regular Employee Statewide Personnel Cost Changes
Fiscal 2017-2018
($ in Millions)

2017 Working Appropriation	**$8,340.17**
Statewide Salary Changes	
Reclassifications	$7.1
State Law Enforcement Officers' Labor Alliance salary and benefit increases	3.5
Position-based Changes	
New regular full-time equivalent positions in the allowance	3.1
Position abolitions	-13.6
Maryland Correctional Institution – Hagerstown position abolitions*	-16.9
Operational Expenditures	
Overtime	27.4
Restoration of one-time personnel-related November Board of Public Works Cost Containment	20.0
Adjustments to turnover	-51.7
Fringe Benefits	
Social Security contributions	2.4
Retirement contributions	9.4
Active and retired employee health insurance costs	-23.9
Section 19 pension reductions	-55.7
Workers' compensation insurance	1.5
Unemployment insurance	0.1
Miscellaneous adjustments	1.1
Fiscal 2018 Allowance	**$8,254.01**
Increase over fiscal 2017 working appropriation	-86.2
Percentage increase	-1.0%

*The fiscal 2018 budget bill contains contingent language that abolishes 400 positions and reduces general funds by $16.9 million.

Source: Department of Budget and Management

Retirement contributions increase by $9.4 million in fiscal 2018, but an ATB contingent reduction established by Section 19 of the fiscal 2018 budget bill reduces contributions by $55.7 million, resulting in a net decrease of $46.3 million. Health insurance costs decrease by $23.9 million as a result of reduced agency contributions in fiscal 2018. Turnover expectancy decreases by $51.7 million, indicating higher vacancies are expected than budgeted for in fiscal 2017. According to DBM, turnover expectancy was budgeted to more accurately reflect State agency vacancies in recent years. The statewide turnover expectancy in the fiscal 2018 allowance is 5.9%, or approximately 2,900 vacancies. As of January 1, 2017, there were 4,825 vacant positions, far exceeding expected turnover.

The fiscal 2018 budget bill includes language to abolish 400 vacant positions in the Department of Public Safety and Correctional Services (DPSCS) and generate $16.9 million in general fund savings due to the downsizing of the Maryland Correctional Institution – Hagerstown (MCI-H) based on lower inmate population projections. Though $16.9 million of savings is budgeted, DLS estimates the actual cost savings of the position abolitions to be closer to $30.4 million, including salary and fringe benefits. DPSCS estimates using the remainder of the savings ($13.5 million) toward employee overtime expenses that are generated as a result of understaffing. Another 103 abolished positions result in a decrease of $13.6 million.

On November 2, 2016, BPW approved an ATB reduction for cost containment purposes in fiscal 2017. Of the $82.3 million general fund reduction, $20.0 million is reflected as personnel cost containment actions, such as holding positions vacant or eliminating reclassification money. As a result, statewide personnel costs show an increase of $20.0 million in fiscal 2018 over the fiscal 2017 working appropriation as that funding is restored.

Overtime costs increase by $27.4 million in fiscal 2018 in an attempt to budget closer to actual overtime expenditures in recent years. Five agencies account for the majority of this increase: DPSCS, the Department of State Police (DSP), the Department of Health and Mental Hygiene (DHMH), the Department of Juvenile Services (DJS), and MDOT. These five agencies make up more than 80% of the total overtime budget in fiscal 2018. Though fiscal 2018 overtime costs increase, it is still budgeted $33.0 million under what was actually spent on overtime in fiscal 2016.

The statewide program includes $3.5 million ($3.0 million in general funds) to fulfill a collective bargaining agreement with the State Law Enforcement Officers' Labor Alliance (SLEOLA) that one step increase would be provided on January 1, 2018, for sworn officers who missed step increases from fiscal 2010 to 2013. The statewide program also shows a decrease of $619,000 below the fiscal 2017 working appropriation due to the elimination of funding kept in reserve for missed cost-of-living adjustments (COLA).

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 insurance and pensions and is required to pay Social Security, unemployment insurance, and workers' compensation costs. From fiscal 2006 to 2009, the State also provided up to $600 per year to match contributions to employee supplemental retirement plans, but this has since been discontinued.

Exhibit 4 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 the most at a rate of 13.4% annually. Due to lower than expected returns on pension investments, contributions were increased starting in fiscal 2013 as a result of asset smoothing. Health insurance and other fringe benefit costs also increased at higher rates than salaries. The increasing pension and health insurance 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 increasing the employee and retiree share of premium costs, adding coinsurance, increasing copays, and increasing prescription drug deductibles (all costs paid by the employee).

Exhibit 4
Change in Direct Salary and Benefit Costs for the Average Employee
Fiscal 2004 and 2016

State Budgeted Compensation	2004	2016	Total Change	Average Annual % Change
Salary	$42,505	$55,310	$12,805	2.2%
Health Insurance Premium	6,483	9,745	3,262	3.5%
Pension Contributions	2,067	9,336	7,269	13.4%
Other Fringe Benefits	3,832	5,246	1,414	2.7%
Total	**$54,887**	**$79,637**	**$24,750**	**3.2%**
Benefit Share of Total Cost	22.6%	30.5%		

Source: Department of Budget and Management Annual Personnel Reports

The average employee salary increased from approximately $42,505 in fiscal 2004 to $55,310 in fiscal 2016. Salaries showed consistent growth from fiscal 2005 to 2009 but then decreased in fiscal 2010 and 2011 due to employee furloughs. Salaries remained relatively flat in fiscal 2012 and 2013 but then grew by $6,446, or 13.2% from fiscal 2014 to 2016. This large increase in salary is unusual and is most likely influenced by (1) actions taken to increase salaries in fiscal 2014 and 2015,

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

including COLAs, increments, and ASRs for certain positions; and (2) a change in methodology by DBM in calculating the average salary, which most likely boosted salaries slightly starting in fiscal 2014 in comparison to prior years. In fiscal 2016, salaries are flat as no salary enhancements were provided in the budget.

Exhibit 5 shows salary actions from fiscal 2003 to 2018. In 5 of the past 15 fiscal years, State employees did not receive any COLAs or increments, and there are no salary enhancements provided in fiscal 2018. In fiscal 2005 and 2012, COLAs were in the form of one-time bonuses. Fiscal 2005 to 2009 was the longest time that State employees received both increments and COLAs consistently, during this period. State employee salaries were effectively reduced through furloughs from fiscal 2009 to 2011.

Exhibit 5
Permanent Employee Statewide Salary Actions
Fiscal 2003-2018

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% with $900 floor and $1,400 ceiling	On time
2008	July 1, 2007	2%	On time
2009[1]	July 1, 2008	2%	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%	None
2014	January 1, 2014	3%	April 1, 2014
2015	January 1, 2015	2%	On time
2016	July 1, 2015	None	None
2017	July 1, 2016	None	On time
2018	July 1, 2017	None	None

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

Source: Department of Budget and Management

No COLAs are budgeted from fiscal 2016 to 2018, which is the longest time period employees have gone without this increase in the 16 fiscal years shown in Exhibit 5. Employees do receive increments in fiscal 2017 and, according to the fiscal 2018 budget highlights, the Governor has assumed employee increments in the State's out-year forecast but not COLAs. The intent of COLAs is to raise employees' salaries to keep pace with the cost of inflation on goods and services, such as rent, food, gas, and clothing. Employee COLAs are frequently tied to a national, international, or regional Consumer Price Index. By not providing for COLAs, State employees' salaries will continue to lose purchasing power over time.

In addition to stunted salary growth, since the recession, the State has attempted to constrain the rising costs of employee benefits by pushing more costs onto employees, reducing benefits, and increasing service requirements to obtain benefits. Some of the major changes to State employee benefits since fiscal 2010 include:

- increasing employee pension contributions from 5.0% to 7.0% of salary;
- increasing vesting eligibility for the State's pension plan from 5 to 10 years of service for employees hired after July 1, 2011;
- reducing the multiplier for pension benefits from 1.8% to 1.5%, which reduces pension salary replacement for employees hired after July 1, 2011;
- increasing eligibility to receive retiree health care from 16 to 20 years of service;
- eliminating the State match up to $600 into supplemental retirement plans;
- increasing copays on prescription drugs;
- adding coinsurance and increasing deductibles on certain State health plans; and
- increasing copays on emergency room and specialist visits.

Given rising separations as employees seek employment elsewhere, stunted salary growth with no forecasted COLAs, and more costly, yet reduced, benefits, DBM should comment on what the State will do to improve employee recruitment and retention.

2. Statewide Position Changes

The Spending Affordability Committee (SAC) set a position cap of 80,323 regular full-time equivalents (FTE) across State government for fiscal 2018. The fiscal 2018 allowance authorizes 80,123 regular FTE positions, staying within the cap set by SAC. This year, SAC did not include any exemptions and recommended that agencies make maximum use of existing vacant positions to address staffing needs. Given the relatively few new positions created and the increase in reclassification funding to State agencies, the fiscal 2018 allowance appears to be following SAC recommendations.

