F10A02

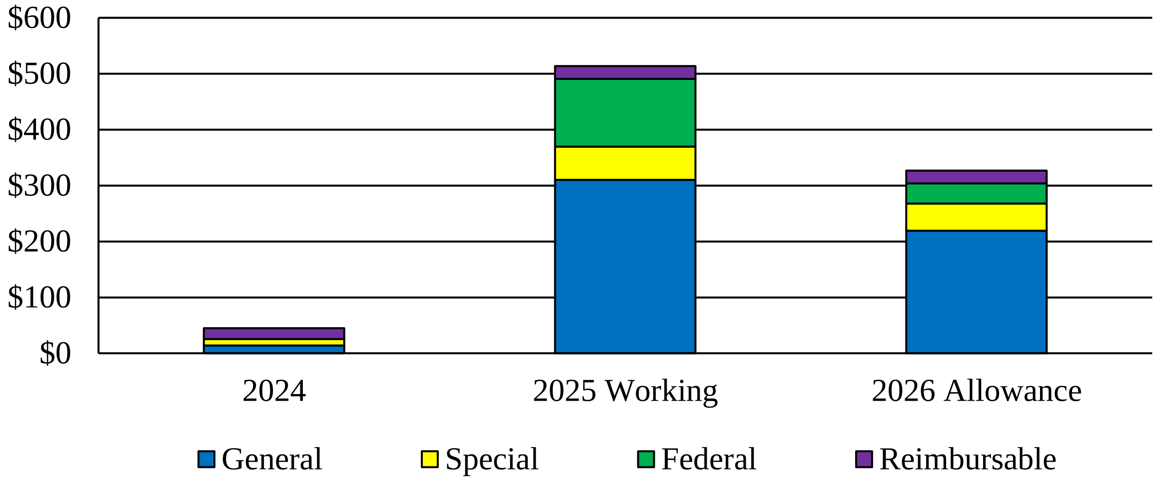
Department of Budget and Management – Personnel

Executive Summary

The Department of Budget and Management (DBM) Office of Personnel Services and Benefits (OPSB) exercises oversight over Executive Branch employees within the State Personnel Management System (SPMS). OPSB administers personnel policies as well as the health benefits program.

Operating Budget Summary

Fiscal 2026 Budget Decreases $187 Million, or 36.4%, to $326.5 Million
($ in Millions)



Note: The fiscal 2025 working appropriation includes deficiencies and targeted reversions. The fiscal 2026 allowance includes contingent reductions.

- The fiscal 2025 working appropriation includes approximately $371.4 million in total funds yet to be distributed to agencies for statewide salary adjustments and other purposes.

- The fiscal 2026 budget includes a proposed deficiency appropriation for fiscal 2025 of $75 million in federal funds for COVID-19 related expenditures inadvertently reverted in fiscal 2022 and 2023.

- Language in the fiscal 2026 Budget Bill reduces $49 million in total funds contingent on legislation eliminating the retirement reinvestment contribution.

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Key Observations

- ***Prescription Drug Costs Increase:*** Antidiabetic medications represent the largest share of prescription drug costs in the State prescription drug plan, while other categories of medication are also showing large cost increases on a per member basis.

- ***Vacancies Increase but Remain Below Peak Levels:*** The number of vacant positions in State government declined in fiscal 2024. This was the first sustained decline not due to the abolition of vacant positions in at least 20 years. After increasing in the first quarter of fiscal 2025, vacancies declined in the second quarter of fiscal 2025 to 5,244 total vacancies and a 10.2% vacancy rate in the Executive Branch excluding higher education.

- ***Statewide Funds for Salary Increases:*** The fiscal 2026 allowance includes $238.5 million for a 1% cost-of-living adjustment (COLA) and increments. Bonuses for Department of Public Safety and Correctional Services employees are funded at $10.7 million.

- ***Health Insurance Costs Decline:*** The State share of the contribution to the Employee and Retiree Health Insurance Account declines in fiscal 2025 and 2026 due to expected savings related to the end of prescription drug coverage for Medicare-eligible retirees.

- ***Part D Transition Underway:*** DBM has confirmed that approximately 86% of Medicare-eligible retirees have enrolled or plan to enroll in Medicare Part D prescription drug coverage for calendar 2025. A special enrollment period for retirees formerly covered by the State plan closes at the end of February 2025.

Operating Budget Recommended Actions

		Funds
1.	Add language to restrict funds pending quarterly reports on prescription drug costs.	
2.	Adopt committee narrative requesting the department to submit closeout information on the Employee and Retiree Health Insurance Account.	
3.	Reduce funding for fiscal 2026 general salary increase.	-$95,564,695
4.	Reduce funding for fiscal 2026 increments.	-$142,906,841
5.	Adopt narrative requesting a report on the funding of the Supplemental Retirement match.	

		Funds
6.	Add a section for annual language restricting the movement of employees into abolished positions.	
7.	Add a section requiring monthly reporting on the State's workers' compensation account held by the Injured Workers' Insurance Fund.	
8.	Add a section for the annual "Rule of 100" limit on position creation.	
9.	Add a section for annual language requiring a report on State positions.	
10.	Add a section for annual language requiring reporting of employee and retiree health insurance receipts and spending.	
11.	Add a section reducing funding for Judiciary employee merit raises.	
12.	Add a section to reduce funds due to vacancy savings	
	Total Net Change	**-$ 238,471,536**

Operating Budget Analysis

Program Description

DBM OPSB provides policy direction for the human resources system established by the State Personnel and Pensions Article through its oversight of SPMS. All positions in the Executive Branch of State government are in SPMS, except for employees of higher education institutions, independent agencies, 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 health benefits through the following programs:

- ***Executive Direction:*** The program includes the Employee and Labor Relations Division, Employee Assistance Program, the Division of Shared Services, and the Division of Contract Administration.

- ***Division of Employee Benefits:*** The division administers the State's health insurance program. Costs for administration are included in this budget, while costs for health benefits are funded separately in the Employee and Retiree Health Insurance Account.

- ***Division of Personnel Services:*** The division provides guidance on personnel matters and processes payroll for all SPMS employees while also acting as the human resources office for DBM and 24 other State agencies.

- ***Division of Classification and Salary:*** The division maintains the State's position classification plan and develops the State's salary and wage program.

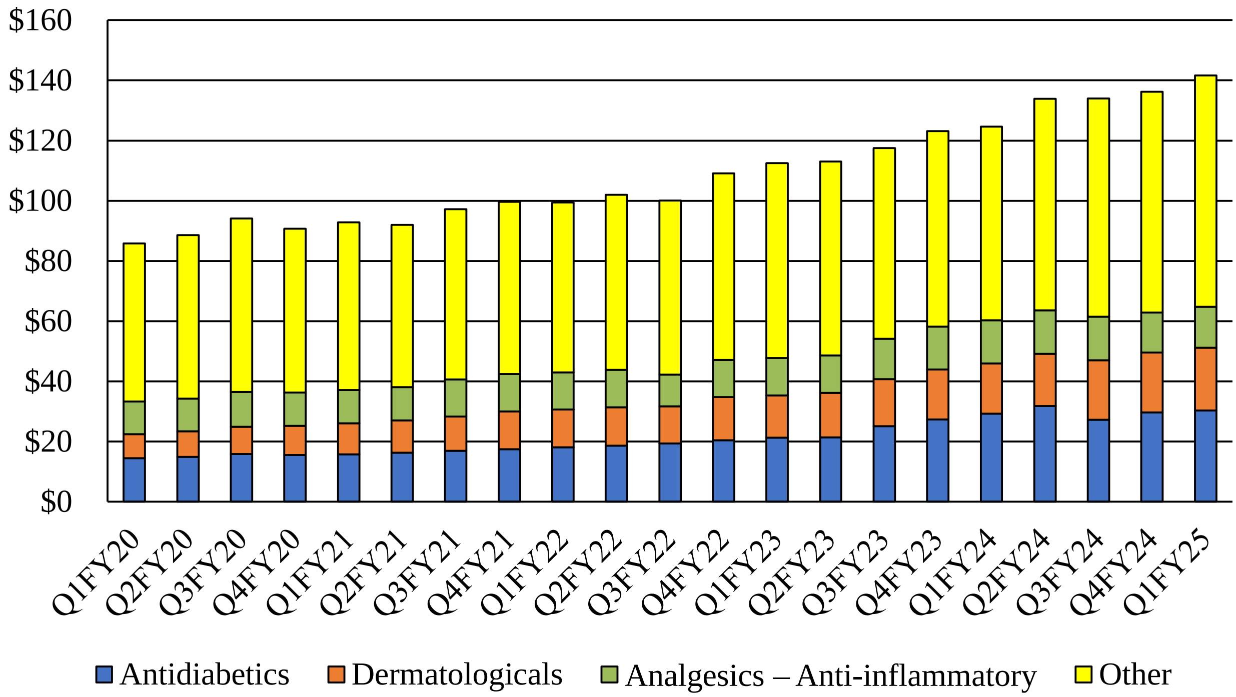
- ***Division of Recruitment and Examination:*** The division maintains the State's online recruitment tool (JobAps) and administers a ranking system to assist hiring managers.

Performance Analysis: Managing for Results

1. Antidiabetic Drugs Driving Prescription Plan Costs

State prescription drug plan costs increased by 13.6% from $124.7 million in the first quarter of fiscal 2024 to $141.7 million in first quarter of fiscal 2025. Diabetes is a major driver of both health and prescription drug costs. Antidiabetic drugs have consistently made up the largest share of prescription drug costs in the State's health insurance plan. In the first quarter of fiscal 2020, the cost of State prescription plan members' antidiabetic drugs was $14.5 million, or 17%, of prescription drug claims; these claims were from 11,352 individuals. As shown in **Exhibit 1**, by the first quarter of fiscal 2025, the costs of antidiabetic drugs rose to $30.4 million, or 21.4%, of prescription drug claims; these claims were from 14,639 individuals. The cost increase is due both to the number of people using the medications and an increase in the price of the medications. In January 2024, a rule was passed to limit coverage for GLP-1 drugs, a form of antidiabetic medication, to those with diabetes only. Since that time, costs associated with antidiabetic medication decreased from a peak of $31.8 million in the second quarter of fiscal 2024 with 15,362 utilizers to $27.2 million in the third quarter of fiscal 2024 with 14,160 utilizers. Utilization and cost per member rose again in the fourth quarter of fiscal 2024 and the first quarter of fiscal 2025 but remained below that second quarter of fiscal 2024 peak.

