

F10A02
Office of Personnel Services and Benefits
 Department of Budget and Management

Operating Budget Data

(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$13,255	\$40,566	\$103,703	\$63,136	155.6%
Special Fund	13,667	9	14,938	14,929	164374.8%
Reimbursable Fund	<u>3,980</u>	<u>3,951</u>	<u>3,903</u>	<u>-48</u>	<u>-1.2%</u>
Total Funds	\$30,902	\$44,526	\$122,543	\$78,017	175.2%

- The Office of Personnel Services and Benefits' (OPSB) budget increases by \$78.0 million.
- General and special fund increases are almost exclusively due to the inclusion of statewide employee salary enhancements in the budget, which will be transferred through amendment to other State agencies after the beginning of fiscal 2007. \$71 million is included for a 2% general salary increase for State employees.
- OPSB has two fiscal 2006 deficiencies. The first, for \$15.5 million in general funds, is to supplement the appropriation for fiscal 2006 to provide funds to implement a correctional officer recruitment and retention program. The second general fund deficiency is to provide \$5.0 million for the estimated cost of the State's fiscal 2006 workers' compensation claims based on claims activity through November 2005.

Personnel Data

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>
Regular Positions	138.00	122.00	122.00	0.00
Contractual FTEs	<u>2.50</u>	<u>0.10</u>	<u>0.10</u>	<u>0.00</u>
Total Personnel	140.50	122.10	122.10	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	3.90	3.20%
Positions Vacant as of 12/31/05	15.00	12.3%

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

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- There are 15.0 full-time equivalent (FTE) positions vacant as of December 31, 2005. The turnover rate budgeted by the agency requires that 3.9 FTE positions remain open through the fiscal year.
- The number of regular and contractual positions remain the same in the allowance.

Analysis in Brief

Major Trends

Performance Measures Are Weak and the Office of Personnel and Benefits' Workforce Is Shrinking: The State's retention rate dropped between fiscal 2001 and 2005 but is expected to stay stable into fiscal 2006. The number of employees whose performance is evaluated using the Performance Planning and Evaluation Program (PEP) has dropped dramatically. It is likely that oversight by the Office of Personnel Services and Benefits (OPSB) is less rigorous than it has been in the past because staffing levels in the agency itself are low; while there were 148.5 filled positions in fiscal 2003, there are 107 in the current fiscal year. **OPSB is asked to discuss the situation.**

Issues

Statewide Regular Employee Compensation Grows by 8.6% in Fiscal 2007: Most of the growth in the statewide budget for regular personnel is due to salary enhancements and health insurance. There are a number of salary enhancements, including the general salary increase, the Annual Salary Review reclassifications and upgrades, new steps on the regular and physicians' salary schedule, and retention and critical mission bonuses.

Health Insurance: Claims experience to date does not support the level of funding in the allowance for health insurance. There is approximately \$65.1 million more in the budget than necessary to cover costs, even taking into consideration coverage for new employees and other factors.

Recommended Actions

Funds

1. Add "Rule of 50" section.
2. Add section on reporting requirement for regular and contractual positions.

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3. Add section requiring reporting on Executive Pay Plan positions.
 4. Add section allowing continuation of employees in abolished positions in another State position.
 5. Add section providing for a reduction to funds budgeted for the State Employees and Retirees Health and Welfare Benefits Fund.
 6. Add section providing for a position cap.
 7. Add section reducing funds for workers' compensation assessments.
 8. Add language restricting \$150,000 in general funds until a report on State health insurance is provided.
 9. Add language making enhanced law enforcement death benefit contingent on enactment of legislation.
 10. Delete funding for an annual salary review adjustment for administrative law judges. \$ 371,000
 11. Delete funding for a deficiency for correctional officer enhancements and delay implementation until July 1, 2006. 15,500,000
- Total Reductions to Fiscal 2006 Deficiency Appropriation \$ 15,500,000**
- Total Reductions to Allowance \$ 371,000**

Updates

Workers' Compensation Assessments Continue to Fluctuate and the Unfunded Long-term Liability Remains High: The status of fiscal 2007 agency assessments for workers' compensation insurance and the status of the Injured Workers' Insurance Fund long-term liability account are reviewed.

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Operating Budget Analysis

Program Description

The Office of Personnel Services and Benefits (OPSB) provides policy direction for the human resources system established by the State Personnel and Pensions Article. The executive director manages OPSB and administers State personnel policies and the health benefit program. Specific functions within OPSB include salary administration and classification, recruitment and examination, employee relations, employee benefits, and medical services. OPSB shares responsibility with State agencies for the administration of personnel functions through policy development, guidance, and interpretation.

Primary Managing for Results goals include provisions that:

- employees in the State Personnel Management System (SPMS) will be retained;
- health plan vendors meet quality standards of performance;
- the salary system promotes recruitment and retention of a qualified State workforce; and
- services provided by State health plan vendors meet quality standards of performance.

Performance Analysis: Managing for Results

One of the most important measures over which the Department of Budget and Management (DBM) has some degree of control is the retention rate¹ for employees in grades 1 to 26. Between fiscal 2001 and 2005, the years for which actual performance data are available, OPSB showed a decline from 93.3 to 90.8%, demonstrated in **Exhibit 1**. The retention rate did improve slightly from fiscal 2004 to 2005. This statewide statistic masks deteriorating situations in some agencies. For example, the Mental Hygiene Administration has had to use contracts rather than State employees for some of its positions because of low State salaries. Interestingly, most of these employees working under contract are skilled employees who would have received higher than average salaries (e.g., pharmacists at Springfield and Spring Grove Hospital Centers) through the State system. Many other agencies have also reported difficulty hiring employees due to inadequate salaries. Some

¹ The retention rate is 100%, less the percentage of all separations. The percentage of all separations is the total of all separations divided by the average number of filled positions. All separations are defined as resignations, terminations, deceased employees, retired employees, and “resigned/employed” at the University of Maryland.

Exhibit 1
Program Measurement Data
DBM – Office of Personnel Services and Benefits
Fiscal 2001 – 2006 Working Appropriation

	<u>Actual FY 01</u>	<u>Actual FY 02</u>	<u>Actual FY 03</u>	<u>Actual FY 04</u>	<u>Actual FY 05</u>	<u>Avg. Ann. Chg. 01-05</u>	<u>Wkg. FY 06</u>	<u>Chg. 05-06</u>
Maintain or improve retention rate in the SPMS and in certain MDOT agencies	93.3%	92.3%	91.5%	90.5%	90.8%	-0.7%	91.0%	0.2%
Percent of employees evaluated using the Performance Planning and Evaluation Program (PEP) - goal 85%	78.0%	73.6%	61.0%	66.0%	57.8%	-7.2%	n/a	n/a
Achieve a resolution rate of at least 32% for third-step grievance mediations	31.0%	31.0%	32.0%	42.0%	41.0%	7.2%	35.0%	-14.6%
Percent of health plan vendors who received a "satisfactory" rating by at least 85% of all plan survey respondents (calendar 2005 estimate)	73.0%	82.0%	75.0%	81.8%	82.0%	2.9%	82.0%	0.0%

¹MDOT data exclude the Maryland Port Administration and the Maryland Transit Administration for which DBM does not have data in its main frame database.

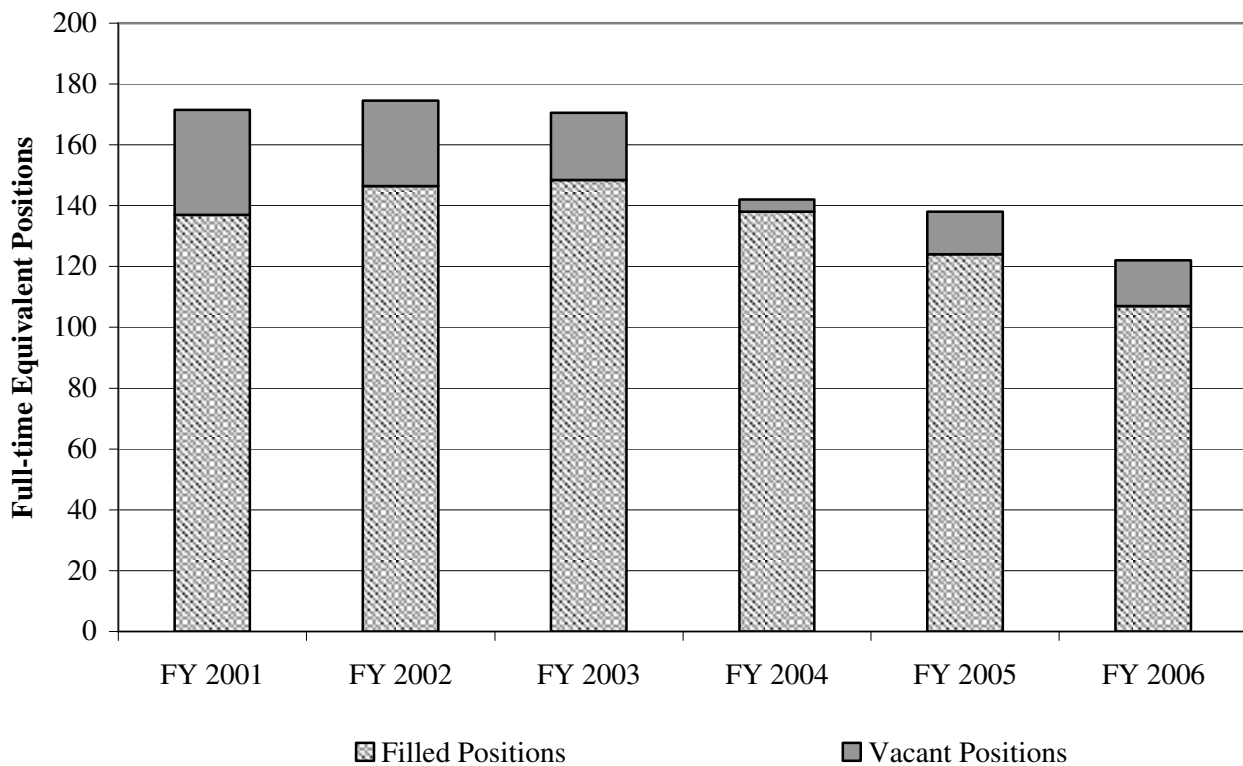
Source: Department of Budget and Management

disconnects between State salaries and the labor market from which particular positions are filled are being addressed with Annual Salary Review (ASR) adjustments (see Issue 1), but not all underpaid classes of positions are being addressed. **OPSB should discuss in detail its plan for future ASR adjustments, including a discussion of how classifications are chosen for salary enhancements.**

Only 57.8% of employees were evaluated using the Performance Planning and Evaluation Program (PEP) in fiscal 2005, down from 66% in fiscal 2004 (Exhibit 1). As was pointed out in the 2005 session budget analysis, this leaves a large portion of employees with little basis for learning how their performance is perceived. The retention rate reflects both tangible and intangible quality of work life issues, and the statistic is not moving in the right direction.

One of the reasons personnel oversight provided by DBM is seemingly less effective than it used to be is the level of staffing provided by OPSB. As shown in **Exhibit 2**, between fiscal 2001 and 2006, the number of positions in the OPSB has shrunk from 171.5 authorized positions to 122.0. Exacerbating this loss of positions is the number of vacant positions. Filled positions dropped from a high of 148.5 employees in fiscal 2003 to a low of 107.0 in the current fiscal year.

Exhibit 2
Number of Positions in the Office of Personnel Services and Benefits
Fiscal 2001 – 2006 Working Appropriation



Source: Department of Budget and Management

The Department of Legislative Services (DLS) again recommends that DBM explain the lack of significant improvement in the statewide retention rate and the continuing decline in the proportion of employees evaluated using PEP, and describe plans to effect improvement in these two measures. DLS also recommends that OPSB comment on the impacts its shrinking staff complement has on its operations.

Fiscal 2006 Actions

Proposed Deficiency

OPSB has two fiscal 2006 deficiencies. The first, for \$15.5 million in general funds, is to supplement the appropriation for fiscal 2006 to provide funds to implement a correctional officer recruitment and retention program. This initiative includes salary increases for correctional officers, a higher entry-level salary to attract new recruits, hiring bonuses, and retention bonuses based upon employee performance.

