

MINUTES

MONTANA SENATE
55th LEGISLATURE - REGULAR SESSION

COMMITTEE ON PUBLIC HEALTH, WELFARE, & SAFETY

Call to Order: By CHAIRMAN STEVE BENEDICT, on February 10, 1997,
at 3:15 PM, in 108.

ROLL CALL

Members Present:

Sen. Steve Benedict, Chairman (R)
Sen. James H. "Jim" Burnett, Vice Chairman (R)
Sen. Larry L. Baer (R)
Sen. Chris Christiaens (D)
Sen. Bob DePratu (R)
Sen. Dorothy Eck (D)
Sen. Sharon Estrada (R)
Sen. Eve Franklin (D)
Sen. Fred Thomas (R)

Members Excused: None

Members Absent: None

Staff Present: Susan Fox, Legislative Services Division
Karolyn Simpson, Committee Secretary

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

Committee Business Summary:

Hearing(s) & Date(s) Posted: SB 228, 1/29/97
Executive Action: None

HEARING ON SB 228

Sponsor: SENATOR JOHN HARP, SD 42, Kalispell

Proponents: Jim McGarvey, MT Federation of Teachers, MT
Federation of State Employees, MT Federation of
Health Care Employees
Eric Feaver, MT Education Assn.
Tom Bilodeau, MT Education Assn.
Dick Cameron, Superintendent, Harlem Schools
Shannon McAuliffe, teacher, Billings
Dennis Carlson, Huntley Project
Michael Flynn, Helena
Lanell Curry, Missoula
Marty York, Helgate School

Opponents: Dennis Parmon, Shelby Public Schools
Roger McGlenn, Independent Insurance Agents of MT
Lynda Brannon, School Business Officials and Clerks
Bob Benson, Certified Health Consultant, Kalispell
Bob Anderson, Montana School Board Assn.
Frank Eckes, self, Bozeman

Opening Statement by Sponsor:

SENATOR JOHN HARP, SD 42, Kalispell, said the only way to start addressing problems is to look at the problem, and there are some tough decisions to be made in the future. It is expensive to acquire and maintain health insurance benefits. Insurance costs have a great impact on costs and profits of businesses, and school districts are starting to feel the effect of the cost of education plus taking care of employees. Health care is critical to all employees and statistics show a large group will have better rates and better benefits. There is a great disparity among health plans in school districts around the state and some are better than others. Some districts have had to cut budgets in some areas, reduce the co-payment shares, restrict benefits, at the cost of health care. Presently, health care costs and insurance are about two times the rate of inflation.

CHAIRMAN BENEDICT turned the meeting over to VICE CHAIRMAN JIM BURNETT.

SB 228 is about cost containment, providing maximum health care coverage at the best rate possible, and working to reduce the cost to employees and employers. It's important to provide adequate coverage to all educators, certified and non-certified, to insure equal opportunity. SB 228 is a plan to spread the risk over a large group of employees and reduce the cost to both employers and employees. Small employers would have a 15 to 20% reduction in administrative cost for total cost of claims and, because large groups have the ability to negotiate premiums, there should be reduction of 5 to 15%. Employees of some small schools are paying large premiums for health insurance coverage, as much as \$500.00 per month for their share of the health care plan. In addition, SB 228 provides some coverage for part-time workers. The current estimate is those who are insured are paying about 30% more to cover costs of the uninsured or underinsured, which is an unfunded mandate. The pool approach of SB 228 improves the risk and spreads the cost over the more stable risk groups. This approach has worked well for the State of Montana because it benefits all who are insured. Under this proposal, managed care or HMOs and a focus on wellness will lead to cost containment, better health care, and lower health care costs and premiums for school districts. Also in this proposal, agreements already in place, as a result to collective bargaining, are grandfathered in, and provides for bonds at the expiration of those agreements. Nothing in this bill will harm collective bargaining agreements currently in place. There will be start up

costs and fees for the statewide pool with a \$600,000.00 loan, and bonds that will be insured for no more than ten years.

Proponents' Testimony:

Jim McGarvey, representing Montana Federation of Teachers, State Employees, and Health Care Employees said they support SB 228. (EXHIBIT 1)

Eric Feaver, Montana Education Association, testified in support of SB 228. He said the Montana Education Association and Montana Federation of Teachers have worked long and hard to get this bill to this point. The health care situation among school employees is internally divisive, eroding salaries, and reducing benefits. The root cause of every major strike involving MEA teachers during the last decade is health care benefits. If it were possible for health care concerns not be brought to the bargaining table by school employees, and if the school employers did not have to address those concerns in that context, he believes school districts, school employees, and students would benefit. (EXHIBIT 2)

Tom Bilodeau, Research Director, Montana Education Association, testified in support of SB 228. He talked about some of the specific provisions of SB 28 and made comments about SENATOR HARP's opening statement. (EXHIBIT 3)

