

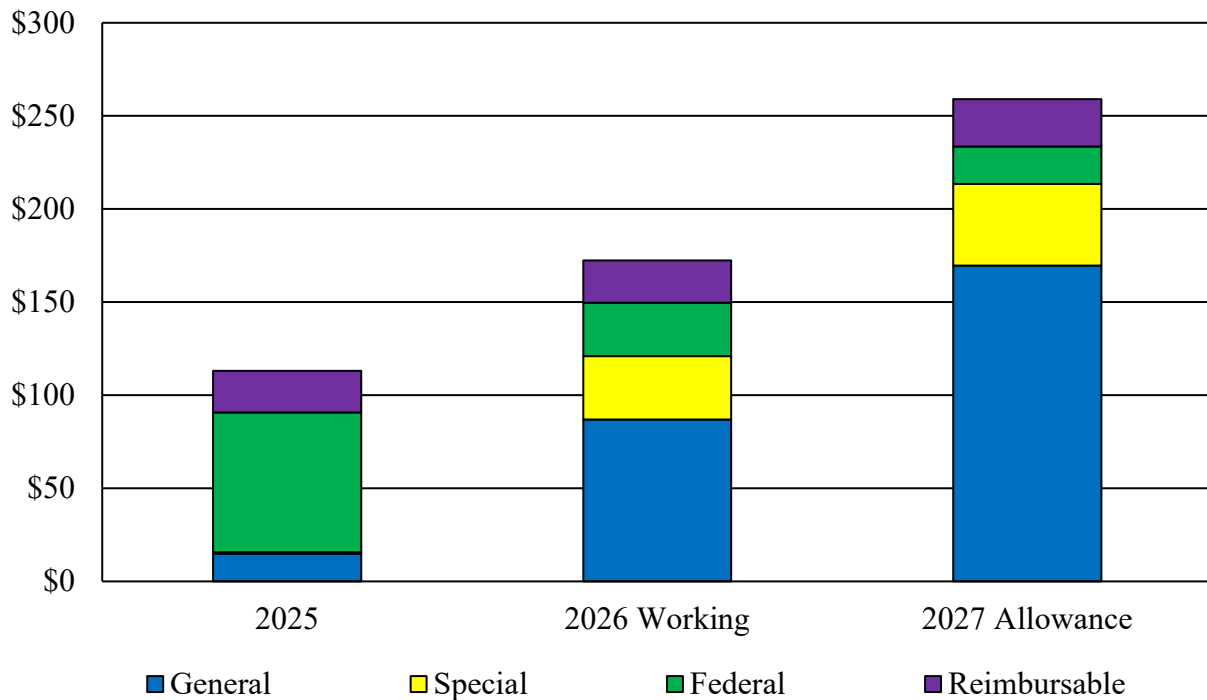
F10A02
Department of Budget and Management – Personnel

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. This budget includes funding to be distributed to other agencies in the Statewide Expenses account.

Operating Budget Summary

**Fiscal 2027 Budget Increases \$86.5 Million, or 50.2%, to \$258.9 Million
(\$ in Millions)**



Note: The fiscal 2026 working appropriation includes deficiencies. The fiscal 2027 allowance includes statewide salary adjustments to be distributed to other State agencies.

- The fiscal 2026 working appropriation includes approximately \$136.1 million in total funds yet to be distributed to agencies for statewide salary adjustments, health insurance, and other purposes, including \$40.0 million in deficiencies.

For further information contact: Jacob C. Cash

jacob.cash@mga.maryland.gov

Key Observations

- **Statewide Salary Increases Funded in Fiscal 2027:** The fiscal 2027 allowance includes \$218.1 million for a 1.5% cost-of-living adjustment (COLA) for most employees; increments for State law enforcement officers; an adjustment to most salary scales to expand salary steps; and hiring, referral, and retention bonuses for Department of Public Safety and Correctional Services employees. The annual salary review (ASR) is also funded for 47 classifications of employees, mostly within hard-to-fill police and health positions.
- **Government Modernization Initiative Savings Below Estimate:** DBM has backfilled approximately \$30 million of the overall \$50 million general fund savings budgeted in fiscal 2025 for the Government Modernization Initiative due to lower than anticipated savings. Total fund savings are estimated at approximately \$35.2 million.
- **Health Insurance Expenses Up 20%:** Overall funding provided in agency budgets statewide for health insurance increases by 20% in fiscal 2027.

Operating Budget Recommended Actions

	<u>Amount</u>
1. Reduce funds for salary step expansions.	-\$63,813,919
2. Add a section reducing general funds in the Department of Public Safety and Correctional Services due to special fund availability in the Senior Prescription Drug Affordability Program Fund to support certain health insurance costs.	-\$3,000,000
3. Add a section for annual language restricting the movement of employees into abolished positions.	
4. Add a section requiring monthly reporting on the State’s workers’ compensation account held by the Injured Workers’ Insurance Fund.	
5. Add a section for the annual “Rule of 100” limit on position creation.	
6. Add a section for annual language requiring a report on State positions	
7. Add a section to require reporting of employee and retiree health insurance receipts and tracking.	

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8. Add language restricting funds due to four or more repeat audit findings.
9. Adopt committee narrative requesting the department to submit closeout information on the Employee and Retiree Health Insurance Account.
10. Adopt committee narrative requesting submission of quarterly reports on prescription, medical, and dental plans, including an analysis of reporting methodologies.
11. Adopt committee narrative requesting a report detailing the Government Modernization Initiative.

Total Net Change to Fiscal 2027 Allowance

-\$66,813,919

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Department of Budget and Management – Personnel

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. Medical, Dental, and Prescription Drug Costs

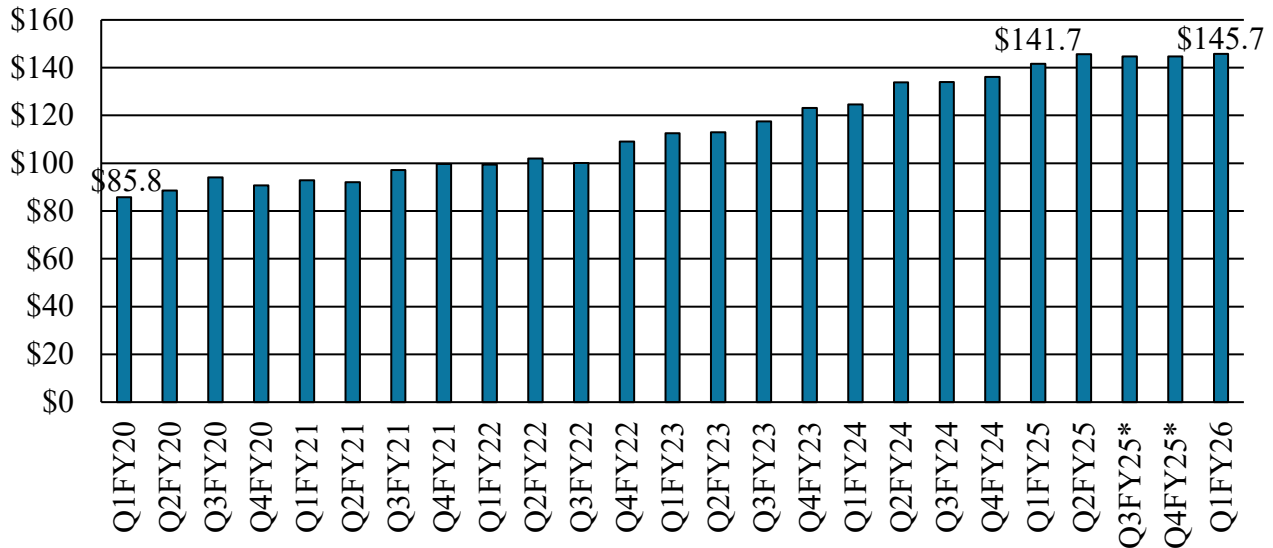
Annual committee narrative requests DBM to submit quarterly reports on medical, dental, and prescription drug costs for State employee health plans. In fiscal 2025, DBM failed to submit three quarterly reports on medical, dental, and prescription drug costs on time, prompting budget bill language restricting \$100,000 in general funds pending submission of the second of four quarterly reports in fiscal 2026. DBM submitted the remaining fiscal 2025 reports and the fiscal 2026 reports on time. The three most recent reports, representing January 1, 2025, to

September 30, 2025, however, have had data issues with prescription drug cost reporting due to a change in vendor from CVS Caremark to MedImpact Healthcare Systems, Inc.

The most significant issue with all three reports is that the new vendor reports the top 10 most costly pharmaceuticals in different categories than the previous vendor, preventing historical comparison of drug costs over time for most categories. The fiscal 2025 third and fourth quarter reports additionally excluded categories outside of the top 10, preventing comparison of total prescription drug costs over time. The fiscal 2026 first quarter report did, however, include the “other” category. Still, this created a six-month disconnect in the data where total State prescription drug expenditures are unreported. In addition, the number of utilizers of drug categories have also dramatically changed not just in levels between categories but in overall levels reported. The new vendor appears to be using a different definition of utilizer than the previous vendor, preventing historical comparisons.

