



Economic Affairs Interim Committee

57th Montana Legislature

SENATE MEMBERS

DALE MAHLUM, Chairman
DOROTHY BERRY
JON ELLINGSON
GLENN A. ROUSH

HOUSE MEMBERS

KATHLEEN GALVIN-HALCRO, Vice-Chairman
GARY MATTHEWS
JOE MCKENNEY
JOHN SINRUD

COMMITTEE STAFF

DAVE BOHYER
RESEARCH ANALYST
BART CAMPBELL, STAFF ATTORNEY
EDDYE McCLURE, STAFF ATTORNEY
LOIS O'CONNOR, SECRETARY

MINUTES

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of documents.**

Final Meeting of Interim
Room 172, State Capitol
September 12, 2002

COMMITTEE MEMBERS PRESENT

Sen. Dale Mahlum, Chair
Sen. Dorothy Berry
Sen. Glenn A. Roush
Rep. Gary Matthews
Rep. Joe McKenney
Rep. John Sinrud

COMMITTEE MEMBERS EXCUSED

Rep. Kathleen Galvin-Halcro, Vice Chair
Sen. Jon Ellingson

STAFF PRESENT

Dave Bohyer, Research Director
Eddy McClure, Attorney
Lois O'Connor, Secretary

VISITORS

Visitors' list (ATTACHMENT #1)
Agenda (ATTACHMENT #2)

COMMITTEE ACTION

- Approved draft legislation to establish a pilot program to provide tax credits for health insurance for individuals and small businesses

CALL TO ORDER AND ROLL CALL

The meeting was called to order by Sen. Mahlum, Chair, at 1:05 p.m. Attendance was noted; Sen. Ellingson and Rep. Galvin-Halcro were excused. (ATTACHMENT #3)

STATE FUND PERSONAL LEAVE PLAN

Joanne Shydian, Personnel Officer, Montana State Fund provided an overview of the State Fund's personal leave plan. (EXHIBITS #1 and #2)

Rep. Matthews said that as a state employee, he receives 4.5 hours vacation and 3.5 hours of sick leave every two weeks. He asked if the key to the State Fund's personal leave plan was the six additional days of personal leave a year. Ms. Shydian said yes, adding that during the State Fund's research, it found that State Fund employees use 5.97 hours of sick leave on average a year and state employees use 7.35 hours on average per year. The State Fund felt that the movement of the six days from the sick leave program to the personal leave program still provided on average the ability for employees to utilize what they otherwise would on average of sick leave.

REVIEW OF FULL COST ACCOUNTING REQUIRED BY HB 73

Jane Hamman, Deputy Director, Office of Budget and Program Planning (OBPP), provided an overview of HB 73 related to the full cost accounting pilot program involving eight different state agencies. (EXHIBIT #3)

Marvin Eicholz, Department of Administration; Andy Poole, Department of Commerce; Ann Bauchman, Department of Natural Resources and Conservations; Tom Livers, Department of Environmental Quality; Marie Matthews, Department of Public Health and Human Services; Gordon McGaw, Department of Transportation; Will Kissinger, Department of Agriculture; and Sue Daly, Department of Fish Wildlife and Parks provided brief updates of the full cost accounting pilot programs respectively related to the following:

- Central Store within the Department of Administration;
- Marketing Unit of the Travel Promotion and Development Division within the Department of Commerce;
- Nursery Program of the Forestry Division within the Department of Natural Resources and Conservation (DNRC);
- Plan and Specification Review Program of the Public Water Supply Section within the Department of Environmental Quality (DEQ);
- Chemical Dependency Bureau within the Department of Public Health and Human Services (DPHHS);
- Motor Pool Unit within the Department of Transportation (DOT);
- State Hail Program and State Grain Laboratory Bureau within the Department of Agriculture; and
- Capitol Grounds Maintenance Program within the Department of Fish, Wildlife, and Parks (DFWP). (See Exhibit #3)