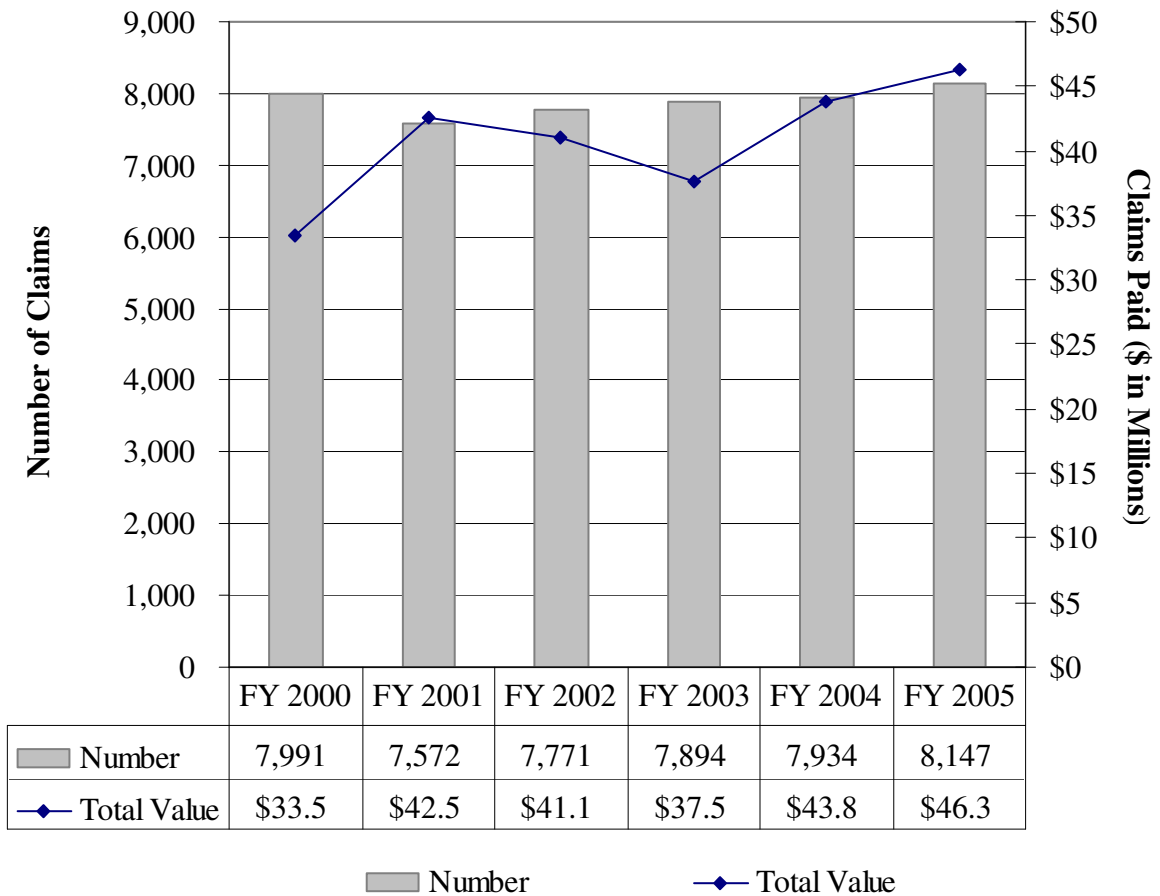
The second general fund deficiency is to provide \$5.0 million for the estimated cost of the State's fiscal 2006 workers' compensation claims based on claims activity through November 2005. Workers' compensation assessments are based on the cost of actual claims two years prior to the budget year, thus fiscal 2006 assessments were based on fiscal 2004 activity. This is the second year in a row where a deficiency of \$5.0 million has been requested to augment inadequate agency assessments. To address this issue, in the fiscal 2007 allowance, DBM has built a \$3.5 million "claims cushion" into agency assessments. **OPSB is asked to comment on the need for these two \$5.0 million deficiency appropriations, especially given a cumulative \$3.1 million in funding budgeted since fiscal 2004 for the State Employee Risk Management Administration, commonly referred to as "SERMA."** SERMA staff respond to agency requests for training sessions on a variety of topics, including developing agency-specific safety risk inspections, program consultation, loss runs and summaries, assistance with Health and Safety committees, handouts on a variety of safety issues, participation in health and safety fairs, and audio visual tapes.

As shown in **Exhibit 3**, the number of workers' compensation claims has grown at a relatively steady pace between fiscal 2001 and 2005, the opposite result from that intended when SERMA funds were increased in fiscal 2003. **Therefore, DLS recommends reducing funds for workers' compensation assessments in the fiscal 2007 allowance, deleting the increased funding for SERMA (\$800,000), less the portion paid by nonbudgeted agencies (-\$30,690).**

Governor's Proposed Budget

Exhibit 4 shows the major changes in OPSB's budget. The most significant changes are for statewide expenses, discussed in Issue 1.

Exhibit 3
Number and Value of State Workers' Compensation Claims
Fiscal 2002 – 2005
(\$ in Millions)



Source: Injured Worker's Insurance Fund

Exhibit 4
Governor's Proposed Budget
DBM – Office of Personnel Services and Benefits
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2006 Working Appropriation	\$40,566	\$9	\$3,951	\$44,526
2007 Governor's Allowance	<u>103,703</u>	<u>14,938</u>	<u>3,903</u>	<u>122,543</u>
Amount Change	\$63,136	\$14,929	-\$48	\$78,017
Percent Change	155.6%	164374.8%	-1.2%	175.2%

Where It Goes:

OPSB Personnel Expenses

Increments and other compensation	\$177
Fiscal 2007 employee and retiree health insurance	172
Fiscal 2006 underfunding of employee and retiree health insurance	156
Employees' retirement system	62
Turnover adjustments	45
Fiscal 2006 health insurance offset.....	20
Deferred compensation increase from \$400 to \$600 per participant.....	17
Agency-level overtime	4
Workers' compensation premium assessment	-5
Agency-level reclassifications	-32
Contractual employee compensation and other miscellaneous charges	-9

Statewide Personnel Expenditures

Net increase for 2% general salary increase (full general and special fund cost: \$71.0 million)	70,566
Net increase in funding for annual salary reviews.....	33,410
Mission critical bonuses for registered nurses and retention bonuses for correctional officers	3,946
Impact of ASRs on overtime payments for correctional officers	1,500
Increased shift differential for registered nurses, licensed practical nurses, and direct care assistants	1,203
Increase in death payments for the Department of Public Safety and Correctional Services and other State employees.....	600

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Where It Goes:

Two additional steps on the standard salary schedule and 1 additional step on the physicians' salary schedule	539
Statewide health insurance funding for fiscal 2006. Funds are budgeted with individual agencies in fiscal 2007.....	-33,892

Other Changes

Computer software and hardware charges that had been charged to the Office of Information Technology in fiscal 2006	148
Postage increases due to additional Medicare Part D mailings in the Division of Employee Benefits.....	63
Telecommunications charges.....	27
Travel.....	9
Office of Administrative Hearings charges	-142
Fiscal 2006 data processing contracts for Benefits Administrative System enhancements no longer needed	-511
Other	-54

Total **\$78,017**

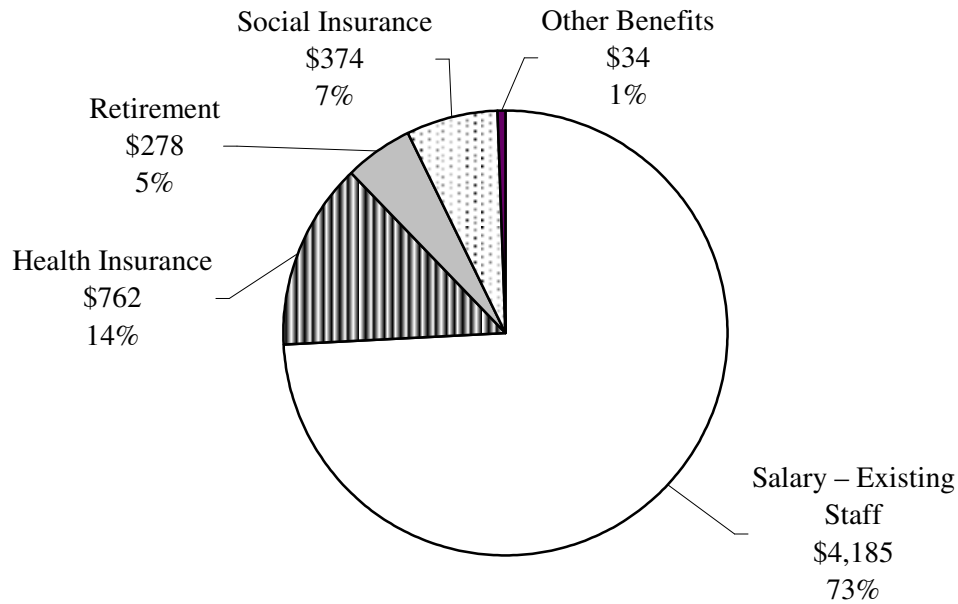
Note: Numbers may not sum to total due to rounding.

Issues

1. Statewide Regular Employee Compensation Grows by 8.6% in Fiscal 2007

The number of regular full-time equivalent (FTE) State positions is growing by 1,048, or 1.3% in the allowance while State expenditures devoted to regular employee salaries and fringe benefits is increasing by \$464.9 million, or 8.6% over the fiscal 2006 working appropriation (**Appendix 5** and **6**). The federal and reimbursable fund portion of the general salary increase, not budgeted in the allowance, adds \$9.6 million, for an adjusted increase of 8.7%. The components of compensation in the fiscal 2006 working appropriation are illustrated in **Exhibit 5**, while the components of change between fiscal 2006 and the fiscal 2007 allowance are illustrated in **Exhibit 6**. Detail on the budgeted and anticipated adjustments in the fiscal 2007 allowance are shown in **Exhibit 7** and discussed below.

Exhibit 5
Primary Components of Compensation in the
Fiscal 2006 Working Appropriation¹
 (\$ in Millions)

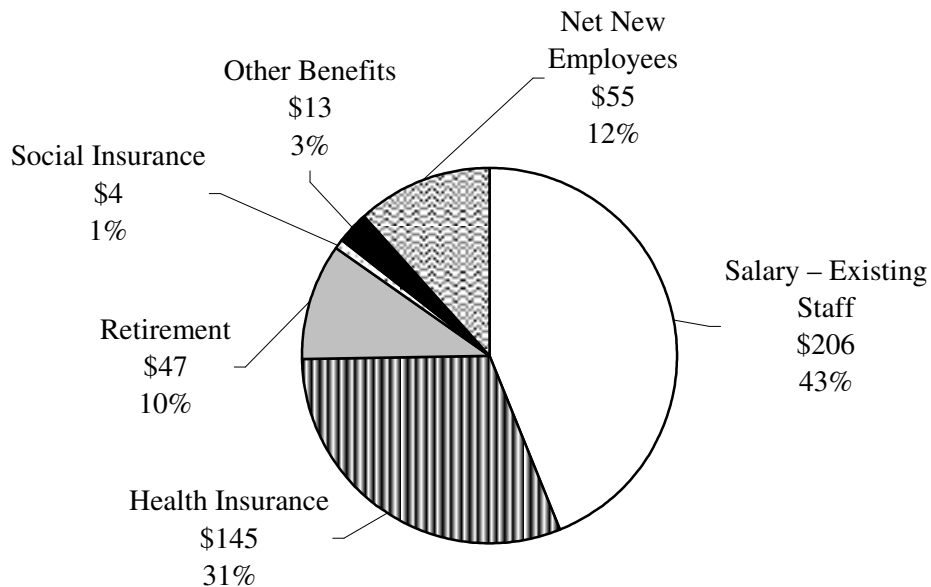


¹ Before turnover.

Note: Social insurance includes Social Security, workers’ compensation insurance, and unemployment compensation insurance. “Other Benefits” include death payments, mission critical and retention bonuses, the deferred compensation match, employee awards, tuition waivers, and other incentives.

Source: Department of Budget and Management

Exhibit 6
Primary Components of Compensation Growth in the
Fiscal 2007 Allowance¹
(\$ in Millions)



¹ Before turnover.

Note: Social insurance includes Social Security, workers' compensation insurance, and unemployment compensation insurance. "Other Benefits" include death payments, mission critical and retention bonuses, the deferred compensation match, employee awards, tuition waivers, and other incentives.

Source: Department of Budget and Management

Exhibit 7
Regular Employee Personnel Changes
Fiscal 2006 – 2007
(\$ in Millions)

2006 Working Appropriation	\$5,428.0
General salary changes	
Increments	96.5
2.0% general salary increase – general and special funds (includes \$21.5 million for higher education)	71.0
Two additional steps on the standard salary schedule and one additional step on the physicians’ salary schedule	0.5
Overstatement of base salary	-11.0
Dedicated salary enhancements (includes correctional officer enhancement deficiency)	19.5
Retention strategies	5.1
Increased value of employee "Death Payments"	0.6
1,106.4 new positions in the allowance (salaries and fringe benefits)	57.4
58.7 positions abolished in the allowance (salaries and fringe benefits)	-2.7
Health insurance	144.7
Retirement	47.3
Workers' compensation insurance (includes deficiency)	-1.1
Social Security and unemployment compensation insurance	4.8
State deferred compensation match increase from \$400 to \$600 per employee	7.6
Adjustment to turnover and other compensation offsets	-4.7
Other salary (additional assistance, overtime, shift differential, student payments, and other)	28.3
Other changes	1.0
Fiscal 2007 Allowance	\$5,892.8
Unbudgeted general salary increase – federal and reimbursable funds	9.6
Adjusted 2007 Allowance	\$5,902.5
Increase over fiscal 2006 Working Appropriation	474.5
Percentage increase	8.7%

Source: Department of Budget and Management

New and Abolished Positions in the Allowance

A total of 1,106 new FTE positions and 58 abolitions are proposed for the fiscal 2007 allowance, the location of which is described in **Exhibit 8**.