Exhibit 1
Quarterly Prescription Drug Costs by Drug Category
Fiscal 2021-2025
($ in Millions)



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

Prescription drug costs as a whole have increased substantially over the past five years. In the first quarter of fiscal 2020, the total cost of prescription drugs was $85.8 million. In the first quarter of fiscal 2025, the total cost was $141.7 million, an increase of 65%. While antidiabetics are the largest cost category, dermatologicals have grown the most, with an increase of 163%, or $12.9 million, from the first quarter of fiscal 2020 to the first quarter of fiscal 2025. Dermatologicals saw only minor growth of 3% in the number of utilizers in that time, indicating the cost increase is mostly due to an increase in the price of the medications. **DBM should comment on the main drivers of continued cost increases in the State prescription drug plan.**

Timeliness of Submission

DBM failed to submit the three most recent quarterly reports on prescription drug costs on time. The Department of Legislative Services (DLS) brought the reports to the attention of DBM in October and November 2024. DLS received the unsubmitted reports on February 13, 2025. These reports not only inform the budgetary allowance but also spending forecasts for the Spending Affordability Committee. Delinquent reporting of prescription drug costs is especially troubling during the transition period from the State prescription drug plan to Medicare Part D, which is discussed in the Issues section of this analysis.

DLS recommends adding budget bill language restricting $100,000 pending receipt of quarterly medical, dental, and prescription cost reports.

Fiscal 2025

Planned Reversion

The Governor's fiscal 2026 budget plan includes a planned reversion of $28.5 million in general funds in fiscal 2025 from the DBM Statewide Program due to savings resulting from anticipated vacancies in State agencies. The number of vacancies in State government is discussed in further detail in the Issues section of this analysis.

Centralized funding related to the Supplemental Retirement Match Program is also planned to be reverted. The planned reversion represents the entire $11.95 million appropriation in the Statewide account in fiscal 2025. The match program is still active, but agencies are being asked to use existing resources to manage the cost of the match. DLS notes that the fiscal 2026 allowance also does not directly budget for the match with most agencies being asked to absorb these costs within existing resources. This method of budgeting limits transparency and understanding of the costs associated with the match. **DLS recommends that DBM include funds for the supplemental retirement match in the fiscal 2027 allowance.**

Two additional reversions are planned due to changes in the schedule for controlled subobjects. Funding in agency budgets was too high by approximately $1.6 million for budget system cost allocation due to lower than expected costs in fiscal 2025 and $0.9 million for Department of Information Technology radio charges due to an error in finalizing the budget.

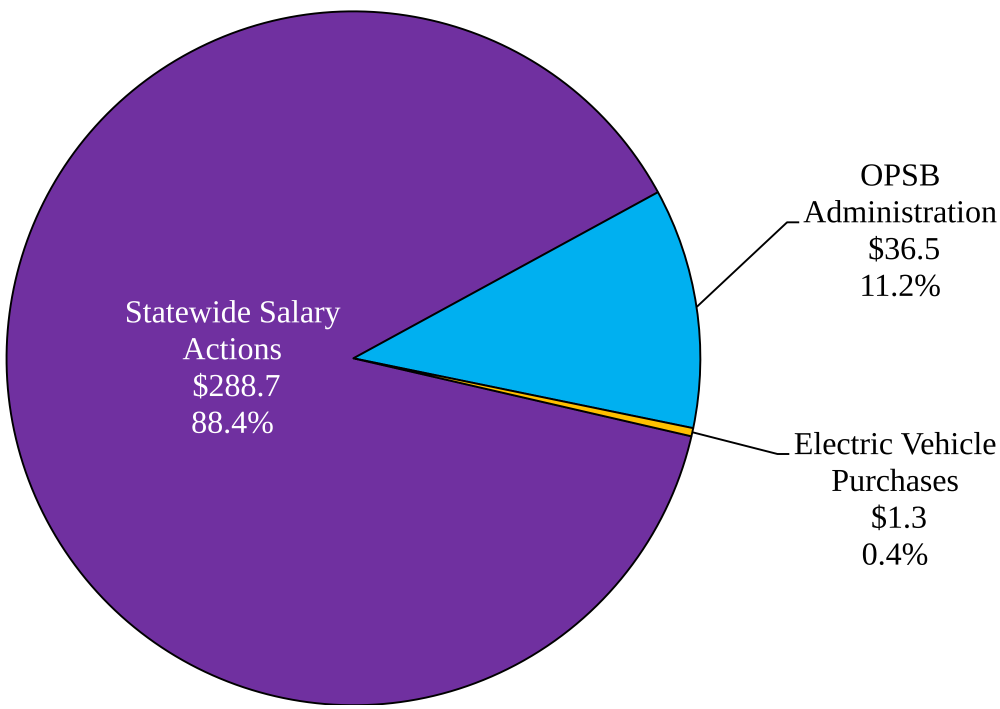
Proposed Deficiency

A proposed federal fund deficiency appropriation of $75 million in American Rescue Plan Act funds represents COVID-related health insurance expenses incurred by State employees but never paid into the Employees and Retirees Health Insurance fund at the end of fiscal 2022 and 2023.

Fiscal 2026 Overview of Agency Spending

Exhibit 2 provides an overview of the $326.5 million fiscal 2026 allowance for OPSB. Statewide salary actions make up 88% of the allowance. Funding for the administration of OPSB accounts for $35.2 million, or 11.2%, of the fiscal 2026 allowance. The fiscal 2026 budget also includes $1.25 million in Regional Greenhouse Gas Initiative special funds from the Strategic Energy Investment Fund to purchase plug-in hybrid and fully electric vehicles for State agencies, representing the final 0.4% of funding.

Exhibit 2
Overview of Agency Spending
Fiscal 2026 Allowance
($ in Millions)



OPSB: Office of Personnel Services and Benefits

Source: Governor's Fiscal 2026 Budget Books

Exhibit 3 shows funding included in the Statewide Program, which totals $290 million in fiscal 2026.

Exhibit 3
Statewide Program
Fiscal 2026
($ in Millions)

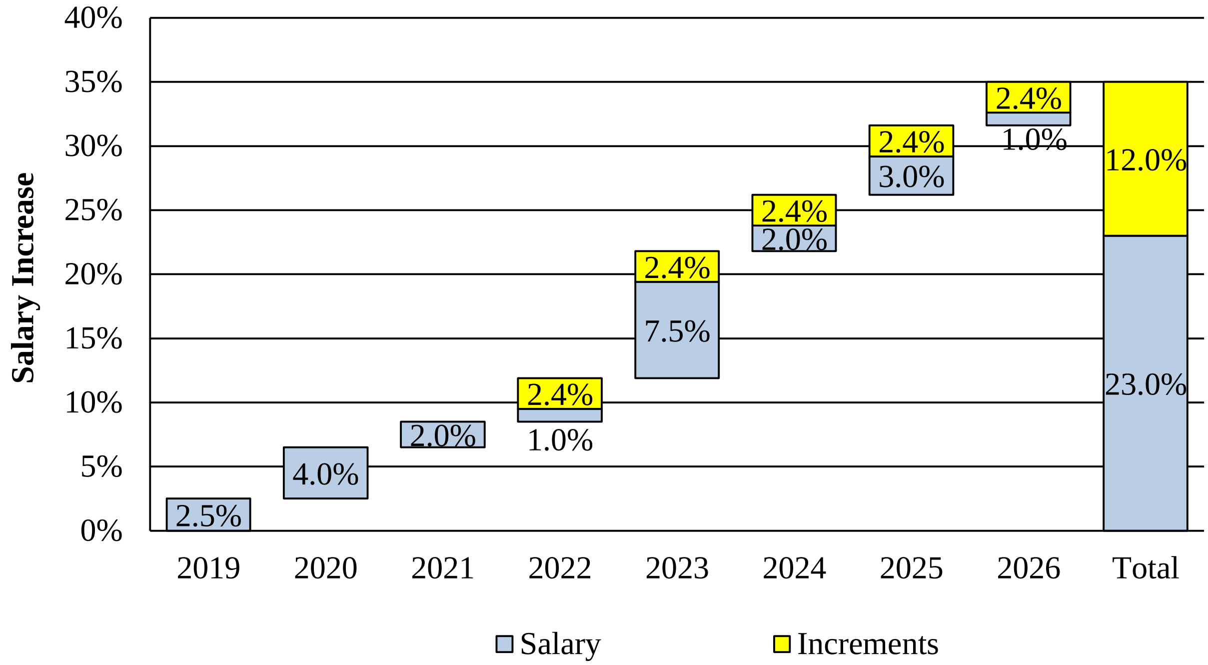
Purpose	Funding
Salary Increases	
Increments	$142.9
Regular employee 1% cost-of-living adjustment	95.6
Department of Public Safety and Correctional Services Bonuses	10.7
Fringe Benefits	
Health insurance	$86.4
Health reimbursement account increase for retirees transitioned to Medicare Part D	3.1
Cost Savings	
Government Efficiency Initiative	-$50.0
Other	
Electric vehicle purchases	$1.3
Total	**$290.0**

Source: Department of Budget and Management

Salary Increases

The largest share of funding ($238.5 million) is for salary enhancements for State employees. The funding includes a 1% general salary increase effective July 1, 2025, as well as a one-step increment on the salary scale in fiscal 2026. Reducing vacancies and filling more State positions has been a key priority of both the Administration and the General Assembly. A primary strategy to improve recruitment and retention of State employees is to increase salaries. **Exhibit 4** shows recent salary increases provided to most State employees. Between fiscal 2019 and 2025, most State employees have seen salary increases totaling approximately 31.6%. A more detailed review of historical State salary actions can be found in **Appendix 2**.

Exhibit 4
Recent General Salary Actions
Fiscal 2019-2026



Note: American Federation of State, County, and Municipal Employees represented employees received an additional increment in fiscal 2024, and longer-tenured employees received an additional increment in fiscal 2025.

Source: Department of Legislative Services

In addition to general salary increases, the State has historically provided annual salary reviews (ASR) in order to target money at positions that are difficult to recruit and retain. No ASR funding is provided in fiscal 2026. A salary study requested through committee narrative in the 2024 *Joint Chairmen's Report* (JCR) recommended that the State reduce its reliance on ASRs and instead focus on moving employees through salary scale steps consistently, including providing additional step increases to hard-to-fill classifications. Further, the study recommended that the State reduce COLAs and instead provide more regular and predictable increments and steps.

Due to the fiscal condition of the State, DLS recommends:

- **deleting funds for a 1% general salary increase in fiscal 2026; and**

- **deleting funds for fiscal 2026 increments, including Judiciary merit raises.**

An alternative option to deleting funds for the 1% general salary increase would be for the use of the funds for a one-time bonus. This would reduce the structural impact of employee raises on State finances.