Exhibit 1 shows the growth in costs over time. Prescription drug costs as a whole have increased substantially over the past six years. In the first quarter of fiscal 2020, prescription drug costs totaled \$85.8 million. In the first quarter of fiscal 2026, the total cost was \$145.7 million, an increase of 70%. Year-to-year growth was lower in the first quarter of fiscal 2026 (3%) compared to previous cycles, which averaged 12.5% growth from fiscal 2022 to 2025.

Exhibit 1
Statewide Prescription Drug Costs
First Quarter Fiscal 2020 through First Quarter Fiscal 2026
(\$ in Millions)



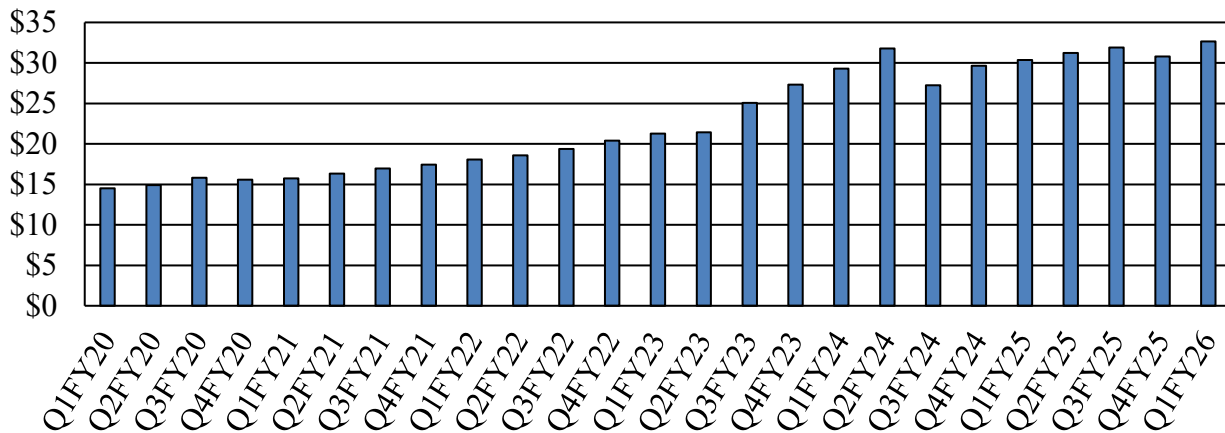
*Actual spending on medications outside of the top 10 was not reported for the third and fourth quarters of 2025. Spending shown for these quarters includes estimates for other medication costs.

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

The lack of consistent categories between pharmacy vendors is especially troubling due to the history of growth within certain categories of medication. While antidiabetics are the largest cost category, dermatologicals have grown at the highest rate, with an increase of 163%, or \$12.9 million, from the first quarter of fiscal 2020 to the first quarter of fiscal 2025. Currently, there is a disconnect between the “dermatologicals” category reported by CVS and the “dermatology – psoriasis/eczema” category reported by MedImpact, preventing historical comparisons to the current spending levels. In the fiscal 2025 report for the third quarter for example, DBM reported costs of \$12.5 million for the dermatology – psoriasis/eczema category, compared to \$22.7 million the prior quarter. Pricing of drugs is a major concern, as dermatological use saw only minor growth of 3% in the number of utilizers from fiscal 2020 to 2025, indicating that the cost increase is mostly due to an increase in the price of the medications and/or a shift in utilization to new brand name products.

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 represent 25,087 prescriptions for medication. As shown in **Exhibit 2**, by the first quarter of fiscal 2026, the costs of antidiabetic drugs rose to \$32.6 million, or 22.4% of prescription drug claims; these claims represent 38,775 prescriptions for medication. The cost increase is due both to the number of people using the medications and an increase in the price of the medications. The net cost for antidiabetic medications is now \$65.84 per member per month compared to \$28.59 in the second quarter of fiscal 2020 (the per member per month cost was not provided for the first quarter of fiscal 2020).

Exhibit 2
Quarterly Antidiabetic Medication Costs
First Quarter Fiscal 2020 through First Quarter Fiscal 2026
(\$ in Millions)



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

In January 2024, DBM approved a rule to limit coverage for GLP-1 drugs, a form of antidiabetic medication, to those with diabetes only. There was a temporary decline in usage and costs for the third quarter of fiscal 2024, saving the State approximately \$4.6 million on a quarterly basis. Usage rates and costs have since rebounded, but it is assumed that this action has lowered costs on a continuing basis.

The Department of Legislative Services (DLS) recommends releasing the \$100,000 in general funds restricted for the quarterly medical, dental, and prescription drug cost reports, and a letter to this effect will be processed if no objections are raised in the hearings. DLS further recommends modifying annual committee narrative to request that DBM report on the differences between the reporting methodology of CVS Caremark and MedImpact and identify opportunities to be consistent with previous reporting.

Fiscal 2026

Planned Reversion

The fiscal 2026 budget assumes \$5,691,206 in general funds will be reverted from agency budgets statewide for State Retirement Agency (SRA) administrative fees, representing approximately half of the agency portion of funding set aside for this purpose in fiscal 2026. This reversion is made possible by Chapter 765 of 2025, which authorized fiscal 2026 expenses of SRA to be funded with nonbudgeted funds in the Pension Trust Fund. This legislation additionally repealed SRA administrative fees and authorized funding SRA administrative expenses with Pension Trust Fund monies available through an actuarially determined rate adjustment to the employer contribution.

Proposed Deficiencies

The fiscal 2026 working appropriation includes \$40.0 million in total funds for proposed deficiency appropriations to the Statewide Expenses account. Funding includes:

- \$30.0 million in general funds to backfill overstated savings from the Government Modernization Initiative;
- \$6.0 million in general funds to backfill funding already provided to the University System of Maryland for COLA and increments;
- \$1.9 million in general funds to cover a shortfall in special funds from the closeout of the Maryland Thoroughbred Racetrack Operating Authority;
- \$1.8 million in special funds to fund fiscal 2024 electric vehicle costs with general funds. Strategic Energy Investment Fund (SEIF) funds were available in fiscal 2024 and 2025 for this purpose but could not be used because a billing issue was not discovered during the

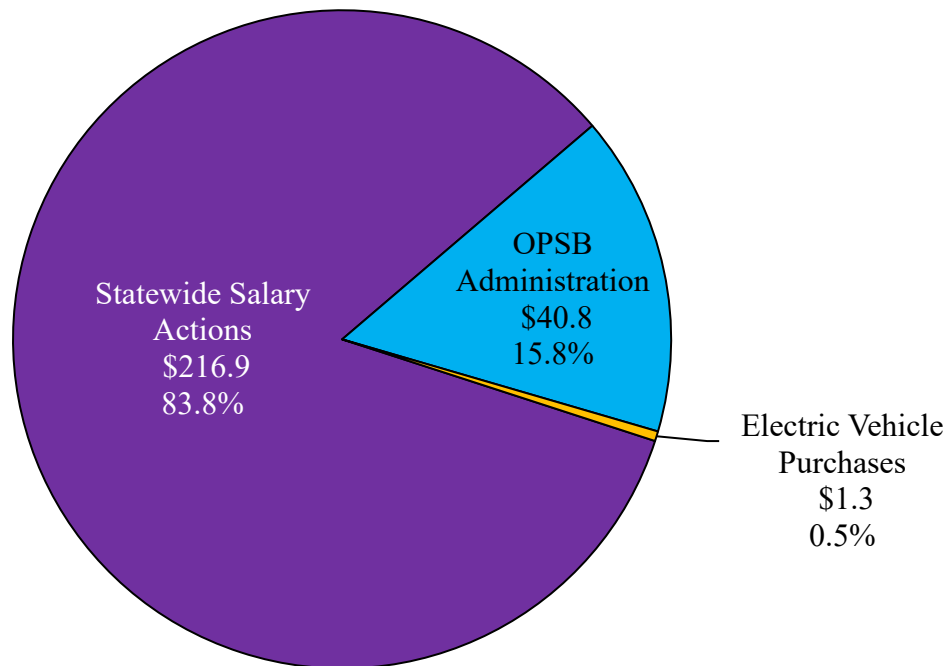
fiscal year. DBM reports the fiscal 2026 and 2027 SEIF funding for electric vehicle purchases will be utilized as intended; and

- \$275,866 in special funds for contractual employees to support the federal workers hiring initiative and other hiring reforms associated with modernization of the personnel system, using funding set aside in the Dedicated Purpose Account (DPA) for this purpose.

Fiscal 2027 Overview of Agency Spending

Exhibit 3 provides an overview of the \$258.9 million fiscal 2027 allowance for DBM – Personnel. The vast majority of the allowance supports statewide salary actions. Funding for the administration of OPSB accounts for nearly \$40 million, or 15%. The fiscal 2027 budget also includes \$1.25 million in Regional Greenhouse Gas Initiative special funds from the SEIF to purchase plug-in hybrid and fully electric vehicles for State agencies, representing the final 0.5% of funding.

Exhibit 3
Overview of Agency Spending
Fiscal 2027 Allowance
(\$ in Millions)



OPSB: Office of Personnel Services and Benefits

Source: Governor’s Fiscal 2027 Budget Books

Exhibit 4 shows funding included in the Statewide Program for fiscal 2027.

