

MONTANA STATE FUND
2017 ANNUAL BUDGET REQUEST
(Effective for period of January 1, 2017 to December 31, 2017)

Montana State Fund (MSF) is a nonprofit, competitive workers' compensation insurance organization. Under state law, MSF provides Montana businesses with an option for workers' compensation and occupational disease insurance and also guarantees available coverage for all employers in Montana. During the 2015 Legislative Session, SB 123 passed with an effective date of January 1, 2016. As a result of this law change, MSF is subject to oversight and regulation by the State Auditor, Commissioner of Securities and Insurance (CSI) and converted financial reporting processes to a calendar year.

This proposed budget for calendar year 2017 provides the funding to enable MSF to continue our role of providing a stable guaranteed workers' compensation market for Montana, meet our new regulatory requirements, implement our business plan initiatives, and effectively support business operations. The following defines the budget periods referenced in this report:

- **Calendar Year 2017 Budget or CY17 Budget:** Budget amounts requested to fund the business requirements of the January 1 through December 1, 2017 fiscal reporting period.
- **Calendar Year 2016 Budget or CY16 Budget:** Amounts budgeted to fund MSF operations for the period of January 1 to December 31, 2016.
- **Calendar Year 2016 Projected Expenditures or CY16 Projection:** Actual expenditures for January 1 through September 30, 2016 plus the projected expenditures to be recorded for October 1 through December 31, 2016.
- **Fiscal Year 2015 or FY15 Actuals** – Reflects the actual expenditures of July 1, 2014 to June 30, 2015, and are included as a reference to show the last complete fiscal year period.

The six month conversion period of July 1 through December 31, 2015 has been excluded from this report in order to present comparable expenditures on a twelve month basis.

I. Total Expenditures

The total budget request for CY17 expenditures is \$189,742,509. Claim Benefit Payments and Operational Expenditures are the two primary components of the budget.

The CY17 Budget request is displayed below in comparison to CY16 Budget, CY16 Projection, and the FY15 Actual expenditures which was the last complete twelve month fiscal year. It includes the full time equivalents (FTE) and position counts for each of these periods.

	<u>CY17 Budget</u>	<u>CY16 Budget</u>	<u>CY16 Projection</u>	<u>FY15 Actuals</u>
FTE	307.00	306.50	306.50	304.00
Positions	309	309	309	305
Benefit Payments	\$128,265,148	\$126,297,835	\$124,261,828	\$114,428,412
Operational Expenditures	<u>\$61,477,361</u>	<u>\$55,710,812</u>	<u>\$53,749,577</u>	<u>\$50,699,600</u>
Total MSF Expenditures	<u>\$189,742,509</u>	<u>\$182,008,647</u>	<u>\$178,011,405</u>	<u>\$165,128,012</u>

Benefit payments include all expected funding required to pay existing and anticipated injured worker claim costs for indemnity and medical related benefits.

Operational Expenditures includes all staffing, overhead and other costs needed to support MSF business operations. The CY17 MSF staffing request is for 307.00 FTE which equates to 309 positions.

The total MSF CY17 budget request of \$189.7 million is an increase of \$7.7 million or 4.25% from the approved CY16 budget of \$182.0 million.

- The CY17 budget request for claim benefit payments to injured employees of \$128.3 million equates to 67.6% of the total budget and is an increase of \$2.0 million or 1.6% as compared to the approved CY16 budget.
- The CY17 budget request for operational expenditures of \$61.5 million equates to 32.4% of the total budget and is an increase of \$5.8 million or 10.4% as compared to the approved CY16 budget of \$55.7 million. Additional explanation is outlined later in this request. In summary, the operational expenditure budget's largest areas of increase are:
 - ❖ Policy and Billing Replacement Initiative (PBRI) increased \$3,792,266
 - CY17 budget is \$4,125,266
 - CY16 budget is \$333,000
 - ❖ Personal services / staffing in the department budgets increased \$1,512,029
 - CY17 budget is \$29,513,338
 - CY16 budget is \$28,001,309
 - ❖ MSF Staff Backfill: Information Technology department and Regulation project increased \$492,019
 - CY17 Budget is \$731,219
 - CY16 budget is \$239,200

II. Revenue

The premium revenue MSF generates in Montana’s competitive workers’ compensation insurance market, along with investment income, provides the funding for indemnity and medical claims reported by MSF policyholders and for operational expenditures.

For CY17, MSF is projecting net earned premium of \$167,014,246 which is basically holding steady with the CY16 projected premium of \$166,707,440. The estimate assumes:

- Approximately 24,400 active policies
- No manual rate change for policy year 2018 (effective July 1, 2017 to June 30, 2018)
- Wage growth of 2.5%
- Premium retention rate at 91.2%
- Net loss of business written of \$1.9 million

III. Statutory Operating Expense Ratio

The statutory operating expense ratio is a standard financial measurement for insurance organizations to analyze the cost of operations in relation to net earned premium and allows MSF to compare operational management to competitors and the industry.

The statutory operating expense ratio encompasses accounting adjustments used for financial reporting, such as depreciation and amortization expenses, which are not displayed in an expenditure driven budget. The statutory expense ratio includes the allowed expense reduction for reinsurance programs.

MSF’s *operational expenditures* (personal services, operating expenses, equipment and intangible assets, allocated loss adjustment expense and transfers) are \$61,477,361 for the fiscal year’s budget, and *statutory operating expenses* are \$50,524,233.

The statutory operating expense is divided by net earned premium of \$167,014,246 to determine the CY17 estimated expense ratio of 30.3%.

The following table displays the statutory operating expenses, net earned premiums and the CY17 expense ratio with comparison to previous periods.

Montana State Fund	CY17 Budget	CY16 Budget	CY16 Projection	FY15 Actuals
Statutory Operating Expense	\$50,524,233	\$46,200,281	\$45,444,866	\$38,216,800
Net Earned Premiums	\$167,014,246	\$162,009,912	\$166,707,440	\$164,556,709
Statutory Operating Expense Ratio	30.3%	28.5%	27.3%	23.2%

The following table compares the MSF statutory operating expense ratio with the property and casualty insurance industry and other state funds based on 2015 data from 2016 A. M. Best’s Aggregates & Averages.

A.M. Best's 2015 Total US PC Industry (1,205 P&C Organizations)	A.M. Best's 2015 Work Comp Composite (254 Organizations)	A.M. Best's 2015 Total US PC State Funds – (25 Organizations)	MSF FY15 Actuals	MSF CY16 Budget	MSF CY17 Budget
40.2%	37.6%	33.8%	23.2%	28.5%	30.3%

IV. Benefit Payments

MSF expects claim benefit payments to remain relatively stable as compared to the CY16 Budget. The CY17 claim benefit payments budget request of \$128.3 million is an increase of \$2.0 million or 1.6% from the approved CY16 budget of \$126.3 million.

The overall 1.6% increase in claim benefit payments plans for the addition of a new accident year's claims to the estimate of payments on existing claim liabilities. The increase will fund the continuation of claim settlements.

