

### Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	57.00	57.00	48.90	48.90	57.00	48.90	(8.10)	(14.21)%
Personal Services	3,442,061	3,966,734	3,823,904	3,826,021	7,408,795	7,649,925	241,130	3.25%
Operating Expenses	880,313	2,368,792	719,301	581,245	3,249,105	1,300,546	(1,948,559)	(59.97)%
Equipment & Intangible Assets	0	5,810	0	0	5,810	0	(5,810)	(100.00)%
Benefits & Claims	813,624	10,004,758	5,059,713	0	10,818,382	5,059,713	(5,758,669)	(53.23)%
<b>Total Costs</b>	<b>\$5,135,998</b>	<b>\$16,346,094</b>	<b>\$9,602,918</b>	<b>\$4,407,266</b>	<b>\$21,482,092</b>	<b>\$14,010,184</b>	<b>(\$7,471,908)</b>	<b>(34.78)%</b>
General Fund	0	6,763,375	4,769,387	0	6,763,375	4,769,387	(1,993,988)	(29.48)%
State/Other Special Rev. Funds	5,135,998	9,582,719	4,833,531	4,407,266	14,718,717	9,240,797	(5,477,920)	(37.22)%
Federal Spec. Rev. Funds	0	0	0	0	0	0	0	0.00%
<b>Total Funds</b>	<b>\$5,135,998</b>	<b>\$16,346,094</b>	<b>\$9,602,918</b>	<b>\$4,407,266</b>	<b>\$21,482,092</b>	<b>\$14,010,184</b>	<b>(\$7,471,908)</b>	<b>(34.78)%</b>

### Program Description

The Insurance Division regulates the insurance industry in Montana. The Policyholder Services Unit is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies. The Examinations Bureau is responsible for monitoring the financial solvency of insurance companies, collecting premium taxes and company fees, and auditing insurance company annual statements. Also housed in this bureau is the captive insurance program, which promotes Montana as a captive domicile and regulates captive insurers in the state. The Rates Bureau and the Forms Bureau are responsible for reviewing rate and form filings, respectively, to ensure compliance with the applicable insurance code. The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjusters. The Insure Montana program administers the Small Business Health Insurance Purchasing Pool and Tax Credit programs. The Legal Bureau, which serves both the Insurance and Securities Divisions, provides legal support to the divisions. The Investigations Bureau, which is under the Legal Bureau, investigates code and rule violations, including possible criminal violations, and recommends referral of cases to county attorneys for prosecution.

**Program Highlights**

<b>Insurance Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• The main budget table for the Insurance program includes \$10.2 million of one-time appropriations in FY 2015, which causes in the 2017 biennium budget request to be \$7.5 million lower than the 2015 biennium</li> <li>• When the one-time appropriation is removed from FY 2015, the 2017 biennium request is \$2.8 million higher than the 2015 biennium due to:                             <ul style="list-style-type: none"> <li>◦ Continuation of the Insure Montana program for the remainder of the 2015 insurance policy year - \$4.8 million general fund</li> <li>◦ Contracted services costs for financial and market conduct insurance examinations - \$0.4 million</li> </ul> </li> <li>• Pay plan increases funded in HB 13 and HB 2 more than offset the reduction in FTE</li> <li>• Increases are net of a new proposal to reduce funding from the insurance fee state special revenue account by \$1.1 million to align expenditures with funding</li> <li>• The State Auditor submitted two elected official budget requests that were not included in the executive budget, which are presented for legislative review as a courtesy to elected officials:                             <ul style="list-style-type: none"> <li>◦ Contracted health insurance rate review - \$300,000</li> <li>◦ 1.00 FTE for captive insurance regulation - \$150,000</li> </ul> </li> </ul>
<b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>• The adequacy of the insurance fee state special revenue account is reviewed in the Agency Budget Discussion with options for legislative consideration</li> </ul>

**Program Discussion -**

The legislative budget analysis is uses the FY 2015 legislative appropriation as a starting point. The following figure shows the FY 2015 legislative appropriation compared to the FY 2015 appropriation as implemented by the executive and included in the main program table.