Sen. Mahlum asked if the Department of Administration buys merchandise outside the Central Store if merchandise can be purchased cheaper. Mr. Eicholtz said yes, adding that in a sense, Central Store is just another store or distribution system within the city of Helena, and state agencies can go elsewhere to buy merchandise or they can purchase merchandise from

Central Store. Products bought by Central Store are bought in volume which is different than a private office supply operation in that it also sells a significant amount of paper and janitorial supplies. The breakout is approximately 53% in office supplies and 38% in paper. Central Store is approximately 25% cheaper on a market basket of product and 40% cheaper on paper products versus the private sector. Sen. Mahlum asked how Central Store's merchandise is marked up. Mr. Eicholtz said that the Legislature approved a 60-day working capital rate for Central Store. If it ends up more than that, Central Store must reduce its overhead. At the end of the last fiscal year, Central Store's working capital was increasing so it dropped its mark up which covers its expenses. Central Store is finding that it is not enough and it is in the process of repricing merchandise.

Sen. Mahlum asked if the operating revenue within the State Seedling Nursery included the acquisition of seedlings and does the Department retain its earnings. Ms. Bauchman said yes, and the retained earnings are retained for the beginning fund balance for the State Seedling Nursery program.

Sen. Mahlum asked if the Plan and Specification Review Program within the DEQ should charge more money to do its business. Mr. Livers said yes, adding that the purpose of the full-cost accounting pilot program was to accurately uncover the full cost of government doing business. Although he understood the Board's decision in not wanting to pass the full cost of the federal mandate down to applicants, the sliding scale has not been adjusted since 1992 and it should be adjusted to get it more in line with the full cost of doing business. Currently, the scale is one-half of what it should be for full cost.

Sen. Mahlum asked if the total operating revenue of \$8 million for the Chemical Dependency Bureau's came from grants. Ms. Matthews said that the money comes from the chemical dependency block grant and Medicaid, and the Department cannot spend more money than it receives in grants. All of activities within the Bureau are governmental in nature--the two grants and the alcohol funds--which are entirely spent in order to not spend other sources of money.

Sen. Mahlum asked if the State Motor Pool was charging too much for its services since it had a healthy balance in retained earnings. Mr. McGaw said that in the latest Legislative Audit report cited the State Motor Pool for some improper methodology in its rate calculations resulting in an overstatement of its retained earnings. This has been addressed in the Motor Pool's latest rates submissions for the next biennium and it is reducing its retained earnings to bring the Motor Pool more into compliance.

Sen. Mahlum asked if the state had a bad hail year, how would it affect the state hail insurance fund? Mr. Kissinger said that the state hail insurance premiums are set by law and the insurance fund must be actuarially sound. Based on historical precedence, the Department must have a certain amount of money in the account so that if the state has a bad hail year, there is enough buffer so that the account can be built back up. Sen. Mahlum asked with the large amounts of hail this year, would the premiums have to be increased next year? Mr. Kissinger said no, adding that the loss ratio for this year is 40% which has to go back into reserve.

Sen. Mahlum asked if where the funding for the Capitol Grounds Maintenance Program came from. Ms. Daly said that fees are assessed to state agencies on the Capitol Complex based

upon the square footage of their respective buildings. The Capitol Grounds Maintenance Program is also a year-around program that includes snow removal.

Rep. McKenney commented that he liked the full-cost accounting method concept and that if it could be expanded to other areas of state government, he would be interested in seeing it.

PROPOSED RULE IN RE NURSE ANESTHETISTS

Kevin Braun, Chief Legal Counsel, Department of Labor and Industry, said that the Board of Nursing will be finalizing its agenda for its October meeting. A proposed agenda item is the rule related to nurse anesthetists. Stakeholders will meeting with the Board to establish mutually agreeable language.

