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FY 2026 Department of Budget and Management - Personnel

Testimony of
Helene Grady, Secretary
Department of Budget and Management

Senate Budget & Taxation Committee
February 25, 2025

House Appropriations Committee
February 26, 2025

The Administration appreciates the thorough analysis put forward by the Department of Legislative Services (DLS).

I'm pleased to share some key updates regarding our progress on initiatives within our Personnel Services and Benefits and Statewide EEO functions.

First, I would like to introduce the Committee to our incoming Chief HR Officer, Neal Desai, who joins DBM on March 5th from the federal Office of Personnel Management. Mr. Desai has served in several advisory roles within the federal government, most recently as Senior Advisor to the Director of the Office of Personnel Management (OPM). In that role, he led the development of a new operating strategy for OPM's audit function, transforming the agency's approach to enforcing merit system principles for 2.3 million civil servants. He also led OPM's primary customer experience improvement effort, modernizing the OPM's main website and intranet.

Prior to joining OPM, Mr. Desai served as the Director of Culture and Communications and as a Technical Advisor at the Internal Revenue Service. While at the IRS, his portfolio included all human capital issues, including the IRS's Inflation Reduction Act hiring surge, IRS culture and employee experience, and revitalization of the IRS's Human Capital Office. He supported the IRS's response to updated telework guidance and drove the reorganization of the IRS's hiring function to improve capacity and customer service. He also served as Special Advisor to the Deputy Secretary of Defense, where his portfolio included all human capital issues, including military personnel mental health, training, sexual assault prevention, and many others.

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Mr. Desai also served as a partner at Boston Consulting Group in Washington, DC where he led procurement reform efforts and supported COVID-19 response efforts for large US government agencies. While serving as Principal at Open Capital Advisors in Nairobi, Kenya, Mr. Desai led dozens of projects including efforts to optimize operations, negotiate public-private partnerships, and build new business models in sectors from health care to agriculture to energy.

We are thrilled to have Mr. Desai joining the DBM leadership team, where he will oversee our human resources and employee management services and policies, administer healthcare and other benefits programs, and partner with executive branch agencies to facilitate recruitment and hiring with a particular focus on implementing the recommendations from the Task Force on the Modernization of the SPMS. In particular, Neal will be instrumental in our efforts to stand up a program to facilitate the recruitment of transitioning federal employees to vacant roles within State government, potentially coordinating this work with our local governments as well.

Following are some other select highlights from our work over the past year:

- Effectively transitioning more than 50,000 Medicare-eligible retirees and dependents to Medicare Part D
- Completing a reverse-auction procurement for the new Pharmacy Benefits Management (PBM) contract and onboarding a new PBM
- Negotiating a new FAMLI benefit program for State employees, for which we are pursuing legislative approval this session through HB1503
- Implementing Our First Statewide Workplace Culture Survey and Developing Agency Action Plans. In the first launch of the survey, we obtained a 39% participation rate with more than 20,000 employees responding to the survey. An overwhelming majority of respondents indicated a clear intent to stay in state government employment and the majority also felt a sense of purpose and meaning in the work they perform. More work needs to be done to improve communication within agencies and across state government, and to find opportunities to streamline processes.
- Continuing to improve employee recruitment and retention. The executive branch vacancy rate has declined steadily over the past two years from 13.4% in January 2023 to 10.4% as of December 2024, even with the addition of new PINS. This has been accomplished in part through converting contractual employees to regular roles with full benefits and in part through enhanced recruitment and retention. The State added a net 1,696 additional employees over the two years from 2023 through 2024 compared to losing a net -2,658 during the two years prior (2021 and 2022). Non-retirement separations were reduced by 30% in 2024 compared to two years earlier (2022).
- Together with our colleagues at the Department of Labor, progressing with developing apprenticeships within State agencies, in collaboration with the exclusive representatives of our bargaining unit employees.
    - The DGS Procurement Apprenticeship was approved by the Apprenticeship and Training Council (the Council) in January 2025. This is the first ever public procurement apprenticeship, and the pilot is fully being paid for by our partner, NASPO (National Association of Procurement Officers). The positions will be housed within DGS and successfully completing the program will make the apprentice eligible for PO I or PO II vacancies.
    - The Environmental Health Specialist apprenticeship is moving forward in partnership with Morgan State University. The participants will apprentice in MDH. The

apprenticeship is for college students at Morgan who will be taking classes with an MDH instructor in addition to their regular coursework. This apprenticeship is pending approval by the Council.

- Hosted three (2/1/24, 6/14/24, and 1/31/25) statewide EEO group meetings attended by 60 plus professionals, with the most recent meeting drawing 137 professionals, to provide program and industry trends and legal updates and partnered with the Maryland Commission on Civil Rights (MCCR) to provide a session on the Basic Investigative Techniques and Discrimination Law Theory training to new EEO Officers.

