

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 705** HLS 14RS 1274
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: March 27, 2014 4:00 PM	Author: FANNIN
Dept./Agy.: Division of Administration (DOA)	Analyst: Travis McIlwain
Subject: Office of Risk Management (ORM)	

PUBLIC CONTRACTS OR DECREASE SG EX See Note Page 1 of 1
 Authorizes the state to enter into consulting service contracts with licensed insurance producers for the procurement of insurance for risk management

Proposed legislation authorizes the office of risk management (ORM) to contract with licensed insurance producers to advise the office regarding the office's programs and to directly procure insurance. Proposed legislation requires the Joint Legislative Committee on the Budget (JLCB) to approve the contract and for annual reporting to the JLCB of cost savings achieved by the contract.

EXPENDITURES	2014-15	2015-16	2016-17	2017-18	2018-19	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	2014-15	2015-16	2016-17	2017-18	2018-19	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

This bill is anticipated to result in a decrease in ORM expenditures in an amount ranging from \$2.3 million to \$3 million in broker commission and fees. This bill allows the ORM to directly contract with a licensed insurance broker to act on the state's behalf to procure commercial insurance as opposed to the current process that provides for the commercial insurance bid to include the insurance coverage and broker fees as one item. ORM is currently paying approximately \$3 million to \$4 million annually in commission fees. Upon enactment of this bill, ORM is anticipating these fees to be reduced to approximately \$700,000 to \$1 million annually.

The current nature of significant commercial lines of insurance is such that companies only converse with brokers and not the insured. Due to this environment, current law inadvertently limits the number of companies bidding on ORM request for proposals (RFPs). ORM's current insurance broker, which was originally selected based upon the combination of broker/insurance proposal, is considered Louisiana's broker of record. Thus, commercial carriers who currently do not have a relationship with that broker of record will not participate in bid proposals, which limits the vendor pool. According to ORM, commercial carriers will only issue prices and information to one broker.

This bill will allow ORM to contract for an insurance broker (or insurance brokers) only and will give authority to the broker to directly procure insurance on behalf of the state. Although this bill provides for Joint Legislative Committee on the Budget (JLCB) approval of the insurance broker contract/contracts, this bill appears to eliminate the RFP process for actual commercial insurance and grants that authority of selecting the insurance carrier to the broker with commissioner of administration approval.

The Division of Administration (DOA) anticipates overall state expenditures decreasing approximately \$16.4 million as a result of the proposed legislation. The DOA indicates that this bill will decrease commissions and fees, will provide for more competition as various insurance brokers will be allowed to advise ORM/DOA on the types of insurance products and will now allow these brokers to negotiate on behalf of the state, which will result in an overall decrease in price. However, such a decrease in overall state expenditures would only occur if ORM were to reduce its premiums charged to state agencies.

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

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|-----------------------------------------------------------------------------|----------------------------|--------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 State Rev. Reduc. {H & S} | |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |

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