

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 0845	Department California Department of Insurance	Priority No. SO - 2
Budget Request Name 0845-009-BCP-BR-2016-GB		Program 0520 – Regulation of Insurance Companies 0535 – GF Tax Collection & Compliance 9900100 – Administration 9900200 – Distributed Administration	Subprogram 0520010 – Rate Regulation

Budget Request Description
 Resource Redirection

Budget Request Summary

The California Department of Insurance (CDI) requests approval to realign Special Fund expenditure authority of \$808,000 in FY 2016-17 and ongoing from Program 0535 (General Fund Tax Collection and Compliance) to Program 0520 (Regulation of Insurance Companies and Insurance Producers) and Program 990100 (Administration) in the amount of \$461,000 and \$347,000 respectively to address workload demands. The net impact to the Insurance Fund is zero.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

<input type="checkbox"/> FSR <input type="checkbox"/> SPR	Project No.	Date:
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If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Sandy Chu	Date 12/14/15	Reviewed By Crista Hill <i>Crista Hill</i>	Date 12/14/15
Department Director for Erika Sperbeck <i>Erika Sperbeck</i>	Date 12/14/15	Agency Secretary N/A	Date

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA	Original signed by Jeff Carosone	Date submitted to the Legislature <i>1-7-16</i>
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DEPARTMENT OF FINANCE
CORP/JUD

Analysis of Problem

A. Budget Request Summary

The California Department of Insurance (CDI) requests approval to realign Special Fund expenditure authority of \$808,000 in FY 2016-17 and ongoing from Program 0535 (General Fund Tax Collection and Compliance) to Program 0520 (Regulation of Insurance Companies and Insurance Producers) and Program 990100 (Administration) in the amount of \$461,000 and \$347,000 respectively to address workload demands. The net impact to the Insurance Fund is zero.

B. Background/History

The Financial Surveillance Branch (FSB) restructured its Premium Tax Audit Bureau (PTAB) in FY 2014-15 as a result of efficiencies created in the tax compliance process. After reexamining the premium tax audit process, FSB found that there were some inefficiencies with the existing processes including duplication of work caused by PTAB's two-level review audit process, lack of emphasis on identifying issues, coordination of on-site examinations, and not billing companies to recover costs to administer the program. In order to address these inefficiencies, FSB streamlined its review process by eliminating the redundancy of work and reducing paper reviews of tax returns. In addition, FSB now has the most experienced staff review tax returns to eliminate the need of secondary review and is able to focus on finding potential significant issues that require an on-site audit. As a result of these operational efficiencies staffing needs in PTAB were reduced from 12 to 5 positions. The reduction of resources will not impact the Department's tax collection activities that result in approximately \$2.4 billion in taxes collected annually for the General Fund.

CDI identified resource needs in its Rate Regulation Branch (RRB) and Administration & Licensing Services Branch - Human Resources Management Division (HRMD). Consistent with CDI's strategic plan and goal to value resources and use them wisely, CDI is seeking approval to redirect available PTAB resources to RRB and HRMD.

The RRB determines whether rates charged to consumers in California are fair meaning they are not excessive, inadequate, unfairly discriminatory or otherwise in violation of the Insurance Code. Under the provisions of Proposition 103 (enacted by the voters in 1988) the CDI is required to review rates for most property and casualty lines of business before they can be used. RRB has the task of reviewing and approving all property and casualty insurance rate filings that are submitted as required by statute for prior approval before those rates can be charged by insurers (California Insurance Code (CIC) §1861.01(c)).

The HRMD provides essential human resources services to CDI employees. HRMD ensures that civil service laws, regulations, and policies are followed in hiring, promoting, transferring, disciplining, and separating employees. HRMD also administers classification and pay, transactions, training, awards, workers' compensation, and health and safety programs.

Rate Regulation Branch Resource History (Dollars in thousands)

Program Budget	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16 (Projected)
Authorized Expenditures ^{1/}	\$8,108	\$8,437	\$9,754	\$10,206	\$9,570
Actual Expenditures ^{2/}	\$8,185	\$8,392	\$9,600	\$9,944	\$9,570
Authorized Positions ^{3/}	90.0	90.0	90.0	90.0	90.0
Filled Positions ^{3/}	83.4	88.1	88.0	85.5	90.0
Vacancies	6.6	1.9	2.0	4.5	0.0

^{1/} Based on Allotment.