Fringe Benefits

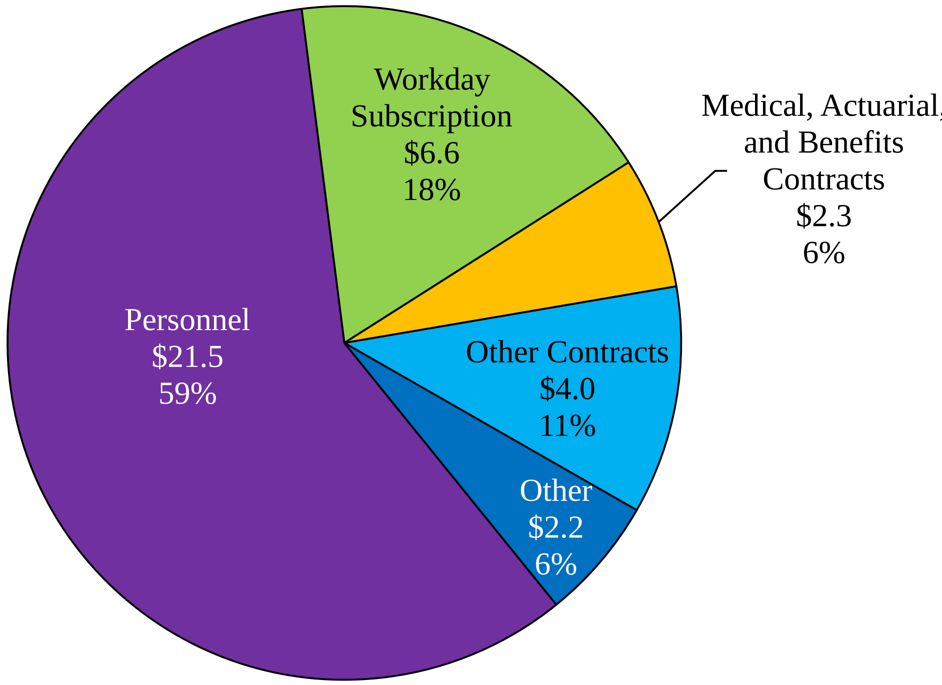
In the fiscal 2026 allowance, the Statewide account includes funding to bring overall health insurance appropriations in line with trends in health care costs. The fiscal 2026 budget also provides $3.1 million in special funds from the Senior Prescription Drug Assistance Program (SPDAP) for a deposit into Health Reimbursement Accounts created under Chapter 767 of 2019 for certain retirees. DBM has alerted DLS that this funding source was incorrectly identified in the budget books, and the intended funding source was agency payments to DBM. This topic is discussed further in Issue 2 of this analysis.

Cost Savings

The Statewide Program also accounts for one item that reduces overall funding in the program to reflect anticipated savings that will be allocated to State agency budgets by amendment. The Government Efficiency Initiative aims to identify savings in the State budget by finding efficiencies in programs and processes. The contract guarantees a maximum payment of $15 million to Boston Consulting Group if $75 million in savings are identified. The general fund portion corresponding to $50 million in savings is budgeted in the Statewide account for future allocation to affected agencies when the reductions are identified. Further discussion of the Government Efficiency Initiative can be found in the fiscal 2026 operating budget analysis for F10A – DBM Secretary.

Exhibit 5 provides information on OPSB spending in fiscal 2026 excluding the Statewide Program. Personnel accounts for 59% of the fiscal 2025 allowance, while the Workday subscription accounts for 18% of the planned spending. The subscription is for the information technology platform on which State employee personnel and human resources functions are handled.

Exhibit 5
Overview of OPSB Administrative Spending
Fiscal 2026 Allowance
($ in Millions)



OPSB: Office of Personnel Benefits and Services

Source: Governor's Fiscal 2026 Budget Books

Proposed Budget Change

As shown in **Exhibit** 6, the fiscal 2026 allowance increases by $187.1 million compared to the fiscal 2025 working appropriation after accounting for proposed deficiency appropriations, planned reversions, and contingent reductions. Changes in the Statewide account result in decreases of $188.9 million, while changes in the OPSB budget result in a net increase of $1.9 million. Personnel costs increase by $2.5 million for OPSB administration, primarily due to the impact of fiscal 2025 salary increases. Other OPSB costs decrease by $0.6 million, primarily due to the end of fiscal 2025 funding for a claims adjudication system. OPSB canceled the procurement for the claims adjudication system in lieu of modifications to Workday. The funding has not been reallocated in fiscal 2025, and DBM reports that the $1 million will revert to the Health Benefits Fund at the end of fiscal 2025 for future use.

Exhibit 6
Proposed Budget
Department of Budget and Management – Personnel
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2024 Actual	$14,052	$11,458	$0	$19,502	$45,013
Fiscal 2025 Working Appropriation	309,983	59,460	121,426	22,670	513,539
Fiscal 2026 Allowance	218,958	48,693	36,049	22,778	326,478
Fiscal 2025-2026 Amount Change	-$91,025	-$10,767	-$85,377	$108	-$187,061
Fiscal 2025-2026 Percent Change	-29.4%	-18.1%	-70.3%	0.5%	-36.4%

Where It Goes:	Change
Personnel Expenses	
Salary increases and associated fringe benefits, including fiscal 2025 COLAs and increments	$1,242
Employee and retiree health insurance	658
Turnover rate increases from 0.97% to 3.37%	448
1 designated administrator position transferred from DBM – Secretary	120
Other OPSB Expenses	
Consulting and actuarial services for State employees' benefits programs	864
Data integration contracts	350
Rent	219
JobAps	209
Contractual employee payroll due to an increase of a net 1.25 FTEs	150
Shared services allocations	-92
End of contract with Cornerstone for learning management system due to creation of Workday Learning Module	-268
Medical and prescription drug auditing contract	-283
Online grievance tracking system	-400
Workday Learning Module for tracking and provision of training to SPMS agencies	-450
Claims adjudication system	-1,000
Other administrative expenses	88
Statewide Account Expenses	
Fiscal 2026 statewide COLAs and increments	238,472
Statewide health insurance costs, including costs related health reimbursement accounts for certain retirees	114,525

Where It Goes:	**Change**
Assumed fiscal 2025 reversions of State agency funds for overbudgeted DoIT radio service charges and budget system fees, fiscal 2026 costs are included in the budgets of agencies	2,543
DPSCS retention and longevity pay incentive bonuses	2,040
Other statewide personnel costs	-100
Retirement reinvestment contribution contingent on a provision in the BRFA repealing the required contribution	-50,000
Government Efficiency Initiative general fund savings estimate	-50,000
Reappropriation of inadvertently reverted federal funds for COVID-19 related health insurance expenses incurred by State employees	-75,000
Fiscal 2025 statewide COLAs, increments, and salary adjustments still to be distributed to agencies	-371,395
Total	**-$187,061**

COLA: cost of living adjustment
BRFA: Budget Reconciliation and Financing Act
DBM: Department of Budget and Management
DoIT: Department of Information Technology
DPSCS: Department of Public Safety and Correctional Services
FTE: full-time equivalent
SPMS: State Personnel Management System

Note: The fiscal 2025 working appropriation includes deficiencies and targeted reversions. The fiscal 2026 allowance includes contingent reductions.

Budget Reconciliation and Financing Act of 2025

Chapter 717 of 2024 altered the require appropriation to be included in the annual budget for pension reinvestment until the funded ratio of assets to liabilities of the State pension system reaches 85% from $75 million to $50 million. The budget as introduced includes $49.0 million in reductions to the Statewide account, including $43.6 in general funds, contingent on legislation eliminating the pension reinvestment funding mandate. Approximately $1 million of the mandated $50 million retirement reinvestment contributions are excluded from the contingent reduction because it represents nonbudgeted spending. The Budget Reconciliation and Financing Act (BRFA) eliminates this requirement for fiscal 2026 and future years.

Personnel Data

	FY 24 Actual	FY 25 Working	FY 26 Allowance	FY 25-26 Change
Regular Positions	134.00	138.00	139.00	1.00
Contractual FTEs	9.00	2.00	3.25	1.25
Total Personnel	**143.00**	**140.00**	**142.25**	**2.25**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions		4.68	3.37%
Positions and Percentage Vacant as of 12/31/24		7.00	5.07%
Vacancies Above Turnover		2.32	

- OPSB gains 1 designated administrator position transferred from DBM – Executive Office of the Secretary. This is a technical realignment of a position already functioning under OPSB.

- Contractual positions for OPSB increase on net by 1.25 full-time equivalents. A decrease of 2 administrative officers assisting with Employer Group Waiver Plans (EGWP) termination is more than offset by increases of 1 program manager to support the Employee Benefits Division, 1 administrator to support contract management, and 1.25 positions to support human resources analysis.

Issues

1. Growth in State Employment

The Governor's fiscal 2026 budget plan continues to grow State employment. As shown in **Exhibit 7**, the fiscal 2026 allowance would increase the number of Executive Branch employees by 957, excluding higher education. Of this change, 389 are contractual conversions and 568 are new positions added in fiscal 2026 or by deficiency in fiscal 2025. Recommendations are made in various analyses to reduce the number of new positions.

Exhibit 7
Authorized Positions
Executive Branch Excluding Higher Education
Fiscal 2025-2026

	Beginning of 2025	Allowance 2026	Change 2025-2026
Health and Human Services			
Health	7,333	7,346	13
Human Services	5,979	5,979	0
Juvenile Services	2,157	2,146	-11
Subtotal	***15,468***	***15,470***	***2***
Public Safety			
Public Safety and Correctional Services	9,212	9,229	17
Police and Fire Marshal	2,578	2,593	16
Subtotal	***11,790***	***11,822***	***33***
Transportation	**9,194**	**9,403**	**209**
Other Executive			
Legal (Excluding Judiciary)	1,717	1,807	90
Executive and Administrative Control	2,075	2,200	125
Financial and Revenue Administration	2,323	2,455	132
Budget and Management and IT	558	584	26
Retirement	199	207	8
General Services	727	732	5
Service and Civic Innovation	39	77	38
Natural Resources	1,501	1,555	54
Agriculture	426	441	14
Labor	1,844	1,969	125

MSDE and Other Education	2,036	2,074	38
Housing and Community Development	446	447	1
Commerce	208	212	4
Environment	981	1,034	53
Subtotal	***15,079***	***15,792***	***713***
Executive Branch Total	**51,531**	**52,488**	**957**

IT: information technology
MSDE: Maryland State Department of Education

Note: Reflects information reported in Appendix E of the Budget Books, which includes planned contractual conversions that have yet to be enacted.

