

# FISCAL NOTE

**Bill #:** SB0145

**Title:** Revise laws governing state fund personnel and policies.

**Primary Sponsor:** Dale Berry

**Status:** As Introduced

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Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY2002 Difference</u></b>	<b><u>FY2003 Difference</u></b>
<b>Expenditures:</b>		
Proprietary	132,000	132,000
<b>Revenue:</b>		
Proprietary	132,000	132,000
<b>Net Impact on General Fund Balance:</b>	<b>\$0</b>	<b>\$0</b>

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<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget		X	Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

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## Fiscal Analysis

### ASSUMPTIONS:

#### **Alternative Personal Leave Plan**

1. The State Fund estimates no increased expense as a result of an alternative leave plan.
2. An alternative leave plan will enhance administrative flexibility and employee flexibility of leave.
3. An alternative leave plan will not impact the number of days of leave an individual may earn as leave will accrue at the current law rate.

**Coverage Under Federal Longshore and Harbor Workers' Compensation Act and other Acts**

4. The State Fund will have the ability to offer additional insurance coverage to employers for their workers' compensation insurance needs.
5. The State Fund would collect premium for this coverage that will be priced to ensure the ultimate liability resulting from claims incurred under this coverage are funded.
6. Coverage under the federal acts will require the approval of the State Fund Board of Directors.

**Administrative Expenditure Limit**

7. GASB 31, implemented by the State of Montana in FY 1998, includes changes in the fair value of investments in determining investment revenue. Prior to the implementation of GASB 31, 100% of investment income was used in the determination of the administrative expense limit. After implementation of GASB 31, all investment income, including changes in the fair value of investments are recognized as revenue in the operating statement.
8. Applying GASB 31 can cause wide fluctuations in the administrative expense limit and introduces volatility into budgeting for the business operations of the State Fund based on the changes in the fair value of the investments. However, the gains or losses in the changes in the fair value of investments may not ultimately be realized because long-term fixed income investments owned by the State Fund are held to maturity.
9. Since the State Fund has begun investing a portion of its assets in stocks and reinvesting the dividend earnings, there is a reduced cash flow from current investment income generated from interest on bonds.
10. The reduction in investment income resulting from stock investments will cause the State Fund to approach the administrative expenditure limit, even with the elimination of the ambiguity of GASB 31.
11. The elimination of the ambiguity of the impact of GASB 31 alone however, does not relieve potential State Fund budgetary concerns. Estimated administrative expenditures in FY 2003 of \$23.4 million is close to encroaching on an estimated maximum cap of administrative expenditures of \$24.7 million.
12. State law does not define the term "investment income earned".
13. Although this legislation will eliminate the administrative expenditure limit established in law, it will not eliminate other executive and legislative review.
14. Maintaining the existing administrative expenditure limit will have a fiscal impact. The State Fund will be required to limit administrative expenditures to comply with law.
15. Based on estimated FY 2002 and FY 2003 administrative expenditures, FY 2001 and FY 2002 estimated net earned annual premium, and investment income earned for FY 2001 and FY 2002, as defined by GASB 31, remaining constant to FY 2000, the State Fund will exceed the administrative expenditure limit by \$2.8 million in FY 2002 and \$2.7 million in FY 2003.
16. Based on estimated FY 2002 average personal services per FTE of \$48,230, the State Fund would need to reduce approximately 58.00 FTE in FY 2002, from 224.50 in FY 2001 to 166.50 in FY 2002. This reduced FTE level would need to be maintained in FY 2003.
17. The administrative expenditure limit reduces the State Fund Board of Directors ability to manage and control the insurance business of the State Fund as prescribed in law, 39-71-2315(2), MCA.

**Funds for Scholarship, Educational, or Charitable Purposes**

18. The State Fund estimates scholarship awards (education for spouses and dependents of a worker killed in a compensable industrial accident during the course or scope of employment with an employer insured by the Montana State Fund) be approximately \$1,500 per eligible recipient.
19. The State Fund estimates approximately 13 fatalities per year with and estimated six eligible recipients per fatality.

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20. Other charitable or educational expenses are estimated to be \$15,000 to \$20,000 annually, contingent upon the Board's approval of program funding.

FISCAL IMPACT:

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$132,000	\$132,000
<u>Funding:</u>		
Proprietary (06)	\$132,000	\$132,000
<u>Revenues:</u>		
Proprietary (06)	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
Proprietary (06)	(\$132,000)	(\$132,000)