MSF completes claim settlements as provisions in law have enabled. These mutually agreed upon settlements accelerate benefit payments to injured employees. This higher level of settlement expenditure is planned to continue into future years.

The acceleration of the benefit payments due to settlements is expected to increase claim closures and reduce the ultimate claim liability of future years.

The CY17 Budget for benefit payments does not include contingency funds related to court decisions.

The following displays summary claim benefit types with their CY17 Budget amounts along with comparisons of the CY16 Budget, CY16 Projection and the FY15 Actuals.

Claim Benefit Type	CY17 Budget	CY16 Budget	CY16 Projection	FY15 Actuals
Indemnity	\$38,045,165	\$38,012,835	\$36,662,732	\$37,182,054
Medical – No Settlements	56,855,865	55,654,704	56,392,841	54,642,976
Medical Settlements	32,014,118	31,403,596	30,235,419	21,597,491
Other States Coverage	1,350,000	1,226,700	970,836	1,005,891
Total	\$128,265,148	\$126,297,835	\$124,261,828	\$114,428,412

- \$38,045,165 - CY17 Budget for indemnity benefit payments is an estimated increase of \$32,330 or 0.1% from the CY16 Budget.
- \$56,855,865 - CY17 Budget for medical benefit payments, excluding medical settlements, is an estimated increase of \$1,201,161 or 2.2% from the CY16 Budget.
- \$32,014,118 - CY17 Budget for medical settlements is an estimated increase of \$610,522 or 1.9% from the CY16 Budget.
- \$1,350,000 – CY17 Budget for Other States Coverage is an estimated increase of \$123,300 or 10.1% from the CY16 Budget.

The next table illustrates net earned premium (NEP) amounts and the ratio of benefit payments to NEP along with the percent change in benefit payments made for all accident years in each corresponding year. This data includes OSC premium and benefit payments.

Fiscal Year	Net Earned Premium	Benefits as a Percent of NEP	Benefit Payments	Percent Change in Benefit Payments from Prior Year
CY17 Budget	\$167,014,246	76.8%	\$128,265,148	1.6%
CY16 Budget	\$162,009,912	78.0%	\$126,297,835	10.4%
FY15 Actual	\$164,556,709	69.5%	\$114,428,412	8.0%
FY14 Actual	\$165,271,880	64.1%	\$105,934,616	-5.2%
FY13 Actual	\$156,062,480	71.6%	\$111,690,340	0.8%
FY12 Actual	\$150,482,457	73.6%	\$110,752,851	-0.6%
FY11 Actual	\$173,605,442	64.2%	\$111,420,055	-9.4%
FY10 Actual	\$166,265,384	74.0%	\$123,003,870	0.4%
FY09 Actual	\$203,976,354	60.0%	\$122,460,166	-1.4%
FY08 Actual	\$230,965,307	53.7%	\$124,139,778	7.2%
FY07 Actual	\$238,202,708	48.6%	\$115,849,169	5.1%
FY06 Actual	\$211,892,198	52.0%	\$110,237,048	

MSF – All Accident Years

\$126,915,148 is budgeted for MSF (no Other States Coverage) claim benefit payments to injured employees for the following benefit types:

- Indemnity - \$38.0 million or 30.0% of total benefits
- Medical - \$88.9 million or 70.0% of total benefits
 - ❖ Disputed and Undisputed Medical Settlements – \$32.0 million
 - ❖ All other medical benefit payments - \$56.9 million

The benefit estimates are based on analysis of the actual ‘Accident Year’ benefit payments for each fiscal year from 1991 through October 31, 2016. The most recent actual benefit payments for each Accident Year are weighted more heavily in the determination of the CY17 benefit payments. Consideration has been given to the acceleration of benefit payments resulting from settlement activity that is expected to continue through 2017.

Benefit Payments*	Indemnity	Medical No Settlements	Medical Settlements	Total
CY17 Budget	\$38,045,165	\$56,855,865	\$32,014,118	\$126,915,148
CY16 Budget	\$38,012,835	\$55,654,704	\$31,403,596	\$125,071,135
FY15	\$37,182,054	\$54,642,976	\$21,597,491	\$113,422,521
FY14	\$36,965,855	\$57,898,587	\$10,263,958	\$105,128,400
FY13	\$37,418,731	\$61,078,244	\$11,920,366	\$110,417,341
FY12	\$40,832,807	\$58,024,639	\$11,114,804	\$109,972,250
FY11	\$40,007,198	\$62,783,014	\$7,788,880	\$110,579,092

*No Other States Coverage program benefit payments are included in the data.

The next table displays CY17 MSF and Other States Coverage (OSC) benefit payments separately as compared to the CY16 budget and the FY15 actual expenditure levels.

Benefit Payments	CY17 Budget	CY16 Budget	FY15 Actuals	\$ Change CY17 from CY16	% Change CY17 from CY16
MSF	\$126,915,150	\$125,071,135	\$113,422,521	\$1,844,015	1.5%
OSC	1,350,000	1,226,700	1,005,891	123,300	10.1%
Total	\$128,265,150	\$126,297,835	\$114,428,412	\$1,967,315	1.6%

Other States Coverage (OSC)

The OSC program enables MSF policyholders with employees working in other states the option to insure all their workers' compensation needs through MSF. MSF contracts with carriers licensed to provide workers' compensation insurance to our policyholders in other states.

OSC benefit payments are estimated to be \$1,350,000 and include:

- \$450,000 - Indemnity payments
- \$900,000 – Medical Payments

Including operational expenditures of \$1,072,965, the total budget for OSC expenditures is \$2,422,965. OSC written premium is estimated to be \$3.0 million in CY17 and funds the program. OSC operational expenditures are explained in latter sections of this report; however, the following table notes the expenditures and premium of the OSC program for CY17 Budget, CY16 Budget and FY15 Actuals.

<u>OSC Program</u>	<u>CY17 Budget</u>	<u>CY16 Budget</u>	<u>FY15 Actuals</u>
Program management, fronting fees, letters of credit	\$556,965	\$468,940	\$372,074
Commissions	240,000	188,000	164,310
Premium Tax	126,000	98,700	90,003
ALAE	150,000	136,300	104,774
Operational Expenditures	\$1,072,965	\$891,940	\$731,161
Claim Benefit Payments	\$1,350,000	\$1,226,700	\$1,005,891
OSC Total Expenditures	\$2,422,965	\$2,118,640	\$1,737,052
OSC Written Premium	\$3,000,000	\$2,350,000	\$2,633,986

V. Operational Expenditures

Operational expenditures include staffing, operating expenses, equipment and intangible assets, allocated loss adjustment expense (ALAE), defense & cost containment (D&CC), adjusting and other (A&O) and transfers. The following table provides a summary, including the number of FTE and positions.

