

**G20J01
State Retirement Agency**

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>
Special Fund	\$21,776	\$29,398	\$30,907	\$1,509	5.1%
Contingent & Back of Bill Reductions	0	0	-78	-78	
Adjusted Special Fund	\$21,776	\$29,398	\$30,829	\$1,431	4.9%
Adjusted Grand Total	\$21,776	\$29,398	\$30,829	\$1,431	4.9%

- The fiscal 2010 allowance increases by \$1.4 million, or 4.9%, over the fiscal 2009 working appropriation. Health insurance cost increases of \$484,149 and increased retirement contributions of \$207,437 are partially offset by the removal of \$295,932 in Other Post Employment Benefits pre-funding.
- Nonpersonnel increases include \$380,671 to print handbooks for all system members, \$200,000 for a second IV&V review of the MPAS project, and \$154,450 for new counselor training and audit contracts.

Personnel Data

	<u>FY 08 Actual</u>	<u>FY 09 Working</u>	<u>FY 10 Allowance</u>	<u>FY 09-10 Change</u>
Regular Positions	189.00	190.00	190.00	0.00
Contractual FTEs	<u>5.19</u>	<u>15.00</u>	<u>14.00</u>	<u>-1.00</u>
Total Personnel	194.19	205.00	204.00	-1.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	5.80	3.05%
Positions and Percentage Vacant as of 12/31/08	11.00	5.79%

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

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- No new positions are included in the allowance. The contractual full-time equivalent change is a technical correction, as fiscal 2009 levels were erroneously overstated.
- The agency has 11 vacant positions, 5 of which are not in advanced recruitment.

Analysis in Brief

Major Trends

Investment Returns Fall Behind Peer Funds: The system’s investment losses in the current market downturn are larger than the majority of peer pension plans of similar asset size. **The Department of Legislative Services (DLS) recommends deleting two vacant positions and restricting funds in conjunction with the reclassification of existing vacancies to expand investment staff.**

Improvement in Call Center Performance: Wait times and call abandonment percentages improved in fiscal 2008 following personnel enhancements approved by the General Assembly.

Issues

Maryland Pension Administration System Delays and Change Orders: Managerial missteps have caused the project to be delayed by two years and require \$7.4 million in additional funding. **DLS recommends restricting \$1.5 million of funding for Maryland Pension Administration System (MPAS-1) for operation and maintenance costs and \$950,000 of MPAS-2 funding until completion of project scope.**

State Contributions to Accelerate Due to Actuarial Error and Market Losses: A recent actuarial error and significant losses in the system’s asset values will lead to increases in State pension contributions in upcoming years. **The agency should comment on the current market outlook and estimates for the impact of market losses on fiscal 2011 contributions.**

Recommended Actions

	<u>Funds</u>
1. Add language to delete two vacant positions and restrict funding for reclassified positions and provide a report on the reclassification efforts.	
2. Delete funding for handbook printing.	\$ 380,671
3. Delete funding for new counselor training and audit contract enhancements.	154,450
4. Delete funds for customer service software.	75,000
5. Add language restricting Maryland Pension Administration System-2 funding until project scope is determined.	

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6. Adopt narrative requesting report on additional Maryland Pension Administration System costs resulting from project errors and delays.

Total Reductions

\$ 610,121

Updates

Review of System's Funded Status: The system's funded status continues to decline, recently falling below the 80% industry standard for fiscal soundness.

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Operating Budget Analysis

Program Description

The State Retirement Agency (SRA), under the direction of the 14-member Board of Trustees for the State Retirement and Pension System (SRPS), is responsible for administering the State's retirement and pension systems. The board-appointed executive director is responsible for policy development, legislation, and legal affairs.

The agency has identified four fundamental goals for its operation:

- to prudently invest system assets in a well-diversified manner that optimizes long-term returns while controlling risk through excellence in the execution of the investment objectives and strategies of the system;
- to effectively communicate to all retirement plan participants the benefits provided by the system and to educate them about planning and preparing for all aspects of their defined benefit system;
- to pay all retirement allowances provided by State pension law to the system's retirees and their beneficiaries in an accurate and timely manner; and
- to efficiently collect the required employer and employee contribution necessary to fund the system.

The agency's administrative budget is funded solely through special funds drawn from the pension trust fund based on statutory authority. The annual spending is capped at 0.22% of members' payroll, or approximately \$34.6 million in fiscal 2010. The 2010 allowance is \$3.8 million below the upper limit established by the cap.

As of June 30, 2008, the system's assets totaled \$36.6 billion, a \$2.8 billion decline from the end of fiscal 2007. A description of the system's holdings by asset class is provided in **Appendix 2**. Changes in net assets from fiscal 2007 to 2008, including benefit payments to retirees are shown in **Appendix 3**.

Performance Analysis: Managing for Results

Investment Returns Fall Behind Peer Funds

SRPS ended fiscal 2008 with a 5.4% loss on its investment portfolio, the first time the targeted rate of return of 7.75% had not been achieved in five years. The system's actuarial rate of return, a five-year average of investment returns used in calculating employer contribution rates, was subsequently pulled below the system's target to 6.47%, meaning that future State contributions will need to be higher than anticipated to make up for these market losses.

This loss was aggravated in the first quarter of fiscal 2009. **Exhibit 1** displays the system's one-year investment returns as of September 30, 2008, as compared to the performances of other large public pension funds, according to the Trust Universe Comparison Service (TUCS). TUCS is a collaboration of 19 major banks, Wilshire Associates, and Greenshore Associates that tracks public pension performance. In the TUCS analysis, the ninety-ninth percentile is the lowest ranking, and the first percentile is the highest ranking. SRPS's investment return for the year was -16.84%. This performance ranks the system in the ninety-first percentile of other pension funds with at least \$1 billion in assets, near the bottom of the list.

