

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT & TRANSPORTATION

Call to Order: By **CHAIRMAN ED GRADY**, on February 6, 1995, at
8:13 a.m.

ROLL CALL

Members Present:

Rep. Edward J. "Ed" Grady, Chairman (R)
Sen. Thomas A. "Tom" Beck, Vice Chairman (R)
Rep. Gary Feland (R)
Sen. Eve Franklin (D)
Rep. Joe Quilici (D)

Members Excused: None

Members Absent: None

Staff Present: Lorene Thorson, Legislative Fiscal Analyst
John Patrick, Office of Budget & Program Planning
Rosa Fields, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: State Auditor's Office
Executive Action: None

{Tape: 1; Side: A}

HEARING ON STATE AUDITOR'S OFFICE

Mark O'Keefe, State Auditor and Securities and Insurance Commissioner, provided an overview of the State Auditor budget. The State Auditor's office is a major revenue generator for the state of Montana. In FY94 the office collected \$34 million of insurance premium tax and \$1.6 million in fees; securities collected \$4.04 million and \$2 million in bad debts, half of which is general fund revenue. The total budget for the State Auditor's office is \$3.74 million in FY96, while the office collects over \$40 million in revenue. **EXHIBIT 1**

The State Auditor's office fully supports the Executive budget as proposed. As requested by the Office of Budget and Program Planning (OBPP), the budget proposal includes a 5% cut achieved through the elimination of an FTE, removal of expenses from the

operating budget, and greater efficiencies in delivery of service and revenue raising. There are some budget increases in hearing expenses and costs to implement the Department of Social and Rehabilitative Services (SRS) move to put Medicaid recipients on private health maintenance organizations (HMO). When Medicaid is run by private HMOs, it will be the State Auditor's responsibility to regulate the HMOs and handle consumer complaints. The office projects an additional 2,500 consumer complaints a year due to Medicaid.

In every area of the State Auditor's office the workloads are increasing. As Montana's population grows, there are more insurance agents, more stockbrokers, and unfortunately more scam artists. As the population grows state agencies are printing more warrants, such as Fish and Game refunds and income tax refunds. As a result, this means more expenses in the State Auditor's office to print these additional warrants. The office is not asking for additional staff to cover the current workload or the increase in workload which is projected for the next biennium. The only staff increase requested is to cover the increased workload resulting from legislation passed during the last special session.

The State Auditor's Office reverted \$187,343 at the end of FY94, and will remain within the budget in FY95 even with the projected increase of \$18,000 in postage expenses during FY94 because of the postage rate increases. In 1994 the office collected \$3,190,366 more revenue than had been projected. The agency had 6.7% net personnel services upgrades compared to the state agency average of 8.4%, and took a 5.4% vacancy savings compared to the average of 3.5%. Eight of the ten new proposals reduce the budget. This budget proposed to cut \$241,758 of general fund and \$113,634 total funds.

The present law base budget is larger than the FY94 budget because 1993 legislation phased in some of the budget items. Positions were funded for only part of FY94 in the continuing education program, and other positions were left vacant for a couple of months to meet the vacancy savings requirement. Those positions are the major issues in this budget. If this funding is not approved then that staff will have to be laid off and the office will not be able to meet requirements given by the last legislature.

Two pieces of legislation, supported by the Governor's Office, have been proposed. One is to require electronic funds transfers (EFT) for retirement payments instead of issuing checks. The only real way to reduce the cost of warrant writing is to reduce the number of checks written. Half the state retirees are currently getting electronic transfers. If the other half would take EFT it would cut the warrant writing budget by about \$16,000 over the biennium, as well as cutting postage costs to the retirement systems by \$80,000. The second piece of legislation introduced is to collect bad debts for counties. The State

Auditor's Office already offsets warrants for all state agencies, and with this legislation would do the same for counties by collecting revenue for them they would not otherwise receive. For every dollar collected in property tax revenue, general fund expenditures in the school foundation account and the University six-mill levy account are reduced by \$.40. (See page 8 of these minutes for additional discussion on EFT.)

Insurance related matters is the biggest part of the State Auditor's function. Montanan's spent \$1.477 billion on insurance premiums in 1993 and are projected to spend \$2.064 billion in FY95. The state auditor's office received national accreditation by the Association of Insurance Commissioners in February 1994. This is important for Montana businesses because it means other states will accept Montana's financial compliance exams of these companies as satisfying their requirements. The accreditation itself is dependent on keeping state laws fairly consistent with national models and having adequate staff and adequately trained staff to conduct the examinations. In the accreditation process the State Auditor's Office ranked among the top eight states in quality, but were ranked low in adequate staffing, training, and pay for staff. The insurance industry pays approximately \$250,000 a year in fees to maintain the accreditation.

CHAIRMAN ED GRADY asked how much of the debt collection, premium tax insurance fees, etc., is passed back to the consumer through the insurance company. **Mr. O'Keefe** said consumers generally pay 2.75% more than they would without a premium tax. There is a bill in this session to cut the health care premium tax. At the national level there is a real resistance to cutting premium taxes because they are an important revenue source for state government. Some states do regulate what costs can be passed to consumers and what costs are "part of doing business" which must come from profits, but Montana does not do that kind of regulation.

Frank Cote, Deputy Insurance Commissioner, State Auditor's Office, said the Examinations Division reviews the financial affairs, transactions, accounts, records and assets of each authorized insurer, which are required by law to be examined at least every five years. The division also examines each insurer applying for initial certificate of authority to do business in Montana and collects the premium tax. **EXHIBIT 1 pg 4 - 17** Most insurance operators get licenses in all 50 states although they don't necessarily operate in all 50 states. Premium taxes are basically a 2.5% sales tax in lieu of corporate income taxes. The insurance industry asks for more fees and taxes upon themselves to continue tight regulation on the industry which, in turn, helps cut down on fraud.

{Tape: 1; Side: B}

In Montana, when an insurance company goes insolvent there is a guarantee association that collectively assesses the remaining

insurance companies to pay for that insolvency. Those companies are then allowed to take a credit against their state income taxes for the amount of that assessment. If an insolvency can be stopped or decreased in total amount, it saves the general fund a lot of money over time, which is why it is critical that the State Auditor's Office do these examinations of insurance companies.

The Rates and Forms Bureau reviews every insurance policy including related endorsements, applications etc., to insure compliance with Montana law. Montana law also requires every insurer, rating organization or advisory organization to file all rates intended for use in this state along with supporting data sufficient to substantiate the rate. The rate filing requirement does not apply to life and disability rates other than Medicare supplement insurance. The Bureau also maintains files of these insurers submissions for review by the public, and assists those who wish to review the files. This is the one area in the department where the workload is projected to remain relatively stable.

The Policy Holder Services Division handles consumer complaints involving insurance companies and insurance agents. They also do market conduct examinations of insurance companies, which insure that carriers are complying with insurance laws, paying plans properly and are not committing any unfair claims practices. Policy holders services answers questions concerning consumer policies, conduct informational presentations for the public, and assists in recovering policy holders money if an insurance company has somehow cheated the policy holder.

CHAIRMAN GRADY asked how consumer complaint calls are handled.

Mr. Cote explained the main office switchboard takes the initial call, then routes it to the appropriate division. Staff members then answer questions over the phone when possible or go through the process of opening a complaint file when necessary.

Mr. O'Keefe said because of the volume of calls, the average length of stay for a receptionist is about seven weeks. There are 5.5 FTE that handle 27,000 phone calls a year, any written complaints and all the investigation of those complaints.

CHAIRMAN GRADY asked if the office has an automated answering system where callers go through a computer first to get to the correct department. **Mr. Cote** answered the State Auditor's Office does not have that system, but does have voice mail so callers do not have to stay on hold.

SEN. EVE FRANKLIN asked if the 5.5 FTE do the investigations as well as answering the phones. **Mr. Cote** answered they do the investigations unless it proves to be a criminal complaint, at which point it is referred to the Investigation Bureau. The Investigations Bureau investigates complaints and/or suspected violations of Montana's insurance code and its criminal code.

The State Auditor's Office is a criminal justice agency, and the area insurance investigation focuses on is the criminal prosecutions. The insurance compliance investigator travels around the state visiting with agents and agencies to make sure they comply with Montana laws.

The State Auditor's Office has asked for language in the appropriations act to allow recovery of investigative costs if a judge or hearings officer requires the perpetrator, as part of the sentencing, to pay back some of those costs. Recently a district court judge wanted to award the investigative cost recovery but couldn't do it because there was no statute to allow the State Auditor's Office to accept the money.

REP. JOE QUILICI asked how the State Auditor and Department of Justice work together in fraud investigations. **Mr. Cote** explained because insurance and securities investigations require a very specialized knowledge, it is primarily the state auditor's office which conducts the investigations. If there is a need for criminal prosecution, the State Auditor's Office supports the legal system--be it the Department of Justice, county attorney's office or other legal entities--with background and technical support. **Mr. O'Keefe** said the State Auditor's Office and the Department of Justice are working together to develop cross-designation documents. State code clearly states the State Auditor's Office is responsible for insurance and securities fraud. The office investigators all have law enforcement backgrounds and have been through police academy training, including post-certification training.

Mr. Cote said FY93 was the first time the State Auditor's insurance department referred a case to a county attorney for criminal prosecution. When this first began there was some resistance from the county attorneys, but this has now proven to be a very good relationship.

{Tape: 2; Side: A}

Mr. Cote spoke about the Licensing Division. **EXHIBIT 1 Pg 15-17** The drop that is projected for licensees in FY96 is a one-time happening tied with the introduction of the insurance continuing education (CE) act. Prior to the CE act, Montana had perpetual licenses, which meant people who were no longer selling insurance in Montana still had licenses. With the CE requirements, licenses will be renewed yearly. There are an increasing number of agents requesting licenses, and the workload in this division is steadily increasing. The increase in revenue in FY95 is also because of the CE act. In 1993 the insurance industry requested the state to implement CE requirements as a way of insuring adequately trained agents, which goes back to not wanting agents to harm the consumer, thereby harming the entire industry. The insurance industry completely funds this program. The state charges fees, but must revert back to the agents any amount beyond the actual cost of the program. The CE program was

designed to have 2.0 FTE, one of which was hired later in the biennium as a cost savings.

In 1993, the division revised its application forms, which previously had a 70% error rate and took three to four months to process. The forms now have a very low error rate and are usually processed within a week. The licensing division has 5.0 FTE which handle about 100 phone calls a day.

One of the budget issues is in contracted services in the Examinations Division. The request is for \$253,400 in a restricted biennial appropriation. In 1993, the Legislative Auditor directed the State Auditor's Office to record costs and revenues for the costs of examination on State Budgeting and Accounting System (SBAS). This appropriation request does not mean more or less will be spent on the examinations, or change the nature of the contracts, it is simply a request for spending authority to use the SBAS.

Another budget issue is for the Medicaid HMO system, which begins July 1 as a result of legislation passed in the 1993 special session. The additional workload is expected to amount to a full FTE by the end of FY96. The division is requesting a 0.75 FTE in FY96 and a full FTE in FY97. The position would be funded by general fund, but eligible for Medicaid reimbursement. It is a new FTE in the State Auditor's Office, but SRS projects a significant overall costs savings as a result of the switch.

SB 285, sponsored by **SEN. FRANKLIN** in 1993, included the health insurance availability act. It gives the State Auditor's Office continuing responsibility over the small group insurance market. This is being debated this session, and the State Auditor's Office predicts there will be some changes made to the system. That makes the one FTE that administers this program even more important. This appropriation should be part of the base but was included in present law adjustment because it is an appropriation in HB 148--not in HB 2.

The expenses for proposed fraud legislation are not included in this budget. If the legislation passes, the State Auditor's Office will approach the conference committee about the cost of such.

It is estimated that there is \$40 million in fraud in Montana. This program could be very effective in cost recovery of much of this fraud.

Mr. O'Keefe said securities regulation is a mirror image of insurance regulation, except that the system is substantially federalized. Much of the regulation and licensing is done at the national level. States are left with the costs of dealing with complaints, enforcement, and registration of domestic securities. Securities sees the worse scams, and they are increasing yearly. Without regulation, unscrupulous individuals are free to prey

upon Montana citizens, which in 90% of the cases are senior citizens. In 1994, Montana received a \$500,000 fine payment from Prudential that was part of a nationwide cooperative enforcement. The Securities Division also gets money back from Montana companies in the form of rescissions--a court order or consent order to return money to the investors. In FY94, the state saw \$336,000 in rescissions, in part because of the Prudential case, while it is anticipated that FY95 will have a record \$3.5 million rescission.

The workload in securities has grown unbelievably: from 17,766 salesperson licenses in FY93 to 38,693 in FY95. The general fund will pick up an additional \$550,000 from these additional broker fees. The State Auditor's Office has to process these increased numbers with the exact same number of staff, as well as process additional complaints generated from the increased numbers of brokers. The budget issue in securities is a phase-in of staff. New staff were added last session but not hired until July 1, 1994, in order to generate vacancy savings.

Laura Weggenman, Securities Division, State Auditor's Office, spoke about the securities registration program. **EXHIBIT 1 pg 20** Any brokerage firm doing business in Montana must be registered. Most firms are members of the National Association of Security Dealers (NASD), and register through the central registration depository. There has been an average increase of 10% per year in the numbers of firms registering. Each application must be renewed each filing year. If a firm that is already registered violates the Montana Securities Act or any other state laws, their registration is suspended or revoked. Of the 23,000 brokers doing business in Montana, 1,200 actually live in Montana. The department also registers securities that will be sold in this state. There has been a tremendous growth in mutual funds, which has resulted in a 49% increase in mutual funds registration between FY93 and FY95. The fees for mutual funds registration add a significant amount to the general fund, but also result in much more of the existing staff's time spent analyzing these securities.

CHAIRMAN GRADY asked what education is required of brokers. **Ms. Weggenman** answered the NASD requires brokers to have a general securities license and in addition, the state of Montana requires brokers to pass an exam that is specific to the state's laws. **Mr. O'Keefe** said there is no continuing education requirement in this industry although there is a move from NASD to require CE. There are people who took exams years ago who are now selling portfolios that didn't exist five years ago. The State Auditor's Office does not actually provide investment counseling, but it does provide information to help consumers understand the background of the potential investments and help them make decisions with full disclosure about the investments.

{Tape: 3; Side: A}

Mr. O'Keefe said the State Auditor's Office is currently working with an investment firm in putting together consumer education pamphlets for the individual investors. Part of what government ought to do is be the non-biased group that provides sound advice for consumers.

Melissa Brock, Staff Attorney, Securities Department, State Auditor's Office, talked about the enforcement section. Every violation of the securities act is a felony, and the division routinely refers evidence of crimes to county attorneys for prosecution and assists these attorneys in the prosecutions.

Tom Crosser, Deputy for Fiscal Control and Management, State Auditor's Office, said the main budget issue with the securities program is to maintain the staffing level for the portfolio registration program. This was a new program that was not staffed until part way through the biennium because of vacancy savings.

Mr. Crosser spoke to the warrant writing and bad debt collection functions. **EXHIBIT 1 pg 22-35, EXHIBITS 2 and 3.**

{Tape: 3; Side: A}

Mr. Crosser continued his presentation. In 1994, the warrant writer program implemented a program to stop mailing warrants made out for less than one dollar. These warrants are given to the agencies for their decision about mailing them. SRS on average issued 2-5 one cent warrants every day, before this was implemented. Right now they are not issuing any of those.

CHAIRMAN GRADY asked if there wouldn't be some resistance to making EFT mandatory. **Mr. Crosser** said the proposed legislation would allow for extenuating circumstances to exempt some recipients from EFT.

REP. QUILICI asked if EFT legislation was opposed in the 1993 session. **Mr. Crosser** answered there was legislation proposed, and defeated, in 1993. The largest resistance was from retired state employees, and this group is not included in the 1995 requested legislation.

Mr. O'Keefe reported the budget request for central administration is almost exactly equal to FY94. **EXHIBIT 1 pg 36**

Danny Morine, American Council of Life Insurance Companies, spoke in favor of the budget as proposed for the insurance department of the State Auditor's Office. Insurers pay more to the state than goes to the insurance department. Areas of concern include the examinations of insurance companies. The State Auditor's Office needs to be able to have the personnel to carry out those functions. It's in the industry's best interest that those functions be done accurately, to insure insurance companies and agents are kept in line. The other area of interest is

accreditation. This is how uniform enforcement and control of insurance companies statewide is coming about. As part of that, this department has gotten high marks in its accreditation except in the area of staffing. With the present climate in state government, staff may be cut severely which means it may lose accreditation.

CHAIRMAN GRADY asked **Mr. O'Keefe** to provide the subcommittee the accreditation report in reference to the staffing.

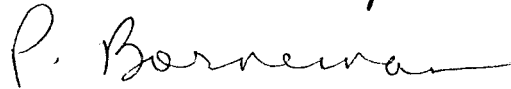
Roger McGlenn, Executive Director, Independent Insurance Agents Association of Montana, spoke in support of adequate funding and staffing of the insurance department. The insurance industry often supports increased funding for the insurance division through increased fees to the industry. One of the reasons for this is because oftentimes the insurance agents in Montana see what's going on in the field, and work as the eyes and ears for the State Auditor's Insurance Division. The insurance industry is willing to pay the fees for adequate regulation, and does pay approximately \$1.77 million in fees for regulation. Approximately \$.26 of every dollar paid in fees for regulation goes to the general fund, which feels like a form of double taxation on insurance agents. There should be \$1 worth of regulation for \$1 worth of fees. It is very important to the insurance agents of Montana to have a strong, responsible regulatory system.

ADJOURNMENT

Adjournment: 11:57 a.m.