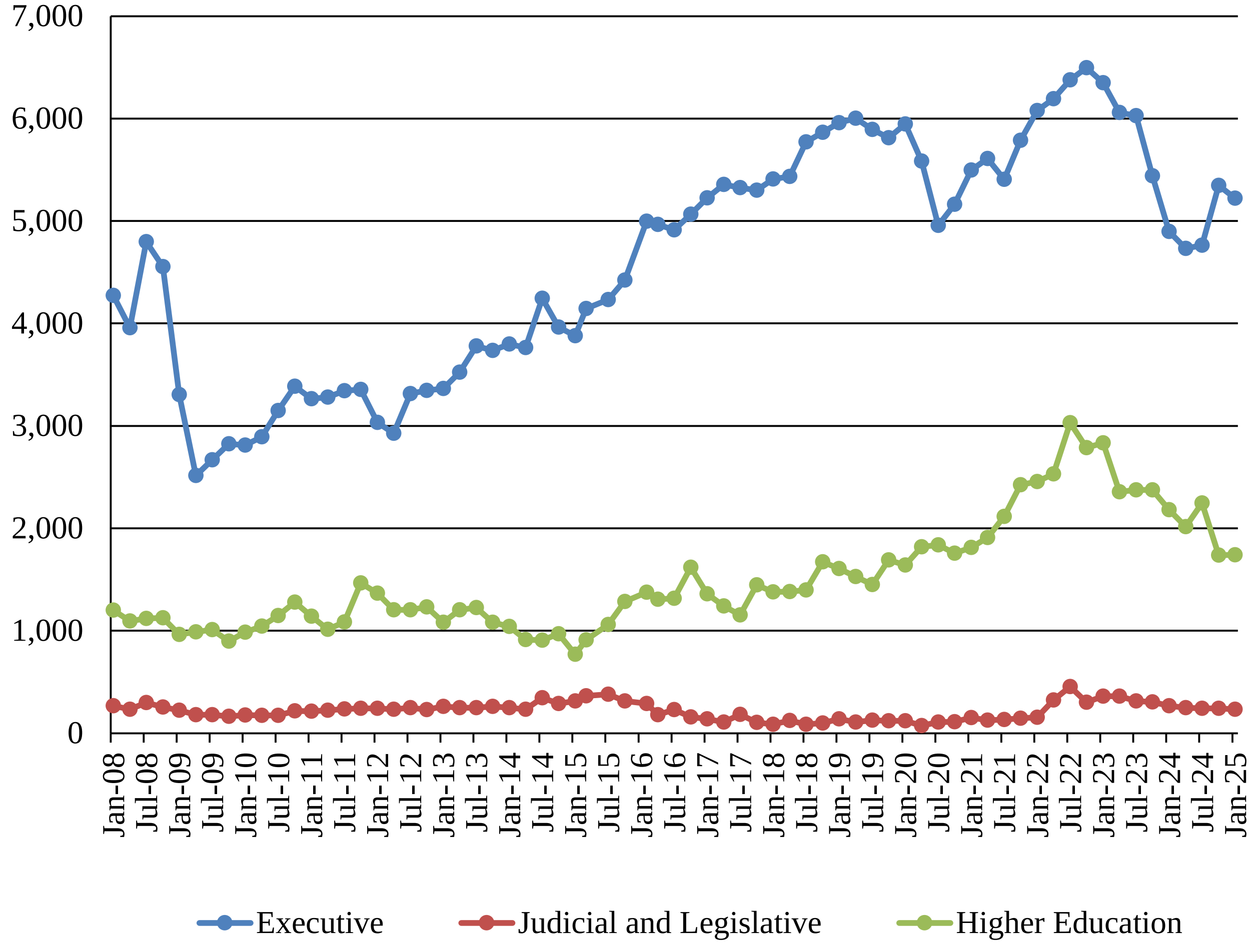
Source: Governor's Fiscal 2026 Budget Books

The added positions are included across State government with the largest number going toward MDOT. Within MDOT, the Maryland Transit Administration adds 92 new positions to improve transit reliability and 78 new positions for patrolling the Purple Line. The Maryland Department of Labor (MD Labor) Division of Unemployment Insurance adds 125 new positions to support the transition from a contract call center operated by Accenture to in-house support by MD Labor staff. The MD Labor contract with Accenture is ending, and MD Labor plans to decrease dependence on a costly external vendor. Agencies with the most conversions were the Comptroller of Maryland (68), the Department of Natural Resources (52), and the Maryland Department of the Environment (50).

Vacant Positions

As shown in **Exhibit 8**, **s**ince peaking at nearly 6,500 in October 2022, the number of vacant positions in the Executive Branch substantially declined to 4,732 in April 2024. This period was the first sustained reduction in vacancies since the Great Recession. Previous large reductions in vacancies were achieved by abolishing vacant positions. While significant progress is being made in filling vacancies, a rebound was observed in the first quarter of fiscal 2025. Executive branch vacancies increased by 584, or 12.3%, to 5,346 between July and October 2024. This increase was seen even when controlling for the addition of new positions. However, the second quarter of fiscal 2025 saw a return to a downward trend of 2.3%, or 124 fewer vacancies, to a total of 5,222. The vacancy rate in January 2025 was 10.2% in the Executive Branch excluding higher education. While lower than the peaks of 13% or higher in calendar 2022 and 2023, the vacancy rate is still much higher than historic norms.

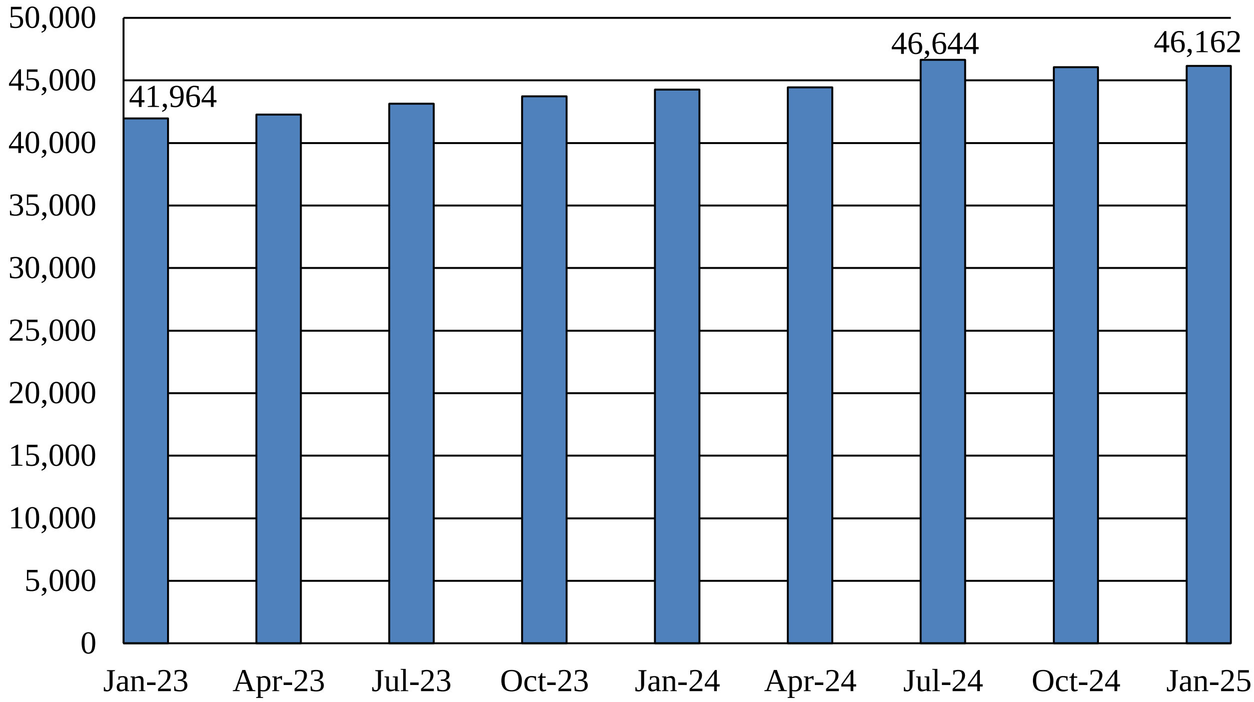
Exhibit 8
Vacant Positions
January 2008 to January 2025



Source: Department of Legislative Services

Progress has also been made in the number of filled positions, partly reflecting more positions. As shown in **Exhibit 9**, filled positions increased from 41,964 in January 2023 to a peak of 46,644 in July 2024. Filled positions are lower in January 2025 at 46,162. The fiscal 2026 allowance includes personnel funding that is in excess of needs based on current vacancy levels and hiring trends. The average budgeted turnover rate in the fiscal 2026 allowance is 7.3%, resulting in overfunding of $140 million in total funds. **DLS recommends reducing funding for salary actions in the Statewide Program by $85.2 million in total funds to reflect vacancy savings and a budgeted turnover rate of 8.6%.**

Exhibit 9
Filled Positions
January 2023 to January 2025



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

Modernization of the State Personnel Management

Committee narrative in the 2023 JCR directed DBM to create a Task Force on the Modernization of the State Personnel Management System to identify State practices that hinder recruitment and hiring and recommend improvements to the State's recruitment and retention practices. Pursuant to committee narrative in the 2024 JCR, DBM provided a report on October 1, 2024, responding to the task force's recommendations.

Applicant Engagement and Experience

- ***Encourage Continuous Applicant Ratings during the Job Posting Period:*** DBM informed agencies about the ability to rate applications during the active posting period on January 16, 2024. Continuous rating has now been incorporated into recruitment training, reducing the time it takes to create eligibility lists.

- ***Improve Applicant Engagement throughout the Hiring Process:*** In August 2024, DBM negotiated the provision of text notifications to applicants through JobAps, the current applicant tracking system vendor. DBM is exploring how to train recruiters and educate agencies on this functionality.

- ***Explore Options to Improve Applicant Career Matching and Job Search:*** DBM is improving career matching through job fairs, resume banks, and enhanced online search tools, though expanding these efforts may require more resources.

Process Improvement and Efficiency

- ***Establish Service Level Agreements (SLA) for the Hiring Process:*** DBM is reviewing the feasibility of establishing universal SLAs for State agencies in the State personnel system. Agencies have provided feedback against a one size fits all approach.