^{2/} Based on FM 13 year-end budget reports.

^{3/} Based on Salaries & Wages (7A).

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Rate Regulation Branch Workload History

Workload Measure	2011	2012	2013	2014	2015 (Projected)
Rate Filings received	7,924	7,532	7,094	6,543	8,668
Filings approved over 60 days old	646	967	446	411	1,296

Administration & Licensing Services Branch - Human Resources Management Division Resource History (Dollars in thousands)

Program Budget	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16 (Projected)
Authorized Expenditures ^{1/}	\$2,806	\$2,876	\$2,891	\$3,146	\$3,163
Actual Expenditures ^{2/}	\$2,866	\$2,771	\$2,923	\$3,066	\$3,163
Authorized Positions ^{3/}	32.0	32.0	32.0	31.0	32.0
Filled Positions ^{3/}	30.0	29.3	28.9	27.7	32.0
Vacancies	2.0	2.7	3.1	3.3	0.0

^{1/} Based on Allotment.

^{2/} Based on FM 13 year-end budget reports.

^{3/} Based on Salaries & Wages (7A).

C. State Level Considerations

This proposal is consistent with CDI's strategic plan to provide excellent, fair, and responsive service; advance effective and efficient processes; and value our resources and use them wisely. Moreover, CDI's request is consistent with the Governor's policy, outlined in Budget Letter (BL) 15-05, to contain growth in authorized positions by redirecting existing positions.

D. Justification

Rate Regulation Branch

RRB does not have sufficient resources to address the volume of rate filing workload. As a result, it has delays in processing rate filings. Delays in the approval of rules, rates, and forms, results in delays in releasing new products into the insurance marketplace and in the charging of appropriate rates for the coverages sold to consumers. In fact, applicable statute includes an anticipated review period of sixty days (the "deemer date") for review and determination of an approval or an order of hearing for rate filings (CIC §1861.05(c)). RRB has a continuous backlog of files that have exceeded the sixty day "deemer date" for approval. When there are delays, it may result in the insurer charging premiums that can either be too high or too low potentially harming consumers.

RRB has taken steps to make the processing of rate filings more efficient and reduce the backlog such as simplifying the processing of filings by moving to an electronic-only filing system, prioritizing the workload to work on the files identified as most critical by the advisory organization, and providing additional training to staff. Unfortunately, these efforts have not had any significant impact on the workload and backlog faced by the Branch. An additional Associate Insurance Rate Analyst will assist in reducing the number of files that go beyond the deemer date by approximately 5 percent. RRB believes this will reduce the number of filings that exceed the deemer period to only those filing where the delay is not the result of RRB workload issues.

Additionally, rate filings have become increasingly complex over the last ten years due to more detailed rating plans and greater use of predictive models in the rate making process. Insurers are making increasingly

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greater use of predictive modeling in the development of their rating plans for homeowners, residential property, and commercial insurance coverage. As a result, RRB has a critical need for two Actuaries with the knowledge, skills and abilities to assist with the predictive models workload. The CDI received a two-year augmentation for consulting services dollars to contract out for predictive modeling review and train existing staff on how to review these models. The funds will expire at the end of FY 2015-16. The current actuaries cannot absorb this workload when the contract expires because they are already overloaded handling the most complex rate filings with the biggest premium impact as well as intervened filings.

It is essential that resources be redirected to RRB in order to address workload demands and backlogs and ensure the Department has resources to review the predictive rate models insurers are increasingly using in their rating plans. The work performed by RRB is essential to protecting consumers from unfair and excessive rates. Since 2012, the Department has received approximately 7,000 rate filings on average from insurers requesting a change to their rates. These rate changes have either a positive affect (decreases resulting in lower premiums), or a negative affect (increases resulting in higher premiums) on consumers. The Rate Analysts and Actuaries in RRB analyze each filing and work with insurers to adjust the rates to ensure that the amount of decrease or increase is appropriate based on the loss and expense history for the insurer for that coverage. Since 2012, the Department has saved consumers a total of \$1,775,850,442 as a result of these efforts. The longer it takes RRB to complete a file approval, the longer that insureds who deserve a rate decrease continue to pay an excessive rate.