Exhibit 4
Statewide Program
Fiscal 2027
(\$ in Millions)

<u>Purpose</u>	<u>Funding</u>
Salary Increases	
Regular Employee 1.5% COLA, Excluding SLEOLA*	\$129.7
Salary Step Width Adjustment	63.8
DPSCS Employee Bonuses	10.9
SLEOLA Increments	10.0
Annual Salary Review	2.5
Other	
Electric Vehicle Purchases	1.3
Total	\$218.1

COLA: cost of living adjustment

DPSCS: Department of Public Safety and Correctional Services

SLEOLA: State Law Enforcement Officers Labor Alliance

* Maryland School for the Deaf employees receive a 2% COLA.

Source: Department of Budget and Management

Salary Increases

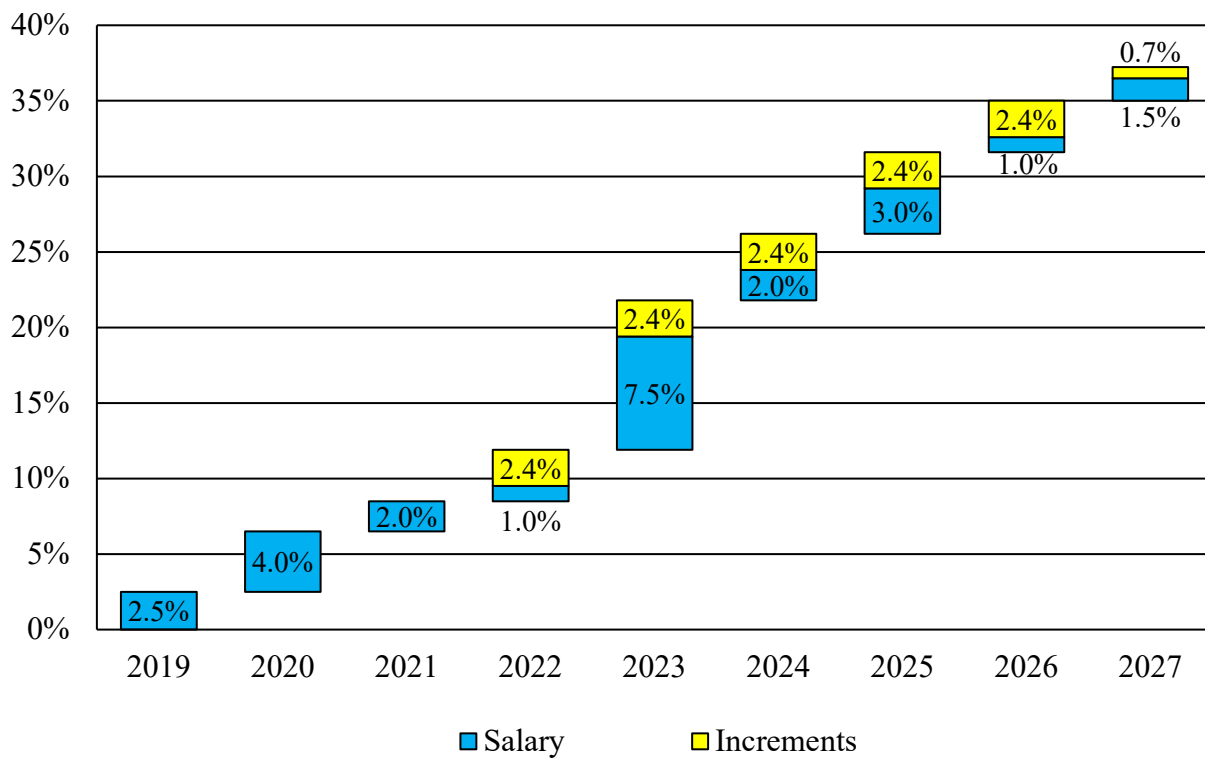
The largest share of funding (\$216.9 million) is for salary enhancements for State employees. The funding includes a 1.5% general salary increase effective July 1, 2026, excluding employees in law enforcement related pay scales. The employments in law enforcement related pay scales instead receive merit raises, also known as increments. Employees of Maryland School for the Deaf receive a 2% negotiated salary increase instead of 1.5%.

Employees on the standard and correctional officer pay scales receive an additional salary increase, reflecting adjusted salary step widths. Employees in good standing receive increments when funded. Previously, salary steps represented salary increases of approximately 1.8% to 1.9%. The fiscal 2027 budget includes funding to widen the steps of affected salary schedules so that each step increases the base salary by at least 2%. Law enforcement officer and State police related salary schedules are unaffected.

Due to the fiscal condition of the State, DLS recommends deleting the \$63.8 million in total funds for salary step expansions.

A primary strategy to improve recruitment and retention of State employees is to increase salaries. **Exhibit 5** shows recent salary increases provided to most State employees. From fiscal 2019 and 2026, most State employees have seen salary increases totaling approximately 37.2%. A more detailed review of historical State salary actions can be found in **Appendix 2**.

**Exhibit 5
Recent General Salary Actions
Fiscal 2019-2027**



Note: American Federation of State, County, and Municipal Employees represented employees received an additional increment in fiscal 2024. Longer-tenured employees received an additional increment in fiscal 2025. Employees represented by a bargaining unit received an increment in fiscal 2026. Law enforcement employees receive an increment in fiscal 2027. Fiscal 2027 increments represent the dollar value of salary step expansions as a percentage of total salary base.

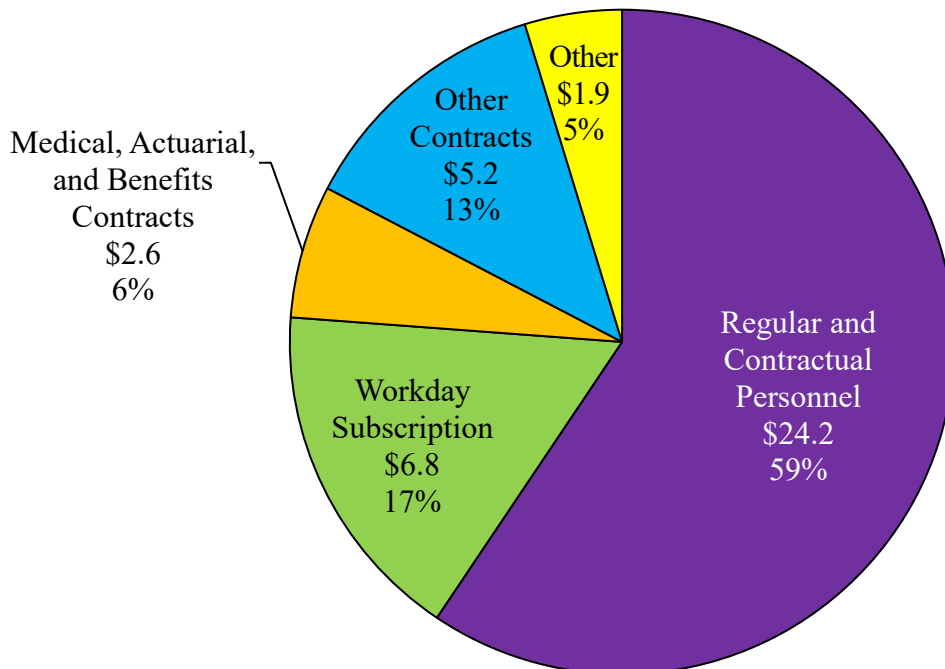
Source: Department of Legislative Services

In addition to general salary increases, the State has historically provided ASRs in order to target money at positions that are difficult to recruit and retain. No ASR funding was provided in

fiscal 2026, consistent with recommendations from a salary study requested through committee narrative in the 2024 *Joint Chairmen’s Report* (JCR). The study concluded that the State should 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. The fiscal 2027 budget, however, includes \$1.5 million in general funds and \$1.0 million in other funds for ASRs for 47 employee classifications, mostly in the Department of State Police and Maryland Department of Health (MDH). Fiscal 2027 ASRs impact approximately 512 positions and most receive a one grade increase. A full accounting of the impacted classifications is found in **Appendix 3**.

Exhibit 6 provides information on the \$40.8 million in spending for OPSB in fiscal 2027, excluding the Statewide Program. Personnel accounts for 59% of the fiscal 2027 allowance, while the Workday subscription accounts for 17% of the planned spending. The subscription is for the information technology platform on which State employee personnel and human resources functions are handled.

Exhibit 6
Overview of OPSB Administrative Spending
Fiscal 2027 Allowance
(\$ in Millions)



OPSB: Office of Personnel Benefits and Services

Source: Governor’s Fiscal 2027 Budget Books

Proposed Budget Change

As shown in **Exhibit 7**, the fiscal 2027 allowance increases by \$86.5 million compared to the fiscal 2026 working appropriation after accounting for proposed deficiency appropriations. Changes in the Statewide account result in increases of \$82.0 million, while changes in the OPSB budget result in a net increase of \$4.5 million.

