

**F10A02
Personnel
Department of Budget and Management**

Operating Budget Data

(\$ in Thousands)

	<u>FY 08 Actual</u>	<u>FY 09 Working</u>	<u>FY 10 Allowance</u>	<u>FY 09-10 Change</u>	<u>% Change Prior Year</u>
General Fund	\$6,759	\$8,398	\$18,303	\$9,906	118.0%
Contingent & Back of Bill Reductions	0	0	-31	-31	
Adjusted General Fund	\$6,759	\$8,398	\$18,273	\$9,875	117.6%
Special Fund	0	20,798	0	-20,798	-100.0%
Adjusted Special Fund	\$0	\$20,798	\$0	-\$20,798	-100.0%
Reimbursable Fund	7,498	6,569	6,376	-193	-2.9%
Contingent & Back of Bill Reductions	0	0	-19	-19	
Adjusted Reimbursable Fund	\$7,498	\$6,569	\$6,357	-\$212	-3.2%
Adjusted Grand Total	\$14,256	\$35,765	\$24,629	-\$11,136	-31.1%

- The Office of Personnel Services and Benefits' (OPSB) fiscal 2010 allowance decreases by \$11.1 million, or -31.1%, from the fiscal 2009 working appropriation.
- The removal of \$20.0 million in centrally budgeted special funds for the Chesapeake Bay 2010 Fund is the largest decrease. There are \$12.0 million in additional general funds included in statewide program funding for anticipated health insurance cost increases.
- The absence of general salary increase funding in the allowance results in a \$1.6 million decrease in general funds and a \$798,467 decrease in special funds as remaining fiscal 2009 statewide salary adjustment funds are removed.
- In terms of non-statewide expenditures, OPSB's largest growth areas are a \$251,515 increase in health insurance cost, \$101,290 for support of the State Personnel System information technology project, and \$100,000 in higher audit contract fees. Significant reductions are \$402,000 in decreased contractual spending due to the completion of the Interactive Voice Response system and a \$187,860 personnel expense reduction due to the cessation of Other Post Employment Benefits prefunding.

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

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Personnel Data

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>
Regular Positions	118.00	116.00	116.00	0.00
Contractual FTEs	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>	<u>0.00</u>
Total Personnel	118.10	116.10	116.10	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	2.32	2.00%
Positions and Percentage Vacant as of 12/31/08	9.00	7.76%

- There are no position changes explicitly included in the allowance. Section 19 would provide for a transfer via budget amendment of 12.5 positions to OPSB at a later date.
- The agency has 9 vacancies, 2 of which have been vacant for longer than one year.

Analysis in Brief

Major Trends

Employee Evaluation: The Department of Budget and Management (DBM) has attempted to improve the rates at which agencies perform employee evaluations, but only 59% of the statutorily defined reviews were completed in fiscal 2008. **DBM should comment on controls that could be placed on managers with reviewing responsibilities to ensure compliance with the statute.**

Issues

State Employee Compensation: Total compensation increases by \$99.5 million in fiscal 2010, driven by fringe benefit growth. **The Department of Legislative Services (DLS) recommends reducing all regular and contractual State employee salaries by 1% in fiscal 2010. DLS also recommends that \$1,598,760 of unspent funds be reduced from the DBM fiscal 2009 appropriation through the Budget Reconciliation and Financing Act of 2009.**

Position Changes: There is a net reduction of 1,175 positions across State government. The implementation of reductions through Section 18 creates short-term funding imbalances while failing to address long-term structural concerns advocated by the Spending Affordability Committee. **DLS recommends that the Administration amend Section 18 in a supplemental budget to reflect the concerns cited above and asks DBM to define the programmatic service areas whose position levels would be reduced by Section 18.**

Employee and Retiree Health Insurance: Employee and retiree health insurance costs grow by 20.7% in fiscal 2010 to a total of \$894.2 million. The Administration has provided insufficient information behind projected increases and the rationale for choosing short-term solutions to fund this cost growth. **DLS recommends that the \$12.0 million in statewide health insurance funding not be expended until a report detailing the causes of fiscal 2009 cost increases is provided to the budget committees. Further, DBM is asked to comment on plans for implementing adjustments to the State health insurance benefit or for generating the funding required to continue providing the current benefit package.**

At-will Study Review: DLS conducted a study of at-will employees, special appointments, and management service employees in the Executive Branch and made recommendations to improve reporting and protections related to these positions. **DBM should comment on the report's recommendations.**

Streamlining Hiring Process Report: DBM has undertaken numerous efforts to streamline the hiring process by de-centralizing steps required to hire new employees, while Section 19 centralizes classification functions on a premise antithetical to these changes. **DBM is asked to comment on the necessity of the hiring freeze and on why the Section 19 reorganization will be efficient while many of the hiring process streamlining recommendations increase de-centralization.**

Other Post Employment Benefits Prefunding Reduction: The allowance provides no prefunding of the long-term liability associated with the provision of retiree health insurance. **DLS recommends deleting the contingent reduction in Section 20 and striking the related Budget Reconciliation and Financing Act of 2009 provision.**

Recommended Actions

1. Restrict expenditure from statewide health insurance funding until cost accounting is provided.
2. Delete contingent reduction in Section 20.
3. Amend Section 21 to delete legislative and judicial branch deferred compensation funding.
4. Add language to reduce regular employee salaries by 1%.
5. Add annual language regarding Rule of 50 position creations.
6. Add annual position reporting language.
7. Add annual language requiring Executive Pay Plan reporting.
8. Add annual language restricting the movement of employees into abolished positions.
9. Add annual language requiring employee health insurance receipts and spending reporting.
10. Add annual language specifying a budgeting subobject for Other Post Employment Benefits.
11. Add language to reduce contractual employee salaries by 1%.

F10A02
Personnel
Department of Budget and Management

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 through its oversight of the State Personnel Management System (SPMS). All positions in the Executive Branch of State government are in the SPMS, except for employees of higher education institutions and the Maryland Department of Transportation (MDOT). Positions in the Legislative and Judicial Branches of State government are also outside of the SPMS. 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.

Performance Analysis: Managing for Results

Managing for Results (MFR) measures from the 2008 session had shown that the percentage of SPMS employees receiving evaluations had fallen from 65.4% in fiscal 2004 to 50.9% in fiscal 2007. The decline was especially troubling in light of the fact that Title 7, Subtitle 5 of the State Personnel and Pensions Article requires performance evaluations for all employees at six-month intervals based on employees' start dates. Anything below 100% indicates a failure to meet statutory requirements. The 2008 *Joint Chairmen's Report* (JCR) requested that the Department of Budget and Management (DBM) report on the actions it had taken to ensure that supervisors perform employee evaluations at mandated levels. In addition to the mandate, the Performance Evaluation and Planning (PEP) process is important because it offers employees and supervisors an opportunity to acknowledge successes achieved over the year and to openly discuss areas for enhancement and improvement. Their absence can erode morale and result in lower employee performance levels.

Improvement Efforts

DBM submitted its response to the JCR information request in February 2009, although it was due to the committees by December 1, 2008. The report indicates six areas where DBM has attempted to improve agency compliance with evaluation requirements.

- **Revision of Forms Utilized:** DBM implemented a streamlined PEP form in 2008 that was easier for supervisors to complete than the former paper-based version. The new Excel-based form is standardized across work functions and automatically tallies performance review scores. It also combines the mid-cycle and end-cycle data onto one form to assist managers and employees with evaluating changes in employee performance over time.

- **Performance Appraisal Task Force and Best Practices of Comparable Organizations:** This task force was established to review current employee appraisal procedures and suggest changes that will increase the overall effectiveness of evaluations. Task force meetings began in November 2008 and include groups representing employees and State agencies. Twelve public and private organizations were surveyed to provide best practices information that will be utilized by the task force to improve the process.
- **Enhanced Agency Training:** Beginning in July 2008, DBM held train-the-trainer sessions for personnel representatives from all agencies in SPMS. The presentation used in the training is available through the DBM Personnel Officers' web site. To date, 26 agencies have completed training for their supervisory staff and have implemented the new forms.
- **Compliance Efforts:** The Secretary of DBM and the Director of OPSB have both contacted agency heads regarding the importance of these reviews, while OPSB has expanded PEP data available to agencies on its web site.
- **Data Management:** In July 2008, the PEP online reporting system was updated and improved to permit the recordation of formerly un-captured mid-year PEP ratings to significantly enhance data management capabilities. In compliance with the budget committees' request to report mid-year evaluation data, DBM tasked all agencies with gathering and reporting this information retroactive to the beginning of fiscal 2008. The results are shown below.

Fiscal 2008 Results and Need for Managerial Incentives

With these efforts in place, the fiscal 2008 MFR measures show that SPMS agencies reviewed the performance of 59.2% of employees, an improvement over fiscal 2007 but well short of the required levels. **Exhibit 1** charts the results by agency. It shows that managerial performance varies across agencies. The Department of Public Safety and Correctional Services (DPSCS) completed the most reviews and posted a percentage completion of 90.6%, while the Departments of Planning and Housing and Community Development had a completion rate below 15.0%. MDOT, which is not part of SPMS, completed 81.7% of the required reviews. Moreover, a less formal mid-cycle review is also required by the statute. The completion of these evaluations lags even further, with agencies only completing 32.9% of those required.

Because the responsibility ultimately lies with the controlling agencies, and verbal and written entreaties have not yielded the desired result, DBM could enact regulations to provide a financial incentive to managers to ensure compliance. One possibility would be to make any upward pay adjustments for managers with review responsibilities contingent upon documentation that all reviews associated with his/her subordinates were completed as described in the law. Another possible incentive would be to tie position levels to the number of employees reviewed, so year-to-year authorizations would be dependent on completion of the review function. **DBM should comment on controls that could be placed on managers with reviewing responsibilities to ensure compliance with the statute.**

Exhibit 1
Employee Reviews by Department
Fiscal 2008

<u>Department</u>	<u>Employees to Be Reviewed</u>	<u>Reviewed Mid Cycle</u>	<u>Mid Cycle Review %</u>	<u>Reviewed End of Cycle</u>	<u>End Cycle Review %</u>
Aging	49	32	65.3%	27	55.1%
Agriculture	369	0	0.0%	236	64.0%
Budget and Management	372	73	19.6%	223	59.9%
Business and Econ. Development	227	0	0.0%	64	28.2%
State Department of Education	1,454	0	0.0%	1,171	80.5%
Environment	807	605	75.0%	570	70.6%
General Services	530	91	17.2%	162	30.6%
Health and Mental Hygiene	9,214	244	2.6%	4,430	48.1%
Housing	271	0	0.0%	40	14.8%
Human Resources	6,067	3,789	62.5%	3,726	61.4%
Juvenile Services	1,756	627	35.7%	1,266	72.1%
Labor, Licensing, and Regulation	1,395	1	0.1%	919	65.9%
Natural Resources	1,208	48	4.0%	661	54.7%
Planning	158	101	63.9%	21	13.3%
Public Safety and Correctional Services	9,481	8,458	89.2%	8,586	90.6%
State Police	2,168	316	14.6%	506	23.3%
Veterans Affairs	59	0	0.0%	51	86.4%
Other	6,248	1,065	17.0%	2,096	33.5%
State Personnel Management System	41,833	15,450	36.9%	24,755	59.2%
Transportation	6,198	n/a	n/a	5,063	81.7%

Notes: Employee's mid-year rating may not be reported in the same fiscal year as the end-of-year rating. The fiscal 2008 mid-year data was not centrally reported until the start of fiscal 2009, so under-reporting of completed mid-year evaluations may be reflected in the result.