ED GRADY, Chairman



for PAULA CLAWSON, Recording Secretary

EG/pc

STATE AUDITOR
STATE OF MONTANA

EXHIBIT 1
DATE 2/6/95
SB _____

Mark O'Keefe
STATE AUDITOR



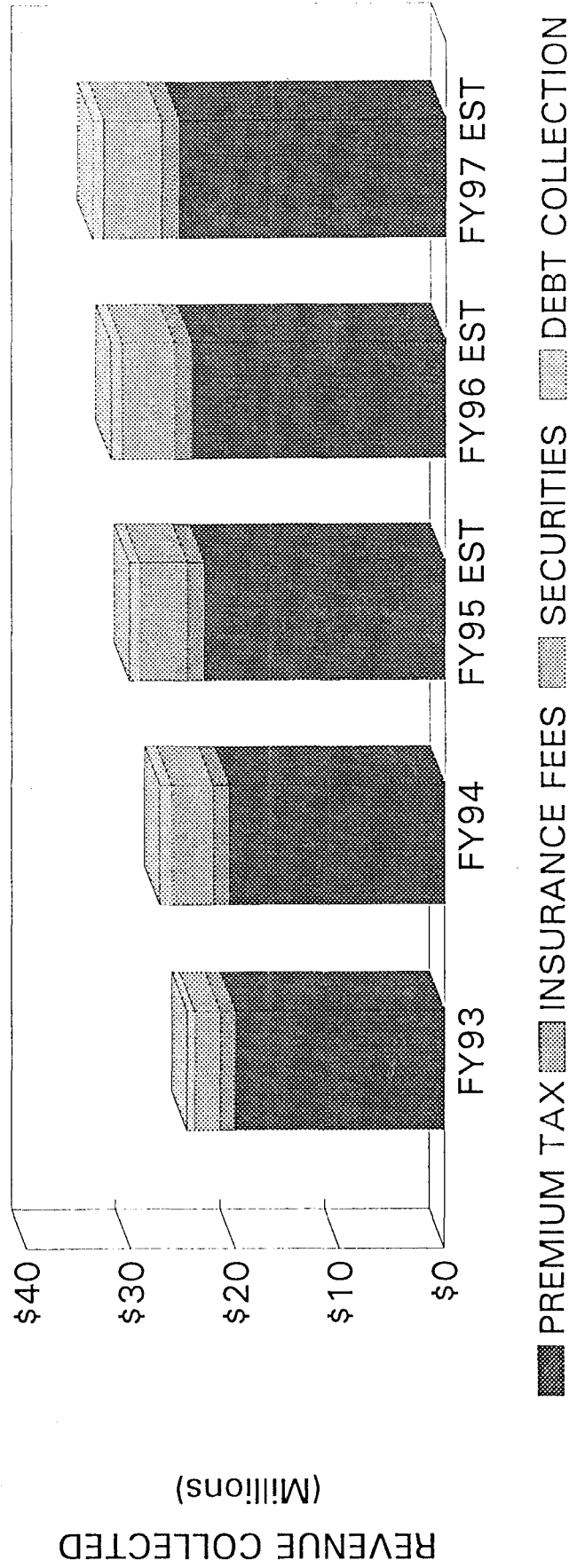
COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

Budget Presentation FY96-FY97
State Auditor's Office
General Government Sub-Committee
February 6, 1995

STATE AUDITOR'S OFFICE GENERAL FUND REVENUE ANALYSIS

	PREMIUM TAX	INS. FEES	SEC. FEES	DEBT %	TOTAL
	GEN. FUND	GEN. FUND	GEN. FUND	GEN. FUND	GEN. FUND
FY93	\$20,032,634	\$1,472,720	\$2,392,979	\$750,550	\$24,648,883
FY94	\$20,599,575	\$1,568,305	\$3,967,874	\$1,117,345	\$27,253,099
FY95 EST	\$22,976,631	\$1,646,110	\$4,533,473	\$1,000,000	\$30,156,214
FY96 EST	\$24,217,682	\$1,689,710	\$4,978,851	\$1,012,500	\$31,898,743
FY97 EST	\$25,372,216	\$1,735,010	\$5,457,530	\$1,050,000	\$33,614,756

STATE AUDITOR'S OFFICE GEN FUND REVENUE - FY93 TO FY97

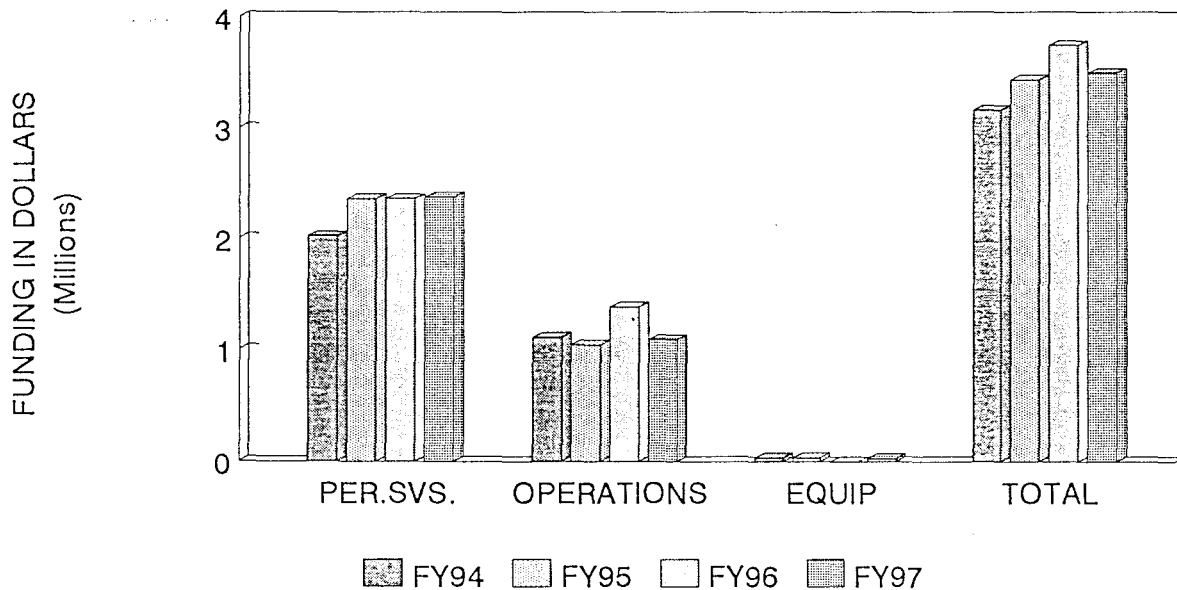


STATE AUDITOR'S OFFICE

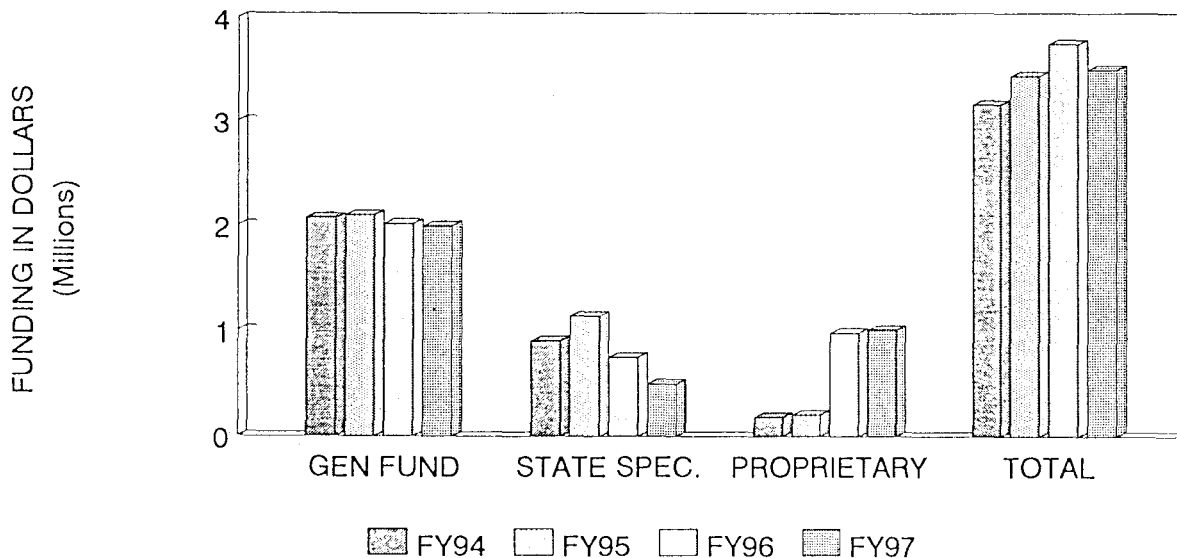
AGENCY SUMMARY	FY94	FY95	FY96	FY97
<u>EXPENDITURES:</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>REQUEST</u>	<u>REQUEST</u>
PER.SVS.	\$2,021,447	\$2,360,646	\$2,361,271	\$2,377,102
OPERATIONS	\$1,109,838	\$1,041,676	\$1,381,345	\$1,090,256
EQUIP	\$32,896	\$34,905	\$450	\$29,806
TOTAL	<u>\$3,164,181</u>	<u>\$3,437,227</u>	<u>\$3,743,066</u>	<u>\$3,497,164</u>

<u>FUNDING:</u>				
GEN FUND	\$2,073,296	\$2,099,900	\$2,014,713	\$1,994,864
STATE SPEC.	\$907,010	\$1,135,802	\$748,223	\$496,633
PROPRIETARY	\$183,875	\$201,525	\$980,130	\$1,005,667
TOTAL	<u>\$3,164,181</u>	<u>\$3,437,227</u>	<u>\$3,743,066</u>	<u>\$3,497,164</u>

STATE AUDITOR'S EXPENDITURE SUMMARY
FIRST LEVEL CATEGORIES



STATE AUDITOR'S OFFICE FUNDING
AGENCY SUMMARY



STATE AUDITOR
STATE OF MONTANA

Mark O'Keefe
STATE AUDITOR



COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

Requested Language for HB 2

- 1) The State Auditor may seek reimbursement for investigative costs from court orders and settlements and abate investigative expenditures.
- 2) If HB 275 is passed and approved the appropriation for warrant writer is reduced by \$8,860 in FY96 and \$8,860 in FY97.
- 3) Committee bill to change the fund type to proprietary fund to implement the cost allocation plan proposal.

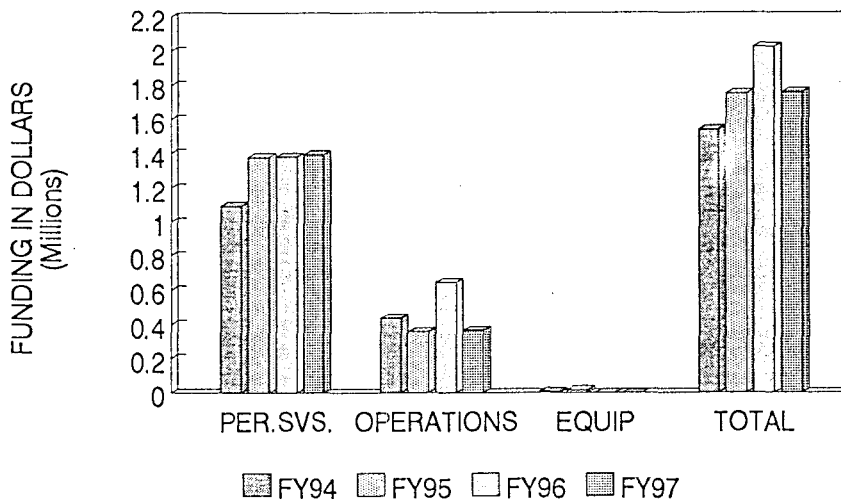
INSURANCE

STATE AUDITOR'S OFFICE

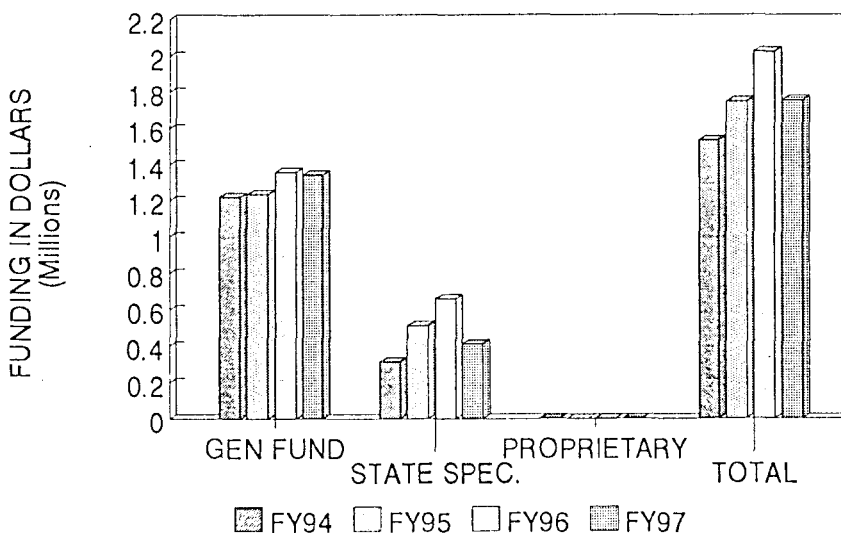
INSURANCE EXPENDITURES:	FY94 ACTUAL	FY95 BUDGET	FY96 REQUEST	FY97 REQUEST
PER.SVS.	\$1,093,897	\$1,376,589	\$1,380,423	\$1,393,151
OPERATIONS	\$437,075	\$356,132	\$642,855	\$363,683
EQUIP	\$7,856	\$16,500	\$0	\$0
TOTAL	\$1,538,828	\$1,749,221	\$2,023,278	\$1,756,834

FUNDING:	FY94	FY95	FY96	FY97
GEN FUND	\$1,223,793	\$1,237,691	\$1,361,760	\$1,346,969
STATE SPEC.	\$315,035	\$511,530	\$661,518	\$409,865
PROPRIETARY	\$0	\$0	\$0	\$0
TOTAL	\$1,538,828	\$1,749,221	\$2,023,278	\$1,756,834

STATE AUDITOR'S EXPENDITURE DETAIL
INSURANCE PROGRAM



STATE AUDITOR'S FUNDING DETAIL
INSURANCE PROGRAM



STATE AUDITOR
STATE OF MONTANA



Mark O'Keefe
STATE AUDITOR

COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

Comparative Data for Insurance Departments

Montanans spent \$1.477 billion on insurance in 1993 and will spend \$2.06 billion in 1996. That compares with \$1.2 billion collected in state taxes and fees in fiscal 1994. Insurance has a bigger impact on Montana taxpayers than all of Montana tax policies.

A total 7,395 people work as insurance agents in Montana and an additional 5,995 out-of-state agents sell insurance in Montana.

Montana spends less on insurance regulation than other states - ranked 49th. Only two states spend less and have fewer FTE's than Montana (South Dakota and Wyoming). Montana collects more revenue from the insurance industry on a per capita basis than most states - ranked 18th.

Ranking among all states:

Data for comparison is taken from a report published annually by the National Association of Insurance Commissioners. That report details expenditures, revenues and regulatory actions by state. Numbers in the NAIC report do not exactly match the states budgeting numbers because the basis of the NAIC report is different than the state budget system. The report is consistent for all states and therefore allows meaningful comparison. All data is for 1993 except for budget and FTE data which is fiscal year 1994. Rankings include all 50 states and the District of Columbia.

Data for Montana:

Insurance Budget	\$1,430,462	49th
Insurance FTE	35	49th
Insurance Revenue	\$32,253,189	47th
Insurance Agents	13,390	42nd
Premium Paid	\$1,477,142,054	48th

Comparison with surrounding states:

Budget and FTE's

Montana spends less per capita on insurance regulation than surrounding states and has the third lowest total budget.

State	Population	Budget	Budget/capita	FTE
Montana	839,000	\$1,430,462	\$1.74	35.0
Idaho	1,099,000	\$4,573,600	\$4.16	67.5
North Dakota	635,000	\$2,294,310	\$3.61	43.5
South Dakota	715,000	\$1,312,882	\$1.83	28.0
Wyoming	470,000	\$1,211,421	\$2.57	24.0

Premiums and Revenues collected

Montanans pay \$1.477 Billion in insurance premiums, more than they pay in state taxes and fees per year. Montana ranks 48th in premiums collected, but 18th in revenue per capita reflecting somewhat lower auto premiums and health insurance costs than other states and one of the higher premium tax rates.

State	Premiums	Premiums per capita	Revenues
Montana	\$1,477,142,054	\$1,760	\$32,253,189
Idaho	\$2,397,247,726	\$2,181	\$36,876,100
North Dakota	\$1,232,326,604	\$2,083	\$23,548,699
South Dakota	\$1,478,326,998	\$2,067	\$34,064,920
Wyoming	\$ 711,376,812	\$1,513	\$13,716,969

State	Revenues	Revenues per capita	Rank
Montana	\$32,253,189	\$38.44	22nd
Idaho	\$36,876,100	\$33.55	34th
North Dakota	\$23,548,699	\$37.08	27th
South Dakota	\$34,064,920	\$47.64	14th
Wyoming	\$13,716,969	\$29.19	45th

Agents and Companies

Montana has more insurance producers (agents) than surrounding states and more resident agents. The number of companies doing business in each of the states is similar because a large number of companies are national and conduct business in all states.