The fiscal 2018 allowance includes 80,123 positions, a decrease of 200 positions from the fiscal 2017 legislative appropriation. **Exhibit 6** provides a summary of the position changes from the fiscal 2017 legislative appropriation to the fiscal 2018 allowance. The changes in fiscal 2017 include:

- a net 284 positions are created in higher education institutions using flex personnel autonomy, as defined by Chapters 239 and 273 of 2004;
- 40 vacant caseworker positions are abolished in the Department of Human Resources (DHR) to utilize the funds to increase child welfare caseworker salaries;
- 14 positions are transferred to DBM. OPSB received 14 positions transferred from other agencies as part of the HR shared services initiative;
- 86 positions are transferred to DoIT from other agencies as part of information technology (IT) consolidation efforts in fiscal 2017; and
- 1 position is deleted in the Military Department as a technical adjustment to remove a duplicate position.

Unlike in many prior years, DBM has not utilized the "Rule of 100" to create positions in fiscal 2017, and no positions were created through the BPW process.

A total of 61.0 new positions are created in the fiscal 2018 allowance, including:

- 38.5 positions in the Judiciary to provide staff for the Clerks of the Circuit Court, to implement the Maryland Second Chance Act of 2016 and the Justice Reinvestment Act of 2016, and to provide 2.0 magistrates for Cecil, Kent, and Washington counties;
- 19.0 positions in the Department of Natural Resources (DNR), including 17.0 Natural Resource Police cadets and 2.0 aviation positions for their recently reacquired helicopter; and
- 3.0 positions in Saint Mary's College of Maryland (SMCM).

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Exhibit 6
Regular Position Change
Fiscal 2017 Legislative Appropriation to Fiscal 2018 Allowance

Department/Service Area	Leg. Approp 2017	BPW/Flex Adjust.	Abolish	Transfer	Tech. Adj.	Work Approp. 2017	Abolish	New	Allow. 2018
Health and Human Services									
Health and Mental Hygiene	6,183	-	-	-2	-	6,181	-	-	6,181
Human Resources	6,265	-	-40	-1	-	6,224	-	-	6,224
Juvenile Services	1,999	-	-	-1	-	1,998	-20	-	1,978
Subtotal	***14,447***	***0***	***-40***	***-4***	***0***	***14,403***	***-20***	***0***	***14,383***
Public Safety									
Public Safety and Correctional Services	10,956	-	-	-1	-	10,955	-400	-	10,555
Police and Fire Marshal	2,436	-	-	0	-	2,436	-	-	2,436
Subtotal	***13,392***	***0***	***0***	***-1***	***0***	***13,391***	***-400***	***0***	***12,991***
Transportation	**9,108**	***0***	***0***	***0***	***0***	***9,108***	***-50***	***0***	***9,058***
Other Executive									
Legal (Excluding Judiciary)	1,473	-	-	2	-	1,475	-	-	1,475
Executive and Administrative Control	1,577	-	-	-13	-1	1,563	-1	-	1,562
Financial and Revenue Administration	2,107	-	-	-5	-	2,102	-3	-	2,099
Budget and Management and DoIT	484	-	-	100	-	584	-	-	584
Retirement	210	-	-	0	-	210	-	-	210
General Services	582	-	-	-1	-	581	-	-	581
Natural Resources	1,326	-	-	-11	-	1,315	-1	19	1,333
Agriculture	366	-	-	-10	-	356	-1	-	355

Department/Service Area	Leg. Approp 2017	BPW/Flex Adjust.	Abolish	Transfer	Tech. Adj.	Work Approp. 2017	Abolish	New	Allow. 2018
Labor, Licensing, and Regulation	1,528	-	-	-15	-	1,513	-21	-	1,492
MSDE and Other Education	1,957	-	-	-17	-	1,940	-	-	1,940
Housing and Community Development	330	-	-	-5	-	325	-	-	325
Commerce	194	-	-	-1	-	193	-	-	193
Environment	913	-	-	-19	-	894	-	-	894
Subtotal	***13,046***	***0***	***0***	***5***	***-1***	***13,050***	***-27***	***19***	***13,042***
Executive Branch Subtotal	***49,992***	***0***	***-40***	***0***	***-1***	***49,951***	***-497***	***19***	***49,473***
Higher Education	**25,631**	**284**	**0**	**0**	**0**	**25,914**	**-6**	**3**	**25,911**
Judiciary	**3,951**	**0**	**0**	**0**	**0**	**3,951**	**0**	**39**	**3,990**
Legislature	**749**	**0**	**0**	**0**	**0**	**749**	**0**	**0**	**749**
Grand Total	**80,323**	**284**	**-40**	**0**	**-1**	**80,565**	**-503**	**61**	**80,123**

BPW: Board of Public Works
DoIT: Department of Information Technology
MSDE: Maryland State Department of Education
Tech. Adj.: Technical adjustment

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

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

The fiscal 2018 allowance abolished 503 positions, including:

- 400 vacant positions in DPSCS due to the downsizing of MCI-H;
- 50 long-term vacant positions in MDOT;
- 21 vacant positions in the Department of Labor, Licensing, and Regulation (DLLR) to eliminate long-term vacancies in the correctional education program and as a result of reduced federal funding to the unemployment insurance program;
- 20 vacant positions in DJS due to population reductions;
- 6 positions in the University of Baltimore and SMCM using flex authority; and
- 6 other positions in the Executive Branch due to cost containment and consolidation of IT positions.

Overview of Contractual FTEs

Fiscal 2018 includes 10,089.0 contractual FTEs. Over two-thirds of these FTEs are in higher education institutions. The number of contractual FTEs are 361.0 more than in fiscal 2017, as shown in **Exhibit 7**. Higher education accounts for most of the increase with 298.0 contractual FTEs added. DNR experiences an increase of 56.0 contractual FTEs in fiscal 2018, primarily to assist the Maryland Park Service with an increase in visitation. DBM shows an increase of 22.5 contractual FTEs, primarily for positions associated with the Central Collection Unit. These increases are partially offset by a decrease of 84.0 contractual FTEs for DPSCS's Division of Pretrial Detention as a result of terminating contractual food service in Baltimore City and providing the service in-house. Since the in-house provision of food service is permanent, DPSCS is in the process of converting those contractual employees into existing vacant regular positions.

Exhibit 7
Contractual Full-time Equivalent Position Changes
Fiscal 2016 Actual to Fiscal 2018 Allowance

Department/Service Area	2016 Actual	2017 Working Appropriation	2018 Allowance	2017-18 Change
Health and Human Services				
Health and Mental Hygiene	354	483	476	-6
Human Resources	143	74	74	0
Juvenile Services	178	147	150	4
Subtotal	***674***	***704***	***701***	***-3***
Public Safety				
Public Safety and Correctional Services	268	392	308	-84
Police and Fire Marshal	22	66	68	2
Subtotal	***290***	***459***	***377***	***-82***
Transportation	**40**	**41**	**122**	**82**
Other Executive				
Legal (Excluding Judiciary)	46	51	57	6
Executive and Administrative Control	203	180	179	-1
Financial and Revenue Administration	52	51	51	0
Budget and Management and DoIT	13	13	34	20
Retirement	11	9	8	-1
General Services	7	23	23	0
Natural Resources	376	436	492	56
Agriculture	45	47	48	0
Labor, Licensing, and Regulation	127	145	130	-15
MSDE and Other Education	274	286	279	-7
Housing and Community Development	53	103	105	2
Commerce	18	21	25	4
Environment	27	61	50	-11
Subtotal	***1,251***	***1,425***	***1,478***	***53***
Executive Branch Subtotal	***2,255***	***2,627***	***2,678***	***50***
Higher Education	**6,937**	**6,766**	**7,064**	**298**
Judiciary	**330**	**334**	**347**	**13**
Grand Total	**9,522**	**9,727**	**10,089**	**361**

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

3. Statewide Hiring Freeze Policies

The 2016 *Joint Chairmen's Report* (JCR) requested a report on statewide hiring freeze policies that addresses the rationale for continuing the freeze as well as procedures, exemptions, and processing times. The State Executive Branch has operated under a hiring freeze in some form since fiscal 2001. The process has been used as a tool to manage agency salary costs, the size of the workforce, and the complement of agency positions. With the exception of certain exempt agencies and positions, vacant positions are frozen, and DBM must review and approve agency requests prior to the filling of a position.

Certain positions within the Executive Branch are excluded from the hiring freeze, including:

- direct care and custody positions within 24/7 facilities;
- sworn police officers, park rangers, State fire marshals, and emergency medical services communications operators;
- transportation engineering technicians in MDOT;
- occupational and professional licensing inspectors at DLLR; and
- attorney positions in the Office of the Public Defender.