**Exhibit 7
Proposed Budget
Department of Budget and Management – Personnel
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2025 Actual	\$14,902	\$767	\$75,000	\$22,395	\$113,063
Fiscal 2026 Working	86,995	34,073	28,551	22,778	172,397
Fiscal 2027 Allowance	169,673	43,843	20,114	25,301	258,931
Fiscal 2026-2027 \$ Change	\$82,678	\$9,770	-\$8,437	\$2,523	\$86,534
Fiscal 2026-2027 % Change	95.04%	28.67%	-29.55%	11.07%	50.19%

Where It Goes:	<u>Change</u>
Personnel Expenses	
Salary and associated fringe benefits adjustments.....	\$1,403
Employee and retiree health insurance	664
Turnover rate decreases from 3.32% to 2.65%.....	18
Other fringe benefits	59
Other OPSB Expenses	
Consulting and actuarial services for State employees’ benefits programs	950
Administrative fee for services performed for OPSB by other units of DBM	607
Addition of 6.25 contractual positions for expedited federal worker hiring and modernization of the State Personnel System funded through DPA funds	528
Tracker for federal hiring initiative applicants to more easily monitor application status by applicant and control agencies	350
Workday subscription.....	272
Medical and prescription drug auditing contract.....	167
Employee training.....	45
Data integration contracts	-290
Open enrollment mailers.....	-330
Other changes	89

Issues

1. Growth in State Employment

The Governor’s fiscal 2027 budget plan continues to grow State employment in the Executive Branch, excluding higher education. As shown in **Exhibit 8**, the fiscal 2027 allowance would increase the number of Executive Branch regular positions by 196.4. Legislative and Judicial positions also increase, while higher education positions decrease by 291.2. As a result, there is a net decrease of 38.8 for total State-funded positions. The added positions occur across multiple State agencies, with the largest number in MDOT. Within MDOT, the Maryland Transit Administration adds 134 new positions to allow recruitment and training of officers to begin in preparation for the opening of the Purple Line. Recommendations are made in various analyses to reduce the number of new positions.

Exhibit 8
Authorized Positions
Executive Branch Excluding Higher Education
Fiscal 2026-2027

<u>Department/Service Area</u>	<u>2026 Leg. Approp. Adjusted*</u>	<u>2027 Allowance</u>	<u>Change</u>
Health and Human Services			
Health	7,263.6	7,246.6	-17.0
Human Services	5,888.4	5,870.4	-18.0
Juvenile Services	2,135.0	2,135.0	0.0
Subtotal	15,286.9	15,251.9	-35.0
Public Safety			
Public Safety and Correctional Services	9,199.4	9,199.4	0.0
Police and Fire Marshal	2,574.0	2,574.0	0.0
Subtotal	11,773.4	11,773.4	0.0
Transportation	9,328.5	9,438.5	110.0
Other Executive			
Legal (Excluding Judiciary)	1,777.0	1,784.0	7.0
Executive and Administrative Control	2,134.5	2,163.5	29.0
Financial and Revenue Administration	2,438.2	2,438.2	0.0
Budget and Management and IT	583.0	616.0	33.0
Retirement	204.0	204.0	0.0
General Services	727.0	750.0	23.0
Service and Civic Innovation	56.0	66.0	10.0

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<u>Department/Service Area</u>	2026 <u>Leg. Approp.</u> <u>Adjusted*</u>	2027 <u>Allowance</u>	<u>Change</u>
Natural Resources	1,521.0	1,533.0	12.0
Agriculture	430.5	438.5	8.0
Labor	1,936.9	1,933.9	-3.0
MSDE and Other Education	2,050.4	2,052.8	2.4
Housing and Community Development	446.0	447.0	1.0
Commerce	209.0	209.0	0.0
Environment	1,004.0	1,003.0	-1.0
Subtotal	15,517.4	15,638.8	121.4
Executive Branch Subtotal	51,906.2	52,102.6	196.4
Higher Education	29,406.3	29,115.1	-291.2
Judiciary	4,173.0	4,224.0	51.0
Legislature	814.0	819.0	5.0
Grand Total	86,299.5	86,260.7	-38.8

IT: information technology

MSDE: Maryland State Department of Education

*The fiscal 2026 legislative appropriation reflects impacts of the Voluntary Separation Program and vacant position abolitions. The Board of Public Works approved the abolishment of these positions on October 22, 2025.

Source: Governor’s Fiscal 2027 Budget Books; Department of Legislative Services

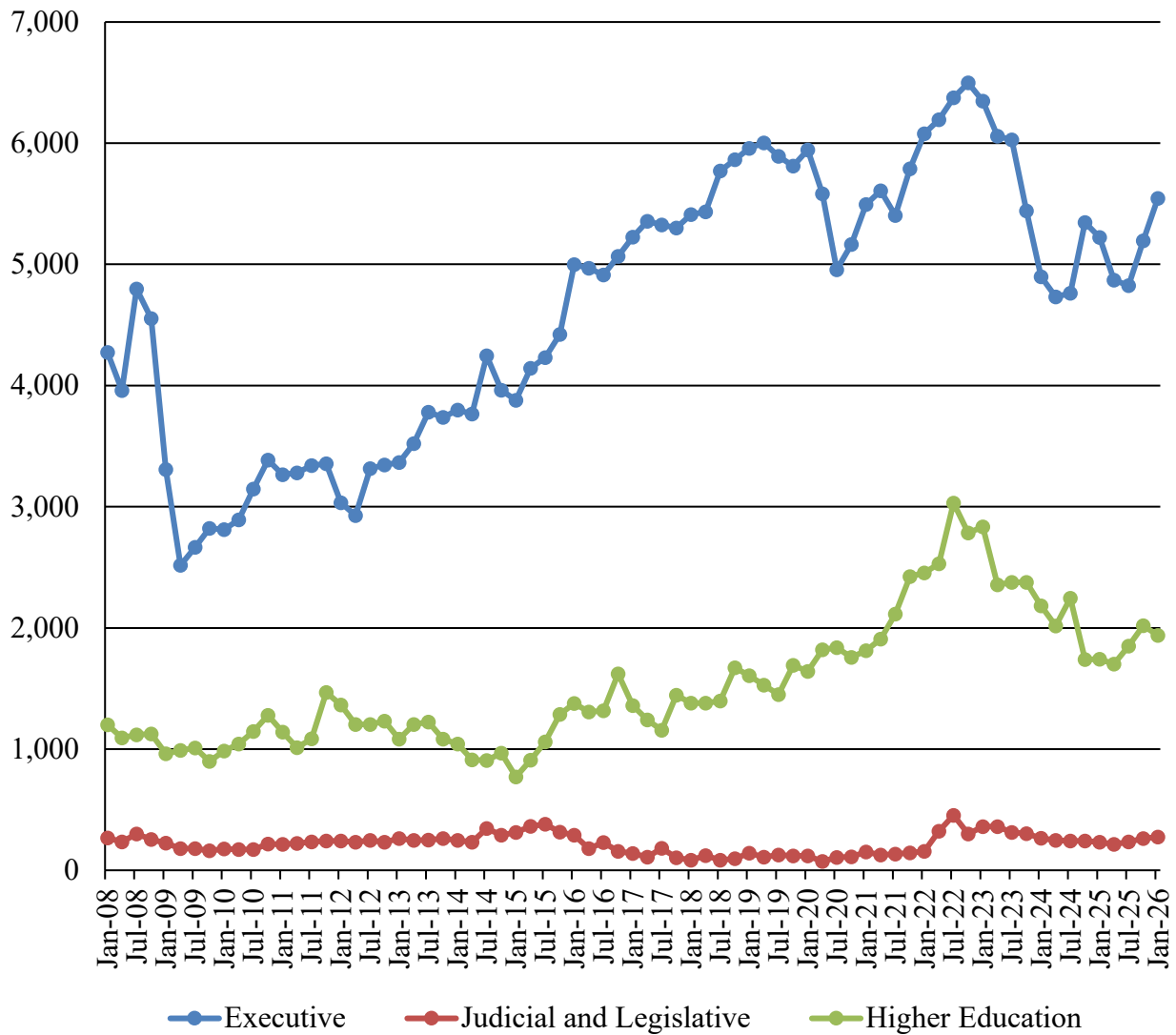
Other agencies experience realignments of positions to reflect operational changes, including 18 from the Department of Human Services to the Department of Information Technology for the transfer of Maryland Benefits and a total of 70 positions to the new Department of Social and Economic Mobility from the Executive Department of the Governor, Maryland Cannabis Administration, and MDOT.

Vacant Positions

Exhibit 9 shows vacancy trends for the past eight years for the Executive Branch, Judicial and Legislative branches, and institutions of higher education. Executive Branch vacancies peaked at nearly 6,500 in October 2022. Sustained efforts to fill vacancies resulted in recent lows of 4,732 in April 2024 and 4,825 in April 2025. The fiscal 2027 budget requires approximately 3,881 vacancies, using the average employee salary. January 2026 vacancy data submitted to DLS indicates that there are currently approximately 4,360 vacancies, or 8.4%. However, some agencies have advised that there are discrepancies between reported vacancies and internal records,

sometimes significant. In some cases, there are duplicate entries, and in other cases, positions are recorded as vacant that are not yet authorized.