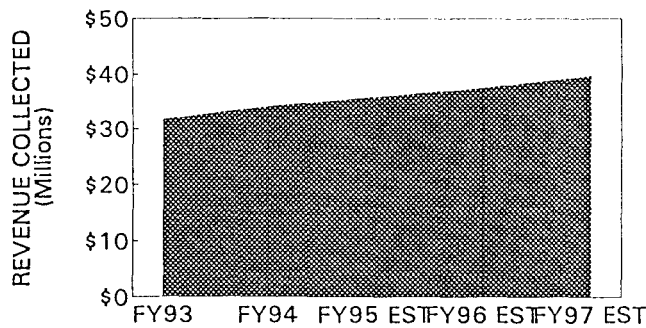
State	Agents	Resident Agents	Companies
Montana	13,390	7,395	1,394
Idaho	12,000	5,400	1,358
North Dakota	10,943	5,411	1,310
South Dakota	11,231	6,016	1,411
Wyoming	5,416	2,210	1,100

STATE AUDITOR'S OFFICE FY93 TO FY97 INSURANCE EXAMS PROGRAM DATA

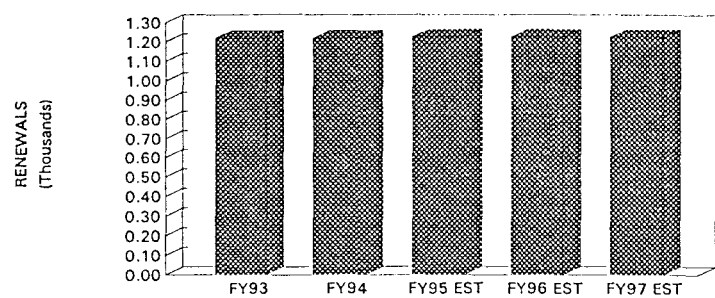
PREMIUM TAX REVENUE	
FY93	\$31,681,169
FY94	\$34,066,284
FY95 EST	\$35,864,000
FY96 EST	\$37,531,000
FY97 EST	\$39,726,000

INSURER RENEWALS	
FY93	1,220
FY94	1,220
FY95 EST	1,225
FY96 EST	1,225
FY97 EST	1,225

STATE AUDITOR'S OFFICE
TOTAL PREMIUM TAX REVENUE

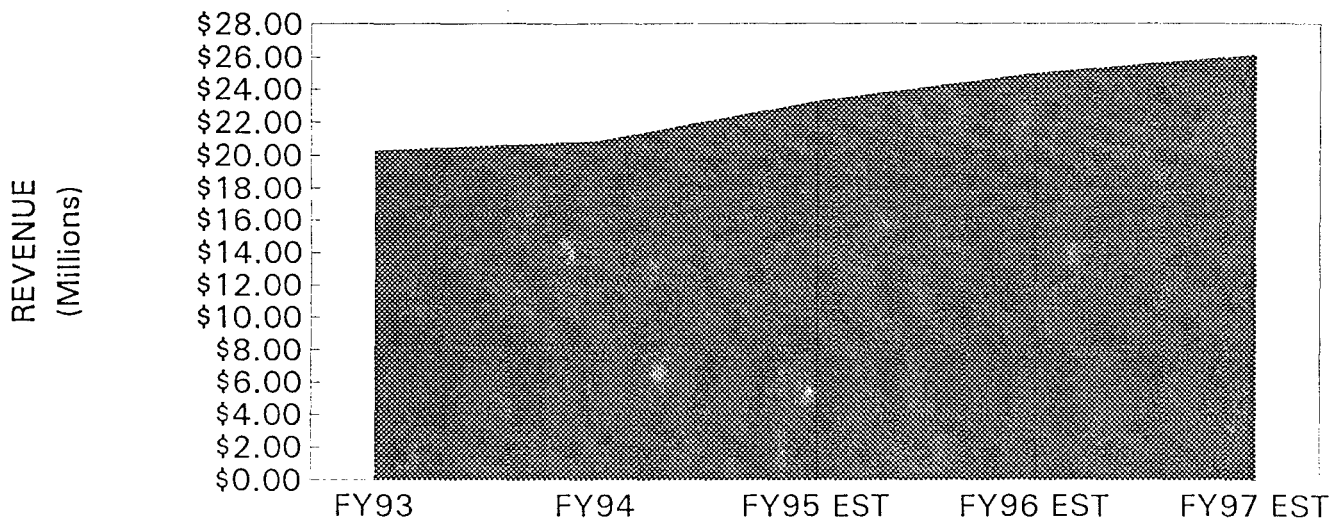


STATE AUDITOR'S OFFICE
INSURERS LICENSE RENEWALS



GENERAL FUND REVENUE	
FY93	\$20,307,662
FY94	\$20,870,984
FY95 EST	\$23,307,360
FY96 EST	\$24,981,260
FY97 EST	\$26,153,040

STATE AUDITOR'S OFFICE
EXAM PROGRAM GENERAL FUND REV



EXAMINATIONS DIVISION

GENERAL FUND REVENUE

Premium Taxes	FY 93 Actual	FY 94 Actual	FY 95 Projected	FY 96 Projected	FY 97 Projected
Gross Taxes	\$31,618,169	\$34,066,284	\$35,864,000	\$37,531,000	\$39,726,000
MLHIGA Offsets	(3,220,008)	(3,833,840)	(2,907,000)	(2,363,000)	(2,363,000)
MCHA Offsets	(114,475)	(219,341)	(100,000)	(100,000)	(100,000)
Refunds	(812,310)	(1,203,277)	(1,100,000)	(1,100,000)	(1,100,000)
PERD Payments	(7,995,402)	(8,751,679)	(9,266,640)	(9,808,740)	(10,386,960)
General Fund	\$19,475,979	\$20,058,147	\$22,490,360	\$24,159,260	\$25,326,040
Company Fees	\$831,683	\$812,837	\$817,000	\$822,000	\$827,000
Total General Fund	\$20,307,662	\$20,870,984	\$23,307,360	\$24,981,260	\$26,153,040

ACTIVITY STATISTICS

	FY 93 Actual	FY 94 Actual	FY 95 Projected	FY 96 Projected	FY 97 Projected
Licensing Oversight Processing Renewals:					
Insurers	1,220	1,220	1,225	1,225	1,225
Administrators	96	88	90	90	95
Surplus Lines Insurers	174	159	164	170	175
Other Insurance Entities	120	125	130	130	130
Review of New Applications:					
Insurers	26	31	30	30	35
Administrators	11	9	15	10	15
Other Insurance Entities	15	15	15	15	15
Financial Oversight					
Financial Review of Domestic Insurers	22	23	26	26	26
Oversight of Domestic Insurer Examinations	5	7	7	9	9
Issuing Suspension & Revocation Orders	35	11	35	20	25
Reviewing Bulk Reinsurance Transfers	35	35	30	30	35
Administrative Oversight					
Processing License Amendments	59	153	160	75	75
Review Security Deposit Transactions	25	25	25	30	30
Responding to Telephone Inquiries	3,600	3,600	3,600	3,600	3,600
Preparing Written Responses to Inquiries	1,000	1,000	1,000	1,000	1,000

STATE AUDITOR
STATE OF MONTANA



Mark O'Keefe
STATE AUDITOR

COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

The following is a list of scheduled exams and their cost:

FY96	Wibaux Farm Mutual	\$ 3,200
	Sidney Farm Mutual	3,200
	Plentywood Farm Mutual	3,200
	Polson Farm Mutual	2,400
	Bozeman Farm Mutual	2,300
	Amwest Life	14,000
	Valor Insurance	19,000
	Mt. Loggers Exchange	19,000
	Farmers Union Mutual	23,500
	MMBP-Market Conduct	<u>15,000</u>
	Total	\$104,800

FY97	MMBP	\$ 14,800
	Glacier HMO	14,800
	Yellowstone HMO	14,800
	First MT Title	11,000
	ALPS	23,800
	Amwest Life Ins.	14,000
	Valor Insurance	19,000
	Cascade Farm Mutual	2,900
	Wheat Growers Farm Mutual	3,500
	Blue Cross-Market Conduct	<u>30,000</u>
	Total	\$148,600

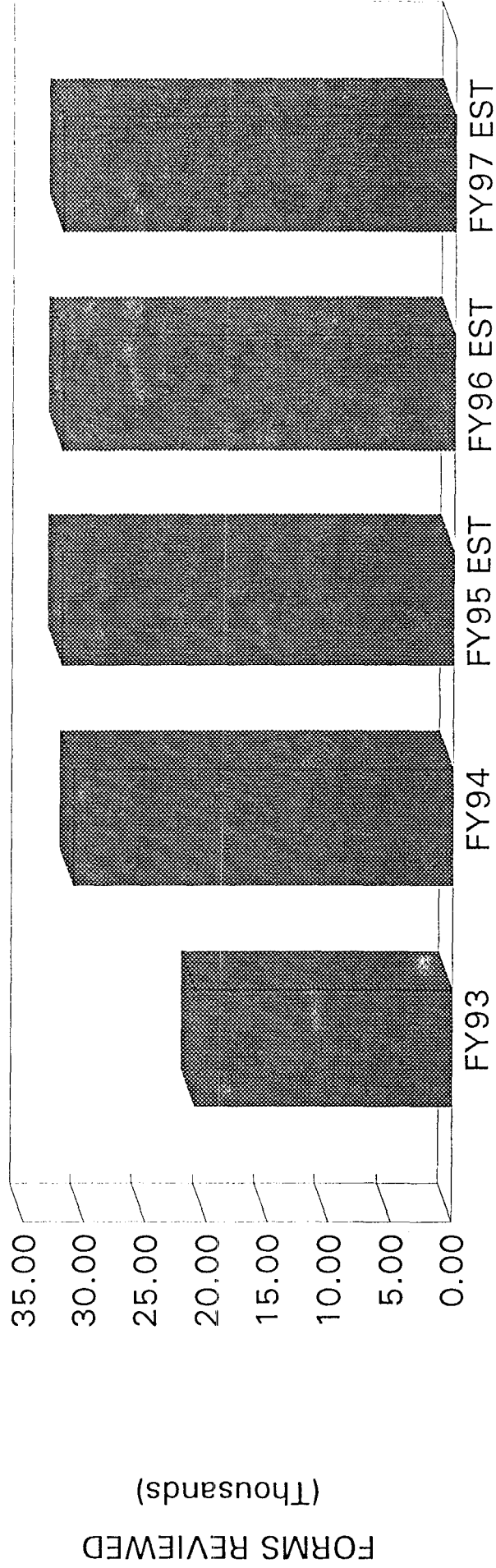
MCA 33-1-401 and 33-4-315 also gives the commissioner the authority to conduct unscheduled examinations at any time based on the financial solvency of the company. The agency review the annual reports of each domestic company filed on March 1st of each year and will determine if an additional exam is warranted.

AGENCY CONTACT PERSON (PHONE): Dave Hunter, 3152

STATE AUDITOR'S OFFICE FY93 TO FY97 RATES AND FORMS REVIEW PROGRAM

RATES AND FORMS BUREAU POLICY FORMS REVIEWED	
FY93	21,000
FY94	31,000
FY95 EST	32,000
FY96 EST	32,000
FY97 EST	32,000

STATE AUDITOR'S OFFICE
RATES AND FORMS PROGRAM REVIEW



RATES AND FORMS BUREAU

Product Oversight	FY 93 Actual	FY 94 Actual	FY 95 Projected	FY 96 Projected	FY 97 Projected
Number of Policy Forms Reviewed	21,000	31,000	32,000	32,000	32,000
Exempt Forms and Insurer Rules Changes Reviewed	1,000	1,000	1,000	1,000	1,000
Preparation of Letters	6,000	6,500	6,500	6,500	6,500
Responding to Telephone Inquiries	2,800	2,900	3,000	3,000	3,000
Review of Property/Casualty Rate Filings	5,000	5,000	5,000	5,000	5,000

General Fund Revenue

Insurance companies operating in Montana are required to pay a premium tax of 2.75% of premiums written. In addition, premiums attributable to fire risk are subject to a Fire Marshall Tax of 1% and a Firefighters Pension Tax of 1.5%. The revenues are reduced because the law permits insurers to offset against premium taxes assessments paid to the Montana Life and Health Insurance Guaranty Association (MLHIGA) and the Montana Comprehensive Health Association (MCHA). Overpayments of taxes are refunded to insurers. A portion of premium tax collections are required to be paid to the Public Employees Retirement Division (PERD) to support police and firefighters pension programs. Additionally, licensing fees and filing fees are also collected from insurers and other regulated entities.

Activity Statistics

The Examinations Division licenses insurers, administrators (which handle premium payments and claim settlements on behalf of insurers), as well as a number of insurance entities such as premium finance companies and motor clubs. It also processes the annual renewals of the licenses. The Division determines the qualifications of surplus lines insurers, which write property-casualty risks that authorized insurers will not accept.

The financial statements of domestic insurers (companies that are incorporated in Montana) are thoroughly reviewed to discover actual or potential problems. Periodically, at least every five years, the books and records of each domestic insurer are examined to confirm that the reports they submit are accurate. When insurers no longer meet the requirements for a certificate of authority in Montana, they are either suspended or revoked. Also, any transfer of a block of policies from one insurer to another must be approved before it can become effective.

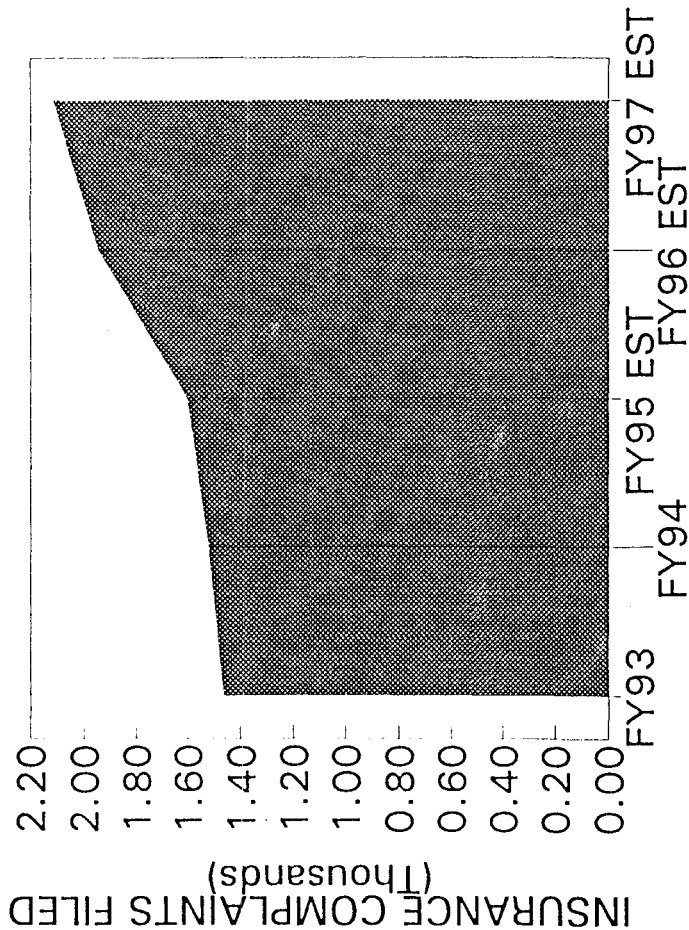
When insurers wish to change their names, the lines of insurance they may transact, or make certain other corporate changes, their certificates of authority must be amended to reflect the changes. An increase occurred because a separate designation for variable life and variable annuity is now required for insurers writing those lines. Proposed changes in the securities insurers have deposited with the office, as required by law, must be reviewed to ensure that the deposit will still comply after the proposed change. Frequently, Montana insurance consumers and insurance industry representatives call or write to obtain information about insurers or about insurance laws or rules or office policies and procedures. When requested or when a written record is desirable, responses are provided in writing.

The Rates and Forms Bureau reviews the policy forms insurers intend to use in Montana for compliance with the law and the premium rates charged by property-casualty insurers for compliance with legal guidelines. Some forms are relatively standard and require little review while others need more attention. An increase in the number of forms occurred because the bureau became more aggressive about rejecting non-complying forms. In addition, a variety of other insurer forms that are not required to be approved are reviewed for legal compliance. In connection with these activities, Rates and Forms informs insurers about problems with the forms they have submitted, chiefly using form letters, and responds to telephone inquiries from insurers.

STATE AUDITOR'S OFFICE FY93 TO FY97 POLICY HOLDER SERVICES DATA

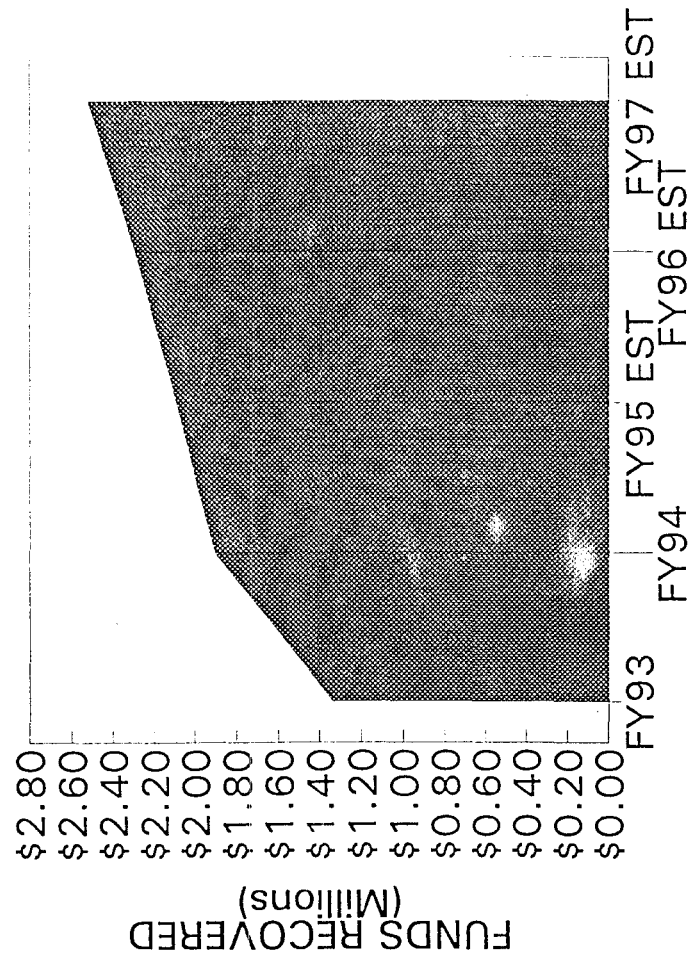
PHS PROGRAM	NUMBER OF COMPLAINTS
FY93	1,463
FY94	1,521
FY95 EST	1,600
FY96 EST	1,945
FY97 EST	2,115

STATE AUDITOR'S OFFICE
POLICY HOLDER SERVICES



MONEY RECOVERED FOR INSURANCE POLICY HOLDERS	
FY93	1,336,922
FY94	1,904,815
FY95 EST	2,090,000
FY96 EST	2,295,000
FY97 EST	2,524,500

STATE AUDITOR'S OFFICE
PHS CONSUMER FUNDS RECOVERED



POLICYHOLDER SERVICES DIVISION

Subject	FY 93 Actual	FY 94 Actual	FY 95 Projected	FY 96 Projected	FY 97 Projected
1. Formal Complaints Numbered Computer files	1,463	1,521	1,600	1,680	1,765
2. Formal Complaints Immediate Response files	692	741	796	850	910
3. Medicaid HMO Complaints				265	350
4. Telephone inquiries	26,520	29,640	32,000	35,200	38,720
5. Consumer presentations	6	30	30	30	30
5. Consumer guides published	1	4	4	4	4
7. Monies recovered	\$1,336,922	\$1,904,815	\$2,090,000	\$2,295,000	\$2,524,500

GENERAL RESPONSIBILITIES:

The Policyholder Services Division is primarily concerned with safeguarding the public by addressing consumer questions and resolving consumer complaints, preparing consumer educational materials and conducting information seminars and preparing cases involving code violations for possible legal action.