Additionally, all positions in the following agencies are exempt from the freeze process:

- the Maryland Department of Agriculture;
- DHMH;
- the Maryland Insurance Administration;
- nonbudgeted agencies; and
- public higher education institutions.

From July 1, 2015, to July 13, 2016, a total of 1,994 requests to unfreeze positions were granted. During this time period, 87.7% of requests were completed within 30 days. Therefore, 12.3% of requests, or 245, took over a month to be processed. DBM says that timing of when requests are submitted during the budget cycle, among other factors, impact the length of review time. The six departments that submitted the most requests during the aforementioned time period were (1) DHR (361 requests); (2) DNR (180 requests); (3) the Maryland State Department of Education (159 requests); (4) the Department of Housing and Community Development (150 requests); (5) DSP

(145 requests); and (6) the Maryland Department of the Environment (135 requests). These six agencies accounted for 56.7% of the total requests.

Given that budgeted turnover decreases by $51.7 million, DBM is expecting more positions to be vacant statewide in fiscal 2018. The fiscal 2018 turnover expectancy is 5.9%, which is higher than the 5.4% turnover expectancy in the fiscal 2017 allowance, despite continued reductions in the State workforce. **DBM should comment on whether any State agencies are experiencing performance or service level reductions due to the inability to fill frozen positions.**

4. Statewide Personnel System Implementation

Since January 2008, DBM has been working to replace the State's legacy personnel system that dates back to 1975. The system served State agencies with 600 core users who managed personnel activities for approximately 48,000 employees, as well as benefits for 250,000 combined employees, retirees, and dependents with millions of transactions processed annually. The total cost of implementing the new personnel system is $81.1 million, of which $51.0 million has been spent through fiscal 2016. The cost of the project has increased from $72.0 million in fiscal 2017 to $81.1 million, a 12.6% increase, primarily due to the unexpected delay in implementing the Benefits Administration System (BAS). An additional $6.0 million is budgeted in fiscal 2019 for the first year of system maintenance after the project is complete.

The first phase of the project included recruiting, HR, compensation, and performance management. A cloud application was chosen, and the vendor is Workday. In November 2014, the first phase of the system was implemented, and there were no reports of major problems. The second phase of the project initially included benefits administration, compensation, and timekeeping, but the department delayed benefits administration to the third phase. The second phase (timekeeping and compensation) went live in May 2016 for all SPMS agencies, except for DPSCS. DPSCS went live with time tracking, absence, and gross payroll in October 2016.

Phase III benefits administration for State agencies started on December 1, 2016, with the go live scheduled in August 2017. The original plan was to have BAS finished in late 2015, but Workday reported serious performance issues at the time of system testing, which required more time to address. Delaying the system requires the State to maintain its current BAS longer, and the vendor, MS Technologies, Inc., is to receive an additional $2.2 million over the next two years to implement upgrades. The upgrades will fix a May 2015 audit issue, which found that DBM inappropriately stored personally identifiable information in clear text. **DBM should update the committees on the status of replacing the State's legacy personnel system.**

Payroll Issues

Since the rollout of the new SPS, there have been issues involving employee payroll. In spring 2016, DBM reported that an issue with overtime calculations had been found. Initial reports also expressed concern that the State's legacy system had been miscalculating overtime costs for years. DBM investigated these issues and set up a hotline for employees to report if they felt they were paid incorrectly. According to DBM auditors, the error seems to be specific to DSP. DBM considers this issue resolved.

Overtime payment concerns were also raised in fall 2016, which appeared to be specific to DPSCS facilities, though this issue may also be impacting other 24/7 facilities throughout the State. The new SPS system requires real-time, manual time-in and time-out entries, which poses a problem for correctional officers and other facility staff that do not have regular access to computers. The additional data entry has resulted in DPSCS' Division of Correction needing a fiscal 2017 deficiency of $918,464 to support 45 contractual FTE timekeepers. DBM is confident that there were no system issues associated with these concerns and that the discrepancies were the result of manual input from DPSCS timekeepers. DBM feels the purchase of biometric timeclocks will eliminate this issue. **The department should provide an update on the recent issues with employee payroll that occurred in 2016 and discuss how the department intends to deal with the cultural change of State agencies switching to the new system to limit user error. The department should also update the budget committees on the concern that the legacy personnel system had been miscalculating overtime and whether the State will need to take action to address mispayments.**

5. Employee and Retiree Health Insurance Account

The Employee and Retiree Health Insurance Account closed with high fund balances in fiscal 2013 and 2014 as a result of plan changes. Payroll holidays lowered agency, employee, and retiree contributions into the fund in fiscal 2014 and 2015 in order to utilize the fund balance. However, fiscal 2015 ended with a deficit after deducting incurred but not received (IBNR) expenses as a result of medical and prescription costs outpacing expectations. Contributions increased by 27.6% in fiscal 2016, which resolves the deficit after IBNR, as shown in the forecast provided in **Exhibit 8**. State agencies' fiscal 2016 actual contributions are higher than what was appropriated primarily due to an additional pay period of contributions that were accrued in fiscal 2015 because of pay period timing. Agency contributions also increased as almost $44 million of unspent agency funds budgeted for health insurance contributions were swept into the account at the close of the fiscal year. The funds were unspent due to higher than expected vacancies in State agencies. Favorable trends in pharmacy rebates results in additional revenue starting in fiscal 2015. Rebate growth is expected to continue and provide over $150 million in fiscal 2017 and 2018.

Exhibit 8
Employee and Retiree Health Insurance Account
Fiscal 2016-2018
($ in Millions)

	2016 Actual	2017 Working	2018 Allowance
Beginning Balance	**$60.1**	**$156.4**	**$189.5**
Expenditures			
DBM – Personnel Administrative Cost	**$14.8**	**$12.5**	**$7.5**
Payments of Claims			
Medical	$952.6	$1,018.8	$1,098.6
Prescription	523.2	560.8	600.9
Dental	46.7	50.2	53.6
Payments to Providers	**$1,522.5**	**$1,629.8**	**$1,753.1**
% Growth in Payments	7.5%	7.0%	7.6%
Receipts			
State Agencies	$1,214.4	$1,221.0	$1,214.8
Employee Contributions	185.5	189.4	199.3
Retiree Contributions	91.4	94.2	99.1
Contractual – State Agencies	8.3	16.5	17.0
Contractual – Employees	3.2	4.1	4.1
Rx Rebates, Recoveries, and Other	130.8	150.2	159.8
Total Receipts	**$1,633.6**	**$1,675.4**	**$1,694.1**
% Growth in Receipts	27.6%	2.6%	1.1%
Ending Balance	**$156.4**	**$189.5**	**$123.0**
Estimated Incurred but Not Received	**-$105.5**	**-$103.0**	**-$103.0**
Reserve for Future Provider Payments	**$50.9**	**$86.5**	**$20.0**

DBM: Department of Budget and Management
Rx: Prescription

Source: Department of Budget and Management

The fiscal 2018 allowance anticipates a positive fund balance of $20.0 million. Due to the surplus in contributions in fiscal 2016, required contribution growth in fiscal 2018 is only $9.1 million, or 0.6%, over fiscal 2017. However, DLS believes health expenditures to be underestimated in fiscal 2017 and 2018 by approximately $17.0 million based on fiscal 2012 to 2016 actual expenditure growth, which would leave the fund with a $3.0 million fund balance after IBNR using DBM's assumptions.

Removing contractual employees, contributions grow by $8.6 million over the fiscal 2017 working appropriation. However, the growth only occurs for employee and retiree contributions, which grow by $14.8 million, or 5.2%, over fiscal 2017. State agencies' contributions decrease by $6.2 million, or 0.5%, below fiscal 2017. According to DBM, the reason for this disparity is to reset the contribution ratio to 80.0% State agencies and 20.0% employees/retirees; the ratio reflected in fiscal 2017 is 81.2% in State agencies' contributions and 18.8% for employees and retirees. Prior to fiscal 2012, the most popular health plan offered by the State was the preferred provider organization (PPO) plan, for which the State pays 80.0% of the premium. After plan changes in fiscal 2012, membership shifted dramatically in favor of exclusive provider organization (EPO) plans, for which the State pays 85.0% of the premium. Starting in fiscal 2015, EPO plan membership exceeded PPO plan membership, and this trend is expected to continue. Given this shift, DLS is skeptical that an 80/20 cost ratio still accurately reflects what the State can expect to pay for health plans in fiscal 2018.