FY 2015 Appropriation Transactions - State Auditor's Office				
Program	Legislative Appropriation	Legislative Approps OTO	Program Transfers	Total Executive Implementation
03 INSURANCE	\$6,375,278	\$10,248,822	(\$85,259)	\$16,346,094
03 INSURANCE			(192,747)	
<b>Program Total</b>	<b>\$6,375,278</b>	<b>\$10,248,822</b>	<b>(\$278,006)</b>	<b>\$16,346,094</b>

The FY 2015 appropriation as implemented by the executive is a net \$10.0 million higher than the legislative appropriation due to:

- Inclusion of the one-time appropriation to continue the Insure Montana program during the 2015 biennium
- A reorganization that moved appropriation authority to the Central Management program

### Biennial Budget Comparison Using FY 2015 Legislative Base Budget

The legislative staff analysis of the executive budget is based on the FY 2015 legislative appropriation. Therefore the legislature will consider budget changes that increase funding \$1.3 million. The following figure shows the biennial comparison using the FY 2015 base budget.

Insurance Program Biennial Change Using FY 2015 Legislative Base Budget				
	2015 Bien	2017 Bien	Difference	%
FTE	57.00	48.90	(8.10)	-14.2%
Personal Services	\$7,207,928	\$7,649,925	\$441,997	6.1%
Operating Expenses	3,645,018	1,300,546	(2,344,472)	-64.3%
Equipment	10,218	-	(10,218)	n/a
Benefits and Claims	<u>1,887,392</u>	<u>5,059,713</u>	<u>3,172,321</u>	<u>168.1%</u>
Total Expenditures	12,750,556	14,010,184	1,259,628	9.9%
	-			
General Fund	-	4,769,387	4,769,387	n/a
State Special Revenue	12,750,556	9,240,797	(3,509,759)	-27.5%
Total	\$12,750,556	\$14,010,184	\$1,259,628	9.9%

The biggest difference is in benefits and claims. The 2015 biennium budget includes only appropriations for the MCHA premium assistance program. The 2017 biennium includes funds to pay final outstanding claims for MCHA in FY 2016, with no funds requested for FY 2017. There is also a one-time general fund request to continue the Insure Montana premium assistance program for the last half of calendar year 2015.

Personal services funding increases between the biennia despite the reduction of 8.10 FTE. Increases are due to annualization of pay plan changes authorized by the 2013 Legislature and executive implementation of the FY 2015 pay plan, and broadband pay plan increases implemented by the State Auditor. FTE decrease to comply with legislative boilerplate intent included in HB 2 and because 5.00 FTE funded from one-time appropriations in the 2015 biennium were inadvertently continued in the executive budget.

### FY 2014 Expenditures Compared to FY 2015 Legislative Appropriation

The following figure shows the difference between the FY 2015 legislative appropriation and FY 2014 expenditures. The FY 2015 legislative appropriation exceeds FY 2014 expenditures by \$1.2 million. FY 2014 expenditures are lower due primarily to:

- A reorganization that moved about \$278,000 from the Insurance program to Central Management
- Lower expenditures for some appropriations, most notably funding for contracted examinations of insurance companies
- Lower expenditures for the Montana Comprehensive Health Association than anticipated (see Funding section)

Insurance Program - Legislative Base Compared to FY 2014 Expenditures			
Expenditure/ Funding	FY 2014	FY 2015 Leg Base	FY 2015 Over (Under) FY 2014
FTE	57.00	57.00	-
Personal Services	\$3,442,061	\$3,603,964	\$161,903
Operating Expenses	880,313	1,822,509	942,196
Equipment	-	5,109	5,109
Benefits and Claims	<u>813,624</u>	<u>943,696</u>	<u>130,072</u>
Total Expenditures	5,135,998	6,375,278	1,239,280
State Special	5,135,998	6,375,278	1,239,280
Total Funding	\$5,135,998	\$6,375,278	\$1,239,280

**Funding**

The following table shows proposed program funding by source from all sources of authority.

State Auditors Office, 03-Insurance Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	4,769,387	0	0	4,769,387	34.04 %
02235 Insurance Fee Account	8,785,763	0	0	8,785,763	95.08 %
02528 Captive Account	48,222	0	0	48,222	0.52 %
02769 Health Insurance Premium Assistance	0	0	0	0	0.00 %
02770 Health Insurance Tax Credits	0	0	0	0	0.00 %
02789 6901-CHIP/MCHA Tobacco Sett Fd	406,812	0	0	406,812	4.40 %
<b>State Special Total</b>	<b>\$9,240,797</b>	<b>\$0</b>	<b>\$0</b>	<b>\$9,240,797</b>	<b>65.96 %</b>
03502 Buyer's Guide	0	0	0	0	0.00 %
<b>Federal Special Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>
<b>Proprietary Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>
<b>Total All Funds</b>	<b>\$14,010,184</b>	<b>\$0</b>	<b>\$0</b>	<b>\$14,010,184</b>	

The Insurance Division is funded with general fund and state special revenue. The following sources support the following functions:

- General fund, which would fund continuation of the Insure Montana premium assistance program through the end of calendar year 2015
- Insurance licensure fees, examination fees, and penalties, which fund program functions related to insurance regulation
- Tobacco settlement revenues, which support premium subsidies for the state high risk insurance pool through the Montana Comprehensive Health Association (MCHA)

The fund balance for the insurance fee state special revenue is discussed in the Agency Budget Discussion.

**Montana Comprehensive Health Association**

The Montana legislature created the MCHA in 1985 to provide access to health insurance benefits to Montana residents who were otherwise considered uninsurable due to medical conditions. MCHA operations are funded through the

premiums paid by those insured in the program and through assessments on all disability (accident and health) benefit policies written in the state of Montana. MCHA also receives an allocation from the tobacco settlement revenue with expenditures of about \$0.8 million in FY 2014. The statute that allocates tobacco settlement revenue includes both MCHA and Healthy Montana Kids as allowable uses of the funds. The executive budget assumes that MCHA will be concluded by the end of FY 2016.

**Budget Summary by Category**

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	6,375,278	6,375,278	12,750,556	91.01 %
PL Adjustments	0	0	0	0.00 %	(670,613)	(1,097,126)	(1,767,739)	(12.62)%
New Proposals	4,769,387	0	4,769,387	100.00 %	3,898,253	(870,886)	3,027,367	21.61 %
<b>Total Budget</b>	<b>\$4,769,387</b>	<b>\$0</b>	<b>\$4,769,387</b>		<b>\$9,602,918</b>	<b>\$4,407,266</b>	<b>\$14,010,184</b>	

**Present Law Adjustments -**

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	541,707	0	541,707	0.00	0	543,576	0	543,576
DP 99 - LEG. Present Law	0.00	0	(1,212,320)	0	(1,212,320)	0.00	0	(1,640,702)	0	(1,640,702)
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$670,613)</b>	<b>\$0</b>	<b>(\$670,613)</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$1,097,126)</b>	<b>\$0</b>	<b>(\$1,097,126)</b>

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

The present law adjustments that adjust the FY 2015 appropriation to equal the executive budget net to a \$1.8 million reduction over the biennium. Personal services increase due to annualization of pay plan increases and fully funding positions. However, the balance of program costs are lower in the 2017 biennium due primarily to lower contracted examinations of insurance firms in FY 2014 and higher appropriations in FY 2015 for contracted examinations.

**Program Personal Services Narrative**

The following table shows the adjustment to move personal services funding from the FY 2015 legislative appropriation to the 2017 biennium budget. The personal services adjustment totals \$1.1 million over the biennium.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	48.90	\$0	\$26,195	\$0	\$26,195
Executive Implementation of 2015 Pay Increase		-	71,471	-	71,471
Fully Fund 2015 Legislatively Authorized FTE		-	73,250	-	73,250
Other					
Reorganization		-	(95,571)	-	(95,571)
Fully Fund Vacant Positions	0.00	-	209,850	-	209,850
Market Adjustments/Remainder of Other	0.00	-	256,512	-	256,512
Total Other	0.00	-	370,791	-	370,791
Personal Services Present Law Adjustments	48.90	\$0	\$541,707	\$0	\$541,707

  

FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	48.90	\$0	\$26,195	\$0	\$26,195
Executive Implementation of 2015 Pay Increase		-	71,471	-	71,471
Fully Fund 2015 Legislatively Authorized FTE		-	73,250	-	73,250
Other					
Reorganization		-	(95,571)	-	(95,571)
Fully Fund Vacant Positions	0.00	-	209,966	-	209,966
Market Adjustments/Remainder of Other	0.00	-	258,265	-	258,265
Total Other	0.00	-	372,660	-	372,660
Personal Services Present Law Adjustments	48.90	\$0	\$543,576	\$0	\$543,576

The executive budget for personal services increases by about 4% each year of the 2017 biennium when compared to the FY 2015 legislative appropriation. As shown in the table, about half of the change is due to costs associated with HB 13 of the 2013 Legislature. Other adjustments include:

- Longevity changes
- Broadband pay increases
- Full funding of positions that were unfilled during a portion of the year

The State Auditor’s Office implemented broadband pay increases to bring salaries up to 95% of market, which accounts for the majority of the difference between FY 2015 legislative appropriation and the 2017 biennium request, and is 7% of the increase in the 2017 biennium personal services requests.

The program experienced a vacancy rate of about 5%, which adds about \$200,000 per year to the total cost of the 2017 biennium personal services budget request.

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments.

Legislative Present Law Adjustments				
	General Fund	State Special	Federal Special	Total Funds
CP 99 Item				
Total Change		(\$1,212,320)		(\$1,212,320)
Legislative Present Law Adjustments	\$0	(\$1,212,320)		\$0 (\$1,212,320)

  

	General Fund	State Special	Federal Special	Total Funds
CP 99 Item				
Total Change		(\$1,640,702)		(\$1,640,702)
Legislative Present Law Adjustments	\$0	(\$1,640,702)		\$0 (\$1,640,702)

There is a \$2.9 million reduction between the executive present law budget and the FY 2015 legislative appropriation. The most significant differences are due to:

- Lower contracted insurance examination costs - \$1.2 million over the biennium
- Lower amounts for MCHA - \$0.6 million in FY 2016 and \$0.9 million in FY 2017

**New Proposals -**

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 301001 - Unallocated Reduction	0.00	0	(546,700)	0	(546,700)	0.00	0	(546,700)	0	(546,700)
DP 303001 - Insure Montana OTO	(5.00)	4,769,387	(324,434)	0	4,444,953	(5.00)	0	(324,186)	0	(324,186)
<b>Total</b>	<b>(5.00)</b>	<b>\$4,769,387</b>	<b>(\$871,134)</b>	<b>\$0</b>	<b>\$3,898,253</b>	<b>(5.00)</b>	<b>\$0</b>	<b>(\$870,886)</b>	<b>\$0</b>	<b>(\$870,886)</b>

DP 303001 - Insure Montana OTO -

This new proposal includes \$4.8 million general fund to continue the Insure Montana program through December 31, 2015, which is the end of the policy plan year. The proposal also includes a reduction of \$0.6 million in insurance fee state special revenue.

This new proposal would continue the Insure Montana program, which was supported from a one-time appropriation in the 2015 biennium. The insurance premium assistance component of Insure Montana would end December 31, 2015, which is the close of the policy plan year for the majority of the small businesses participating in the program.

**Elected Official Proposals**

As a courtesy to elected officials, the legislative budget analysis includes funding requests that were not included in the Governor’s recommendation. There are two proposals from the State Auditor’s Office. Both are funded from the insurance fee state special revenue account, which is discussed in greater detail in the agency narrative.

Captive Insurance FTE - This request would continue funding for 1.00 FTE supported by a one-time appropriation in the 2015 biennium. This request makes the position permanent. The FTE provides regulatory administrative functions for the captive insurance program. The number of captives insurance companies domiciled in Montana is about 200, up from the 114 that were domiciled when the OTO position was approved. The biennial cost of the proposal is \$90,146 state special revenue.

Rate Review Contract – This request includes \$300,000 of state special revenue over the biennium. It would fund actuarial review of rate filings for each health insurance company that issues, delivers, or renews any health plan in the individual or small employer group. HB 87 passed by the 2013 Legislature required the review and included an annual appropriation of \$204,000. The request would support 500 hours of contracted services each year of the biennium, based on the average rate of \$300 per hour.

<b>LFD COMMENT</b>	<p>Actual Expenditures and Legislative Option</p> <p>The actual expenditures for health insurance rate review in FY 2014 were \$176,414, which are not included in the base budget since the funding was authorized in HB 87. If the legislature funds the request, it could consider restricting the use of funds for rate review only. It is problematic to determine ongoing costs of rate review since it is a new function and could vary from the first year experience.</p>
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DP 301001 - Unallocated Reduction -

This new proposal reduces state special revenue \$546,700 each year of the biennium to align expenditures from the state special insurance fee account to projected revenues.