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STATE OF MAINE

ONE HUNDRED AND TWENTIETH-FOURTH LEGISLATURE

COMMITTEE ON INSURANCE AND FINANCIAL SERVICES

MEMORANDUM

To: Bill Diamond, Senate Chair
Emily Ann Cain, House Chair
Joint Standing Committee on Insurance and Financial Services

From: Peter B. Bowman, Senate Chair
Sharon Anglin Treat, House Chair
Joint Standing Committee on Insurance and Financial Services

Date: March 13, 2009

Subject: Insurance and Financial Services Committee Recommendations on the Governor's 2010-2011 Biennial Budget Bill (LD 353)

We are writing to provide our unanimous recommendations on those portions of the Governor's 2010-2011 Biennial Budget Bill (LD 353) that were considered in public hearing on March 4th: (1) the Department of Professional and Financial Regulation's Bureau of Financial Institutions, Bureau of Consumer Credit Regulation, Bureau of Insurance and Office of Securities; (2) the Dirigo Health Program; and (3) the Accident, Sickness and Health Insurance Program supporting the Office of Employee Health and Benefits and its programs within the Department of Administrative and Financial Services. We have reviewed and discussed these proposed budgets and initiatives carefully and appreciate your consideration of our recommendations and comments.

1. Department of Professional and Financial Regulation: Bureau of Consumer Credit Protection, Bureau of Financial Institutions, Bureau of Insurance and Office of Securities Budgets

The committee voted unanimously (13-0) to support the baseline budgets and initiatives presented in LD 353 for the Bureau of Consumer Credit Protection, Bureau of Financial Institutions, Bureau of Insurance and Office of Securities. (See IFS 13 to 21). The committee believes the core mission of these agencies to protect consumers is critically important during the current economic conditions in Maine and nationwide because these agencies regulate and oversee financial institutions, insurance companies, entities that extend or facilitate consumer credit and entities that sell investments or provide investment advice. The authorized allocations within LD 353 support the level of oversight necessary to protect consumers and ensure the viability of the financial services entities operating in the State. We note that

these agencies and the department as a whole are fully supported through dedicated revenue paid by regulated entities. In recent years, the department has reduced fees when possible to accurately reflect their operating costs and needs. For example, the Bureau of Insurance has been able to reduce licensing fees by 32%. As a result, the committee is not in favor of any consideration of "sweeping" funds from the dedicated revenue of the department to the General Fund.

The committee notes that there are two initiatives contained in the budgets of the Bureau of Insurance and Office of Securities that reflect anticipated increases in leasing costs and potential one-time costs associated with potential moving or displacement costs. (See IFS 16, 17 and 19.) The current lease on the office space of the Department expires on December 31, 2009. At present, the Commissioner is exploring all possible options for the department's space needs in consultation with the Bureau of General Services. The initiatives contained in the budget reflect the maximum anticipated cost increases associated with the negotiation of a new lease because the exact costs are unknown at this time.

2. Dirigo Health Program

The committee voted unanimously (13-0) to recommend the baseline budget and initiatives as modified by the Dirigo Health Agency in its presentation at the public hearing on March 4th. As modified, the total allocations to the Dirigo Health Fund would be approximately \$48.4 million in FY 10 and \$72.2 million in FY 11. These total allocations represent the updated assumptions of the Dirigo Health Agency for expected expenditures in FY 10 and FY 11 and reflect a downward reduction in the All Other line. The committee recommends that a new initiative be included in LD 353 to adjust the allocation to Dirigo Health as follows:

DIRIGO HEALTH FUND 0988

Initiative: Deallocates funds to reflect updated assumptions for expenditures

DIRIGO HEALTH FUND	2009-10	2010-11
All Other	(\$62,577,999)	(\$38,829,291)
DIRIGO HEALTH FUND TOTAL	(\$62,577,999)	(\$38,829,291)

The committee also supports the proposed allocation of approximately \$4.7 million from the Fund for a Healthy Maine (FHM). (See IFS-11.) Including the allocation from the FHM and the deallocation proposed above, the committee recommends a revised total allocation to Dirigo Health for all funds on page IFS-12 as follows:

DIRIGO HEALTH

DEPARTMENT TOTALS	2009-10	2010-11
FUND FOR A HEALTHY MAINE	\$4,718,571	\$4,684,393
DIRIGO HEALTH FUND	\$48,376,515	\$72,158,841
DEPARTMENT TOTAL-ALL FUNDS	\$53,095,086	\$76,843,234

The committee agrees with the Dirigo Health Agency that FY 10 is a transitional year for the agency; as such, the proposed budget for FY 10 recommended by the committee maintains the cap on new enrollment in the program and reflects the current funding sources available. The FY 11 proposed budget anticipates that the Agency's negative cash position will be resolved which will allow new

enrollment into the program. (See Attachment A, Dirigo Health Agency Chart "Detail of Budget Request for Reduced Allocation for SFY 2010 and 2011")