Formal complaints are generally investigated on an individual basis and each typically involves correspondence or personal consultation with insurance company representatives or insurance agents. We typically request that complaints be filed in writing to facilitate efficient handling and documentation. Appropriate information is input into the computer to create a numbered inquiry/complaint file and copies of the written complaints are sent to the insurer(s) and/or agent(s) who are requested to advise us within 10 working days of their position, in writing, and include supporting documentation. When the complaint is resolved a closing letter is sent to the consumer and the numbered inquiry/complaint file is closed in the computer.

Frequently time does not permit following the above procedure as prompt action is necessary to avert a crisis. Complaints that require immediate attention are handled via the telephone and/or fax machine. The final outcome is communicated to the consumer and documentation is retained in our immediate response filing system. In both cases alleged violations of the insurance code are referred to our Legal department for evaluation and, if necessary, administrative action.

Policyholder Services also performs a wide range of educational activities. The Division conducts Senior Citizen forums, in cooperation with Senior Citizen Organizations, to explain coverages provided by Medicare and Medicare supplement policies. Also, we conduct educational programs for High School students and, on request, speakers to groups who wish to learn more about insurance related issues.

The Division also publishes a wide range of brochures written in easy to understand terms that explain various insurance policies. Shoppers' Guides, which provide basic comparisons of policy provisions and premium information, are prepared and distributed for certain lines of insurance.

The monies recovered by Policyholder Services are paid directly to the consumer by the insurance companies.

INSURANCE INVESTIGATIONS

	FY 93 Actual	FY 94 Actual	FY 95 Projected	FY 96 Projected	FY 97 Projected
1. New investigations	25	35	40	45	50
2. Fines	\$ 5,018	\$ 19,303	\$ 45,000	\$ 30,000	\$ 30,000
3. Recoveries to Policyholders	\$113,597	\$266,843	\$300,000	\$300,000	\$300,000
4. Administrative Actions	10	2	12	16	20
5. Criminal Actions	3	4	4	6	8
6. Open Cases	12	41	74	80	85
7. Insurance Producer Examinations	0	135	140	145	150

The insurance investigations bureau conducts investigations of complaints and suspected violations of Montana insurance code and criminal code. Two of the bureau's investigators are primarily concerned with investigation of crimes, such as theft, forgery, deceptive practices, common schemes, and conspiracy. The other investigator focuses on administrative infractions in the areas of licensing, trust accounts, deceptive advertising, and unfair trade practices.

The workload of the investigations bureau has grown with the growth in the insurance industry and is projected to continue to grow over the next biennium.

Administrative fines are general fund revenue. However, the emphasis of the bureau is on criminal prosecution rather than administrative actions. The agency has requested language to allow courts to award reimbursement of investigative costs by district courts and consent orders.

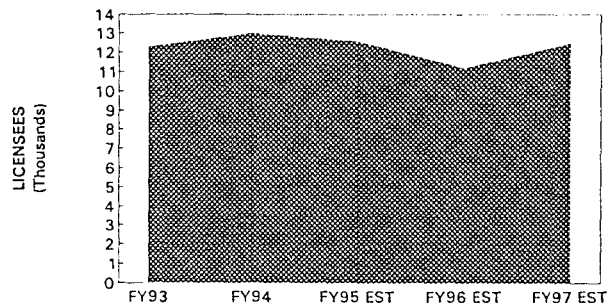
The bureau recovers monies for policyholders in the course of its investigations. This amount is in addition to the recoveries made by policyholder services.

In FY94 the bureau changed emphasis to include preventive examinations. One of the three investigators audit and examines the business practices of insurance agencies. The work is designed to help insurance producers correct areas of noncompliance with Montana statutes before they become the subject of consumer complaints.

STATE AUDITOR'S OFFICE FY93 TO FY97 INSURANCE LICENSING DATA

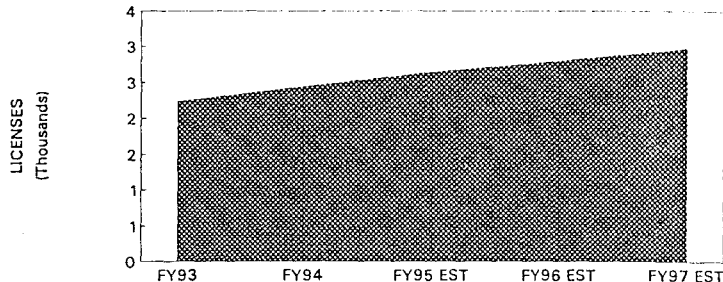
NUMBER OF LICENSEES	
FY93	12,287
FY94	13,004
FY95 EST	12,607
FY96 EST	11,200
FY97 EST	12,500

STATE AUDITOR'S OFFICE
LICENSEES



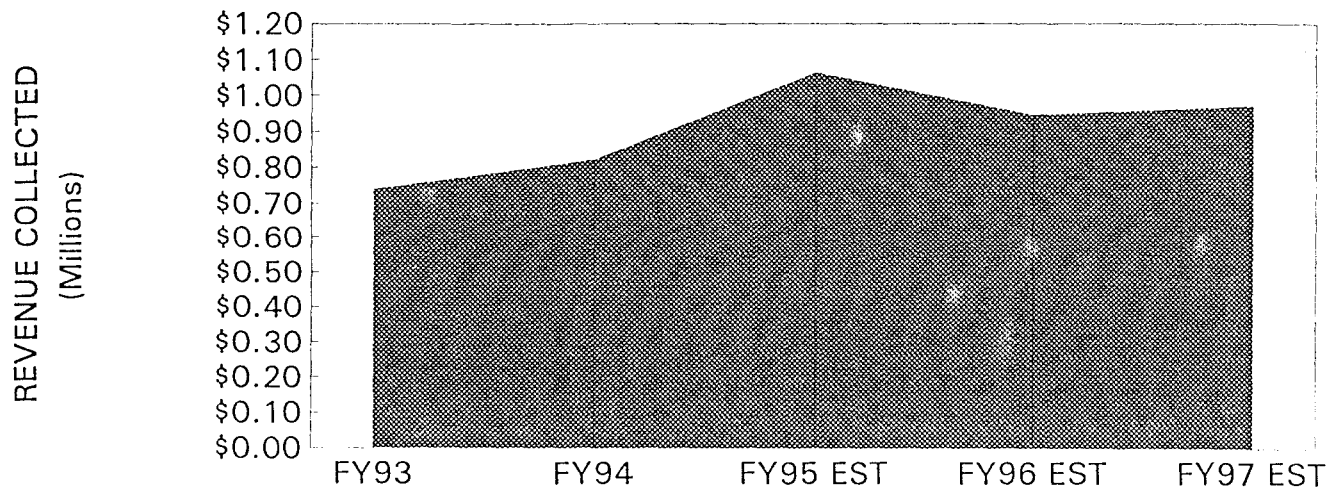
NEW ITEMS LICENSES	
FY93	2,236
FY94	2,448
FY95 EST	2,650
FY96 EST	2,800
FY97 EST	2,975

STATE AUDITOR'S OFFICE
NEW AGENCY LICENSES



INSUR. LICENSING REVENUE	
FY93	\$739,730
FY94	\$823,380
FY95 EST	\$1,064,000
FY96 EST	\$947,015
FY97 EST	\$970,612

STATE AUDITOR'S OFFICE
LICENSE PROGRAM REVENUE



LICENSING DIVISION

Subject		FY 93 Actual	FY 94 Actual	FY 95 Projected	FY 96 Projected	FY 97 Projected
I.	Number of Licensees	12,287	13,004	12,607	11,200	12,500
A.	Agents and Agencies					
1.	Resident	6,815	7,144	8,347	6,900	7,900
2.	Non-Resident	5,472	5,860	4,260	4,300	4,600
B.	Adjusters	400	453	460	460	460
C.	Motor Club Reps	100	102	100	100	100
D.	Surplus Lines Agents	58	67	75	82	85
E.	Consultants	48	50	54	58	60
II.	New Items - Annually					
A.	Agent/Agency Licenses	2,236	2,448	2,650	2,800	2,975
1.	License Amendments	2,200	2,300	1,800	1,900	2,000
B.	Adjusters	58	51	60	60	60
C.	Motor Club Reps	12	10	10	10	10
D.	Surplus Lines Agents	12	3	10	10	5
E.	Consultants	3	2	5	5	5
G.	Company Appointments	12,061	13,337	12,750	13,800	15,000
H.	Company Terminations	3,865	4,625	4,220	4,557	4,923
III.	Renewals					
A.	Producers					
1.	Resident	n/a	n/a	5,900	6,400	7,100
2.	Non-resident	4,964	4,465	3,900	4,050	4,225
B.	Adjusters	395	409	400	400	400
C.	Motor Clubs	90	90	90	90	90
D.	Surplus Lines	57	63	65	72	80
E.	Consultants	45	48	49	53	55
IV.	Continuing Education					
A.	Course Approvals	n/a	699	496	250	250
B.	Course Renewals	n/a	n/a	n/a	400	300
C.	Credit Hours Approved	n/a	4,849	2,766	4,500	3,000
D.	Agent Certifications	n/a	n/a	8,800	10,000	11,000
V.	Additional items					
A.	Certification and Clearance Letters	962	1,134	1,225	1,300	1,375
B.	Telephone calls	18,000	28,000	28,000	24,000	24,000
VI.	Revenue Collected					
A.	Surplus Lines	\$322,177	\$359,684	\$350,000	\$350,000	\$350,000
B.	Licensing Fees	367,265	376,381	430,000	458,500	478,000
C.	Non-resident Renewals	50,288	46,365	39,000	40,500	42,250
D.	Continuing Education				98,015	100,362
1.	Course Approvals	n/a	40,950	25,000		
2.	Course Renewals	n/a	n/a	n/a		
3.	Agent Certifications	n/a	n/a	220,000		
Total Collected		\$739,730	\$823,380	\$1,064,000	\$947,015	\$970,612

The Licensing Division maintains insurance licenses for qualified resident and non-resident insurance agents and agencies (producers), consultants, adjusters, motor club representatives, surplus lines agents, and managing general agents. The division also monitors licensee compliance with the Insurance Producer and Consultant Continuing Education Act and collects the fees for these programs.

The 13,004 insurance agents licensed in Montana has increased by 8% during each of last two fiscal years. A similar rate of growth is expected through the next biennium. Currently, licenses remain active perpetually, even after an agent has left the business. During FY95 the number of licensed agents (individual and agency) is estimated

decrease by approximately 5,000. This decrease is due to the termination of inactive licensees who did not meet the insurance continuing education requirement.

The division also issues letters of certification and clearance to Montana agents wishing to become licensed in other states; answers requests for licensing information; and processes new insurance licenses and insurance company appointments of agents.

In FY94, 2,448 new licenses were issued with an average of 1 appointment for each licensee. In FY95, 2,650 new licenses are expected. These license and agent appointments should generate about \$144,000 from appointments. The revenues from appointments should be \$155,500 in FY96 and \$168,000 in FY97.

Revenues from termination of company appointments is projected at \$49,200 in FY95, \$51,300 in FY96 and \$54,100 in FY97. These increases reflect the projected increase in use of electronic appointments by insurance companies.

Adjuster and motor club representative renewals have been steady in the past and are not expected to increase. The number of surplus lines agents and insurance consultants is expected to increase because of industry emphasis in these areas. Surplus lines premium taxes are remitted to the department once a year by surplus lines licensees and deposited into the general fund.

Resident insurance licenses will be renewed for the first time in FY95, due to the implementation of continuing education requirements. 8,800 licensees are expected to file for compliance in FY95, 10,000 in FY96 and 11,000 in FY97. Agent certifications are \$25 per year. Non-resident renewals may drop off for states not entering reciprocal agreements for insurance continuing education.

Continuing education sponsoring organizations submit courses for review and approval prior to offering. As of January 1, 1995, 162 sponsoring organizations had 946 courses approved for a total of 6,230.5 credit hours. Courses will renew beginning in FY96. The number of new courses is expected to decrease following the initial two years of the program. Continuing education course submissions are \$75 each, with a cap of \$1500 per sponsoring organization.

Continuing education revenues for FY96 & FY97 are based on the projected expenses for the continuing education program, per 33-17-1207, MCA. The fees established by ARM 6.6.4102 will likely be reduced in June 1995 to meet the legislative mandate.

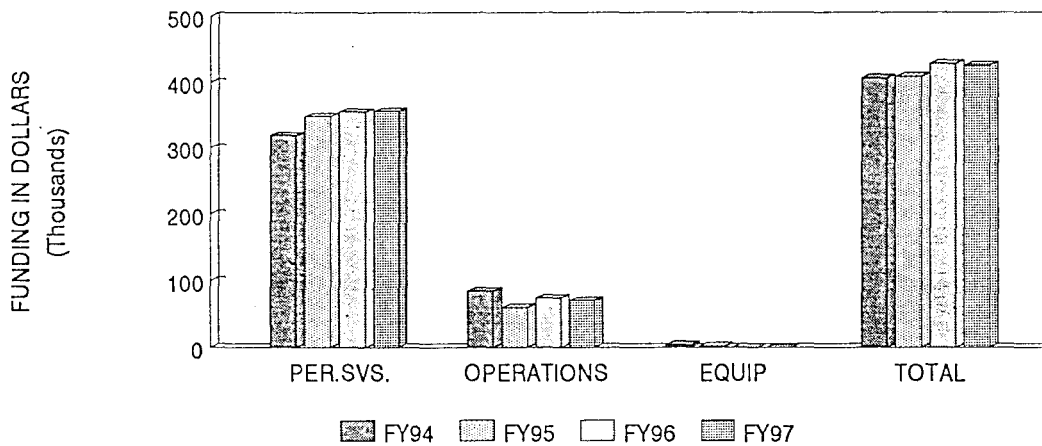
SECURITIES

STATE AUDITOR'S OFFICE

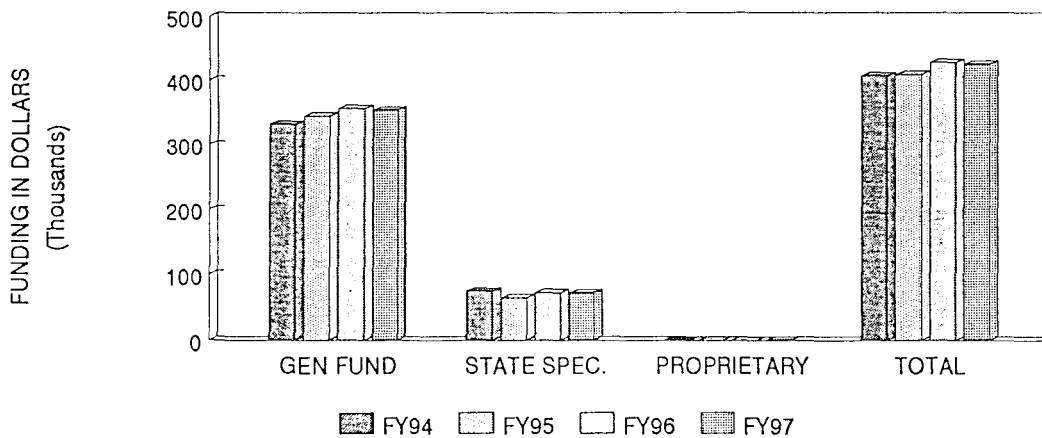
SECURITIES EXPENDITURES:	FY94 ACTUAL	FY95 BUDGET	FY96 REQUEST	FY97 REQUEST
PER.SVS.	\$318,782	\$347,497	\$354,490	\$355,685
OPERATIONS	\$83,984	\$59,317	\$73,922	\$70,044
EQUIP	\$3,906	\$1,934	\$0	\$0
TOTAL	\$406,672	\$408,748	\$428,412	\$425,729

FUNDING:	FY94	FY95	FY96	FY97
GEN FUND	\$331,852	\$344,336	\$356,237	\$353,571
STATE SPEC.	\$74,820	\$64,412	\$72,175	\$72,158
PROPRIETARY	\$0	\$0	\$0	\$0
TOTAL	\$406,672	\$408,748	\$428,412	\$425,729

STATE AUDITOR'S EXPENDITURE DETAIL
SECURITIES PROGRAM



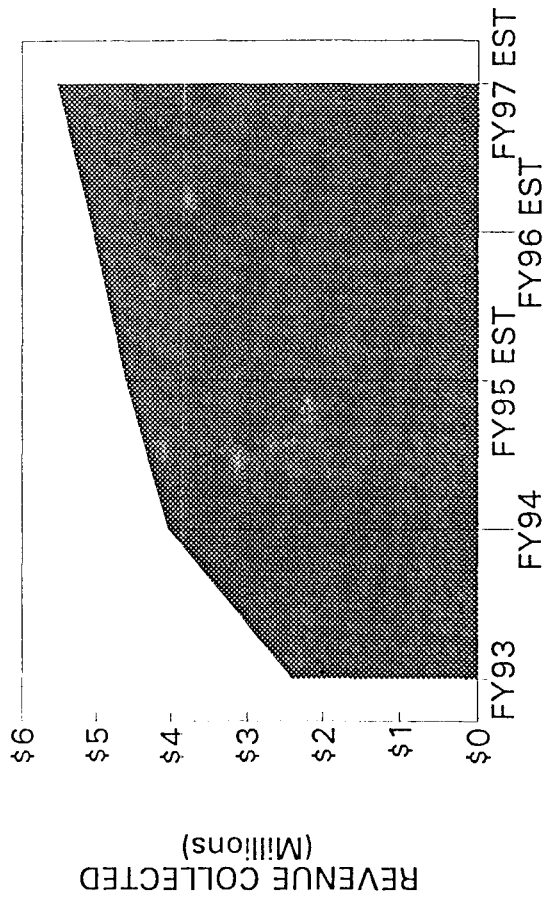
STATE AUDITOR'S FUNDING DETAIL
SECURITIES PROGRAM