Source: Department of Budget and Management

Fiscal 2009 Actions

Impact of Cost Containment

A total of \$5.6 million was reduced as part of fiscal 2009 cost containment actions. This includes the reduction of \$5,000,000 of special funds for the Chesapeake Bay 2010 Fund and \$603,258 of general funds representing vacant position reductions, cessation of Other Post Employment Benefits (OPEB) prefunding, and the use of statewide employee health insurance balances in lieu of budgeted funds.

Proposed Budget

The fiscal 2010 allowance decreases by \$11.1 million, or 31.1%, with reference to the fiscal 2009 working appropriation, as shown in **Exhibit 2**. Changes in the funding of statewide expenditures centrally located in this budget represent the largest differences. Funding for higher than anticipated health insurance cost increases add \$12.0 million in general funds. However, the absence of \$20.0 million in special funds for the Chesapeake Bay 2010 Fund that had been centrally budgeted in DBM in fiscal 2009 accounts for the largest decrease. No general salary adjustment funding is budgeted in OPSB, resulting in a \$1.6 million decrease in general funds and a \$798,467 decrease in special funds as remaining fiscal 2009 funds for this purpose are removed. Similarly, \$900,000 for union negotiation items from fiscal 2009 are removed from the allowance.

In terms of non-statewide expenditures, the largest growth areas are a \$251,515 increase in health insurance cost, an addition of \$101,290 for State Personnel System support, and \$100,000 in higher audit contract fees. Significant reductions are \$402,000 in decreased contractual spending due to the completion of the Interactive Voice Response system and \$187,860 due to the cessation of OPEB prefunding.

Impact of Cost Containment

Contingent and across-the-board reductions effected in this agency's budget delete \$30,702 of general funds and \$18,946 in reimbursable funds for the deferred compensation match.

Exhibit 2
Proposed Budget
Department of Budget and Management – Personnel
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2009 Working Appropriation	\$8,398	\$20,798	\$6,569	\$35,765
2010 Allowance	<u>18,303</u>	<u>0</u>	<u>6,376</u>	<u>24,679</u>
Amount Change	\$9,906	-\$20,798	-\$193	-\$11,086
Percent Change	118.0%	-100.0%	-2.9%	-31.0%
Contingent Reductions	-\$31	0	-\$19	-\$50
Adjusted Change	\$9,875	-\$20,798	-\$212	-\$11,136
Adjusted Percent Change	117.6%	-100.0%	-3.2%	-31.1%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance pay-as-you-go costs	\$252
Employee retirement	88
Increments and other compensation.....	82
Turnover.....	75
Deferred compensation (after reducing fiscal 2010 for contingent reductions).....	-51
Workers' compensation	-56
Other Post Employment Benefits' liability prefunding	-188
Other fringe benefit adjustments.....	2

Statewide Expenses

Additional health insurance funding.....	12,000
Removal of fiscal 2009 union negotiation funds	-900
Removal of remaining salary adjustment funds.....	-2,397
Removal of Chesapeake Bay 2010 Fund monies, now in DNR	-20,000

Other Changes

Project management and LAN support costs for State Personnel System project.....	101
Actuarial contract cost increase	100
Flexible spending account and audit contract cost increase.....	54
Postage	50
Computer purchases.....	47
Office supplies	20
Administrative hearing charges	14
Recruitment drug testing charges.....	10

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Where It Goes:

Travel	4
Office equipment	2
Computer-related purchases.....	2
Special payments payroll	-3
Annapolis Data Center charges.....	-15
Phone and telecommunications.....	-15
Concentra (State Medical Director) contract	-17
Completion of IVR system enhancements.....	-402
Other	5
Total	-\$11,136

DNR: Department of Natural Resources
IVR: Interactive Voice Response
LAN: Local Area Network

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

Issues

1. State Employee Compensation

The changes to statewide employee compensation in the fiscal 2010 allowance are detailed in **Exhibit 3**. Total proposed personnel spending in the allowance increases by \$99.5 million over fiscal 2009 levels to \$6,767.4 million, a 1.5% increase. By way of comparison, the fiscal 2009 allowance proposed a \$549.1 million, or 8.73%, increase over fiscal 2008 levels. The growth is driven by fringe benefit increases required to comply with benefit obligations that are partially offset by reduced salary spending.

No Cost-of-living Adjustments or Merit Increases in Allowance

The allowance contains no funding for cost-of-living adjustments (COLA) or increments, frequently called merit increases. Increments are required by State Personnel and Pensions Section 8-107, unless individual employees are censured for unsatisfactory performance. However, Section 14 of the Budget Reconciliation and Financing Act (BRFA) of 2009 (HB 101/SB 166) prevents the inclusion of funding for any pay increase in the budget. The increments, in practice valued at 2.44% of salaries, would have potentially added approximately \$91.7 million, \$60.3 million in general funds, to the fiscal 2010 allowance, with another \$31.8 million to be annualized in the fiscal 2011 budget.

As for the COLA, a 2% increase would have added \$83.2 million, \$67.3 million in general funds, to the allowance. The exclusion of these two employee salary increases, therefore, prevents expenditure increases of \$174.9 million across all funding sources, of which \$127.6 million would have represented general funds. Increments and the COLA were last omitted from employee compensation in the fiscal 2004 appropriation, as detailed in **Appendix 2**.

OPSB's statewide fiscal 2009 general fund working appropriation currently has \$1,598,760 in unspent COLA monies. Some funds are undistributed because DBM estimates the total amount required to fund the COLA through the budget process, well before final payroll levels are set. Moreover, position deletions reduce the amount of COLA funds required. **The Department of Legislative Services (DLS) recommends that the full \$1,598,760 be reduced from the fiscal 2009 appropriation through the Budget Reconciliation and Financing Act of 2009.**

Exhibit 3
Regular Employee Personnel Changes – All Funds
Fiscal 2009 Working Appropriation to Fiscal 2010 Allowance
(\$ in Millions)

2009 Working Appropriation ⁽¹⁾	\$6,667.9
Fiscal 2009 deficiencies	38.7
Salary Changes	
Annualized fiscal 2009 increments and other changes	29.6
Agency reclassification	-3.2
Section 22 personnel-related reduction	-30.0
Position-based changes	
273.27 new full-time equivalent positions in the allowance	14.4
Section 19 – reorganization of classifications	-.6
435.3 positions abolished in allowance	-22.9
Section 18 – 1,000 vacant position reduction	-25.0
Health insurance	
Active and retired employee insurance costs	160.6
Special Maryland Department of Transportation subsidy	1.8
Section 20 fund swap with Medicare D reimbursements	-24.6
Retirement contributions	54.8
Social Security	6.3
Unemployment insurance	5.8
Workers’ compensation insurance	4.4
Overtime	-1.1
Adjustment to turnover	-11.3
Deferred compensation – Section 21 reduction	-21.9
Miscellaneous adjustments	-22.1
Other Post Employment Benefits prefunding ceased	-54.4
Other salary (additional assistance, shift differential, accrued leave payout, tuition waivers, remainder)	0.3
Fiscal 2010 Allowance	\$6,767.4
Increase over Fiscal 2009 Working Appropriation	99.5
Percentage Increase	1.49%

⁽¹⁾ The fiscal 2009 working appropriation reported in the budget does not reflect the \$33.8 million reduced through the implementation of employee furloughs across the agencies or 250 vacant position reductions contemplated for a yet-to-be defined Board of Public Works action.

Source: Department of Budget and Management

Total Salary Spending Declines

Without these across-the-board upward adjustments, total salary spending in the fiscal 2010 allowance – which before turnover represents over \$5.08 billion, or 75.4%, of total compensation costs – posts a year-to-year decline. The decrease is attributable to position abolitions and several across-the-board provisions. A total of 435.3 positions were abolished across the agency budgets, thus reducing employee-related expenses by \$22.9 million. Furthermore, Sections 18, 19, and 22 remove \$55.6 million of salary from fiscal 2010 in conjunction with the deletion of 1,000 vacant positions, the reorganization of employee classification functions, and an undefined reduction to personnel expenditures respectively. Greater detail on these position-related items is provided in Issue 2.

Offsetting these reductions, the two factors that increase employee salaries are the annualization of fiscal 2009 increments and the creation of 273.0 new positions. Last year's increments, whose funding is split between fiscal 2009 and 2010 because some salary adjustments were not made until January 2009 to coincide with employee start dates, require the inclusion of \$29.6 million in the allowance. The new positions, 43.5 in the Judiciary, 53.0 in the Executive, and 176.7 of which are in higher education, add approximately \$14.2 million to employee compensation spending planned for fiscal 2010.

Required Contributions for Cost-based Fringe Benefits Increase

Two fringe benefit costs that would require policy changes to alter represent the bulk of employee compensation growth: employee and retiree health insurance payments and employee pension contributions. Health insurance spending increases by \$160.6 million as pre-existing balances that had previously held down appropriated funding requirements were exhausted, requiring larger budgeted amounts to meet higher costs. Also, pension funding grows by \$55.6 million across all systems in response to higher required employer contribution rates. These areas of growth are partially counterbalanced by decreases in the majority of fringe employee compensation areas, as detailed in Exhibit 3. The largest reductions are the \$54.4 million removed due to the cessation of OPEB prefunding through agency budgets and the \$21.9 million reduced through the elimination of the deferred compensation match in Section 21.

Fiscal 2009 Cost Containment and State Employee Furlough

Salaries and related fringes in the fiscal 2009 working appropriation are lower than the legislatively appropriated levels because of two major cost containment actions brought by the Administration to the Board of Public Works (BPW) in June and October 2008. The combined actions reduced employee compensation by \$137.6 million – \$127.5 million in general funds – the majority of which is associated with the deletion of 830.15 regular positions, the elimination of OPEB prefunding, and fund swaps of employee health insurance appropriations. However, the fiscal 2009 working appropriation salary figures reported in the budget are larger than they will be by closeout because they do not reflect two personnel actions assumed in the Administration's budget plan to be processed via budget amendment. The first is a 250.0 vacant position reduction scheduled to be made

at a yet-to-be-defined BPW meeting, whose value is estimated at \$9.2 million. The second involves reflecting the \$33.8 million general fund and \$8.6 special fund reductions resulting from the implementation of regular employee furloughs across the agencies. An additional \$586,000 was saved from furloughing contractual positions, bringing the general fund total to \$34.4 million.