Operational Expenditures	CY17 Budget	CY16 Budget	CY16 Projection	FY15 Actuals
FTE	307.00	306.50	306.50	304.00
Positions	309	309	309	306
Personal Services	\$29,788,546	\$28,001,309	\$27,087,489	\$25,369,142
Operating Expense	25,081,069	23,665,978	22,790,607	21,290,884
Equip & Int Assets	2,608,577	217,370	196,373	896,360
ALAE/A&O/D&CC	3,619,774	3,826,155	3,501,341	3,143,214
Transfer (CSI)	379,395	0	173,767	0
Total MSF	\$61,477,361	\$55,710,812	\$53,749,577	\$50,699,600

a. MSF Staffing

MSF continually evaluates and re-aligns our staff to meet the changing work processes. The State Fund is requesting approval of 307.00 FTE (full time equivalent) for CY17. This is an increase of 0.50 FTE from CY16.

The increase in FTE is due to the Regulatory Specialist position. This position was added effective July 1, 2016 as 0.50 FTE in CY16. For CY17 the Regulatory Specialist position will be 1.00 FTE as a full year position.

Two half-time positions (1.00 FTE) are assigned to the Human Resources Department for transitioning in new employees who temporarily train with an employee that has announced their retirement. For example, Operations will use a position to train a premium auditor before the incumbent retires. Any department needing temporary transition support can request to use these positions. In CY16 these transition positions were included in the Workforce project.

A vacant Claim Examiner I position, 1.00 FTE, was moved from Operations in CY16 to create an Underwriting Services Specialist position, 1.00 FTE, in Operations Support.

The 307.00 FTE equate to 309 positions. In CY17, MSF will have 305 positions that are 1.00 FTE each and four half-time positions listed as 0.50 FTE each.

During the PBRI implementation phase some MSF employees will be assigned full-time to the project. The PBRI budget includes the consulting services expenditures to hire temporary staff to backfill for MSF employees and complete our employees' regular duties. Additional positions may be added during CY17 depending on how long the extra resources are needed to support PBRI. This backfill staffing expense will be tracked in the project budget.

The following table reflects MSF staffing by department at the beginning of each year.

MSF Department Staffing (FTE)	CY17 Budget	CY16 Budget	FY15
Corporate Support	34.00	34.00	34.00
Executive Offices	6.00	6.00	6.00
General Counsel	19.00	18.50	16.00
Human Resources	8.00	7.00	7.00
Information Technology	53.00	53.00	53.00
Operations	145.00	146.00	138.00
Operations Support	42.00	41.00	49.00
ABP Succession Project	0.00	1.00	1.00
MSF Total	307.00	306.50	304.00

The General Counsel staffing increase from FY15 to CY16 was the addition of a paralegal, a compliance officer and a regulatory specialist.

The staffing changes between FY15 and CY16 in the Operations and Operations Support departments were the result of the Operations Optimization project which involved moving some staff and teams between Operations and Operations Support.

b. Personal Services – Salaries and Employee Taxes and Benefits

To support the necessary staff of 307.00 FTE, MSF requests funds of \$29,788,546 for the CY17 personal services budget. A vacancy savings factor of 3.0% was applied to the personal services budgets of all MSF positions. Vacancy savings is an aggregate personal services budget reduction recognizing employee turnover that creates position vacancies.

MSF Total Personal Services Budget	CY17 Budget	CY16 Budget	FY15 Actuals	\$ Change CY17 from CY16	% Change CY17 from CY16
Salaries	\$22,872,672	\$21,579,861	\$19,249,774	\$1,292,811	6.0%
Employee Benefits	7,817,190	7,277,143	6,119,368	540,047	7.4%
Vacancy Savings	(901,316)	(855,695)	n/a	(45,621)	5.3%
Total Personal Services	\$29,788,546	\$28,001,309	\$25,369,142	\$1,787,237	6.4%

The CY17 personal services budget increases by \$1,787,237 or 6.4% from the CY16 budget. Salaries increase by 6.0% and employee taxes and benefits increase by 7.4%.

➤ **Salaries - \$22,872,672**

The ‘Salaries’ budget includes the regular salary base for 309 positions / 307.00 FTE, merit salary adjustments, projects, retirements, personal leave payouts, and overtime. These salary budget items are outlined as follows:

- ❖ \$21,765,509 for base salaries (no employee taxes or benefits) of 309 positions is calculated on the hourly wage for all active employees as of September 26, 2016. Vacant position budgets were based on the compensation at mid-point for the position’s salary band. CY17 will have 2,080 annual payroll hours for each 1.00 FTE. Partial FTE salaries are prorated.

- ❖ \$580,459 for merit-based salary adjustments (no employee taxes or benefits). The merit salary adjustments for employees are planned to be distributed after the final CY16 performance reviews are complete. For the CY17 budget a merit adjustment of 3.0% is planned to be effective March 4, 2017.
 - ❖ \$206,342 for salaries of temporary staff (\$120,768) and temporary duty assignments (\$85,574) for MSF staff working on PBRI and the Regulation: Document Gaps projects.
 - ❖ \$146,953 provides funding for leave balance payouts of ten expected retirements in CY17. This amount is for the salary portion of the leave balances. The associated employee taxes and benefits for these retirement payouts are budgeted to those specific accounts.
 - ❖ \$149,031 will fund MSF's Personal Leave Program that provides for the annual payment of excess unused personal leave balances to eligible participants in accordance with the program guidelines. The CY17 estimate is based on CY16 payments and review of leave balances of participants.
 - ❖ \$24,378 is for overtime to support additional workload coverage during the policy renewal period. The budget provides for on-call and call-out compensation to support computer systems and infrastructure.
- **Employee Taxes and Benefits - \$7,817,190**
 Employee Taxes and Benefits are payments / contributions MSF makes on behalf of our employees for taxes, benefits and workers' compensation premium. The following lists employee tax and benefit categories, and the dollars budgeted.
- ❖ FICA / Medicare - 7.65% of applicable salary- \$1,733,103
 The rate remains unchanged from CY16 and, effective 1/1/17, the FICA cap will be \$127,200.
 - ❖ Retirement (PERS) - 8.52% of applicable salary - \$1,944,996 is the employer's contribution.
 - The PERS contribution rate increased 0.1% from the CY16 rate per law, 19-3-16(2)b, MCA
 - ❖ Workers' Compensation Premium - average of approximately 0.71% of applicable salary - \$162,859
 - ❖ State Unemployment Tax (SUT) - 0.15% - \$34,272
 - MSF's employer contribution rate for SUT is reviewed and potentially adjusted annually in May.

- ❖ **Group Insurance - \$3,941,960**
 - The CY17 annual employer contribution for group insurance is \$12,648 per eligible employee. This is an annual increase of \$976 or 8% per eligible employee from the CY16 contribution of \$11,712. In CY17, MSF will have a maximum of 309 employees eligible for the group insurance contribution which results in \$301,584 of additional expense.

➤ **Vacancy Savings - \$901,316**

Vacancy savings is a reduction of 3% that has been applied to the calculated salaries and employee taxes and benefits on all MSF positions. This is the same rate used in the CY16 and FY15 budgets.

All MFS positions are budgeted to be filled all year. Exactly which positions will be vacated from turnover during the year cannot be determined but at an aggregate level we can determine a reasonable estimate on vacancies to use as an appropriate budget reduction.