STATE AUDITOR'S OFFICE FY93 TO FY97 SECURITIES PROGRAM DATA

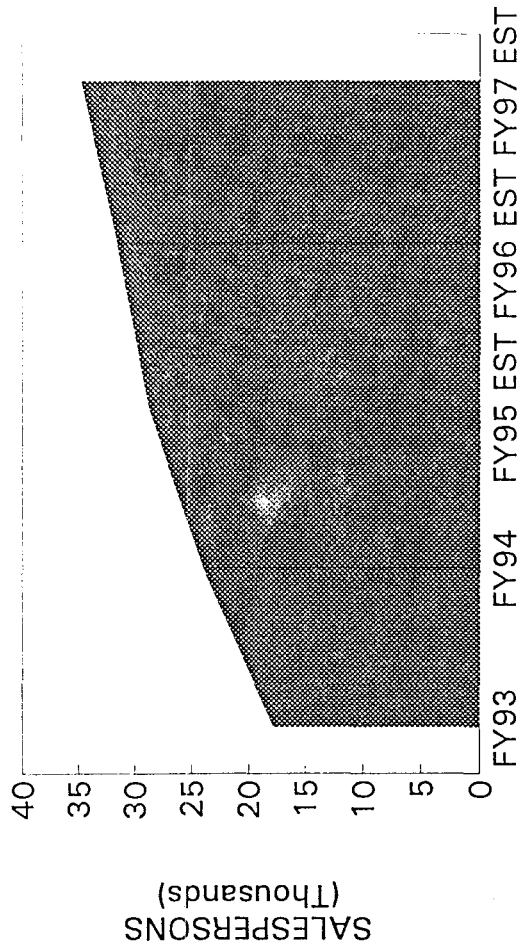
	SECURITIES REVENUE
FY93	\$2,392,979
FY94	\$4,042,694
FY95 EST	\$4,608,473
FY96 EST	\$5,051,026
FY97 EST	\$5,529,688

STATE AUDITOR'S OFFICE
TOTAL SECURITIES REVENUE



	NASD SALESPERSONS
FY93	17,766
FY94	23,911
FY95 EST	28,693
FY96 EST	31,563
FY97 EST	34,720

STATE AUDITOR'S OFFICE
SECURITIES NASD SALESPERSONS



SECURITIES DEPARTMENT

SECURITIES: REGISTRATION PROGRAM

<u>REGISTRATION</u>	FY 93 Actual	FY 94 Actual	FY 95 Projected	FY 96 Projected	FY 97 Projected
1. NASD Broker-Dealers	794	871	950	1036	1130
2. Non-NASD Broker-Dealers	5	1	2	2	2
3. NASD Salespersons	17,766	23,911	28,693	31,563	34,720
4. Non-NASD Salespersons	184	234	258	284	313
5. Investment Advisers	218	230	253	278	278
6. Investment Adviser Representatives	682	1250	1800	1980	2178
7. Issuers - Mutual Funds Master Funds	525	787	866	953	1047
8. Portfolios	N/A	2770	3007	3268	3550
Total Revenue	\$2,392,979	\$4,042,694	\$4,608,473	\$5,051,026	\$5,529,688

The Montana Securities Act (the Act) governs all offers and sales of securities in and from the state of Montana and those persons and firms engaged in the securities business within and without this state. The Department achieves its mission by administering two related functions: enforcement and regulatory programs. The regulatory program involves the registration (similar to licensing) of securities issuers, securities broker-dealers, securities salespersons, investment advisers, and investment adviser representatives.

To become registered to transact business in this state, broker-dealers and investment advisers are required to pay a \$200.00 fee. The \$200.00 fee is paid upon making an initial application for registration, and annually in order to renew a registration license. Salespersons and investment adviser representatives are required to pay a \$50.00 fee upon making initial application for registration and annually in order to renew a license. Registration is on a calendar year basis, which begins January 1 and ends December 31. The Department reviews each initial and renewal application filing for compliance with statutes, rules, and guidelines. Additionally, the Department conducts examinations of securities broker-dealers and investment advisers to determine the currency and accuracy of their books and records, and to verify compliance with state and federal laws, rules, and regulations. The Department responds to numerous telephone calls and other inquiries regarding statutes, rules, and interpretations from other agencies and the public.

An issuer of securities required to be registered, pays a fee of from \$200.00 to \$1000.00. The fee is based upon the aggregate amount of securities to be offered in this state. The Department analyzes applications and documents filed by securities issuers to determine accuracy and completeness of the information submitted. The Department determines which guidelines, statutes, and rules apply to a particular filing, and makes the appropriate comments. The Department approves applications which meet the minimum registration requirements and denies those registration applications, which do not meet the requirements. The Department also processes annual renewals, amendments, and other changes for securities issuers.

Prior to the 1993 legislative session, an issuer of securities could register a "master fund," which was subject to review, but each portfolio contained within the master fund was exempt from registration, the payment of fees, and was not subject to any review by analysts. Effective October 1, 1994, each portfolio must register as a separate issuer of securities. The registration fees are calculated in the same manner as previously outlined for issuers. The Department reviews each portfolio separately and applies the customary merit standards for such review.

SECURITIES: ENFORCEMENT

<u>ENFORCEMENT</u>	FY 93 Actual	FY 94 Actual	FY 95 Projected	FY 96 Projected	FY 97 Projected
1. New Investigations	23	40	40	45	50
2. Fines	\$80,681.00	\$515,688.82	\$25,000.00	\$25,000.00	\$25,000.00
3. Rescission Offers **	\$488,855.05	\$336,752.00	\$3,500,000.00	\$500,000.00	\$500,000.00
4. Administrative Actions	21	19	24	30	35
5. Criminal Actions	3	2	2	4	6
6. Open Cases	39	62	70	75	80
Total Revenue Enforcement	\$80,681.00	\$515,688.82	\$25,000.00	\$25,000.00	\$25,000.00

In administering its enforcement program, the Department is charged with investigating alleged violations of the Montana Securities Act. Any willful violation of the Act is a felony. Moreover, the Department is authorized to initiate administrative and civil actions such as cease and desist orders and complaints for injunctions. In bringing criminal cases, the Department, which is a criminal justice agency, works closely with local, state, and federal law enforcement authorities.

** The rescission offers indicate the amount of money which is offered to investors.

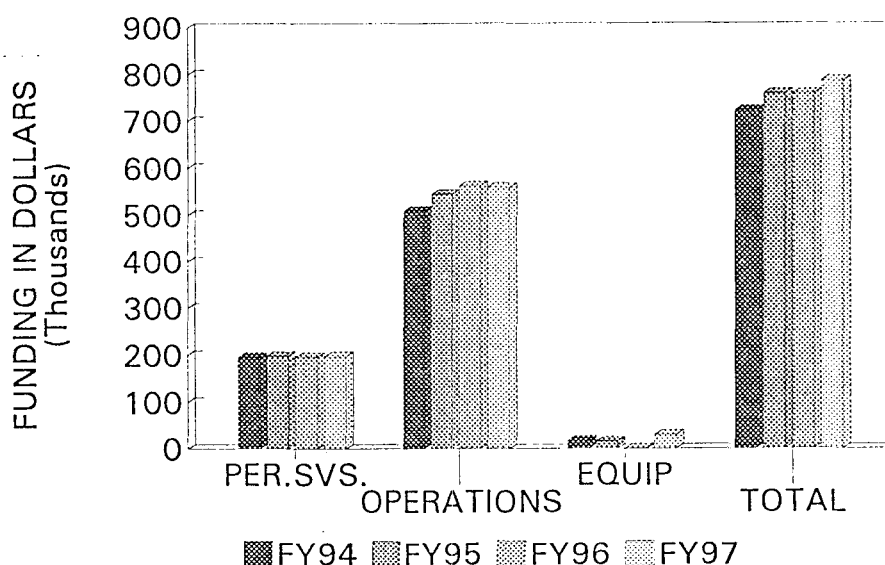
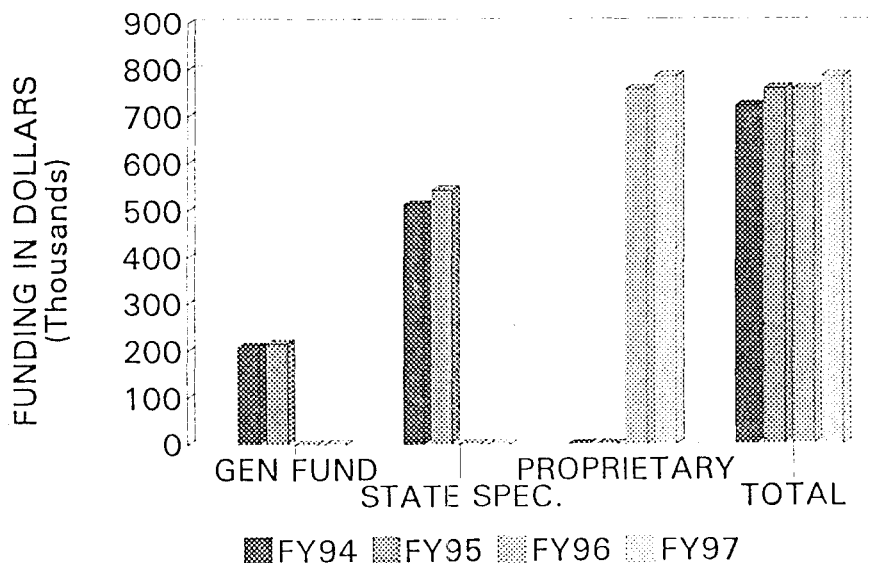
WARRANT WRITER

STATE AUDITOR'S OFFICE\WARRANT WRITER

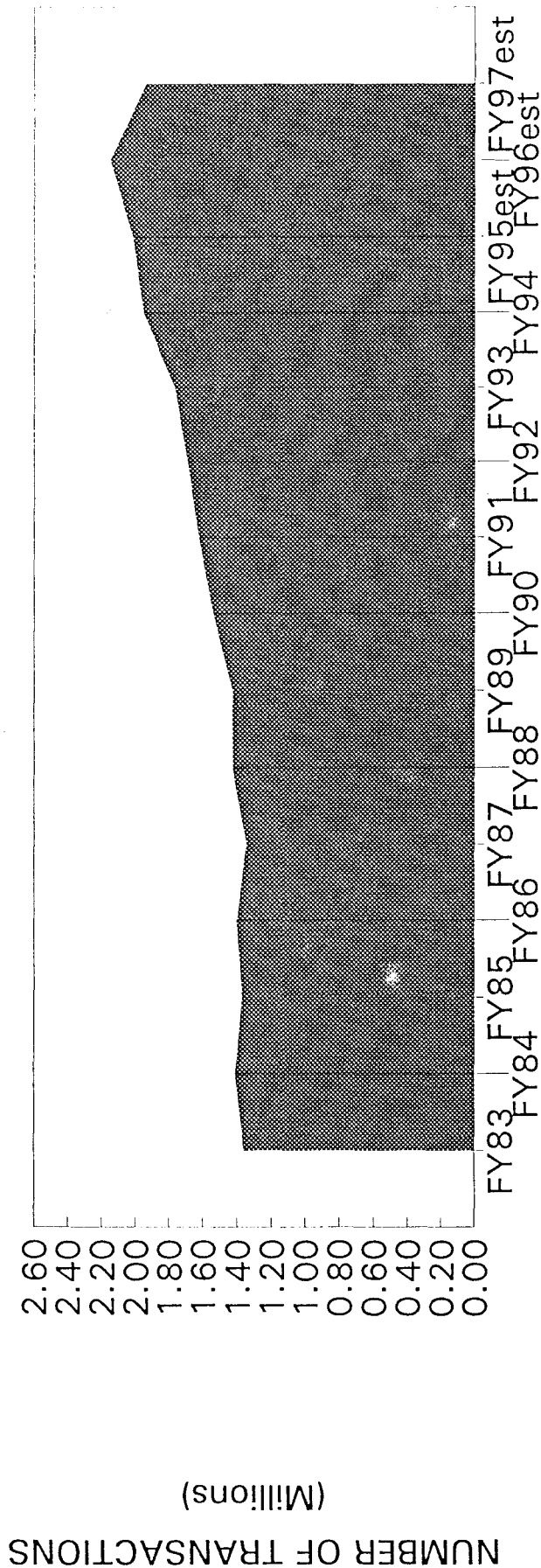
	FY94	FY95	FY96	FY97
<u>EXPENDITURES:</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>REQUEST</u>	<u>REQUEST</u>
PER.SVS.	\$196,198	\$198,376	\$196,439	\$197,089
OPERATIONS	\$508,752	\$544,456	\$561,429	\$558,991
EQUIP	\$18,002	\$16,471	\$450	\$29,806
TOTAL	<u>\$722,952</u>	<u>\$759,303</u>	<u>\$758,318</u>	<u>\$785,886</u>

FUNDING:

GEN FUND	\$209,282	\$215,911	\$0	\$0
STATE SPEC.	\$513,670	\$543,392	\$0	\$0
PROPRIETARY	<u>\$0</u>	<u>\$0</u>	<u>\$758,318</u>	<u>\$785,886</u>
TOTAL	<u>\$722,952</u>	<u>\$759,303</u>	<u>\$758,318</u>	<u>\$785,886</u>

STATE AUDITOR'S EXPENDITURE DETAIL
WARRANT WRITERSTATE AUDITOR'S FUNDING DETAIL
WARRANT WRITER

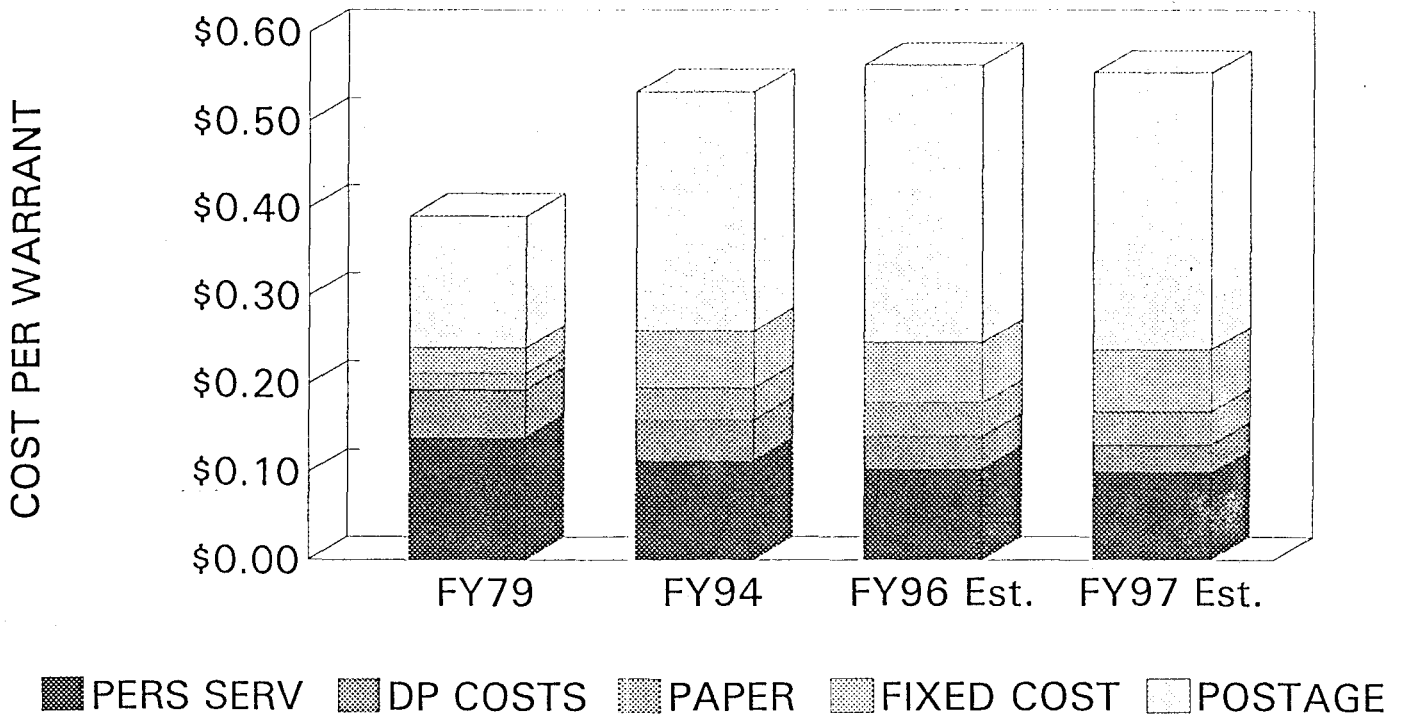
WARRANT WRITER PRODUCTION FY83-97



Fiscal Year	Total Transactions
FY83	1,358,633
FY84	1,408,638
FY85	1,367,729
FY86	1,398,094
FY87	1,344,060
FY88	1,422,905
FY89	1,424,926
FY90	1,535,794
FY91	1,621,499
FY92	1,687,169
FY93	1,763,091
FY94	1,951,582
FY95est	2,015,346
FY96est	2,146,784*
FY97est	1,936,134