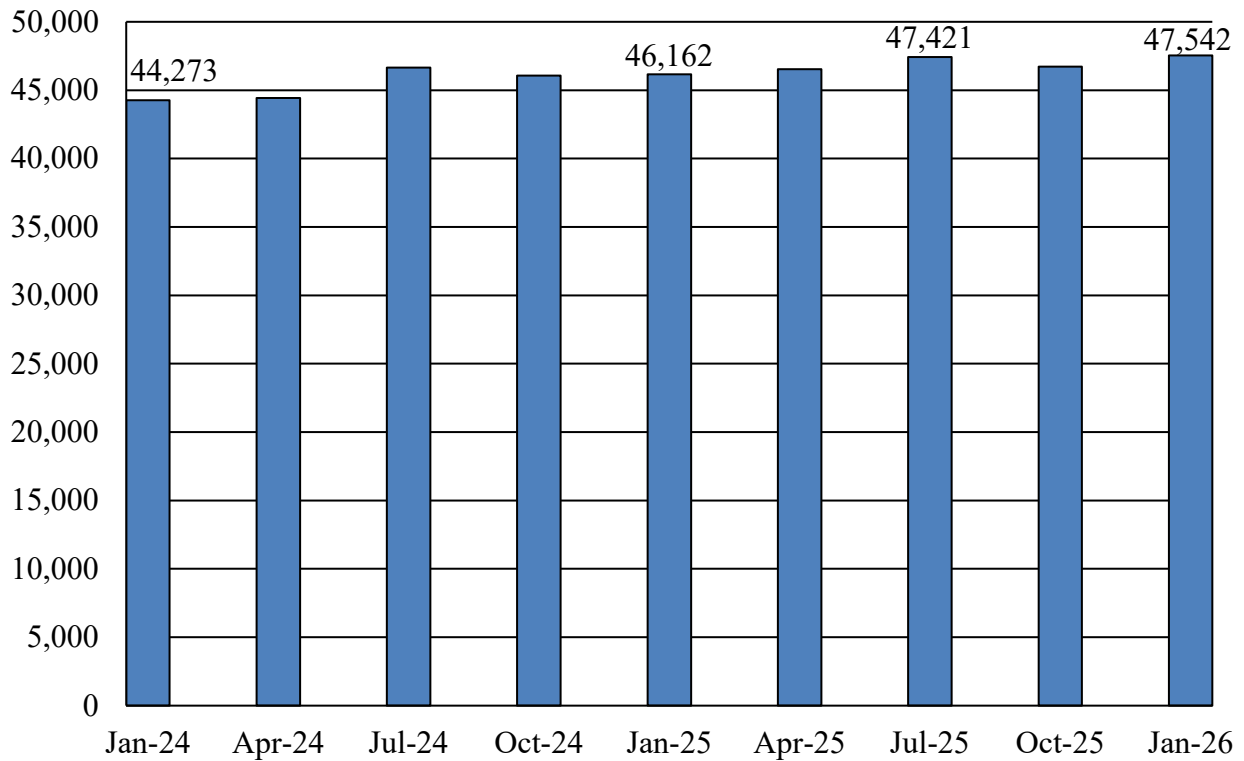
Exhibit 9
Vacant Positions
January 2008 to January 2026



Source: Department of Legislative Services

Exhibit 10 displays the calculated number of filled positions since January 2023 based on authorized positions and quarterly vacancies. Despite a slight dip in October 2025, which would be expected given the VSP positions that were abolished, filled positions were higher than January 2025 levels in each subsequent quarter.

Exhibit 10
Filled Positions
January 2024 to January 2026



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

By July 1, 2025, filled positions and associated agency spending on personnel had grown too high for the provided budget. The Governor instituted a partial hiring freeze effective July 1, 2025, and the VSP effective July 10, 2025, in order to lower personnel spending. **Exhibit 11** shows the number of vacant positions and VSP-related positions that were abolished in each department. **DBM should comment on whether the limited hiring freeze will continue in fiscal 2027 given the difficult budget outlook ahead.**

Exhibit 11
Abolished Vacant and Vacated VSP Positions
January 2024 to January 2026

<u>Department/Service Area</u>	<u>Fiscal 2026 Leg. Approp.</u>	<u>Abolished Vacant Positions</u>	<u>VSP</u>	<u>Fiscal 2026 Leg. Approp. Adjusted</u>
Health and Human Services				
Health	7,332.9	-24.3	-45.0	7,263.6
Human Services	5,978.7	-25.3	-65.0	5,888.4
Juvenile Services	2,146.0		-11.0	2,135.0
Subtotal	15,457.5	-49.6	-121.0	15,286.9
Public Safety				
Public Safety and Correctional Services	9,234.4		-35.0	9,199.4
Police and Fire Marshal	2,577.0		-3.0	2,574.0
Subtotal	11,811.4		-38.0	11,773.4
Transportation	9,360.5	-6.0	-26.0	9,328.5
Other Executive				
Legal (Excluding Judiciary)	1,806.0	-14.0	-15.0	1,777.0
Executive and Administrative Control	2,185.5	-27.0	-24.0	2,134.5
Financial and Revenue Administration	2,465.5	-13.4	-14.0	2,438.2
Budget and Management and IT	591.0	-4.0	-4.0	583.0
Retirement	207.0		-3.0	204.0
General Services	732.0		-5.0	727.0
Service and Civic Innovation	56.0			56.0
Natural Resources	1,555.0	-9.0	-25.0	1,521.0
Agriculture	439.5	-3.0	-6.0	430.5
Labor	1,968.6	-15.7	-16.0	1,936.9
MSDE and Other Education	2,069.4	-11.0	-8.0	2,050.4
Housing and Community Development	446.0			446.0
Commerce	212.0	-1.0	-2.0	209.0
Environment	1,034.0	-17.0	-13.0	1,004.0
Subtotal	15,767.5	-115.1	-135.0	15,517.4
Executive Branch Subtotal	52,396.9	-170.7	-320.0	51,906.2
Higher Education	29,406.3			29,406.3
Judiciary	4,173.0			4,173.0
Legislature	814.0			814.0
Grand Total	86,790.1	-170.7	-320.0	86,299.5

IT: information technology

VSP: Voluntary Separation Program

Note: Totals may not sum due to rounding

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

The VSP initiative resulted in \$25.1 million in annual savings, while the other vacancy abolishments resulted in \$13.4 million in annual savings. These full savings, however, are not seen in fiscal 2026, as the positions were abolished one quarter into the fiscal year. Furthermore, the VSP provided payments to separated employees, which reduced the first year of savings to only \$2.5 million for that program.

2. Cost Savings from Transition 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 with 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. State prescription drug coverage was thusly ended for approximately 56,595 Medicare-eligible retirees and dependents on January 1, 2025.

Costs and Savings Associated with Transition

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 took effect midway through the fiscal year. Savings are estimated to total \$90.7 million across all funds, or \$54.3 million in general 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. For instance, the budget for open enrollment mailers was \$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 2025 was \$9.4 billion; the State's actuary estimates that restoring full State-funded prescription drug coverage for retirees would increase the liability by \$8.9 billion.

Funding of Retiree Health Reimbursement Arrangement

Under the Inflation Reduction Act beginning January 1, 2025, Medicare Part D limits OOP expenses 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 \$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 in special funds for the purpose of funding \$250 of the amount that the State deposited into HRAs in calendar 2025. Chapter 717 of 2024 (the Budget Reconciliation and Financing Act (BRFA) of 2024) authorized the use of Senior Prescription Drug Assistance Program (SPDAP) funds for this purpose in fiscal 2025 only. However, the fiscal 2025 actual spending reported in the Governor’s Fiscal 2027 Budget Books did not include this anticipated spending. Funding was similarly authorized in fiscal 2026 for retiree HRAs, and the BRFA of 2025 made the authorization to use these funds for this purpose permanent. DBM advises that the SPDAP funds were used as intended in fiscal 2025 but distributed as a transfer to the health insurance account rather than being recorded as an expenditure. DBM intends to accurately record these as expenditures during the fiscal 2026 closeout.

Because fiscal 2027 SPDAP funding is authorized but not appropriated, DLS recommends reducing funding for HRA costs by \$3 million in general funds in anticipation of the administration processing a budget amendment increasing the special fund appropriation by \$3 million in SPDAP funds.

3. State Health Insurance Contributions Increase More Than 20%

Exhibit 12 provides the status of the Employee and Retiree Health Insurance Account. In fiscal 2025, the account closed with a year-end fund balance of \$345.3 million, an increase of \$177.1 million. After accounting for incurred but not received bills, the account closed with a \$228.5 million surplus. However, the projected balance held in reserve is zero at the end of fiscal 2027.

Exhibit 12
Employee and Retiree Health Insurance Account
Fiscal 2025 Actual-2027 Allowance
(\$ in Millions)

	<u>2025 Actual</u>	<u>2026 Working</u>	<u>2027 Allowance</u>
Beginning Balance	\$168.2	\$345.5	\$172.6
Expenditures			
DBM – Personnel Administrative Cost	\$8.4	\$12.9	\$12.9
Payments of Claims			
Medical	\$1,387.5	\$1,514.9	\$1,625.4
Prescription	776.3	594.1	664.9
Pharmacy Rebates	-432.6	-221.6	-248.6
Medicare Prescription HRA	50.0	21.0	37.4
Dental	69.1	73.2	76.3
Contractual Employee Claims	28.1	30.1	32.7
Payments to Providers	\$1,878.4	\$2,011.7	\$2,188.1
<i>% Growth in Payments</i>	<i>-3.8%</i>	<i>7.1%</i>	<i>8.8%</i>
Receipts			
State Agencies*	\$1,563.0	\$1,477.3	\$1,777.2
Employee Contributions*	245.2	267.7	281.1
Retiree Contributions (Medicare-eligible)	79.3	63.2	66.4
Retiree Contributions (Non-Medicare-eligible)	40.4	42.0	44.1
EGWP Subsidies and Other Revenue	125.8	1.6	-3.4
Agency Reversions	10.4	0.0	0.0
Total Receipts	\$2,064.1	\$1,851.8	\$2,165.4
<i>% Growth in Receipts</i>	<i>2.4%</i>	<i>-10.3%</i>	<i>16.9%</i>
Ending Balance	\$345.5	\$172.6	\$136.8
Estimated Incurred but Not Received	-\$116.8	-\$127.5	-\$136.8

DBM: Department of Budget and Management
 EGWP: Employer Group Waiver Plan

HRA: Health Reimbursement Account

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

Source: Governor’s Fiscal 2027 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 pharmacy rebates on retiree prescriptions and Employer Group Waiver Plan revenues provided by the federal government to subsidize State-provided prescription drug plans for Medicare-eligible retirees.