Exhibit 8 Regular Full-time Equivalent Positions Fiscal 2006 Working Appropriation to 2007 Allowance

<u>Department/Service Area</u>	<u>2006 Wkg. Approp.</u>	<u>Budget Transfers</u>	<u>Abolitions</u>	<u>New Positions</u>	<u>2007 Allow.</u>
Legislative Branch	740	0	0	4	744
Judicial Branch	3,291	0	0	121	3,412
Executive Branch					
Legal	1,563	0	-1	22	1,584
Executive and Administrative Control	1,592	2	0	46	1,640
Financial and Revenue Administration	2,023	0	-1	4	2,026
Budget and Management	433	0	0	0	433
Retirement	186	0	0	3	189
General Services	643	0	-8	1	636
Transportation	9,012	0	0	40	9,052
Natural Resources	1,367	0	-2	7	1,372
Agriculture	428	0	0	9	437
Health and Mental Hygiene	7,573	0	-22	63	7,614
Human Resources	6,961	0	0	36	6,997
Labor, Licensing, and Regulation	1,460	0	0	13	1,473
Public Safety and Correctional Services	11,279	0	-5	31	11,305
MSDE and Other Education	2,136	0	-1	48	2,183
Housing and Community Development	318	-2	0	0	316
Business and Economic Development	292	0	0	0	292
Environment	949	0	0	3	952
Juvenile Services	2,081	0	-17	17	2,081
Police and Fire Marshal	2,464	0	-2	10	2,472
Executive Branch Subtotal	52,756	0	-58	353	53,051
Higher Education	21,699	0	0	629	22,327
Total	78,486	0	-58	1,106	79,534

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

Source: Department of Budget and Management

Positions are being added for a number of reasons (**Appendix 8**). Data on service assignments for these new positions is provided in **Exhibit 9**. The large number of special appointments is primarily due to hiring in the Maryland State Department of Education (36 FTEs) and the Office of the Public Defender (22 FTEs), agencies for which special appointment status is defined through statute. The largest number of new positions are in the skilled service category. Of the 58 positions abolished in the allowance, 35 are currently filled. Employees filling those abolished positions have the opportunity to move into other positions in the new fiscal year.

Exhibit 9
New Positions by Service Category¹

	New Positions		FY 2007 Allowance	
	<u>FTEs</u>	<u>%</u>	<u>FTEs</u>	<u>%</u>
Executive Service	1	0.3%	203	0.5%
Management Service	8	2.6%	1,833	4.1%
Special Appointment	90	28.8%	3,911	8.8%
Professional Service	30	9.6%	2,976	6.7%
Skilled Service	184	58.7%	32,522	73.0%
Other		0.0%	2,084	4.7%
Unknown		0.0%	1,024	2.3%
Total	313	100.0%	44,552	100.0%

¹ Excludes new positions in the Legislative Branch, the Judicial Branch, higher education, and transportation.

Source: Department of Budget and Management

Allowance Exceeds Position Cap

The Spending Affordability Committee (SAC) recommended a non-higher education regular position cap of 52,760 FTE positions for fiscal 2007. As submitted, the allowance includes 291 positions above that cap, as shown in **Exhibit 10**. **The fiscal 2007 position cap language, as recommended by DLS is 52,775. This limit is 15 above the SAC recommended cap of 52,760 FTE positions; it includes 14.5 new positions created in the Alcohol and Drug Abuse Administration (ADAA) consistent with guidance provided to the Department of Health and Mental Hygiene in the fiscal 2006 budget bill. The bill directed that ADAA abolish a contract with the Bureau of Governmental Research at University of Maryland College Park and create regular positions. The DLS recommendation also includes an exemption or exception to the cap for non-state funded positions added through the Board of Public Works (BPW) after January 1, 2006.**

Exhibit 10
How Many Fiscal 2007 Abolitions Are Currently Required Under the SAC Cap?

	<u>Legislature</u>	<u>Judiciary</u>	<u>Higher Education</u>	<u>Executive Branch*</u>
Fiscal 2006 Working	740	3,291	21,699	52,756
Abolitions	-	-	-	-58
New Positions	-	121	629	353
Fiscal 2007 Allowance	740	3,412	22,327	53,051
Change	-	121	629	295
Non-higher Education Executive Branch Position Cap				52,760
Number of Positions Above the Cap in the Allowance				291

*Non-higher education Executive Branch agencies only.

Source: Department of Budget and Management

2.0% General Salary Increase

The allowance contains \$71.0 million in general and special funds for a planned 2.0% general salary increase effective July 1, 2006, the third consecutive annual general salary increase (**Appendix 9**)². These funds are budgeted in DBM and are to be transferred to non-higher education agencies supporting personnel with general funds (\$34.4 million) and special funds (\$13.4 million), as well as to higher education institutions (\$21.5 million). The federal and reimbursable funds necessary to fund the general salary increase (\$9.6 million) will be brought in through budget amendment in individual agencies. Other expenditures related to the general salary increase – the impact on the ASR enhancements, additional funding for local health agencies, and funds for small agencies with a large reimbursable fund impact – total \$1.7 million in general funds and \$30,456 in special funds.

² Appendix 9 also details changes to other components of employee compensation over the last eight fiscal years.

Increment or Merit Increases

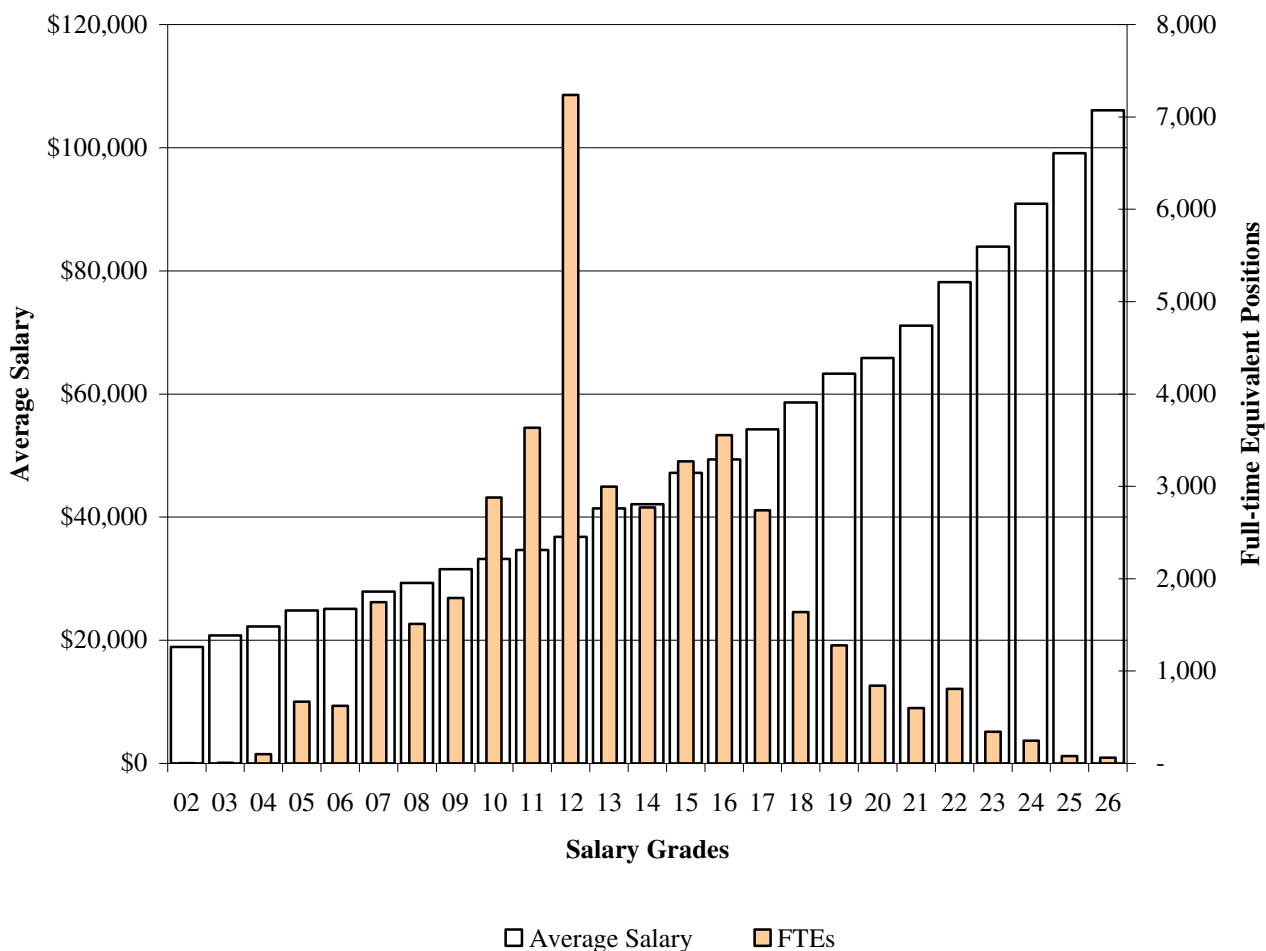
Increment increases, frequently called merit increases, are funded in the fiscal 2007 allowance, also for the third consecutive year. The full average cost of these increases is approximately 2.3% of the base salary; employees on the standard salary schedule moving through receive an increase of 3.4 to 3.9% until they reach step 6, then the increases decrease to 1.8 to 2.0%. These increments, tied to the results of performance evaluations, are given in either July or January. About half the workforce receives increments at each point. In fiscal 2007 the cost is approximately \$96.5 million in total funds. DBM is adding two additional steps to the standard salary schedule and one additional step to the physicians' salary schedule in the fiscal 2007 allowance for a total cost of \$352,200 in general funds and \$186,778 in special funds.

For those employees paid on the standard salary schedule, the average value of the merit increase and the general salary increase together is approximately \$1,850, or 4.3%. The average salary paid those 41,432 FTE State employees (**Appendix 14**) during fiscal 2006 is \$43,326. Approximately 25% of employees are in grade 10 or below and approximately 25% are in grade 16 and above. Most are in grade 12, as shown in **Exhibit 11**, due to the prevalence of the 3,841 FTE correctional office II positions (**Appendix 15**) currently in that grade.

Annual Salary Reviews and Retention Strategies

ASRs are performed each year by the DBM Division of Salary Administration and Position Classification. In four of the past eight years (**Appendix 9**), certain categories of classifications have been given increases in the form of salary upgrades or have been reclassified and had their position descriptions rewritten. With most reclassifications, salary upgrades have also been given, usually one- to two-grade increases or the equivalent. Classifications focused on are those that have outdated descriptions or those for which the State finds it difficult to recruit and retain employees due to non-competitive salaries. In fiscal 2007, DBM is proposing ASRs, as shown in **Exhibit 12**, for a much broader group of employees than it has in a number of years (**Appendix 9**) and has begun to use lump-sum bonuses for some groups to aid in retention efforts, as described in **Exhibit 13**.

Exhibit 11
Average Salary and Number of FTE Filled Positions in Each Grade
of the Standard Salary Schedule
(Fiscal 2006 Working Appropriation)



Note: Filled positions as of December 31, 2005.

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

Exhibit 12
Annual Salary Review Reclassifications and Upgrades
Fiscal 2007 Allowance

<u>Classification</u>	<u>Adjustment</u>	<u>Impact</u>	<u>Current Vacancy Rate</u>	<u>Affected Positions</u>	<u>Cost (Millions)</u>
Correctional Officers	One-grade adjustment through Warden	Approximately 6.6% increase	9.4%	7,075	\$20.700
Correctional Officer I	Starting salary adjusted to step 3 (also applied to officers now paid up through step 2)	Base pay in grade 11 to step 3 grade 12: \$28,126 to \$33,413 (before general salary increase)	20.3%	948	\$4.500
Correctional Maintenance, Dietary, Residence, Laundry and Supply Officers, and State Use Industries Officers	One-grade adjustment	Grades ranging from 9 to 19 increase by one grade	10.6%	860	\$2.357
Forensic Scientists at Maryland Department of State Police	Two-grade increase and reclassification to standardized forensic scientist series	Will increase salaries to comparability with Baltimore County, Anne Arundel County, Montgomery County, Northern Virginia, and the federal government	23.9%	46	\$0.246
Maryland State Police, Natural Resources Police, Park Rangers, Deputy State Fire Marshals, and the General Police Schedule	2% market adjustment agreed to in negotiations with the State Law Enforcement Officer Alliance (SLEOLA)		6.0% ⁽¹⁾	2,145	\$3.195
General Police Schedule (primarily DHMH and DGS Police)	7% adjustment, in addition to the 2% described above	According to SLEOLA, will improve their ability to recruit and retain officers	15.9%	153	\$0.400

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<u>Classification</u>	<u>Adjustment</u>	<u>Impact</u>	<u>Current Vacancy Rate</u>	<u>Affected Positions</u>	<u>Cost (Millions)</u>
Institutional Educator Pay Plan	Adjust to reflect market rate for teachers in local jurisdictions	Will increase institutional educator salaries to the current average for comparable positions	11.9%	310	\$1.721
Teacher Aides	Reclassify positions and provide upgrades for grades 2 through 4, to grades 6 and 8	Will move salaries closer to comparability in the six counties with the largest number of institutional educators	17.0%	41	\$0.053
Administrative Law Judges	One-grade increase to assist with recruitment and retention efforts		1.8%	56	\$0.371

⁽¹⁾ If positions in the General Police Schedule are removed, the vacancy rate for positions on other law enforcement schedules is 5.1% as of December 31, 2005. The Maryland State Police has a 3.1% vacancy rate (1,590 positions); the Natural Resources Police has a 11.1% vacancy rate (271 positions); the Park Rangers have a 21.8% vacancy rate (55 positions); and Deputy Fire Marshals have a 17.0% vacancy rate (47 positions).