- ***Consider the Creation of Dedicated Staff to Take Ownership of the Hiring Process:*** While some agencies do have dedicated recruiters, numerous agencies require their human resources staff to wear many hats. The recommendation to create dedicated staff requires the dedication of substantial resources and is likely a future action given other current budget priorities

- ***Expand Use of Open/Continuous Job Postings:*** The State now uses open/continuous job postings for high-turnover, critical positions, like correctional officers and health workers, with approval from hiring managers. However, ongoing recruitments present challenges in applicant engagement, requiring more effort from hiring authorities to maintain timely communication and updates. DBM is working with agencies to improve notification frequency and keep applicants informed.

- ***Continue Efforts to Remove Degree Blockers and Review Job Requirements to Make State Jobs More Accessible:*** The State is removing unnecessary degree requirements with ongoing reviews of job titles to increase accessibility. This effort has resulted in recognition at the National Governor's Association meeting in spring 2024 for leadership in skills-based hiring.

Recruitment Strategy and Accessibility

- ***Develop a "Hire Now" Culture with an Improved Referral Process:*** A new functionality in JobAps allows applications to be copied to similar recruitments beginning the process of developing a common application for future opportunities. Recruiters are now able to add to other position lists applicants who are not selected for a specific position but are interested in working for the State.

- ***Consider Additional Funding Options for Recruitment Activities and Marketing:*** DBM is working to leverage partnerships and social media to reduce recruitment costs, though additional funding would be needed for expanded marketing efforts.

- ***Expand Efforts to Update Job Titles to Make Job Postings More Attractive:*** Efforts are underway by DBM and agencies to use clearer, more engaging job titles and descriptions, but there is ongoing work to improve job postings further.

- ***Explore Opportunities to Expand Career Ladders and for Alternative Career Pathways, Including the Creation of Registered Apprenticeships:*** DBM is working with agencies to develop apprenticeship programs and refine career advancement opportunities with several programs in development or awaiting approval.

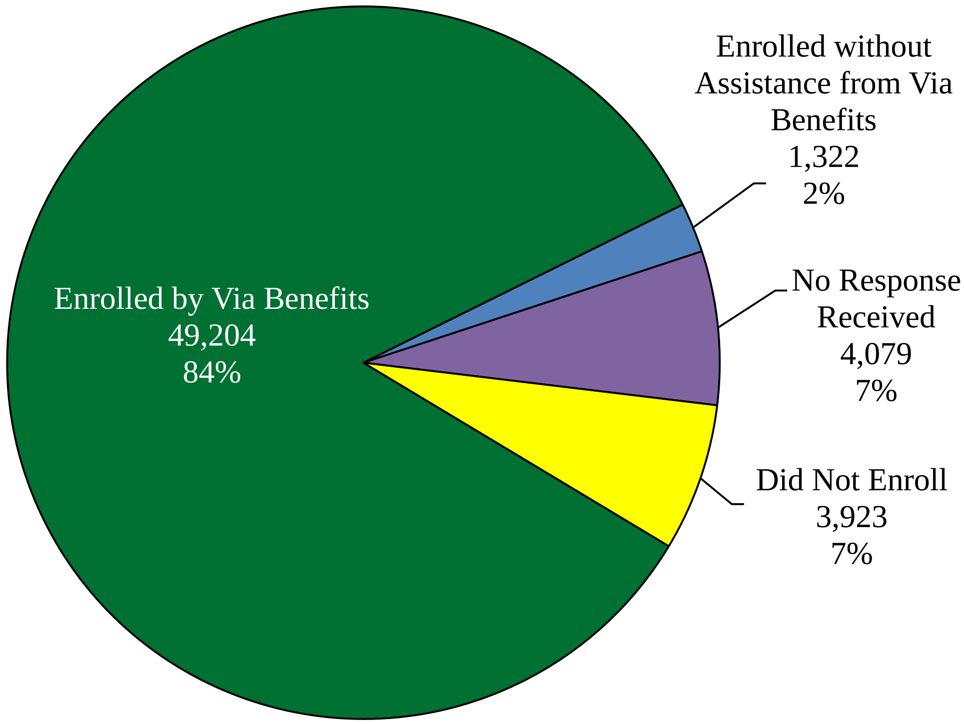
2. DBM Transitions Eligible Retirees to Medicare Part D Coverage

Chapter 397 of 2011 terminated prescription drug coverage for Medicare-eligible State retirees effective in fiscal 2020. Chapter 10 of 2018 made the termination effective January 1, 2019. This was done in the expectation that Medicare-eligible State retirees could enroll in prescription drug coverage programs under Medicare Part D, thereby reducing State costs. Chapter 767 of 2019 established reimbursement programs that would cover out-of-pocket (OOP) costs for retirees enrolled in Part D coverage. In response to a lawsuit filed by State retirees claiming that termination of prescription drug benefits was an unconstitutional breach of contract between the State and retirees, the federal Fourth Circuit Court of Appeals ultimately ruled that no such contract existed. As a result, the lawsuit was dismissed in September 2023.

Impact on Medicare-eligible Retirees

State prescription drug coverage is no longer available for approximately 56,595 Medicare-eligible retirees and dependents as of January 1, 2025. DBM also reached out to approximately 1,933 retirees who were not formerly covered by the State prescription drug plan but were covered by a State medical plan and were Medicare-eligible. Of the total group affected, 49,204 were confirmed to be enrolled by Via Benefits by January 1, 2025, and 1,322 reported plans to enroll in Medicare Part D through other means. An additional 3,923 Medicare-eligible retirees did not enroll, and 4,079 provided no response to the Via Benefits adviser, as shown in **Exhibit 10**. DBM reports that many retirees have alternative options for coverage, including retiree health benefits through the federal government, U.S. Postal Service, Armed Forces, or other governmental entities through a spouse.

Exhibit 10
Eligible Retiree and Dependent Participation in a Medicare Part D Plan
As of January 1, 2025



Source: Department of Budget and Management

Under the Inflation Reduction Act, beginning January 1, 2025, Medicare Part D limits OOP to $2,000 per individual. However, the Maryland State Retiree Prescription Drug Coverage Program, created in Chapter 767, requires reimbursement to retirees hired before July 1, 2011, and who retired on or before January 1, 2020, for OOP costs that exceed State plan limits, which are $1,500 for individuals and $2,000 for families. The reimbursement is provided in the form of a Health Reimbursement Account, which includes tax-free funds that can be used to pay for OOP prescription drug costs. A single Medicare eligible retiree receives a $750 in the Health Reimbursement Arrangement (HRA) account while a couple receives $2,000.

The Maryland State Retiree Life-Sustaining Prescription Drug Assistance Program, also part of Chapter 767, reimburses a Part D recipient for OOP costs for a life-sustaining medication that is covered by the State plan but is not covered under the individual’s Medicare prescription drug plan. DBM advises that all Medicare Part D formularies must include at least two drugs in each therapeutic category and provide a way to seek approval for nonformulary drugs. In addition, a number of drugs are now covered by Medicare Part B; for drugs eligible under Part B, the State health plan would pay the 20% not covered by Part B.

Section 21 of the fiscal 2025 budget added $3.6 million of special funds for the purpose of funding $250 of the amount that the State will deposit into HRAs in calendar 2025. Chapter 717 of 2024 (the BRFA of 2024) authorized the use of SPDAP funds for this purpose in fiscal 2025 only. The fiscal 2026 allowance includes $3.1 million from the SPDAP for the same purpose; however, the funds are not authorized to be used in this manner in fiscal 2026. In the analysis for M00Q – Medical Care Programs Administration, DLS has recommended that a provision be added to the BRFA of 2025 to authorize the use of these funds for this purpose in fiscal 2026 only.

Counseling and Outreach

Retirees who wished to maintain prescription drug coverage in calendar 2025 were required to enroll with Medicare Part D during the open enrollment period. Medicare open enrollment for calendar 2025 plans began October 15, 2024, and ended December 7, 2024, for those who were not already covered by the State and December 31, 2024, for those covered by the State. OPSB reports that a Special Enrollment Period for those formerly covered by the State plan was extended to February 28, 2025.

Counseling Provided

In order to assist with the enrollment and selection process, DBM announced a contract with Via Benefits in September 2024. Via Benefits and DBM sent out mailers on the week of September 9 to all retirees with a State prescription drug plan as well as retirees with only a State medical plan but were Medicare-eligible. The mailers provided details about the transition including what actions to take and how to connect with Via Benefits. A few avenues were available to retirees to receive assistance. DBM hosted online webinars and in-person seminars across the State. A total of 4,757 people attended a webinar and 4,924 people participated in an in-person seminar. Retirees were provided the chance in both forums to hear from Via Benefits experts and OPSB leadership about the coverage options available to them, as well as ask questions in a general question and answer session.

In addition to informational events, DBM offered appointments with Via Benefits benefit coordinators to walk retirees through their options, answer any questions, and enroll in a Medicare Part D plan. DBM reports that 23,390 retirees made an appointment and 18,729 enrolled during their appointment. Additionally, Via Benefits staff made outbound calls to and took inbound calls from retirees eligible to transition to Medicare Part D. Staff explained what the transition would entail, the fact that enrolling in Medicare Part D is necessary to maintain coverage, and the coverage options available to them. **Exhibit 11** shows the total number of calls, both inbound and outbound, as well as the satisfaction rating and average call time of the Via Benefits call center.

Exhibit 11
Via Benefits Engagement Activities
September 2024 to February 2025

	September 9, 2024, to October 27, 2024	September 9, 2024, to February 7, 2025
Inbound Calls from State Retirees	87,175	180,283
Outbound Calls to State Retirees	43,972	80,032
Average Call Wait Time	7 min. 33 sec.	9 min. 5 sec.
Call Center Customer Satisfaction	4.49 out of 5	4.56 out of 5

Source: Department of Budget and Management

Costs and Savings Associated with Change

The fiscal 2025 budget assumed $50 million in general fund savings associated with the transition of coverage to Part D, which represented only six months of savings since the change takes effect midway through the fiscal year. Savings are estimated to total $90 million across all funds. DBM expects approximately double these savings in fiscal 2026. The estimate accounts for the offsetting costs and revenues, such as counseling, administration of the reimbursement accounts, and lost premium contributions from retirees. The budget for open enrollment mailers is $1.5 million over the course of fiscal 2025 and 2026.

The changes also result in a significant reduction in the State's Other Post Employment Benefits (OPEB) liabilities, according to the most recent estimates available. The State Net OPEB liability at the close of fiscal 2024 was $11.4 billion; the State's actuary estimates that restoring full State-funded prescription drug coverage for retirees would increase the liability by $8.9 billion.