Actual vacancy savings will vary by department and departments that do not experience staff turnover will likely be over budget in personal services. Conversely, departments that experience higher staff turnover than expected will be under budget in personal services categories. In aggregate, MSF estimates 3% vacancy savings.

c. Operating Expenses

The MSF budget for Operating Expenses is another grouping of expenses underneath the overall category of Operational Expenditures. The Operating Expenses budget of \$25,081,069 includes the following categories.

Category	CY17 Budget	CY16 Budget	FY15 Actuals	\$ Change CY17 from CY16	% Change CY17 from CY16
Other Services	\$18,672,783	\$17,939,201	\$16,278,473	\$733,582	4.1%
Supplies & Materials	1,108,123	667,854	597,329	440,269	65.9%
Communications	1,141,565	1,341,815	1,109,787	(200,250)	(14.9%)
Travel	425,492	335,420	205,184	90,072	26.9%
Rent	387,302	371,658	438,939	15,644	4.2%
Utilities	235,000	234,000	218,771	1,000	0.4%
Repair & Maintenance	1,343,189	1,324,711	1,436,461	18,478	1.4%
Other Expenses	1,767,615	1,451,319	1,005,940	316,296	21.8%
Total Operating Expenses	\$25,081,069	\$23,665,978	\$21,290,884	\$1,415,091	6.0%

- **Other Services - \$18,672,783** is budgeted for CY17. There are two primary areas of expenditures: agent commissions - \$11.4 million; and, Consulting and Professional Services (IT and non IT categories) - \$4.7 million.

- ❖ **Commissions** - \$11,445,711 – this is a decrease of \$269,252 or 2.3% from the CY16 Budget of \$11,714,963 which includes base, incentive, and Other States Coverage commissions. Commission expense is directly related to premium, percentage of MSF policyholders represented by agents, and the commission rate on each policy. The payment of commissions supports service and distribution capabilities with our agent partners.
 - Base Commissions - \$9,485,962:
The recording of a premium payment on an agent-represented policy initiates a base commission payment. MSF estimates \$124.6 million in premium payments on agent-represented business will be recorded in CY17. The average base commission rate on these policies is estimated to be 7.6%.
 - Incentive Commissions - \$1,719,749:
Incentive commissions are established to provide a payment to agents for profitability and retention of MSF policyholder business they represent. The measurement period for this commission payment is based on the agents’ contract period that runs July 1 through June 30.
 - Other States Coverage (OSC) Commissions - \$240,000:
Commissions associated with OSC policies are based on the total CY17 revenue estimate of \$3.0 million. The commission rate is 8%.

- ❖ **Consulting and Professional Services Categories: \$4,733,339** – This is an increase of \$1,302,403 or 38.0% from the CY16 Budget of \$3,430,936. The following identifies the consulting by account description and code.
 - \$3,266,917 - Consulting and Professional Services - 62102
 - \$1,466,422 - Information Technology Consulting and Prof. Services - 62136

The following table comprises \$4,058,490, over 80%, of the total Consulting and Professional Services categories budget request. The expenditures are necessary to complete Annual Business Plan initiatives and other operational aspects of MSF business.

CY17 Budget	Department	Item / Description
\$1,866,285	Various	MSF Staff Backfill to Support Projects
\$859,843	Operations	NCCI Membership Fee Agreement and transaction based charges (membership required by law)
\$556,965	Operations	Other States Coverage program expenses
\$425,397	Executive	Creative development for advertising campaigns
\$350,000	Executive	Actuarial services

- **MSF Staff backfill strategy** - \$1,866,285 is budgeted in these consulting categories to backfill for MSF staff assigned to projects or temporary alternative duties.
 - ✓ \$741,403 – Backfill of IT staff related to the PBRI project

- ✓ \$348,820 – Consulting services to backfill three vacant software engineer positions to enable existing staff to support other upcoming projects and ongoing application maintenance. Estimate is for two full-time resources from March through December.
- ✓ \$189,199 – Consulting to backfill a vacant software engineer position to support current environments and applications enabling existing staff to work on the medical bill system project and the NCCI reporting compliance project. Estimate is for one full-time consultant.
- ✓ \$393,663 – Backfill consulting for the project team members other than the IT department
- ✓ \$193,200 – Insurance professional consulting to backfill for an Operations’ Business Unit Director working on the Regulations Documentation Gaps project.

These backfill consulting services are in addition to \$421,852 in personal services budgeted in the IT department for four vacant software engineer positions and \$275,208 of personal services budget for temporary employees and MSF employees working temporary duties to support PBRI and Regulation projects in CY17.

- **National Council on Compensation Insurance (NCCI)** – \$859,843 – This is similar to the amount estimated for the CY16 budget and includes the following:
 - ✓ NCCI contractual fee adjustments that become effective January 1, 2017.
 - ✓ The NCCI Membership Fee is primarily based on percentages that vary by core services that are applied to net direct written premiums. The FY15 net direct written premium used to calculate the membership fee was \$175,774,343. Total CY17 budget for the NCCI ‘Affiliation Licenses and Services’ is \$492,343.
 - ✓ Other fees are associated with the services provided by NCCI, such as eMods, unit statistical reporting, proof of coverage, and additional data. MSF is charged a transaction fee when receiving or providing data to NCCI. These fees are budgeted to be \$367,500.
- **Other States Coverage (OSC)** – \$556,965 – This is the portion of the OSC program expense budgeted as Consulting and Professional Services.

All OSC budgeted expenses are derived from contracted rates based on expected premium or incurred loss expense. The CY17 estimated OSC premium is \$3,000,000 and the estimated loss expense is \$1,500,000.

Total OSC program budgeted expenditures of \$2,422,965 are outlined on page 6 and include:

- ✓ \$556,965 Consulting and Professional Services
 - \$298,500 - Per OSC contract with Zurich, MSF pays 9.95% of the written premium as ‘fronting fees’ – expense of writing policies.

- \$157,500 - Contracts provide for 10.5% of incurred losses, estimated to be \$1,500,000, as loss adjustment expense for the cost of providing claims adjusting and supervision services.
 - \$100,965 - A letter of credit is required of MSF per contract.
- **Promotional Campaign and Communications Development** - \$425,397 - This is for the consulting services to create MSF advertising campaigns, production of the advertising products, customer documents, photography shoots and administration and assistance on communication projects. Items include the MSF website maintenance, educational videos, “Work Hard. Be Safe” campaign, a new “No Jack” campaign, new State of Montana employee campaign, “WorkSafe Champions” video, and MSF brand development. This expense category is separate from the cost of air time or other means of advertising.
- **Independent Actuary** - \$350,000 - The Board is required by law to use the services of an independent actuary when estimating losses, surplus adequacy, and other areas of business. This budget will fund actuarial services to consult on rate level, rate filing, loss cost multipliers, loss reserves, policyholder equity, and legislation. The CY16 budget for actuarial services was \$313,500.
- **Other Items in the Consulting and Professional Services and IT Consulting and Professional Services Categories** - \$674,849
 - ✓ \$169,000 - Medical bill system project will require approximately eight months of contractor resources for system development.
 - ✓ \$133,100 - Compensation Consulting: in-depth position review and compensation study; CEO compensation review; and, property and casualty industry survey.
 - ✓ \$115,764 - Department of Justice (DoJ) expense related to policy investigations and prosecutions. The total DoJ estimated funding is \$385,879 with 70% allocated to claimant and provider investigations and prosecutions and 30% directed to policy investigations and prosecutions based on cases currently assigned to DoJ and historical expense. The CY16 budget for the total DoJ fraud investigation and prosecution agreement is \$374,436.
 - ✓ \$110,000 - This budget provides for contracts or other projects that arise as the year progresses and are deemed necessary and appropriate by the President.
 - ✓ \$34,610 - national fraud indexing service (ISO) to check new claims for prior fraudulent activities and Medicare Set Aside reporting.
 - ✓ \$31,500 - CFO Solutions consulting services to provide budget and financial reporting support services.
 - ✓ \$25,000 - for services in support of the regulatory examinations.
 - ✓ \$25,000 - for the contracted Medical Director who provides research for and training of MSF claim examiners, medical case managers, and MSF external providers.