Source: Department of Budget and Management

**Exhibit 13
Retention Strategies
Fiscal 2007 Allowance**

<u>Classification</u>	<u>Adjustment</u>	<u>Impact</u>	<u>Current Vacancy Rate</u>	<u>Affected Positions</u>	<u>Cost (Millions)</u>
Correctional Officer II, Sergeant, Lieutenant, Captain, and Major	\$500 lump-sum bonus	Paid to incumbents who have fewer than 5 unscheduled absences over a 12-month period	7.7%	6,056	\$3.600
Department of Health and Mental Hygiene Registered Nurses	\$3,000 lump-sum bonus	Paid to incumbents who have fewer than 5 unscheduled absences over a 12-month period	10.6%	672	\$0.346

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<u>Classification</u>	<u>Adjustment</u>	<u>Impact</u>	<u>Current Vacancy Rate</u>	<u>Affected Positions</u>	<u>Cost (Millions)</u>
Registered Nurses	Increase shift differentials to \$2.60 to \$4.60 per hour (is currently \$1.25 to \$2.75 per hour)	Necessary to facilitate staffing on weekends and evenings and to provide comparability with central Maryland health care facilities	10.6%	720	\$0.720
Licensed Practical Nurses and Direct Care Assistants	Increase shift differentials to \$1.00 per hour (is currently either \$0 or \$0.625 per hour)	Necessary to facilitate staffing on weekends and evenings and to provide comparability with central Maryland health care facilities	5.2%	1,191	\$0.482

Source: Department of Budget and Management

Death Benefit

There are funds in DBM’s budget to increase one death benefit and provide funding for another. These benefits are to be paid in the event a member of law enforcement or a State employee is killed in the performance of duty. The first proposed increase from \$50,000 to \$125,000 is for law enforcement officers, correctional officers, a volunteer or career firefighter or rescue squad member, or a sworn member of the office of the State Fire Marshal. This payment is made either to a survivor or to the deceased officer’s estate and is paid by the agency. This payment is made in addition to an existing death benefit payment of \$50,000 paid by DBM to members of State law enforcement, for a total proposed payment of \$175,000. **DLS recommends making the budgeted increase in the law enforcement death benefit contingent on enactment of enabling legislation (SB 388).** There is also \$150,000 to provide DBM death benefits to State employees killed in the performance of duty. Death benefit payments made by DBM are in the amount of \$100,000 and are paid to survivors only, not to the estate of an employee killed in the performance of duty. These funds revert at the end of the fiscal year if the benefit is not needed. The total increase in the fiscal 2007 allowance for these two changes is \$600,000 in general funds.

Retirement

Budgeted State employer contributions to the State Retirement and Pension System increase by \$47.3 million in fiscal 2007 due to actuarial assumption changes approved by the Board of Trustees. In fiscal 2006, the teachers’ combined retirement and pension systems joined the combined employees’ systems in falling out of their funding “corridor” established in Chapter 440, Acts of 2002. Chapter 440 sought to mitigate the effects of fluctuations in market returns on employer contribution rates by spreading out those effects over five years. The corridor method froze employer

contribution rates for the employees’ and teachers’ systems at their fiscal 2002 levels as long as the two systems remained actuarially funded between 90 and 110%. As the plans fall out of their corridors, the employer contributions increase by an amount equal to one-fifth of the difference between the prior year’s rate and the “true” rate required to fully fund the systems. The employees’ combined systems fell out of their corridor in fiscal 2005.

Exhibit 14 shows the increases in employer contribution rates and funding status for all of the retirement systems from fiscal 2006 to 2007. For the employees’ and teachers’ systems, it shows the difference between the full-funding rates and the rates determined by the corridor method (which are the rates applied in the State budget).

Exhibit 14
Employer Contribution Rates and Actuarial Funding Levels*
Fiscal 2006 and 2007

<u>Plan</u>	<u>Fiscal 2007</u>			<u>Fiscal 2006</u>		
	<u>Corridor Rate</u>	<u>Actuarial Rate</u>	<u>Funding Level</u>	<u>Corridor Rate</u>	<u>Actuarial Rate</u>	<u>Funding Level</u>
Employees	6.83%	11.11%	84.9%	5.76%	9.88%	89.2%
Teachers	9.71%	11.17%	89.3%	9.35%	10.16%	92.8%
State Police		13.83%	100.3%		8.22%	107.3%
Judges		42.43%	79.3%		41.12%	80.1%
LEOPS		40.60%	57.7%		38.47%	63.3%
Combined System	9.18%	11.58%	87.8%	8.46%	10.42%	91.7%

LEOPS = Law Enforcement Officers’ Pension System

*For fiscal 2006, the funding level as of June 30, 2004; for fiscal 2007, the funding level as of June 30, 2005.

Source: Milliman U.S.A.

2. Health Insurance

2005 Legislative Session

During the 2005 legislative session, the General Assembly found it necessary to respond to a shortfall of \$120 million in health insurance funding. In the fiscal 2006 budget submitted by the Governor, health insurance was level funded, which would have required that State employees and retirees absorb any costs related to inflation or benefit enhancements. The General

Assembly chose to close this gap using a combination of budget and program restructuring (**Appendix 10**). This restructuring included increasing prescription co-payments and requiring an additional 2% of cost of point-of-service health insurance be paid by employees and retirees in fiscal 2006. Available funds, resulting from a reduction in the general salary increase, the requirement that higher education absorb \$3.6 million, and 501 position abolitions were earmarked for employee and retiree health insurance.

Fiscal 2006 Funding

The fiscal 2006 working appropriation contains \$742 million for employee and retiree health and prescription insurance. This amount will be supplemented by a \$9 million payment from Medicare that the State will receive for maintaining prescription drug coverage for retirees rather than shifting the retirees into the new Medicare Part D drug benefit. Additional special, federal, and higher education revenues may be added later in the year through budget amendments.

The available funding trails DBM's current \$788 million estimate of fiscal 2006 costs by \$37 million. However, the DBM estimate of costs is not consistent with previous estimates or the State's experience over the first six months of the fiscal year. As depicted in **Exhibit 15**, DBM's forecast for fiscal 2006 is very similar to its estimate at the start of the 2005 session of \$817 million. After adjusting for lower than expected fiscal 2005 costs and the savings expected from the cost containment actions approved at the 2005 session, only \$749 million in expenses can be anticipated for fiscal 2006. The State's experience over the first six months of fiscal 2006 suggests actual expenses will be even lower (**Exhibit 16**).

Exhibit 15 Projected Health Insurance Costs

	<u>FY 2005</u>	<u>FY 2006</u>
DBM – Start of 2005 Session	\$675	\$817
Less Projected Savings from 2005 Session		-57
Less Amount Fiscal 2005 Actual Costs Were Below DBM Estimate	-11	-11
Adjusted Forecast	\$664	\$749
Current DBM Estimate	\$664	\$787
Difference		\$38

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

Exhibit 16
Total Claims for Health, Prescription, and Dental Benefit
July – December, Fiscal 2005 and 2006
(\$ in Millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>Change</u> <u>FY 05-06</u>
Preferred Provider Organizations	\$138.1	\$144.8	4.9%
Point-of-Service Plans	89.7	89.8	0.0%
Health Maintenance Organization Plans	36.8	47.8	30.1%
Mental Health/Substance Abuse Plans	6.1	6.4	6.4%
Medical Subtotal	\$270.6	\$288.9	6.7%
Prescription Plan	146.5	122.7	-16.2%
Dental Plans	12.1	15.0	24.3%
Total	\$429.2	\$426.6	-0.6%

Source: Department of Budget and Management

In Exhibit 16, claims costs from the first half of fiscal 2006 are compared to claims costs made during the first half of fiscal 2005. These costs, representing both the State's and the participants' share, are increasing at a rate of 6.7% for health coverage and 24.3% for dental coverage. Prescription claims costs are decreasing by 16.2% as a result of increases in copayment charges in fiscal 2006. Overall, the insurance package costs 0.6% less in the first half of fiscal 2006 than it did in the first half of fiscal 2005. Using these claims costs to estimate full-year spending requires that changes to the health plans and the prescription plan between fiscal 2005 and 2006 be taken into consideration:

- A number of copayment increases were implemented by the Administration at the beginning of calendar 2005 (Appendix 10). When those changes were implemented, DBM estimated that they would save the State \$10.4 million annually; therefore, any annualized claims cost would have to take into consideration the difference of a half year of savings in fiscal 2005 and a full year of savings in fiscal 2006.
- Another significant policy change was to increase prescription copayments up to a maximum of \$700 per family. As of the end of January 2006, 977 families reached that threshold. By the end of fiscal 2006, many more will have; therefore, diminishing savings in the prescription plan in the second half of fiscal 2006 must be assumed. A very conservative estimate would be a flat spending pattern between fiscal 2005 and 2006.

Taking into consideration the two program changes described above and doubling the half-year claims costs, health spending now increases by 8.6%, and total spending increases by 5.9% in fiscal 2006. The State’s share of anticipated fiscal 2006 costs is presented in **Exhibit 17**.

Exhibit 17
State’s Part of Total Claims for Health, Prescription, and Dental Benefit
Fiscal 2005 and 2006
(\$ in Millions)

	<u>Actual</u> <u>FY 2005</u>	<u>DLS</u> <u>Estimate</u> <u>FY 2006</u>	<u>Change</u> <u>FY 05-06</u>
Preferred Provider Organizations	\$220.9	\$235.9	6.8%
Point-of-Service Plans	149.0	151.9	1.9%
Health Maintenance Organization Plans	58.8	78.0	32.5%
Mental Health/Substance Abuse Plans	9.9	10.5	6.4%
Medical Subtotal	\$438.6	\$476.2	8.6%
Prescription Plan	234.3	234.3	0.0%
Dental Plans	12.1	15.0	24.3%
Total	\$685.0	\$725.6	5.9%

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

Based on the program changes and assumptions described above, DLS estimates that DBM is overstating fiscal 2006 insurance costs by \$61.9 million (**Exhibit 18**). Even taking into consideration the assumed claims cost increases in the second half of fiscal 2006, in order to reach the level of spending assumed by DBM in the working appropriation, claims costs for the second half of fiscal 2006 would have to exceed claims costs for the same six-month period in fiscal 2005 by 34%.

Fiscal 2007

Since the fiscal 2007 budget was developed using an overstated fiscal 2006 base, DLS finds that the allowance contains \$65.1 million more than is necessary to pay fiscal 2007 claims. The DLS forecast assumes:

- Fiscal 2006 costs to the State of \$726 million as discussed above.

Exhibit 18
Allowance Overstates Health Insurance Costs
Fiscal 2005 – 2007

	<u>FY 2005</u> <u>Actual</u>	<u>FY 2006</u> <u>Wkg Approp.</u>	<u>FY 05 - 06</u> <u>Change</u>	<u>FY 2007</u> <u>Allowance</u>	<u>FY 06 - 07</u> <u>Change</u>
DBM Estimate ³	\$663.6	\$787.5	18.7%	\$892.4	13.3%
DLS Estimate	685.0	725.6	5.9%	827.3	14.0%
Spending Needed to Reach DBM Estimate		\$61.9		\$65.1	
DLS Estimate Compared to Budget		-16.8		-\$65.1	

Source: Department of Budget and Management

- The number of filled State positions and commensurate health care expenses will grow by 0.7% in fiscal 2007⁴.
- Health care costs will grow at the actuarially determined rates projected by DBM for 2007.

DLS recommends a reduction of \$65.1 million to recognize the excess funds included in the allowance for employee and retiree health insurance. In addition, DLS recommends a reduction of \$19.7 million in general funds. This reduction is made possible due to the availability of a federal Medicare payment that the State will receive for continuing prescription drug coverage for retirees, which is to be credited to the State Employees and Retirees Health and Welfare Benefits Fund (State Personnel and Pensions Article, § 2-516). These funds can be used to offset agencies' general fund obligation for health insurance costs. No assumptions were made about the availability of these funds in the allowance.

³ Based on cost projections developed by DBM and its actuary. Funding for health insurance in the fiscal 2007 budget is based on these projections.

⁴ Estimating future claims costs based on current claims cost does not account for any growth in the number of personnel employed by the State. If hiring practices are not altered in the State, there will be approximately 74,000 filled positions in the allowance (based on the current vacancy rate of 6.9%). There are also approximately 1,000 vacant positions for which there is funding (**Appendix 12**) in the allowance. If half of those positions were filled, the workforce and the potential number of people who are carrying insurance would increase by 0.7 % in the allowance.

Recommended Actions

1. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That the Board of Public Works, 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 50 positions in excess of the total number of authorized State positions on July 1, 2006, 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 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 50 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, the Board of Public Works may authorize additional positions to meet public emergencies resulting from an act of God and violent acts of men, which are necessary to protect the health and safety of the people of Maryland.

The Board of Public Works may authorize the creation of additional positions within the Executive Branch provided that 1.25 full-time equivalent contractual positions are abolished for each regular position authorized and that there be no increase in agency funds in the current budget and the next two subsequent budgets as the result of this action. It is the intent of the General Assembly that priority is given to converting individuals that have been in a contractual position for at least two years. Any position created by this method shall not be counted within the limitation of 50 under this section.

In addition to any positions created within the limitation of 50 under this section, the Board of Public Works may authorize the creation of no more than 150 positions within the Department of Human Resources to provide services purchased by Local Management Boards through contracts with local departments of social services. If a Local Management Board terminates a contract with a local department of social services during the fiscal year, all the positions created by the Board of Public Works to provide services under the terms of that contract shall be abolished.

In addition to any positions created within the limitation of 50 under this section, the Board of Public Works may authorize the creation of positions within the Department of Human Resources to provide services funded by grants from sources other than Local Management Boards. If any grant entity terminates a grant award with a local department of social services or other unit during the fiscal year, all positions created by the Board of Public Works to provide services under the terms of the grant award shall be abolished. The employee contracts for these positions shall explicitly state that the positions are abolished at

the termination of the grant award. General funds or any other State funds shall not be used to pay any of the salaries or benefits for these positions. Furthermore, the Department of Human Resources must provide a summary to the budget committees by December 1 of each year on the number of positions created under this section.