* Includes HB 171 Income Tax Refunds

MAILER WARRANT COST BREAKDOWN COST COMPARISON FY79 TO FY97

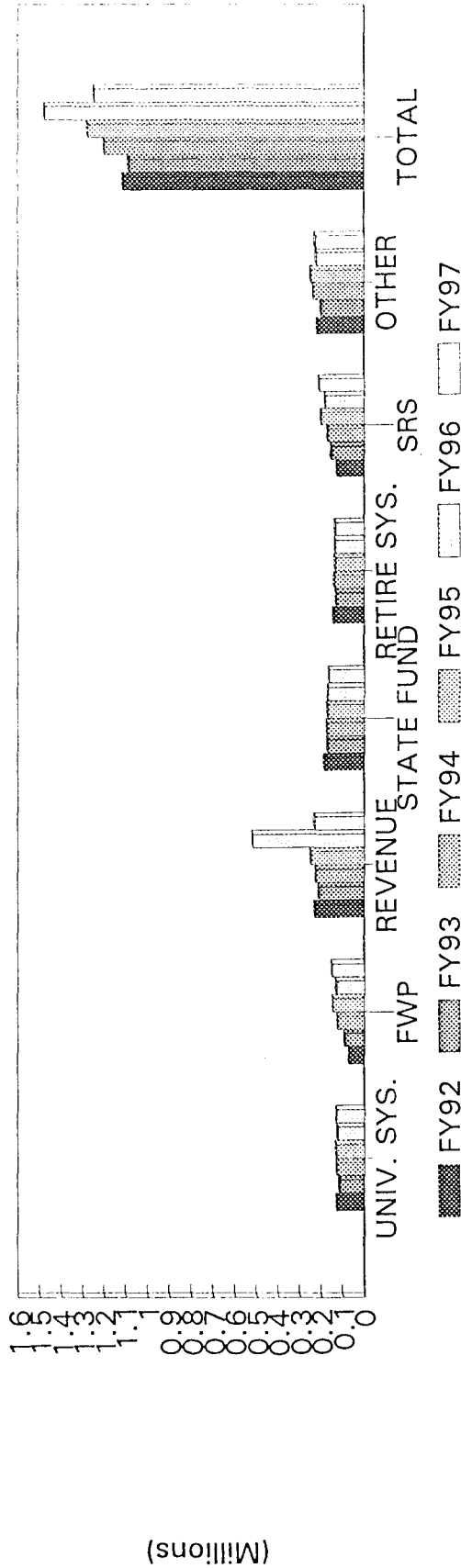


PER WARRANT COST FACTORS						
	PERSONAL SERVICES	DP COST	PAPER	FIXED COST	POSTAGE	TOTAL
FY79	\$0.1397	\$0.0538	\$0.0184	\$0.0290	\$0.1500	\$0.3909
FY94	\$0.1134	\$0.0464	\$0.0360	\$0.0645	\$0.2728	\$0.5331
FY96 Est.	\$0.1040	\$0.0368	\$0.0380	\$0.0683	\$0.3160	\$0.5631
FY97 Est.	\$0.0986	\$0.0324	\$0.0380	\$0.0694	\$0.3160	\$0.5544

- Since 1979, personal service costs have dropped 29.5% on each mailer warrant issued.
- Data processing costs have declined 39.8% on each warrant issued.
- Paper warrant costs have climbed 100.6% per warrant during the same timeframe.
- Fixed cost such as rent, audits and state cost allocations were not paid for in 1979. These cost have increased 139.3%.
- Postage, the most expensive component of processing these warrants, has increased 110.7%

NUMBER OF TRANSACTIONS

STATE AUDITOR WARRANT WRITER
MAILER WARRANTS



WARRANT WRITER AGENCY TRANSACTION TOTALS

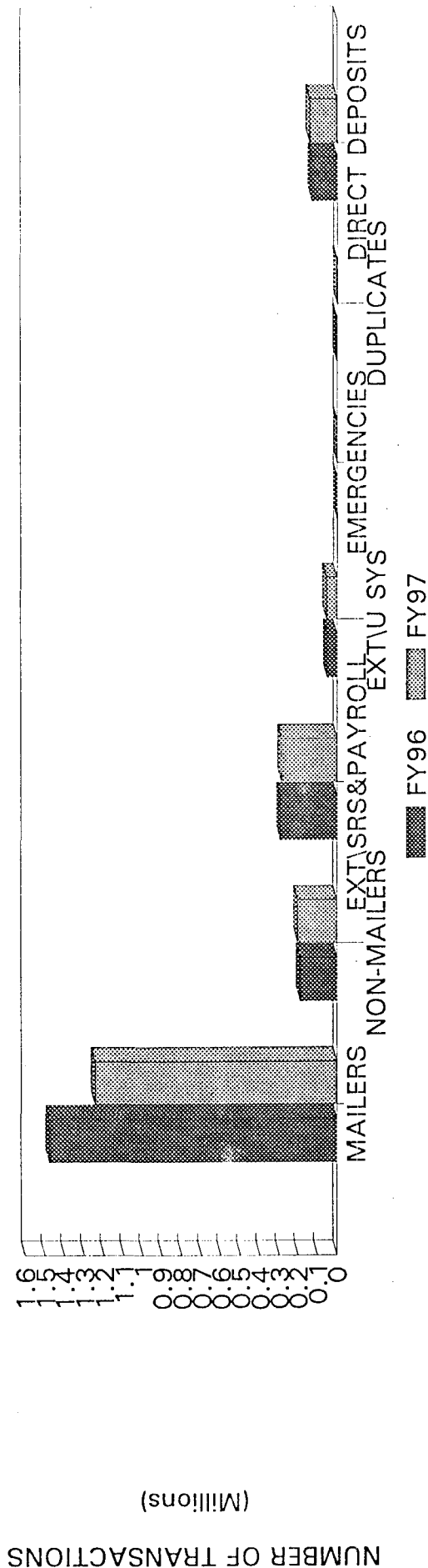
	FY92	FY93	FY94	FY95	FY96	FY97
UNIVERSITY SYSTEM	130,066	117,793	130,231	130,962	123,169	Estimated 129,050
FISH, WILDLIFE AND PARKS	72,962	94,178	124,762	144,762	131,245	Estimated 151,405
DEPT. OF REVENUE	231,686	211,908	225,503	250,000	516,000	230,000
STATE FUND	186,022	172,777	174,923	169,781	168,038	163,429
RETIREMENT SYSTEMS	145,427	130,879	139,155	136,594	135,500	134,227
SOCIAL AND REHAB. SERVIC	126,173	155,019	171,019	199,426	180,356	209,834
ALL OTHER STATE PROGRAM	220,980	203,770	236,797	246,752	222,264	227,825
TOTAL	1,113,316	1,086,324	1,202,390	1,278,277	1,476,572	1,245,770

STATE AUDITOR'S OFFICE PAYMENT TRANSACTION TYPE

	FY96*	FY97
MAILERS	1,476,572	1,245,770
NON-MAILERS	191,479	204,350
EXTSRS&PAYROL	295,095	289,195
EXTU SYS	50,805	52,699
EMERGENCIES	225	268
DUPLICATES	1,291	1,491
DIRECT DEPOSITS	131,317	142,361

* Mailers for FY96 include income tax rebate.

STATE AUDITOR WARRANT WRITER TRANSACTION TYPE



FISCAL CONTROL AND MANAGEMENT BUDGET FOR FY96-FY97

The Fiscal Control and Management Program contains two separate, but interrelated functions. Warrant writing and bad debt collection are these two functions. The following is a description of each of these functions; how much work they anticipate doing and individual issues related to each functional area.

Warrant Writer Program

General Description:

The State Auditor's Warrant Writer System provides most state agencies check writing and auto-deposit capabilities for financial transactions.

Warrants are produced and processed by the program. Each warrant is tracked on the State Auditor's Warrant Writer data system. The program generates, mails, tracks and cashes each transaction. Services offered include direct deposit, warrant consolidation (multiple vendors), stop payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data and federal 1099 MISC processing.

The Warrant Writer Program produced 1.95 million payment transactions worth 1.8 billion dollars for state government in FY1994. Since FY 1990, total transactions have increased 27%. We estimate that we will exceed 2 million transactions in the current fiscal year. With the income tax rebate authorized in HB171, our workload in FY96 will increase by 291,000 warrants and will be 46% higher than in FY1990.

Our average cost for each transaction is currently running at about 38 cents. Average personal service costs for each transaction have gone from about 14 cents each in FY1979 to under 10 cents each in FY1997. Postage costs have gone from 15 cents in FY1979 to 31.6 cents in FY96 and FY97. The most current increase adopted by the post office this January, increases our postage cost rates by over 10%. On our current warrant volume, this inflationary increase is in excess of \$30,000 annually. Coupled with the growth in the number of warrants anticipated, this is clearly the fastest growing component of the warrant writing budget. The attached graphs depict the change in workload and cost associated with the warrant writer program.

With the increase in total warrants issued, other costs increase with this growth. Paper costs have increased and the number of hours needed to maintain our data base system have also increased due to inflation and actual usage.

Transactions include warrants and electronic transfers for vendor payments, retirement payments for public employees and teachers, payroll, Worker's Comp., income tax refunds, special refunds and public assistance benefit payments.

In addition, the program maintains a central payee file to facilitate payment processing. This file contains about 140,000 names and addresses. The file is updated continuously. This file allows agencies to save time when imputing warrant requests for those payees on the file. Agencies don't have to look for addresses, nor type in specific address information to make the payment go where it needs to go. We try to maintain a "clean" address file by using the state's finalist address correction process. This saves money by reducing the return rate on mailed warrants.

The program is also responsible for consolidation of 1099 MISC information reported by state agencies. We prepare about 6,000 1099 MISC forms which are mailed to payees that have reportable income. The tax information is then provided to the Internal Revenue Service. The program coordinates compliance with IRS rules governing 1099 MISC filings, backup withholding and error reports.

These 1099 duties were transferred to the Fiscal Control Program when the last legislature moved the Payroll Program to the Dept. of Administration. No staff or funding was provided for these additional duties.

Currently, warrant writer services are funded through a direct general fund appropriation and a state special appropriation. Non-general fund portions of agencies are billed a uniform rate for projected transactions. The current funding system does not distinguish between low or high cost payment alternatives, nor does it factor in actual use.

The current fee structure is based on an average cost for all types of transactions. Currently, each agency is billed at a rate of 41 cents for those transactions estimated prior to the last legislative session. Under the present system, agencies are billed for this fixed cost whether they reduce, reach or exceed those transaction estimates made prior to last session. They are also billed the 41 cents whether the transaction is an electronic fund transfer or a duplicate warrant.

A good example of warrant volume variance occurred with the Department of Fish, Wildlife and Parks in FY94. The department was billed for a total of 85,754 estimated transactions at 41 cents each. Total billed cost to the department was \$34,958. With the growth of special hunting license refunds, the department actually wrote 127,552 warrants in FY94. Based on actual warrants issued, the average cost per warrant to FWP was 27.4 cents. Even with our postal discount rate, this per warrant average does not pay the cost of postage on those warrants issued for the department.

The converse was true for other agencies.

NEW COST PLAN FOR FY96-97

Our current budget forecast and payment transaction forecast indicate that the FY96 and FY97 average transaction cost should stay around the 41 cent level. Based on a survey of surrounding states, this level of cost is the most competitive in the area. Idaho had the next least costly average of 60 cents per warrant.

We want to become even better at providing our service at less cost.

Our new proposal, which is reflected in the Governor's Budget, suggests that the service be provided under an internal service fund arrangement. This proposal asks that the various types of payment options be costed separately to reflect a more accurate actual cost for each transaction type. We also propose that billing be based on actual utilization, rather than estimated amounts.

This new system of financing the warrant writer service should provide incentive for agencies to use lower cost options of payment and reduce the total number of payment transactions. We believe that this approach brings business sense to an application that is customer oriented. Our system can now provide lower cost options such as electronic fund transfer and warrant consolidation to the customer and charges them for the actual cost of doing business.

The attached tables and charts detail the new program initiatives. Information includes cost components for each transaction, transaction forecasts, historic trends and other related data.

Demand Projections:

Demand was forecasted for the following categories of payments: Mailer warrants, Non-Mailer warrants, Emergency warrants, Duplicate warrants, External warrants and Electronic fund transfers. Each of these categories is forecasted using historic data.

Our forecasts were required at the end of May so that the figures could be used in the Executive Budget Process. We met with as many agencies as we could to insure that the projections were as accurate as possible. Based on warrant volume in May and June, our projections of warrant growth in the next biennium are conservative. This year we have already run 27,000 unanticipated Cascade County property tax refund warrants for the Dept. of Revenue.

The passage of HB171 for income tax refunds, will increase our mailer warrants by 291,000 in FY96. This represents a 25% increase in the production of mailer warrants. The added warrants are equivalent to almost three months of mailers in addition to our regular monthly average of 100,000.

Hopefully, the new actual cost basis, if adopted, will help slow the current rate of growth in other areas.

PROPOSED RATE STRUCTURE:

The proposed rate structure for each type of warrant\payment is included in the attached information. We determined individual transaction cost by conducting time, supply and processing analysis to determine the "estimated actual cost" of each payment option.

Individual cost rates are proposed for each type of payment option. These rates are:

	<u>FY96</u>	<u>FY97</u>
MAILERS-POSTAGE PAID	\$00.5631	\$00.5544
MAILERS-NO POSTAGE	\$00.2471	\$00.2384
NON-MAILERS	\$00.2329	\$00.2242
EXTERNAL\SRS\PAYROLL	\$00.2091	\$00.2004
EXTERNAL\UNIVERSITY SYS	\$00.1970	\$00.1883
EMERGENCY WARRANTS	\$05.3790	\$05.3756
DUPLICATE WARRANTS	\$10.9993	\$10.9959
DIRECT DEPOSIT	\$00.1448	\$00.1216

Over 1 million of our transactions are postage paid mailers. Emergency warrants amount to less than 300 per year and duplicates under 1,500 per year. Our largest potential savings is moving payments made through mailer warrants to electronic transfer. We can save over 30 cents on each of these transaction switches. We can't do electronic transfer in a lot of cases, but several applications do make sense. Payments made on a regular basis to the same payee are good candidates for the technology.

Our goal with the new rate structure is to give financial incentive to agencies and programs in seeking more cost effective payment means.

ELECTRONIC FUND TRANSFER FOR RETIREES

Representative Wiseman is carrying HB275 this session. This legislation would help reduce the number of warrants that we currently issue. We estimate that over 100,000 retirement warrants will be replaced by electronic fund transfer if this legislation is implemented.

Currently, the retirement systems pay their own postage on these warrants. This postage cost is in excess of \$30,000 a year. With the reduction of warrants, the retirement systems can use the savings to send important information to retirees and still save the pension fund money.

In addition, fixed costs are less for electronic transfers. If our proposed billing method is adopted, the retirement systems will pay the warrant writer program less for these same payments. Warrant writer costs will also be reduced by about \$8,000 per year. When fully implemented, this legislation should free up almost \$50,000 a year in costs. These dollars can be used to reduce budgets or provide expanded services to the recipients of retirement benefits.

BAD DEBTS

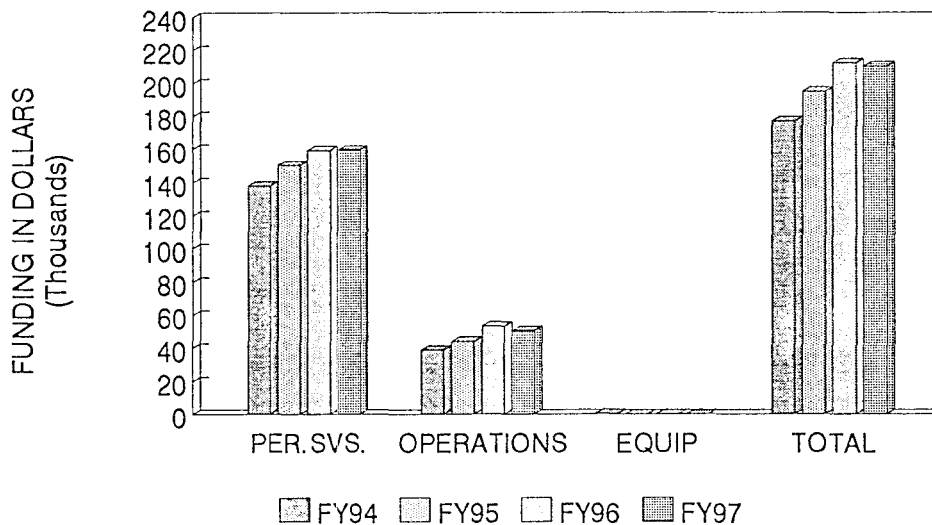
STATE AUDITOR'S OFFICE

BAD DEBTS	FY94	FY95	FY96	FY97
EXPENDITURES:	ACTUAL	BUDGET	REQUEST	REQUEST
PER.SVS.	\$137,799	\$150,391	\$159,165	\$159,586
OPERATIONS	\$38,855	\$44,189	\$53,117	\$50,585
EQUIP	\$286	\$0	\$0	\$0
TOTAL	\$176,940	\$194,580	\$212,282	\$210,171

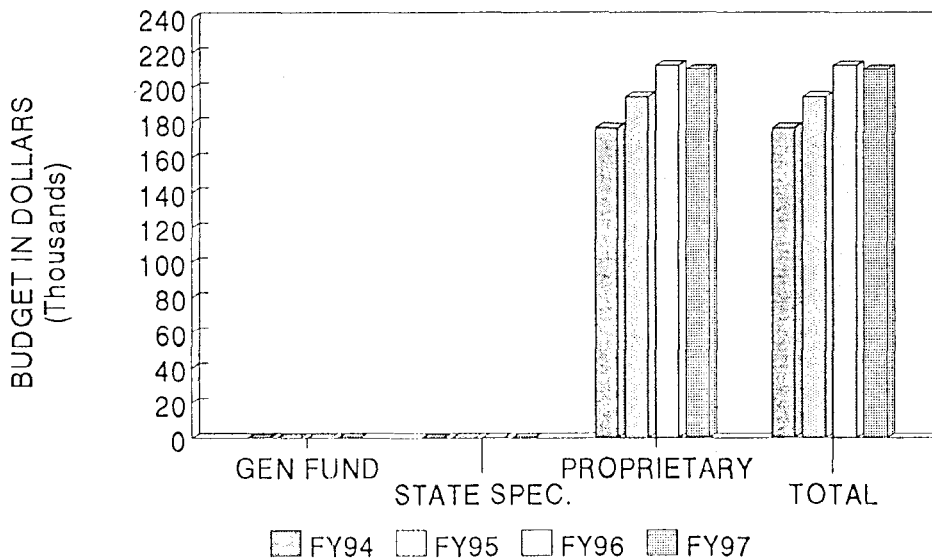
FUNDING:

GEN FUND	\$0	\$0	\$0	\$0
STATE SPEC.	\$0	\$0	\$0	\$0
PROPRIETARY	\$176,940	\$194,580	\$212,282	\$210,171
TOTAL	\$176,940	\$194,580	\$212,282	\$210,171