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, 2026. This is the fifth straight year of similar size increases. 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 2027 allowance will be approximately 82/18. This split is higher than the fiscal 2026 split of 83/17, contributing to the growth in State costs and insulating employees from price increases. Funding in State agency budgets for health insurance grows to \$1.78 billion in fiscal 2027, an increase of 20.3% over the fiscal 2026 budget. This is in part due to the use of fund balance in fiscal 2026 that is no longer available in fiscal 2027. **DBM should comment on factors leading to the projected increase in health insurance costs.**

Actual Health Insurance Expense Trends

Payments to providers decreased by 3.7% to \$1.9 billion (including pharmacy rebates) in fiscal 2025 due mostly to the transition to Medicare Part D. Medical costs, which make up the largest amount of claims costs, grew by 9.7% to \$1.4 billion. Medical costs are projected to increase by 9% in fiscal 2026 and 7% in fiscal 2027.

The second largest health benefit cost is for prescription drug coverage. Net of pharmacy rebates, these costs decreased by 33.6% in fiscal 2025 and are projected to increase by 8% in fiscal 2026 and 12% in fiscal 2027 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 are \$50 million in fiscal 2025 but are only \$21 million in fiscal 2026 due to the availability of funding in the Health Benefits Account. This funding is available due to fiscal 2025 receipts for HRAs being lower than budgeted. Fiscal 2025 HRA spending assumptions were based on the total number eligible. However, actual utilization was lower by approximately \$15 million. The excess funding remains in the Health Benefits Account for fiscal 2026 HRA expenditures.

Dental costs grew by 7% to \$69 million in fiscal 2025 despite projections of a slight decrease. DBM projects increases of 6% and 4%, respectively, in fiscal 2026 and 2027.

4. Government Modernization Initiative

The Government Modernization Initiative aims to identify savings in the State budget by finding efficiencies in programs and processes. The contract guarantees that Boston Consulting Group will be paid 20% of identified savings up to a maximum payment of \$15 million (if \$75 million in savings are identified by November 2026). The contract is entirely supported with federal funding from the American Rescue Plan Act. The general fund portion of savings

corresponding to \$50 million was budgeted in the Statewide account in fiscal 2026 for future allocation to affected agencies when the reductions have been identified. The fiscal 2026 working appropriation, however, includes \$30 million to backfill this negative adjustment, because the full amount of savings has not been identified.

In response to committee narrative in the 2025 JCR, DBM submitted a report in January 2026 that outlined the goals, challenges, and results of the Government Modernization Initiative. In total funds, Boston Consulting Group has identified approximately \$35.2 million in fiscal 2026 savings. **Exhibit 13** lists the savings items and associated savings.

Exhibit 13
Government Modernization Initiative Savings
Fiscal 2026
(\$ in Millions)

<u>Description</u>	<u>Type</u>	<u>Savings</u>
Confirmed Savings		
Benchmarking of Desired Prices for Purchased Goods and Services for Use in Contract Negotiations	Recurring	\$18.0
Paused Purchases of Vehicles	One-Time	8.0
Sales Of Underutilized and Aging Vehicles	One-Time	2.2
Managed Agencies to Five Year Laptop Refresh Cycle	Recurring	1.5
Specifications Of Laptops Purchased Across Agencies	Recurring	1.5
Unused Telephone Landlines	Recurring	1.4
Fleet Maintenance Initiative	Recurring	1.3
Sales Of Underutilized and Aging Vehicles – Maintenance Costs	Recurring	0.8
Cell Phone Lines with Low and Minimal Use (20% of Lines)	Recurring	0.5
<i>Subtotal – Fiscal 2026 Savings</i>		<i>\$35.2</i>
Total Recurring		\$25.0
Total One Time		\$10.2
Potential Savings		
Consolidate Mobile Phone Plans and Renegotiate at Lowest Rate	Potential	\$2.1
Statewide Laptop Purchase Contract	Potential	1.9
Standardize Discounted Shipping and Minimize Premium Delivery	Potential	0.8
<i>Subtotal – Potential Savings</i>		<i>\$4.8</i>
Total Potential Savings		\$40.0

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

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The largest savings item valued at \$18 million is the benchmarking of desired prices for use in contract negotiations of purchased goods and services. The consultant team identified industry and peer states' benchmarks to inform the State's desired price for services and products. Examples where savings were found include food services, software licenses, radio services, and office supplies. Additionally, in some instances, vendors charged state agencies different prices for the same product or service. Negotiating teams highlighted these price disparities and requested a standardized price sheet aligned with the lowest possible price. The team consulted with industry experts to identify the most influential sources of leverage for each negotiation. In many cases, the State's purchasing power was identified as the predominant source of leverage. **DBM should identify any recurring savings associated with the new contracts negotiated with these tactics.**

A substantial portion of the estimated savings, about 35%, are from vehicle fleet changes. In particular, one of the larger savings items is \$8 million for pausing 196 of 538 budgeted vehicle purchases. The consultants, in collaboration with DBM and agency fleet managers, changed approvals based on utilization and optimal replacement age. There may be a recurring savings component to this change, but the value was not identified in the report.

The consultant assessed the break-even cost of fleet vehicles to determine the mileage threshold below which it would be cheaper for the State to reimburse personal vehicle usage than maintain the vehicle in its fleet. Agency leaders collaborated on preparing the list of excess vehicles for disposal. The Department of General Services began auctioning vehicles in May 2025, and DBM estimates in fiscal 2026 that 520 vehicles will be sold out of the 9,700 vehicle fleet, or about 5%. Estimated savings are \$2.2 million in one-time revenues from vehicle sales and \$0.8 million in recurring savings from avoiding maintenance costs. DBM also reports \$1.3 million in savings associated with using predictive analytics to identify the lowest cost vendors for fleet maintenance services based on needs and location.

Other confirmed savings initiatives include a variety of communications and procurement items. The consultant identified landlines that were unused or underused by holding a two-month validation test of call answers. Agencies chose to eliminate 50% of landlines, resulting in \$1.4 million to \$1.7 million in recurring savings. The consultant found that 20% of cell phone lines had low or minimal use and were able to be safely ended, resulting in recurring savings of \$0.5 million. Laptop purchases were also on a three-year cycle for many agencies, but moving to a five-year refresh cycle saved \$1.5 million, recurring. Standardizing the specifications used by agencies in laptop purchase orders also saves \$1.5 million.

DLS recommends adopting committee narrative requesting a report on the Government Modernization Initiative detailing the initiatives implemented, the savings achieved for each initiative, and the incentive payments provided to the vendor. The report should provide funding and payment information by fund source and differentiate between one-time and ongoing savings.

Operating Budget Recommended Actions

	Amount Change	
1.		
Reduce funding for salary step expansion. This funding is intended to resolve a long-standing administrative dispute regarding the size of each salary step. Due to the fiscal condition of the State, this initiative should be deferred.	-\$42,831,739	GF
	-\$12,848,001	SF
	-\$8,134,179	FF

2. Add the following section:

Section XX Senior Prescription Drug Affordability Program Fund Swap

SECTION XX. AND BE IT FURTHER ENACTED, That \$3,000,000 of the general fund appropriation made for the purpose of retiree health insurance in program Q00S02.08 Eastern Correctional Institution within the Department of Public Safety and Correctional Services (DPSCS) shall be reduced. DPSCS is authorized to process a budget amendment to replace these funds with special funds from the Senior Prescription Drug Affordability Program Fund for the purpose of funding retiree Health Reimbursement Accounts for certain retirees.

Explanation: This action reduces general funds with the intention of replacement with special funds available in the Senior Prescription Drug Affordability Program Fund. These funds will support costs for Health Reimbursement Accounts for certain retirees as authorized in existing law.

3. 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.

4. Add the following section:

Section XX Injured Workers’ Insurance Fund Accounts

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 the IWIF and returned to the State and subsequently transferred to the General Fund. The IWIF shall submit 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 the 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, 2026

5. Add the following section:

Section XX The “Rule of 100”

SECTION XX. AND BE IT FURTHER ENACTED, That the Board of Public Works (BPW), in exercising its authority to create additional positions pursuant to § 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 2026, 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, 2027, the status of positions created with non-State funding sources during fiscal 2024 through 2027 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 2027	Department of Budget and Management	June 30, 2027

6. Add the following section:

Section XX Annual Report on Authorized Positions

SECTION XX. AND BE IT FURTHER ENACTED, That immediately following the close of fiscal 2026, 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 2026 and on the first day of fiscal 2027. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2026 and 2027, 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 2027 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;

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- (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 2027 Budget Books shall also be provided.