The numerical limitation on the creation of positions by the Board of Public Works established in this section shall 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, 2007, the status of positions created with non-State funding sources during fiscal 2004, 2005, 2006, and 2007 under this provision as remaining authorized or abolished due to discontinuation of funds.

Explanation: This annual language, the “Rule of 50”, limits the number of positions that may be added after the beginning of the fiscal year to 50 and provides for exceptions to the limit.

Information Request	Author	Due Date
Certification of the status of positions created with non-State funding sources during fiscal 2004, 2005, 2006, and 2007	DBM	June 30, 2007

2. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That immediately following the close of fiscal 2006, the Secretary of Budget and Management shall determine the total number of full-time equivalent positions that are authorized as of the last day of fiscal 2006 and on the first day of fiscal 2007. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2006 and 2007 including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self-supported activities, and the State Use Industries.

The Department of Budget and Management shall also prepare during fiscal 2007 a report for the budget committees upon creation of regular full-time equivalent (FTE) positions through Board of Public Works action and upon transfer or abolition of positions. This report shall also be provided as an appendix in the fiscal 2008 Governor's budget book. It shall note, at the program level:

- (1) where regular FTE positions have been abolished;
- (2) where regular FTE positions have been created;
- (3) from where and to where regular FTE positions have been transferred; and
- (4) where any other adjustments have been made.

Provision of contractual FTE position information in the same fashion as reported in the appendices of the fiscal 2007 Governor's budget book shall also be provided.

Explanation: This is annual language providing reporting requirements for regular and contractual State positions.

Information Request	Author	Due Date
Total number of FTEs on June 30 and July 1	DBM	July 14, 2006
Report on the creation, transfer, or abolition of regular positions	DBM	As needed

3. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That the Department of Budget and Management and the Maryland Department of Transportation are required to submit to the Department of Legislative Services' (DLS) Office of Policy Analysis:

- (1) a report listing the grade, salary, title, and incumbent of each position in the Executive Pay Plan (EPP) as of July 1, 2006, October 1, 2006, January 1, 2007, and April 1, 2007; and
- (2) detail on any lump-sum increases given to employees paid on the EPP subsequent to the previous quarterly report.

Flat rate employees on the EPP shall be included in these reports. Each position in the report shall be assigned a unique identifier, which describes the program to which the position is assigned for budget purposes and corresponds to the manner of identification of positions within the budget data provided annually to DLS' Office of Policy Analysis.

Explanation: Legislation adopted during the 2000 session altered the structure of the EPP to give the Governor flexibility to compensate executives at appropriate levels within broad salary bands established for their positions, without reference to a rigid schedule of steps, and through other compensation methods such as a flat rate salary. These reports fulfill a requirement for documentation of any specific recruitment, retention, or other issues that warrant a pay increase.

Information Request	Authors	Due Date
Report of all Executive Pay Plan positions	Department of Budget and Management	July 15, 2006
		October 15, 2006
	Maryland Department of Transportation	January 15, 2007
		April 15, 2007

4. Add the following section:

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.

5. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, Notwithstanding the provisions of § 2-516 or § 2-502 of the State Personnel and Pensions Article, in fiscal 2007 the State shall reduce the funds budgeted for State Employee and Retiree Health and Welfare Benefits Program by the following amounts:

<u>Department</u>	<u>Fund</u>	<u>Amount</u>
<u>Executive</u>	<u>General</u>	<u>\$39,638,453</u>
<u>Executive</u>	<u>Special</u>	<u>9,416,571</u>

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<u>Executive</u>	<u>Federal</u>	<u>7,063,701</u>
<u>Judiciary</u>	<u>General</u>	<u>3,613,461</u>
<u>Judiciary</u>	<u>Special</u>	<u>168,166</u>
<u>Judiciary</u>	<u>Federal</u>	<u>37,288</u>
<u>Legislative</u>	<u>General</u>	<u>819,363</u>
<u>R75T00.01</u>	<u>General</u>	<u>17,466,386</u>
<u>Higher Education</u>	<u>Current Unrestricted</u>	<u>24,151,283</u>

For the purposes of this section, Support for State Operated Institutions of Higher Education (R75T00.01) shall not be reduced by any amount required of the Executive. Higher education institutions shall be defined as all institutions of the University System of Maryland, St. Mary's College, Morgan State University, and Baltimore City Community College.

Explanation: This language provides for reduction of \$65.1 million in funding to the State Employee and Retiree Health and Welfare Benefits Program resulting from an overestimate of fiscal 2007 health care expenditures. It also includes a general fund reduction of \$19.7 million made possible due to the availability of a federal Medicare payment that the State will receive for continuing prescription drug coverage for retirees, which is to be credited to the State Employees and Retirees Health and Welfare Benefits Fund (State Personnel and Pensions Article, § 2-516). These funds can be used to offset agencies' general fund obligation for health insurance costs. No assumptions were made about the availability of these funds in the allowance.

6. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That:

- (1) For fiscal 2007 the total number of full-time equivalent (FTE) regular positions may not exceed 52,775 in Executive Branch agencies and the number of FTE contractual positions, as reported in the State Budget Books, may not exceed 2,797 in Executive Branch agencies. For the purposes of this section, Executive Branch agencies shall exclude the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College.
- (2) The Governor shall submit to the Board of Public Works not later than June 15, 2006, a schedule for aligning the authorizations in Section 1 of this Act to the levels

established in paragraph (1) of this section, and shall take such actions as necessary to implement any necessary reductions. This schedule may only alter position authorizations for agencies of the Executive Branch, excluding the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College.

- (3) In implementing this section, the Governor shall abolish the number of vacant positions in Executive Branch agencies, excluding the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College, necessary to reach the limit.
- (4) Notwithstanding any other provisions of this budget, positions shall not be created in the executive service, management service, or commission plan nor shall existing positions be reclassified into or transferred from one agency, office, or department to another for the purpose of increasing, overall or within any agency, office, or department, the number of positions in the executive service, management service, or the commission plan during fiscal 2007.
- (5) The number of exempt or non-State funded positions added in fiscal 2006 after January 4, 2006, through the Board of Public Works in non-higher education agencies, under the authority of Section 35 of the 2005 budget bill (Chapter 443, Acts of 2005) shall not count under the limit established in paragraph (1).
- (6) The Secretary of Budget and Management shall provide to the budget committees a list of abolished vacant positions by eight-digit budget code on or before July 1, 2006.

Explanation: This language imposes a cap of 52,775 regular positions for Executive Branch agencies, excluding the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College. This limit is 15 above the Spending Affordability Committee recommended cap of 52,760 FTE positions; it includes 14.5 new positions created in the Alcohol and Drug Abuse Administration that were consistent with guidance provided to the Department of Health and Mental Hygiene in the 2005 budget bill to abolish a contract with the Bureau of Governmental Research at University of Maryland College Park and create regular positions. FTE Executive Branch positions included in the fiscal 2007 allowance and supplemental budget exceed the revised position cap by 275.5 FTE positions. The language also restricts the creation and/or increase in the number of executive service, management service, and commission plan positions during the fiscal year.

Information Request	Author	Due Date
List of abolished positions	DBM	July 1, 2006

7. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That the State assessment for workers' compensation insurance to the agencies shall be reduced by \$498,188 in general funds, \$212,055 in special funds, \$31,735 in federal funds, \$1,929 in reimbursable funds, and \$25,404 in current unrestricted funds. The Governor shall develop a schedule for allocating this reduction to agencies, based on the original allocation of the fiscal 2007 workers' compensation assessments to State agencies.

Explanation: The number of workers' compensation claims has grown at a relatively steady pace between fiscal 2002 and 2005 even as the number of State employees was decreasing, the opposite result from that intended when State Employee Risk Management Administration (SERMA) funds were increased in fiscal 2003. This section reduces the workers' compensation assessment by the \$800,000 budgeted for SERMA, less SERMA changes attributed to nonbudgeted entities (-\$30,690).

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

Provided that \$150,000 of this appropriation is contingent upon the Department of Budget and Management submitting reports to the budget committees concerning the employees' and retirees' health insurance and prescription drug programs by September 15, 2006, December 15, 2006, and March 15, 2007. The reports shall include the information specified below.

- (1) For the prescription drug program, the reports shall include year-to-date data on total expenditures and the number of prescriptions filled. Data for the same period in fiscal 2006 shall also be provided.
- (2) For the employees' and retirees' health insurance program, the reports shall include year-to-date data and data from the same period in the prior year concerning:
 - (a) expenditures and enrollment for the health maintenance organization, preferred provider, and point-of-service plan options.
 - (b) the number of in-patient hospital and out-patient hospital visits paid for through the preferred provider organization and point-of-service plans.
 - (c) expenditures for in-patient and out-patient hospital visits paid for through the preferred provider organization and point-of-service plans.

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- (d) the number of claims for physician services received by the preferred provider organization and point-of-service plans; and
 - (e) the payments for physician services made by the preferred provider organization and point-of-service plans.
- (3) The fund balance remaining in the State Employees and Retirees Health and Welfare Benefits Fund to pay fiscal 2007 bills.

Explanation: These data are necessary for the Department of Legislative Services to track health insurance expenditures and to project future expenditures.

Information Request	Author	Due Date
State Health Insurance Reports	Office of Personnel Services and Benefits	September 15, 2006 December 15, 2006 March 15, 2007

9. Add the following language:

, provided that \$450,000 of the general fund appropriation is contingent on enactment of Senate Bill 388.

Explanation: There is \$450,000 in the fiscal 2007 budget to increase the death benefit to be paid in the event a member of law enforcement is killed in the performance of duty. Enabling legislation (Senate Bill 388) proposes to increase from \$50,000 to \$125,000 the benefit for law enforcement officers, correctional officers, a volunteer or career firefighter or rescue squad member, or a sworn member of the office of the State Fire Marshal. This payment is made either to a survivor or to the deceased officer's estate and is made in addition to an existing death benefit payment of \$50,000 paid by the Department of Budget and Management to members of State law enforcement, for a total proposed payment of \$175,000.

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	<u>Amount Reduction</u>	
10. Delete funding for an annual salary review adjustment for administrative law judges (ALJ). The Department of Budget and Management has included funding for a one-grade adjustment for administrative law judges in the allowance to assist with recruitment and retention efforts. However, there is only a 1.8% vacancy rate for these positions, compared to a 6.9% statewide vacancy rate. Further, ALJs received a one-grade upward adjustment in the fiscal 2005 budget.	\$ 371,000	GF
11. Delete funding for a deficiency for correctional officer enhancements and delay implementation until July 1, 2006. These enhancements for a correctional officer recruitment and retention program include salary increases for correctional officers, a higher entry-level salary to attract new recruits, hiring bonuses, and retention bonuses based upon employee performance. These changes are also funded in the fiscal 2007 budget; deleting the deficiency funds will delay implementation of the recruitment and retention program until July 1, 2006.	15,500,000	GF
Total Reductions to Fiscal 2006 Deficiency	\$ 15,500,000	GF
Total General Fund Reductions to Allowance	\$ 371,000	

Updates

1. Workers' Compensation Assessments Continue to Fluctuate and the Unfunded Long-term Liability Remains High

The State of Maryland is self-insured for workers' compensation claims. The State contracts with the Injured Workers' Insurance Fund (IWIF) for claims processing and maintains two accounts with the fund. The operating account, reviewed below in **Exhibit 19**, is utilized to pay annual claims against the State and to cover administrative costs. The long-term liability account, reviewed in **Exhibit 20**, provides a reserve against the State's future workers' compensation liabilities.

Agency Assessments

Agency assessments have fluctuated greatly from fiscal 2003 to 2007, as demonstrated in Exhibit 20.

Exhibit 19
IWIF Assessments of State Agencies
Fiscal 2003 – 2007
(\$ in Thousands)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Claims Paid ⁵	\$42,756	\$41,087	\$37,549	\$43,811	\$45,218
Administration Costs ⁶	9,094	8,969	10,772	10,899	10,177
State Risk Management Program			800	749	800
Adjustment for Operating Cash Shortfall/(Surplus) ⁷	16,543	-22,200	5,000	5,000	3,500
Subtotal	\$68,393	\$27,856	\$54,121	\$60,459	\$59,695
Contribution to Reduce Future Liability ⁸	\$20,000	\$0	\$0	\$10,000	\$10,000
Total Agency Assessment/Appropriation	\$88,393	\$27,856	\$54,121	\$70,459	\$69,695
Change in Total Assessments/Appropriations	\$19,102	-\$60,537	\$26,265	\$16,338	-\$765
Percent Change in Total Assessments/Appropriations	27.6%	-68.5%	94.3%	30.2%	-1.1%

Source: Department of Budget and Management

⁵ Estimated to equal the claims paid in the most recent fiscal year for which actual data are available (two years prior).

⁶ Estimated to equal the administration costs from two years prior.

⁷ Fiscal 2005 and 2006 agency assessments/appropriations include \$5.0 million deficiency appropriations; fiscal 2007 proposed funding includes a "paid claims cushion."

⁸ Transferred to the unfunded liability account.