The furlough was applied to all SPMS employees via Executive Order 01.01.2008.20. A sliding scale system was developed that required all employees to have two days of pay reduced from their salaries as part of statewide closures on December 26, 2008, and January 2, 2009. In addition, employees earning between \$40,000 and \$60,000 were directed to take two additional days of unpaid leave, and those making more than \$60,000 were to take three extra unpaid days off. The furlough did not apply to over 15,000 employees that are categorized by the Administration as essential 24/7 health and public safety personnel. Classifications with significant numbers of employees, such as correctional officers, nurses, security staff, and State troopers, were excluded because of shift coverage requirements. Higher education entities had their appropriations reduced by sums commensurate with projected furlough salary savings, but each was allowed to administer the leave as its management saw fit. The Judiciary and the Legislature, although not obligated by the order, also participated in the furlough.

Fiscal 2010 Cost Containment Needs

Given the persistence of reduced revenues, many states are preemptively reducing their workforces and salaries. States such as Ohio, Nevada, and California have already proposed wage reductions of between 6% and 10% for their employees. Other states have opted to eliminate positions instead of reducing salaries. For example, the budgetary plans of Pennsylvania, Virginia, and New York all include layoffs totaling in the thousands of employees. Larger governmental units are faring even worse. New York City's latest budget eliminates 23,000 municipal jobs, 16,000 of which are in education-related positions, while California has made preparations for 10,000 jobs to be eliminated. **Appendix 3** describes some of the personnel actions in motion in other public entities.

Maryland, as described above, has already reduced vacant positions and frozen salaries, while Section 22 signals \$30.0 million in further reductions. If revenues continue to decline, the choice between layoffs and salary alterations will likely have to be made. The furlough reduced general fund spending by \$33.8 million, but, as described above, it did not affect all employees. Moreover, the furlough was a temporary measure, and it was executed outside of the budgetary process, limiting legislative input while having no structural impact. In anticipation of further revenue write downs, **DLS recommends reducing all State employee salaries by 1% in fiscal 2010.**

The reduction would yield approximately \$34.0 million in general fund savings and reduce spending by \$53.0 million across all funds. The general fund reduction is roughly equivalent to the Administration's Section 22 allotment of \$30.0 million. Such an action would affect all employees, which the furlough mechanism did not, and would help to prevent the necessity of layoffs. Moreover, it would be accounted for upfront, providing for legislative input and public debate, while structurally altering compensation. **DBM should comment on the necessity of reducing salaries preemptively.**

2. Position Changes

Position changes are effected in the fiscal 2010 allowance through two disparate methods: (1) abolitions, transfers, and creations detailed in individual agency appropriations; and (2) across-the-board actions. The first method alters the salary, fringe, and turnover assigned to each affected program in accordance with the reduction. The second is more generalized, and as administered in the allowance, provokes imbalances between agency position complements and funding. Both reduce the total number of State employees in the allowance.

Changes in the Allowance

The fiscal 2010 allowance contains 435.3 regular full-time equivalent (FTE) position abolitions across the agency budgets, 1,013.0 FTE deletions through across-the-board provisions, and 273.3 new position creations. The net effect is a total of 1,175.0 fewer State positions, as shown in **Exhibit 4**. Every SPMS agency experiences a net loss of positions in the allowance. The agencies with the largest reductions are the Department of Health and Mental Hygiene (482.0), DPSCS (374.0), and the Department of Human Resources (255.0). Positions are created in two departments in the allowance, higher education institutions, which add 111.0 FTEs and the Judiciary, which adds 44.0 positions. The position counts of MDOT and the Legislature are unchanged. A detailed narrative explanation of the major changes by department is provided in **Appendix 4**.

Spending Affordability Committee Recommendations and Allowance Position Reductions

The Administration's position deletions follow upon the Spending Affordability Committee (SAC) recommendation that the total budgeted FTEs be reduced by 1,000 positions to achieve employee levels sustainable by the State's increasingly restricted fiscal capacity. The recommendation further stated that the appropriate position levels would yield a fiscal 2010 cap of 80,247 FTEs. The allowance, largely through the 1,000 vacant positions deleted by Section 18, goes beyond this level and reduces total positions to 80,081. However, the manner in which Section 18 achieves the desired position cap levels causes short-term imbalances while failing to address the long-term structural concern manifested in the recommendation.

- **Reductions Not Linked to Specific Services:** Because Section 18 distributes general deletions across departments and does not drill down to the program level, it is impossible to foresee the impact of these reductions on State-provided services. By way of example, the 200 vacant position reductions in the Department of Health and Mental Hygiene could affect programs as diverse as the medical examiner's office and adolescent mental health centers. Decisions about which programs are essential and must be continued, and which could be eliminated to permanently lower costs, have not been made. Therefore, informed conclusions about the propriety of these reductions are difficult to develop as the impact of the action is obscured. **DBM is asked to define the programmatic service areas whose position levels would be reduced by Section 18.**

Exhibit 4
Regular Full-time Equivalent Position Changes
Fiscal 2009 Working Appropriation to Fiscal 2010 Allowance
with Back of the Bill Changes

<u>Department/Service Area</u>	<u>2009</u> <u>Approp.</u>	<u>Transferred</u>	<u>Created</u>	<u>Abolished</u>	<u>Back of Bill</u> <u>1,000 Vacant</u> <u>Reduction</u>	<u>Back of</u> <u>Bill</u> <u>Reorg.</u>	<u>2010</u> <u>Allowance</u>	<u>Difference</u>
Health and Human Services								
Health and Mental Hygiene	7,237	0	8	-286	-200	-4	6,754	-482
Human Resources	6,851	-3	0	-50	-200	-2	6,596	-255
Juvenile Services	2,272	0	0	-5	-25	0	2,242	-30
<i>Subtotal</i>	16,360	-3	8	-341	-425	-6	15,593	-767
Public Safety								
Public Safety and Corr. Services	11,623	0	27	0	-400	-1	11,249	-374
Police and Fire Marshal	2,441	0	0	0	-21	-1	2,419	-22
<i>Subtotal</i>	14,063	0	27	0	-421	-2	13,667	-396
Transportation	9,135	0	0	0	0	0	9,135	0
Other Executive								
Legal (Excluding Judiciary)	1,571	0	0	-23	-28	0	1,520	-51
Executive and Admin. Control	1,660	5	6	-10	-26	0	1,635	-25
Financial and Revenue Admin.	1,990	0	1	-7	-2	-1	1,981	-9
Budget and Management	447	-2	0	0	-6	0	439	-8
Retirement	204	0	0	0	0	0	204	0
General Services	611	0	6	0	-19	0	598	-13
Natural Resources	1,359	0	0	-3	-13	-1	1,342	-17
Agriculture	427	0	5	-1	-8	0	423	-4
Labor, Licensing, and Regulation	1,450	0	0	0	-9	-1	1,440	-10
MSDE and Other Education	2,144	0	0	-9	-7	-2	2,126	-18
Housing and Community Dev.	311	0	0	0	0	0	311	0
Business and Economic Dev.	261	0	0	0	-3	0	258	-3
Environment	958	0	0	0	-8	0	950	-8
<i>Subtotal</i>	13,391	3	18	-53	-129	-5	13,225	-166
Executive Branch Subtotal	52,949	0	53	-394	-975	-13	51,619	-1,329
Higher Education	23,991	0	177	-41	-25	0	24,102	111
Judiciary	3,569	0	44	0	0	0	3,613	44
Legislature	747	0	0	0	0	0	747	0
Grand Total	81,256	0	273	-435	-1,000	-13	80,081	-1,175

MSDE: Maryland State Department of Education

Source: Department of Budget and Management

- **Turnover Imbalance:** In the near-term, this sort of reduction generates imbalances by deleting vacant positions and not adjusting turnover. Absent the across-the-board provision, the allowance turnover rates were generally representative of the positions vacant. So, the money taken out of agency budgets for turnover was roughly equivalent to the money needed to fund the vacant positions. Imbalances ensue from Section 18 because all of the positions deleted are vacant, and any funds removed in association with these deletions reduce the funding available for filled positions. Agencies either have to maintain staffing levels through a deficiency appropriation or reduce workforce levels through the creation of new vacancies.

For example, in the DPSCS allowance, 7.9% of the agency's salary and fringe funding is removed through turnover expectancy. DPSCS would need to hold 889 positions vacant to remove this percentage of its employee compensation. Given that DPSCS had 837 vacancies in January 2009 and Section 18 deletes 400 vacant positions from the agency, only 436 vacancies remain in the department. So, to hold nearly 900 positions vacant, DPSCS must utilize funds for existing positions to do so, thus limiting the agency's ability to fill positions as they become vacant. Otherwise it must seek additional funds through a deficiency. This problem is exacerbated if funding associated with the positions is also deleted, but service is ostensibly expected to continue at the same level.

- **Reduction Not Linked to Salary:** As for the long-term structural affect of Section 18, the dollar reduction accompanying these 1,000 positions is not reflective of the positions that would have to be deleted from the State workforce to enact such a change. DLS estimates that the dollar value associated with the 1,000 least-costly vacancies – of those positions vacant on December 31, 2008 – would be \$32.9 million. Non-health insurance fringes add approximately \$3.1 million to this sum. Yet, assuming the positions with the lowest salaries will be removed is practical but unrealistic because the vacant positions represent service functions. Removing all low-paying jobs would debilitate basic functional areas, so the reduction will likely need to be much higher. Using the fiscal 2008 DBM Personnel report as a guide, total salary and non-health insurance fringe for the average SPMS employee is \$55,777. So, 1,000 average positions would be worth \$55.8 million. Future budgets will need to remove the salary dollars not reduced here to properly account for the deletions.
- **Transportation and Higher Education Not Included in Reductions:** Also part of the SAC recommendation was the utility of spreading the reductions across State government, so as not to destabilize particular service areas. This portion of SAC's counsel was not heeded by the Administration. While SPMS agencies lose 975 positions through the reduction, the sole higher education or transportation position eliminations occur in Baltimore City Community College, which loses 25 FTEs. While the University System of Maryland has position creation autonomy and could theoretically re-create any deleted position, reducing general fund appropriations related to position reductions would give weight to the deletions. Similarly, although primarily driven by special funds, DLS has elsewhere recommended that MDOT delete 38 vacant positions as a cost saving measure.

