

Fiscal Note 2017 Biennium

To open, right click on "Select a bill", select Worksheet Object/Edit. To exit, click outside the spreadsheet.

Bill #	To Be Determined (HJ25 of 63rd Leg. Ses.)
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Title:	To Be Determined (MSF Stucture Review)
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Primary Sponsor:	Economic Affairs Committee
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Status:	Committee Review
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- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

To open the fiscal Summary spreadsheet, right click on the spreadsheet, select Worksheet Object/Edit. To exit the spreadsheet, click outside of the spreadsheet.

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	\$82,500	\$82,500	\$82,500	\$82,500
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Proprietary	\$659,114	\$972,762	\$482,899	\$508,142
Revenue:				
General Fund	\$7,500	\$7,500	\$7,500	\$7,500
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Proprietary	\$659,114	\$972,762	\$482,899	\$508,142
Net Impact-General Fund Balance:	<u>(\$75,000)</u>	<u>(\$75,000)</u>	<u>(\$75,000)</u>	<u>(\$75,000)</u>

Description of fiscal impact: (In a few short sentences, describe.)

The bill requires regulatory oversight of Montana State Fund (MSF) by the State Auditor, also known as the Commissioner of Securities and Insurance (CSI), as provided for in Title 33, MCA, with exceptions to be noted in assumptions.

FISCAL ANALYSIS

Montana State Fund Assumptions:

1. All increased costs will be funded through workers' compensation insurance premiums charged to MSF policyholders.
2. There will be no premium tax collection requirement on premiums paid to MSF.

3. MSF will continue to serve as the guaranteed market.
4. MSF may not be dissolved except as an action of the legislature.
5. The Governor will continue to appoint members of the Board of Directors.
6. MSF will transition to a financial reporting year of January 1 to December 31 effective January 1, 2016.
7. MSF will require 3 new positions to manage the increased regulatory requirements.
 - a. An Attorney (1.00 FTE all years) for corporate regulatory and contracting issues beginning July 1, 2015. Total FY16 personal services are \$126,155 and 3% increase each subsequent year.
 - b. A Compliance Officer (0.50 FTE in FY16 and 1.00 FTE thereafter) to manage market conduct examinations, financial examinations, and statutory insurance audits. This position will begin January 1, 2016. Total FY16 personal services are \$47,869 for six months. The full year FY17 personal services are \$98,611 and 3% increase each subsequent year.
 - c. A Regulatory Specialist (0.50 FTE in FY16 and 1.00 FTE thereafter) to manage regulatory reporting requirements. This position will begin January 1, 2016. Total FY16 personal services are \$40,139. The full year FY17 personal services are \$82,687 and 3% increase each subsequent year.
8. CSI will issue MSF a 'Certificate of Authority' to conduct the business of insurance in Montana as required under Title 33. CSI will not be authorized to remove the certificate of authority as MSF is the guaranteed market for workers' compensation insurance in the state. The cost for the certification is \$1,900 annually.
9. Producer licenses and continuing professional education (CPE) costs are \$25,350 in FY16 for initial licensing requirements and \$9,725 per year in FY17 through FY19 for continuing certification. The FY16 producer licenses are \$389 for training and materials, and \$118 to test and fingerprint for each individual producer. MSF has 50 staff requiring licensing. The FY17 through FY19 expense is for producer licenses of 50 staff at \$118 each and continuing education costs of \$3,825.
10. MSF's electronic filing of statutory financial statements with CSI will cost \$3,500 annually.
11. Increased cost for consulting actuary to produce rate filing exhibits required in MSF's rate filing to CSI are estimated to be \$37,500 annually.
12. CSI will complete a market conduct examination of MSF at least once every five years. MSF estimates the initial market conduct examination will occur in FY17 and cost \$153,600. The cost is based on discussions with consulting firms who have experience in completing market conduct examinations. The consulting services are \$160 per hour and 800 hours will be required plus 20% added for consultant travel and lodging.
13. CSI will complete a financial examination of MSF at least once every five years. MSF estimates the initial financial examination will occur in FY17 and cost \$345,600. The cost is based on discussions with consulting firms who have experience in completing financial examinations. The consulting services are \$160 per hour and 1,800 hours will be required plus 20% added for consultant travel and lodging.
14. MSF Policyholder System (PHS) and Insurance Intelligence (II) will require changes to complete reporting to CSI. These system changes will cost \$267,000 and are one-time costs. The costs include writing requirements and development for changes needed to disable construction credit application, include aircraft seat surcharge, per capita classifications, rate changes on NARD date and rewrite all our forms to NCCI.
15. MSF will use the NCCI Classification Premium Adjustment Program (CCPAP). This will be \$63,700 additional cost per year (2,600 applications processed per year by NCCI at \$24.50 each).
16. MSF statutory audit expense will increase. An additional \$46,000 (\$38,333 plus 20% travel / lodging) will be needed to complete the MSF statutory financial statement audit.