For budgetary purposes, the committee unanimously believes that the current structure and timing for payment of the savings offset payment is inadequate and needs to be addressed through legislative action. As you know, the statutory requirements for payment of the savings offset payment result in the collection of the savings offset payment for a particular year to be paid and collected by the agency over a 27-month payment cycle. The financial status of the Dirigo Health Agency has affected the ability of Dirigo Health to enroll eligible individuals and small employers in DirigoChoice. At present, the Dirigo Health Agency has a waiting list with more than 2000 names. It has also affected the participation of private sector partners like current partner Harvard Pilgrim Health Care and the enrollment of small businesses not eligible for subsidy. The agency has also incurred nearly \$1 million annually in consulting and other administrative costs associated with the statutory process for determination of aggregate measurable cost savings and the amount of the savings offset payment. Further, the current timing of the payments has resulted in a negative cash position for the Agency and necessitated borrowing from the cash pool since November 2007. Information provided to the committee by the Dirigo Health Agency suggests that changes in the schedule and timing for savings offset payments would correct the negative cash balance and reopen enrollment. (See Attachment B, "Dirigo Health Agency Chart detailing average cash balance and projections".)

The committee is aware of one bill, LD 1005, An Act to Continue Access to Dirigo Choice Health Insurance by Reducing Administrative Costs and Replacing the Savings Offset Payment, that proposes changes to the structure and financing of the Dirigo Health Program. Other bills relating to the Dirigo Health Program are expected but are not yet printed. The committee will consider these issues and make recommendations regarding the program later this session.

The committee also voted (13-0) to recommend the consideration of statutory language authorizing the State Controller to transfer funds from the Other Special Revenue Fund before the end of FY 09 in an amount equal to Dirigo Health's borrowing from the cash pool on June 30, 2009 to the Dirigo Health Enterprise Fund. The committee understands this is one option that would address Dirigo's negative cash balance for accounting purposes, but would not require the termination of the program or the accelerated payment of savings offset payments by insurers and other payers subject to the savings offset payment. The statutory language authorizing the transfer from Other Special Revenue Fund to the Dirigo Health Enterprise Fund and back is only necessary once. Based on the budget projections the committee has approved for FY 10 and FY 11, Dirigo's negative cash balance should be resolved at the end of FY 10 and additional borrowing from the cash pool would not be needed. The draft statutory language is attached as Attachment C.

3. Accident, Sickness and Health Insurance Program

The committee voted unanimously (13-0) to support the baseline budget and initiatives related to the Accident Sickness and Health Insurance Program. The initiatives include funding to reflect the projected increase in the General Fund share to support health insurance rates for participants in the Firefighters and Law Enforcement Health Insurance Program Fund and the elimination of a vacant secretary position in the Office of Employee Health and Benefits. With regard to the Firefighters and Law Enforcement Health Insurance Program Fund, the committee accepts the proposed reduction in the All Other allocation referenced as item #6 in the outline of Change Package Recommendations presented to the Appropriations Committee on March 9th. (See IFS 1 to 3 as modified by the change package.)

The committee also voted unanimously (13-0) to accept the Part B initiative reclassifying the position within the Firefighters and Law Enforcement Health Insurance Program Fund. (See IFS- 22.)

4. Trade Adjustment Health Insurance Program

The committee voted unanimously (13-0) to support the reduction in the allocation for the Trade Adjustment Health Insurance Program. (See IFS-4.)

5. Part JJ Language

The committee voted unanimously (13-0) to support the Part JJ language which transfers the General Fund share of overpayments for retiree health insurance by the Maine Community College System. (See IFS-25.)

6. Part GG Language

The committee declines to make any recommendation with regard to the Part GG language (See IFS 23-24). Part GG proposes to change the portion of the employee health insurance premium that is paid by the State for employees earning more than \$50,000 annually. Since the State and Local Government Committee participated in the public hearing on this portion of the budget, the committee has not had the benefit of hearing any public testimony or discussion of the proposal.