Ultimately, the General Assembly cannot reduce Section 18’s impacts. **However, DLS recommends that the Administration amend Section 18 in a supplemental budget to reflect the concerns cited above.**

Contractual Full-time Equivalents

Finally, contractuales fell by 179 FTEs statewide, as **Exhibit 5** shows. The same trends seen with regular positions are also evident in contractual position changes. SPMS agencies post a total reduction of 223 contractual FTEs, while higher education institutions increase their complement by 70. The net decline in FTEs coincides with decreased dollar allocations for contractual employee spending. Fiscal 2010 allowance funding is \$4.9 million lower than fiscal 2009 levels. Given the same troubling revenue outlook discussed with regard to regular employees, **DLS recommends reducing all contractual salaries by 1%.**

Exhibit 5
Contractual Full-time Equivalents
Fiscal 2009 Working Appropriation to 2010 Allowance

<u>Department/Service Area</u>	<u>2009 Work. Approp.</u>	<u>2010 Allowance</u>	<u>Change</u>	<u>Percent Change</u>
Health and Human Services				
Health and Mental Hygiene	450	384	-66	-14.6%
Human Resources	128	74	-54	-42.2%
Juvenile Services	126	126	0	0.0%
<i>Subtotal</i>	704	584	-120	-17.0%
Public Safety				
Public Safety and Correctional Services	409	395	-13	-3.2%
Police and Fire Marshal	34	34	0	0.3%
<i>Subtotal</i>	442	429	-13	-3.0%
Transportation	169	169	0	-0.2%
Other Executive				
Legal (Excluding Judiciary)	78	66	-13	-16.1%
Executive and Administrative Control	157	163	5	3.3%
Financial and Revenue Administration	40	40	0	0.0%
Budget and Management	22	27	5	21.9%
Retirement	15	14	-1	-6.7%
General Services	28	25	-2	-8.4%
Natural Resources	464	420	-44	-9.5%
Agriculture	50	52	2	4.6%

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<u>Department/Service Area</u>	<u>2009 Work. Approp.</u>	<u>2010 Allowance</u>	<u>Change</u>	<u>Percent Change</u>
Labor, Licensing, and Regulation	169	159	-10	-5.9%
MSDE and Other Education	246	228	-17	-7.1%
Housing and Community Development	47	42	-5	-10.8%
Business and Economic Development	34	28	-7	-19.2%
Environment	48	45	-3	-6.3%
<i>Subtotal</i>	<i>1,397</i>	<i>1,308</i>	<i>-90</i>	<i>-6.4%</i>
Executive Branch Subtotal	2,713	2,490	-223	-8.2%
Higher Education	6,147	6,217	70	1.1%
Judiciary	374	348	-26	-6.8%
Grand Total	9,234	9,055	-179	-1.9%

MSDE: Maryland State Department of Education

Source: Department of Budget and Management

3. Employee and Retiree Health Insurance

Employee and retiree health insurance is the second largest personnel expense for the State, after salaries. As **Exhibit 6** shows, there is \$894.2 million allotted in the fiscal 2010 allowance to pay for the State's subsidization of this benefit for employees and retirees (members). This amount is \$153.2 million, or 20.7%, higher than the projected State contributions in the current fiscal year. The majority of the difference results from the fiscal 2009 depletion of previously accumulated fund balance to replace budgeted funds. Balance transfers from the nonbudgeted State Employee Health and Welfare Benefits Fund were also used to provide members with a premium holiday and to replace \$34.0 million in agency appropriations as part of BPW cost containment actions in June and October 2008. Had the balances been unavailable, the amounts budgeted in fiscal 2009 would have needed to have been approximately \$110.8 million higher to meet costs.

Cost growth is the other component of the increase, as contributions by the State and members must be raised to match expenses. The exhibit shows that DBM projects payments to providers to grow by 9.0% in fiscal 2009 and 8.0% in fiscal 2010. Because of this cost growth, the fund balances used in fiscal 2008 and 2009 to control the growth of State and member contributions will nearly be depleted in fiscal 2010. Consequently, the State will end fiscal 2010 with \$2.6 million held in reserve above the funds that must be set aside to pay for claims incurred in fiscal 2010 but payable in fiscal 2011. Any future growth in costs will henceforth be reflected in a dollar-for-dollar match in increased State and member contributions. If the 8.0% cost growth predicted for fiscal 2010 were to recur in fiscal 2011, the State would need to add \$113.8 million more to what is included in the allowance to meet costs, with total State funding exceeding \$1.0 billion.

Exhibit 6
State Employee Health and Welfare Benefits Fund
Fiscal 2008-2010
(\$ in Millions)

	2008 Actual	2009 Projected	2008-9 Change	2010 Projected	2009-10 Change
Beginning Balance	\$309.9	\$242.6	-\$67.4	\$123.3	-\$119.3
Expenditures					
DBM-Personnel Administrative Cost	6.8	6.7	-0.1	7.0	0.3
<i>Payments of Claims</i>					
Medical	647.5	724.6	77.1	782.6	58.0
Mental Health	12.5	13.4	0.9	14.4	1.1
Rx	298.2	307.0	8.8	331.5	24.6
Dental	36.4	39.8	3.4	43.0	3.2
Other	4.4	4.4	0.0	4.8	0.4
Payments to Providers	\$1,005.8	\$1,095.9	\$90.1	\$1,183.3	\$87.4
<i>% Growth in Payments</i>	<i>7.5%</i>	<i>9.0%</i>		<i>8.0%</i>	
Receipts					
State Agencies	682.3	741.0	58.7	894.2	153.2
Employee Contributions	156.8	151.7	-5.1	167.5	15.8
Retiree Contributions	62.5	58.1	-4.4	64.5	6.4
Rx Rebates, Recoveries, and Interest	36.8	25.8	-11.0	23.3	-2.5
Total Receipts	\$938.4	\$976.6	\$38.2	\$1,149.5	\$172.9
<i>% Growth in Receipts</i>	<i>-10.9%</i>	<i>4.1%</i>		<i>17.7%</i>	
Ending Balance	\$242.6	\$123.3	-\$119.3	\$89.5	-\$33.8
Estimated IBNR	-73.0	-80.4	-7.4	-86.8	-6.4
Reserve for Future Provider Payments	\$169.6	\$42.9		\$2.6	

DBM: Department of Budget and Management
 IBNR: Incurred but not received

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

Cost Anomalies Cast Doubt on Growth Figures

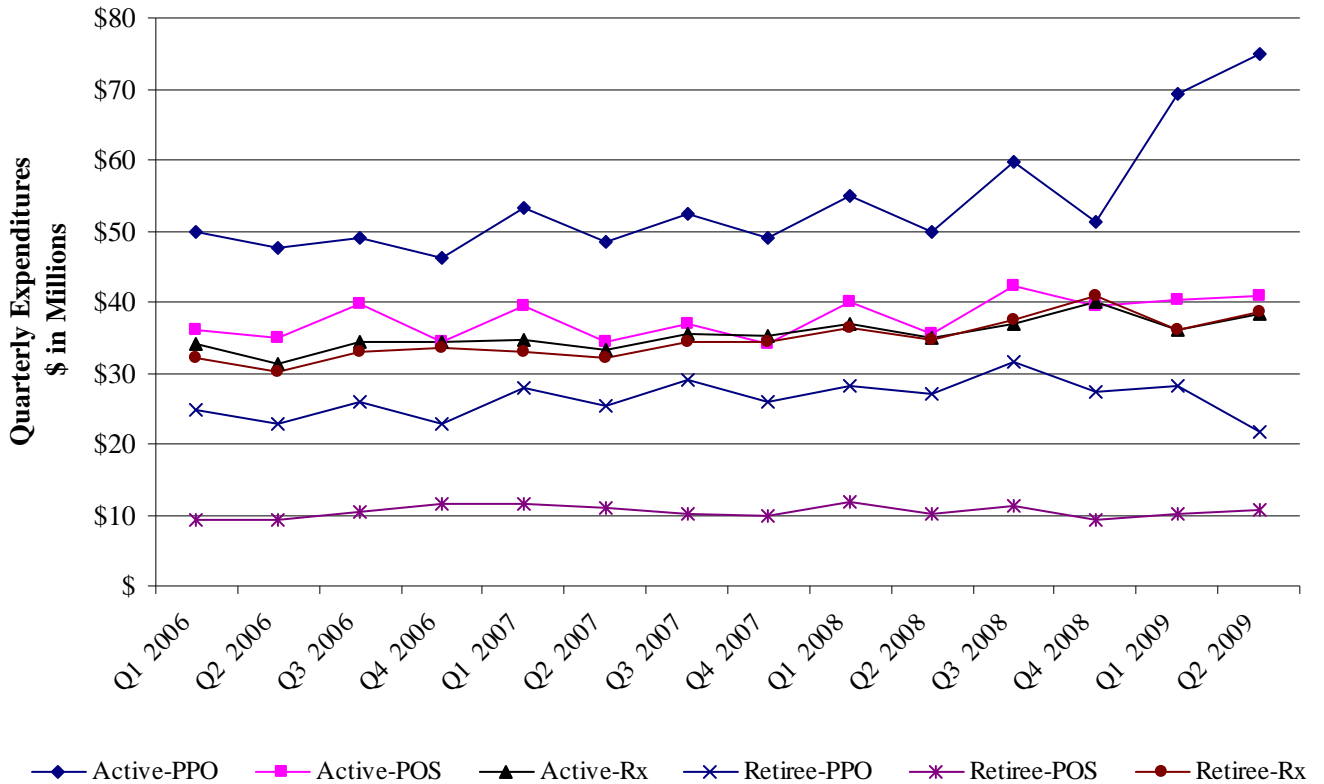
The fiscal 2009 and 2010 cost growth figures require further review. As **Exhibit 7** shows, there are anomalous changes in health plan costs paid to vendors that have caused DBM to add to the amount budgeted. Most importantly, Preferred Provider Organization (PPO) costs for active employees have grown from \$49.85 million in the second quarter of fiscal 2008 to \$74.98 million, a one-year increase of 50.4%. To complicate matters, over the same period, claims paid for retirees declined by 20.4%, dropping by over \$5.5 million. Membership changes, which should account for a portion of the difference, themselves defy explanation. Active and retiree membership in the Carefirst PPO – the health provider serving 94.4% of State PPO members – both grew over the period, by 6.3 and 4.5%, respectively, which would suggest that expenditures for both groups should grow, in seeming contradiction of the reported claims figures. Carefirst, however, has tendered little explanation for these claim cost levels related to changes in service utilization or through the delineation of particular cost drivers. Carefirst has recently identified a programming problem in its system related to the distribution of employees, but the most recent claim expenditure data available does not reflect the proper alignment of this miscoding. Thus, its impacts on the individual plan cost figures cannot be isolated.