3. State Health Insurance Contributions Decline

Exhibit 12 provides the status of the Employee and Retiree Health Insurance Account. In fiscal 2024, the account closed with a year-end fund balance of $168.2 million, an increase of $54.6 million. After accounting for incurred but not received bills, the account closed with a $71.5 million surplus. There is a projected reserve fund balance of zero reflected at the end of fiscal 2026. DLS notes that DBM assumes that State agency receipts for fiscal 2026 will total $1.477 billion but the budget includes about $90 million less than this amount. DBM advises that this is primarily attributable to local health department, local election board, and registers of wills employees whose contributions do not appear in the State budget. However, DLS notes that difference for fiscal 2025 is much smaller ($24 million) than in fiscal 2026 despite those same entities not being budgeted in fiscal 2025. The actual fiscal 2024 differential between DBM reported receipts and spending in the State budget was only $10 million. If funds are not received in fiscal 2026 at the level shown in Exhibit 12, the outlook for the account would be significantly worse. DLS finds that the budget underfunds DBM's own projection of health insurance costs by $90 million (about half of that amount in general funds). **DBM should discuss the adequacy of the budgeted funding for health insurance in fiscal 2026.**

Exhibit 12
Employee and Retiree Health Insurance Account
Fiscal 2024 Actual-2026 Allowance
($ in Millions)

	2024 Actual	2025 Working	2026 Allowance
Beginning Balance	**$113.6**	**$168.2**	**$187.8**
Expenditures			
DBM – Personnel Administrative Cost	$8.1	$12.6	$12.9
Payments of Claims			
Medical	$1,264.6	$1,344.2	$1,467.8
Prescription	931.4	817.0	566.2
Pharmacy Rebates	-336.3	-349.1	-269.8
Medicare Rx HRA	0.0	0.0	54.6
Dental	64.4	63.8	74.3
Contractual Employee Claims	28.9	32.9	35.3
Payments to Providers	**$1,953.0**	**$1,908.8**	**$1,928.4**
% Growth in Payments	*4.9%*	*-2.3%*	*1.0%*
Receipts			
State Agencies*	$1,531.8	$1,500.4	$1,477.3
Employee Contributions*	221.3	236.9	252.1
Retiree Contributions (Medicare-eligible)	83.9	83.3	59.8
Retiree Contributions (Non-Medicare-eligible)	48.3	53.1	58.4
EGWP Subsidies and Other Revenue	119.0	67.3	7.3
Agency Reversions	11.4	0.0	0.0
Total Receipts	**$2,015.7**	**$1,941.0**	**$1,854.9**
% Growth in Receipts	*4.7%*	*-3.7%*	*-4.4%*
Ending Balance	**$168.2**	**$187.8**	**$101.4**
Estimated Incurred but Not Received	**-$96.7**	**-$95.3**	**-$101.4**
Reserve for Future Provider Payments	**$71.5**	**$92.5**	**$0**

DBM: Department of Budget and Management
HRA: Health Reimbursement Account
EGWP: Employer Group Waiver Plan

*State agency and employee contributions include contributions for eligible contractual full-time equivalents.

Source: Governor's Fiscal 2026 Budget Books

Costs associated with Medicare-eligible retirees have been transitioned to the federal government. Certain revenue associated with Medicare-eligible retirees have ceased and can no longer be counted toward State health plan costs including $79.3 million in pharmacy rebates and $111.7 million in EGWP subsidies. This transition is anticipated to lower costs by $50 million in fiscal 2025 and $100 million in fiscal 2026 net of administrative expenses.

Premiums for most plan members increased by 5% for medical plans, 10% for prescription plans, and either 0% or 5% for dental plans, depending on the chosen plan, on January 1, 2025. This is the fourth straight year of similar size increases. The State agency share of contributions will decline by 2% in fiscal 2025 and 1.5% in fiscal 2026 due to the reduced costs associated with shifting retiree prescription drug coverage to Medicare Part D. The split of employer to employee contributions to the plan agreed to by DBM and the various bargaining units is 85/15 for exclusive provider organization plans and 80/20 for preferred provider organization plans. The split in the fiscal 2026 allowance will be approximately 83/17.

Payments to providers increased by 5% to $1.9 billion (including pharmacy rebates) in fiscal 2024. Medical costs, which make up the largest amount of claims costs, grew by 3.7% to $1.3 billion. Costs are projected to increase by 6% in fiscal 2025 and 9% in fiscal 2026.

Dental costs grew by 7% to $64 million in fiscal 2024. DBM projects a slight decrease of 1% in fiscal 2025 and an increase of 16% in fiscal 2026.

The second largest health benefit cost is for prescription drug coverage. Net of pharmacy rebates, costs increased by 7.2% in fiscal 2024 and are projected to decrease by 21% in fiscal 2025 and 37% in fiscal 2026 due to the shift of retiree prescription drug coverage to Medicare Part D on January 1, 2025. Costs associated with HRAs for Medicare-eligible retirees begin in fiscal 2025 but are not separated out until fiscal 2026 with $54.6 million budgeted based on the number eligible. **DLS recommends annual committee narrative to request that DBM submit medical, dental, and prescription drug utilization and cost data.**

4. Mental Health Parity and Addiction Equity Act Report

The Mental Health Parity and Addiction Equity Act (MHPAEA) of 2008 requires group health plans and insurance issuers to provide mental health and substance use disorder (SUD) benefits on par with medical benefits. Treatment limitations may not be more stringently applied to mental health and SUD benefits than they are applied to medical and surgical benefits. The MHPAEA extends parity protections to substance use disorders and limits financial requirements and treatment limitations for mental health and SUD benefits to be no more restrictive than those for medical/surgical benefits.

The MHPAEA does not mandate coverage of mental health and SUD benefits but ensures that if they are offered, they must meet parity standards. The Affordable Care Act further mandates mental health and SUD coverage as essential health benefits in certain plans. The Consolidated Appropriations Act of 2021 amended the MHPAEA, requiring group health plans and insurers to perform and document comparative analyses of nonquantitative treatment limitations for mental health and SUD benefits. These analyses must be available to authorities upon request.

Language in the fiscal 2025 Budget Bill restricted $100,000 pending submission of (a) comparative analyses for State health plans; (b) DBM's assessment of each health plan's compliance with the Parity Act; and (c) the number and nature of complaints that have been filed with DBM from calendar 2018 through 2023 regarding coverage denials or limitations for mental health and/or SUD benefits. The report was due November 1, 2025.

DBM submitted the requested information on December 19, 2025. The report provided a brief discussion of the requested information followed by in-depth documentation for each health care provider. DBM and its actuary, the Segal Company, provided comparative analyses for each plan as required by the MHPAEA as well as limited complaint and appeals data. According to DBM and Segal, each State plan complies with the MHPAEA. However, there were portions of the UnitedHealthcare (UHC) and CareFirst analyses that do not match State policies with respect to outpatient prior authorization. DBM has requested those analyses to be updated by the vendors.

Complaint and Appeals Data

Kaiser Permanente did not have data for 2018 and 2019, but data showed an average of 1 to 2 complaints each year from 2020 through 2023. Additionally, Kaiser Permanente appeals data showed an average of 1 appeal each year from calendar 2020 through 2023 for the denial of benefits for mental health or substance use disorder treatment services. CareFirst did not provide complaint data, but appeals data showed an average of 12.5 appeals for denial of benefits each year from calendar 2018 to 2023. UHC did not provide complaint data or appeals data for calendar 2018, 2019, and 2023. UHC appeals data from calendar 2020 through 2022 showed an average of 21 appeals each year. UHC only makes up 16% of all State health plan members, which means that UHC customers appeal mental health coverage denials approximately eight to nine times more than CareFirst customers at 5.6 appeals per 10,000 customers compared to 0.6 appeals per 10,000 customers for CareFirst.

Upon review, DLS determined the report to be in compliance with the budget language and therefore recommends the $100,000 in withheld funds be released to DBM upon conclusion of the budget hearings.

Operating Budget Recommended Actions

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

   , provided that $100,000 of this appropriation made for the purpose of general administration may not be expended until the Department of Budget and Management submits quarterly reports on medical, dental, and prescription plan costs. Medical and dental reports shall provide utilization and cost data broken out by plans as well as actives, non-Medicare-eligible retirees, and Medicare-eligible retirees. The reports shall include utilization per 1,000 plan participants; unit cost and per member costs for hospital inpatient services; hospital outpatient services; professional inpatient services; professional outpatient services; and ancillary services, provided by the State's health plans. Prescription reports shall provide information on the highest cost prescription drugs by category of treatment; the prescription drugs accounting for the largest increases in drug spending; the top 25 most costly individual prescription drugs in generic, brand, biologics, and specialty drug categories; recent drug patent expirations; and upcoming new drug patent approvals. Additionally, the reports shall include data on the cost drivers and drug trends by actives, non-Medicare retirees, and Medicare retirees. The first report shall be submitted no later than September 15, 2025, the second report shall be submitted by December 15, 2025, the third report shall be submitted by March 15, 2026, and the fourth report shall be submitted by June 15, 2026. The budget committees shall have 45 days from the date of the receipt of the second report 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: In recent years, the State has implemented different strategies to contain medical and prescription costs. The budget committees have annually requested that the Department of Budget and Management (DBM) submit quarterly reports on plan performance of the State's prescription, medical, and dental plans. DBM submitted three fiscal 2024 reports and one fiscal 2025 report late, impacting the ability of the legislature to accurately gauge prescription drug liabilities.

Information Request	**Author**	**Due Date**
Quarterly State medical, dental, and prescription drug plan performance reports	DBM	September 15, 2025 December 15, 2025 March 15, 2026 June 15, 2026

2. Adopt the following narrative:

Health Insurance Account Closeout Report: The committees request a report on the fiscal 2025 closeout of the Employee and Retiree Health Insurance Account. This report shall include:

- the closing fiscal 2025 fund balance;
- the actual provider payments due in the fiscal year broken out by medical payments for active employees, medical payments for non-Medicare-eligible retirees, medical payments for Medicare-eligible retirees, prescription drug payments for active employees, prescription drug payments for non-Medicare-eligible retirees, and prescription drug payments for Medicare-eligible retirees;
- State employee and retiree contributions, broken out by active employees, non-Medicare-eligible retirees, and Medicare-eligible retirees;
- an accounting of rebates, recoveries, and other costs, broken out into rebates, recoveries, and other costs associated with active employees, non-Medicare-eligible retirees, and Medicare-eligible retirees;
- any closeout transactions processed after the fiscal year ended; and
- actual incurred but not received costs.