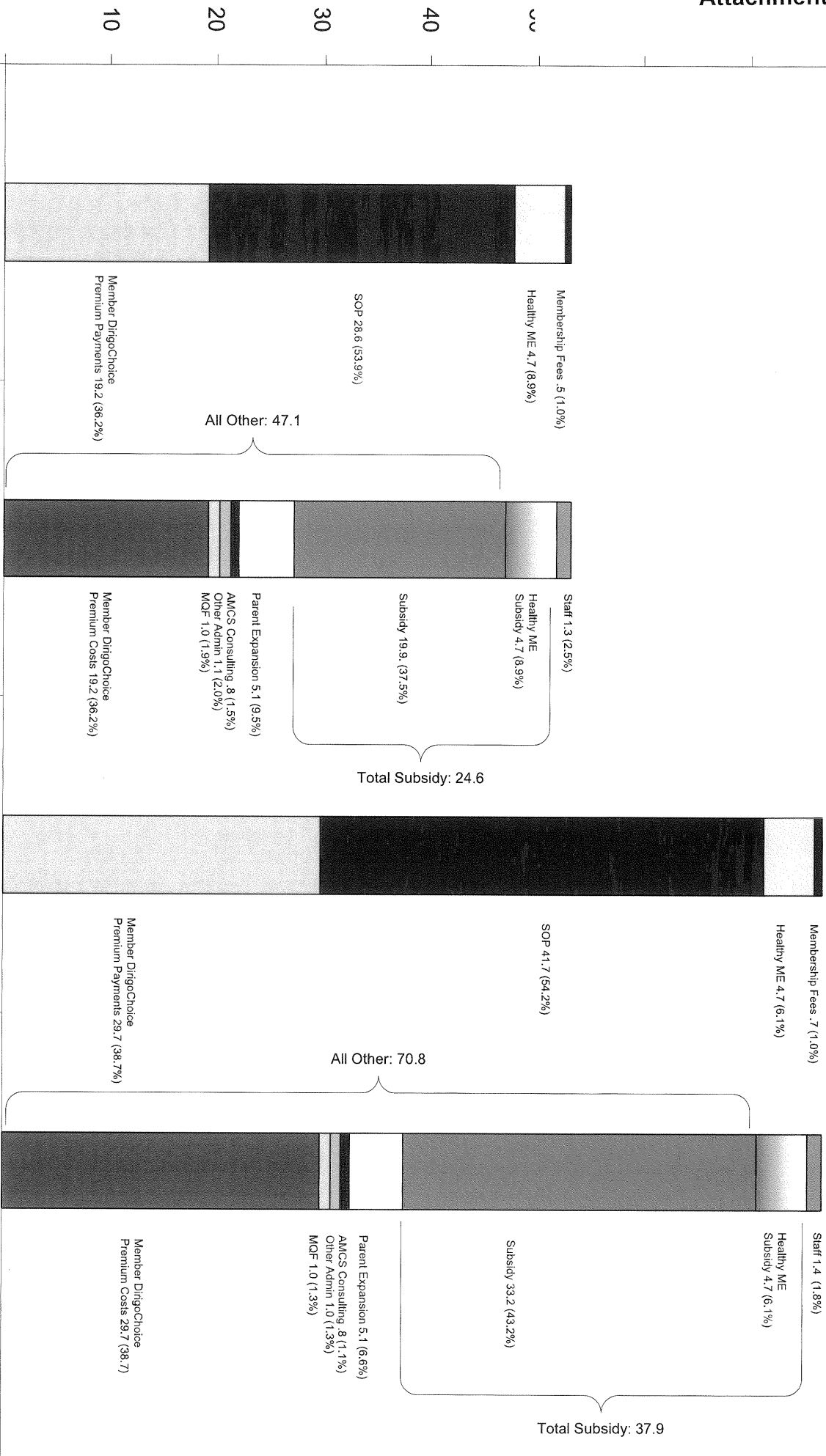
We look forward to discussing these items with your committee in person. As noted above, we hope that the input we have provided on the budget proposals within our subject matter expertise and jurisdiction is given significant weight in your committee deliberations. We have considered our recommendations carefully and thoughtfully. We request that you notify us and include us in any further discussions and work sessions related to the budgets of the entities within our policy jurisdiction.

Thank you for your consideration of our comments.

Enclosure: Attachments

Detail of Budget Request for Reduced Allocation for SFY 2010 and 2011

Figures expressed in millions.
 Figures rounded to one significant digit.
 The Agency anticipates collecting an additional \$10 million of SOP 3 revenue in FY 10 to eliminate its FY 09 fund balance.
 Healthy ME funding is recorded in the Agency's financial statements as an offset to expenses and not as revenue. As such, the Agency's final financial statements in the FY will show \$4.7 million less in both revenue and in expenses. This document reflects the true cost of DirigoChoice subsidy.
 Presented to Legislature March 2009.