Removing the surplus in fiscal 2016, State agencies' accounted for 80.9% while employees and retirees accounted for 19.1% of total contributions. If the fiscal 2018 allowance was updated to reflect the actual fiscal 2016 ratio, then State agencies' contributions would be $8.8 million higher than what is currently reflected in Appendix O of the budget highlights, and employees/retirees contributions would be $8.9 million lower. **DBM should comment on whether agencies will be expected to absorb the additional charges.**

Rising Health Costs Mitigated by Shifting Costs to Employees and Retirees

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. In fiscal 2006, the State took the following actions to address health care costs:

- increased copays on primary care physician (PCP), specialty, and emergency room visits;
- raised health premiums for employees and retirees;
- increased prescription drug copays; and
- implemented a spending cap on prescription drug costs of $700 per family.

In fiscal 2012, the State added coinsurance to PPO plans and point-of-service (POS) plans, requiring members of these plans to pay a percentage of medical costs out-of-pocket (OOP) – members of these plans are required to pay 10% OOP on in-network coverage and 30% OOP on out-of-network costs. Members of EPO plans are not subject to coinsurance, but out-of-network services are not covered by the plan. The differences between PPO and EPO OOP costs are shown on **Exhibit 9**.

Exhibit 9
State of Maryland Benefits Guide
PPO vs. EPO Out-of-pocket Costs
Calendar 2017

	PPO		**EPO**
Type of Service	**In-Network**	**Out-of-Network**	**In-Network Only**
Annual Deductible			
Individual	None	$250	None
Family	None	$500	None
Yearly Maximum OOP Costs			
Coinsurance OOP Costs	90%	70%	n/a
Individual	$1,000	$3,000	None
Family	$2,000	$6,000	None
Copay OOP Costs			
Individual	$1,000	None	$1,500
Family	$2,000	None	$3,000
Total Medical OOP Costs			
Individual	**$2,000**	**$3,250**	**$1,500**
Family	**$4,000**	**$6,500**	**$3,000**

EPO: exclusive provider organization
OOP: out-of-pocket
PPO: preferred provider organization

Source: Department of Budget and Management

The inclusion of coinsurance on PPO and POS plans encouraged migration of members into EPO plans. This migration reduced State costs as a result of not having to pay as many out-of-network claims. The State discontinued POS plans in fiscal 2015 for all members except SLEOLA, which resulted in POS members migrating to PPO and EPO plans. However, more POS members migrated into the less costly EPO plans. EPO membership exceeds PPO membership for the first time in fiscal 2015 and now accounts for 50.7% of membership in fiscal 2016.

OOP prescription costs were also increased in fiscal 2012 for active and retired members. Copays on both generic and brand name drugs increased and OOP maximums were raised from $700 to $1,000 per individual and $1,500 per family ($2,000 per family for retired members). **Exhibit 10** provides State plan costs and employee/retiree OOP costs for medical and prescriptions claims from fiscal 2011 to 2015.

Exhibit 10
Annual Out-of-pocket Costs Per Member
Fiscal 2011-2015

	Active – Medical		**Active – Prescription**				
			Rx - Generic		**Rx - Brand**		
	Plan Paid	**OOP**	**Plan Paid**	**OOP**	**Plan Paid**	**OOP**	**Total OOP Rx**
2011	$3,231	$186	$242	$40	$1,103	$84	$123
2012	3,779	201	221	74	1,026	113	186
2013	3,760	275	244	82	938	79	161
2014	3,731	260	258	78	1,041	69	147
2015	3,994	256	290	79	1,181	63	142
	Retiree – Medical		**Retiree – Prescription**				
2011	$5,320	$206	$678	$102	$2,931	$212	$314
2012	5,850	213	452	160	2,066	250	411
2013	5,598	373	359	126	1,431	128	254
2014	5,650	362	395	129	1,657	119	248
2015	5,655	357	441	129	1,790	110	238

OOP: out-of-pocket
Rx: prescription

Source: Segal Advisors; Department of Legislative Services

Plan paid medical costs have increased by 5.4% annually from fiscal 2011 to 2015 for active members and 1.2% annually for retirees. OOP costs (including copays, coinsurance, and deductibles) for active members increased annually by 8.3% from fiscal 2011 to 2015 and 14.6% annually for retirees, reflecting the impact of plan changes that increased copays and deductibles and implemented coinsurance.

The combined plan paid costs for both generic and brand name drugs decreased from fiscal 2011 to 2012 by 7.3% for active members and 30.2% for retirees. In comparison, active employee OOP costs increased by 51.1% and retirees by 30.8% from fiscal 2011 to 2012. Due to nationwide price increases in prescription drugs, plan paid costs begin to increase again in fiscal 2014. OOP costs for brand-name drugs decrease starting in fiscal 2013, as more members switch to generic prescriptions, as a result of plan changes that favor generics. DBM attributes decreases in brand name drug costs to several big blockbuster prescriptions losing their patents, making generic, less expensive versions available, and plan changes increasing copays on brand-name drugs to encourage generic prescription usage.

Connecting Members with Health Care Costs

Unlike many other goods and services, members of health insurance plans are frequently disconnected from the price differences of receiving comparable health care from one provider versus another. For members with 100% in-network coverage, whether a medical procedure costs $5,000 or $50,000 does not impact OOP cost for the member. Members ultimately experience the financial burden of more costly procedures when plans are forced to increase premiums or shift more costs onto employees in order to contend with rising health care costs, such as implementing coinsurance. Without greater transparency of provider costs, members cannot make an informed decision, and providers have less incentive to offer competitive rates. Comparing the cost of health care providers would be especially helpful for members of the State's PPO plans who are subject to coinsurance (*e.g.*, paying 10% of a $7,000 procedure ($700) versus a $14,000 procedure ($1,400) would be a significant difference to a member).

DBM should comment on the current access members have to health care provider cost information and discuss ways the State could improve transparency of these costs. DBM should also discuss if the State has considered any options to better connect members with the costs of health care through financial incentives for choosing less expensive providers.

6. The Revised Wellness Program

In an effort to address escalating medical and prescription drug costs, the State implemented a new wellness program beginning January 1, 2015. The program was intended to be phased in over a six-year period and included the use of incentives and disincentives, education, and discounted resources to encourage employees to complete wellness activities, with the ultimate goal of improving employee wellness and reducing out-year costs. Originally, completing wellness requirements each year would result in waived PCP copays, and failure to complete requirements would result in an annual surcharge. As of January 2016, the Administration has suspended several components of the program, including eliminating surcharges for failure to complete wellness activities in calendar 2016 and 2017. **Exhibit 11** provides the revised wellness activities compared to the original program for calendar 2015 through 2017 based on the Governor's changes.

Exhibit 11
Revised Wellness Program versus Original Program
Calendar 2015-2017 Wellness Activities

2015 Wellness Activities	2016 Wellness Activities	2017 Wellness Activities
Earn a $0 Copay by:	Earn a $0 Copay by:	Earn a $0 Copay by:
(1) Selecting a PCP and completing HRA	(1) Completing 2015 activities by 12/31/15; **or**	(1) Selecting a PCP and completing an HRA
Surcharge: None	(2) Selecting a PCP and completing an HRA	(2) Completing age/gender recommended preventative screenings. *Instead of being a required activity, this is now voluntary resulting in $5 reduction in specialist copays under the revised program.*
	~~(6) Completing recommended age/gender specific biometric screenings; and~~	~~Surcharge of $75/year ($2.88 per pay) for not doing activities.~~
	~~(7) Completing a Nutrition Education or Weight Management program Surcharge of $50/year ($1.92 per pay) for not doing activities.~~	~~DM Surcharge of $375/year ($14.42 per pay) for not meeting activities and not engaging in DM program.~~
	~~DM Surcharge of $250/year ($9.62 per pay) for not meeting activities and not engaging in DM program.~~	

DM: disease management
HRA: health risk assessment
PCP: primary care physician

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

The 2016 JCR requested that DBM submit a report to the budget committees on the revised wellness program, including updated costs and savings of the program. According to DBM, in the first year of the wellness program, 40% of eligible members completed all three requirements to earn the PCP copay waiver incentive. Over 40,000 people saw their PCP in calendar 2015, a 65% increase over calendar 2014. There were also increases in members who completed breast cancer and colorectal cancer screenings, as shown in **Exhibit 12**. Diabetes treatment, including annual diabetic nephropathy screenings, A1C tests, and controlling blood glucose, also saw increases in compliant members in calendar 2015. Though there appears to be some initial program success, the State's compliant percentages are still well below the national averages. The low rates of compliance are likely to result in poor health outcomes and increased program costs.

