

WES MOORE
Governor

ARUNA MILLER
Lieutenant Governor



YAAKOV "JAKE" WEISSMANN
Secretary

MARC L. NICOLE
Deputy Secretary

**Department of Budget and Management - Personnel
FY 2027 Budget Hearing**

**Testimony of
Yaakov "Jake" Weissmann, Secretary
Department of Budget and Management**

**Senate Budget & Taxation Committee
March 3rd 2026**

**House Appropriations Committee
March 6th 2026**

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

The mission of the Department of Budget and Management (DBM) is to assist the Governor in providing effective, efficient, and fiscally sound government. The Office of Personnel Services and Benefits supports agency efforts to achieve results by helping agencies obtain the personnel resources needed to provide services to Maryland citizens.

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

Medical, Dental, and Prescription Drug Costs (pg 7): DLS recommends releasing the \$100,000 in general funds restricted for the quarterly medical, dental, and prescription drug cost reports, and a letter to this effect will be processed if no objections are raised in the hearings. DLS further recommends modifying annual committee narrative to request that DBM report on the differences between the reporting methodology of CVS Caremark and MedImpact and identify opportunities to be consistent with previous reporting.

DBM worked with our new PBM, MedImpact, and modified the reporting to more closely align with that provided by CVS. The revision was finalized and provided for Q1 FY26 on January 15, 2026.

Salary Increases (pg 10): Due to the fiscal condition of the State, DLS recommends deleting the \$63.8 million in total funds for salary step expansions.

DBM respectfully disagrees with this recommendation. DBM is committed to continuing to make progress on addressing the disparity between step widths for different salary scales through a phased approach to reach the 2.5% salary step width goal that was set and unanimously agreed to by State and labor representatives in the 2024 Salary Competitiveness and Pay Equity LMC.

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. However, the State negotiated these increases in good faith with the representatives of the bargaining units during the recently completed negotiations. DBM values our State workforce and feels strongly that our negotiated agreements should be honored, and this provision should not be modified.

Concerning the DLS question on Vacant Positions on page 17

Yes, at present, the Administration expects to continue the limited hiring into fiscal year 2027.

Concerning the Funding of Retiree Health Reimbursement Arrangement (pg 20): Because fiscal 2027 SPDAP funding is authorized but not appropriated, DLS recommends reducing funding for HRA costs by 3 million in general funds in anticipation of the administration processing a budget amendment increasing the special fund appropriation by 3 million SPDAP funds.

DBM concurs. We will include an item in a supplemental budget to bring in the funding from the SPDAP. DBM would note that the General Fund reduction proposed should be made in an agency budget rather than the Statewide account, as there is no health insurance funding in the account to be reduced in fiscal year 2027.

State Health Insurance Contributions Increase More Than 20%(pg 22): DBM should comment on factors leading to the projected increase in health insurance costs.

State agency health insurance contributions are increasing by more than 20% in fiscal year 2027 for two reasons. The first and foremost reason is increased health care costs and utilization. The State has seen year-over-year increases in the cost of treating patients driven by inflation, high utilization, and new treatments. Specifically, the State has seen increased utilization of outpatient hospital, physician, and emergency room services. Additionally, pharmacy costs are being driven by new medications entering the market and a more than 15% increase in the number of prescriptions filled. All of these factors have increased the trend in medical expenses from 6% to 7.5% annually and the trend in pharmacy costs from 10% to 12% annually, even as the State has chosen to maintain lower growth trends for employee premiums.

The second factor driving the increase in state agency health insurance costs is the utilization of the prior year fund balance and the annualization of savings from the discontinuance of Medicare-eligible prescription drugs, which offset increases in fiscal year 2026 agency costs.

Government Modernization Initiative Savings (pg 24):

DLS recommends adopting committee narrative requesting a report on the Government Modernization Initiative detailing the initiatives implemented, the savings achieved for each initiative, and the incentive payments provided to the vendor. The report should provide funding and payment information by fund source and differentiate between one-time and ongoing savings (page 24):

DBM concurs. The Department would like to clarify the requirements of the report with DLS before the language is finalized.

DLS Recommendations DBM Response:

1) DLS recommends reducing the funds for salary step expansions.

DBM respectfully disagrees with this recommendation. DBM is committed to continue to make progress on addressing the disparity between step widths for different salary scales. Additionally, removing this provision while funding the negotiated step for other covered employees (who are not impacted by the salary scale changes) would result in that bargaining unit's compensation increase significantly exceeding what is implemented for other employees. These changes to the pay schedules represent a step in DBM's incremental process to address the disparity in step increase size between employees and are in line with a phased approach to reach the 2.5% salary step width goal that was set and unanimously agreed to by State and labor representatives in the 2024 Salary Competitiveness and Pay Equity LMC after a comprehensive external review of the State's compensation across 37,000 employees and more than 2,000 classifications.

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. However, the State negotiated these increases in good faith with the representatives of the bargaining units during the recently completed negotiations. DBM values our State workforce and feels strongly that our negotiated agreements should be honored, and this provision should not be modified.

2) DLS recommends reducing statewide funding for health reimbursement accounts costs for Medicare-eligible retirees in anticipation of special funds available for the same purpose

DBM concurs. We will include an item in a supplemental budget to bring in the funding from the SPDAP. DBM would note that the General Fund reduction proposed should be made in an agency budget rather than the Statewide account, as there is no health insurance funding in the account to be reduced in fiscal year 2027.

- 3) DLS recommends adding a section for annual language restricting the movement of employees into abolished positions.**

DBM concurs.

- 4) DLS recommends adding a section requiring monthly reporting on the State's workers' compensation account held by the Injured Workers' Insurance Fund.**

DBM concurs.

- 5) DLS recommends adding a section for the annual "Rule of 100" limit on position creation.**

DBM concurs.

- 6) DLS recommends adding a section for annual language requiring a report on the State positions.**

DBM concurs.

- 7) DLS recommends adding a section to require the reporting of employees and retiree health insurance receipts and tracking.**

DBM concurs.

- 8) DLS recommends language restricting funds due to four or more repeat audit findings.**

DBM concurs.

- 9) DLS recommends adopting committee narrative requesting the department to submit closeout information on the Employee Retiree Health Insurance Account.**

DBM concurs.

10) DLS recommends adopting committee narrative requesting submission of quarterly reports on prescription medical and dental plans, including the analysis of reporting methodologies.

DBM concurs.

11) DLS recommends adopting committee narrative requesting a report detailing the Government Modernization Initiative.

DBM concurs.