Administration & Licensing Services Branch - Human Resources Management Division

HRMD's workload has increased significantly over the past few years primarily the result of increased positions department-wide. Authorized positions at CDI have increased approximately 20 percent over the last four years while the number of authorized positions in HRMD has remained unchanged. There is a strong correlation between the number of authorized positions and workload in human resources. When positions increase so does the workload. As a result HRMD is experiencing delays in processing of workload. The proposed redirection of three positions will assist with the increased HRMD workload, thus enhancing HRMD's ability to serve as a model service organization, provide excellent customer service, and achieve customer satisfaction.

Additionally, external factors have played a role in increasing HRMD's workload. For example, in July 2014, CDI implemented a new, in-house human resources (HR) system, cdiHR, to provide mission critical functions including daily attendance tracking, leave balance accounting, and position control. This was in response to unanticipated notification in October 2013 from the California Department of Technology that it would sunset its Human Resource Information System (HRIS) as of June 30, 2014 as well as the State Controller's Office suspension of the MyCalPAYS project. Administration of cdiHR has resulted in significant new, unanticipated workload for HRMD. The California Department of Human Resources delegation of certain activities has also increased workload.

It is essential that resources be redirected to HRMD in order to address the growing workload demands. Many of these functions have a high risk and consequence of error (e.g., issuing employees the right pay at the right time, accurate and timely processing of employee benefits) which could negatively impact the Department and/or CDI employees.

E. Outcomes and Accountability

RRB's objective is to reduce the delays in rate filings that have exceeded the sixty day "deemer date" by approximately 5 percent. RRB can measure that the 5 percent is met by tracking the number of rate filings cases that are pending and closed. HRMD's objective is to ensure civil service laws, regulations, and policies are followed in hiring, promoting, transferring, disciplining, and separating employees; accurate and timely human resources services. HRMD will implement performance measures to track accordingly.

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F. Analysis of All Feasible Alternatives

Alternative 1 - Approve the proposal as requested.

Pros:

- No additional cost to CDI because the net impact to the Insurance Fund is zero.
- No position growth because resources are being redirected.
- Enables CDI to comply with statutory mandates for rate filing.
- Enables CDI to have the resources necessary to ensure civil service laws, regulations, and policies are followed in hiring, promoting, transferring, disciplining, and separating employees.

Cons:

- No overall reduction in CDI results as a result of efficiencies created in PTAB.

Alternative 2 - Approve new positions and expenditure authority.

Pros:

- Provides the resources needed in RRB and HRMD to comply with statutory mandates for rate filing and state civil service levels.

Cons:

- Increases position growth in State Government.
- Inconsistent with BL 15-05 to contain growth in authorized positions by redirecting existing positions.
- Doesn't allow CDI to manage its resources and transfer available authority from one program to another.

Alternative 3 - Contract out the Actuaries services for RRB and support the redirection of the other requested resources for RRB and HRMD.

Pros:

- Enables CDI to comply with statutory mandates for rate filing.
- Enables CDI to have the resources necessary to ensure civil service laws, regulations, and policies are followed in hiring, promoting, transferring, disciplining, and separating employees.
- No position growth in State Government.

Cons:

- Will increase CDI costs by \$350,000 over Alternative 1 to contract for actuary services.
- Internal resources are not being fully utilized because positions are not fully aligned with program needs.
- Expertise does not stay in-house.

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Alternative 4 - Deny this proposal.

Pros:

- May result in an overall reduction in CDI resources as a result of efficiencies created in PTAB.

Cons:

- Positions are not being utilized effectively to align with program needs.
- Workload will not be addressed.

G. Implementation Plan

Effective July 1, 2016 resources will be permanently realigned between programs as approved.

H. Supplemental Information

Not Applicable.

I. Recommendation

Alternative 1 – This is the only alternative that will allow CDI to manage resources and workload demands and permanently realign resources between programs. The net impact to the Insurance Fund is zero.

The risks associated with denying this proposal are significant because without this realignment CDI will be unable to redirect resources where workload demands warrants. Resulting in delays in the approval of rules, rates, and forms which in turn, result in delays in releasing new products in the insurance marketplace and the charging of appropriate rates for coverage sold to consumers will continue. In addition, it will jeopardize HRMD's ability to ensure civil service laws, regulations, and policies are followed in hiring, promoting, transferring, disciplining, and separating employees. Furthermore, denial of this proposal would be inconsistent with the Governor's policy to redirect resources to manage workload.