Exhibit 12
Wellness Program Treatment
Preventative Screenings and Diabetes Treatment Compare to National Average
Calendar 2014 and 2015

		2014			2015			
Condition	**Compliance Metric**	**Participating Members**	**Compliant Members**	**% Compliant**	**Participating Members**	**Compliant Members**	**% Compliant**	**NCQA National Average**
Breast Cancer	Mammogram	60,909	26,628	43.7%	61,379	28,513	46.5%	**66.8%**
Colorectal Cancer	Colonoscopy	92,734	29,953	32.3%	94,117	31,789	33.8%	**55.2%**
Well Visit	Adult Physical	146,083	24,604	16.8%	157,127	40,497	25.8%	n/a
Diabetes Treatment								
Diabetes	Annual diabetic nephropathy screening	26,469	13,932	52.6%	24,096	14,475	60.1%	**77.9%**
Diabetes	2+A1C tests in 12 months*	26,469	9,741	36.8%	24,096	10,867	45.1%	**87.3%**
Diabetes	Controlling blood glucose	26,469	6,292	23.8%	24,096	11,351	47.1%	n/a

NCQA: National Committee for Quality Assurance

*An A1C test measures what percentage of your hemoglobin is coated with sugar.

Source: Segal Consulting

According to DBM, the wellness program cost $1.2 million to roll out in calendar 2015, and projected savings are $11.7 million in calendar 2016. Projected savings are based on Maryland's medical and prescription claims compared to national industry trends. Maryland's costs are projected to be lower than national industry trends in calendar 2016. The analysis of 2016 savings may overstate the savings attributable to the wellness program as actual data on the national trend is not yet available, and at least a portion of the differential is attributable to the success of Maryland's hospital rate-setting system in slowing growth in hospital costs relative to the nation.

DBM should discuss the results of the wellness program so far. In particular, the department should expound on how projected savings and costs are determined. Additionally, DBM should comment on the impact of eliminating disincentives on the outcomes of the program, particularly in regard to compliance rates for preventative screenings and diabetes treatment, and any anticipated revenue lost.

7. Employee Assistance Program

The Employee Assistance Program (EAP) is a confidential service offered to help State employees who face personal matters that adversely affect job performance. Supervisors are encouraged to refer employees to the EAP when an employee's personal issues have begun to negatively impact his or her work performance. Supervisory referrals are submitted through the agency EAP representative to OPSB, but participation in the EAP is totally voluntary. OPSB submits MFR measures on the EAP, which tracks the percentage of participants who judge the EAP services as having significantly helped with the problem for which they were referred and the percent of employees referred whose post-referral work performance has improved as assessed by their supervisors. The percent of employees who judged that the EAP has significantly helped with their problem dropped from 82% in fiscal 2015 to 67% in fiscal 2016. Additionally, the percent of employees who showed improvement post-referral, as judged by their supervisors, decreased from 67% in fiscal 2015 to 61% in fiscal 2016.

DBM should describe the kinds of services that the EAP offers and discuss why fewer employees appear to be getting positive results from the program. The department should also comment on the feasibility of expanding services provided by State health plans to create a more accessible resource to encourage employees to seek help with substance abuse, stress management, depression, anxiety, or other mental illnesses prior to having an impact on work performance.

Recommended Actions

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

, provided that $50,000 of this appropriation may not be expended until the Department of Budget and Management submits a report on fiscal 2017 closeout of the Employee and Retiree Health Insurance Account. This report shall include the (1) closing fiscal 2017 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, 2017. 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 (DBM) to submit a report with fiscal 2017 closeout data for the Employee and Retiree Health Insurance Account.

Information Request	**Author**	**Due Date**
Report on fiscal 2017 closeout data for the Employee and Retiree Health Insurance Account	DBM	October 1, 2017

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

Further provided that $100,000 of this appropriation made for the purpose of the Executive Direction program may not be expended until the Department of Budget and Management submits a report to the budget committees on employee churn. The report shall include the total number of resignations of employees with five years or less of State service for each State agency for each fiscal year from fiscal 2007 to 2016. The report shall be submitted by July 1, 2017, and the budget committees shall have 45 days to review and comment. 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: This language restricts $100,000 in general funds to the Executive Direction program until a report is submitted on employee churn. The report shall include data on employees who resigned with five years or less of State service for each State agency for each fiscal year from fiscal 2007 to 2016.

Information Request	**Author**	**Due Date**
Employee churn from fiscal 2007 to 2016	Department of Budget and Management	July 1, 2017

3. Amend the following section:

SECTION 19. AND BE IT FURTHER ENACTED, That for fiscal 2018 funding for retirement shall be reduced by $55,769,368 ~~$54,527,621~~ in Executive Branch, Legislative Branch, and Judicial Branch agencies to reduce the retirement reinvestment contribution contingent upon the enactment of legislation reducing the amount of the retirement reinvestment contribution. Funding for this purpose shall be reduced in Comptroller Object 0161 (Employees' Retirement), Comptroller Object 0163 (Teachers' Retirement), Comptroller Object 0165 (State Police Retirement), Comptroller Object 0166, and Comptroller Object 0169 (Law Enforcement Officers' Retirement) within Executive Branch, Legislative Branch, and Judicial Branch agencies in fiscal 2018 by the following amounts in accordance with a schedule determined by the Governor:

	Agency	General Funds
B75	General Assembly of Maryland	268,111
C00	Judiciary	918,366
C80	Office of the Public Defender	324,895
C81	Office of the Attorney General	61,818
C82	State Prosecutor	4,372
C85	Maryland Tax Court	2,030
D05	Board of Public Works (BPW)	3,563
D10	Executive Department – Governor	34,357
D11	Office of the Deaf and Hard of Hearing	1,167
D12	Department of Disabilities	5,578
D15	Boards and Commissions	29,179
D16	Secretary of State	7,317
D17	Historic St. Mary's City Commission	7,031
D18	Governor's Office for Children	6,836
D25	BPW Interagency Committee for School Construction	7,225
D26	Department of Aging	7,073
D27	Maryland Commission on Civil Rights	8,598
D38	State Board of Elections	13,369
D40	Department of Planning	39,094
D50	Military Department	25,705
D55	Department of Veterans Affairs	14,214
D60	Maryland State Archives	15,819
E00	Comptroller of Maryland	242,629
E20	State Treasurer's Office	10,737
E50	Department of Assessments and Taxation	81,843

E75	State Lottery and Gaming Control Agency	35,199
E80	Property Tax Assessment Appeals Board	2,092
F10	Department of Budget and Management	61,362
F50	Department of Information Technology	66,566
H00	Department of General Services	137,150
K00	Department of Natural Resources	280,976
L00	Department of Agriculture	71,847
M00	Department of Health and Mental Hygiene	1,428,551
N00	Department of Human Resources	872,106
P00	Department of Labor, Licensing and Regulation	93,058
Q00	Department of Public Safety and Correctional Services	2,818,166
R00	State Department of Education – HQ	158,379
R00	State Department of Education – Aid	36,146,626
R15	Maryland Public Broadcasting Commission	21,074
R62	Maryland Higher Education Commission	11,684
R62	Maryland Higher Education Commission – Aid	1,546,848
R75	Support for State Operated Institutions of Higher Education	2,402,274
R99	Maryland School for the Deaf	92,625
T00	Department of Commerce	60,312
U00	Department of the Environment	91,096
V00	Department of Juvenile Services	549,480
W00	Department of State Police	911,603
	Total General Funds	~~48,813,523~~ 50,000,000

	Agency	Special Funds
C00	Judiciary	55,270
C80	Office of the Public Defender	549
C81	Office of the Attorney General	22,229
C90	Public Service Commission	53,580
C91	Office of the People's Counsel	8,057
C94	Subsequent Injury Fund	7,125
C96	Uninsured Employers Fund	4,696
C98	Workers' Compensation Commission	30,760
D12	Department of Disabilities	345
D13	Maryland Energy Administration	9,693
D15	Boards and Commissions	212
D16	Secretary of State	1,264
D17	Historic St. Mary's City Commission	944
D26	Department of Aging	1,640
D38	State Board of Elections	1,348
D40	Department of Planning	2,405

D53	Maryland Institute for Emergency Medical Services Systems	34,565
D55	Department of Veterans Affairs	1,986
D60	Maryland State Archives	5,056
D78	Maryland Health Benefit Exchange	15,965
D80	Maryland Insurance Administration	91,776
D90	Canal Place Preservation and Development Authority	809
E00	Comptroller of Maryland	54,212
E20	State Treasurer's Office	1,300
E50	Department of Assessments and Taxation	82,654
E75	State Lottery and Gaming Control Agency	53,483
F10	Department of Budget and Management	31,536
F50	Department of Information Technology	1,949
G20	State Retirement Agency	48,359
G50	Teachers and State Employees Supplemental Retirement Plans	4,519
H00	Department of General Services	4,739
J00	Department of Transportation	1,952,439
K00	Department of Natural Resources	211,378
L00	Department of Agriculture	25,171
M00	Department of Health and Mental Hygiene	148,993
N00	Department of Human Resources	20,096
P00	Department of Labor, Licensing and Regulation	85,925
Q00	Department of Public Safety and Correctional Services	81,261
R00	State Department of Education	10,539
R15	Maryland Public Broadcasting Commission	29,013
R62	Maryland Higher Education Commission	1,511
S00	Department of Housing and Community Development	98,923
T00	Department of Commerce	19,530
U00	Department of the Environment	139,905
W00	Department of State Police	232,750
	Total Special Funds	~~3,635,189~~ 3,690,459