While DBM indicates that a number of membership changes have contributed to the large increases, discrete information demonstrating these trends is unavailable. DBM cites factors such as increased spouse participation as partners lose coverage elsewhere, the fiscal 2008 legislation that extended benefits to dependents up to 25 years of age, and member movement out of the less costly Point of Service (POS) and Health Management Organizations plans as additional drivers of growth. However, membership data, as current provided, does not delineate total participants covered, as distinguished from total members enrolled in the plan, so independent verification of vendor claims is difficult. Such data would allow the State to better identify the causes of emerging cost trends on its own. **Given that new contracts are set to be signed for fiscal 2010 and beyond, DLS recommends the inclusion of requests for greater membership reporting detail as part of the new vendor service requirements. DBM should comment on the latest cost trend information and the upcoming contract renewal process. Mention should be made as to what savings may be obtained through the contract negotiation and what data reporting requirements are presently attempted.**

Inclusion of Domestic Partners

Also increasing costs will be the Administration's recent proposed change to regulations that will allow domestic partners to be included on State health insurance plans. DBM's actuary, Gabriel, Roeder, Smith (GRS), estimates the enrollment increase associated with including domestic partners to add a maximum of 2% of total membership, or 1,750 additional dependants. Of that total, approximately 290 new dependents would represent same sex partners. GRS estimates the total cost of implementing the new regulations to be between \$1.0 million and \$3.0 million. Both the enrollment increase and the cost growth are uncertain because the size of the affected population is unclear. As a proxy for this purpose, GRS based its calculations on past studies conducted in other jurisdictions. No additional funds have been included in the budget to support this regulatory change as DBM believes existing balances will absorb the costs. Future budget levels will reflect the added costs. **The official regulations have yet to be released, so DBM should comment on the increased cost related to this regulatory change.**

Exhibit 7
Quarterly Claims Paid for Self-insured Plans
Fiscal 2006-2009



Source: Department of Budget and Management

DBM Response to Price Increases

In the absence of precise vendor cost information, DBM has included more funding in the budget for employee health insurance to account for these higher than anticipated costs. In addition to the increases to agency budgets, \$12.0 million in general funds has been included in the OPSB statewide budget to ensure money is available to meet costs. Moreover, Section 20 – in conjunction with a BRFA provision – intends to redirect funding from the OPEB trust to help pay for these higher health insurance costs. The actions are problematic for several reasons. First, as discussed, the cost changes are not clearly explained. Second, according to reports by the both the industry journal *Health Affairs* and the national survey conducted by the Kaiser Family Foundation, national cost trend information continued to show health insurance cost growth slowing in fiscal 2007 and 2008, with the latter tabulating a 5% health insurance cost rise in fiscal 2008. **As such, DLS recommends that the \$12.0 million in statewide health insurance funding not be expended until a report detailing the causes of fiscal 2009 cost increases is provided to the budget committees.**

These same arguments show the theoretical need underpinning the redirection of Medicare D reimbursements to the budget to be questionable. Additionally, the amount of funding that would be contributed by the Medicare D funds to offset projected health insurance expenditures, \$24.6 million, is less than a quarter of the annual need, so additional actions would be required in all subsequent years. As is discussed in detail in Issue 6, the substantial benefit of having these funds directed to the OPEB trust would also be entirely lost, lowering the prefunding of that liability and possibly endangering Maryland's bond rating. **DLS recommends striking Section 20 and the related BRFA provision because it does not believe them to be effective long-term solutions to the cost problem.** Adjustments to the level of the benefits appear to be necessary.

Long-term Consideration Required

Given that the State faces the prospect of matching increases in health care cost with larger budgeted amounts, altering the benefit structure to a level achievable under current budgetary conditions may be necessary. Numerous cost-shifting possibilities exist that could help the State keep up with the increasing expenditures of the health insurance benefit.

- **Premium Subsidy Changes:** A 5% reduction across the board increase in premium subsidies would save the State approximately \$58.8 million in fiscal 2010. The costs would be shifted to employees and retirees through higher premium payments. This option, however, relates only to membership, and not to usage of the health plans.
- **Coverage Ratio:** The total benefit provided by the State extends beyond the premium. Primary among the benefits in the self-insured options – PPO, POS, and Prescription – is the provision of 100% co-insurance that makes the State responsible for all claim-related costs beyond the co-pay. The coverage ratio, then, is a calculation of how much of the actual claims the self-insured plan designs assign to the member and how much to the State. Additional components of the coverage ratio include the amount of the co-pay itself and the level, if any, of a deductible. DBM calculates that the current coverage ratio provided by the State is 93%, while the majority of State plans provide benefits in the 80 to 85% range. Buck Consulting (Buck) has estimated that adjusting the co-pays, deductibles, and other related cost drivers to yield an 85% coverage ratio would save approximately \$80.0 million in fiscal 2010. There would also be significant reductions to OPEB liabilities as the promised benefit decreases. Again, most of the costs would be assumed by members, but because these changes have the capacity to alter usage patterns, a net savings to the plan may occur.
- **Retiree Health Coverage:** The Blue Ribbon Commission to Study Retiree Health Care Funding Options is examining how State policy regarding the provision of health care to retirees can be revised so as to be fiscally sustainable. Key issues under discussion include the relationship of prescription drugs to Medicare, the qualification process for obtaining retiree health benefits after State service, subsidy levels, and the appropriateness of the current retirement age given changing demographic trends. The commission released an interim report of its findings in December 2008 and will offer its final recommendations in December 2009.

DBM should comment on its plans for implementing adjustments to the State health insurance benefit or, alternatively, for generating the funding required to continue providing the current benefit package.

Correcting Prescription-related Imbalances May Assist in Short-term

Certain current plan features could also be altered to better reflect plan intent and reduce subsidy levels. Two such items are:

- Cost of Brand Name Prescription Drugs:** Catalyst, the State’s prescription benefits manager, defines a list of brand name drugs it categorizes as preferred for inclusion on its formulary. The co-pay associated with these drugs is \$15 for a 45-day prescription. If a brand name drug is not on the formulary, the co-pay is \$25. Due to the State’s self-insured plan structure and the 100.0% co-insurance mentioned above, any costs above the brand name drug’s price are borne by the State. The member only pays something approaching the actual price of the prescription by choosing a brand name drug when a generic option exists. In this case, the member pays the generic co-pay plus the difference in cost between the generic and the brand name drug. Catalyst’s data indicate that in fiscal 2008 this choice was made on 1.9% of prescription purchases.

Exhibit 8 details an imbalance in this co-pay set up. The State pays 91.9% of the cost of brand name drug prescriptions, while it pays 80.9% for generics. The co-pay for brand name drugs appears too low because it results in the provision of a larger benefit for more expensive prescriptions. Because the State provides an 80.0% prescription premium subsidy, the 80.9% State contribution for generic drug prescriptions indicates that the \$5 co-pay is more appropriate for the subsidy level. The lower State payment for generics with brand equivalents, approximately 57.8% of the cost, is better aligned as it represents the penalty that members pay for knowingly choosing a more expensive option. **DBM should comment on adjustments to the co-pay for brand name drugs or the formulary that could eliminate this disparity.**

**Exhibit 8
Prescription Cost Sharing
Fiscal 2008 Actual**

	<u>Brand</u>	<u>Generic</u>	<u>Brand with Generic Equivalent</u>	<u>Total</u>
Co-pay	\$15/\$25	\$5	Cost Based	
% of State Prescriptions	39.7%	58.4%	1.9%	100%
Average Total Cost	\$225.53	\$28.90	\$80.77	\$107.91
Average Cost to State	207.34	23.37	46.71	96.81
% Paid by State Per Claim	91.9%	80.9%	57.8%	89.7%

Note: Formulary brand name drugs carry a \$15 co-pay while non-formulary drugs carry a \$25 co-pay.

Source: Catalyst

- Lack of Adjustment to \$700 Out-of-pocket (OOP) Maximum:** Another area needing reexamination is the \$700 per member OOP maximum. With this cap in place, when the total amount of co-pays paid by a member and his/her covered dependents during the plan year reaches \$700, the State pays for any additional co-pays on eligible prescriptions for the remainder of the plan year. Two traits of this administrative feature could be altered to more equitably adjust costs. First, the figure has been set at \$700 since its inception in fiscal 2006. Over this three-year period, prescription claims costs have grown by 13.4%. More specifically, as seen in **Exhibit 9**, as costs grow, the amount subsidized by the State increases. Through the first seven months of fiscal 2009, 3.2% more members had qualified for the cap, at a cost 3.5% higher than fiscal 2008 levels. Continuing the fiscal 2008 patterns through the remainder of fiscal 2009 would increase the State subsidy by \$401,569 for the year. Under such a mechanism, the cap would only increase in step with employee salaries; retirees automatically receive inflationary adjustments in their monthly benefits.

Exhibit 9
Out-of-pocket Prescription Program
Monthly Cumulative Qualification, Expenditure, and Prescription Amounts
Fiscal 2008-2009

<u>Month</u>	<u>Fiscal 2008</u>			<u>Fiscal 2009</u>		
	<u>Families Qualifying for \$700 Limit</u>	<u>\$ Paid</u>	<u>Prescriptions Above Limit</u>	<u>Families Qualifying for \$700 Limit</u>	<u>\$ Paid</u>	<u>Prescriptions Above Limit</u>
July	0	\$0	0	1	\$700	100
August	1	700	32	6	4,318	383
Sept	58	40,600	3,464	89	63,168	5,255
Oct	424	296,800	25,163	475	334,188	28,070
Nov	1,211	847,700	74,176	1,271	892,537	77,562
Dec	2,556	1,789,200	160,056	2,755	1,933,245	174,165
Jan	4,435	3,104,500	288,219	4,579	3,212,514	300,821
<i>Growth</i>				3.2%	3.5%	4.4%
Total	16,488	\$11,541,730	1,296,577	17,023	\$11,943,299	1,353,268

Note: The final fiscal 2009 totals are annualized estimates based on fiscal 2008 usage patterns.

Source: Catalyst; Department of Legislative Services

Another disparity in the OOP maximum is that it applies equally to single employees and to those with families. The co-pays made for prescriptions of each member of a family count toward the limit, so a member with three dependents essentially has four times the benefit as a single employee. As mentioned with respect to PPO membership figures, the data available on the OOP max does not differentiate between a single employee and employees with dependents qualifying for this subsidy to allow for further analysis. Nevertheless, a reasonable change to the application of the cap would be to create one OOP max for single employees and one for those with dependents. **DLS recommends altering the OOP maximum so that it is \$700 for individuals and up to \$1,400 for families and adjusting the cap annually for COLA. DBM is asked to comment on altering this administratively determined benefit.**

4. At-will Study Review

Chapter 592 of 2007 required a study of State personnel laws and regulations to delineate the number, justification, and job protections related to at-will employees, special appointments, and management service employees in the Executive Branch. DLS – with the assistance of DBM, MDOT, and labor organizations that represent State employees – submitted the study’s results and its recommendations for balancing the need for flexibility in hiring and appropriately administering at-will employees in December 2008.

Major recommendations resulting from the report include:

- **Eliminate Special Appointment Designation for Executive Service and Management Service Positions:** Repealing the provision of law that allows State positions in the executive and management service to be designated as special appointments in the SPMS would facilitate the administrative tallying and tracking of at-will positions.
- **Add Additional Protections for Certain Management Service Positions:** Protections could be created through the division of the management service designation into policy or program managers or the expansion of the definition of professional service to include management positions that do not work in a political or policymaking environment, thus providing full merit system protections to these individuals.
- **Alter At-will Status of Certain Positions or Groups of Positions:** Altering provisions of law that require that all positions in the Department of Business and Economic Development, the Health Regulatory Commissions, the Maryland Board of Physicians, the Child Support Enforcement Administration’s Demonstration Sites, and the Maryland Historical Trust be at-will would properly categorize these employees. A variety of other recommendations to rectify classification specific situations were also made.
- **De-centralize Hiring:** Altering provisions of law related to the hiring of State employees would ensure conformance to the legislature’s intent in the State Personnel Management Reform Act of 1996 that hiring should be de-centralized. This practice would deter the creation of additional special appointment positions since these are exempt from the normal hiring and termination provisions of the SPMS, and thus easier to hire.