Exhibit 1
TUCS Comparison to Public Funds >\$1.0 Billion
Rates of Return for Periods Ending September 30, 2008

	<u>3 Months</u>		<u>1 Year</u>		<u>5 Years</u>		<u>10 Years</u>	
5th Percentile	-5.27		-7.26		9.29		7.68	
25th Percentile	-7.93		-13.28		7.81		6.38	
Median	-8.67		-14.63		7.13		5.71	
75th Percentile	-9.54		-15.80		6.23		5.24	
95th Percentile	-10.65		-16.93		4.19		4.61	
SRPS	-9.95	85th	-16.84	91st	6.38	70th	4.90	87th
SRPS in Fiscal 2007	2.44	48th	15.62	46th	14.20	55th	6.75	88th

TUCS: Trust Universe Comparison Services
 SRPS: State Retirement and Pension System

Source: State Street Analytics (TUCS Master Trust Report)

Maryland's ranking in the ninety-first percentile for the 1-year period represents a significant decline from the advance into the thirty-seventh percentile made in fiscal 2006 and the middling performance posted in fiscal 2007, when SRPS fell in the forty-sixth percentile, as shown in Exhibit 1. The long-term TUCS comparison likewise shows a regressive tendency, with the 5-year

investment return dropping from the fifty-fifth percentile in September 2007 to the seventieth percentile in September 2008. The 10-year return was ostensibly static. **The board is asked to comment on the declining performance of the system in comparison to its peers.**

The board's new Chief Investment Officer believes that the system's performance would be enhanced by increased investment staff to monitor funds managed externally. The Department of Legislative Services (DLS) believes this may be achieved by redirecting existing resources. The agency's turnover expectancy has been reduced to 3.05%, effectively adding \$89,130 to the SRA budget, to allow for the reclassification of existing positions. Moreover, as of February 1, 2009, the agency had 11 existing vacancies, 5 of which are administrative in nature and had not entered an advanced stage of recruitment. These positions have a combined salary value of \$263,619. **DLS recommends the deletion of 2 of these vacant positions** (Accountant I and Retiree Benefits Specialist II), while the funding would remain intact. In conjunction with the turnover reduction provided for in the allowance and the salaries freed by the vacant position deletion, the agency should reclassify three of the remaining vacancies (Administrative Program Manager I, Administrator VII and Program Manager IV) into investment staff and utilize the deleted positions' funding to meet the higher salaries associated with investment professionals. **DLS recommends that a total of \$352,749 be restricted for the purpose of funding investment analyst positions from existing resources.**

Improvement in Call Center Performance

SRA's call center is the agency's primary vehicle for communicating with system members about the benefits to which they are entitled. Since fiscal 2006, personnel and technology-based enhancements from compensation adjustments to the installation of a more sophisticated Interactive Voice Response (IVR) telephone system have been approved by the General Assembly to boost the performance of this unit. In spite of these enhancements and reduced incoming call volume, the call center's performance had declined for four straight years through fiscal 2007 in terms of average wait time and the percentage of abandoned calls. In fiscal 2008, however, the investments in the call center yielded the desired results.

Exhibit 2 demonstrates significant improvement in the two key metrics of call service efficacy: the rate of call abandonment and the average time to answer each call. In fiscal 2007, an average of 16.82% of calls were abandoned before a counselor attended the calls. This rate fell to 5.44% of calls in fiscal 2008, which is below the goal of 7.0%. It should be noted that until fiscal 2007, the goal for this Managing for Results measure was 5.0% of calls, so further improvements should be expected. As for the time to connect to a benefits counselor, wait times fell from 4:05 minutes in fiscal 2007 to 1:17 minutes in fiscal 2008, well below the agency goal of 1:45 minutes. These results occurred when call totals increased to 111,164 calls received over the fiscal 2007 total of 96,408, another indicator of process improvement.

Exhibit 2 also contains fiscal 2009 year-to-date data points. The gauges track closely to the lower fiscal 2008 measurements, yet the November and December 2008 tallies are above the previous year's monthly performance. The fact that the two measures are well below the fiscal 2007 levels indicate that the agency's expectations to meet MFR goals in fiscal 2009 and 2010 are feasible.

Exhibit 2
Monthly Rate of Call Abandonment and Average Time to Answer
Fiscal 2007-2009

	Rate of Call Abandonment			Avg. Time to Answer		
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
July	10.50%	9.20%	2.20%	2:28	2:18	0:31
Aug	17.10%	6.60%	4.00%	4:10	1:28	1:02
Sept	16.00%	8.50%	6.80%	3:43	1:53	1:32
Oct	18.50%	5.90%	4.90%	4:43	1:04	1:11
Nov	23.90%	5.40%	9.00%	6:12	1:11	2:02
Dec	17.00%	3.50%	6.40%	3:52	1:06	1:29
Jan	20.50%	4.30%		5:23	1:05	
Feb	28.30%	4.80%		8:38	1:22	
Mar	18.90%	4.90%		4:59	1:18	
Apr	11.60%	5.90%		2:59	1:16	
May	10.20%	3.90%		2:14	0:49	
June	9.30%	2.40%		2:07	0:35	
Avg.	16.82%	5.44%	5.55%	4:07	1:14	1:18
Goal	7.00%	7.00%	7.00%	1:45	1:45	1:45

Note: Fiscal 2009 figures as of January 1, 2009.

Source: State Retirement Agency

Fiscal 2009 Actions

Impact of Cost Containment

As part of the June 25, 2008 cost containment action, statewide employee health insurance balances of \$81,527 were used in lieu of budgeted funds.

Proposed Budget

As shown in **Exhibit 3**, SRA's fiscal 2010 allowance growth is driven by personnel expense increases of \$826,349. Health insurance cost increases of \$484,149, increased retirement contributions of \$207,437, and salary growth of \$454,244, of which \$166,000 is related to the hiring of a Chief Investment Officer and Chief Information Systems Officer, are partially offset by the removal of \$295,932 in Other Post Employment Benefits pre-funding.

Exhibit 3
Proposed Budget
State Retirement Agency
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Total</u>
2009 Working Appropriation	\$29,398	\$29,398
2010 Allowance	<u>30,907</u>	<u>30,907</u>
Amount Change	\$1,509	\$1,509
Percent Change	5.1%	5.1%
Contingent Reductions	-\$78	-\$78
Adjusted Change	\$1,431	\$1,431
Adjusted Percent Change	4.9%	4.9%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance pay-as-you-go costs	\$484
Increments and other compensation.....	454
Employee retirement	207
Turnover adjustment from 4 to 3%	89
Workers' compensation premium assessment	-11
Overtime reduction	-71
Deferred compensation (after reducing fiscal 2010 for contingent reductions).....	-78
Deletion of Other Post Employment Benefits' liability prefunding	-296
Other fringe benefit adjustments.....	48

Maryland Pension Administration System Project

Saber post implementation O&M support	1,500
Saber MPAS change orders	1,385
MPAS-2 development.....	1,200
Second MPAS independent verification and validation	200
One year of MPAS software maintenance	74
Removal of prior year MPAS funds	-4,405

Other Changes

Handbook printing	381
New counselor training and audit contracts	155
Annapolis Data Center charge	165

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Where It Goes:

Rent	98
Printing and reproduction costs.....	78
Non-MPAS computer hardware costs.....	74
Medical service support	23
Office supplies	7
Software maintenance and acquisition.....	3
Phone and telecommunication expenses.....	-16
Travel	-22
Office equipment	-29
Contractual position spending.....	-43
Postage reduction to match fiscal 2008 expenditures	-95
Administrative hearings	-149
Other	21
Total	\$1,431

MPAS: Maryland Pension Administration System
O&M: operation and maintenance

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

Other changes include an increase of \$380,671 to print handbooks for all system members, \$200,000 for a second Independent Verification & Validation (IV&V) review of the Maryland Pension Administration System (MPAS-1) project, higher Annapolis Data Center charges worth \$165,000, and \$154,450 for new counselor training and audit contracts.

Impact of Cost Containment

Contingent and across-the-board reductions effected in this agency's budget delete \$78,470 of special funds for the deferred compensation match.

Issues

1. Maryland Pension Administration System Delays and Change Orders

SRA began its efforts to procure a replacement for the existing computer system in 1991 by seeking legislation to authorize spending authority for the project. In 1997 a vendor abandoned the \$15.0 million contract award, ending the first attempt to build a new retirement administration system. Subsequently, Chapter 556 of 1998 provided SRA with up to \$37.1 million in spending authority over three years for a similar project. Syscom, Inc., was awarded that contract and was charged to have the system in place by October 2000. After a series of delays, overruns, and contractual disagreement, this effort also failed, ended by a 2003 settlement that generated a \$29.1 million total loss and no usable product. SRA is now engaged in the third iteration of the project, which has been broken into phases.

The first and primary phase of the MPAS-1 project is the creation of a modern computer system that uses industry standard language to replicate all functions of the system that SRA currently uses to administer retirement and pension benefits. This phase, as originally presented to the budget committees in fiscal 2006, was envisioned to require \$17.0 million and two years of work to complete. However, after a series of management errors committed by the agency and the contractor, the completion date has now been delayed by two years until July 2010. Moreover, the project cost has expanded by approximately \$7.4 million to settle prior year change orders with the contractor, Saber Inc. (Saber), and extend the contracts of related service providers for an additional two years. A portion of the supplemental funding required is included in the fiscal 2010 allowance, while the rest is scheduled to be requested in fiscal 2011. **Appendices 4 and 5** contain project overview information on both phases of the MPAS project.

Project Delays and Increased Project Cost Total

SRA's appropriation for fiscal 2009 included \$3.2 million for MPAS-1, and was purported to provide enough funding to meet the \$17.005 million then considered to be the total project cost. SRA faced difficulties expending the monies already appropriated for MPAS at the time because the contract structure did not allow Saber to invoice the agency for its work until a deliverable was completed, and nearly all major deliverables were deeply delayed. So, the budget committees restricted the funds until the results of an IV&V conducted by the Department of Information Technology (DoIT) were available to better assess the project. Published in August 2008, DoIT's summary of the IV&V, a standard procedure utilized to adjudge project management effectiveness, cited serious problems with the MPAS-1 project, such as:

- the original project schedule was inappropriate;
- State-accepted planning processes were not used;
- the lack of properly defined deliverables wasted time and money; and

- the project team had poor communication with stakeholders.

While DoIT noted in its IV&V report that the major problems were being addressed by SRA and Saber through the replacement of the project management team and the development of a highly defined deliverable lists, it was obliged to redefine the projected completion date and final project cost to those mentioned above. **Exhibit 4** details the changes in contract values associated with DoIT and SRA’s re-evaluation of project costs. It also shows that over \$10.2 million, or 60%, of the appropriated funds had yet to be expended as of February 1, 2009. The recent completion of important project Milestone 6 should bring the unspent total down by approximately \$4.2 million once the invoices are verified by SRA staff. These delays, cost overruns, and spending backlogs have also significantly affected MPAS’ budgeted figures.

Exhibit 4
MPAS Spending and Encumbrances, by Contract

	<u>Original Value</u>	<u>Modified Contract Value</u>	<u>Spent</u>	<u>Encumbered/ Unspent</u>
Saber – Development Contract	\$10,209,273	\$15,267,387	\$3,051,133	\$7,158,140
L3-Titan	3,569,943	5,369,520	3,058,915	511,028
Turiss	49,255	49,255	30,104	19,151
Nortel Government Solutions (DoIT IV&V)	300,000	215,020	146,888	153,112
.Net Review ¹	356,400	0	0	0
Integrated Technology Solutions, Inc. (Project Management)	0	695,344	94,342	-94,342
Integrated Technology Solutions, Inc. (IV&V CAP)	0	25,000	25,039	-25,039
Cirdan Group (DoIT IV&V)	0	174,840	0	0
Saber O&M	1,500,000	1,500,000	0	1,500,000
Project Contingency	1,020,129	1,020,129	0	1,020,129
Total as of February 2009 ²	\$17,005,000	\$24,316,495	\$6,406,421	\$10,242,179

DoIT: Department of Information Technology
 IV&V: Independent Verification & Validation
 MPAS: Maryland Pension Administration System
 O&M: operation and maintenance

¹ Deleted by the General Assembly in the 2008 session because service was accommodated under another contract.

² Invoices for recently completed Milestone 6 should add approximately \$4.2 million to the Saber spending totals.

Source: State Retirement Agency; Department of Legislative Services

Budget Concerns – Money Requested Used for Different Purposes

The additional funds requested for this project has often been reassigned to a different use because of the aforementioned project management issues. Following DoIT’s review of key project milestones completed in December 2008, which reassured the budget committees that the project was back on track,

the \$3.2 million in restricted fiscal 2009 funding was released to address agency concerns that project cash flows would be imperiled if the money were held longer. However, \$1.5 million of this funding was originally intended to provide one year of operation and maintenance (O&M) on the completed system. Because the system would not be completed in fiscal 2009, these dollars were reassigned to pay down the increased cost prompted by the change orders required to deliver the final product (\$1.02 million to L3-Titan, the code reviewer, and \$481,000 to Saber).

The 2010 allowance is set to repeat this misstatement of project fund usage. As **Exhibit 5** shows, the fiscal 2010 allowance contains \$3.4 million in funding for MPAS. Another \$1.5 million is labeled as project O&M funding. With a projected go-live date of July 2010, the O&M will almost certainly fall outside of the fiscal year again, and will presumably be reassigned to funding change orders above the \$2.9 million already destined to contractors for work outside the original project parameters. Describing

Exhibit 5
MPAS – Project Funding Sources
Fiscal 2006-2010

<u>MPAS Funding Source</u>	<u>Budgeted Amounts</u>
Fiscal 2006 budget amendment – Saber (Code Developer)	\$7,783,000
Fiscal 2007 deficiency – Saber	3,447,201
Fiscal 2007 deficiency – L3Titan (Quality Assurance Services)	1,364,000
Fiscal 2007 deficiency – Security Certification and Accreditation	379,255
Fiscal 2007 deficiency – Nortel (IV&V)	150,000
Fiscal 2007/2008 Operating Budget – Project Management	572,000
<i>As of end fiscal 2008</i>	<i>\$13,695,456</i>
Fiscal 2009 IT program funding – Saber	\$1,205,078
Fiscal 2009 IT program funding – Saber Post Implementation Support	1,500,000
Fiscal 2009 IT program funding – Titan	500,000
<i>As of end fiscal 2009</i>	<i>\$3,205,078</i>
Fiscal 2010 Allowance – Saber software maintenance	\$74,184
Fiscal 2010 Allowance – Saber change requests for scope changes	1,384,499
Fiscal 2010 Allowance – Cirdan (IV&V)	200,000
Fiscal 2010 Allowance – Saber Post Implementation Support	1,500,000
Fiscal 2010 Allowance Project Manager	246,816
<i>Proposed total as of end of fiscal 2010</i>	<i>\$3,405,499</i>
Total funding to date including allowance	\$20,306,033
<i>Foreseen fiscal 2011 request</i>	<i>\$4,086,056</i>
Total MPAS-1 Projected Cost	\$24,392,089

IT: information technology

IV&V: Independent Verification & Validation

MPAS: Maryland Pension Administration System

Source: State Retirement Agency, Department of Legislative Services

the intended use of allowance funds for infeasible ends undermines the transparency of the budget process. If the monies are required to fund change orders, this fact should be noted and described as such so the budget committees may understand the functional usage of funding upon which it must decide. **Therefore, DLS recommends restricting this \$1.5 million exclusively for the O&M costs related to a completed system.** On the other end of the spectrum, the second IV&V began during fiscal 2009, on February 5, 2009. Paying for this review in fiscal 2009 seems improbable given that its only directly attributable funding source is the potential appropriation for fiscal 2010. If the funding were for some reason not approved for fiscal 2010, the agency would need to redirect funds from another source to pay for it, further diluting the linkages between appropriations and expenditures. **The agency should comment on the funding of the second IV&V.**

Budget Concerns – All Costs Not Fully Accounted For

Furthermore, DLS believes that the \$24.4 million total project cost put forward by SRA is incomplete. Funding related to MPAS has been excluded from the tally by the agency. Examples of the omissions include:

- **Expenses Borne Because of Project Delays:** These include the \$550,000 annual maintenance to the legacy system needed because MPAS was not in place on time and the \$74,184 in MPAS software maintenance included in the 2010 allowance that represents fees that SRA must pay Saber to use the software it is designing until the system is complete and the State becomes the owner of the proprietary material.
- **Items Included Other Programs:** Funding in prior budgets included costs in the administrative program of the budget and not the information technology program related to the MPAS costs. For example, DLS identified \$501,316 in costs included in the fiscal 2009 operating budget that were directly attributable to MPAS but do not appear in project funding descriptions. Moreover, \$246,000 of project manager fees were previously coded to the administrative side of the operating budget
- **Further Disconnects from Intended and Actual Use:** Two positions were created at the Board of Public Works in fiscal 2008 outside of the standard budget process through the Rule of 50. These positions were intended to perform the night runs associated with system administration, currently handled at the Annapolis Data Center (ADC). Because the project was not ready as anticipated, the positions could not be utilized for their intended purpose and were reclassified to other areas of SRA's operation. Not coincidentally, the 2010 allowance shows data center charges increasing by \$165,000 as ADC must continue the processing role SRA's Baltimore information technology staff were to assume when MPAS came online.

As such, the agency should provide an accounting of additional costs withdrawn from the system's trust fund as a consequence of these errors and delays.

MPAS Phase 2

The second phase of the project, MPAS-2, contemplates the scrubbing of the new system's data files and the re-engineering of payroll reporting to provide customer service enhancements. At present, the initial \$1.2 million for MPAS-2 appropriated in fiscal 2009 remains restricted by the budget committees, as work on this phase cannot be undertaken until the conclusion of the first phase. The fiscal 2010 allowance includes another \$1.2 million for MPAS-2. Again, to properly align appropriations with uses, **DLS recommends withholding the fiscal 2009 funds through the end of the fiscal year so that they cancel. Moreover, DLS recommends restricting \$950,000 of the fiscal 2010 allowance until a report of the MPAS-2 scope is submitted to the committees for review and comment.** This restriction would allow the \$250,000 required to scope and define the work to be expended. The review and presentation of the scope's findings would help avoid the deliverable definition problems encountered with MPAS-1 that resulted in the significant delays and cost overruns discussed above.

2. State Contributions to Accelerate Due to Actuarial Error and Market Losses

The State contribution toward employee pensions has grown from the \$275.8 million provided in fiscal 2006 to the \$494.8 million planned in the fiscal 2010 allowance, an increase of 79.4% over four years. The majority of the growth resulted from the policy decision in 2006 to provide an employee pension enhancement that was designed to bring Maryland benefits in line with those offered in nearby states. However, two events during 2008 that are external to policymaking will increase the contribution rates required by the State in the next several years.

Actuarial Error

In January 2008, SRPS's board of trustees notified the General Assembly that its actuary, Segal Co. (Segal) had erred in its calculation of the pension contribution rates that the board had certified for inclusion in the fiscal 2009 budget. The error, caused by problems with Segal's computer software, understated the amount of funding that needed to be contributed by employers. Once an independent audit of the figures was performed by another actuary, the board certified higher, corrected rates in March 2008. However, the incorrect rates had already been incorporated into the legislative appropriation. So, the fiscal 2010 rates, and the budgetary contributions they require, grow by more than they would have had the error not been made. **Exhibit 6** shows the contribution rates and funding as budgeted by system for fiscal 2008 to 2010.

Exhibit 6
State Agency Retirement Systems
Budgeted Rates and Contributions
Fiscal 2008-2010

<u>System</u>	<u>2008 Actual</u>	<u>Approved Rates</u>	<u>2009 Working Appropriation</u>	<u>Approved Rates</u>	<u>Corrected Rates</u>	<u>2010 Allowance</u>	<u>Approved Rates</u>
Employees	\$243,973,367	8.86%	\$261,795,970	8.73%	9.01%	\$301,280,815	9.93%
Teachers	16,461,604	11.60%	20,642,738	11.70%	12.92%	23,261,859	13.15%
State Police	13,672,544	15.44%	19,041,515	20.53%	25.27%	28,356,641	30.79%
Judges	16,122,418	44.12%	17,498,748	43.61%	44.09%	19,544,161	48.89%
LEOPS	20,880,282	41.74%	22,268,691	36.99%	39.90%	22,853,399	38.63%
Subtotal	311,110,215		341,247,662			395,296,875	
Other*	93,571,082	<i>n/a</i>	98,704,864	<i>n/a</i>		99,478,427	<i>n/a</i>
Total	\$404,681,297		\$439,952,526			\$494,775,302	

LEOPS: Law Enforcement Officers Pension System

*Other includes Maryland Transit Administration Pension System, Optional Retirement/Pension System (TIAA), and the Legislature, which have independent rate setting mechanisms.

Source: Department of Budget and Management

Importantly, the dollar contributions for fiscal 2010 have not grown because of the error. The funding for fiscal 2010 is the same as it would have been had the error not occurred. This fiscal year's allowance merely registers a larger year-to-year change because fiscal 2009's funding was not high enough. The actuarial error resulted in an \$87.6 million underpayment across all systems, but the amount for pension contributions budgeted in State agencies (and not as part of the local aid lump-sum payment for teacher pensions) was approximately \$28.5 million, or 32.5% of the total. The effects on contributions, however, begin in fiscal 2011.

The underpayment will not be recognized on the pension fund's financial statements until the end of fiscal 2009, so it will be reflected in the calculations of contribution rates for fiscal 2011 and beyond. Because it is likely that the State will not be in a position to include a cash payment of \$87.6 million in the budget to reimburse the system for the underpayment, it will have to be accounted for as an actuarial loss. As such, it becomes an additional unfunded liability during the calculation of the fiscal 2011 contribution rates, and will be amortized over 25 years, just as all other unfunded liabilities in the pension fund are treated. SRA estimates that the amortization payment will add approximately \$5.7 million to the total State contribution in fiscal 2011, \$1.8 million of which will be distributed across State agencies, with the remainder assigned to local teacher pensions. The payments to be made grow each year, and ultimately total \$220.2 million over the 25-year amortization schedule, before the loss is officially retired in 2034. These figures assume a 7.75% discount, or investment return rate. To the extent that investment returns decline, the repayment needs could be larger. Recent market turmoil suggests this could be the case.

Market Downturn

Much more significant in scale than the actuarial error is the impact of the historic turmoil in the financial markets in 2008 and 2009. Total system assets fell from an all-time high of \$40.9 billion on October 31, 2007, to \$36.6 billion on June 30, 2008, due largely to declines in the domestic and international public equity markets. On a fiscal year basis, the loss of asset worth translated into a -5.4% return on investment in fiscal 2008. Asset smoothing strategies used by the system's actuary temper the full effects of the negative returns on contribution rates. Several years of investment returns that were above the actuarial target of 7.75% have created an actuarial surplus that exerts downward pressure on State pension contributions in future years, assuming that the plan's actual experience conforms to other actuarial assumptions. Because the smoothing mechanism spreads out investment returns or losses over five years, the fiscal 2008 actuarial rate of return was a positive 6.47% despite the investment losses. The gains from prior years outweighed the downturn.

However, that return was based on a \$36.6 billion value for the assets held by SRPS. As of December 31, 2008, the value of the system's assets had fallen to \$27.6 billion, another 25% drop on top of the 5% that began pulling the actuarial rate of return down at the end of fiscal 2008. Given these asset values, SRA estimates that employer contributions would need to increase by approximately \$200 million across all plans to meet these losses. That translates to another \$65 million in contributions for the budgeted State agencies in a year with no projected salary growth due to the absence of increments or cost-of-living increases in the allowance. Furthermore, unaudited figures from January 31, 2009, suggest that the fall in values has not stopped, as system assets were down to \$26.3 billion.

The agency should comment on the current market outlook and provide the committees with an update of its estimates of the impact of market losses on fiscal 2011 contributions.

Recommended Actions

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

. provided that PIN #063204 and #075110 are deleted. Further provided that \$352,749 may not be expended for any purpose other than to fund investment analyst positions created through the reclassification of existing vacancies. Any unexpended funds may not be reprogrammed or transferred but shall only be cancelled. The agency shall provide a report to the budget committees on the results of its efforts to reclassify existing vacancies and fill investment analyst positions. The committees shall have 45 days to review and comment.

Explanation: The system’s investment returns have fallen into the lowest quartile of peer systems. No new positions are provided in the allowance. However, the agency could utilize current resources, reclassify existing vacancies, and hire additional investment management positions to assist the new Chief Investment Officer in achieving improved investment returns. The \$352,749 restriction represents \$89,130 in adjusted turnover expectancy allotted by the Department of Budget and Management to the agency, the salaries of the positions to be deleted (\$80,493), and the positions not currently in significant recruitment that could be reclassified (\$183,126).

Information Request	Author	Due Date
Report on investment position reclassification	State Retirement Agency	December 1, 2009

	<u>Amount Reduction</u>	
2. Delete funds for printing member handbooks for 211,000 participating members. The updated handbook is already available on the agency web site. Printing hard copies is redundant and not supported by information detailing user demand.	\$ 380,671	SF
3. Delete new contracts for an online training program for new Retirement Benefit Specialists, web conferencing services, the recording of retirement seminars, and overseas retiree auditing.	154,450	SF
4. Delete “off-the-shelf” customer service software to better track customer interactions. The product would require in-house customization to yield the desired results. The Department of Legislative Services recommends awaiting the completion of the	75,000	SF

G20J01 – State Retirement Agency

Maryland Pension Administration System (MPAS) until such purchases are made to facilitate capability and prevent information technology resource drains from the MPAS project.

5. Add the following language to the special fund appropriation:

. provided that \$950,000 of the funding for the second phase of the Maryland Pension Administration System (MPAS) project may not be expended until the State Retirement Agency:

- (1) completes the initial scoping of the project that will determine the parameters for this phase’s Request for Proposals; and
- (2) provides a definitive list of the desired project deliverables, including cost estimates and project time requirements, to the budget committees and to the Department of Information Technology. The committees shall have 45 days to review and comment on the report.

Explanation: To avoid project delays and cost overruns similar to those sustained due to poor scope definition of phase one of the Maryland Pension Administration System (MPAS) project, funding is restricted to provide for proper oversight of the next phase’s development.

Information Request	Author	Due Date
MPAS-2 scope report	State Retirement Agency	45 days prior to expenditure

6. Adopt the following narrative:

Need for Total Project Cost Accounting: The budget committees are concerned that the cost overruns for the first phase of the Maryland Pension Administration System (MPAS-1) have not been fully accounted for by the new total project cost calculated by the agency. Costs that should have been forgone, such as maintenance of the legacy system, have not been included in the project’s expense totals. Neither have items that once were listed in the agency’s other operating totals, such as MPAS project management. Therefore, the committees request that the State Retirement Agency provide a report detailing all expenses related to the MPAS project that are not reflected in the \$24.3 million total contemplated by the State’s Major information technology project management system.

G20J01 – State Retirement Agency

Information Request	Author	Due Date
Report on additional costs derived from the MPAS project	State Retirement Agency	August 1, 2009
Total Special Fund Reductions		\$ 610,121

Updates

1. Review of System’s Funded Status

The funded ratio of a pension system compares assets held in trust to the liabilities created by the promise of benefits to employees. The actuarially determined value of assets and liabilities are used in the ratio. Actuarial values differ from the market values because the market figure only reflects a particular point in time. The actuarial calculation, however, applies smoothing methods that reduce year-to-year volatility in the calculations, thus facilitating time-based comparisons.

For the majority of pension plans, funded ratios of 80% assets to liabilities or higher indicate fiscal soundness. This translates to having \$80 in assets for every \$100 of obligation owed. As pension systems trend below this level, it suggests that increased costs will have to be borne by future contributors to ensure that benefits are provided as promised. **Exhibit 7** shows the historical funded status of the combined plans in the Maryland State Retirement and Pension System (MSRPS). **Appendix 6** highlights the funded status of the component systems, such as employees, teachers, state police, etc., for the past two fiscal years.

The exhibit shows that since fiscal 2001, the MSRPS has seen its funded status erode from near full funding in fiscal 2001 to below the 80% industry threshold in fiscal 2008. In short, the growth of the system’s obligations has outpaced that of its assets. The large drop in the market value of assets following the 2000 tech bubble and 2001 terrorist attacks correspond to slow growth in the actuarially value assets, which were still smoothing large market gains from the late 1990s. Exhibit 7 also provides a comparison of MSRPS to the average public pension plan. The average figures are reported by the Public Fund Survey, which compiles the characteristics of over 100 large public retirement systems across the country. Similar downward movements of pension system funded status to those experienced by MSRPS can be seen, but Maryland’s decline is more severe. Mediocre market performance and increased obligations derived from the 2006 pension enhancement have contributed to MSRPS trailing the national average.

Exhibit 7
State Retirement and Pension System of Maryland Funded Ratio
Fiscal 2001-2008
(\$ in Millions)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Market Value of Assets	\$29,481	\$26,668	\$26,728	\$30,167	\$32,073	\$34,370	\$39,455	\$36,614
Actuarial Value of Assets	31,915	32,323	32,631	33,485	34,520	35,795	37,887	39,504
Actuarial Accrued Liability	32,470	34,131	34,974	36,326	39,133	43,243	47,144	50,244
Unfunded AAL	555	1,808	2,343	2,841	4,613	7,448	9,257	10,740
Funded Ratio	98.29%	94.70%	93.30%	92.18%	88.21%	82.78%	80.36%	78.62%
Average Public System Funded Ratio	101.80%	97.60%	91.80%	88.50%	86.80%	85.70%	86.10%	n/a

AAL: Actuarial Accrued Liability

Notes: The 2006 pension enhancement increased system liabilities in fiscal 2006 and subsequent years. Average Public System represents the funded ratio of 94 large U.S. public pension funds.

Source: Cheiron, Inc., Public Fund Survey, and State Retirement and Pension System of Maryland

Current and Prior Year Budgets

Current and Prior Year Budgets State Retirement Agency (\$ 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	\$0	\$22,189	\$0	\$0	\$22,189
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	226	0	0	226
Cost Containment	0	-43	0	0	-43
Reversions and Cancellations	0	-597	0	0	-597
Actual Expenditures	\$0	\$21,776	\$0	\$0	\$21,776
Fiscal 2009					
Legislative Appropriation	\$0	\$29,192	\$0	\$0	\$29,192
Cost Containment	0	-82	0	0	-82
Budget Amendments	0	288	0	0	288
Working Appropriation	\$0	\$29,398	\$0	\$0	\$29,398

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

Fiscal 2008

- A special fund budget amendment distributed \$222,615 to the agency from the 2% cost-of-living adjustment (COLA) that was centrally budgeted in DBM.
- As part of the January 30, 2008 cost containment reduction of 500 vacant positions in response to 2007 special session legislation, \$42,711 was reduced in conjunction with the abolitions of 2 vacant positions.
- There was a cancellation in the amount of \$596,533. Of the total, \$615,000 represents underspending for contractual employees, \$219,000 corresponds to savings on communications expenses, and \$72,292 represents unused Medical support services in conjunction with the board's disability hearings. There was an offsetting overspending of \$464,000, primarily from the acquisition of data processing equipment and administrative fee interest charges that reduced the total cancellation.

Fiscal 2009

- A special fund budget amendment distributed \$241,757 to the agency from the 2% COLA that was centrally budgeted in DBM.
- A special fund budget amendment for Annual Salary Review increases centrally budgeted in DBM distributed \$45,881 to the agency for its Retirement Benefit Counselor positions.
- As part of the June 25, 2008 cost containment action, statewide employee health insurance balances of \$81,527 were used in lieu of budgeted funds.

**State Retirement and Pension System of Maryland
Fund Holdings by Asset Class Ending June 30, 2008**

	<u>\$ Value in Millions</u>	<u>% Total</u>
Domestic Equity	\$12,908.0	35.3%
Fixed Income	8,900.0	24.3%
International Equity	5,588.1	15.3%
Global Equity	3,852.2	10.5%
Real Estate	2,400.0	6.6%
Real Return	1,500.0	4.1%
Private Equity	634.0	1.7%
Emerging Managers	337.0	0.9%
Cash and Other	494.4	1.4%
Total Fund	\$36,613.7	

State Retirement and Pension System of Maryland
Statement of Changes in Net Assets Available for Plan Benefits
Fiscal 2007-2008
(\$ in Millions)

	<u>2007</u>	<u>2008</u>	<u>Change</u>
Increase in Assets			
Contributions			
Employer and Other	\$833.7	\$1,048.0	\$214.3
Member	319.3	420.5	101.2
Investment Income*	5,924.1	-2,139.7	-8,063.8
Total	\$7,077.1	-\$671.2	-\$7,748.3
Decrease in Assets			
Benefit Payments	-1,965.9	-2,120.5	-154.6
Administrative Expenses	-21.3	-23.1	-1.8
Refunds	-16.0	-16.2	-0.2
Total	-\$2,003.2	-\$2,159.8	-\$156.6
Change in Assets during Period	\$5,073.9	-\$2,831.0	-\$7,904.9
Net Assets Available for Plan Benefits			
Beginning of Period	34,370.7	39,444.7	5,074.0
End of Period	39,444.7	36,613.7	-2,831.0
Total Investment Return	17.6%	-5.4%	n/a

*Dividends, interest, and realized and unrealized capital gains.

Note: Data presented here includes the system's bank cash account and excludes money invested by the system on behalf of the Maryland Transportation Authority. Columns may not add to total due to rounding.

Source: State Retirement Agency

**State Retirement Agency
Maryland Pension Administration System (MPAS) Phase One**

Project Description:	<i>To replicate all computerized functions of the system used to administer retirement and pension benefits for State employees on a modern platform.</i>				
Project Business Goals:	To better accommodate growth and business process changes to the pension system, allow for more economical maintenance, and add capacity for future phase expansions that could enhance customer service.				
Estimated Total Project Cost:	\$17,005,000 subsequently revised to \$24,392,089				
New/Existing Project:	Ongoing project				
Project Start Date:	April 2006		Projected Completion Date:	July 2008, subsequently revised to July 2010.	
Schedule Status:	MPAS-1 has been significantly delayed due to improper scoping of the work required by the contractor to yield the deliverables desired by the State Retirement Agency. After intervention and oversight review by the Department of Information Technology (DoIT), a new completion date of July 2010 has been adopted.				
Prior Year Funding:	\$16,900,534	Fiscal 2010 Funding:	\$3,405,499	Future Funding:	\$4,086,056
Cost Status:	Project costs have also significantly increased for similar reasons to schedule delays. Change orders have been negotiated with Saber and extensions on associated contracts have been arranged that increase the cost of MPAS-1 by \$7.4 million.				
Scope Status:	The scope has not changed, as the final product remains a modern replication of the legacy system. Much of the component piece deliverables have been determined to be more complicated than originally anticipated, contributing to project delays and cost overruns.				
Project Management Oversight Status:	As mentioned above, DoIT began intense oversight over the project in 2008. One IV&V was completed and reported on in August 2008. Another began February 2009. DoIT is involved in all major project decisions and now conducts quarterly rather than annual reviews.				
Identifiable Risks:	Schedule slippage and cost overrun problems, while addressed by DoIT's refined deliverable mapping, could potentially recur in future milestones.				

IV&V: Independent Verification & Validation
MPAS: Maryland Pension Administration System

**State Retirement Agency
Maryland Pension Administration System (MPAS) Phase Two**

Project Description:	<i>MPAS Phase Two (MPAS-2) will be completed in two stages – the first being the scoping of data cleaning needs identified after completion of MPAS-1 and the second being the actual scrubbing and re-engineering of payroll reporting.</i>				
Project Business Goals:	To clean existing data in the new MPAS system and re-engineer payroll reports to enhance customer service.				
Estimated Total Project Cost:	\$4,500,000				
New/Existing Project:	New project				
Project Start Date:	January 2010		Projected Completion Date:	July 2012	
Schedule Status:	The project is programmed to begin in the second half of fiscal 2010.				
Prior Year Funding:	\$1,200,000 (currently restricted)	Fiscal 2010 Funding:	\$1,200,000	Future Funding:	\$2,100,000
Cost Status:	The costs are estimates provided by the State Retirement Agency. Until the scoping is completed, deliverables, costs, and timelines will be uncertain.				
Scope Status:	Data scrubbing and report re-engineering requirements will be determined by scoping exercise after MPAS-1 is completed.				
Project Management Oversight Status:	No portfolio review meetings by the Department of Information Technology have occurred as of December 2008.				
Identifiable Risks:	MPAS-1, which has been delayed by 2 years, must be complete for this phase to begin.				

MPAS: Maryland Pension Administration System

**State Retirement and Pension System of Maryland
Funded Ratio by Plan
Fiscal 2007-2008**

	<u>6/30/2008</u>	<u>6/30/2007</u>
Total System		
Liabilities	\$50,244,047,207	\$47,144,353,858
Assets	39,504,284,202	37,886,935,596
Funded Status	78.62%	80.36%
Teachers		
Liabilities	29,868,704,554	28,122,574,855
Assets	23,784,403,753	22,814,759,559
Funded Status	79.63%	81.13%
State Employees		
Liabilities	17,609,769,165	16,385,823,014
Assets	13,599,717,089	13,026,321,045
Funded Status	77.23%	79.50%
State Police		
Liabilities	1,601,575,853	1,516,934,761
Assets	1,343,208,496	1,334,208,496
Funded Status	83.87%	87.95%
Judges		
Liabilities	406,781,743	371,987,374
Assets	306,716,176	293,051,654
Funded Status	75.40%	78.78%
LEOPS		
Liabilities	748,005,298	738,548,856
Assets	465,386,285	414,152,846
Funded Status	62.22%	56.08%

LEOPS: Law Enforcement Officers Pension System

Note: Total System includes all State plans listed and affiliated local municipal entities.

Source: Cheiron, Inc

**Summary of State Membership Data by Plan
Fiscal 2005-2008**

	<u>Total</u>	<u>Teachers' Retirement</u>	<u>Teachers' Pension</u>	<u>Employees' Retirement</u>	<u>Employees' Pension</u>	<u>Judges' Retirement</u>	<u>State Police Retirement</u>	<u>LEOPS</u>
<i>From 7/1/2005 to 6/30/2006</i>								
Active Members	191,218	5,449	94,869	10,121	76,979	296	1,441	2,063
Average Annual Salary	\$48,560	\$75,950	\$51,179	\$46,222	\$43,198	\$121,416	\$55,967	\$51,706
Retired Members	103,815	31,138	19,141	24,271	26,216	330	1,937	782
Average Annual Retirement Allowance	\$17,916	\$27,253	\$14,892	\$15,732	\$8,904	\$61,020	\$38,844	\$17,412
Vested Former Members	49,303	1,229	19,824	1,258	26,805	14	58	115
<i>From 7/1/2006 to 6/30/2007</i>								
Active Members	196,204	4,788	98,789	9,978	78,719	297	1,416	2,217
Average Annual Salary	\$50,808	\$80,121	\$53,914	\$47,347	\$45,017	\$126,729	\$58,751	\$55,036
Retired Members	108,339	31,023	21,016	24,408	28,631	335	2,063	863
Average Annual Retirement Allowance	\$18,645	\$28,464	\$15,720	\$16,620	\$9,528	\$63,480	\$39,540	\$28,800
Vested Former Members	52,020	1,175	21,544	1,260	27,847	13	54	127
<i>From 7/1/2007 to 6/30/2008</i>								
Active Members	198,452	4,125	101,836	9,740	79,462	286	1,426	1,577
Average Annual Salary	\$52,897	\$85,565	\$56,607	\$48,542	\$46,465	\$132,669	\$60,634	\$57,347
Retired Members	112,404	30,955	23,080	24,197	30,723	342	2,149	958
Average Annual Retirement Allowance	\$19,357	\$29,676	\$16,632	\$17,412	\$10,188	\$67,644	\$40,776	\$29,496
Vested Former Members	51,786	1,092	21,726	1,166	27,559	8	61	174

LEOPS: Law Enforcement Officers Pension System

Source: State Retirement Agency

**Object/Fund Difference Report
State Retirement Agency**

<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	189.00	190.00	190.00	0	0%
02 Contractual	5.19	15.00	14.00	-1.00	-6.7%
Total Positions	194.19	205.00	204.00	-1.00	-0.5%
Objects					
01 Salaries and Wages	\$ 13,306,389	\$ 14,654,697	\$ 15,559,516	\$ 904,819	6.2%
02 Technical and Spec. Fees	537,270	1,057,731	1,037,550	-20,181	-1.9%
03 Communication	463,097	737,655	626,860	-110,795	-15.0%
04 Travel	219,200	205,478	183,010	-22,468	-10.9%
07 Motor Vehicles	139,515	145,509	157,144	11,635	8.0%
08 Contractual Services	4,607,145	9,881,595	10,459,730	578,135	5.9%
09 Supplies and Materials	213,291	260,376	296,475	36,099	13.9%
10 Equipment – Replacement	165,766	339,255	372,212	32,957	9.7%
11 Equipment – Additional	132,296	80,050	92,139	12,089	15.1%
13 Fixed Charges	1,991,569	2,036,148	2,122,835	86,687	4.3%
Total Objects	\$ 21,775,538	\$ 29,398,494	\$ 30,907,471	\$ 1,508,977	5.1%
Funds					
03 Special Fund	\$ 21,775,538	\$ 29,398,494	\$ 30,907,471	\$ 1,508,977	5.1%
Total Funds	\$ 21,775,538	\$ 29,398,494	\$ 30,907,471	\$ 1,508,977	5.1%

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

**Fiscal Summary
State Retirement Agency**

<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 State Retirement Agency	\$ 21,775,538	\$ 24,993,416	\$ 26,301,972	\$ 1,308,556	5.2%
02 Major Information Technology Development Projects	0	4,405,078	4,605,499	200,421	4.5%
Total Expenditures	\$ 21,775,538	\$ 29,398,494	\$ 30,907,471	\$ 1,508,977	5.1%
Special Fund	\$ 21,775,538	\$ 29,398,494	\$ 30,907,471	\$ 1,508,977	5.1%
Total Appropriations	\$ 21,775,538	\$ 29,398,494	\$ 30,907,471	\$ 1,508,977	5.1%

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