	Agency	Federal Funds
C81	Office of the Attorney General	10,917
C90	Public Service Commission	1,721
D12	Department of Disabilities	3,702
D13	Maryland Energy Administration	1,977
D15	Boards and Commissions	6,943
D26	Department of Aging	4,137
D27	Maryland Commission on Civil Rights	1,747
D40	Department of Planning	2,957
D50	Military Department	57,541
D55	Department of Veterans Affairs	2,268

D78	Maryland Health Benefit Exchange	12,430
D80	Maryland Insurance Administration	506
H00	Department of General Services	2,222
J00	Department of Transportation	108,920
K00	Department of Natural Resources	30,523
L00	Department of Agriculture	3,312
M00	Department of Health and Mental Hygiene	286,443
N00	Department of Human Resources	803,409
P00	Department of Labor, Licensing and Regulation	283,526
Q00	Department of Public Safety and Correctional Services	57,525
R00	State Department of Education	280,369
R62	Maryland Higher Education Commission	740
R99	Maryland School for the Deaf	1,485
S00	Department of Housing and Community Development	27,455
T00	Department of Commerce	1,606
U00	Department of the Environment	76,730
V00	Department of Juvenile Services	7,798
	Total Federal Funds	2,078,909

	Agency	Current Unrestricted Funds
R13	Morgan State University	226,825
R30	University System of Maryland	2,175,449
	Total Current Unrestricted Funds	2,402,274
	Less: General Funds in Higher Education	2,402,274
	Net Current Unrestricted Funds	– 0 –

Explanation: The Administration cannot reduce the legislature or Judiciary's budgets. This action applies the retirement reinvestment contingent reduction to those budgets.

4. 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, 2017, as determined by the Secretary of Budget and Management. Provided, however, that if the imposition of this ceiling causes undue hardship in any department, agency, board, or commission, additional positions may be created for that affected unit to the extent that **an equal number of 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 contractual full-time equivalents (FTEs) 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 FTEs 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; and

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

The Secretary of Budget and Management shall certify and report to the General Assembly by June 30, 2018, the status of positions created with non-State funding sources during fiscal 2014 through 2018 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 2014 through 2017	Department of Budget and Management	June 30, 2018

5. 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 2017, the Secretary of Budget and Management shall determine the total number of full-time equivalents (FTE) positions that are authorized as of the last day of fiscal 2017 and on the first day of fiscal 2018. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2017 and 2018, including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self-supported activities, and the Maryland Correctional Enterprises.

The Department of Budget and Management (DBM) shall also prepare a report during fiscal 2018 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 2019 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 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 positions and contractual full-time equivalents.

Information Request	**Author**	**Due Date**
Total number of FTEs on June 30 and July 1, 2017	DBM	July 14, 2017

Report on the creation, transfer, or abolition of regular positions	DBM	As needed

6. Add the following section:

Section XX Annual Executive Pay Plan Report

<u>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:</u>

<u>(1)</u> <u>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, 2017; October 15, 2017; January 15, 2018; and April 15, 2018; and</u>

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

<u>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.</u>

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 on all EPP positions	Department of Budget and Management Maryland Department of Transportation	July 15, 2017; October 15, 2017; January 15, 2018; and April 15 2018

7. 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.

8. Add the following section:

Section XX Annual Report on Health Insurance Receipts and Spending

SECTION XX. AND BE IT FURTHER ENACTED, That the Secretary of Budget and Management shall include as an appendix in the fiscal 2019 Governor's budget books an accounting of the fiscal 2017 actual, fiscal 2018 working appropriation, and fiscal 2019 estimated revenues and expenditures associated with the employees' and retirees' health plan. The data in this report should be consistent with the budget data submitted to the Department of Legislative Services. This accounting shall include:

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

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

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

Explanation: This language provides an accounting of the health plan revenues received and expenditures made on behalf of State employees and retirees. The language proposes that the language in the report be consistent with the budget data submitted with the budget bill.

Information Request	**Author**	**Due Date**
Accounting of the employee and retiree health plan revenues and expenditures	Department of Budget and Management	With submission of the Governor's fiscal 2019 budget books

Updates

1. 2016 JCR Requested Reports Submitted

The 2016 JCR requested that DBM submit a variety of reports. The information and findings of these reports is summarized as follows.

Section 20 Abolished Positions

Section 20 of the fiscal 2017 budget bill as introduced required the Governor to abolish 657.0 regular positions in the Executive Branch, and reduce general fund appropriations by $20 million and special fund appropriations by $5 million. The General Assembly amended the language to restrict abolished positions to only vacant positions, since the original language would have allowed for filled positions to be abolished. The General Assembly also adopted language requiring DBM to submit position reductions to BPW for approval by July 1, 2016, and provide additional detail on the abolished positions to the budget committees in September 2016. On June 22, 2016, BPW approved DBM's request to abolish 657.4 vacant positions and reduce Executive Branch appropriations by $25 million.

Exhibit 13 shows the five agencies that abolished the most positions, which accounted for 443.1 abolished positions, or 67.4% of the entire position reduction. MDOT abolished the most positions with 151.0 FTEs, resulting in a 1.6% decrease in MDOT's workforce. DHMH was a close second with 100.6 FTEs abolished, also resulting in a 1.6% decrease in DHMH's workforce.

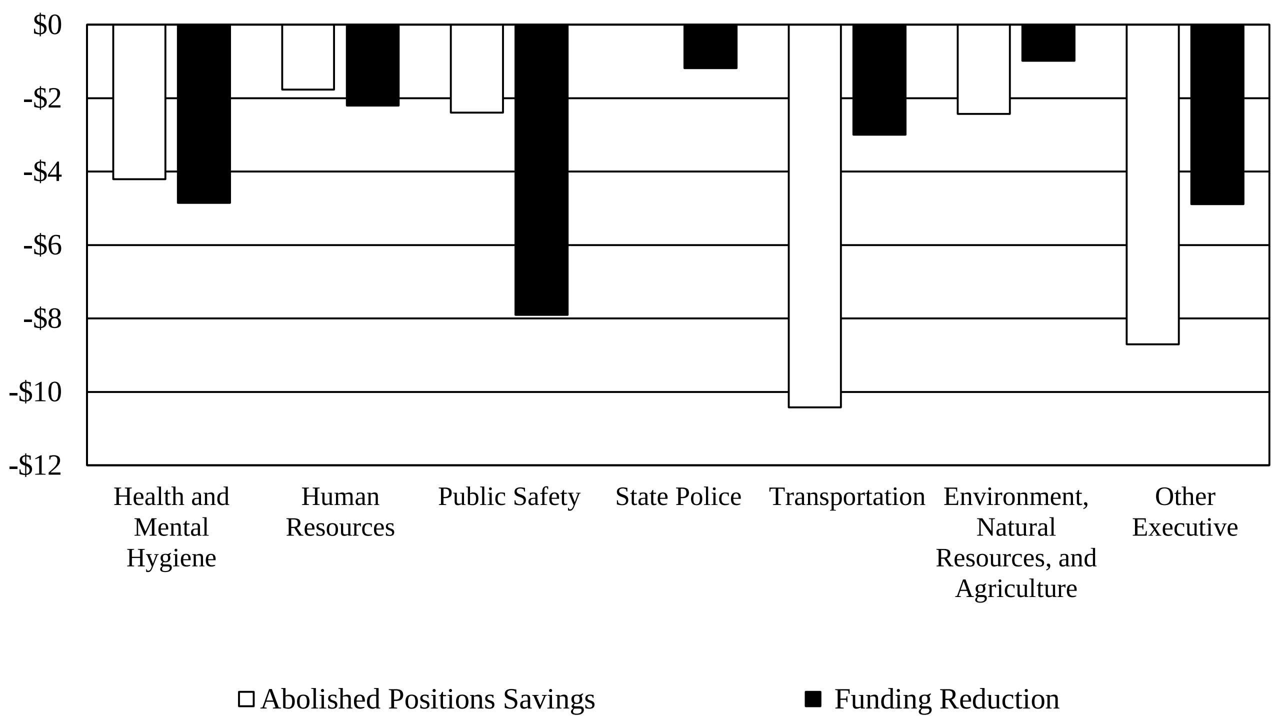
Exhibit 13
Section 20 Position Abolition: Agencies with Most Abolished Positions
Fiscal 2017

Department	2017 Legislative Appropriation	Section 20 Position Reductions	2017 Positions After Section 20 Reductions	% Change in Workforce
Transportation	9,259.0	-151.0	9,108.0	-1.6%
Health and Mental Hygiene	6,283.0	-100.6	6,182.4	-1.6%
Human Resources	6,337.0	-72.0	6,265.0	-1.1%
Public Safety and Correctional Services	11,014.0	-58.0	10,956.0	-0.5%
Labor, Licensing, and Regulation	1,589.2	-61.5	1,527.7	-3.9%
Total Reductions of Agencies with Most Abolished Positions		**-443.1**		
Percent of Total 657.4 Position Reduction		**-67.4%**		

Source: Department of Budget and Management

In implementing this $25 million fund reduction, DBM chose to essentially prorate the reduction across the Executive Branch based on the relative size of each agency's salary base. As a result, reductions required of each agency relative to the actual salary and fringe benefit savings from the abolitions were disconnected, and four agencies needed to find savings in addition to the abolished positions in order to achieve the required funding cuts: DPSCS, DHMH, DHR, and DSP. For instance, DPSCS saved approximately $2.4 million from positions abolitions, but the required funding reduction was $7.9 million and will require DPSCS to find $5.5 million in additional reductions. **Exhibit 14** compares the abolished positions savings to the required funding reductions of State agencies.