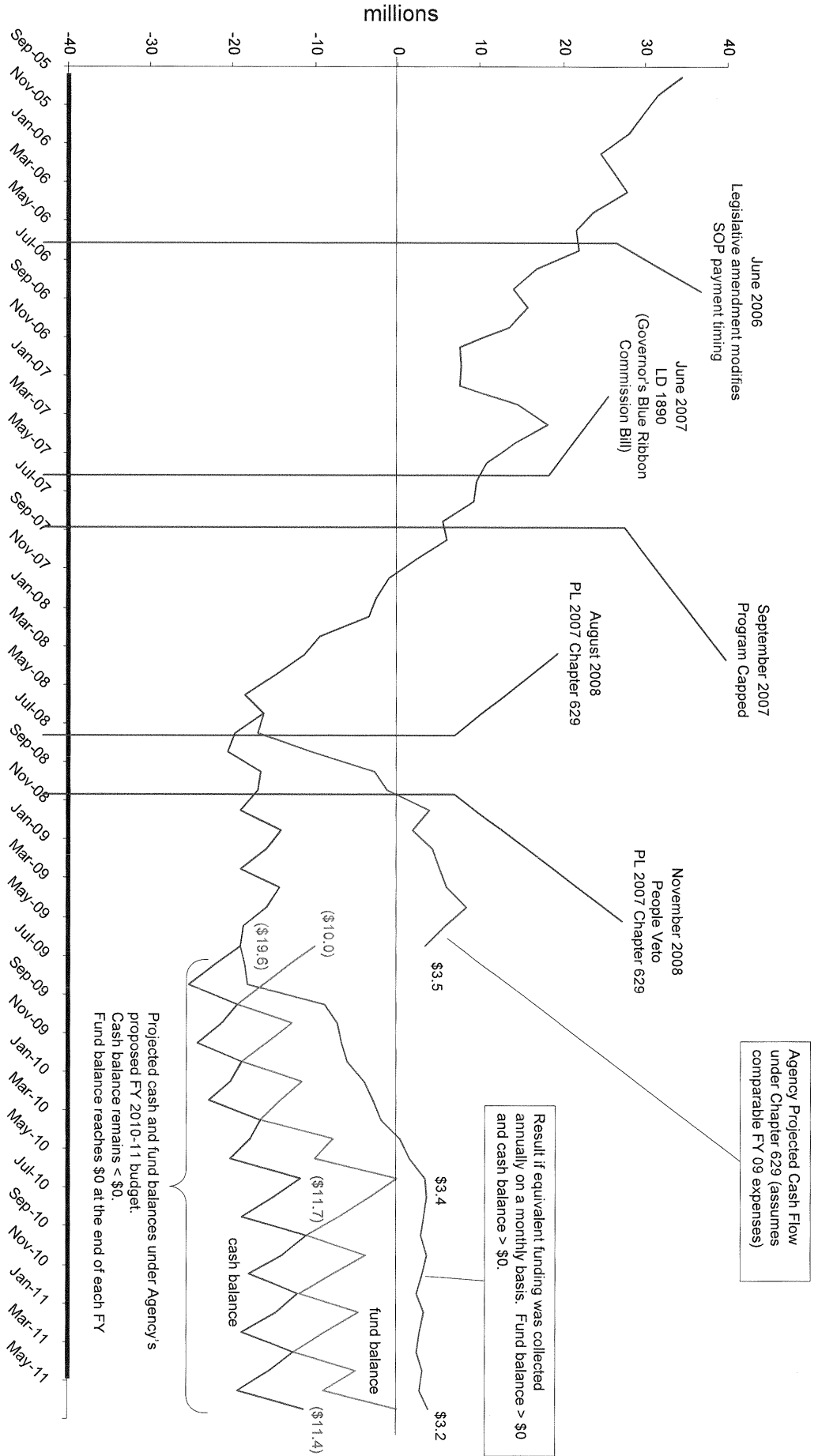
SFY 2010
 Total Revenue and Offsets to
 Expenses: 53.1

SFY 2010
 Department Cost
 Total: 53.1

SFY 2011
 Total Revenue and Offsets to
 Expenses: 76.8

SFY 2011
 Department Cost
 Total: 76.8

Dirigo Health Fund Average Cash Balance September 2005 – January 2009 with projections to June 2011
Includes key funding milestones.



Proposed Draft Amendment to LD 353

Sec. _____. **Transfer from Other Special Revenue Funds to Dirigo Health Enterprise Fund.** Notwithstanding any other provision of law, the State Controller shall transfer up to \$19,642,855 in fiscal year 2008-09 from Other Special Revenue Funds to the Dirigo Health Enterprise Fund no later than June 30, 2009. On July 1, 2009, the State Controller shall transfer from the Dirigo Health Enterprise to Other Special Revenue Funds an amount equal to the amount transferred on or before June 30, 2009 up to \$19,642,855 as repayment plus any interest due and payable. A transfer pursuant to this section is considered an interfund advance to be repaid with interest compounded annually at the earnings rate within the Treasurer's cash pool on the date of the advance.

Summary

This section authorizes the State Controller to transfer funds from Other Special Revenue Funds to the Dirigo Health Enterprise Fund before June 30, 2009 to address the negative cash position of the Dirigo Health Enterprise Fund for accounting purposes.