Dick Cameron, Superintendent, Harlem Schools, testified in support of SB 228. He said most districts find their general fund under severe pressure and the bulk of the funding for additional costs of SB 228 will come from the general fund. (EXHIBIT 4)

Shannon McAuliffe, teacher, Billings, testified in support of SB 228. (EXHIBIT 5)

Dennis Carlson, teacher, Huntley Project Schools, testified in support of SB 228. (EXHIBIT 6)

Michael Flynn, teacher, Helena High School, testified in support of SB 228. He said, at any given time, there are about 10% of the schools in Montana who find themselves in a crisis situation as far as health care. Every new dollar appropriated by the Legislature for the Helena schools for next year will be going toward health care. (EXHIBIT 7)

Lanell Curry, representing classified employees of Missoula County Schools, testified in support of SB 228. (EXHIBIT 8)

CHAIRMAN BENEDICT resumed the chair.

{Tape: 1; Side: B; Approx. Time Count: 3:56 PM}

Marty York, teacher, Hellgate High School, said she has served on several committees dealing with the health care coverage issue and have tried to achieve cost containment. The only way to

control costs is by every one sharing the risks in a large pool of people. SB 228 is a good move for the school districts and is in their best financial interests because it will stabilize rate increases.

Opponents' Testimony:

Dennis Parmon, District Superintendent, Shelby Public Schools, read a statement from **Don Waldron, Montana Rural Education Association. (EXHIBIT 9)** He said SB 228's total annual premium and surcharge expenses will exceed the FY 96 cost for school districts by over \$10 million. Many districts will have lower or unchanged benefit costs but most districts will have an cost increases under SB 228. It is an unfunded mandate. SB 195 will fix or set property tax valuations, with the rate and mills remaining fixed. School districts determine how many mills or dollars they will need by taking the total budget, subtracting direct state aid and the non-levy revenue, with the remainder to be collected from local property tax payers. The intention of SB 228 is good but it will add \$10.4 million in one year resulting in a dramatic increase in the number of mills needed for the school budget. He said schools would like to spend more in insurance but have other more pressing physical plant needs for the available money. Shelby Public Schools will be forced to reduce their 1998-1999 budget due to enrollment decreases. Because of the number of school employees in their elementary district, SB 228 will cost an additional \$60,000.00. There will be very little left for operating costs after paying salaries, workmans comp, health insurance and hold a two and one half percent contingency for emergencies. There are only so many things that can be done with property tax dollars. **(EXHIBIT 10)**

Roger McGlenn, Executive Director, Independent Insurance Agents of Montana, said they are sympathetic to the issues of available and affordable health care coverage for schools, but their own members and association are dealing with the same issues. They oppose the concept of SB 228 and would like to have a loan from the board of investments to capitalize and authorize and issue bonds to finance the financial reserves of this insurance company. It is a risk pool, but in reality, it is an insurance company comprised of school employees. All self-insured programs should be regulated like any other insurance company for the protection of those insured in the program, and the ultimate reinsurer of this program, the Montana taxpayer. There is no guaranteeing fund as with life and health insurance companies. If it fails, these companies pull together to make the losses good, but in this case it would be taxpayers pooling together to make the losses good. It should be regulated by the insurance department and comply with all the rules and regulations put on by the Legislature for insurance companies. Omitted from the fiscal note is the loss to the State General Fund of premium tax that private insurance companies must pay or similar taxes health service corporations must pay. The genetic research lab, paid for with a tax on premiums is not mentioned in the fiscal note. It is not a competitive issue but is an equal playing field issue. As

long as everyone plays by the same rules there an opportunity to do the job and protect the taxpayers. For the reasons stated, his organizations recommends Do Not Pass for SB 228.

Lynda Brannon, representing School Business Officials and School Clerks, said they oppose SB 228 because of the fiscal note. This bill is a good idea but if the \$10.4 million is extra money, then it should be given to all school districts, not just benefit a few. The information from Columbia Falls shows the administrative fee alone would increase their cost by \$43,200.00 per year and Livingston schools would increase by \$51,500.00 per year. Considering capped school budgets with no way to add additional costs to absorb additional demands added by the Legislature, she urged the committee to not put forth this bill.

Bob Benson, Certified Health Consultant, Kalispell, testified in opposition to SB 228. A universal plan for schools and teachers is a good idea, but thinks SB 228 should be tabled and more research done. (EXHIBIT 11)