- ✓ \$14,500 - IBM moving services for disaster recovery back-up transition.
 - ✓ \$8,000 - Private investigators related to policy fraud issues.
 - ✓ \$8,375 - Hard drive shredding, board member per diems and occupational therapist.
- ❖ **Insurance and Bonds** - \$539,185 - this is an increase of \$132,938 or 32.7% from the CY16 budget of \$406,247. The budget funds MSF's general liability, property, boiler, crime and automobile coverage. This insurance is provided through the State of Montana's division of Risk Management and Tort Claims of the Department of Administration. The state is self-insured and assessed rates have increased due to a number of property damage claims filed by other agencies and the 2012 Libby asbestos settlement.
 - ❖ **Legal Fees and Court Costs** - \$75,100 - this is the same level of budget as requested for CY16. The budget will fund employers' liability coverage opinions, bankruptcy issues and other cases.
 - ❖ **Warrant Writing** - \$54,408 - this is a decrease of \$5,685 or 9.5% from the CY16 Budget of \$60,093. MSF relies on the state to issue all warrants, other than payments made by the medical and pharmacy bill processors to providers. The estimate is based on rates proposed by the State's Warrant Writing division, anticipated 2017 warrant volume and prior year volumes.
 - ❖ **State Human Resources Information System (Payroll) Service Fee** - \$59,982 - this is a slight increase of \$740 from the CY16 Budget of \$59,242 and will fund charges to MSF for services of the State's Central Payroll and SABHRS Human Resource module.
 - ❖ **Policyholder Payroll Audits** - \$841,139 - this is a decrease of \$36,479 or 4.2% from the CY16 Budget of \$877,618. MSF plans to continue using external audit services to perform policyholder payroll audits. These audits may be conducted in the field or as a telephone audit. Payroll audits are a significant means to verify payrolls and ensure appropriate classifications are used, as well as creating additional opportunities to educate policyholders on MSF processes for reporting payroll.
 - ❖ **Financial and Legislative Audits** - \$160,084 - this is an increase of \$65,928 or 70.0% from the CY16 Budget of \$94,156.
 - \$79,000 is for an independent accounting firm to audit the December 31, 2016 statutory financial statements and planning work later in the year for the 2017 financial statements.
 - \$81,084 is for the Financial Compliance audit performed by the Legislative Audit Division (LAD) of the MSF governmental financial statements.

- ❖ **SABHRS Administrative Costs** - \$72,160 - this is a decrease of \$2,642 or 3.5% from the CY16 Budget of \$74,801. This is paid to the Department of Administration and is MSF's portion of the expense for maintaining the state's accounting system, SABHRS. This expense is from OBPP's Fixed Cost report which uses a ratio of 'financial journal lines' by user as the basis for distributing the cost of SABHRS financial modules.
- ❖ **Temporary Services** - \$50,668 - this is an increase of \$46,588 from the CY16 budget of \$4,080. The increase is primarily due to budgeting \$39,868 to backfill for two expected retirements in Information Technology during the year. \$6,000 has been budgeted for temporary workers to assist during the Operations' renewal period April through June. \$4,800 has been budgeted for temporary custodial services to assist during staff absences.
- ❖ **Data Network and Miscellaneous Information System Services - Non-DOA** - \$63,080 - this is a decrease of \$6,335 or 9.1% from the CY16 Budget of \$69,415.
 - \$61,200 – SunGard disaster recovery services
 - \$1,320 – Montana Integrated System to Improve Customer Service (MISTICS) – Department of Labor and Industry's unemployment insurance system used in determining workers' compensation eligibility
 - \$560 – Public Access to Court Electronic Records (PACER) system for bankruptcy research and International Risk Management Institute (IRMI) on line subscription
- ❖ **Records Storage** – \$35,344 - this is an increase of \$6,667 or 23.2% from the CY16 Budget of \$28,677.
 - \$24,228 - Microfiche retrieval of older MSF and Old Fund claim data for Operations teams
 - \$10,596 - Off-site storage of back-up tapes with State Records Management
 - \$520 - All other finance, legal, and claim information retrieval from data archived with State Records Management.
- ❖ **Printing** - \$168,435 - this is an increase of \$27,823 or 19.8% from the CY16 Budget of \$140,612. This includes internal forms, envelopes, safety workshop materials, and a variety of small printing jobs for brochures, business cards, envelopes, and other informational materials. The increase is primarily due to \$20,000 budgeted to projects; WorkSafe Champions - \$15,000 and Growing a Safer Montana - \$5,000.
- ❖ **Services provided by the State Information Technology Services Division (SITSD) of the Department of Administration** - \$631,692 - this is an increase of \$115,034 or 22.3% from the CY16 Budget of \$516,658.

SITSD, in conjunction with OBPP, has determined the rates and expenses to be charged to MSF for services in the state's FY17 and FY18. MSF reviews processes and charges regularly and continually seeks the most efficient means to provide staff network support/services and to avoid the use of unnecessary or duplicative ITSD network services to minimize expense. The budgets by SITSD category are as follows:

- \$209,892 - enterprise services
- \$208,182 - asset broker
- \$171,180 - network services
- \$10,100 - long distance - MSF estimated charges to use SITSD long distance provider, per State contract
- \$19,182 - storage, server, equipment and application hosting
- \$12,864 - e-mail
- \$292 - voice services