Exhibit 20
Maryland’s IWIF Long-term Liability Account
Fiscal 2003 – 2007
(\$ in Thousands)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Estimated Reserves Needed (June 30)	\$212,103	\$222,334	\$231,000	\$240,000	\$249,600
Estimated Long-term Liability Account Balance					
Beginning Balance	\$97,543	\$4,854	\$4,188	\$4,279	\$14,559
State's contribution (June 30)	20,000			10,000	10,000
Transfer – 2002 BRFA (June 30)	-39,200				
Transfer – 2003 BRFA (June 30)	-75,000				
State's Risk Management Office		-800			
Interest	1,511	134	91	281	291
Total balances at IWIF (June 30)	\$4,854	\$4,188	\$4,279	\$14,559	\$24,851
Balance of operating account ⁹ (June 30)	28,748	2,548	1,065	1,260	-575
Unfunded Long-term Liability (June 30)	\$178,502	\$215,598	\$225,656	\$224,180	\$225,325

Source: Injured Workers’ Insurance Fund; Department of Budget and Management

In fiscal 2006 and 2007, after two years without contributions to the long-term liability account, the Governor chose to appropriate \$10.0 million to offset future liability in each fiscal year. These funds are collected as part of agency assessments, along with estimated claims payment, administration costs, and funding for the SERMA program.

Long-term Liability

The long-term liability fund is commonly called the “unfunded liability” account which refers to the difference between what the actuaries have determined is adequate to cover future liability and what the State has deposited in the account. In fiscal 2003, two transfers out of the long-term liability account into the general fund were made in accordance with the Budget Reconciliation and Financing Act (BRFA) of 2002 and 2003, in the amount of \$39.2 million and \$75.0 million, respectively. Further, in both fiscal 2004 and 2005, no funds were paid into the account. The \$10.0 million appropriation to the unfunded liability account in fiscal 2006 and the \$10.0 million planned for fiscal 2007 will offset growth in the long-term liability. These budgetary decisions have resulted in a projected unfunded long-term liability to the State of approximately \$225.3 million at the end of fiscal 2007, as demonstrated in Exhibit 20.

⁹ The balance of the operating account offsets the long-term liability of the State.

Current and Prior Year Budgets

Current and Prior Year Budgets DBM – Office of Personnel Services and Benefits (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2005					
Legislative Appropriation	\$59,516	\$0	\$0	\$4,409	\$63,925
Deficiency Appropriation	6,354	13,646	0	0	20,000
Budget Amendments and Transfers	-51,925	30	0	-429	-52,324
Reversions and Cancellations	-690	-9	0	0	-699
Actual Expenditures	\$13,255	\$13,667	\$0	\$3,980	\$30,902
Fiscal 2006					
Legislative Appropriation	\$77,157	\$0	\$0	\$3,951	\$81,108
Budget Amendments	-36,591	9	0	0	-36,582
Working Appropriation	\$40,566	\$9	\$0	\$3,951	\$44,526

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

Fiscal 2005

- In fiscal 2005 a net \$41,002,798 in general funds has been transferred from DBM, Office of Personnel and Benefits' budget to various State agencies for the purpose of funding the general salary increase. Funding for general salary increases within the agency total \$75,414 and was not transferred, bringing total general fund funding for the general salary increase to \$41,079,418.
- \$9,788,426 in general funds has also been reallocated from the Office of Personnel Services and Benefits to various State agencies to fund ASR reclassifications and salary upgrades. Classifications affected by these funds are public defenders, social services attorneys, assistant general counsels (human relations), assistant State prosecutors, direct service workers in the Department of Juvenile Services, property assessors, lab scientists, administrative law judges, and banking financial examiners.
- Reimbursable funds originally budgeted to provide a State match of deferred compensation withholding were also withdrawn in fiscal 2005.
- OPSB had two fiscal 2005 deficiencies. The first, for \$15.0 million, was to supplement the appropriation for fiscal 2005 to provide funds for the estimated costs of health insurance based on the health enrollment period covering January through June 2005. General funds (\$1,354,051) and special funds (\$13,645,949) available through the proceeds from the demutualization of the Metropolitan Life Insurance Company are used to cover this expenditure; these funds were transferred to the relevant accounts. The second general fund deficiency of \$5 million was to provide funds for the estimated increased cost of the State's workers' compensation claims based on claims activity through November 2004; this was also transferred to the relevant account.
- \$30,000 in special funds was transferred to OPSB to implement a high school work study program in Baltimore City public schools provided by the International Public Management Association for Human Resources.

Fiscal 2006

- In fiscal 2006 a net \$35,523,447 in general funds has been transferred from DBM, Office of Personnel and Benefits' budget to various State agencies for the purpose of funding the general salary increase.
- In fiscal 2006 a net \$1,067,512 in general funds was transferred to the Judiciary, Offices of the Public Defender, and State Prosecutor to fund Judicial Compensation Commission recommendations.

Audit Findings

Audit Period for Last Audit:	October 11, 2001 – November 16, 2004
Issue Date:	October 2005
Number of Findings:	14
Number of Repeat Findings:	5
% of Repeat Findings:	35.7%
Rating: (if applicable)	n/a

- Finding 1:** OPSB did not ensure that the pharmacy benefit manager (PBM) provided the required discount for generic drugs used by the State’s members. As a result, it appears that the State paid the PBM \$1.7 million more than required for plan year 2003.
- Finding 2:** OPSB could not substantiate that the change in its rebate calculation methodology was the most beneficial to the State. Furthermore, the State could have received as much as \$4 million in rebates for plan year 2004 if OPSB had not changed the methodology.
- Finding 3:** OPSB did not pursue possible fraud and/or abuse of prescription narcotic drugs by program participants that was identified by the contract auditor.
- Finding 4:** The State’s prescription drug contract did not provide an effective remedy for the contractor’s failure to meet performance requirements, and OPSB did not effectively monitor certain provisions of the contract.
- Finding 5:** **OPSB did not have adequate procedures in place to ensure that the State only paid healthcare claims for eligible participants. In addition, OPSB did not pursue recovery of certain claims paid in error which totaled in excess of \$1.1 million.**
- Finding 6:** Certain State procurement regulations were not complied with in the awarding of eight State health care contracts totaling \$3.4 billion, and a contract for consultant and actuarial services totaling \$1 million.
- Finding 7:** OPSB did not adequately monitor contract billings for actuarial and consulting services.
- Finding 8:** **Audit reports were not received by OPSB within the time frame required by the contract.**
- Finding 9:** OPSB did not always verify that the State received credits for claim overpayments identified by the contract auditor.

Finding 10: OPSB had not properly reconciled certain financial records with those of the Comptroller of the Treasury since June 1996.

Finding 11: OPSB had not established adequate controls over collections.

Finding 12: OPSB did not update certain enrollment data resulting in overpayments to certain flexible spending account participants since plan year 2000.

Finding 13: OPSB had not established sufficient record keeping for the Employee-to-Employee Leave Donation Program.

Finding 14: Data security controls pertaining to a critical OPSB application server were not adequate.

**Object/Fund Difference Report
DBM – Office of Personnel Services and Benefits**

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	138.00	122.00	122.00	0	0%
02 Contractual	2.50	0.10	0.10	0	0%
Total Positions	140.50	122.10	122.10	0	0%
Objects					
01 Salaries and Wages	\$ 28,182,317	\$ 42,122,925	\$ 120,617,738	\$ 78,494,813	186.3%
02 Technical & Spec Fees	83,271	95,235	79,042	-16,193	-17.0%
03 Communication	184,581	205,000	294,875	89,875	43.8%
04 Travel	17,017	28,200	36,700	8,500	30.1%
08 Contractual Services	2,342,912	2,010,396	1,381,280	-629,116	-31.3%
09 Supplies & Materials	24,731	14,202	44,658	30,456	214.4%
10 Equip - Replacement	3,330	0	42,400	42,400	n/a
12 Grants, Subsidies, and Contributions	20,919	9,082	0	-9,082	-100.0%
13 Fixed Charges	42,476	40,854	46,327	5,473	13.4%
Total Objects	\$ 30,901,554	\$ 44,525,894	\$ 122,543,020	\$ 78,017,126	175.2%
Funds					
01 General Fund	\$ 13,254,722	\$ 40,566,109	\$ 103,702,520	\$ 63,136,411	155.6%
03 Special Fund	13,666,868	9,082	14,937,604	14,928,522	164374.8%
09 Reimbursable Fund	3,979,964	3,950,703	3,902,896	-47,807	-1.2%
Total Funds	\$ 30,901,554	\$ 44,525,894	\$ 122,543,020	\$ 78,017,126	175.2%

Note: The fiscal 2006 appropriation does not include deficiencies.

Fiscal Summary
DBM – Office of Personnel Services and Benefits

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Executive Direction	\$ 2,127,852	\$ 1,891,284	\$ 1,851,592	-\$ 39,692	-2.1%
02 Division of Employee Benefits	3,594,555	3,601,482	3,598,920	-2,562	-0.1%
04 Division of Employee Relations	1,166,888	1,056,129	1,131,629	75,500	7.1%
05 Division of Employee Development and Training	509,899	0	0	0	0%
06 Division of Salary Administration and Classification	1,221,275	1,263,298	1,299,677	36,379	2.9%
07 Division of Recruitment and Examination	2,065,294	2,194,752	2,261,826	67,074	3.1%
08 Statewide Expenses	20,100,000	34,417,306	112,289,072	77,871,766	226.3%
10 State Labor Relations Board	115,791	101,643	110,304	8,661	8.5%
Total Expenditures	\$ 30,901,554	\$ 44,525,894	\$ 122,543,020	\$ 78,017,126	175.2%
General Fund	\$ 13,254,722	\$ 40,566,109	\$ 103,702,520	\$ 63,136,411	155.6%
Special Fund	13,666,868	9,082	14,937,604	14,928,522	164374.8%
Total Appropriations	\$ 26,921,590	\$ 40,575,191	\$ 118,640,124	\$ 78,064,933	192.4%
Reimbursable Fund	\$ 3,979,964	\$ 3,950,703	\$ 3,902,896	-\$ 47,807	-1.2%
Total Funds	\$ 30,901,554	\$ 44,525,894	\$ 122,543,020	\$ 78,017,126	175.2%

Note: The fiscal 2006 appropriation does not include deficiencies.

Employee Compensation
Fiscal 2007 Allowance Increase Over Fiscal 2006 Working Appropriation Expenditures
(\$ in Millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>%</u>	<u>FY 2007</u>		<u>%</u>
	<u>Actual</u>	<u>Working</u>	<u>Change</u>	<u>Allowance</u>	<u>Change</u>	<u>Change</u>
Regular FTE Positions	78,092	78,486	0.5%	79,534	1,048	1.3%
Contractual FTE Positions	9,143	9,058	-0.9%	9,045	-13	-0.1%
Salary						
Base Salary	\$3,621.9	\$4,022.5	11.1%	\$4,011.6	-\$11.0	-0.3%
2007 General Salary Increase (GF & SF)				71.0		
2007 Increments (Total Funds)				96.5		
2007 ASRs and Related Enhancements (GF & SF)				33.5		
Deficiency (Correctional Officer Compensation)		15.5		0.0		
2007 Additional Steps on the Standard and Physicians' Salary Schedules (GF & SF)				0.5		
Salary Subtotal¹	\$3,621.9	\$4,038.0		\$4,213.1	\$175.1	4.3%
Additional Assistance	11.5	12.7	10.5%	12.2	-0.5	-3.7%
Overtime Earnings	107.3	77.3	-27.9%	94.7	17.4	22.5%
Shift Differential	9.5	10.1	5.8%	11.3	1.2	11.7%
Student Payments (USM Only)	30.6	25.4	-17.2%	25.4	0.1	0.2%
Other Salary	28.4	21.1	-25.7%	34.0	12.9	60.8%
Total Salaries	\$3,809.3	\$4,184.7	9.9%	\$4,390.8	\$206.1	4.9%
New Employees				57.4		
Abolished Positions				-2.7		
Non-discretionary Employee Benefits						
Health Insurance						
Active Employees	526.5	585.1	11.1%	674.4	89.4	15.3%
Retirees	137.0	157.3	14.8%	213.4	56.1	35.6%
Special Subsidies	19.2	19.6	1.9%	18.8	-0.7	-3.7%
Total Health Insurance	682.8	761.9	11.6%	906.6	144.7	19.0%
Retirement						
Early Retirement Surcharge	0.1	0.1	-39.0%	0.1	0.0	-3.5%
Employees' Retirement System	111.2	147.1	32.3%	180.1	33.0	22.5%
Teachers' Retirement System	12.5	14.5	16.3%	15.9	1.4	10.0%
State Police Retirement System	0.4	7.3	1683.0%	12.3	5.0	67.9%
Judges' Retirement System	12.0	14.3	19.0%	15.7	1.4	9.8%
Maryland Transit Administration Pension System	19.7	21.2	7.8%	18.2	-3.0	-14.1%
Optional Retirement/Pension System	52.5	55.7	6.2%	59.8	4.1	7.4%

F10A02 – DBM – Office of Personnel Services and Benefits

Appendix 5 (Continued)