Exhibit 14
Agency Savings from Position Abolitions Are Not Aligned with Funding Reductions
Fiscal 2017
($ in Millions)



Note: Position abolition savings in transportation, environment, natural resources, agriculture, and other Executive Branch agencies exceeded funding reductions.

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

The value of the positions abolished in the remaining Executive Branch agencies actually exceeded the required funding reductions for these agencies, resulting in excess funding for fiscal 2017 only. Agencies could use this leftover funding to meet other cost containment requirements or possibly fill vacant positions in fiscal 2017, but the abolished positions and associated funding will be gone in the fiscal 2018 budget. In a letter written in July 2016, DLS identified possible issues with this reduction: (1) the need for fiscal 2017 deficiencies for agencies unable to continue operations and meet this cut; (2) operational impacts on already understaffed agencies; and (3) the need for DHMH to absorb additional position reclassifications to accommodate the decision to forgo privatization of certain functions. In September 2016, DBM submitted a followup report indicating that the vacancies abolished were not any that the hiring freeze prevented agencies from filling, that several positions abolished were positions exempt from the hiring freeze, and that DBM does not believe these abolitions will materially impact the operations of agencies since agencies were already managing workloads with existing staff.

Human Resources Shared Services Initiative

In fiscal 2016, DBM introduced a new HR shared services initiative with the objective to bring consistency to all HR-related activities by centralizing and consolidating HR services internally for various State agencies. The 2016 JCR requested a status report on the progress made with the HR shared services initiative. DBM is currently providing HR support to 21 agencies covering 2,104 employees, including DBM and DoIT. DBM initially absorbed 11.5 employees from other agencies in fiscal 2016, but, through attrition, only 9.0 of the employees remain. In fiscal 2017, DBM received 14.0 additional employees from other agencies to support the HR shared services initiative. DBM reported that the cost for the initiative was $135,000 for initial equipment and housing of the new employees and that the State will be saving $267,000 in the first fiscal year. Through natural attrition, DBM anticipates additional savings. Salary and fringe benefit costs of the initial 11.5 employees were estimated around $1.1 million. Assuming that the 14.0 positions being absorbed in fiscal 2017 are similar to those originally absorbed, the salary and fringe benefit costs of these positions could be around $1.3 million. State agencies budgeted $157,000 in fiscal 2016, $1.3 million in fiscal 2017, and $1.1 million in fiscal 2018 for costs associated with the HR shared services initiative.

In the fiscal 2017 operating analysis for DBM – Personnel, DLS informally recommended that MFR indicators that measure how effectively DBM is providing HR services to State agencies be created; no MFRs on the HR shared service initiative were provided in the fiscal 2018 budget. However, DBM reports that customer satisfaction surveys were sent to 67 customers within the 21 agencies serviced. Only 28% (19) of customers returned the survey, but, of those returned, 89% (17) were positive, and 11% (2) expressed some concerns with the initiative. Of the responses, 73% rated their shared services HR coordinator as very knowledgeable, 75% indicated that the HR coordinator was able to resolve their issue moderately quickly or better, 100% indicated that their HR coordinator was courteous and professional, and 93% reported being very likely or extremely likely to contact the HR coordinator again for assistance or refer another employee to them.

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Innovative Awards Program

Section 10-203 of the State Personnel and Pensions Article creates an Innovative Idea Awards Program. The program provides cash rewards to employees whose ideas, if implemented, increase revenues, save money, or improve services delivered to the public. The 2016 JCR requested that DBM submit a report on how many awards have been made to date, how much has been awarded, savings generated from ideas, and the current composition of the panel. In fiscal 2011, the Comptroller of Maryland made 28 awards for a total cost of $5,240. From fiscal 2012 to 2015, no awards were made. In the absence of innovative idea submissions, no award panel has been convened; therefore, the composition of the panel is not applicable at this time.

Leap Year Pay

The budget committees expressed concern that the pay of State employees is reduced by one day during a leap year due to the fact that State employees are provided an annual salary in the budget. The 2016 JCR requested that DBM provide alternatives that would prevent this pay cut in future leap years. The Standard Pay Plan is based on an annual authorized salary. In nonleap years, the authorized annual salary of an employee is divided by 26.071428 (365 days divided by 14 work days per cycle). In a leap year, in order to ensure that the employee is paid his or her correct authorized annual salary, the authorized annual salary is divided by 26.142857 (366 days divided by 14 work days per cycle). The end result is that an employee earns the identical annual salary whether or not it is a leap year. DBM has received confirmation from legal counsel that this longstanding practice does not violate State or federal wage laws.

2. Collective Bargaining Agreements Set to Expire in 2017

Approximately 30,000 State employees, excluding higher education, were covered by collective bargaining as of February 2, 2017. While most Executive Branch employees have collective bargaining rights, management service employees, special appointees, the Governor's personal staff, and elected officials do not; certain Maryland Transit Administration employees also have binding arbitration. Excluding higher education, covered employees are divided into 10 bargaining units. The State Labor Relations Board conducts the elections in which employees choose their exclusive bargaining representative. **Appendix 3** contains a list of the bargaining units and their exclusive representatives.

DBM represents the State in negotiations with each unit's bargaining representative, and negotiations can include any matters relating to wages, hours, and terms and conditions of employment. The Governor is not required to negotiate on any matter that is inconsistent with State law, but the Governor can negotiate items that require a statutory change or an appropriation as long as the parties understand that the item cannot be effective until the General Assembly takes action. The General Assembly, however, is not bound by that agreement. The collective bargaining statute does not provide for binding arbitration. Instead, the State and bargaining representatives must meet and confer about negotiable terms. 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 MOU 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.

Agreements Set to Expire for Eight Bargaining Units

DBM reached an agreement with SLEOLA, which bargains for sworn police officers, during the 2016 legislative session that provided regular increments, a COLA in fiscal 2017, and step increases for officers employed in years State employees did not receive step increases (fiscal 2010 to 2013); this agreement expires June 30, 2019. DBM also reached agreements with Baltimore/Washington International Thurgood Marshall Airport's firefighters and Maryland Transportation Authority sworn officers' unions, but the MOU ends June 30, 2017. Since then, the State has reached an agreement for economic reopeners with the Maryland Professional Employees Council and AFT-Healthcare Maryland but not the American Federation of State, County, and Municipal Employees (AFSCME). DBM says the negotiations for full contracts will commence later in the year. AFSCME represents six bargaining units, all with agreements that expire December 31, 2017.

3. Fair Labor Standards Act Updated Overtime Regulations on Hold Indefinitely

New federal overtime provisions are contained in the Fair Labor Standards Act (FLSA). Unless exempt, employees covered by FLSA must receive overtime pay for hours worked over 40 in a workweek at a rate of not less than time and one-half their regular rates of pay. On May 18, 2016, the U.S. Department of Labor published the final rule updating overtime regulations, which primarily focused on updating the salary and compensation levels needed for executive, administrative, and professional workers to be exempt. The new rule would raise the standard level of earnings for full-time salaried workers to be exempt to $47,476 annually and sets the total annual salary compensation requirement for highly compensated employees subject to a minimal duties test to $134,004 annually. The rule would also establish a mechanism for automatically updating the salary and compensation levels every three years to maintain the levels above certain percentiles. The regulations were to be in effect December 1, 2016; however, a Texas judge has approved an injunction to delay the effective date. As of February 2017, these regulations are still on hold.