➤ **Supplies and Materials**

- ❖ **Educational Supplies** - \$48,110 - this is an increase of \$14,000 or 41.0% from the CY16 Budget of \$34,110. The budget provides for purchase of manuals and materials used in courses for MSF staff training and safety workshops. Training costs have increased as a result of regulatory changes and staff licensing requirements.
- ❖ **Gasoline** - \$32,387 - this is a decrease of \$3,354 or 9.4% from the CY16 Budget of \$35,741. The budget estimate was based on \$2.27 per gallon (MSF is exempt from gas tax) for gasoline, an estimate of 27.6 miles per gallon average for sedans and 22.6 miles per gallon for SUV's. The budget provides for an estimate of 14,267 gallons of gasoline being purchased.
- ❖ **Minor Office Equipment** - \$93,357 - this is an increase of \$48,070 or 106.1% from the CY16 Budget of \$45,287. The CY17 Budget includes:
 - \$36,486 - Installation of 86 sit / stand units during the first year of a three year project to integrate ergonomic workstations
 - \$24,618 - Convert training room to be used as a PBRI project team room set-up with table, chairs, phones, and large screen monitor
 - \$18,425 - replacement of 30 office chairs
 - \$13,828 - for ergonomic keyboards, headset replacements, monitors, paper cutter, scanner, and other items
- ❖ **Computer Hardware** - \$293,635 - this is an increase of \$164,274 or 127.0% from the CY16 Budget of \$129,361. The CY17 Budget includes:
 - \$105,846 - PC and printer replacement - replacement cycle plans for approximately 20% of MSF desktop computers and printers to be replaced annually. The computers to be replaced are approximately seven years old.
 - \$84,680 - Phase 3 of 3 for MSF data center switch replacement. The Cisco switches being replaced were purchased in 2010.
 - \$42,800 - Purchasing Unified Computing System (UCS) to partially replace the current Blade Center system. This is part of MSF's standard replacement cycle.

- \$40,710 - PBRI project team room set-up - workstations, computers and monitors.
- \$19,599 - all other minor hardware such as: auxiliary network and data switches, computers, monitors and mobile 'Hot Spots'
- ❖ **Minor Software** - \$196,434 - this is an increase of \$97,362 or 98.3% from the CY16 Budget of \$99,072 Software to be purchased in CY17 includes:
 - \$162,237 - for PBRI software including:
 - ✓ \$112,000 - Websphere / Shoretel integration
 - ✓ \$28,387 - Desktop software and virtual private network
 - ✓ \$15,500 - New 'control M' task for batch flow
 - ✓ \$6,350 - Tivoli storage manager licenses
 - \$10,000 - Database for Growing a Safer Montana project
 - \$6,000 - It has been three years since MSF implemented mobile computing. MSF mobile devices will be evaluated and refreshed to keep pace with industry standards for mobile computing.
 - \$4,928 - Bright Metrics reporting software
 - \$4,708 - Windows data center server license
 - \$4,000 - 'The Complete Package' software used to prepare and submit the quarterly and annual statements and other filings.
 - \$4,561 - SolarWinds Network Configuration Manager and, FileNet and Microsoft Office licenses for new work station.
- ❖ **General Office Supplies** - \$185,885 - this is an increase of \$9,310 or 5.3% from the CY16 Budget of \$176,575. This budget includes paper, toner, and a wide variety of minor office supplies.
- ❖ **All Other Supplies and Materials Categories** - \$50,131 - includes budget for:
 - \$25,350 - promotional aids to enhance safety and other program awareness
 - \$15,516 - books and reference materials – primarily specialized desk manuals
 - \$7,402 - safety supplies, equipment and clothing
 - \$1,863 - diesel fuel for back-up generator
- **Communications**
 - ❖ **Postage** - \$446,871 - this is a decrease of \$2,783 or 0.6% from the CY16 Budget of \$449,654. The budget includes:
 - \$263,000 - print mail service fees
 - \$175,000 - meter postage
 - \$8,871 - all other - meter scale updates, 'deadhead' mail service, P. O. Box rental, field staff postage, and stamps
 - ❖ **Advertising** - \$411,306 - this is a decrease of \$199,571 or 32.7% from the CY16 Budget of \$610,877. This is the expense to produce media and purchase media time and placement. The budget includes:
 - \$180,000 - Purchase TV/cable air time for two advertising campaigns
 - ✓ \$90,000 - 'No Jack' in the spring of 2017
 - ✓ \$90,000 - 'Work Hard. Be Safe' in November 2017

- \$173,296 - Purchase of print, radio, and website banner advertisement
 - ✓ \$70,000 - ‘Work Hard. Be Safe’ in November 2017
 - ✓ \$70,000 - ‘No Jack Young Workers’ spring campaign
 - ✓ \$25,000 - Sponsorships such as SafetyFest, Governor’s Conference, Billings Biz Expo
 - ✓ \$8,296 - E-blasts of workshops and conferences, Yellow Pages, sports marketing events
- \$55,500 - WorkSafe Champions project - professional film crew for alumni spotlight (\$40,000) and advertising (\$15,500)
- \$2,510 – MSF Career Open House and out of state advertising

- ❖ **All Non-SITSD Telephone Categories** - \$101,815 - this is an overall increase of \$2,225 or 2.2% from the CY16 Budget of \$99,590. This expense covers cell phones, tablets, long-distance charges, language line, and ‘800’ line services. The budget is based on prior usage and rates expected in CY17.

- **Travel**
 - ❖ \$425,492 is the total MSF travel budget - this is an increase of \$90,072 or 26.9% from the CY16 Budget of \$335,420. The CY17 Budget supports:
 - \$172,612 - MSF staff out-of-state travel for business and training needs
 - \$141,777 - MSF staff in-state travel for business and training needs
 - \$86,559 - Travel associated with projects
 - \$24,544 - Travel for Board members and agents - non-employees travel

- **Rent**
 - ❖ \$387,302 - this is an increase of \$15,644 or 4.2% from the CY16 Budget of \$371,658. MSF has three areas of rent expense:
 - \$310,800 - annual parking fees for 350 spaces – this is budgeted based on \$74 per month per space. This does not include the offset for any potential revenue generated for parking fees charged to non-MSF users.
 - \$58,827 - rent for five field offices located in Billings, Great Falls, Missoula, Kalispell, and Butte and is a 3.4% increase from the CY16 Budget of \$56,898.
 - \$17,675 - photocopy equipment rental agreement including field offices. This is a 6.7% increase from the CY16 Budget of \$16,560.

- **Utilities**
 - ❖ \$235,000 - this is an increase of \$1,000 or 0.4% from the CY16 Budget of \$234,000. This is for electricity, natural gas, water and sewage services for the building. The minor adjustment is an increase to water and sewage costs.

- **Repairs and Maintenance**
 - ❖ \$1,343,189 - this is an increase of \$18,478 or 1.4% from the CY16 Budget of \$1,324,711.
 - \$1,054,337 - IT maintenance agreements for application software and hardware such as servers, routers and associated peripherals. CY16 Budget is \$1,079,887.

- \$207,558 - Facilities maintenance including: heating, ventilation and air conditioning (HVAC); air handler; audio visual system; building equipment replacement parts; security; painting exterior columns and slats; main wood beams over deck and lobby restoration; removal of landscaping area next to loading ramp; window cleaning; elevator maintenance; fire smoke damper repair; fire system; ballast replacements for lighting; shredding services; roof access update; carpet cleaning; generator maintenance; and other items. CY16 Budget is \$170,447.
- \$44,916 - Document Processing budget for maintenance on scanning and mail room equipment.
- \$24,693 - repairs and maintenance on MSF owned and operated fleet of 23 vehicles. Expenses include tires, oil changes and other regular maintenance.
- \$7,000 - replacement parts for monitors, computers, hard drives, memory, mice, keyboards, and printer maintenance kits.
- \$4,685 - High speed letter opener and field office printer maintenance.