Further provided that this report shall also be submitted as an appendix with the Governor’s Fiscal 2028 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, 2026, and July 1, 2026	Department of Budget and Management (DBM)	July 14, 2026
Report on the creation, transfer, or abolition of regular positions	DBM	With the Governor’s fiscal 2028 budget submission and as needed

7. 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 2028 Budget Books an accounting of the fiscal 2026 actual, fiscal 2027 working appropriation, and fiscal 2028 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

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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 2028 Budget Books

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

, provided that since the Department of Budget and Management (DBM) Office of Personnel Services and Benefits (OPSB) has had four or more repeat audit findings in the most recent fiscal compliance audit issued by the Office of Legislative Audits (OLA), \$100,000 of this agency's administrative appropriation may not be expended unless:

- (1) DBM OPSB has taken corrective action with respect to all repeat audit findings on or before November 1, 2026; and
- (2) a report is submitted to the budget committees by OLA listing each repeat audit finding along with a determination that each repeat finding was corrected.

The budget committees shall have 45 days from the date of the receipt of the report to review and comment to allow for funds to be released prior to the end of fiscal 2027. Funds restricted pending the receipt of the report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

Explanation: The Joint Audit and Evaluation Committee has requested that budget bill language be added for each unit of State government that has four or more repeat audit findings in its most recent fiscal compliance audit. Each agency is to have a portion of its administrative budget withheld pending the adoption of corrective actions by the agency

and a determination by OLA that each finding was corrected. OLA shall submit a report to the budget committees on the status of repeat findings.

Information Request	Author	Due Date
Status of corrective actions related to the most recent fiscal compliance audit	OLA	45 days before the release of funds

9. **Health Insurance Account Closeout Report:** The committees request a report on the fiscal 2026 closeout of the Employee and Retiree Health Insurance Account. This report shall include:

- the closing fiscal 2026 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 2026 closeout data for the Employee and Retiree Health Insurance Account	Department of Budget and Management	October 1, 2026

10. Adopt the following narrative:

Quarterly Medical, Dental, and Prescription Plan: In recent years, the State has implemented different strategies to contain medical and prescription costs. In fiscal 2026, the State transitioned to a new pharmacy services vendor, and the Department of Budget and Management (DBM) began reporting prescription drug costs in different categories than the previous vendor, preventing historical comparisons based on category of medication. The budget committees request that DBM submit quarterly reports on plan performance and reporting methodology of the State’s prescription, medical, and dental plans.

- Medical and dental reports should provide utilization and cost data broken out by plans as well as actives, non-Medicare-eligible retirees, and Medicare-eligible retirees. The reports should 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 should 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 should include data on the cost drivers and drug trends by actives, non-Medicare retirees, and Medicare retirees.

It is the intent of the committees that the reports should provide reporting consistent with historical reporting where possible. With submission of the first quarterly report, DBM should include an analysis of the differences between the reporting methodologies of the current and previous vendor. The analysis should discuss the feasibility of returning to a reporting methodology consistent with previous reports, including identifying areas where reporting can be consistent and identify reasons for any areas that cannot be reported consistently.

Information Request	Author	Due Date
Quarterly State medical, dental, and prescription drug plan performance reports	DBM	September 15, 2026 December 15, 2026 March 15, 2027 June 15, 2027

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11. Adopt the following narrative:

Government Modernization Initiative: The committees are interested in continuing to receive more information about the Government Modernization Initiative. The committees request that the Department of Budget and Management (DBM) submit a report, due December 15, 2026, detailing the initiatives implemented, the savings achieved for each initiative, and the incentive payments provided to the vendor. The report should provide funding and payment information by fund source. The report should differentiate between one-time and ongoing savings.

Information Request	Author	Due Date
Government Modernization Initiative	DBM	December 15, 2026
Total Net Change to Fiscal 2027 Allowance		-\$66,813,919

Appendix 1 2025 Joint Chairmen’s Report Responses from Agency

The 2025 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 and used to inform the Managing for Results section of this analysis.
- **Government Modernization Initiative:** The department provided an accounting of savings associated with the initiative and challenges with implementation, as discussed further in Issue 4 of this analysis.
- **Apprenticeships:** The budget committees requested DBM report on public service registered apprenticeships within State government. DBM reported that there are three apprenticeship programs in State agencies with 3 employees in total, all of which are environmental health specialist apprentices within MDH. DBM reported that 81 apprentices are employed by the State but sponsored by a non-State sponsor, mostly within Maryland Environmental Service.
- **Job Sharing:** The budget committees directed DBM to conduct a comprehensive feasibility study of job-sharing arrangements in Maryland State government, focusing on employees at 50% or greater full-time equivalency to preserve benefits eligibility. Job sharing is currently permitted but rarely used. DBM indicated that broader implementation would require additional administrative oversight, system modifications, and potentially increased benefit expenditures. There are advantages and disadvantages of job sharing depending on the specific agency, role, and workforce needs involved.
- **Statewide Overtime Report:** OPSB and DBM are addressing overtime by providing biweekly overtime reports to SPMS agencies, requiring policy compliance acknowledgements and reviewing overtime spending during the annual budget process to support monitoring and management. Agencies with higher overtime costs reported actions such as increasing hiring, reallocating staff, enhancing overtime monitoring and approval processes, and adjusting operational practices to manage overtime use and costs.
- **Vacancy Savings and Supplemental Retirement Match:** The department provided an accounting of the supplemental retirement match in fiscal 2026 by agency as requested. Agency budgets are based on fiscal 2025 expenditures, which totaled \$13.6 million. Approximately \$9.0 million is provided in fiscal 2027, which may result in some agencies needing to find savings to pay for the match.
- **Closeout Data for Health Insurance Account:** The department provided an accounting of fiscal 2025 health expenditures as requested.

Appendix 2 Audit Findings

Audit Period for Last Audit	November 1, 2021 – February 28, 2025
Issue Date	December 2025
Number of Findings	9
Number of Repeat Findings:	4
% of Repeat Findings:	44.4%

Employee Benefit Program

Finding 1: OPSB did not have effective procedures to identify and remove coverage for plan participants that did not pay their premiums. The Office of Legislative Audits (OLA) noted that OPSB continued to make subsidy payments and claims reimbursements on behalf of plan participants with unpaid premiums.

Finding 2: OPSB did not complete required claims eligibility audits or pursue recovery of all improper payments identified in a timely manner.

Finding 3: Contract audits of the pharmacy benefit manager were not completed in a timely manner.

SPMS Agency Payroll

Finding 4: OPSB did not ensure that SPMS agencies resolved instances when an employee did not complete a timesheet even though SPS reports identified these discrepancies.

Finding 5: OPSB did not follow up when it identified employees who were not removed from the payroll timely to ensure the agencies recovered any amounts improperly paid.

Monitoring of Excessive Overtime

Finding 6: OPSB did not have a comprehensive process to monitor and provide guidance to address employees with significant overtime, including 775 employees that OLA identified whose overtime earnings consistently exceeded their regular base salary.

Healthcare Plan Administrator Contracts

Finding 7: OPSB’s contracts with two plan administrators did not specify the consumer price index to be used to calculate administrative fees, resulting in OPSB paying between \$3.3 million and \$6.6 million more in administrative fees over the term of the contracts.

Information Systems Security and Control

Finding 8: Redacted cybersecurity-related finding.

Finding 9: Redacted cybersecurity-related finding.

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

**Appendix 3
General Salary Increases, Increments, and Other Compensation for State Employees
Fiscal 2003-2027**

<u>Year</u>	<u>Date of Increase</u>	<u>General Salary Increase</u>	<u>Increments</u>	<u>Police, NRP, and Park Ranger Salary Increases</u>	<u>Maximum Deferred Compensation Match by State</u>	<u>Pay-for-performance Bonuses</u>	<u>Annual Salary Review Reclassifications</u>	<u>Other</u>
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⁾	Two steps on standard salary schedule; one 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⁾	

<u>Year</u>	<u>Date of Increase</u>	<u>General Salary Increase</u>	<u>Increments</u>	<u>Police, NRP, and Park Ranger Salary Increases</u>	<u>Maximum Deferred Compensation Match by State</u>	<u>Pay-for-performance Bonuses</u>	<u>Annual Salary Review Reclassifications</u>	<u>Other</u>
2015	1/1/2015	2%	On time	Negotiated increments	0	None	Yes ⁽¹³⁾	
2016	7/1/2015	2%	None		0	None	Yes ⁽¹⁴⁾	
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⁾	

<u>Year</u>	<u>Date of Increase</u>	<u>General Salary Increase</u>	<u>Increments</u>	<u>Police, NRP, and Park Ranger Salary Increases</u>	<u>Maximum Deferred Compensation Match by State</u>	<u>Pay-for-performance Bonuses</u>	<u>Annual Salary Review Reclassifications</u>	<u>Other</u>
2026	7/1/2025	1%	Bargaining units only ⁽³⁰⁾	1% and negotiated increments	600	None	None	
2027	7/1/2026	1.5% ⁽³¹⁾	Salary step expansion ⁽³²⁾	Negotiated increments	600	None	Yes ⁽³³⁾	

DGS: Department of General Services

DHMH: Department of Health and Mental Hygiene

NRP: National Resources Police

⁽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 (RN), licensed practical nurses (LPN), 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 representatives 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 I 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 (DHCD). 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 RNs 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 DGS procurement officers; salary parity with detective for the warrant apprehension job series at DPSCS; step increases for DHCD 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, LPNs 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, RNs, 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 January, 1, 2022.
- (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 (SLEOLA) also received the November 1, 2022 4.5% salary increase.
- (25) The fiscal 2023 ASR provided funding for a 6% salary increase for RNs 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.
- (30) Fiscal 2026 increments were funded for employees represented by a bargaining unit. Employees not represented were excluded.
- (31) The fiscal 2027 1.5% COLA applies to State employees, excluding SLEOLA employees. Employees of the Maryland School for the Deaf receive a 2.0% COLA.
- (32) Funding is provided to expand the width of salary steps in each salary scale to at least 2% between steps.
- (33) The fiscal 2027 ASR provides funding for targeted salary increases for 512 positions.