Bob Anderson, Montana School Board Association, said he has letters from the Bozeman Public Schools and Ennis Public Schools. (EXHIBIT 12) He said SB 228 is the difference between a free enterprise system and a mandated government program. There is disparity among districts because some have wanted salary increases and other have wanted more beneficial insurance programs. If SB 228 is going to be considered, there are other cost containment issues, such as automatic annual salary increases and tenure, that should be considered at the same time. Spreading the risk can be done without this bill because the system is there and it does work. SB 228 is an unfunded mandate imposed on school districts that cannot be absorbed. SB 228 is not union busting but school district busting and violates the principles of collective bargaining. Referring to the fiscal note, he said that is probably the only conservative part of the bill. There is no mechanism for funding these additional costs. The costs associated with the bill will be imposed upon school districts, in direct conflict with the unfunded mandate law presently on the books. Sub sections five and six will lock districts into a floor of health care spending with no limit. The makeup of the school benefits board (subsection four) is unfair because of a disproportionate representation by labor unions which could drive up the costs of the program. The Montana School Boards Association supports affordable health insurance care for school employees and have supported a voluntary pool insurance program for school district employees and related entities. The program has run one of the lowest administrative costs throughout these programs. A multi-million dollar unfunded mandate should not be imposed on school districts any time, but particularly when schools are facing the current crisis in school funding. In the last 15 years, 38% of the costs of any new money received has gone to special education mandates. Another huge item has been the environmental mandates put on school districts. Most of the

new money has been taken by these mandates and they don't need a program like SB 228, and recommends tabling SB 228.

Frank Eckes, insurance business, Bozeman, said he understands both sides of this issue and the frustration they are feeling. Medicare premiums are 38% of what should be paid by individuals with the remainder being paid by the taxpayer, and this is not the way it should be, but this is the real world. Claims are paid out of premium dollars and there is a continual mandate of benefits. The proponents of SB 228 are asking for relief but businessman is having the same problem with his employees, so he is being asked to pay for his problem as well as those in the school system. Fourteen percent of the gross national product in the United States goes to health care and it is going to increase eight percent in the next five years. We have been looking at this problem from the wrong side, the supply side, but we should be looking at the demand side of health care. If SB 228 is approved, it will increase the demand side. As a nation, we need to get serious about wellness issues and changing our life styles because that can decrease health care costs by 40%. He understands the frustrations, but the main problem can be traced to mandates and cost shifting. He said he does not know the specifics of the Helena or Billings self-funded plans, but is suspicious that the plan designs were not good and it was not bad luck that caused their problems. It is possible to buy individual excess risk coverage and aggregate risk coverage to take care of the big problems. Passage of SB 228 will just add gasoline to the fire.

Questions From Committee Members and Responses:

SENATOR CHRIS CHRISTIAENS said he understands some of the school districts have a self-funded plan in place.

Tom Bilodeau said a very small number of the larger districts have self-funded plans.

SENATOR CHRISTIAENS asked if the numbers on the fiscal note are correct and about the cost of health care coverage of school district at present.

Tom Bilodeau said they computed the current costs for all benefit expenditures by the employer from actual expenditure reports issued by districts. Currently no data is available stating how many people are employed, at what level, hours per week, or if the employers makes a full contribution for part-time employees. To get the numbers in the fiscal note, they worked with the Helena and Billings figures and extrapolated across all districts. They are comfortable that the statewide \$10 million additional employer cost is accurate, but could be off for any individual district.

SENATOR CHRISTIAENS asked if most of those had a re-insurance pool.

Tom Bilodeau said yes, they have stopgap aggregate loss reinsurance available in the larger districts.

SENATOR CHRISTIAENS asked why premiums continue to go up.

Tom Bilodeau said the fundamental driving factor is health care costs. When health care costs increase at two times the rate of inflation and insurance premiums, because of cost shifting between the uninsured and insured groups, moves about 30% of cost to those who have insurance, there will be impact on the premium cost. The advantage of SB 228 is there would be a set benefit package, equitably distributed for all, then costs would be controlled and managed by the employer, benefits board and physicians to negotiating discounts or cost containment measures with the medical providers in the state.

SENATOR CHRISTIAENS asked why the Department of Administration was chosen to administer this, why 12 additional FTE's are needed and if this will continue to grow.

SENATOR JOHN HARP said the Department of Administration has expertise in the insurance field. With SENATOR CHRISTIAENS's expertise on the Finance and Claims Committee and the Public Health Committee, this number of FTE's could be reduced as necessary.

SENATOR CHRISTIAENS asked about combining this with other entities that are already doing this kind of thing to cut those FTE's.

SENATOR HARP said that is a possibility.

{Tape: 2; Side: A}

SENATOR SHARON ESTRADA asked SENATOR HARP to address the issue of the unfunded mandate.

SENATOR HARP said it is possible that \$10 million of the approximate \$118 million of new General Fund money which could be put into this and that unfunded mandate would be covered.

CHAIRMAN BENEDICT asked SENATOR HARP if he would like the Public Health Committee to put a contingent ordinance clause on this bill, strike any language exempting it from the unfunded mandate, and pass it out of the committee.

SENATOR HARP said yes and talk with SENATOR JERGESON.

Closing by Sponsor:

SENATOR JOHN HARP said it has been concluded there is a problem that needs to be addressed. Like every bill, this may not be the perfect vehicle, but hopefully the Legislature will deal with the issue at some future time. It takes time because changes are done incrementally in the Legislature.

ADJOURNMENT

Adjournment: 4:53 PM



SEN. STEVE BENEDICT, Chairman



KAROLYN SIMPSON, Secretary

SB/ks