Information Request	**Author**	**Due Date**
Report on fiscal 2025 closeout data for the Employee and Retiree Health Insurance Account	Department of Budget and Management	October 1, 2025

		Amount Change	
3.	Reduce funding for the fiscal 2026 1% cost-of-living adjustment due to the collective impact of recent salary enhancements and the fiscal condition of the State.	-$ 70,894,524 -$ 12,871,394 -$ 11,798,777	GF SF FF
4.	Reduce funding for fiscal 2026 increments due to the collective impact of recent salary enhancements and the fiscal condition of the State.	-$ 109,624,810 -$ 17,364,538 -$ 15,917,493	GF SF FF

5. Adopt the following narrative:

Funding of Supplemental Retirement Match: The fiscal 2026 budget includes a planned reversion of $11.95 million in general funds for the Supplemental Retirement Match program. The Department of Budget and Management (DBM) has reported that agencies will not receive centralized funding in fiscal 2025 for the Supplemental Retirement Match program but will use savings from other areas of the budget. Additionally, no centralized funding is provided for the Supplemental Retirement Match in fiscal 2026. The budget committees request that DBM provide a report, due September 15, 2025, that specifies the amount of the match contributed in fiscal 2025 and anticipated for fiscal 2026 and discuss the areas where savings were identified in agency budgets to support these costs. To increase transparency in the budgeting process, the committees also request that beginning with the fiscal 2027 submission, funding for the supplemental retirement match be accounted for within the budgets of State agencies in a subobject identified for this purpose.

Information Request	**Author**	**Due Date**
Accounting of vacancy savings and supplemental retirement match	DBM	September 15, 2025

6. Add the following section:

Section XX Positions Abolished in the Budget

<u>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.</u>

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.

7. Add the following section:

Section XX Injured Workers' Insurance Fund Accounts

<u>SECTION XX. AND BE IT FURTHER ENACTED, That the General Accounting Division of the Comptroller of Maryland shall establish a subsidiary ledger control account to debit all State agency funds budgeted under subobject 0175 (Workers' Compensation) and to credit all payments disbursed to the Injured Workers' Insurance Fund (IWIF) via transmittal. The control account shall also record all funds withdrawn from IWIF and returned to the State and subsequently transferred to the General Fund. IWIF shall submit</u>

monthly reports to the Department of Legislative Services concerning the status of the account.

Explanation: This section provides continuation of a system to track workers' compensation payments to IWIF for payments of claims, current expenses, and funded liability for incurred losses by the State.

Information Request	Author	Due Date
Report on the status of ledger control account	IWIF	Monthly beginning July 1, 2025

8. 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, 2025, 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 (FTE) 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, 2026, the status of positions created with non-State funding sources during fiscal 2023 through 2026 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 exceptions to the limit.

Information Request	**Author**	**Due Date**
Certification of the status of positions created with non-State funding sources during fiscal 2023 through 2026	Department of Budget and Management	June 30, 2026

9. 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 2025, the Secretary of Budget and Management shall determine the total number of full-time equivalent (FTE) positions that are authorized as of the last day of fiscal 2025 and on the first day of fiscal 2026. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2025 and 2026, including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self-supported activities, and Maryland Correctional Enterprises. The Department of Budget and Management shall also prepare a report during fiscal 2026 for the budget committees upon creation of regular FTE positions through Board of Public Works action and upon transfer or abolition of positions. 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 Governor's Fiscal 2026 Budget Books shall also be provided.

Further provided that this report shall also be submitted as an appendix with the Governor's Fiscal 2027 Budget Books, and that the report shall provide information that is consistent with information in the individual agency pages of the Budget Books and with data provided to the Department of Legislative Services.

Explanation: This annual language provides reporting requirements for regular positions and contractual FTEs.

Information Request	**Author**	**Due Date**
Total number of FTEs on June 30, 2025, and July 1, 2025	Department of Budget and Management (DBM)	July 14, 2025
Report on the creation, transfer, or abolition of regular positions	DBM	With the Governor's fiscal 2027 budget submission and as needed

10. 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 Governor's Fiscal 2027 Budget Books an accounting of the fiscal 2025 actual, fiscal 2026 working appropriation, and fiscal 2027 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, as well as prescription rebates or recoveries, or audit recoveries, and other miscellaneous recoveries;

(2) any health plan receipts received from employees and retirees, broken out by active employees, non-Medicare-eligible retirees, and Medicare-eligible retirees;

(3) 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, with health, mental health, and prescription drug expenditures broken out by medical payments for active employees, non-Medicare-eligible retirees, and Medicare-eligible retirees, and prescription drug expenditures broken out by active employees, non-Medicare-eligible retirees, and Medicare-eligible retirees; and

(4) 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 the submission of the Governor's Fiscal 2027 Budget Books

11. Add the following section:

Section XX Judiciary Merit Raises

<u>SECTION XX. AND BE IT FURTHER ENACTED, That funding provided for Judiciary employee merit raises is hereby decreased by $14,020,764 in general funds and $1,557,863 in special funds.</u>

Explanation: Due to the fiscal condition of the State, and to be consistent with actions taken for other State employees, this action reduces the funding set aside for Judiciary employee merit raises.

12. Add the following section:

Section XX Vacancy Savings

<u>SECTION XX. AND BE IT FURTHER ENACTED, That funds appropriated for salary and fringe adjustments and other personnel expenses are hereby reduced by $59,611,402 in general funds, $15,953,094 in special funds, and $9,669,343 in federal funds to account for vacant positions. Funding shall be reduced from within programs in the Executive Branch, Legislative Branch, and Judicial Branch agencies in Section 1 of this Act in accordance with a schedule determined by the Governor, the Presiding Officers, and the Chief Judge.</u>

Explanation: The fiscal 2026 allowance assumes employee turnover of 7.26% on average across Executive Branch agencies, excluding higher education. Vacancies in the first half of fiscal 2025 have been 10% of the total position allotment on average. This action increases the average budgeted turnover rate to 8.63%, approximately halfway between current and budgeted vacancies.

Total Net Change	**-$ 238,471,536**
Total General Fund Net Change	**-$ 180,519,334**

Total Special Fund Net Change	**-$ 30,235,932**
Total Federal Fund Net Change	**-$ 27,716,270**

Appendix 1
2024 *Joint Chairmen's Report* Responses from Agency

The 2024 JCR requested that DBM prepare seven reports. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Employee and Retiree Health Insurance Account:*** Quarterly data on the State's medical and dental plan costs was provided late and used to inform the Managing for Results section of this analysis.

- ***Compliance with the MHPAEA:*** The MHPAEA requires health plans to provide mental health and SUD benefits on par with medical benefits. DBM submitted a report provided health plan comparative analyses, a statement of compliance by DBM and the State actuary, as well as complaints and appeals data. A review of the report revealed some incomplete documentation for UnitedHealthcare and CareFirst and differences in appeal frequency between health insurers Further discussion of this information can be found in Issue 4 of this analysis.

- ***Task Force for Modernization of the State Personnel Management System:*** The budget committees directed DBM to review and respond to the recommendations made in January 2024 by the task force. DBM is implementing various strategies to modernize SPMS, including improving applicant engagement, streamlining hiring processes, removing unnecessary degree requirements, and enhancing recruitment and retention efforts through better job matching, clearer job postings, and expanded career advancement opportunities. Further discussion of this report can be found in Issue 1 of this analysis.

- ***Certification of the Status of Positions Created with Non-state Funding Sources during Fiscal 2022 through 2025:*** This report is due on June 30, 2025.

- ***Total Number of FTEs on June 30 and July 1, 2024:*** DBM reported 83,636.14 authorized positions at the close of fiscal 2023 and 85,653.74 authorized positions as of July 1, 2024. Further discussion of personnel issues can be found in Issue 1 of this analysis.

- ***Creation, Transfer, or Abolition of Regular Positions***: DBM provided data on the creation, transfer, and abolition of positions in Appendix E of the Governor's Budget Books.

- ***Four-day Workweek Pilot Program:*** This report is due on June 1, 2025.

Appendix 2
General Salary Increases, Increments, and Other Compensation for State Employees
Fiscal 2003-2026

Fiscal Year	Date of Increase	General Salary Increase	Increments	Police, Natural Resources Police, and Park Ranger Salary Increases	Maximum Deferred Compensation Match by State	Pay-for-performance Bonuses	Annual Salary Review Reclassifications	Other
2003		None	None		$500	None	None	
2004		None	None		None	None	None	
2005	7/1/2004	$752	On time		None	None	Yes(1)	
2006	7/1/2005	2%	On time		400	None	Yes(2)	
2007	7/1/2006	$900, $1,400, or 2.0%(3)	On time	2.0% extra, 9.0% extra for State police (primarily DGS and DHMH officers)	600	None	Yes(4)	2 steps on standard salary schedule; 1 step on the physician's salary schedule
2008	7/1/2007	2%	On time		600	None	None	
2009	7/1/2008	0.5%(5)	On time		600	None	Yes(6)	2 to 5-day furlough enacted(7)
2010		None	None		0	None	None	3 to 10-day furlough enacted(8)
2011		None	None		0	None	None	3 to 10-day furlough enacted(9)
2012		None	None	Negotiated increments	0	$750 bonus(10)	None	Furloughs ended
2013	1/1/2013	2%	None		0	None	Yes(11)	
2014	1/1/2014	3%	4/1/2014	Negotiated increments	0	None	Yes(12)	
2015	1/1/2015	2%	On time	Negotiated increments	0	None	Yes(13)	
2016	7/1/2015	2%	None		0	None	Yes(14)	

Fiscal Year	Date of Increase	General Salary Increase	Increments	Police, Natural Resources Police, and Park Ranger Salary Increases	Maximum Deferred Compensation Match by State	Pay-for-performance Bonuses	Annual Salary Review Reclassifications	Other
2017		None	On time	Negotiated increments	0	None	Yes[15]	
2018		None	None	Negotiated increments	0	None	None	
2019	1/1/19; 4/1/19	2%; 0.5%[16]	None	2% and negotiated increments	0	$500[16]	Yes [17]	
2020	7/1/19; 1/1/20	3%; 1%[18]	None	5% and negotiated increments	0	None	Yes [19]	
2021	1/1/2021	2%	None	0.05	0	None	Yes [20]	
2022	1/1/2022	1%[21]	1/1/2022	4% and negotiated increments	0	$1,000/$1,500 [22]	Yes [23]	
2023	7/1/22; 11/1/22	3%; 4.5%	On time	7% and negotiated increments[24]	0	None	Yes [25]	
2024	7/1/2023	2%	On time [26]	5% and negotiated increments	600	None	Yes [27]	
2025	7/1/2024	3%	On time [28]	5% and negotiated increments	600	None	Yes [29]	
2026	7/1/2025	1%	On time		600	None	None	

DGS: Department of General Services
DHMH: Department of Health and Mental Hygiene

[1] The fiscal 2005 annual salary review (ASR) provided upgrades for public defenders, social services attorneys, assistant general counsels (human relations), assistant State prosecutors, direct service workers in the Department of Juvenile Services, property assessors, laboratory scientists, administrative law judges, and banking financial examiners.