	<u>FY 2005</u> <u>Actual</u>	<u>FY 2006</u> <u>Working</u>	<u>%</u> <u>Change</u>	<u>FY 2007</u> <u>Allowance</u>	<u>Change</u>	<u>%</u> <u>Change</u>
DNR Police Retirement System	14.9	17.5	18.1%	22.7	5.1	29.4%
Other Retirement Systems	3.1	0.5	-84.4%	0.6	0.1	24.3%
Total Retirement¹	226.2	278.2	23.0%	325.5	47.3	17.0%
Social Insurance						
Social Security Contributions ¹	268.9	292.7	8.9%	302.6	9.8	3.4%
Unemployment Compensation ¹	12.1	13.8	13.4%	8.7	-5.1	-36.8%
Workers' Compensation	51.2	62.2	21.5%	66.1	-1.1	-1.8%
Deficiency Appropriation		5.0				
Total Social Insurance	332.2	373.7	12.5%	377.4	3.7	1.0%
Other Employee Benefits						
2007 Death Payment Increases				0.6	0.6	
2007 Mission Critical and Retention Bonuses				3.9	3.9	
Deferred Compensation Match	0.5	12.6	2501.0%	20.2	7.6	59.9%
Employee Awards	0.6	0.4	-25.5%	0.5	0.1	13.7%
Tuition waivers	20.7	20.7	0.0%	21.4	0.7	3.3%
Other incentives	0.3		-100.0%		0.0	n/a
Total Incentives	22.1	33.8	52.8%	46.6	12.9	38.1%
Turnover Expectancy						
Turnover Expectancy (Excluding New Positions)	5.8	-192.2	n/a	-211.9	-19.7	-10.2%
Cost containment	0.0	0.1	n/a	0.0	-0.1	100.0%
Health Savings	0.0	-15.0	n/a	0.0	15.0	
Total Offsets¹	5.8	-207.2	n/a	-211.9	-4.7	-2.3%
Turnover Expectancy Rate		4.5%		4.4%		
Other	16.4	2.9	-82.6%	3.1	0.3	9.1%
Total Regular Personnel Expenditures	5,094.8	5,428.0	6.5%	5,892.8	464.9	8.6%
Contractual Employee Expenses						
Special Payments Payroll ²	179.5	195.1	8.7%	200.0	4.9	2.5%
Contractual Expenses – USM	222.5	207.7	-6.6%	213.7	5.9	2.9%
Social Security Contributions ²	13.0	14.3	10.3%	14.6	0.3	2.1%
Unemployment Compensation ²	0.6	0.6	11.7%	0.5	-0.1	-17.2%
Workers' Compensation ²	0.0	0.0	-91.6%	0.0	0.0	-1.8%
Contractual Turnover Expectancy ²	0.0	-13.9	n/a	-13.6	0.3	-2.3%
Turnover Expectancy Rate		6.6%		6.3%		
Total Contractual Expenses	415.6	403.9	-2.8%	415.2	11.3	2.8%
Total Personnel Expenditures	5,510.4	5,831.8	5.8%	6,308.0	476.2	8.2%

¹ Included in the turnover expectancy calculation for regular positions.

² Included in the turnover expectancy calculation for contractual positions.

Regular Full-time Equivalent Positions
Fiscal 2002, 2006 Working Appropriation, and 2007 Allowance

<u>Department/Service Area</u>	FY 2002	FY 2006	FY 2007	Change		Change	
	Actual	Wkg. App.	Allow.	FTEs	%	FTEs	%
Legislative Branch	730	740	744	10	1.4%	4	0.5%
Judicial Branch	3,010	3,291	3,412	282	9.4%	121	3.7%
Executive Branch							
Legal	1,381	1,563	1,584	182	13.2%	21	1.3%
Executive and Administrative Control	1,619	1,592	1,640	-27	-1.7%	48	3.0%
Financial and Revenue Administration	2,158	2,023	2,026	-136	-6.3%	3	0.1%
Budget and Management	524	433	433	-91	-17.5%	-	0.0%
Retirement	194	186	189	-8	-3.9%	3	1.6%
General Services	793	643	636	-150	-18.9%	-7	-1.1%
Transportation	9,538	9,012	9,052	-527	-5.5%	40	0.4%
Natural Resources	1,629	1,367	1,372	-263	-16.1%	5	0.4%
Agriculture	480	428	437	-53	-10.9%	9	2.1%
Health and Mental Hygiene	8,536	7,573	7,614	-963	-11.3%	41	0.5%
Human Resources	8,273	6,961	6,997	-1,311	-15.8%	36	0.5%
Labor, Licensing, and Regulation	1,706	1,460	1,473	-246	-14.4%	13	0.9%
Public Safety and Correctional Services	11,663	11,279	11,305	-384	-3.3%	26	0.2%
MSDE and Other Education	1,955	2,136	2,183	181	9.3%	48	2.2%
Housing and Community Development	449	318	316	-131	-29.2%	-2	-0.6%
Business and Economic Development	324	292	292	-32	-9.9%	-	0.0%
Environment	1,028	949	952	-79	-7.7%	3	0.3%
Juvenile Services	2,123	2,081	2,081	-42	-2.0%	-	0.0%
Police and Fire Marshal	2,590	2,464	2,472	-126	-4.9%	8	0.3%
Executive Branch Subtotal	56,961	52,756	53,051	-4,205	-7.4%	295	0.6%
Higher Education	21,386	21,699	22,327	312	1.5%	629	2.9%
Total	82,087	78,486	79,534	-3,601	-4.4%	1,048	1.3%

**Contractual Full-time Equivalent Positions
Fiscal 2002, 2006 Working Appropriation, and 2007 Allowance**

<u>Department/Service Area</u>	FY 2002	FY 2006	FY 2007	Change FY 02 – 06		Change FY 06 – 07	
	<u>Actual</u>	<u>Wkg. App.</u>	<u>Allow.</u>	<u>FTEs</u>	<u>%</u>	<u>FTEs</u>	<u>%</u>
Judiciary	371	371	368	-	0.0%	-4	-0.9%
Legal	99	111	114	12	11.9%	4	3.2%
Executive and Administrative Control	208	179	171	-30	-14.3%	-8	-4.3%
Financial and Revenue Administration	35	36	34	1	2.7%	-2	-4.4%
Budget and Management	33	12	16	-21	-63.9%	4	33.3%
Retirement	30	30	27	0	-1.1%	-3	-8.5%
General Services	35	27	26	-8	-23.5%	0	-0.3%
Transportation	142	159	177	16	11.5%	19	11.6%
Natural Resources	332	342	432	10	2.9%	91	26.5%
Agriculture	36	40	37	5	13.2%	-3	-8.4%
Health and Mental Hygiene	409	472	478	63	15.4%	6	1.3%
Human Resources	111	135	141	24	22.0%	6	4.4%
Labor, Licensing, and Regulation	176	177	194	1	0.7%	17	9.4%
Public Safety and Correctional Services	298	462	426	164	55.1%	-37	-8.0%
MSDE and Other Education	218	212	222	-6	-2.9%	10	4.8%
Housing and Community Development	49	38	43	-11	-22.6%	5	13.5%
Business and Economic Development	49	32	35	-17	-33.9%	3	9.3%
Environment	32	45	35	12	37.8%	-10	-22.5%
Juvenile Services	119	243	139	124	104.1%	-104	-42.9%
Police and Fire Marshal	46	45	50	-1	-2.6%	5	12.1%
Subtotal	2,828	3,166	3,165	338	11.9%	-1	0.0%
Higher Education	6,079	5,892	5,880	-187	-3.1%	-13	-0.2%
Total	8,907	9,058	9,045	151	1.7%	-13	-0.1%
Non-higher Education Executive Branch Total	2,457	2,795	2,797	338	13.7%	3	0.1%

The State Workforce: Where Are the New Positions in 2007?

Higher Education	629
The Judiciary: Majority are for circuit court clerks (56), District Court bailiffs (39), administrative (9), and information systems (5) positions.	121
Health and Mental Hygiene: Primarily for contract/contractual conversions in the AIDS Administration (41) and Medical Care Programs Administration (9), and positions to create the Maryland Adult Care Program (6).	63
Maryland State Department of Education: Primarily for vocational rehabilitation and other specialists in the Division of Rehabilitation Services (10), education program specialists in various divisions (10), and teachers and other staff in the Correctional Education Program (9).	48
Maryland Department of Transportation: General bus operators in the Maryland Transit Administration (30) to replace bus operators transferred to paratransit operations and State Highway Administration positions (10) to create the Office of Procurement and Contracts.	40
Military Department: Federal security personnel are replaced with federally funded State security staff (37).	37
Department of Human Resources: Positions address Baltimore City's strategic plan (30), the Group Home Licensing and Monitoring Unit (5), and the addition of a staff attorney for Somerset County (1).	36
Department of Public Safety and Correctional Services: Primarily for expansion of the Maryland Correctional Enterprise (formerly State Use Industries) and of RESTART.	31
The Office of the Public Defender: During the 2005 session, the General Assembly denied 22 positions proposed for the Caseload Initiative. Those positions are restored in the 2007 allowance.	22
Other Agencies	80
Total New Positions¹	1,106

¹ New positions are offset by 58 abolitions spread across the allowance, for a net addition of 1,048 positions.

**General Salary Increases, Increments, and Other Compensation
Fiscal 1999 – 2007**

Fiscal Year	State Employees		Additional Police, Natural Resources Police, and Park Ranger Salary Increases	Maximum Deferred Compensation Match by State	Pay-for-Performance Bonuses	Annual Salary Review Reclassifications	Other
	General Salary Increase	Increments					
1999							
	7/1/1998	\$900	4.0%	None	Outstanding: \$300		
	1/1/1999	\$375					
2000							
				\$600	Outstanding: \$1,000 Exceeds standards: \$500		Salary schedules expand from 6 to 16 steps on 7/1/99 ¹
	7/1/1999	\$638	4.0%				
	1/1/2000	\$637					
2001							
				\$600	Outstanding: \$1,000 Exceeds standards: \$500		Standard salary schedule expands by 4 grades on 7/1/00 ² and a new physicians' schedule is developed.
	11/15/2000	4.0%				Yes ³	
	1/1/2001						
2002							
				\$600	Outstanding: \$500 Exceeds standards: \$250		Salary schedules expand from 16 to 18 steps on 7/1/01 ¹
	7/1/2001		\$850			Yes ⁴	
	1/1/2002	4.0%					
2003		None	None	\$500	None		
2004		None	None	None	None		
2005	7/1/2004	\$752	On time	None	None	Yes ⁵	
2006	7/1/2005	1.5%	On time	\$400	None	Yes ⁶	
2007	7/1/2006	2.0%	On time	\$600	None	Yes ⁷	2 steps on standard salary schedule; 1 step on the physician's salary schedule

Notes:

¹ In fiscal 2000, the Executive Pay Plan (EPP) and physicians' schedules did not expand; in fiscal 2002, the EPP did expand by 4%.

² The standard salary schedule expanded to accommodate management service positions moved off the executive salary schedule.

³ The following classifications were given upgrades effective January 1, 2001, most of which were in the 1 to 2 grade range: clerical workers, social workers in criminal justice and health services, computer operations and related classifications, professional fiscal and related classifications, and assistant superintendents at State hospitals.

⁴ Three groups of employees received reclassifications in fiscal 2002: nurses, institutional educators, and addictions counselors who work in local health departments. Nurse classifications received two one-grade increases, one on July 1, 2001, and one on January 1, 2002. Institutional educators received increases through an adjustment to their pay plan.

⁵ The following classifications are provided upgrades: public defenders, social services attorneys, assistant general counsels (human relations), assistant State prosecutors, direct service workers in the Department of Juvenile Services, property assessors, lab scientists, administrative law judges, and banking financial examiners.

⁶ The fiscal 2006 annual salary review provides a one-grade salary adjustment for the Deputy State Fire Marshal classification series.

⁷ The fiscal 2007 annual salary review provides 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.

How Did State Employee Health and Prescription Coverage Change in Calendar 2005 and Fiscal 2006?

- Beginning in January 2005, DBM implemented a number of changes including:
 - increasing primary doctor's office visit copayments from \$5 to \$15 for POS and HMO plans and increasing specialist doctor's office visit copayments from \$10 or \$20 to \$25 for all types of plans;
 - increasing emergency room hospital charge copayments from \$25 to \$50 if emergency criteria are not met and implementing physician's charge copayments of \$50 per emergency room visit; and
 - covering for up to 50 rather than 100 visits per year of physical therapy.
- Program restructuring in fiscal 2006 includes:
 - increasing the point-of-service health insurance copremiums from 15 to 17% of the total cost;
 - increasing prescription copayments to \$5 for generic drugs, \$15 for preferred brand name drugs, and \$25 for non-preferred brand name drugs from \$3, \$5, and \$10 for the three existing tiers;
 - implementing a \$700 spending cap per family for prescriptions;
 - requiring two copayments instead of one copayment for 90 days of medication;
 - implementing a 30-day maximum for the first fill of a new drug;
 - requiring prior authorization for certain medications; and
 - implementing a number of other changes such as required step therapy, managed quantities of drugs, and voluntary mail order and specialty drug pharmacies.

**Summary of Request for Proposals for
Pharmacy Benefits Purchasing Pool Management and Pharmacy Benefits Plan
Administration Services**

SECTION 1 – GENERAL INFORMATION

1.1 Summary Statement

The Department of Budget and Management (DBM) is issuing this request for proposals for Pharmacy Benefits Purchasing Pool Management and Pharmacy Benefits Plan Administration Services to procure services for the State of Maryland in connection with the Maryland Rx Program and the State Employee and Retiree Health and Welfare Benefits Program.