➤ **Other Expenses**

- ❖ **Dues** - \$76,092 - this is an increase of \$14,810 or 24.2% from the CY16 Budget of \$61,282. This expense is for membership dues with professional business organizations such as the Montana Chamber of Commerce (\$46,000) and other local chambers (\$8,353), Montana Society of CPAs, American Association of State Compensation Insurance Funds (\$7,500), and the Society for Human Resource Management.
- ❖ **Subscriptions** - \$504,259 - this is an increase of \$94,597 or 23.1% from the CY16 Budget of \$409,662. This includes budget of:
 - \$150,000 - Clearwater Analytics for regulatory investment reporting
 - \$83,146 - Host Analytics budget and financial applications
 - \$75,000 - Milliman contract for support of claim analytics
 - \$38,400 - On-line access to Human Resource Management System (SilkRoad) for training, performance management, recruitment and on-boarding
 - \$30,804 - Linked In recruitment tool for resume searching
 - \$18,079 - SNL Financial for insurance and financial industry data
 - \$18,000 - Career Builder Network Recruiting
 - \$10,000 - PayScale for support with internal compensation work
 - \$8,050 - Glass Door recruitment tool and professional social media platform
 - \$7,300 - NAIC Automated Valuation System (AVS) that provides securities data to Clearwater Analytics for Schedule D reporting
 - \$65,480 - legal research, legal time tracking, a variety of desk manuals, career specific periodicals such as medical and occupational disability guides and on-line access for reference materials.
- ❖ **Taxes and Assessments** - \$132,143 - this is an increase of \$27,013 or 25.7% from the CY16 Budget of \$105,130. This budget is comprised of:

- \$126,000 - OSC premium taxes paid for insuring MSF policyholder's operations in other states where workers' compensation premium taxes are assessed. For CY17 the OSC premiums are estimated to be \$3,000,000 and the taxes and surcharges are estimated to be 4.2%.
 - \$3,143 - Reinsurance excise tax
 - \$3,000 - Annual city tax assessment for services on building
- ❖ **Education and Training and Professional Development Center** - \$229,582 - this is a decrease of \$14,587 or 6.0% from the CY16 Budget of \$244,169. Training is needed to ensure MSF employees are knowledgeable in best practices associated with supervision, claim management, safety management and underwriting of risk. Besides the numerous minimal cost training events budgeted, the major items are:
- \$45,000 - Workforce Executive Development project - university courses and training of candidates selected for executive development
 - \$12,735 - Governor's Conference registrations of MSF staff
 - \$12,175 - American Association of State Compensation Insurance Funds (AASCIF) registration fees for annual conference and committee meetings
 - \$9,000 - PBRI - vendor conference for selected partner
 - \$8,800 - 'Carl Van' on-line courses and videos for Claim Examiners and Customer Service Specialist
 - \$141,872 - multiple training courses planned for MSF staff
- ❖ **Rewards** - \$47,067 - this is a \$3,054 or 6.9% increase from the CY16 Budget of \$44,013. This is for employee-of-the-month/year awards, employee referral incentives, certification awards, individual employee rewards, IDEA awards, and retirement recognition.
- ❖ **Tuition Reimbursement** - \$27,564 - this is a \$1,974 or 6.7% decrease from the CY16 Budget of \$29,538. For CY17, the maximum amount of annual tuition reimbursement per employee is \$4,000. Eleven employees are expected to participate in the tuition reimbursement program in CY17. Reimbursements are based on MSF's pre-approval, successful course completion, and actual cost.
- ❖ **Meetings and Conference Cost** - \$191,590 - this is an increase of \$32,734 or 20.6% from the CY16 Budget of \$158,856. The budget provides for meeting rooms and equipment for MSF-sponsored meetings within our building and at locations throughout the state.
- Safety management workshops in locations throughout Montana
 - Agent training workshops
 - Customer service representative conference
 - Producer training classes
 - Marketing events
 - Medical Conference
 - Other meeting space rentals when MSF building conference rooms are full

- ❖ **Recruitment Expenses** - \$190,676 - this is a decrease of \$9,324 or 4.7% from the CY16 Budget of \$200,000. The budget is based on expected job candidate expenses and relocation expenses of eligible new employees.

Each recruiting action has the potential to require different levels of expense to complete the recruitment process. The budget is based on prior year expenditures for individual recruiting actions and expanding utilization of less costly web-based recruiting services in comparison to recruiting agencies. Recruitment expenses are comprised of the following accounts:

- Relocation - Taxable - \$19,613
 - Relocation - Non-Taxable - \$74,187
 - Recruiting - Non-Advertising - \$1,200
 - Job Candidate Expense - recruitment services and candidate travel expenses – \$95,676
- ❖ **Licenses** - \$16,968 - this is an increase of \$3,795 or 28.8% from the CY16 Budget of \$13,173. This budget funds professional license expenses of attorneys, certified public accountants, claim examiners, pharmacy technicians, registered nurses and others.
 - ❖ **Bank Service Charges** - \$33,823 - this is an increase of \$5,908 or 21.2% from the CY16 budget of \$27,915. This budget funds the Montana Interactive E-check fees and credit card fees for on-line customer premium payments. This service is expected to expand in 2017 to include collection of medical and other types of claimant overpayments.
 - ❖ **Charitable Contributions / Scholarships** - \$85,300 - this is an increase of \$34,000 or 66.3% from the CY16 Budget of \$51,300. Charitable Contributions are budgeted as follows:
 - \$27,300 - Scholarship program - Scholarships of up to \$1,000 per semester are provided to dependents or spouses of MSF-insured employees who died in work-related accidents. MSF estimates 13 scholarships (2 semesters each) will be awarded in CY17 for a total budget of \$26,000. Each scholarship is estimated to be \$2,000 with an additional \$100 administrative fee each. The budget is based on prior year participation.
 - \$25,000 - ACE (Assisting Charitable Endeavors) Grants program - The grants are awarded by a committee of MSF employees based on applications submitted by 'not-for-profit' organizations throughout the state.
 - \$19,000 - Growing a Safer Montana project: Trade Scholarship awards, Safety and Health Scholarship awards and, high school safety equipment grants
 - \$10,000 - Support of Leadership Montana
 - \$4,000 - Support of 'Festival of Trees' events
 - ❖ **Fee Collection Expense** - \$38,399 - this is a decrease of \$13,273 or 25.7% from the CY16 Budget of \$51,672. MSF contracts with external collection agencies and the fees vary based on success with collections, amount sent to collection, and whether litigation is involved.