[2] The fiscal 2006 ASR provided a one-grade salary adjustment for the Deputy State Fire Marshal classification series.

[3] Fiscal 2007 general salary increases were $900 for employees making less than $45,000 at the end of fiscal 2006, $1,400 for employees making $70,000 or more, and 2% for those remaining.

[4] The fiscal 2007 ASR provided reclassifications and other enhancements for correctional officers and correctional support personnel, registered nurses, licensed practical nurses, direct care assistants, forensic scientists, institutional educators, administrative law judges, and teachers' aides.

[5] A 2.0% cost-of-living adjustment (COLA) was included in the fiscal 2009 budget. However, a furlough for State employees by Executive Order 01.01.2008.20 on December 16, 2008, reduced employee salaries by an average of approximately 1.5%. General Assembly members are constitutionally exempt from furloughs.

[6] The fiscal 2009 ASR provided reclassifications and other enhancements for scientists, investigators, engineers, public defender intake specialists, veteran services, cemetery workers, call center specialists, complex tax auditors, tax consultants, retirement benefits counselors, medical care specialists, dental workers, financial regulators, deputy fire marshals, lead aviation maintenance technicians, police communications operators, and civilian helicopter pilots.

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

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

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

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

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

[12] The fiscal 2014 ASR provided one grade for the following classifications: emergency medical services' communication officer staff; State Department of Assessment and Taxation assessors; personnel classifications at Maryland Department of Health (MDH), the Department of Human Services, and the Department of Public Safety and Correctional Service (DPSCS); and civilian fixed wing pilots, aviation technicians, and inspectors at the Department of State Police (DSP). Parole and probation agents at DPSCS that are an agent 1 receive a one-grade increase, and agent II and senior currently at base, step 1, or step 2 are moved up to step 3. Personnel officers in the employee relations function at the Department of Budget and Management (DBM) are moved into four-level class series.

[13] The fiscal 2015 ASR provided one grade for the following classifications: psychologist positions statewide, DBM operating and capital analysts; park technicians at the Department of Natural Resources; direct care workers and geriatric assistants at MDH; psychiatrists, alcohol and drug counselors, and criminal justice social workers at DPSCS; and loan writers at the Department of Housing and Community Development. The ASR also included funds to provide equity for the planning series at the Department of Planning and MDH and a $3,000 hire bonus and a $3,000 retention bonus for registered nurses at MDH.

[14] The fiscal 2016 ASR provided a one grade increase to wage and hour investigators and administrators at the Employment Standards and Prevailing Wage Programs at the Department of Labor, Licensing, and Regulation (now the Maryland Department of Labor).

[15] The fiscal 2017 ASR provided for step increases for building security officers; a one grade increase for Department of General Services procurement officers; salary parity with detective for the warrant apprehension job series at DPSCS; step increases for Department of Housing and Community Development fiscal staff; and polygraph operators at DSP and DPSCS.

(16) Employees received a 2% increase on January 1, 2019, and a 0.5% increase on April 1. 2019. The April salary increase as well as a $500 bonus effective at the same time were contingent on fiscal 2018 general fund revenues exceeding the December 2017 estimate by at least $75 million, which they did.

(17) The fiscal 2019 ASR provided for step increases for airport firefighters, security attendants, and licensed practical nurses at Clifton T. Perkins Hospital, fire safety inspectors, and police communication operators.

(18) Employees received a 3% increase on July 1, 2019. With the exception of employees represented by the American Federation of State, County, and Municipal Employees (AFSCME), employees received a 1% increase on January 1, 2020.

(19) The fiscal 2020 ASR provided for a one step increase for alcohol and drug counselors, mental health professional counselors, park services associates, registered nurses, epidemiologists, and environmental compliance specialists; and salary restructures for procurement employees and correctional officers.

(20) The fiscal 2021 ASR provided for a one step increase for approximately 200 classifications, primarily in those with high vacancy rates.

(21) Members of AFSCME received an additional 1% COLA on 1/1/22.

(22) AFSCME employees that were part of a grievance against the State related to pandemic response and premium pay also received a $2,500 bonus.

(23) The fiscal 2022 ASR provides for targeted salary increases for fiscal specialists, fire protection engineers, and principals; it also increases all State employees hourly wage to at least $15 per hour.

(24) Members of the State Law Enforcement Officers Labor Alliance also received the 11/1/22 4.5% salary increase.

(25) The fiscal 2023 ASR provided funding for a 6% salary increase for registered nurses who were members of American Federation of Teachers-Healthcare, as well as funding for salary increases for police communications operators, aircraft maintainers, and other positions.

(26) An additional increment was provided for AFSCME-represented employees.

(27) The fiscal 2024 ASR provided funding for nearly 6,000 positions across a wide range of high vacancy positions.

(28) An additional increment would be provided to employees continuously employed since June 30, 2019.

(29) The fiscal 2025 ASR provides funding for salary increases for nearly 4,000 positions across State agencies.

Appendix 3
Bargaining Units and Representatives
As of January 1, 2025

Unit	Title	Exclusive Representative	Employees	Expiration Dates
A	Labor and Trades	AFSCME	1,796	December 31, 2026
B	Administrative, Technical, and Clerical	AFSCME	4,327	December 31, 2026
C	Regulatory, Inspection, and Licensure	AFSCME	788	December 31, 2026
D	Health and Human Service Nonprofessionals	AFSCME	1,210	December 31, 2026
E	Health Care Professionals	AFT-Healthcare Maryland	1,272	December 31, 2026
F	Social and Human Service Professional	AFSCME	4,250	December 31, 2026
G	Engineering, Scientific, and Administrative Professionals	MPEC	5,690	December 31, 2026
H	Public Safety and Security	AFSCME/Teamsters	7,096	December 31, 2026
H	BWI Marshall Fire Fighters	International Airport Professional Firefighters Local 1742 I.A.F.F., AFL-CIO, CLC	81	December 31, 2024
I	Sworn Police Officers	SLEOLA	1,767	June 30, 2025
J	MDTA Sworn Officers	MDTA Police Lodge #34	449	June 30, 2025
K	Maryland School for the Deaf Faculty	AFT-Maryland	198	December 31, 2026
		Total	**28,924**	

AFL-CIO: American Federation of Labor and Congress of Industrial Organizations
AFSCME: American Federation of State, County, and Municipal Employees
AFT: American Federation of Teachers
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

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

Object/Fund	FY 24 Actual	FY 25 Working Appropriation	FY 26 Allowance	FY 25 - FY 26 Amount Change	Percent Change
Positions					
01 Regular	134.00	138.00	139.00	1.00	0.7%
02 Contractual	9.00	2.00	3.25	1.25	62.5%
Total Positions	**143.00**	**140.00**	**142.25**	**2.25**	**1.6%**
Objects					
01 Salaries and Wages	$ 19,131,393	$ 464,639,191	$ 359,194,144	-$ 105,445,047	-22.7%
02 Technical and Special Fees	204,166	134,625	284,782	150,157	111.5%
03 Communication	435,575	730,895	730,895	0	0%
04 Travel	2,962	18,700	18,700	0	0%
07 Motor Vehicles	3,242,413	1,250,000	1,250,000	0	0%
08 Contractual Services	11,754,496	14,501,125	13,434,686	-1,066,439	-7.4%
09 Supplies and Materials	20,230	65,000	65,000	0	0%
10 Equipment – Replacement	0	110,400	110,400	0	0%
12 Grants, Subsidies, and Contributions	10,000,000	0	0	0	0.0%
13 Fixed Charges	221,306	81,962	384,908	302,946	369.6%
Total Objects	**$ 45,012,541**	**$ 481,531,898**	**$ 375,473,515**	**-$ 106,058,383**	**-22.0%**
Funds					
01 General Fund	$ 14,052,329	$ 352,976,160	$ 262,546,068	-$ 90,430,092	-25.6%
03 Special Fund	11,458,443	59,459,894	52,234,300	-7,225,594	-12.2%
05 Federal Fund	0	46,425,908	37,915,159	-8,510,749	-18.3%
09 Reimbursable Fund	19,501,769	22,669,936	22,777,988	108,052	0.5%
Total Funds	**$ 45,012,541**	**$ 481,531,898**	**$ 375,473,515**	**-$ 106,058,383**	**-22.0%**

Note: The fiscal 2025 appropriation does not include deficiencies or planned reversions. The fiscal 2026 allowance does not include contingent reductions.

Appendix 5
Fiscal Summary
Department of Budget and Management – Personnel

Program/Unit	FY 24 Actual	FY 25 Wrk Approp	FY 26 Allowance	Change	FY 25 - FY 26 % Change
01 Executive Direction	$ 11,655,395	$ 13,669,031	$ 13,369,389	-$ 299,642	-2.2%
02 Division of Employee Benefits	8,716,743	10,257,718	10,636,567	378,849	3.7%
04 Division of Employee Relations	7,044,313	6,626,606	7,696,408	1,069,802	16.1%
06 Division of Classification and Salary	2,196,111	2,367,695	2,819,617	451,922	19.1%
07 Division of Recruitment and Examination	1,325,764	1,712,308	1,965,723	253,415	14.8%
08 Statewide Expenses	4,074,215	446,898,540	338,985,811	-107,912,729	-24.1%
10 State Labor Relations Board	10,000,000	0	0	0	0%
Total Expenditures	**$ 45,012,541**	**$ 481,531,898**	**$ 375,473,515**	**-$ 106,058,383**	**-22.0%**
General Fund	$ 14,052,329	$ 352,976,160	$ 262,546,068	-$ 90,430,092	-25.6%
Special Fund	11,458,443	59,459,894	52,234,300	-7,225,594	-12.2%
Federal Fund	0	46,425,908	37,915,159	-8,510,749	-18.3%
Total Appropriations	**$ 25,510,772**	**$ 458,861,962**	**$ 352,695,527**	**-$ 106,166,435**	**-23.1%**
Reimbursable Fund	$ 19,501,769	$ 22,669,936	$ 22,777,988	$ 108,052	0.5%
Total Funds	**$ 45,012,541**	**$ 481,531,898**	**$ 375,473,515**	**-$ 106,058,383**	**-22.0%**

Note: The fiscal 2025 appropriation does not include deficiencies or planned reversions. The fiscal 2026 allowance does not include contingent reductions.