- **Reassess Status of Certain Skilled and Professional Service Positions:** The Secretary of DBM should reassess the status of all skilled and professional service employee positions designated as special appointments in the SPMS to avoid possible improper job type categorizations.
- **Create a Definitive Political Special Appointment List:** The Secretary of DBM should, by December 31 during a gubernatorial election year, submit a list of all employees designated as a special appointment employed with regard to political affiliation, belief, or opinion. The list should emulate the federal “Plum Book,” which is a list of noncompetitive appointments located throughout the federal government.

DBM should comment on the report’s recommendations. Specific detail on the status of designating political special appointments should be provided, because at the time of the study DBM had identified 169 such positions, but more recent data analysis by DLS indicates that political special appointments may tally 670 positions.

5. Streamlining Hiring Process Report

The 2008 JCR requested that DBM report on the process by which the State hires employees, with a focus on how SPMS could streamline the steps in the process. The committees were concerned that existing requirements added too much time to the process, thus diminishing the pool of qualified applicants for State jobs through extended wait times, ultimately making it difficult for agencies to fill vacant positions. This issue will review the report’s contents.

Steps in the Process

The report identified 14 steps in a hiring process that must be followed before an eligible list is created. These steps include filing hiring freeze exception requests, setting the appropriate testing modules, advertising the recruitment, and grading applications. While the process varies depending on the type of position being hired, the creation of the eligible list takes a minimum of 35 days. Some of these delays are due to the use of DBM’s mainframe system, which can only transfer applicant files twice a week. Once the lists are available, the interviewing process begins in the hiring agency, outside of DBM’s oversight. The time that scheduling interviews, meeting with candidates, and deciding on the preferred prospect takes is a function of the agency resources that can be dedicated to the task. DBM considers extending an offer to be the final step in the process.

Statutory Requirements

The report identifies the controls on this process defined by law that add time to the process. The controlling statute is Title 7 of the State Personnel and Pensions Article. The pertinent sections and the delays they can provoke in the hiring process are listed below:

- Section 7-201/2 require a Position Selection Plan for all skilled and professional service positions, adding time on the front end for the preparation of solicitation material.
- Section 7-203 requires applicants to be selected from an eligible list. The compilation of this list may make the wait too long when recruiting hard-to-fill positions in areas of high demand.
- Section 7-204 requires job postings to be transmitted to DBM one week before posting for a mandatory two-week public job announcement period, adding three weeks to the process.
- Section 7-205 requires a list of qualified applicants to be created in random order for agency review. This measure delays the reviewing of applications until the closing date.
- Section 7-206 permits the use of varied applicant rating mechanisms, which may lengthen the process if special needs must be examined.
- Section 7-207 mandates providing credits to certain applicant groups, such as veterans and residents of regions with high unemployment, that adjust qualifying scores. The processing time required to apply these credits typically adds one week.
- Section 7-208 requires categorization of appropriate standards to create a final eligible list, requiring further interaction with the sluggish mainframe system.

DBM Streamlining Plans

DBM identifies seven means of streamlining the above process. The first two measures involve updating procedural elements, while the final five involve de-centralizing recruitment activity.

Procedural Changes

- **Recruitment and Examination Division Restructuring:** Testing components of agency hiring plans are now reviewed first to correct issues before the posting period concludes. Also, recruitment changes, such as switching from print ads to online communications, have been made to reduce the need for announcing the same position multiple times.
- **Classification Specifications:** Classification information is being updated to avoid the use of outdated qualification requirements that can detract from the desired applicant pool.

De-centralization

- **Test Ownership:** Staffing shortages in DBM’s centralized test construction function have caused delays. So, agencies with adequate resources are encouraged to administer their own tests.
- **Position-specific Requirements:** The use of generic eligible lists that can be accessed by various departments often results in agencies contacting candidates that are not appropriate for their operation. So, DBM has begun encouraging the use of position-specific lists that are tailored for agency-specialized tasks to limit time spent on unfruitful candidate contacts.
- **Streamline Certifications:** DBM has developed standardized criteria, such as a generally recognized vocational certification, for hard-to-recruit positions. Applicants matching the criteria are automatically placed on eligible lists, without need for the testing phase, thus skipping many of the DBM-related steps entirely.
- **State Employment Application and Applicant Tracking System:** DBM is studying the feasibility of replacing the resume submittal process altogether through the creation of an online application process. Presumably, each agency would be able to access its applications without DBM involvement.
- **Increased Training Efforts:** DBM is expanding its training efforts of agency personnel officers to enhance de-centralized recruitment efforts and minimum qualification screening. Problems on the agency side can delay hiring if DBM must correct improper procedures to ensure statutory requirements are followed.

Hiring Freeze Necessity Not Addressed

The report cites the need to submit a hiring freeze exception for approval as an administrative delay created by DBM’s Office of Budget Analysis. The multiple reviews within DBM that are required to determine the necessity of the exception can add several weeks to the beginning of the process. As was discussed in the 2008 session, approximately 90% of exception requests are approved. Moreover, there are hundreds of classifications altogether exempt from this process. These facts suggest that while hiring permission is largely unaffected by the step, the filling of agency needs is delayed by its presence. **DBM is asked to comment on the necessity of the hiring freeze.**

Section 19 Reorganization

As indicated above, the activities required to streamline personnel oversight in the hiring process seem to focus on de-centralizing DBM control and empowering individual agencies. Such a strategy was also recommended in DLS’ at-will position study. Yet, Section 19 goes against this trend and consolidates all State classification work in DBM – OPSB, a function it does not currently perform. At present, there are 25.5 positions in various agencies doing classification work. Section 19 would delete 13 of these positions (and \$601,328 of associated funding) and permit the

transfer of the remaining 12.5 FTEs to DBM via budget amendment. In addition to the classification duties, the relocated resources would also assume the class work of the personnel generalists in agencies that do not have a dedicated class unit. **DBM should comment on why this reorganization will be efficient while many of the hiring process streamlining recommendations increase de-centralization.**

State Personnel System

DBM has stated that the functionality of its mainframe system could be leveraged to minimize reclassification delays that have been experienced in the past in various agencies. Yet, the mainframe, and its untimely processing capacity, were cited as an impediment to speed of the hiring functions. Procurement of a new State Personnel System to modernize computer capabilities of the State's central personnel functions is currently underway. The project is under the stewardship of the Department of Information Technology (DoIT). Greater detail on its progress, funding, and proposed schedule is available in DLS' DoIT analysis document. However, the expanded capabilities of a new system could address several of the hiring and classification issues discussed above. **DBM should comment on the hiring and classification capabilities it will include in the required functionalities of the State Personnel System under development.**

6. Other Post Employment Benefits Prefunding Reduction

Chapter 466 of 2004 established the Postretirement Health Benefits Trust Fund as an investment vehicle to help defray the large long-term liability created by retiree participation in the State's subsidized health insurance program. The fund is managed by the State Retirement Agency (SRA) as a tax-exempt trust. The Internal Revenue Service approval of the trust structure was received in January 2008.

The liabilities that the account's funds are intended to offset have been calculated by Buck Consulting (Buck) to be an estimated \$14.8 billion as of July 1, 2008. That figure falls to as low as \$9.7 billion when the liability is pre-funded by monies set aside to earn investment returns. To decrease the liability from \$14.8 billion to \$9.7 billion, the State would need to invest the entirety of what is known as the Annual Required Contribution (ARC) in the fund each year. The ARC is composed of two parts:

- the present value of retiree health benefits the State is becoming liable for in the current year through employee service; and
- the amortization of the historically accumulated unfunded health insurance liability for active employees, current retirees, and former employees in deferred status.

Fiscal 2009 Activities

For fiscal 2009, the ARC was \$1.15 billion. In its plan to substantially fund the ARC, the State directed the \$330.5 million required to meet pay-as-you-go expenditures for current retiree health subsidies and planned on transferring additional funding to the trust through budgeted agency allocations and Medicare D reimbursements. The fiscal 2009 legislative appropriation contained \$106.0 million across all agencies – approximately \$64.0 million of which were general funds – to be withdrawn during each pay period from agency budgets at a rate of 16.6% of health insurance subsidy payments. However, in response to downward revenue revisions that reduced available funding, the Administration ceased all budgeted transfers to the OPEB trust as part of the October 2008 cost containment action. As a result, only \$22.5 million (\$13.0 million in general funds) of the original appropriation from payroll was deposited in the trust.

The other source of funding came from the annual federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 reimbursements (Medicare D). Section 34-101 of the State Personnel and Pensions Article mandates that all Medicare D proceeds are deposited into the trust. In fiscal 2008, \$24.5 million was received from this source. In total, the State paid \$377.5 million of the \$1.15 billion ARC, leaving \$772.5 million unfunded. The unfunded portion will increase the amount of outstanding liabilities that accrue interest and must be paid for in the future. Buck estimates that total will be \$15.7 billion at the end of fiscal 2009.

Fiscal 2010 Allowance and Section 20

The development and execution of a plan to address this liability is an important consideration of bond rating agencies when deciding upon the reaffirmation of Maryland's AAA status. The prospect of continued prefunding of the OPEB liability is diminished by the current budgetary climate. The fiscal 2010 allowance includes no funding through agency budgets for this purpose. More troubling is Section 20 of the budget bill that, in conjunction with the BRFA, would redirect the Medicare D funds currently sent to the OPEB trust toward the nonbudgeted fund utilized for pay-as-you-go member health insurance expenditures. Consequently, the State would provide no prefunding of the OPEB liability in fiscal 2010 under these two short-term arrangements.

The current practice of transferring the Medicare D reimbursements provides a dedicated source of funding to the trust that is independent of the annual budgeting process. Thus, the State can demonstrate a level of commitment, one valued by bond rating agencies, to addressing its OPEB liability without drawing away resources from the general fund. Moreover, the Medicare D proceeds are directly linked to retiree health care, tying their usage to the source of the very liability the State is prefunding. As described in Issue 2, the redirection of monies is prompted by health insurance cost increases that are not fully explained, while the funding provided from Medicare D funds will be insufficient to address the long-term needs of that benefit. **Therefore, DLS recommends striking Section 20 of the budget bill and striking the related BRFA provision.**

Reduced Value of the OPEB Trust

It should be noted that the value of the funds transferred to the trust has been reduced by the recent market downturn. As of January 31, 2009, \$156.0 million had been transferred into the OPEB trust from all sources, but the market value of the trust's holdings had fallen to an unaudited total of \$121.7 million. However, because these funds are intended to provide an offset to future liabilities, the investment strategy developed for the trust by SRA mirrors the long-term objectives of the State pension system and is not altered by short-term changes to market value.

Recommended Actions

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

, provided that \$12,000,000 of this appropriation may not be expended until the Department of Budget and Management delivers a report to the budget committees and the Department of Legislative Services that details the causes and implications of fiscal 2009 Preferred Provider Organization (PPO) cost changes, and the committees have 45 days to review and comment on the report from its date of receipt.

