

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 10-0358

Date: February 22, 2010

Prime Sponsor(s): Rep. Frangas

Bill Status: House Business Affairs and Labor

Fiscal Analyst: Kerry White (303-866-3469)

TITLE: CONCERNING THE INCLUSION OF EMPLOYEES OF SPECIFIED EMPLOYERS IN CERTAIN ASPECTS OF STATE GROUP BENEFIT PLANS AT THE OPTION OF THE EMPLOYER.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue		
Cash Funds		
Local Government, Small Business, and Nonprofit Organization Cash Fund		\$1,261,813
State Expenditures		
General Fund	\$1,144,580	
Cash Funds		
Local Government, Small Business, and Nonprofit Organization Cash Fund		\$1,214,391
FTE Position Change	2.1 FTE	5.0 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature. The bill applies to group benefit plans offered on or after January 1, 2011.		
Appropriation Summary for FY 2010-2011: See State Appropriations section.		
Local Government Impact: See Local Government Impact section.		

Summary of Legislation

Beginning on January 1, 2011, certain local governments, small businesses with less than 100 employees, and nonprofit organizations may offer participation in state fully-funded medical and dental plans. By electing to extend state group benefits to its employees, an employer agrees to exclusively offer state plans and participate in them for at least 3 years. The state personnel director is authorized to set minimum employer contributions towards its employees' premiums and charge an administrative fee to cover the state's costs.

State Revenue

Under HB10-1266, the state is authorized to collect premiums and an administrative fee for each participating local government, small business, and nonprofit organization employee.

Premiums. The bill specifies that employees of certain local governments, small businesses, and nonprofit organizations can participate in state group medical and dental benefit plans that are fully funded. Currently, only the state's Kaiser Permanente medical plan meets this criteria. This is a regional health maintenance organization (HMO) and does not provide coverage in all parts of Colorado. It should be noted that the state does not have the legal authority to require that non-state employees be allowed to join this plan and may be required to solicit for a new provider. However, this analysis assumes an additional 19,000 persons will join a qualified state-managed medical plan. As premiums are set based on the risk pool of plan participants, the net effect of any changes in premiums has not been estimated, and premium costs have not been included in revenue estimates.

Administration Fee Impact. Based on expenditures in FY 2011-12, administrative fees will be established to recover the state's costs. Section 2-2-322, C.R.S. requires legislative service agency review of measures that create or increase any fee collected by a state agency. Fee calculations will be set administratively by the Department of Personnel and Administration (DPA) based on the available cash funds balance, estimated program costs, and the estimated number of employees of certain local governments, small businesses, and nonprofit organizations that participate in the group benefit plans. Program costs in FY 2011-12 will be up to \$1,261,813 (including indirect costs), which would require an administrative fee of \$66.41 from each of the 19,000 new participants.

Technical Issues. The bill applies to the state's fully funded group benefit plans offered as of January 1, 2011. Due to the time required to obtain legal and tax opinions, negotiate with the medical plan provider, and prepare the state's computerized benefits administration system to track new participants, this analysis assumes that the earliest the state could comply with this legislation is July 1, 2011. The fiscal note also assumes that while the DPA would incur costs to develop the program in FY 2010-11, these costs would not be recoverable from fees. Revenue and expenditures beginning in FY 2011-12 are conditional upon local governments, small businesses, and nonprofit organizations choosing to participate in the state's group benefits plans.

State Expenditures

HB10-1266 will increase total expenditures in the DPA by up to \$1,144,580 and 2.1 FTE in FY 2010-11. As the bill is silent on the funding source for costs to develop the program, the fiscal note assumes FY 2010-11 costs will come from the General Fund and any future expenditures will be cash funded by administrative fees.

Should certain local governments, small businesses, and nonprofit organizations choose to offer state group benefit plans, expenditures could increase by up to \$1,214,391 and 5.0 FTE in FY 2011-12. Table 1 and the discussion that follows address the bill's costs.

Table 1. Expenditures Under HB10-1266		
Cost Components	FY 2010-11 (General Fund)	FY 2011-12 (Cash Funds)
Personal Services	\$112,022	\$263,461
FTE	2.1	5.0
Operating Expenses and Capital Outlay	5,058	23,430
Legal Services	250,000	150,000
Benefits Solver System Replacement	777,500	777,500
TOTAL	\$1,144,580	\$1,214,391

- ▶ **Personal Services and Operating Costs.** Personal services and operating costs will be incurred to develop agreements with employers, manage enrollment and benefits contracts, monitor the benefits administration system, conduct financial transactions, and provide ongoing customer service and reporting. The DPA requires 2.1 FTE as the program is being developed, and 5.0 FTE after it is implemented.
- ▶ **Legal Services.** This bill integrates employers with different legal and tax structures into the state's group benefit plans. Legal services are needed to determine the impact of implementing this legislation vis-a-vis several federal regulations. Legal opinions, rulings, and filings will also be necessary to determine whether a multiple employer welfare arrangement (MEWA) is required and to ensure ongoing compliance with state insurance and federal tax regulations. These costs could be up to \$250,000 in the first year and \$150,000 in future years.
- ▶ **Benefits Solver System Replacement.** The state uses the Benefits Solver System to administer and track participants enrolled in the state's group benefit plans. This system is not capable of meeting the administrative requirements of tracking non-state participants. The cost to contract to develop, test, and maintain a new system could be up to \$777,500 per year.
- ▶ **Premium Costs.** Premium costs for new participants will be set by the provider based on its assessment of their risk. As these amounts are unknown, premium costs have not been included in this analysis. The fiscal note assumes that each participating employer will contribute the full premium required for its employees. However, by pooling new participants into the state's plan, premiums for existing participants are likely to be affected. This impact depends on the provider's evaluation of the revised risk pool when it includes all participants.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 2.

Table 2. Expenditures Not Included Under HB10-1266*		
Cost Components	FY 2010-11	FY 2011-12
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$14,910	\$35,500
Supplemental Employee Retirement Payments	4,544	11,922
TOTAL	\$19,454	\$47,422

**More information is available at: <http://www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1200536133924>*

Local Government Impact

This bill could have a fiscal impact to local governments that choose to participate in the state's group benefit plans. Under HB10-1266, the state personnel director sets the minimum employer contribution required for each of its employees and is authorized to charge administrative fees to cover its costs. The bill does not clarify who is responsible for administrative fees, and requires that the employer ensure full payment of all premiums and administrative fees for its enrolled employees. Presumably an employer would assess its potential costs prior to enrolling in the state plan to determine whether doing so is cost effective. However, the bill requires that the employer commit to participating for a minimum of 3 years, which could create a fiscal impact if the employer's premium share or fees increase during that time.

State Appropriations

The Department of Personnel and Administration requires a General Fund appropriation of \$1,144,580 in FY 2010-11.

Departments Contacted

- | | | |
|------------------------------|---------------------|---------------|
| Education | Higher Education | Local Affairs |
| Personnel and Administration | Regulatory Agencies | Treasury |