Appendix 1
Current and Prior Year Budgets
Department of Budget and Management – Personnel
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2016					
Legislative Appropriation	$32,387	$5,776	$3,261	$8,071	$49,495
Deficiency Appropriation	2,621	343	0	0	2,964
Budget Amendments	-2,218	-543	0	376	-2,385
Reversions and Cancellations	-442	-5,575	-3,261	-508	-9,786
Actual Expenditures	**$32,348**	**$0**	**$0**	**$7,940**	**$40,287**
Fiscal 2017					
Legislative Appropriation	$104,976	$17,978	$8,713	$10,021	$141,687
Cost Containment	-103	0	0	0	-103
Budget Amendments	-96,315	-17,766	-8,452	0	-122,533
Working Appropriation	**$8,557**	**$212**	**$261**	**$10,021**	**$19,051**

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

Fiscal 2016

The fiscal 2016 legislative appropriation totaled $49.5 million, which included $32.4 million in general funds. The largest appropriations were $34.3 million ($25.3 million in general funds) for the statewide program. All funds appropriated into the statewide program were either canceled or transferred to other agencies.

The fiscal 2016 appropriation decreased overall by $9.2 million. This decrease is predominately due to $9.8 million in reverted and canceled funds. A total of $8.8 million in special and federal funds were canceled as a result of less increment funding being needed due to Section 20 of the fiscal 2017 budget bill position reductions. A total of $508,000 in reimbursable funds were canceled as a result of the department being unable to use certain health care contracts and position reductions. The Department of Budget and Management met reversion targets by reverting $442,000 in general funds, primarily through holding positions vacant.

Budget amendments and deficiencies partially offset the decrease with an increase of $579,000 ($403,000 in general funds). Two general fund deficiencies increased the appropriation by $436,000 to provide funding for the Human Resources (HR) shared services initiative. Budget amendments further increased the appropriation by $143,000 to provide reimbursable funds for the HR shared services initiative, allocate a 2% salary adjustment as reauthorized in Section 48 of the fiscal 2016 budget bill, distribute funds per an annual salary review (ASR), and realign general funds as needed within the department. A deficiency of $2.5 million ($2.2 million in general funds) was also provided to be distributed to various law enforcement agencies per the State Law Enforcement Officers' Labor Alliance (SLEOLA) collective bargaining agreement, but this funding was distributed by budget amendment to various agencies, thus having a net zero effect on the fiscal 2016 appropriation.

Fiscal 2017

The fiscal 2017 working appropriation decreases by $122.6 million ($96.4 million in general funds). This decrease primarily reflects funds transferring out of the statewide program, accounting for $122.5 million of the decrease ($96.4 million in general funds), including the following actions:

- $104.1 million ($81.4 million in general funds) distributed for employee increments;
- $17.8 million ($14.6 million in general funds) distributed per SLEOLA collective bargaining agreement; and
- $798,000 ($508,000 in general funds) to distribute funds for an ASR, which includes salaries for building security officers, Department of General Services officers, warrant apprehension jobs, and the Department of Housing and Community Development fiscal staff.

Not including the statewide program, the fiscal 2017 appropriation for the department increases overall by $36,000 due to general fund budget amendments that distributed employee increments and increased the budget by $139,000 but was partially offset by the Board of Public Works cost containment, which decreased the budget by $103,000 for reclassification.

Appendix 2
Major Information Technology Projects
Department of Budget and Management - Personnel
Statewide Personnel System

Project Status	Implementation.	**New/Ongoing Project:**	Ongoing.
Project Description:	This 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 purpose of this project is to implement a cloud-based system to replace an antiquated legacy personnel 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:	$81,054,855	**Estimated Planning Project Cost:**	$6,026,913
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 a phase III that is anticipated to go live in summer 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 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	65,886.5	8,659.7	6,508.6	0.0	0.0	0.0	0.0	81,054.9
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	**$65,886.5**	**$8,659.7**	**$6,508.6**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$81,054.9**

Appendix 3

Bargaining Units and Representatives

As of February 2, 2017

Unit	Title	Exclusive Representative	Employees	Expiration Dates
A	Labor and Trades	AFSCME	1,738	December 31, 2017
B	Administrative, Technical, and Clerical	AFSCME	5,252	December 31, 2017
C	Regulatory, Inspection, and Licensure	AFSCME	794	December 31, 2017
D	Health and Human Service Nonprofessionals	AFSCME	1,587	December 31, 2017
E	Health Care Professionals	AFT-Healthcare Maryland	1,649	December 31, 2017
F	Social and Human Service Professional	AFSCME	3,554	December 31, 2017
G	Engineering, Scientific, and Administrative Professionals	MPEC	4,508	December 31, 2017
H	Public Safety and Security	AFSCME/Teamsters	8,372	December 31, 2017
H	BWI Marshall Airport Fire Fighters	International Airport Professional Firefighters Local 1742 I.A.F.F., AFL-CIO, CLC	69	June 30, 2017
I	Sworn Police Officers	SLEOLA	1,734	June 30, 2019
J	MDTA Sworn Officers	MDTA Police Lodge #34	405	June 30, 2019
	Total		**29,662**	

AFL-CIO: American Federation of Labor and Congress of Industrial Organizations
AFSCME: American Federation of State, County, and Municipal Employees
BWI: Baltimore/Washington International Thurgood Marshall Airport
CLC: Canadian Labor Congress
I.A.F.F: International Airport Fire Fighters
MDTA: Maryland Transportation Authority
MPEC: Maryland Professional Employees Council
SLEOLA: State Law Enforcement Officers' Labor Alliance

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

Appendix 4
Object/Fund Difference Report
Department of Budget and Management – Personnel

Object/Fund	FY 16 Actual	FY 17 Working Appropriation	FY 18 Allowance	FY 17 - FY 18 Amount Change	Percent Change
Positions					
01 Regular	127.00	137.40	137.40	0.00	0%
02 Contractual	1.90	3.20	0.00	-3.20	-100.0%
Total Positions	**128.90**	**140.60**	**137.40**	**-3.20**	**-2.3%**
Objects					
01 Salaries and Wages	$ 30,458,410	$ 13,658,200	$ 16,431,055	$ 2,772,855	20.3%
02 Technical and Spec. Fees	5,231,679	144,681	0	-144,681	-100.0%
03 Communication	500,909	328,200	328,730	530	0.2%
04 Travel	7,118	20,300	26,550	6,250	30.8%
08 Contractual Services	3,857,241	4,541,728	3,755,268	-786,460	-17.3%
09 Supplies and Materials	46,874	35,000	50,000	15,000	42.9%
10 Equipment – Replacement	0	130,406	37,000	-93,406	-71.6%
13 Fixed Charges	185,256	192,343	218,658	26,315	13.7%
Total Objects	**$ 40,287,487**	**$ 19,050,858**	**$ 20,847,261**	**$ 1,796,403**	**9.4%**
Funds					
01 General Fund	$ 32,347,706	$ 8,557,246	$ 11,319,683	$ 2,762,437	32.3%
03 Special Fund	0	211,539	516,438	304,899	144.1%
05 Federal Fund	0	261,459	5,837	-255,622	-97.8%
09 Reimbursable Fund	7,939,781	10,020,614	9,005,303	-1,015,311	-10.1%
Total Funds	**$ 40,287,487**	**$ 19,050,858**	**$ 20,847,261**	**$ 1,796,403**	**9.4%**

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

Appendix 5
Fiscal Summary
Department of Budget and Management – Personnel

Program/Unit	FY 16 Actual	FY 17 Wrk Approp	FY 18 Allowance	Change	FY 17 - FY 18 % Change
01 Executive Direction	$ 2,003,295	$ 2,512,145	$ 1,811,610	-$ 700,535	-27.9%
02 Division of Employee Benefits	7,202,462	8,401,378	7,568,330	-833,048	-9.9%
04 Division of Employee Relations	2,824,565	3,621,139	4,276,146	655,007	18.1%
06 Division of Classification and Salary	1,867,941	2,391,752	2,335,801	-55,951	-2.3%
07 Division of Recruitment and Examination	1,189,224	1,505,008	1,333,099	-171,909	-11.4%
08 Statewide Expenses	25,200,000	619,436	3,522,275	2,902,839	468.6%
Total Expenditures	**$ 40,287,487**	**$ 19,050,858**	**$ 20,847,261**	**$ 1,796,403**	**9.4%**
General Fund	$ 32,347,706	$ 8,557,246	$ 11,319,683	$ 2,762,437	32.3%
Special Fund	0	211,539	516,438	304,899	144.1%
Federal Fund	0	261,459	5,837	-255,622	-97.8%
Total Appropriations	**$ 32,347,706**	**$ 9,030,244**	**$ 11,841,958**	**$ 2,811,714**	**31.1%**
Reimbursable Fund	$ 7,939,781	$ 10,020,614	$ 9,005,303	-$ 1,015,311	-10.1%
Total Funds	**$ 40,287,487**	**$ 19,050,858**	**$ 20,847,261**	**$ 1,796,403**	**9.4%**

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