Explanation: The department has yet to provide documentation of the causes of substantial health insurance cost increases for PPO vendors that have significantly increased budgeted totals for this fringe benefit.

Information Request	Author	Due Date
Accounting of health insurance claim costs	Department of Budget and Management	45 days prior to expenditure

2. Strike the following section:

~~SECTION 20. AND BE IT FURTHER ENACTED, That notwithstanding the provisions of § 34-101 of the State Personnel and Pensions Article, and contingent upon the enactment of legislation authorizing the deposit of the Medicare Part D subsidy to the State Employees and Retirees Health and Welfare Benefits Fund in fiscal 2010, the State shall not be required to deposit the federal subsidy to employers as a result of the federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 to the Postretirement Health Benefits Trust Fund. Funds for the aforementioned subsidy shall be deposited to the State Employees and Retirees Health and Welfare Benefits Fund as established in accordance with § 2-516 of the State Personnel and Pensions Article. Total funding of \$24,584,082 for health insurance expenses (Comptroller subobjects 0152 and 0154) shall be reduced within Executive Branch agencies in fiscal year 2010 by the following amounts in accordance with a schedule determined by the Governor:~~

Fund	Amount
General Funds	\$14,752,276
Special Funds	3,574,801
Federal Funds	2,512,191
Reimbursable Funds	240,403
Current Unrestricted Funds	1,786,177
Current Restricted Funds	1,718,234

Explanation: The deletion of this section prevents the reduction of health insurance expense appropriations related to the proposed fund swap of Medicare D reimbursements. The striking of the related Budget Reconciliation and Financing Act provision would be required to maintain the direction of Medicare D reimbursement funds to the Postretirement Health Benefits Trust Fund.

3. Add the following section:

SECTION 21. AND BE IT FURTHER ENACTED, That notwithstanding the provisions of § 32–205 of the State Personnel and Pensions Article and contingent upon the enactment of legislation to eliminate the payment of employer contributions for State supplemental plans in the Optional Defined Contribution System in fiscal 2010 the State shall not be required to make the employer contributions to the applicable State supplemental plan for participating employees in the Optional Defined Contribution System. Funding for this purpose (Comptroller subobject 0172) shall be reduced ~~within Executive Branch agencies~~ in fiscal year 2010 by the following amounts in accordance with a schedule determined by the Governor:

Fund	Amount
General Funds	\$11,833,299 <u>13,261,209</u>
Special Funds	4,280,707 <u>4,376,866</u>
Federal Funds	4,314,091 <u>4,334,365</u>
Reimbursable Funds	336,721
Current Unrestricted Funds	2,323,627
Current Restricted Funds	599,021

Explanation: This action deletes all deferred compensation for the legislative and judicial branches. The judiciary reduction is \$1,143,210 in general funds, \$96,159 in special funds, and \$20,274 in federal funds. The legislative reduction is \$284,700 in general funds. The Administration’s budget plan assumes these reductions will be made.

4. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That salaries of all regular State employees shall be reduced by 1%. Total funding of \$52,969,411 for net regular employee salary and fringe (Comptroller subobjects 0101, 0151, 160-170, 0189) shall be reduced in fiscal year 2010 by the following amounts:

F10A02 – DBM – Personnel

<u>Fund</u>	<u>Amount</u>
<u>General Funds</u>	<u>\$33,966,778</u>
<u>Special Funds</u>	<u>8,030,162</u>
<u>Federal Funds</u>	<u>3,694,608</u>
<u>Reimbursable Funds</u>	<u>413,788</u>
<u>Current Unrestricted Funds</u>	<u>6,864,075</u>

Explanation: To lower personnel costs and facilitate the avoidance of layoffs in the State employee workforce, this action reduces all State employee salaries by 1%.

5. 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, 2009, as determined by the Secretary of the Department 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 the Department 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 the Department of Budget and Management shall certify and report to the General Assembly by June 30, 2010, the status of positions created with non-State funding sources during fiscal 2006, 2007, 2008, 2009, and 2010 under this provision as remaining authorized or abolished due to the 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	Authors	Due Date
Certification of the status of positions created with non-State funding sources during fiscal 2006, 2007, 2008, 2009, and 2010	Department of Budget and Management	June 30, 2010

Positions created within the Department of Human Resources with non-Local Management Board grants

Department of Human Resources

December 1, 2009

6. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That immediately following the close of fiscal 2009, the Secretary of the Department of Budget and Management shall determine the total number of full-time equivalent (FTE) positions that are authorized as of the last day of fiscal 2009 and on the first day of fiscal 2010. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2009 and 2010 including nonbudgetary programs, the Maryland Transportation Authority, the University System of Maryland self supported activities, and the Maryland Correctional Enterprises.

The Department of Budget and Management shall also prepare during fiscal 2010 a report for the budget committees upon creation of regular FTE positions through Board of Public Works action and upon transfer or abolition of positions. This report shall also be provided as an appendix in the fiscal 2011 Governor’s budget books. It shall note, at the program level:

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

Provision of contractual FTE position information in the same fashion as reported in the appendices of the fiscal 2010 Governor’s budget books 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, 2009	Department of Budget and Management	July 14, 2009
Report on the creation, transfer, or abolition of regular positions	Department of Budget and Management	As needed

7. 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 in Excel format listing the grade, salary, title, and incumbent of each position in the Executive Pay Plan (EPP) as of July 1, 2009, October 1, 2009, January 1, 2010, and April 1, 2010; 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, 2009
		October 15, 2009
	Maryland Department of Transportation	January 15, 2010
		April 15, 2010

8. 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.

9. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That the Secretary of the Department of Budget and Management shall include as an appendix in the fiscal 2011 Governor’s budget books an accounting of the fiscal 2009 actual, fiscal 2010 working appropriation, fiscal 2011 and fiscal 2012 estimated revenues and expenditures associated with the employees’ and retirees’ health plan. This accounting shall include:

- (1) any health plan receipts received from State agencies, employees, and retirees, as well as prescription rebates or recoveries, or audit and other miscellaneous recoveries;
- (2) any premium, capitated, or claims expenditures paid on behalf of State employees and retirees for any health, mental health, dental, or prescription plan, as well as any administrative costs not covered by these plans; and
- (3) any balance remaining and held in reserve for future provider payments.

Explanation: This language provides an accounting of the health plan revenues received and expenditures made on behalf of State employees and retirees.

Information Request	Author	Due Date
Accounting of the employee and retiree health plan revenues and expenditures	Department of Budget and Management	With submission of Governor’s fiscal 2011 budget books

10. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That the Department of Budget and Management shall create a statewide subobject to provide for budgeting in all fund accounts in individual agency budgets for Other Post Employment Benefits expenditures.

Explanation: This section provides for the continuing usage of a subobject to capture Other Post Employment Benefits expenditures.

11. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That salaries of all contractual State employees shall be reduced by 1%. Total funding of \$2,048,340 for net contractual employee salary and fringe (Comptroller subobjects 0213, 0214, 0220, 0289) shall be reduced in fiscal year 2010 by the following amounts:

F10A02 – DBM – Personnel

<u>Fund</u>	<u>Amount</u>
<u>General Funds</u>	<u>\$1,393,754</u>
<u>Special Funds</u>	<u>97,960</u>
<u>Federal Funds</u>	<u>79,232</u>
<u>Reimbursable Funds</u>	<u>8,874</u>
<u>Current Unrestricted Funds</u>	<u>468,809</u>

Explanation: To lower personnel costs, this action reduces all contractual employee salaries by 1%.

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2008					
Legislative Appropriation	\$68,251	\$14,651	\$0	\$5,818	\$88,720
Deficiency Appropriation	1,245	0	0	0	1,245
Budget Amendments	-60,058	-13,394	0	1,770	-71,682
Cost Containment	-774	0	0	0	-774
Reversions and Cancellations	-1,905	-1,257	0	-90	-3,252
Actual Expenditures	\$6,759	\$0	\$0	\$7,498	\$14,256
Fiscal 2009					
Legislative Appropriation	\$78,320	\$41,711	\$0	\$6,342	\$126,373
Cost Containment	-603	-5,000	0	0	-5,603
Budget Amendments	-69,319	-15,912	0	227	-85,004
Working Appropriation	\$8,398	\$20,798	\$0	\$6,569	\$35,765

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

Fiscal 2008

Deficiencies

- A deficiency appropriation of \$1,245,210 was included in the fiscal 2009 budget bill to reimburse the federal government for its portion of funds received from refunds received resulting from audit recoveries related to State telephone services.

Amendments

- The fiscal 2008 State employee 2% COLA was transferred to various State agencies after being centrally budgeted in DBM. The transfer resulted in general funds decreasing by a net \$59,605,323 and special funds decreasing by \$13,393,758.
- General funds decreased by \$750,000 as part of the July 2007 Board of Public Works cost containment actions. The decrease corrected an overestimation of the cost of the statewide COLA for fiscal 2008. In addition general funds related to a vacant position abolition decreased by \$24,356 as part of the January 30, 2008 BPW cost containment action that deleted 500 vacant positions in compliance with Chapter 2 of the 2007 special session.
- General funds decreased by \$450,000 as resources in OPSB were realigned to other functions within DBM.
- There was a reimbursable fund amendment that increased these funds by \$1,770,000. The amendment funded \$135,000 in agency salary enhancements, \$273,000 for office refurbishment, and \$1,362,000 for the agency's Interactive Voice Response system and related vendor web-enrollment spending.

Reversions and Cancellations

- There was a general fund reversion totaling \$1,904,767. Approximately \$1.55 million corresponds to unutilized cost-of-living adjustment and annual salary review monies. Inside the personnel programs, \$194,640 related to targeted salary reversions and \$163,444 came from under-spending on information technology and legal contracts.
- There was a special fund cancellation of \$1,257,258 that represented unused reclassification funding.
- \$90,110 in reimbursable fund expenditures was also cancelled. The cancellations were \$76,316 related to statewide reclassifications and \$13,794 that represented reimbursements received by DBM for drug tests conducted for potential State hires.

Fiscal 2009

- The fiscal 2009 State employee 2% cost-of-living adjustment was transferred to various State agencies after being centrally budgeted in DBM. The transfer resulted in general funds decreasing by a net \$62,612,311 and special funds decreasing by \$14,035,956.
- Annual Salary Review classification-specific increases and recruitment bonuses were transferred to various State agencies after being centrally budgeted in DBM. The transfer resulted in general funds decreasing by \$6,706,766 and special funds decreasing by \$1,576,473.
- An amendment transferred \$300,000 in special funds for helicopter procurement to the Maryland Institute for Emergency Medical Services Systems and the Maryland Department of Transportation.
- As part of the June 25, 2008, cost containment action, \$31,510 of DBM's general fund appropriation was reduced from salaries.
- As part of the October 15, 2008, cost containment action, \$5,000,000 of special funds for the Chesapeake Bay 2010 Fund while \$571,748 of general funds were reduced for vacant position reductions, cessation of Other Post Employment Benefits prefunding was ceased, and the use of statewide employee health insurance balances in lieu of budgeted funds.
- Two reimbursable fund amendments added \$227,000 in general funds for Local Area Network support provided in connection with the development of the Statewide Personnel System.