Sen. Roush reiterated his concern about the problems that rural hospitals are facing with nurse anesthetists. He asked if any action or recommendation will be given to the Board and the stakeholders. Sen. Mahllum said that at the Board's meeting, he would like Mr. Braun to impress on them that there is going to be winners and losers and that it would be in both the Board's and the stakeholder's best interests to find middle ground for a solution.

Sen. Mahlum requested an update on the grant submitted the Department regarding Internet claims for unemployment insurance purposes. **Keith Kelly, Department of Labor and Industry**, said that the grant amount was \$500,000 and the Department is in the final clearance process with the federal government. The Department is unsure, to date, whether it is a successful recipient of the grant and should know more by the end of September.

REPORT FROM SJR 22 SUBCOMMITTEE

Rep. McKenney said that the SJR 22 Subcommittee was charged with studying the reasons for the high rate of uninsured Montanans, which is approximately 18.5%, and to make recommendations on how to decrease the percentage. Rep. McKenney identified the study areas of the Subcommittee. They are as follows: tax policy changes, medical savings accounts, the subsidized buy-in to the state employee purchasing pool, the full-cost buy-in to the public health insurance, the CHIP employer buy-in, the expansion of CHIP to cover parents, single-payer systems; purchasing pools for health insurance, the MCHA and its needs, hospital rate review regulations, certificate of need, prescription drug costs, assistance for senior citizens and purchasing pools, the West Virginia multi-state purchasing pool, the reestablishment of the former Health Care Authority, the need for a health care inventory and ombudsman. and a defined contribution plan for health benefits. However, the Subcommittee narrowed its focus to a multi-state purchasing pool, the CHIP program, and the tax credit proposal for the purchase of health insurance for individuals and small business. Rep. McKenney said that one reason Montana has such a high rate of uninsured is because Montana is a state of small businesses that has a very difficult time providing health insurance.

Even with the knowledge of the impending state budget deficit, the Subcommittee chose to study three areas. First, to explore the multi-state prescription drug purchasing pool. It was discovered that legislation was not needed because the Department of Administration currently has the authority in statute to explore the issue. The Subcommittee is urging the Department to explore the option without doing harm to local community pharmacies. Second, the CHIP program. The CHIP has federal matching money (19% paid by the state/81% paid by the federal government). No legislation was proposed, but the Subcommittee is urging the Martz

Administration to maximize, to the best of its ability, all available matching funds. Third, a health insurance tax credit that is earmarked at individuals and very small businesses. This option will be a \$45 million hit to the general fund. The Subcommittee did not recognize a funding source for the tax credit and decided that it would become a policy decision for the Legislature to decide. The idea was to put the concept of providing tax credits for health insurance out for debate to put the spotlight on the high number of uninsured in Montana.

Mr. Bohyer provided a brief synopsis of proposed legislation to establish tax credits for certain insurance premiums paid. (Please See Exhibit #3 of the SJR 22 Subcommittee's September 12, 2002 meeting for Mr. Bohyer's overview and the Subcommittee's discussion.)

Rep. McKenney added that the fear of the Subcommittee was the great unknown related to how many individuals or small businesses would find the tax credits attractive--the take-up rate--which is why the Subcommittee made it a pilot program so that a cap could be attached to it.

Rep. Sinrud asked what happens if promises are made to individuals and small businesses to assist them in acquiring insurance and the \$45 million cap is expended. Rep. McKenney said that by calling it a pilot program, the state would have more freedom. One freedom is the \$45 million cap per year. Once the cap is hit, no other individuals or businesses can sign on to the pilot program. It is a first-come-first-serve basis. Rep. Sinrud asked if the insurance for the individual or small business would be looked at on a yearly basis. Rep. McKenney yes, adding that when the tax credit application is filed, it would apply to insurance for a year not a month-to-month basis.