DBM's responses to the DLS recommendations in the analysis are below. We are happy to answer any questions.

<u>DLS Recommendations and DBM Responses</u>

1) DBM should comment on the main drivers of continued cost increases in the State prescription drug plan (page 5).

DBM closely monitors the increase in utilization for all therapeutic classifications of drugs.

In January 2024, the Department implemented GLP-1 Smart Logic utilization protocol to reduce off-label use and help manage costs of certain antidiabetic drugs. As a result, these drugs are no longer in the top 3 contributors to increased costs.. Drug manufacturers also reduced drug prices for select insulin products by ~ 70%, contributing to the lower trend.

Prescription drug costs continue to trend at a higher rate than other health benefits. Individual components of the annual trend include inflation, utilization, and drug mix. While there has been an increase in enrollment and utilization, the overall drug mix is the main driver of the State's trend, which was 9.6% net of rebates through December 31, 2024.

Specialty drugs prescribed for classifications such as Oncology, Psoriasis, and Crohn's Disease account for the largest trend adjustment. This classification accounts for 43% of the State's total gross cost representing 1.4% of the total prescriptions filled and utilized by 1.3% of the State's population.

The Department offers a rich benefit and plan design with a low copayment structure for our members. However, that also leads to a lower member cost-share than that of other employers at 3.6% of overall costs. With respect to specialty drugs, the member cost share is only 0.2%.

2) DLS recommends adding budget bill language restricting $100,000 pending receipt of quarterly medical, dental, and prescription cost reports. (page 6).

DBM apologizes for the late submissions over the past year and will prioritize ensuring timely submission in the year ahead. DBM accepts this recommendation.

3) DLS recommends that DBM include funds for the supplemental retirement match in the fiscal 2027 allowance (page 6).

DBM concurs.

4) Due to the fiscal condition of the State, DLS recommends: deleting funds for a 1% general salary increase in fiscal 2026; and deleting funds for fiscal 2026 increments, including Judiciary merit raises. An alternative option to deleting funds for the 1% general salary increase would be for the use of the funds for a one-time bonus. This would reduce the structural impact of employee raises on State finances. (page 9-10)

DBM respectfully disagrees, although we understand the need to continue to identify areas of cost containment given continued budget pressures related to increasing costs for critical entitlement benefits and extreme economic and budgetary uncertainty related to changes in federal policy and budgets. The State negotiated these increases with the representatives of the bargaining units during the recently completed negotiations. DBM feels strongly that our negotiated agreements should be honored, and this provision should not be modified, particularly as it relates to employees covered by the recent collective bargaining agreements.

5) DLS recommends reducing funding for salary actions in the Statewide Program by $85.2 million in total funds to reflect vacancy savings and a budgeted turnover rate of 8.6%. (page 17)

DBM respectfully does not concur for multiple reasons. As the DLS analysis states, the Administration has made significant progress in reducing the high rate of vacancies across State government. In addition, while the total fund budgeted turnover for the State is 7.3% as the DLS analysis states, general fund turnover for the Executive Branch, excluding higher education institutions, is budgeted at a higher rate of 9.22%. This is already close to current vacancy trends, leaving limited room to continue progress in reducing vacancies. Furthermore, DBM is actively working to launch an initiative to expedite recruitment of separating federal employees for key vacancies in State government. Finally, the statewide reversion assumption of $75 million already accounts for the fact that some agencies may have remaining salary and fringe funds remaining at the end of the year due to vacancies. DBM is very concerned that if the recommended reduction is taken, it will need to be backfilled with a deficiency during fiscal 2026 as agencies face operating budget shortfalls.

6) DBM should discuss the adequacy of the budgeted funding for health insurance in fiscal 2026. (page 24)

DBM believes that the Governor's Allowance is adequate to support projected health insurance costs in fiscal 2026 and notes that the submitted budget has a gap of $62 million, not $90 million, between what is budgeted for health insurance in state agency appropriations versus the projected receipts from state agencies. As the DLS analysis notes, this gap has existed historically due to health insurance for nonbudgeted positions, particularly local health departments. While that number was smaller in fiscal 2024 and fiscal 2025, it exceeded $40 million in both fiscal 2022 and fiscal 2023. In addition, reported actual budgeted receipts from state agencies in the past five years have averaged $62 million below actual receipts received by the health insurance account, representing the funding received by nonbudgeted entities that is assumed in the fiscal 2026 allowance.

7) DLS recommends annual committee narrative to request that DBM submit medical, dental, and prescription drug utilization and cost data. (page 25)

DBM concurs.