**General Salary Increases, Increments, and Other Compensation
Fiscal 2000-2009**

<u>Fiscal Year</u>	<u>State Employees</u>		<u>Additional Police, Natural Resources Police, and Park Ranger Salary Increases</u>	<u>Maximum Deferred Compensation Match by State</u>	<u>Pay-for-Performance Bonuses</u>	<u>Annual Salary Review Reclassifications</u>	<u>Other</u>
	<u>General Salary Increase</u>	<u>Increments</u>					
2000		On time		\$600	Outstanding: \$1,000 Exceeds standards: \$500		Salary schedules expand from 6 to 16 steps on 7/1/99 ¹
	7/1/1999		4.0%				
	1/1/2000						
2001		On time		\$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%					
	1/1/2001					Yes ³	
2002		On time		\$600	Outstanding: \$500 Exceeds standards: \$250		Salary schedules expand from 16 to 18 steps on 7/1/01 ¹
	7/1/2001		\$850				
	1/1/2002	4.0%				Yes ⁴	
2003	None	None		\$500	None	None	
2004	None	None		None	None	None	
2005	7/1/2004	\$752 ⁵	On time	None	None	Yes ⁶	
2006	7/1/2005	1.5%	On time	\$400	None	Yes ⁷	

State Employees

<u>Fiscal Year</u>		<u>General Salary Increase</u>	<u>Increments</u>	<u>Additional Police, Natural Resources Police, and Park Ranger Salary Increases</u>	<u>Maximum Deferred Compensation Match by State</u>	<u>Pay-for-Performance Bonuses</u>	<u>Annual Salary Review Reclassifications</u>	<u>Other</u>
2007	7/1/2006	\$900, \$1,400, or 2% ⁸	On time	2% extra, 9% extra for State police (primarily DGS and DHMH officers)	\$600	None	Yes ⁹	2 steps on standard salary schedule; 1 step on the physician's salary schedule
2008	7/1/2007	2.0%	On time		\$600	None	None	
2009	7/1/2008	2.0%	On time		\$600	None	Yes ¹⁰	

⁽¹⁾The executive pay plan (EEP) and physicians' schedules did not expand.

⁽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, election workers (local funds), 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 and nonprofits. Statewide increases went to nurse classifications through two 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 fiscal 2005 increase of \$752 effectively represented a 1.6% general salary increase.

⁽⁶⁾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.

⁽⁷⁾The fiscal 2006 annual salary review provides a one-grade salary adjustment for the Deputy State Fire Marshal classification series.

⁽⁸⁾Fiscal 2007 general salary increases are \$900 for employees making less than \$45,000 at the end of fiscal 2006, \$1,400 for employees making \$70,000 or more, and 2% for those remaining.

⁽⁹⁾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.

⁽¹⁰⁾The fiscal 2009 annual salary review provides reclassifications and other enhancements for scientists, investigators, engineers, Public Defender Intake Specialist, Veteran Service, Cemetery Workers, Call Center Specialists, Complex Tax Auditor, Tax Consultant, Retirement Benefits Counselor, Medical Care Specialist, Dental Workers, Financial Regulation, Deputy Fire Marshal, Lead Aviation Maintenance Technician, Police Communications Operators, and Civilian Helicopter Pilots. The total for salary review adjustments was worth \$5.9 million.

**Personnel-related Reductions from Other States
Fiscal 2009-2010**

<u>State/City</u>	<u>Job Reductions</u>	<u>Salary Reduction</u>	<u>Furlough</u>	<u>Health Subsidy Change</u>	<u>Pension Contribution Change</u>
Alabama	Hiring freeze	Freeze on merit raises	1 day per semi-monthly pay period	n/a	n/a
California	20,000 employee jobs under possible demotions/transfers to yield 10,000 eliminations	Through furloughs	Twice a month until July 2010	Pursuing cheaper providers	n/a
Hawaii	n/a	No raises for State officials and Legislature	n/a	n/a	n/a
Iowa	Hiring freeze planned Vacant positions to remain unfilled	n/a	Planned	n/a	n/a
Minnesota	Possible layoffs	Wage freeze for biennial	n/a	n/a	n/a
Missouri	Eliminating 1,300 positions	n/a	n/a	n/a	n/a
Nevada	n/a	6% pay cut proposed	n/a	Reduced State subsidy	Modifying retirement system benefits Eliminating State subsidy for retiree health insurance
New York	Eliminate 4,205 positions through attrition and 521 through layoffs	n/a	n/a	Reduce State's share of health care costs, Retirees pay part of Medicare B premiums	Create new tier in pension system with reduced benefit, raise retirement age
New York City	Cut 22,919 jobs - 16,105 in education	n/a	n/a	Restructuring healthcare to add employee contributions	Additional pension contributions by employees

<u>State/City</u>	<u>Job Reductions</u>	<u>Salary Reduction</u>	<u>Furlough</u>	<u>Health Subsidy Change</u>	<u>Pension Contribution Change</u>
Ohio	3,000 positions eliminated	6% wage cuts for 60,000 workers	n/a	Proposed 10% increase in employee's share of health insurance premiums	n/a
Oregon	n/a	COLA freeze	4 furlough days a year for two years	n/a	n/a
Pennsylvania	Reduce positions by 2,995 Between 600 and 7,000 layoffs possible	Nonunion employee wage freeze	Possible	n/a	n/a
Vermont	600 layoffs over the past year 60 positions reduced by program changes	5% pay cut and no COLA for those who make over \$60,000	n/a	n/a	n/a
Virginia	531 employees laid off FY09 545 employees laid off FY10 Permanent elimination of 757 vacant positions	n/a	n/a	n/a	n/a
Washington	Cut 4,000 State jobs over four years	No salary increases, no COLA	n/a	n/a	Cut retirement contributions by 46.8%

COLA: Cost-of-living adjustment

Source: BNA, Inc.; Government Employee Relations Report

The State Workforce; Position Changes in Fiscal 2010 Allowance

Positions Added

Higher Education: The University System of Maryland had a net of 110.77 new positions added. Of the total, 95.77 new positions are added at the University of Maryland, College Park; 49 at Towson University; and 20 at Salisbury University. There are also 31 positions deleted from the University of Maryland, Baltimore; 25 from Baltimore City Community College as part of across-the-board vacant position reductions; and 5 from St. Mary’s College. 111

The Judiciary: The allowance contains 43.5 new positions, 25 of which are contractual conversions of clerks, security guards, and administrative employees in the District Court, 14 of which are for various clerk positions in the clerks of the circuit court, with the remainder distributed throughout the Administrative Office of the Courts and Family Services functions. 44

Net for Agencies with Positions Added 154

Positions Deleted

Department of Health and Mental Hygiene: A net of 482.4 positions are deleted, 284.4 from the State psychiatric facilities and State residential centers, the majority resulting from the closure of Rosewood and 204 positions as part of across-the-board vacant position reductions and reorganizations. The 8 new positions are in special funded regulatory and health occupations programs. -482

Department of Public Safety and Correctional Services: The department has 401 positions deleted as part of the across-the-board vacant position reductions and reorganizations. There are also 27 new positions created, the majority (18) for Maryland Correctional Enterprises and 7 added for the Criminal Injuries Compensation Board, mostly claims investigators. -374

The Department of Human Resources (DHR): There is a net of 255 eliminated positions, with 204 positions deleted as part of the across-the-board vacant position reductions and reorganizations, 21 secretarial and administrative positions in the DHR Administration, 14 from benefit programs staff in the Family Investment Administration; and 13 from the child welfare and adult protective service function in the Social Services Administration. -255

The Office of the Public Defender: Of the 48 deletions, 25 positions are part of across-the-board vacant position reductions, 19 are assistant public defenders, and 4 are supervisors. -48

Department of Juvenile Services: There are 29.6 positions deleted, 25 are part of across-the-board vacant position reductions, and 4.6 are administrative positions. -30

Other Agencies -140

Net for Agencies with Positions Deleted -1,329

Net Position Change -1,175

Source: Department of Budget and Management

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	118.00	116.00	116.00	0	0%
02 Contractual	0.10	0.10	0.10	0	0%
Total Positions	118.10	116.10	116.10	0	0%
Objects					
01 Salaries and Wages	\$ 8,076,711	\$ 12,132,739	\$ 21,088,927	\$ 8,956,188	73.8%
02 Technical and Spec. Fees	104,836	109,095	106,058	-3,037	-2.8%
03 Communication	1,487,127	193,665	228,393	34,728	17.9%
04 Travel	21,556	21,500	25,500	4,000	18.6%
08 Contractual Services	4,066,086	23,235,761	3,087,633	-20,148,128	-86.7%
09 Supplies and Materials	37,568	20,000	40,000	20,000	100.0%
10 Equipment – Replacement	418,262	9,750	59,100	49,350	506.2%
13 Fixed Charges	44,154	42,521	43,309	788	1.9%
Total Objects	\$ 14,256,300	\$ 35,765,031	\$ 24,678,920	-\$ 11,086,111	-31.0%
Funds					
01 General Fund	\$ 6,758,741	\$ 8,397,818	\$ 18,303,393	\$ 9,905,575	118.0%
03 Special Fund	0	20,798,467	0	-20,798,467	-100.0%
09 Reimbursable Fund	7,497,559	6,568,746	6,375,527	-193,219	-2.9%
Total Funds	\$ 14,256,300	\$ 35,765,031	\$ 24,678,920	-\$ 11,086,111	-31.0%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Fiscal Summary
Department of Budget and Management – Personnel

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01 Executive Direction	\$ 1,291,067	\$ 1,545,944	\$ 1,744,063	\$ 198,119	12.8%
02 Division of Employee Benefits	7,361,353	6,328,746	6,123,579	-205,167	-3.2%
04 Division of Employee Relations	878,555	886,463	945,529	59,066	6.7%
06 Division of Classification and Salary	1,064,398	1,250,159	1,269,570	19,411	1.6%
07 Division of Recruitment and Examination	2,165,717	2,206,492	2,346,179	139,687	6.3%
08 Statewide Expenses	1,495,210	23,547,227	12,250,000	-11,297,227	-48.0%
Total Expenditures	\$ 14,256,300	\$ 35,765,031	\$ 24,678,920	-\$ 11,086,111	-31.0%
General Fund	\$ 6,758,741	\$ 8,397,818	\$ 18,303,393	\$ 9,905,575	118.0%
Special Fund	0	20,798,467	0	-20,798,467	-100.0%
Total Appropriations	\$ 6,758,741	\$ 29,196,285	\$ 18,303,393	-\$ 10,892,892	-37.3%
Reimbursable Fund	\$ 7,497,559	\$ 6,568,746	\$ 6,375,527	-\$ 193,219	-2.9%
Total Funds	\$ 14,256,300	\$ 35,765,031	\$ 24,678,920	-\$ 11,086,111	-31.0%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.