Commissioner of Securities and Insurance Assumptions:

17. Under current law, 39-71-2361(2), MCA, the insurance commissioner shall review MSF's financial and compliance audit and rate review performed by the Legislative Audit Division. A general fund appropriation of \$75,000 per year during the 2014/2015 biennium funded this review. The proposed

legislation will repeal current law. The proposed legislation will require MSF to complete a rate filing to be submitted to CSI annually. CSI has indicated that they will utilize actuarial consulting services to review MSF's rate filing at an estimated cost of \$75,000 annually. This would require an ongoing general fund appropriation. MSF would not be charged for this review.

Legislative Audit Division Assumptions:

18. Under current law, 39-71-2361(1), the Legislative Audit Division (LAD) is required to conduct or have conducted a financial and compliance audit including evaluation of reserves of MSF. This cost is to be paid by MSF as required by law. LAD completes portions of the audit and also engages the services of an actuary to review MSF reserves and rate making processes under 39-71-2362. The audit expense, including the actuarial services of approximately \$7,500 per year is paid by MSF. The proposed legislation will repeal 39-71-2362. LAD has indicated they will require the actuarial services to continue as a requirement of 39-71-2361. The expectation is that the \$7,500 actuarial cost will be charged to MSF as part of the annual audit costs under 39-71-2361.

To open the spreadsheet below, right click on the spreadsheet, select Worksheet Object/Edit. To exit the spreadsheet, click outside of the spreadsheet.

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	2.00	3.00	3.00	3.00
<u>Expenditures:</u>				
Personal Services	\$214,164	\$311,237	\$320,574	\$330,192
Operating Expenses	\$260,450	\$744,025	\$244,825	\$260,450
Intangible Asset	\$267,000	\$0	\$0	\$0
Benefits	\$0	\$0	\$0	\$0
Transfers	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$741,614	\$1,055,262	\$565,399	\$590,642

<u>Funding of Expenditures:</u>				
General Fund (01)	\$82,500	\$82,500	\$82,500	\$82,500
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue(03)	\$0	\$0	\$0	\$0
Proprietary (06)	\$741,614	\$1,055,262	\$565,399	\$590,642
TOTAL Funding of Exp.	\$824,114	\$1,137,762	\$647,899	\$673,142

<u>Revenues:</u>				
General Fund (01)	\$7,500	\$7,500	\$7,500	\$7,500
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue(03)	\$0	\$0	\$0	\$0
Proprietary (06)	\$741,614	\$1,055,262	\$565,399	\$590,642
TOTAL Revenues	\$749,114	\$1,062,762	\$572,899	\$598,142

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$75,000)	(\$75,000)	(\$75,000)	(\$75,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue(03)	\$0	\$0	\$0	\$0
Proprietary (06)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

1. None.

Long-Term Impacts:

1. None.

Technical Notes:

1. ‘Experience rating’ thresholds used by CSI and MSF differ. CSI has the authority to change the experience rating threshold they require workers’ compensation insurers to use. Currently, MSF used experience rating thresholds of \$5,000 and \$10,000 on policy premiums. CSI thresholds are \$2,500 and \$5,000. Should CSI alter their experience rating thresholds to correlate with MSF there will be no fiscal impact. If MSF is required to meet CSI’s experience rating thresholds the fiscal impact will be \$96,000

Fiscal Note Request – As Introduced

(continued)

per year for on-going services and a one-time FY16 cost of \$30,000 for MSF's consulting actuary to re-establish a tier rating model.

<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>
Fiscal note prepared by:	_____		
Agency:	_____		
Phone number:	_____		