STATE AUDITOR'S EXPENDITURE DETAIL
BAD DEBT PROGRAM



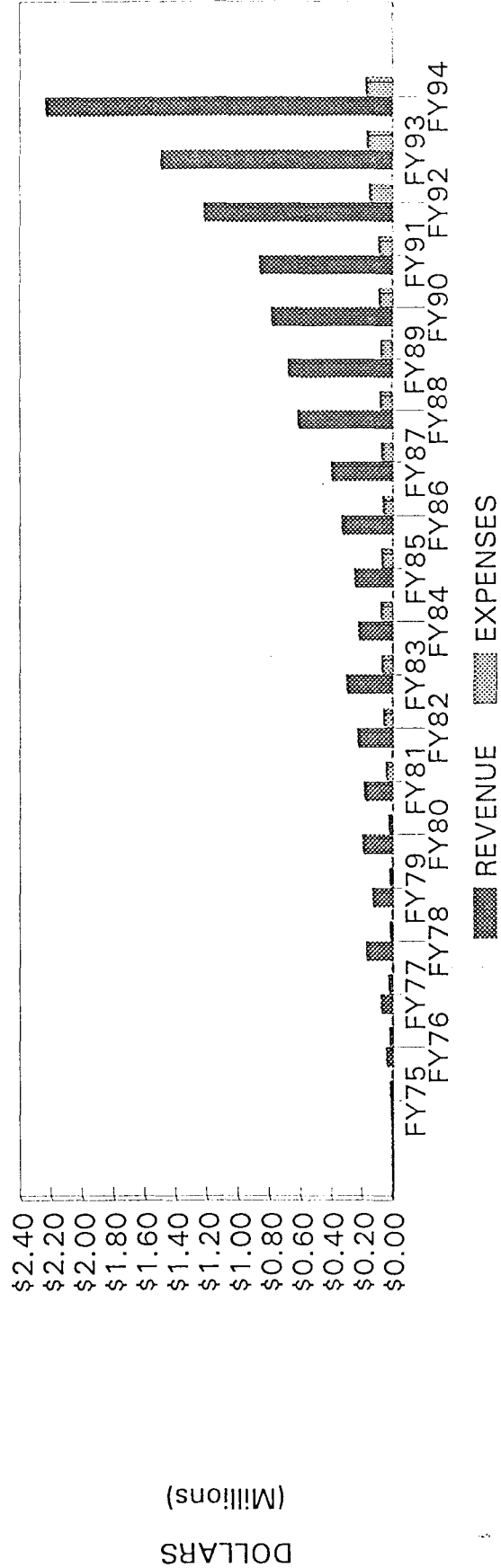
STATE AUDITOR'S BUDGET COMPARISON
BAD DEBT COLLECTION PROGRAM



HISTORY OF COLLECTIONS AND EXPENSES FOR THE BAD DEBT PROGRAM

DEPARTMENT OF REVENUE				STATE AUDITOR'S OFFICE			
	REVENUE	COST	PROFIT		REVENUE	COST	PROFIT
FY75	\$12,277	\$13,300	(\$1,023)	FY91	\$865,716	\$89,156	\$776,560
FY76	\$43,513	\$20,195	\$23,318	FY92	\$1,226,572	\$153,000	\$1,073,572
FY77	\$75,008	\$22,397	\$52,611	FY93	\$1,501,095	\$168,500	\$1,332,595
FY78	\$174,859	\$15,748	\$159,111	FY94	\$2,234,691	\$176,540	\$2,058,151
FY79	\$133,844	\$18,169	\$115,675	4 YEAR TOTAL	\$5,828,074	\$587,196	\$5,240,878
FY80	\$197,284	\$21,579	\$175,705				
FY81	\$186,665	\$41,823	\$144,842				
FY82	\$232,532	\$58,711	\$173,821				
FY83	\$304,887	\$70,400	\$234,487				
FY84	\$226,101	\$75,672	\$150,429				
FY85	\$253,470	\$71,274	\$182,196				
FY86	\$339,744	\$65,103	\$274,641				
FY87	\$405,203	\$73,441	\$331,762				
FY88	\$618,891	\$77,467	\$541,424				
FY89	\$682,783	\$76,671	\$606,112				
FY90	\$787,566	\$88,256	\$699,310				
16 YEAR TOTAL	\$4,674,627	\$810,206	\$3,864,421				

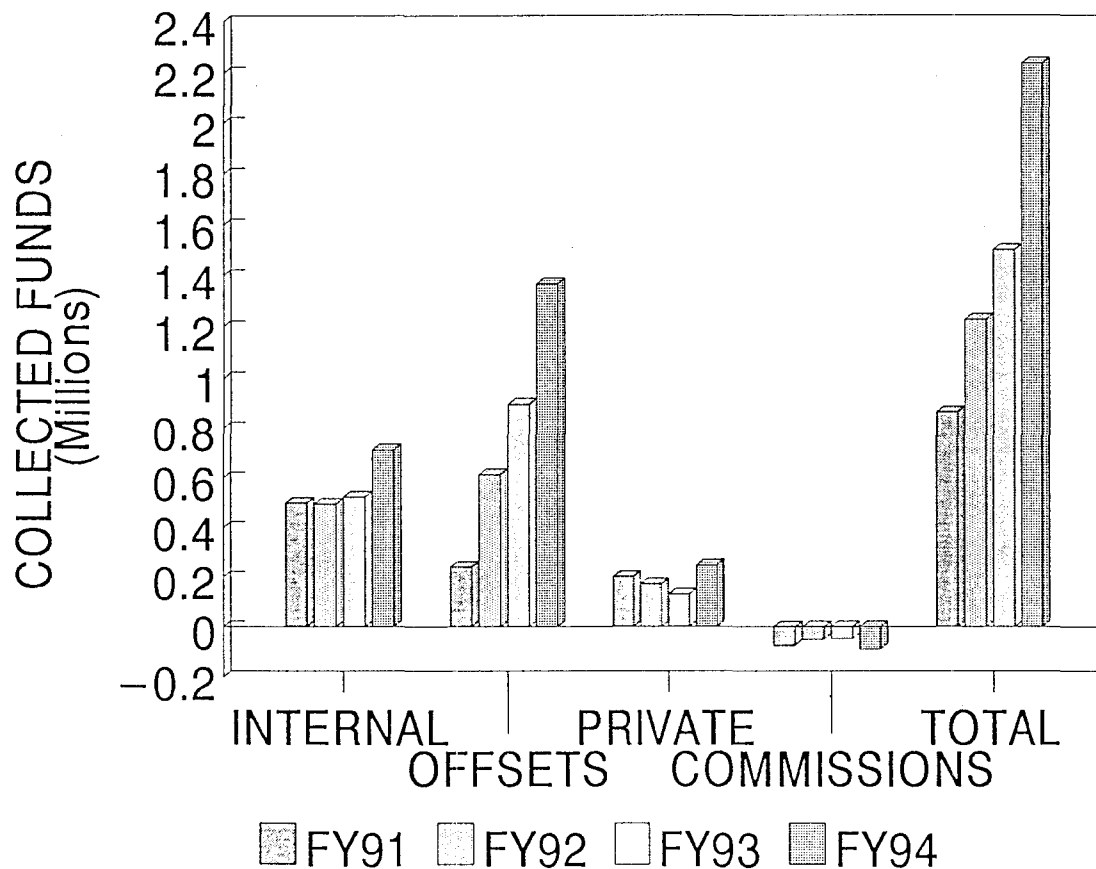
STATE AUDITOR'S OFFICE BAD DEBT PROGRAM REVENUE AND EXPENSES



BAD DEBT COLLECTIONS FY91 – FY94

	FY91	FY92	FY93	FY94
INTERNAL	\$497,562	\$493,686	\$521,987	\$711,400
OFFSETS	\$241,768	\$612,019	\$896,697	\$1,366,267
PRIVATE	\$203,065	\$171,392	\$131,308	\$247,651
COMMISSIONS	(\$76,679)	(\$50,525)	(\$48,897)	(\$90,627)
TOTAL	\$865,716	\$1,226,572	\$1,501,095	\$2,234,691

STATE AUDITOR'S OFFICE BAD DEBT COLLECTIONS FY91–FY94



DEBT COLLECTION PROGRAM-STATE AUDITOR'S OFFICE

The Bad Debt Collection Program assists in the recovery of funds owed state agencies. In FY 1994, the program recovered a total of \$2,234,691. Over the past four years the program has collected a total of \$5,828,074 at a cost of \$587,196. Between FY93 and FY94 total collections increased almost 49%.

Recovered funds, less the fee for collection, are returned to the agency that holds the debt. If the debt originally was to a general fund program, the money is returned to the general fund. In the past, about half the collections made are returned to the general fund.

The Bad Debt Program was created in 1975 within the Department of Revenue. The program remained attached to the Department of Revenue for sixteen years. In 1991, the program was moved to the State Auditor's Office where it currently resides within the Fiscal Control and Management Program.

During the first 17 years of program operation, the cost of running the program was financed by the general fund. In the first year of operation, the program collected \$12,277 in state debt at a cost of \$13,300. This is the only fiscal year that the program has lost money.

Several graphs are attached that represent the collection and cost history of the program. In addition, there is a graph that details the amount and type of collections made by the program in the past four years.

In the 91 session, Representative Grady carried legislation that took the program off the state general fund and replaced it with self funding. Since self funding, the cost of collecting each dollar of debt has gone from 17 cents to 7.5 cents. The 7.5% cost of doing business is one of the best collection values in the state. State debt referred to private collection agencies currently costs the state 36.5% of whatever is collected.

Agencies refer debts to the program after they have exhausted their internal debt collection effort. The Bad Debt Collection Program utilizes three components in recovering assigned debt. These components are:

Internal Collection

Internal collection involves program staff making contact with a debtor. Once contact is made, various methods are used by the staff to recovery the owed debt. Many times, the debtor will work with the program staff in setting up a repayment program to absolve their debt. In other cases, bank accounts can be levied against to recover owed money.

Offset System

The offset process is integrated with the state warrant writing program that is also attached to the Fiscal Control and Management Division within the State Auditor's Office. Offsets, the most productive recovery process, stops state warrants from being paid when the payee is identified as owing a state debt. When a warrant is stopped, the staff check to make sure that the debt is valid before offsetting the owed amount from the check being issued. An example of this process occurs when an income tax refund check is issued by the Department of Revenue to someone that owes child support payments. We stop the payment and offset for the amount due the child support program.

Private Collection

Private collection agencies are used for certain kinds of debts that are difficult for the offset or internal collection efforts to collect. Out of state debtors often fall into this category. This process is the least productive of the three methods used to collect within the program.

The goal of the Bad Debt Program is to continue the business oriented approach that has been successful over the past 20 years. We will continue to strive for lower cost for our customers and a greater return of money owed those programs. Our proposal this legislative session to assist county government collect debts that would otherwise go uncollected is our current attempt at maintaining the success of the program.

Our new proposal, which is supported by the Governor, would allow counties, on a voluntary basis, to turn personal property tax debts over to our collection effort. These debts would be the ones the county has little hope in collecting. With our offset system, experience tells us that a significant number can be collected through the offset process.

When we currently process refund checks, we typically offset between 4 & 5% of those refunds to pay for debts owed by the refund recipient.

These collections not only help counties recovery funds owed them, they also help the state general fund. Funds recovered for personal property taxes offset the need for general fund in both the school equalization account and the University six mill levy account. About 40% of the revenue collected for counties through the debt collection process would go indirectly to the state's general fund.

While it is difficult to predict the amount of collections from this source until some participation history is acquired, we believe that once we can show counties that we can help them with difficult debts, our business will grow.

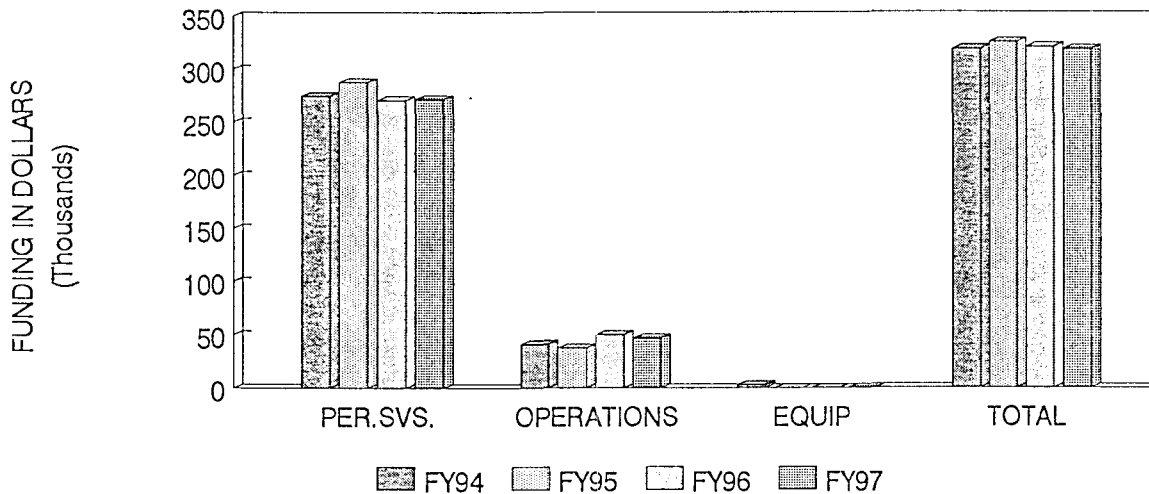
CENTRAL MANAGEMENT

STATE AUDITOR'S OFFICE

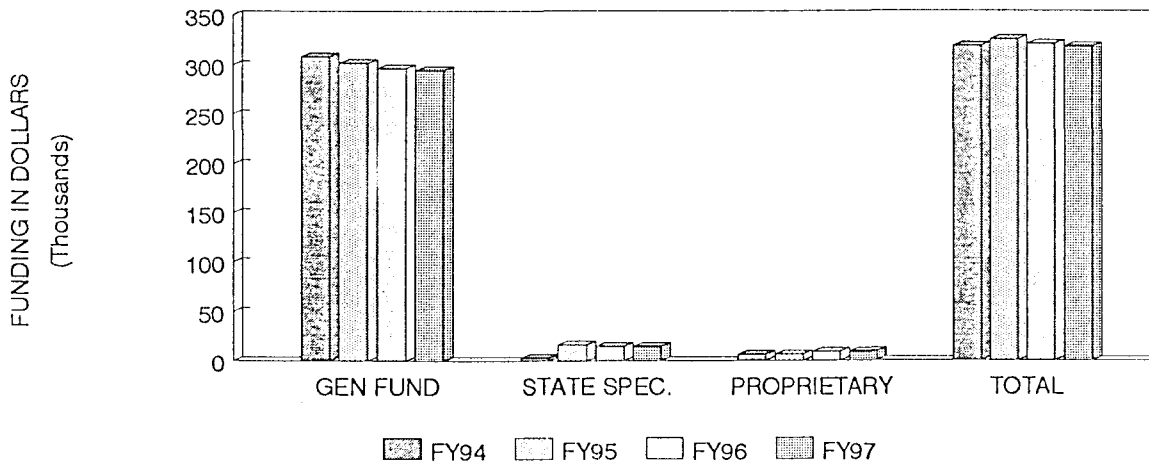
CENT.MANAGEMENT EXPENDITURES:	FY94 ACTUAL	FY95 BUDGET	FY96 REQUEST	FY97 REQUEST
PER.SVS.	\$274,771	\$287,793	\$270,754	\$271,591
OPERATIONS	\$41,172	\$37,582	\$50,022	\$46,953
EQUIP	\$2,846	\$0	\$0	\$0
TOTAL	\$318,789	\$325,375	\$320,776	\$318,544

FUNDING:	FY94	FY95	FY96	FY97
GEN FUND	\$308,369	\$301,962	\$296,716	\$294,324
STATE SPEC.	\$3,485	\$16,468	\$14,530	\$14,610
PROPRIETARY	\$6,935	\$6,945	\$9,530	\$9,610
TOTAL	\$318,789	\$325,375	\$320,776	\$318,544

STATE AUDITOR'S EXPENDITURE DETAIL
CENTRAL MANAGMENT PROGRAM



STATE AUDITOR'S FUNDING DETAIL
CENTRAL MANAGMENT PROGRAM



FISCAL CONTROL AND MANAGEMENT **BUDGET FOR FY96-FY97**

Mr. Chairman, committee members, my name is Tom Crosser. I am Deputy of the Fiscal Control and Management Program.

The Fiscal Control and Management Program contains two separate, but interrelated functions. Warrant writing and bad debt collection are these interrelated functions. These programs' are described starting on page 22 of your handout.

I will start out with a general overview of each of these functions.

Warrant Writer Program

General Description:

The Writer System provides most state agencies check writing and auto-deposit capabilities for financial transactions.

Warrants are produced and processed by the program. After production, each warrant is tracked on the State Auditor's Warrant Writer data system. The program generates, mails, tracks and cashes each transaction. Services offered include direct deposit, warrant consolidation (multiple vendors), stop payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data and federal 1099 MISC processing.

The Warrant Writer Program produced 1.95 million payment transactions worth 1.8 billion dollars for state government in FY1994. If you will look on **PAGE 23 OF YOUR HANDOUT**, you can see the programs history since 1983.

Since FY 1990, total transactions have increased 27%. We estimate that we will exceed 2 million transactions in the current fiscal year. With the income tax rebate authorized in HB171, our workload in FY96 will increase by 291,000 warrants and will be 46% higher than in FY1990.

Our average cost for each transaction is currently running at about 38 cents. Please turn to **PAGE 24 OF YOUR HANDOUT**. This graph shows the historic and projected costs associated with the warrant writer program.

As you can see, average personal service costs for each transaction have gone from about 14 cents each in FY1979 to under 10 cents each in FY1997. Postage costs have gone from 15 cents in FY1979 to 31.6 cents in FY96 and FY97. The most current increase adopted by the post office this January, increases our postage cost rates by over 10%. On our current warrant volume, this inflationary increase is in excess of \$30,000 annually. Coupled with the growth in the number of warrants anticipated, this is clearly the fastest growing component of the warrant writing budget.

With the increase in total warrants issued, other operational costs increase with this growth. Paper costs have increased and the number of hours needed to maintain our data base system have also increased due to inflation and actual usage.

When we make payments for other state agencies, our transactions include warrants and electronic transfers for vendor payments, retirement payments for public employees and teachers, state payroll checks, Worker's Comp. benefit payments, income tax refunds, special refunds like Fish, Wildlife and Parks game drawing refunds, and public assistance benefit payments.