Rep. Sinrud asked about the current federal poverty level and the criteria for spouses and dependents. Mr. Bohyer said that the tax credit is based on the number of people in the family and it ranges from \$12,000 a year for a single and, depending upon how many children are in a household, an \$3,000 per person additional. Mr. Bohyer added that under the individual tax credit, the spouse can be added to the coverage because the individual is paying for the coverage. The requirement is that the spouse not be insured by spouse's employer if the employer takes advantage of the small business credit. The same would apply for dependents. Rep. Sinrud asked if there is not a sufficient number of people taking advantage of the tax credit and the percentage is federal poverty level is increased, what would be a base line sufficient number of people? Mr. Bohyer said that the Subcommittee was unable to estimate what the take up rate would be at each federal poverty level credit. Consequently, his plan was an official estimate of the number of uninsured in Montana as prepared by the Department of Revenue that will be over a range. There will be a low number, a best estimate number, and a high number. If 2% of the low estimate, 2.5% of the best estimate, or 4% of the high estimate is not reached per month, the tax credit would increase from 175% to 180% of the federal poverty level. If in the next month those threshold are not met, it goes from 150% to 185%. When the thresholds are broken, it stops at the \$45 million cap.

Rep. Sinrud asked if the pilot program takes off, what happens if after two years the funds dry up and these people are still relying upon the insurance tax credit and will it have a negative effect on the employee/employer relationship? Mr. Bohyer said that what happens is the same thing that happens anytime the state runs into the situation where there is insufficient funds to pay for everything. As a result, the Legislature can increase revenue or cut program expenditures. Rep. McKenney added that as an employer, he has been very honest with his employees, and honesty defrays the negative situations. Rep. Sinrud asked if within the

legislation, is there a time period to evaluate whether the money will dry up and to give pre-notice to employers that the tax credits are not going to be maintained. Rep. McKenney said that legislation calls for a 4-year pilot program. If it passes and two years into the program lapses, the next Legislature has the ability to cancel it. If the pilot program continues for the entire 4 years, interim committees will be monitoring it and the full legislative body will be debating it. He felt that there was plenty of opportunity for employers and individuals to get a feel of where the program is going and for legislators to communicate that.

Mr. Bohyer added that Rep. Sinrud's questions was another reason that he included the Department capturing all of the information and requiring the monthly report. If in the first six months that the pilot program is established and employers and individuals see that the \$10 million has already been granted in tax credits and that the \$45 million cap may be reached, they may begin to make adjustment.

Sen. Mahlum asked if the Department of Public Health and Human Services (DPHHS) currently had a health care ombudsman, and if not, why not. Rep said no, adding that it was found that both the Department and the State Auditor's Office had help lines available, and the Subcommittee did not see it necessary to go forward with the concept. The issue will be addressed in the Subcommittee's final report.

Rep. McKenney said that although the proposed legislation needed further work and refinement, he **moved** the Committee endorse the concept of the pilot program to provide tax credits for health insurance for individuals and small businesses. Motion passed unanimously.

MEMBER ISSUES AND ADJOURNMENT

Mr. Bohyer provided a synopsis of the Committee's final report outline. (EXHIBIT #4) He added that the proposed legislation establishing the pilot program to provide tax credits for health insurance must be preintroduced. Staff will continue to revise it and ensure that a draft bill will be available prior to the 2003 Session.

Following a brief Committee discussion, the following additions were made to the final report:

- brief discussions regarding the rule disagreement between the physical and occupational therapists and chiropractors;
- the House Resolution introduced by Rep. McGee related to state employee travel time;
- the Department of Labor and Industry's tracking the lack-of-break-time issues as requested by Rep. Galvin-Halcro; and
- a recommendation to the 2003 Legislature to continue the full-cost accounting pilot program with the possibility of expansion and that the Economic Affairs Interim Committee continue to monitor the pilot program in the next interim that would include a report comparing state agencies and private industry, i.e. which agencies are charging too much for their services and which are charging too little.

There being no further business, the meeting adjourned at 3:30 p.m.

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