- ❖ **IT Staff Education and Training** - \$141,559 - This is a new account segregation as part of the State's IT Convergence mandate. The budget for IT staff training was previously included in the Education and Training category. The budget will fund:
 - \$75,000 - Technical training in VMware/.net/Linux
 - \$35,000 - Vendor solution training for PBRI solution selected
 - \$5,500 - Gartner Business Intelligence and Analytics Summit
 - \$26,059 - various courses and training events for IT staff
- ❖ **State Wide Indirect Cost** - \$49,324 - this is a decrease of \$2,344 or 4.5% from the CY16 Budget of \$51,668. The State Wide Indirect Cost (also known as the State Wide Cost Application Plan or SWCAP) is an allocation determined by the Office of Budget and Program Planning as a means to allocate costs incurred by agencies whose functions support all state entities.

d. Equipment and Intangible Assets

The total CY17 Budget for all equipment and intangible assets is \$2,608,577. This is an increase of \$2,391,207 from the CY16 Budget of \$217,370.

- **Multi-User Software** - \$2,355,047 - This is the budget amount for the PBRI software development expenditure for CY17. This is a multi-year project and the budget amount of \$2.4 million will be capitalized and expensed over three years following the project's completion.
- **Multi-User Computers** - \$185,000
 - ❖ \$65,000 - purchase of IBM V5000-Gen2 storage array - This budget will provide for data encryption storage for MSF data at the State of Montana's Data Center. This is the fourth of a five-year plan to migrate MSF disaster recovery services to the State of Montana data centers.
 - ❖ \$62,500 - PBRI project data storage server
 - ❖ \$57,500 - This purchase will replace one of four aging IBM Power7 servers that was purchased in 2012 and will eclipse five years of service during CY17. This is part of MSF's regular server replacement schedule.
- **Autos & Trucks** - \$68,530 - One SUV and two sedans will be purchased to replace two high mileage vehicles and adding another vehicle for staff that travel as recommended by the Fleet Manager. Vehicles being replaced have reached the mileage specified in MSF's Fleet Management Policy as the replacement threshold. MSF will replace the sedans at a cost of \$21,890 each. The SUV cost is \$24,750.

e. Transfer to Commissioner of Securities and Insurance (CSI)

CSI Staff Expense and Examinations - \$379,395 - MSF is required in law (33-1-408(4), MCA) to pay CSI for staff and examination expenses associated with regulating MSF. The budgeted transfer to CSI is comprised of the following:

- \$200,680 - Personal services expense of an attorney (\$125,030) and a market conduct examiner (\$75,650) employed by CSI.

- \$24,115 - Operating expenses for the two staff employed by CSI.
- \$1,900 - MSF's 'Certificate of Authority' to conduct the business of insurance in Montana as required under Title 33.
- \$102,700 - estimated financial condition examination cost
- \$50,000 - estimated market conduct examination cost

f. Allocated Loss Adjustment Expense (ALAE) -- Defenses and Cost Containment (D&CC) -- Adjusting and Other (A&O)

ALAE / D&CC / A&O are costs directly associated with managing a specific claim, such as independent medical examination to analyze a prescribed treatment of an injured employee or medical bill review fees.

\$3,619,775 is budgeted for ALAE / D&CC / A&O and is a decrease of \$206,381 or 5.4% from the CY16 Budget of \$3,826,156.

- \$1,300,402 - Medical Invoice Processing - The budget is a decrease of \$110,662 or 7.8% from the CY16 Budget of \$1,411,064. Medical invoice processing is budgeted based on estimated medical benefits to be paid, invoices to be processed, and the applicable contracted cost per bill. Charges are for bill review, nurse review, check issuance and preferred provider organization (PPO) savings fees.
- \$905,562 - Investigations - This is a decrease of \$47,813 or 5.0% from the CY16 Budget of \$953,375 based on utilization of services. The private investigation activity is budgeted at \$635,447. The Department of Justice (DoJ) Fraud investigation and prosecution agreement budget for claim and provider investigations is \$270,115. The total DoJ agreement budget is \$385,879 and \$115,764 is budgeted for policyholder fraud in General Counsel's Operating Expense budget.
- \$883,070 - All legal expense categories - this is an increase of \$21,946 or 2.5% from the CY16 Budget \$861,124.
 - ❖ \$748,959 - State Fund legal contract for services of external counsel and expense of the Medicare Set Asides which have significantly increased as settlement activity increased
 - ❖ \$66,091 - Employer's Liability Insured Defense Cost
 - ❖ \$47,437 - Legal Fee Claimant Attorney and associated claimant attorney's costs
 - ❖ \$20,583 - photocopy and electronic copy expense
- \$337,571 - Medical Consultants - this is a decrease of \$75,879 or 18.4% from the CY16 Budget of \$413,450. MSF relies on medical consultants to enhance staff expertise and knowledge related to diagnosis and treatment plans for injured employees. The budget enables staff to consult with medical professionals to provide expertise when managing complex medical issues.
- \$193,170 - Contract Examiners - this is an increase of \$6,024 or 3.2% from the CY16 Budget of \$187,146.
 - ❖ \$150,000 - Examiners associated with Other States Coverage claims

- ❖ \$43,170 - Contract external claims examiners to manage MSF in-house claims and to complete life expectancy reviews

VI. Annual Projects Included in the CY17 Budget

The CY17 Budget includes \$5,022,220 for Annual Business Plan (ABP) and Enterprise Strategy and Project Management (ESPM) projects. Specific expenditures for the projects have been previously explained in different areas in this report. The following provides a summary of the total budget for each project.

<u>Project Title</u>	<u>CY17 Budget</u>
Policy and Billing Replacement Initiative	\$4,125,266
Regulation: Documentation Gaps	271,737
Regulation: Examinations	177,700
Medical Bill System	178,000
Executive Development Program	111,060
WorkSafe Champions	91,957
Growing a Safer Montana	<u>66,500</u>
Total All Projects	<u>\$5,022,220</u>

VII. Miscellaneous

a. Old Fund Administration

The CY17 budget includes the expenditures necessary to administer and manage Old Fund claims. These are claims for injuries that occurred prior to July 1, 1990. By law, MSF is reimbursed by the state General Fund up to \$1.25 million a year for Old Fund administration costs. We are estimating that only \$769,318 will be needed for CY17.

b. Cost Not Included in the Proposed Budget

- The CY17 budget includes all known and expected costs for the fiscal period January 1 through December 31, 2017. The budget does not include Court decisions which may significantly and adversely impact the State Fund.
- Executive Order No. 09-2016 was issued by Governor Bullock on May 24, 2016. The order defines a full migration of agency IT assets to the central enterprise infrastructure, which includes some of MSF’s hardware and software. MSF and ITSD are evaluating options and whether MSF will be required to participate, and if so, when. Compliance with this order would require significant cost and resources to implement. Due to the outstanding uncertainties, the CY2017 budget does not include estimated costs for MSF to implement the ITSD Convergence Plan.

c. Premium Estimate and Budget Amendments

The CY17 budget is prefaced on MSF’s net earned premium projection of \$167.0 million. Should premium significantly increase or decrease from the estimate, appropriate budget increases or decreases may be presented to the Board for further review.

Throughout the year, management will provide quarterly budget variance reports to keep the Board informed of the status of the projected budget as compared to the original request. Management could request the Board's approval of an amendment to the annual budget if there were significant unanticipated increases in benefit payments or operational costs.