In addition to making payments, the program maintains a central payee file to facilitate payment processing. This data file contains about 140,000 names and addresses. The file is updated continuously and allows agencies to save time when imputing warrant requests for those payees on the file. Agencies don't have to look for addresses, nor type in specific address information to make the payment go where it needs to go.

We try to maintain a "clean" address file by using the state's finalist address correction process. This saves money by reducing the return rate on mailed warrants.

The program is also responsible for consolidation of 1099 MISC information reported by state agencies. We prepare about 6,000 1099 MISC forms which are mailed to payees that have reportable income. The tax information is then provided to the Internal Revenue Service. The program coordinates compliance with IRS rules governing 1099 MISC filings, backup withholding and error reports.

These 1099 duties were transferred to the Fiscal Control Program when the last legislature moved the Payroll Program to the Dept. of Administration. No staff or funding was provided for these additional duties.

Currently, warrant writer services are funded by a direct general fund appropriation and a state special revenue appropriation. Non-general fund programs are billed a uniform rate for projected transactions. The current funding system does not distinguish between low or high cost payment alternatives, nor does it factor in actual use.

The current fee structure is based on an average cost for all types of transactions. Currently, each agency is billed at a rate of 41 cents for those transactions estimated prior to the last legislative session.

Under the present system, agencies are billed for this fixed cost whether they reduce, reach or exceed those transaction estimates made prior to last session. They are also billed the 41 cents whether the transaction is an electronic fund transfer or a duplicate warrant.

A good example of warrant volume variance occurred with the Department of Fish, Wildlife and Parks in FY94. The department was billed for a total of 85,754 estimated transactions at 41 cents each.

The total billed cost to the department was \$34,958. With the growth of special hunting license refunds, the department actually asked us to write 127,552 warrants in FY94. Based on actual warrants issued, the average cost per warrant to FWP was 27.4 cents. Even with our postal discount rate, this per warrant average does not pay the cost of postage on those warrants issued by the department.

The converse was true for other agencies. PERD and TRS were billed at the same 41 cent per transaction rate, but payed their own postage. These programs currently subsidize other program's warrant cost.

NEW COST PLAN FOR FY96-97

Our current budget forecast and payment transaction forecast indicate that the FY96 and FY97 average transaction cost should stay around the 41 cent level. Based on a survey of surrounding states, this level of cost is the most competitive in the area.

Idaho had the next least costly average of 60 cents per warrant.

We want to become even better at providing our service at less cost.

Our new proposal, which is reflected in the Governor's Budget, suggests that the service be provided under an internal service fund arrangement. This proposal asks that the various types of payment options be costed separately to reflect a more accurate actual cost for each transaction type. We also propose that billing be based on actual utilization, rather than estimated amounts.

This new system of financing the warrant writer service should provide incentive for agencies to use lower cost options of payment and reduce the total number of payment transactions. We believe that this approach brings business sense to an application that is customer oriented. Our system can now provide lower cost options such as electronic fund transfer and warrant consolidation to the customer and charges them for the actual cost of doing business.

We will need your assistance in this effort. If you decide this approach makes sense, we ask that a committee bill be introduced allowing us to operate with an internal service fund.

PASS OUT DRAFT OF COMMITTEE BILL

If you turn to page 30 of your handout, you can see the cost differences between the various payment options.

Demand Projections:

Demand was forecasted for the following categories of payments: Mailer warrants, Non-Mailer warrants, Emergency warrants, Duplicate warrants, External warrants and Electronic fund transfers. Each of these categories is forecasted using historic data.

Our forecasts were required at the end of May so that the figures could be used in the Executive Budget Process. We met with as many agencies as we could to insure that the projections were as accurate as possible. Based on warrant volume in May and June, our projections of warrant growth in the next biennium are conservative. This year we have already run 27,000 unanticipated Cascade County property tax refund warrants for the Dept. of Revenue.

PLEASE TURN TO PAGE 25 OF YOUR HANDOUT, This graph shows six years of mailer warrant workload by major department users. This graph shows the six top users of the warrant writing system.

The passage of HB171 for income tax refunds, will increase our mailer warrants by 291,000 in FY96. This represents a 25% increase in the production of mailer warrants. The added warrants are equivalent to almost three months of mailers in addition to our regular monthly average of 100,000. **THE CHART I AM PASSING OUT SHOWS THE IMPACT OF PROCESSING THESE ADDITIONAL WARRANTS.**

Hopefully, if you adopt the new billing system, the change will help slow the current rate of growth in other areas.

PROPOSED RATE STRUCTURE:

We determined individual transaction cost by conducting time, supply and processing analysis to determine the our best estimate of actual cost for each payment option.

Individual cost rates are **SHOWN ON PAGE 30 OF YOUR HANDOUT.** These rates range from eleven dollars to 12 and half cents.

	<u>FY96</u>	<u>FY97</u>
MAILERS-POSTAGE PAID	\$00.5631	\$00.5544
MAILERS-NO POSTAGE	\$00.2471	\$00.2384
NON-MAILERS	\$00.2329	\$00.2242
EXTERNAL\SRS\PAYROLL	\$00.2091	\$00.2004
EXTERNAL\UNIVERSITY	\$00.1970	\$00.1883
EMERGENCY WARRANTS	\$05.3790	\$05.3756
DUPLICATE WARRANTS	\$10.9993	\$10.9959
DIRECT DEPOSIT	\$00.1448	\$00.1216

The majority of our payments are made by mailer warrants. Over 1 million of our transactions are postage paid mailers. Emergency warrants amount to less than 300 per year and duplicates under 1,500 per year.

PLEASE TURN TO THE GRAPH ON PAGE 26 OF YOUR HANDOUT. This graph shows the relative volumes of the various types of payments being made.

Our largest potential savings is moving payments currently made by mailer warrant to electronic transfer. We can save over 30 cents on each of these transaction switches. Electronic transfer can't be done in many cases, but several applications do make sense. Payments made on a regular basis to the same payee are good candidates for the technology.

Our goal with the new rate structure is to give financial incentive to agencies and programs in seeking more cost effective payment means.

ELECTRONIC FUND TRANSFER FOR RETIREES

In the spring of 1971, I was given a disability retirement from the US Army. Shortly after this, I elected to receive my disability checks electronically. For the past 24 years I have received these checks electronically at numerous locations and without a single error in processing.

Representative Wiseman is carrying HB275 this session. This legislation would help reduce the number of warrants that we currently issue. We estimate that over 100,000 retirement warrants will be replaced by electronic fund transfer if this legislation is passed.

Currently, the retirement systems pay their own postage on these warrants. This postage cost is in excess of \$30,000 a year. With the reduction of warrants, the retirement systems can use the savings to send important information to retirees and still save the pension fund money.

In addition, fixed costs are less for electronic transfers. If our proposed billing method is adopted, the retirement systems will pay the warrant writer program less for these same payments. Warrant writer costs will also be reduced by about \$8,000 per year. When fully implemented, this legislation should free up almost \$50,000 a year in costs.

These dollars can be used to reduce budgets or provide expanded services to the recipients of retirement benefits.

DEBT COLLECTION PROGRAM-STATE AUDITOR'S OFFICE

The second program attached to Fiscal Control and Management is the Bad Debt collection program. **THIS PROGRAM IS DETAILED STARTING ON PAGE 31 OF YOUR HANDOUT.**

This program assists in the recovery of funds owed state agencies. **PLEASE LOOK AT THE GRAPH ON PAGE 32 OF YOUR HANDOUT.**

In FY 1994, the program recovered a total of \$2,234,691 at a cost of only \$176,540. Over the past four years the program has collected a total of \$5,828,074 at a cost of \$587,196. Between FY93 and FY94 total collections increased almost 49%.

Recovered funds, less the fee for collection, are returned to the agency that holds the debt. If the debt originally was to a general fund program, the money is returned to the general fund. Historically, about half the collections made are returned to the general fund.

The Bad Debt Program was created in 1975 within the Department of Revenue. The program remained attached to the Department of Revenue for sixteen years. In 1991, the program was moved to the State Auditor's Office where it currently resides within the Fiscal Control and Management Program.

During the first 17 years of program operation, the cost of running the program was financed by the general fund. In the first year of operation, the program collected \$12,277 in state debt at a cost of \$13,300. This is the only fiscal year that the program has lost money.

ON PAGE 33 OF YOUR HANDOUT is a graph that details the amount and type of collections made by the program in the past four years.

In the 91 session, Representative Grady carried legislation that took the program off the state general fund and replaced it with self funding similar to what we are requesting for the warrant writer program.

Since self funding, the cost of collecting each dollar of debt has gone from 17 cents on the dollar to 7.5 cents. The 7.5% cost of doing business is one of the best collection values in the state.

State debt referred to private collection agencies currently costs the state 36.5% of whatever is collected.

Agencies refer debts to the program after they have exhausted their internal debt collection effort. The Bad Debt Collection Program utilizes three components in recovering assigned debt. These components are:

Internal Collection

Internal collection involves program staff making contact with a debtor. Once contact is made, various methods are used by the staff to recovery the owed debt. Many times, the debtor will work with the program staff in setting up a repayment program to absolve their debt. In other cases, bank accounts can be levied against to recover owed money.

Offset System

The offset process is integrated with the state warrant writing program that is also attached to the Fiscal Control and Management Division within the State Auditor's Office. Offsets, the most productive recovery process, stops state warrants from being paid when the payee is identified as owing a state debt. When a warrant is stopped, the staff check to make sure that the debt is valid before offsetting the owed amount from the check being issued. An example of this process occurs when an income tax refund check is issued by the Department of Revenue to someone that owes child support payments. We stop the payment and offset for the amount due the child support program.

Private Collection

Private collection agencies are used for certain kinds of debts that are difficult for the offset or internal collection efforts to collect. Out of state debtors often fall into this category. This process is the least productive of the three methods used to collect within the program.

The goal of the Bad Debt Program is to continue the business oriented approach that has been successful over the past 20 years. We will continue to strive for lower cost for our customers and a greater return of money owed those programs.

Our proposal this legislative session to assist county government collect debts that would otherwise go uncollected is our current attempt at maintaining the success of the program.

Our new proposal, which is supported by the Governor, would allow counties, on a voluntary basis, to turn personal property tax debts over to our collection effort. These debts would be the ones the county has little hope in collecting. With our current system, experience tells us that a significant number can be collected through the offset process.

When we currently process refund checks, we typically offset between 4 & 5% of those refunds to pay for debts owed by the refund recipient.

These collections not only help counties recovery funds owed them, they also help the state general fund. Funds recovered for personal property taxes offset the need for general fund in both the school equalization account and the University six mill levy account. About 40% of the revenue collected for counties through the debt collection process would go indirectly to the state's general fund.

While it is difficult to predict the amount of collections from this source until some participation history is acquired, we believe that once we can show counties that we can help them with difficult debts, our business will grow.

DO PRESENT LAW BASE EXPLANATION FOR FISCAL CONTROL

PRESENT LAW BASE ADJUSTMENTS-SAO

CENTRAL MANAGEMENT:

Present law base adjustments for central management are listed on page A-58 of the LFA book.

1. Central management's budget is very close to the actual FY94 expenditures. General fund expenditures actually drop below the 94 level by \$11,653 in FY96 and \$14,045 in FY97. The only significant base increase concerns the Glacier General liquidation. We spent very little on this liquidation in the base year. The Governor's budget includes a base adjustment of \$4,816 per year from the state special revenue account for contract services related to Glacier General.

INSURANCE:

The Insurance Program has three major areas of present law base adjustments. They include personal services, continuation of partial funding for small group reform and contract examination authority in FY96. These can be found on page A-60 of the LFA book.

1. Personal Services: The present law base adjustment for personal services is \$340,379 in FY96 and \$344,499 in FY97. Over \$200,000 of this amount is a result of vacancy savings generated in the base year.

The Insurance program was given responsibility by the last legislature to implement three new programs. These new programs all started in the base year. Insurance accreditation, insurance continuing education and small group health care reform were authorized to begin in FY94.

A total of 9.75 FTE were authorized for these new programs in FY94 and an additional .25 FTE in FY95. In filling these positions, our office evaluated our budgeted vacancy savings requirement when setting up our hiring process. We elected to phase in certain vacant positions until their associated programs were up and running. We also waited to fill positions pending the outcome of the special session to re-balance the budget in the fall of 1993.

By doing this, we were able to evaluate the developing needs of each of these new programs and fill those positions necessary to carryout the programs mandates. In this process, we determined that we did not need to fill both actuary positions authorized for the new programs. This position elimination is reflected in our new proposals on page A-61 of the LFA analysis.

As we began to fill these new positions, we moved many of our existing staff into the new positions to assist in the smooth implementation of the new programs. In doing so, we generated more vacancy savings in the process of filling their old positions.

Currently, all positions authorized for these new programs are filled with the exception of the actuary position authorized under small group reform. This position is the one being eliminated under new proposals in the Governor's budget. We believe that our approach in filling these positions was responsible and beneficial to the state. Our management of these vacancies allowed our office to meet its vacancy savings requirements, saved the state money in FY94 through reversion of unexpended funds and implemented the new programs efficiently and on schedule.

2. The second major present law base adjustment on page A-60 is funding for the Health Insurance Availability Act. The present law base adjustment listed on this page is \$172,922 in FY96 and \$174,199 in FY97. If you combine the reductions proposed in items 2 and 3 on page A-61 related to this program, the actual adjustment drops to \$105,612 in FY96 and \$106,725 for continuation of this program. These funds provide for one FTE and operational costs associated with the program. Part of the operational costs are the \$10,000 needed for contract actuary work due to the elimination of the actuary position that is currently authorized in this program.
3. The final present law base adjustment is for contract examinations. We have requested the total amount in FY96 as a continuing appropriation. Again, these exams are listed on page 9 of your handout.

Prior to FY94, all of these costs were handled off budget. Due to an audit recommendation from the Legislative Auditor, we have requested authority in the state special revenue fund to record these costs on our books. Because of the uncertainty of when the exams will begin and finish and the extent of problems found, we are requesting a line item approp for these costs and that the approp be for the biennium.

SECURITIES:

Present law base adjustments for the Securities program are listed on page A-64 of the LFA book. There are two significant present law adjustments to this program. One is an increase in personal services and the other is a reduction in supplies and materials.

1. Personal service present law base adjustments total \$54,102 in FY96 and \$55,408 in FY97. Vacancy savings associated with the Portfolio registration program is the main reason for this adjustment.

Portfolio registration was authorized by the last legislature. The legislature authorized two FTE for this program and provided state special revenue authority to pay for the costs associated with the program. We again phased in the hiring of this staff to match the workload demands of the new program with our required vacancy savings targets. Like insurance, we were able to successfully implement this program, meet our vacancy saving requirements and have the program fully on line when needed. Both of these positions authorized for portfolio registration are currently filled. Funding for this part of the present law base adjustment remains from the portfolio registration state special revenue account.

FISCAL CONTROL AND MANAGEMENT

The present law base adjustments for fiscal control and management are presented on page A-66 of the LFA analysis. There are two substantive present law base adjustments. One for personal services and one for postage costs.

1. Personal services are increased \$42,726 in FY96 and \$43,889 in FY97. The main reason for this adjustment is vacancy savings attained in FY94. We left one computer operators

position open in the bad debt collection program until income tax refunds picked up after the first of the year. With the loss of our programmer that developed the bad debt offset system about the same time, we needed to fill this position to help stabilize the data processing needs of the program.

2. The second present law adjustment factor actually shows up twice on the table on page A-66. Postage inflation of 10% is reflected in item 2. This inflationary increase on postage equates to almost \$30,000 per year of inflationary increase. The reason the number is less than this number is the fact that other categories, particularly data processing costs, have deflated significantly.

The second part of the postage increase is reflected in number 5. This increase relates to the growth in the number of warrants we anticipate mailing in the next biennium. The increased amounts are for 73,000 additional warrants in FY96 and 115,000 additional warrants in FY97.

warrant2

**** Bill No. ***

Introduced By *****

By Request of *****

A Bill for an Act entitled: "An Act to change the state special revenue account for the warrant writer program to an internal service fund; amending section 17-8-305, MCA; and providing an effective date."

Be it enacted by the Legislature of the State of Montana:

Section 1. Section 17-8-305, MCA, is amended to read:

"17-8-305. Cost accounting for warrant. In his discretion it is the duty of the state auditor to establish a cost accounting system to determine the unit cost of issuing and processing warrants and provide for a system of charges for services rendered in issuing and processing warrants for claims submitted by any department or agency of the state. ~~No such charge shall be made for warrants issued against the general fund. Funds collected under this section for budgeted programs shall be deposited to the credit of the general fund.~~ Funds collected for new or unforeseen programs may be operation of the state warrant system shall be deposited to the credit of a ~~state special revenue~~ an internal service fund account and expended for the purposes of paying the processing expenses ~~incurred as a result of the new program of the~~ state warrant system."

{ Internal References to 17-8-305: None. }

CD Draft Copy

Printed 3:02 pm on January 9, 1995

NEW SECTION. Section 2. {standard} Effective date. [This
act] is effective July 1, 1995.

-END-

Gary L. Spaeth
Montana State Auditor's Office
406-444-2040}

DATE 2/6/95

SENATE COMMITTEE ON _____

~~BILLS BEING HEARD TODAY:~~ General Government
Subcommittee - State Auditor's Office

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Check One

Name	Representing	Bill No.	Support	Oppose
M. O'Keefe	ST. Auditor		<input checked="" type="checkbox"/>	<input type="checkbox"/>
T. Crosser	ST. Auditor		<input type="checkbox"/>	<input type="checkbox"/>
L. Weygenman	ST. Auditor		<input checked="" type="checkbox"/>	<input type="checkbox"/>
Melissa Brod	State Auditor		<input type="checkbox"/>	<input type="checkbox"/>
LARRY AKEY	INT ASSOC OF LIFE UNDERWRITERS		<input checked="" type="checkbox"/>	<input type="checkbox"/>
FRANK COTE	ST. Auditor		<input checked="" type="checkbox"/>	<input type="checkbox"/>
Ray McGLENN	IND. INS. AGENTS ASSOC. OF ALA		<input checked="" type="checkbox"/>	<input type="checkbox"/>

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY