MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

LAWRENCE J. HOGAN, JR.
Governor

BOYD K. RUTHERFORD
Lieutenant Governor

DAVID R. BRINKLEY
Secretary

DEPARTMENT OF BUDGET AND MANAGEMENT – OFFICE OF PERSONNEL SERVICES AND BENEFITS

Testimony of
David R. Brinkley
Secretary

Senate Budget and Taxation Committee
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Chairman Kasemeyer and members of the Committee, the Department of Budget and Management (DBM) appreciates this opportunity to respond to the issues and recommendations raised in the Department of Legislative Services' (DLS) analysis of the Office of Personnel Services and Benefits' budget.

ISSUES

Two Percent Reduction Detail

It is not unprecedented or a budget "gimmick" to impose an across the board reduction. Both Governor Schaefer and Governor Glendening submitted budgets with across the board reductions and there have only been three years out of the previous thirteen in which the General Assembly has not required an across the board reduction of positions and/or executive branch appropriations.

The Administration has been in office for just over thirty days and new cabinet officials and agency heads need to be given the opportunity to review their agencies and assess how best to allocate the two percent reductions. As the new leadership explores their agency operations, missions, and resources, the Governor believes they will identify new savings and efficiencies. The first order of business for the cabinet and agency heads is to allocate the FY 2015 reduction made by the Board of Public Works in January. It is unreasonable to expect this to be accomplished without providing time for adequate review.

Voluntary Separation Program (VSP)

Governor Hogan signed an Executive Order on February 18, 2015 implementing the Voluntary Separation Program. The goal of the Program is to reduce the size of the State workforce by allowing employees to elect voluntarily to leave State service. Application to the program is open to eligible employees within the Executive Branch of State government who voluntarily elect to separate from employment no later than April 28, 2015.

The program is based on the 2010 VSP and shares the same criteria for eligible employees, severance package, and other program requirements. Applications are due on or before March 13, 2015. A brief overview is provided below.

- Eligible Employees: Executive branch employees with at least 24 months of State service who are not in excluded job classifications. Exclusions include: cabinet secretaries and agency heads; direct care employees in health, juvenile services, and correctional facilities; police officers; other employees in 24/7 operations; and other essential or critical job classifications identified by agencies.

- Severance Package: Lump sum payment of $15,000 plus $200 per year of service; three months fully subsidized health benefits; any other benefits to which the employee is entitled upon separation.

- Other restrictions**:** Participants are barred from State service for 18 months.

- Communications: DBM 's website has a dedicated site with information on the VSP including a program guide, outlining eligibility criteria, the application process, due dates, and other program details; an application form; a list of position classifications excluded from participation in the Program; and guidance for those eligible for State retirement, including applicable forms. Additionally, DBM has set up dedicated phone lines and an email box to enable employees to reach a State representative who can help them access information to assist in the decision-making process.

The State is expecting at least 500 individuals to participate in the program, generating savings of $7.5 million in FY 2015 and $30 million in FY 2016. If participation does not meet these goals, the Administration will abolish vacant positions to ensure that at least 500 positions are abolished and $30 million is saved.

Increases in Fiscal 2014 and 2015 Healthcare Provider Payments

Healthcare costs continue to rise under the State Employee and Retiree Health and Welfare Benefits Program (the "Program") for several reasons. Costs of care and the volume of utilization have increased for nearly all employers, including the State. Historically, increases in the State's Program costs have been in the single digits -- between 6% and 7% most years. However, as the average age of our enrolled population increases, we are finding that the costs for treating participants with chronic conditions are escalating more rapidly. Poorly managed chronic conditions result in higher emergency room use, more acute hospital stays, and increases in the number of participants incurring claims in excess of $100,000 per year.

Prescription drug costs are also driving the year over year increases in Program expenditures. This is due to the high cost of medications as well as the mix of drugs utilized by our participants. In spite of a generic utilization rate of nearly 82%, increases in prescription expenditures are running at approximately 10-13%. Pharmaceutical manufacturers have steadily increased the cost of medications since 2010 citing significant research and development costs to bring certain medications to market. In addition, within the Program we have seen a marked increase in the number of participants taking specialty medications, very expensive drugs used to treat conditions such as cancer, hepatitis C, and rheumatoid arthritis. These specialty drugs can cost up to $100,000 a year per patient.

In an effort to slow escalating medical and prescription costs, DBM implemented a wellness plan effective January 1, 2015. Through the use of incentives and disincentives, education, and free or low cost resources, it is anticipated that the Program's cost trend will begin to flatten, resulting in savings of approximately $4 billion over the next ten years.

Plans to Fund IBNR Costs

The Administration's current plan is to resolve the funding issues of IBNR over time. The FY 2016 allowance reflects the Administration's plan to reduce the IBNR shortfall and current estimates show that IBNR will be fully funded in FY 2017.

Plans to Fund OPEB and Worker's Compensation Unfunded Liabilities

The State has taken several steps to reduce the OPEB liability. Effective July 1, 2012, changes were made to the retiree prescription drug plan that, in combination with other pension reforms, reduced the OPEB liability by nearly half – from $16 billion to less than $9 billion. Specifically, copays were increased and premium contributions for retirees increased from 20% to 25% and years of service required for retiree health eligibility were increased. In addition, effective January 1, 2014, DBM implemented an Employer Group Waiver Plan estimated to reduce the OPEB liability by $400,000.

In putting together the Administration's first budget, the top priority was bringing the operating budget into structural balance. At this point so early in the Administration's tenure, no plans have been developed with regard to addressing the unfunded OPEB and Worker's Compensation liabilities. However, the Administration is evaluating these issues and will keep the Committee apprised as any such plans are developed.

Implementation of State Personnel System

The State Personnel System (SPS) was implemented on schedule and under budget for core human resources (HR) and compensation in November 2014. The system was immediately tested in January with the onboarding of officials with the new Administration and implementation of salary increments, the 2% cost of living increase, and the Annual Salary

Review adjustments. The system was able to effectuate all of these transactions successfully without any major issues.

While the system is working as designed, State human resources staff are undergoing a steep learning curve as they adjust to the new system and become familiar with the various applications. DBM had initially anticipated that by the end of January agencies would be relatively self-sufficient in handling routine HR transactions. While this is the case for many agencies, others are still struggling with the change to an automated system. As a result, DBM is offering additional training sessions and working labs for those agencies that need further assistance in transitioning to the new system. DBM is also continually updating the training materials and resources that are available to agency staff.

As noted in the analysis, there have been instances of employees being hired and not receiving pay on time. These unfortunate occurrences are anomalies resulting directly from agency user errors. In many cases, when HR users did not know what to put in a field, the field was left blank or an incorrect code was used. As a result, the transactions were not correctly processed and employees were not paid on time. While there have also been some issues integrating the new system with the Central Payroll System, most of these have already been resolved and those remaining are being addressed with the vendor and should be resolved soon.

DLS RECOMMENDATIONS

DBM concurs with eight of the nine recommendations proposed by the analyst. Specifically, DBM concurs with recommendations 2 through 9 which propose annual budget bill language, reporting requirements, or clarifying budget language.

The Department does not concur with recommendation 1, as discussed below.

Recommendation 1: Withhold $100,000 pending submission of the FY 2015 closeout report on the Employee and Retiree Health Insurance Account.

DBM Response: DBM opposes this recommendation to withhold funds pending the FY 2015 closeout report on the Health Insurance Account. DBM provides this report annually, and believes that withholding funds unnecessarily ties the Department's hands in managing its budget.

A summary of agency accomplishments for 2014 is attached.

2014 ACCOMPLISHMENTS

- Successfully launched the State Personnel System (SPS) on schedule and under budget for core human resources and compensation in November 2014, bringing with it real-time data, enhanced reporting capabilities, and employee and manager self-service features.

- Initiated the use of a State Employee Identification Number thereby eliminating the use of employee social security numbers as the primary identifier for State employees.

- Implemented a Statewide Learning Management System in mid-2014 for use by 43,000 regular and contractual employees. Known as the Hub, the system provides agencies with a cost efficient model for delivery of State-wide and agency specific training.

- Implemented and managed new medical contracts which included a wellness component designed to save the State $4 billion over the next 10 years.

- Secured Maryland's place as the second State to launch a cloud based HR solution, negating the need for costly hardware and server maintenance and upgrades, as well as the first State to fully launch the entire suite of HR services.

- Transitioned information technology support for agency human resources offices from the Department of Information Technology to a central division within OPSB that supports users of the new cloud based HR solutions (SPS, JobAps, and the HUB).

- Doubled participation in the nationally recognized QUEST Internship Program for individuals with disabilities and coordinated State agency participation in the Baltimore City YouthWorks summer internship program.

- Initiated extensive outreach efforts to veterans and military spouses through transition assistance programs.

- Negotiated or retained Memorandums of Understanding with all of the exclusive bargaining representatives.