Appendix 4
Annual Salary Review
Fiscal 2027

<u>Classification</u>	<u>Annual Salary Review Action</u>
Agency Health and Safety Specialist II – 3298	One-grade Increase
Community Health Educator I – 5010	One-grade Increase
Community Health Educator II – 1026	One-grade Increase
Community Health Educator III, Supervisor – 2075	One-grade Increase
Community Health Educator III – 2071	One-grade Increase
Community Health Educator IV, Supervisor – 2076	One-grade Increase
Community Health Educator IV – 276	One-grade Increase
Community Health Educator V, Supervisor – 2077	One-grade Increase
Community Health Educator V – 2772	One-grade Increase
Developmental Disabilities Associate Supervisor, CI – 4686/4687	One-grade Increase
Forensic Investigator, Lead – 0200/5374	One-grade Increase
Forensic Investigator – 0221/5373	One-grade Increase
Health Planner I – 3350	One-grade Increase
Health Planner II – 3351	One-grade Increase
Health Planner III – 3352	One-grade Increase
Health Planner IV – 3353	One-grade Increase
Health Planning and Development Admin I – 2408	One-grade Increase
Medical Care Program Associate I – 4394	Increase to Step 11 or Two-step Increase if Already at Step 11 or Higher
Medical Care Program Associate II – 4395	Increase to Step 11 or Two-step Increase if Already at Step 11 or Higher
Medical Care Program Associate Lead – 4434	Increase to Step 11 or Two-step Increase if Already at Step 11 or Higher
Medical Care Program Associate Supervisor – 4435	Increase to Step 11 or Two-step Increase if Already at Step 11 or Higher
MSP Aviation Lead Maintenance Tech I – 3799	One-grade Increase
MSP Aviation Maintenance Control Supervisor I – 3804	Two-grade Increase
MSP Aviation Maintenance Control Supervisor II – 3805	Two-grade Increase
MSP Aviation QA Chief Inspector – 3807	Two-grade Increase
MSP Aviation QA Inspector I – 3808	Two-grade Increase
MSP Aviation QA Inspector II – 3809	Two-grade Increase
MSP Aviation Support Supervisor I – 3793	Two-grade Increase
MSP Director of Maintenance – 3798	Two-grade Increase

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Classification

Annual Salary Review Action

OSH Compliance Hygienist III – 638	One-grade Increase
OSH Compliance Hygienist Lead – 639	One-grade Increase
OSH Compliance Hygienist Supervisor – 640	One-grade Increase
Police Chief I – 4129	One-grade Increase
Police Chief II – 4131	One-grade Increase
Police Chief III – 4161	One-grade Increase
Police Officer Manager – 4130	One-grade Increase
State Fire Marshal – 7606	Two-grade Increase
Veterans Cemetery Assistant Superintendent – 3259	One-grade Increase
Veterans Cemetery Caretaker – 2150	Two-grade Increase
Veterans Cemetery Equipment Operator – 2151	Two-grade Increase
Veterans Cemetery Superintendent – 3260	One-grade Increase
Veterans Cemetery Supervisor – 2152	One-grade Increase
Wage and Hour Investigator I – 2518	Two-grade Increase
Wage and Hour Investigator II – 2519	Two-grade Increase

MSP: Maryland State Police
OSH: Occupational Safety and Health
QA: quality assurance

Source: Department of Budget and Management

Appendix 5
Bargaining Units and Representatives
As of January 1, 2026

<u>Unit</u>	<u>Title</u>	<u>Exclusive Representative</u>	<u>Employees</u>	<u>Expiration Dates</u>
A	Labor and Trades	AFSCME	1,846	December 31, 2026
B	Administrative, Technical, and Clerical	AFSCME	4,739	December 31, 2026
C	Regulatory, Inspection, and Licensure	AFSCME	883	December 31, 2026
D	Health and Human Service Nonprofessionals	AFSCME	1,633	December 31, 2026
E	Health Care Professionals	AFT-Healthcare Maryland	2,123	December 31, 2026
F	Social and Human Service Professional	AFSCME	4,398	December 31, 2026
G	Engineering, Scientific, and Administrative Professionals	MPEC	6,444	December 31, 2026
H	Public Safety and Security	AFSCME/Teamsters	7,534	December 31, 2026
H	BWI Marshall Airport Fire Fighters	Local 1742 IAFF, AFL-CIO, CLC	87	December 31, 2026
I	Sworn Police Officers	SLEOLA	1,756	June 30, 2027
J	MDTA Sworn Officers	MDTA Police Lodge #34	451	June 30, 2027
K	Maryland School for the Deaf Faculty	AFT-Maryland	202	December 31, 2026
S	Supervisors	AFSCME	5,988	December 31, 2026
Total			38,084	

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 Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport
 CLC: Canadian Labor Congress
 IAFF: 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 6
Object/Fund Difference Report
Department of Budget and Management – Personnel

<u>Object/Fund</u>	<u>FY 25</u> <u>Actual</u>	<u>FY 26</u> <u>Wrk Approp</u>	<u>FY 27</u> <u>Allowance</u>	<u>FY 26 - 27</u> <u>\$ Change</u>	<u>% Change</u>
Positions					
01 Regular	138.00	138.00	138.00	0.00	0.0%
02 Contractual	3.33	3.25	10.00	6.75	207.7%
Total Positions	141.33	141.25	148.00	6.75	4.8%
Objects					
01 Salaries, Wages, and Fringe Benefits	\$95,593,349	\$154,059,049	\$239,988,866	\$85,929,817	55.8%
02 Technical and Special Fees	269,144	550,648	1,123,258	572,610	104.0%
03 Communications	17,663	730,895	730,895	0	0.0%
04 Travel	3,294	17,778	17,778	0	0.0%
07 Motor Vehicle Operation and Maintenance	1,918,273	3,033,970	1,250,000	-1,783,970	-58.8%
08 Contractual Services	15,226,205	13,444,686	14,639,537	1,194,851	8.9%
09 Supplies and Materials	5,330	65,000	65,000	0	0.0%
10 Equipment – Replacement	0	110,400	110,400	0	0.0%
11 Equipment – Additional	0	0	10,500	10,500	N/A
13 Fixed Charges	30,211	384,908	994,602	609,694	158.4%
Total Objects	\$113,063,469	\$172,397,334	\$258,930,836	\$86,533,502	50.2%
Funds					
01 General Funds	\$14,901,606	\$86,994,704	\$169,672,887	\$82,678,183	95.0%
03 Special Funds	767,331	34,073,389	43,843,110	9,769,721	28.7%
05 Federal Funds	75,000,000	28,551,253	20,114,264	-8,436,989	-29.6%
09 Reimbursable Funds	22,394,532	22,777,988	25,300,575	2,522,587	11.1%
Total Funds	\$113,063,469	\$172,397,334	\$258,930,836	\$86,533,502	50.2%

Note: The fiscal 2026 appropriation includes proposed deficiency appropriations.

**Appendix 7
Fiscal Summary
Department of Budget and Management – Personnel**

<u>Program/Unit</u>	<u>FY 25 Actual</u>	<u>FY 26 Wrk Approp</u>	<u>FY 27 Allowance</u>	<u>FY 26 - 27 \$ Change</u>	<u>% Change</u>
01 Executive Direction	\$13,660,746	\$13,521,262	\$15,715,150	\$2,193,888	16.2%
02 Division of Employee Benefits	9,138,595	10,636,567	11,441,370	804,803	7.6%
04 Division of Personnel Services	7,554,083	7,546,917	8,838,148	1,291,231	17.1%
06 Division of Classification and Salary	2,752,808	2,701,911	2,908,669	206,758	7.7%
07 Division of Recruitment and Examination	1,868,331	1,880,319	1,915,299	34,980	1.9%
08 Statewide Expenses	78,088,906	136,110,358	218,112,200	82,001,842	60.2%
Total Expenditures	\$113,063,469	\$172,397,334	\$258,930,836	\$86,533,502	50.2%
General Funds	\$14,901,606	\$86,994,704	\$169,672,887	\$82,678,183	95.0%
Special Funds	767,331	34,073,389	43,843,110	9,769,721	28.7%
Federal Funds	75,000,000	28,551,253	20,114,264	-8,436,989	-29.6%
Total Appropriations	\$90,668,937	\$149,619,346	\$233,630,261	\$84,010,915	56.1%
Reimbursable Funds	\$22,394,532	\$22,777,988	\$25,300,575	\$2,522,587	11.1%
Total Funds	\$113,063,469	\$172,397,334	\$258,930,836	\$86,533,502	50.2%

Note: The fiscal 2026 appropriation includes proposed deficiency appropriations.