1.1.1 Pass-through Pricing, Pricing Guarantees, and Transparency

Through this Request for Proposal (RFP) process, the State would like to secure a pricing model that provides the following:

- **Pass-through Pricing at Retail Pharmacies** – For the retail component, the contractor selected shall pass-through the actual price the contractor has negotiated with the dispensing retail pharmacy; spread pricing with participating retail pharmacies shall not be permitted.
- **Pass-through Pricing on Mail Order and Specialty Pharmacies** – For the mail and specialty pharmacy components, passing through actual acquisition pricing from wholesalers or manufacturers is not required; however, the drug ingredient cost charged to the State must be consistent with the pricing guarantees for claims processed at mail and specialty pharmacies.
- **Pass-through Pricing on Other Items** – For the retail, mail, and specialty components, the contractor selected shall not retain any revenue (attributable to the State’s business) from pharmaceutical manufacturers or wholesalers including, but not limited to data fees, access fees, market share fees, rebates, formulary access fees, administrative fees, or marketing grants.
- **Pricing Guarantees** – For the retail, mail, and specialty components, the contractor selected shall also guarantee a maximum amount for dispensing and administration fees, minimum percentage discounts off of means average wholesale price (AWP) by drug-type (brand and generic), place of service (retail, mail, and specialty pharmacies), and minimum guarantees per claim for rebates, including all revenue described in Section 1.1.1(c).
- **Transparency** – For the retail, mail, and specialty components, the contractor selected shall provide full transparency reporting as further described in 3.4.1.7 Reporting section of the RFP.

1.1.2 Maryland Rx Program

DBM administers the pharmacy and prescription benefits plan that covers State employees, State retirees, satellite organization employees, direct pay enrollees, and their respective eligible dependents. The plan is self-funded by the State and is a group health plan administered as part of the State Employee and Retiree Health and Welfare Benefits Program.

Pursuant to State Personnel and Pensions Article § 2-503.1, DBM is establishing the Maryland Rx Program, a purchasing pool for pharmacy benefits for the State Employee and Retiree Health and Welfare Benefits Program, local governments, and employers for employees in Maryland. These other entities will be entitled to participate in the purchasing pool and to secure pharmacy benefit management services from the contractor on the same terms and conditions as the State through separate contracts with the contractor. A purchasing pool member must use the same formulary, pricing structure, and terms as the pharmacy benefits plan of the State, but all costs (fees and claims) will be paid by the purchasing pool members directly to the contractor, with rebates and discounts for each purchasing pool member's plan costs directly paid to that purchasing pool member. All financial terms set for each purchasing pool member (rebates, discounts, fees, etc.) shall be set at the tier for the aggregate purchasing pool population and the contracts between the contractor and individual purchasing pool members may not extend beyond the termination date of the contract between the State and the contractor. Each purchasing pool member will be responsible for all costs associated with his/her respective plan.

1.1.3 Consultant

Please note that Aon Consulting, as the State's benefits consultant, is assisting the State in this procurement.

1.2 Abbreviations and Definitions

For purposes of this RFP, the following abbreviations or terms have the meanings indicated below:

- **AWP** – means average wholesale price
- **COB** – means coordination of benefits
- **CMS** – means Centers for Medicaid and Medicare Services
- **COMAR** – means *Code of Maryland Regulations*
- **Contractual Employee** – means a non-regular employee of the State of Maryland who is not eligible for State subsidy of benefits, but is eligible to enroll in the State of Maryland Employee and Retiree Health and Welfare Benefits Program paying full premium costs.

- **DAW** – means dispense as written
- **DBM** – means the Department of Budget and Management
- **DESI** – means Drug Efficacy Study Implementation and refers to drugs identified by the Food and Drug Administration as lacking substantial evidence of effectiveness.
- **Dependent** – means a spouse, natural child, stepchild, legally adopted child, or legal ward of an eligible member who is also eligible for coverage under a prescription benefits plan. For the State plan, dependent includes a spouse and certain children who are also tax dependents of the employee for health benefits purposes, and who meet the eligibility criteria of COMAR 17.04.13.03.A(11). Eligible dependents in the State plan include children through the end of the calendar year in which they attain age 19, or 23 if a full-time student, and certain disabled dependents in accordance with COMAR 17.04.13.03A(11).
- **Direct Pay Enrollee** – means an individual in the State plan who is billed directly by DBM for selected State benefits, including COBRA participants, leave of absence participants, contractual employees and part-time employees.

**Vacant Positions, Turnover Rate, and Necessary Vacancies
Fiscal 2007 Allowance**

<u>Department/Service Area</u>	<u>01/01/06 Vacancies, Less Abolitions</u>	<u>2007 Allowance Turnover Rate</u>	<u>2007 Necessary Vacancies</u>	<u>Funded/ (Unfunded) Vacancies</u>
Legislative	13	1.5%	11	2
Judiciary	137	2.8%	95	42
Legal	165	5.7%	91	74
Executive and Administrative Control	95	3.8%	61	34
Financial and Revenue Administration	123	3.7%	76	47
Budget and Management	44	3.2%	14	30
Retirement	15	3.9%	7	8
General Services	44	4.5%	29	15
Transportation	488	4.5%	405	83
Natural Resources	112	4.7%	65	47
Agriculture	34	5.4%	23	10
Health and Mental Hygiene	560	5.3%	402	157
Human Resources	420	4.1%	289	131
Labor, Licensing, and Regulation	109	4.3%	64	45
Public Safety and Correctional Services	1,049	6.6%	749	300
MSDE and Other Education	103	5.6%	123	-20
Housing and Community Development	18	2.0%	6	12
Business and Economic Development	15	4.0%	12	3
Environment	74	6.6%	62	12
Juvenile Services	178	5.6%	117	61
Police and Fire Marshal	133	4.9%	120	13
Subtotal	3,927	4.9%	2,786	1,140
Higher Education*	647	3.8%	857	-210
Total	4,573	4.5%	3,572	1,001
Non-higher Education Executive Branch				
Total	3,777	5.1%	2,689	1,087

* Vacancies and turnover data are for the University System of Maryland and Baltimore City Community College only; Morgan State University and St. Mary's College are excluded from the vacancy rate calculation.

State Employee Health and Supplemental Benefits Contracts – Short Plan Year 2005 (January through June)

Service Plans	Current Contract Term	Vendor	Short Plan Year 2005 Expenditures (\$ in Millions)	Value of Contract Award (\$ in Millions)	Expiration Date (Not Including Renewal Options)
Preferred Provider Option (PPO)	01/01/05 through 06/30/09 – 4½-yr term	CareFirst of Maryland	\$134.1	\$1,438.0 (4½-year contract)	Contract expires 06/30/09.
		MAMSI – MLH Eagle	\$11.4	\$179.0 (4½-year contract)	Contract expires 06/30/09.
Point-of-Service (POS)	01/01/05 through 06/30/09 – 4½-yr term	CareFirst	\$41.2	\$485.0 (4½-year contract)	Contract expires 06/30/09.
		MAMSI – MDIPA Preferred	\$42.3	\$583.0 (4½-year contract)	Contract expires 06/30/09.
		AETNA	\$13.7	\$171.0 (4½-year contract)	Contract expires 06/30/09.
Health Maintenance Organization (HMO)	01/01/05 through 06/30/09 – 4½-yr term	CareFirst	\$21.0	\$284.0 (4½-year contract)	Contract expires 06/30/09.
		MAMSI – Optimum Choice	\$14.3	\$181.0 (4½-year contract)	Contract expires 06/30/09.
		Kaiser Permanente	\$11.5	\$166.0 (4½-year contract)	Contract expires 06/30/09.
Mental Health/Substance Abuse	01/01/01 through 12/31/03; 3 years with 3 one-year renewal options modified to second year renewal option extended by 6 months, no additional renewals	American Psych Systems, Inc.	\$6.2	\$31.4 (3-year contract); \$13.5 (first year renewal option); \$23.4 (second renewal option – 18 month estimate)	Base contract expired 12/31/03; first renewal option expired 12/31/04; exercised second renewal option and extended by 6 months, expires 06/30/06.

Service Plans	Current Contract Term	Vendor	Short Plan Year 2005 Expenditures (\$ in Millions)	Value of Contract Award (\$ in Millions)	Expiration Date (Not Including Renewal Options)
Prescription Drug	01/01/01 through 12/31/03; 3 years with 3 one-year renewal options modified to second year renewal option extended by 6 months, no additional renewals	CaremarkPCS Health (formerly AdvancePCS)	\$161.0	\$661.3 (3-year contract); \$293.4 (first year renewal option); \$505.4 (second renewal option –18-month estimate)	Base contract expired 12/31/03; first renewal option expired 12/31/04; exercised second renewal option and extended by 6 months, expires 06/30/06.
Dental Services (DPPO – Preferred Provider Organization)	01/01/05 through 06/30/07; 2½ years with 2 one-year renewal options	United Concordia	\$11.7 DPPO and DHMO	Estimated \$43.0 (2½-yr. contract)	Base contract expires 06/30/07.
Dental Services (DHMO Option)	01/01/05 through 06/30/07; 2½ years with 2 one-year renewal options	United Concordia	See DPPO above	Estimated \$23.2 (2½-yr. contract)	Base contract expires 06/30/07.
		Dental Benefits Provider	\$2.5	Estimated \$25.9 (2½-yr. contract)	Base contract expires 06/30/07.
Term Life Insurance	01/01/03 through 12/31/05; extended by 6 months to 06/30/06; 3½ yrs. with 2 one-year renewal options	The Standard Insurance Co.	\$6.4	\$41.0 (3½-year contract)	Base contract extended by 6 months expires 06/30/06.
Accidental Death and Dismemberment	01/01/03 through 12/31/05; extended by 6 months to 06/30/06; 3½ yrs. with 2 one-year renewal options	Metropolitan Life	\$1.1	\$7.5 (3½-year contract)	Base contract extended by 6 months expires 06/30/06.

Service Plans	Current Contract Term	Vendor	Short Plan Year 2005 Expenditures (\$ in Millions)	Value of Contract Award (\$ in Millions)	Expiration Date (Not Including Renewal Options)
Long-term Care	01/01/00 through 12/31/03 4 years with 2 one-year renewal options; extended second renewal option by 6 months	Unum Life Insurance Company of America	\$.4	\$2.7 (4-year contract); \$0.8 (first year renewal option); \$1.3 (second renewal option – 18 month estimate)	Base contract expired 12/31/03; first renewal option expired 12/31/04; exercised and extended second renewal option by 6 months expires 06/30/06.
Flexible Spending Accounts	07/15/99 through 07/14/03 with 2 one-year renewal options; second renewal option extended by 4 months	ERISA Administrative Services, Inc.	\$.2	\$1 (3-year contract) administrative fees only; \$0.3 (first year renewal option); \$0.3 (second renewal option 16-month estimate)	Base contract expired 07/14/03; first 1-year renewal option expired 07/14/04; exercised second 1-year renewal option and extended by 4 months expired 11/14/05.
	07/01/05 through 06/30/10 – 5-year term no renewal options	SHPS Human Resource Solutions, Inc.	\$0	\$1.2 (5-year contract) – estimate	Base contract expires 06/30/10.

Source: Department of Budget and Management

Notes: Effective July 01, 2005, Health Contracts were modified from a calendar year to a fiscal year of July 1 through June 30

Chart reflect six months expenditures for short plan year January through June 2005

Future charts will reflect full fiscal year actual expenditures starting with the fiscal year 2006 – July 1, 2005 through June 30, 2006

**Salary Grades in the Standard Salary Schedule
Fiscal 2006 Working Appropriation**

<u>Grade</u>	<u>Minimum Salary</u>	<u>Average Salary</u>	<u>Maximum Salary</u>	<u>Filled FTEs</u>
02	\$16,286	\$18,936	\$24,387	4
03	17,275	20,795	25,944	8
04	18,332	22,241	27,612	102
05	19,464	24,817	29,390	668
06	20,675	25,104	31,296	623
07	21,971	27,897	33,338	1,746
08	23,358	29,313	35,518	1,509
09	24,842	31,565	37,853	1,791
10	26,429	33,218	40,351	2,880
11	28,126	34,663	43,029	3,636
12	29,944	36,796	45,884	7,239
13	31,888	41,424	48,944	2,996
14	33,970	42,092	52,224	2,773
15	36,195	47,167	55,723	3,270
16	38,578	49,392	59,475	3,553
17	41,126	54,266	63,485	2,740
18	43,854	58,636	67,776	1,639
19	46,773	63,282	72,369	1,277
20	49,895	65,861	77,284	841
21	53,236	71,080	82,542	600
22	56,811	78,140	88,174	807
23	60,637	83,912	94,194	343
24	64,729	90,899	100,636	248
25	69,109	99,130	107,525	78
26	73,795	106,078	114,905	62
Total		\$43,326		41,432

**Classifications in Each Salary Grade with the Largest Number of Filled Positions
Fiscal 2006 Working Appropriation**

<u>Grade</u>		<u>Filled FTEs</u>
02	Human Services Aide I	3
03	Teacher Aide II	7
04	Building Services Worker I	25
05	Building Services Worker II	229
06	Facilities Maintenance Technician I	83
07	Direct Care Assistant II	738
08	Office Services Clerk	633
09	Office Secretary II	580
10	Office Secretary III	578
11	Income Maintenance Specialist II	838
12	Correctional Officer II	3,841
13	Correctional Officer Sergeant	726
14	Family Services Caseworker II	647
15	Correctional Officer Lieutenant	455
16	Parole & Probation Agent Sr	474
17	Administrator II	295
18	Administrator III	222
19	Program Manager I	193
20	Program Manager II	159
21	Program Manager III	138
22	Assistant Attorney General VI	146
23	Program Manager Senior I	84
24	Program Manager Senior II	96
25	Program Manager Senior III	34
26	Div. Director Office of the Attorney	26