

Department of Insurance

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DESCRIPTION	FY 2004 ACTUAL	FY 2005 ESTIMATE	FY 2006 JLBC	FY 2007 JLBC
OPERATING BUDGET				
<i>Full Time Equivalent Positions</i>	114.9	114.9	114.9	114.9
Personal Services	3,459,600	3,804,300	3,804,300	3,804,300
Employee Related Expenditures	991,500	1,028,500	1,173,300	1,173,300
Professional and Outside Services	89,200	113,600	230,600	230,600
Travel - In State	39,000	42,100	42,100	42,100
Travel - Out of State	5,300	5,000	5,000	5,000
Other Operating Expenditures	795,400	756,400	611,600	611,600
Equipment	208,600	117,000	0	0
OPERATING SUBTOTAL	5,588,600	5,866,900	5,866,900	5,866,900
SPECIAL LINE ITEMS				
Managed Care and Dental Plan Oversight	480,800	526,700	526,700	526,700
AGENCY TOTAL	6,069,400	6,393,600	6,393,600	6,393,600

FUND SOURCES				
General Fund	6,069,400	6,393,600	6,393,600	6,393,600
SUBTOTAL - Appropriated Funds	6,069,400	6,393,600	6,393,600	6,393,600
Other Non-Appropriated Funds	8,245,600	10,434,400	19,934,400	19,934,400
TOTAL - ALL SOURCES	14,315,000	16,828,000	26,328,000	26,328,000

CHANGE IN FUNDING SUMMARY	FY 2005 to FY 2006 JLBC		FY 2005 to FY 2007 JLBC	
	\$ Change	% Change	\$ Change	% Change
General Fund	0	0.0%	0	0.0%
Total Appropriated Funds	0	0.0%	0	0.0%
Non Appropriated Funds	9,500,000	91.0%	9,500,000	91.0%
Total - All Sources	9,500,000	56.5%	9,500,000	56.5%

AGENCY DESCRIPTION — The Department of Insurance licenses and authorizes the transaction of insurance business by insurers, producers and other insurance-related entities. The department's oversight responsibilities include solvency regulation, collection and audit of insurance premium taxes, agent licensing, company certification, consumer assistance, complaint resolution, rate and policy form regulation, and administration of companies in receivership. The department collects various filing and licensing fees, which are deposited into the state General Fund. The revenues derived from these fees are required by law to be between 95% and 110% of the department's state General Fund appropriation.

PERFORMANCE MEASURES	FY 2003	FY 2004	FY 2005	FY 2006
	Actual	Actual	Estimate	JLBC
• Average calendar days to complete a consumer complaint investigation	79.0	118.9	64	110
• Average days required to complete fraud investigations	57	65	100	--
• % of survey licensees respondents indicating "satisfied" or "better"	89.4	91.4	88	92
• % of consumer services survey respondents indicating "satisfied" or "better"	70.4	69.9	80	75
• Average days to issue license after receiving all required information from applicant	15.5	NA	16	--
• Average number of days to issue a license (NEW)	--	48.3	--	45
• % of agency staff turnover	17.3	27.1	15.0	--
• Administration as a % of total cost	10.1	10.1	4.9	--

Comments: The agency did not submit information for any measure labeled as "NA." The Department of Insurance reports that the percent of survey licensees respondents indicating "satisfied" or "better" increased because of improved information on the department's Web site. The minimum quality rating of "satisfied" made by consumer complainants is consistently around 70%. The average number of days to issue a license begins on the day an application is received and culminates the day that the license decision is rendered. The following license types: Insurers, Re-insurers, Service Corporations, Health Care Service Organizations and Prepaid Dental Plan Organizations, are included in the "average days to issue a license" performance measure.

RECOMMENDED CHANGES FROM FY 2005

Operating Budget

The JLBC recommends \$5,866,900 from the General Fund for the operating budget in FY 2006 and FY 2007. These amounts are unchanged from FY 2005.

Special Line Items

Managed Care and Dental Plan Oversight

The JLBC recommends \$526,700 and 9.7 FTE Positions from the General Fund for Managed Care and Dental Plan Oversight in FY 2006 and FY 2007. These amounts are unchanged from FY 2005. This line item reflects monies related to the transfer of regulatory responsibilities from the Department of Health Services for overseeing health care service delivery by Health Care Service Organizations and Prepaid Dental Plan Organizations. As a result of the regulatory transfer, the department received the responsibility to oversee Health Maintenance Organization (HMO) health care plans, to determine whether HMOs met minimum standards for basic health plans, and to establish whether managed care organizations are delivering adequate service to enrollees. Monies in this line item are also used by the department to implement and regulate new health care provider grievance and timely pay laws.

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JLBC RECOMMENDED FORMAT — Operating Lump Sum with Special Line Items by Agency

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends suspending the statutory requirement that fee revenue remain between 95% and 110% of the department's appropriation in FY 2006 and FY 2007. The department is likely to collect fee revenue in excess of 110% of its FY 2006 recommended budget. Fee revenue is deposited in the General Fund. Without this provision, the department would have to lower its fees, resulting in a loss of General Fund revenue. In FY 2004, previous year's revenue relative to the department's appropriated operating budget equaled 106%, while projections for FY 2006 and FY 2007 are 122% and 136%, respectively.

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
Assessment Fund for Voluntary Plans (IDA2316/A.R.S. § 20-2201)		Non-Appropriated
Source of Revenue: Assessments paid by insurance companies or reinsuring carriers authorized to sell liability insurance.		
Purpose of Fund: To provide for the administrative costs associated with finding liability insurance for classes of risk that are unable to obtain liability coverage. In addition, monies are also used to employ and contract with persons to administer the Small Employers Reinsurance Plan Board. The board ensures the accessibility of small group health insurance by requiring a reinsurance program to spread the risk of insuring small groups.		
Funds Expended	153,600	161,100
Year-End Fund Balance	33,700	38,800
Captive Insurance Regulatory/Supervision (IDA2377/A.R.S. § 20-1098.18)		Non-Appropriated
Source of Revenue: License and renewal fees collected from individual captive insurers and corporations applying to do business as a captive insurer. A captive insurer is an enterprise with the authority to function as an independent insurance company, but is organized by a parent company with the express intent to provide the parent company's insurance.		
Purpose of Fund: To provide funding for the promotion of the state's captive insurance industry. Monies are also used to cover the departments related administration costs.		
Funds Expended	1,300	156,100
Year-End Fund Balance	84,200	53,100
Financial Surveillance (IDA2473/A.R.S. § 20-156)		Non-Appropriated
Source of Revenue: Assessments paid by domestic insurers, other than life and disability reinsurers, service companies and mechanical reimbursement.		
Purpose of Fund: To provide funds for the costs of financial analysts who conduct financial surveillance of domestic insurers in order to identify possible risks to financial stability.		
Funds Expended	297,400	327,900
Year-End Fund Balance	144,700	116,800
Health Care Appeals (IDA2467/A.R.S. § 20-2540)		Non-Appropriated
Source of Revenue: One-time fee of \$200 and an annual fee of up to \$200 per health care insurance company.		
Purpose of Fund: To pay for start-up and on-going costs related to selecting an independent review organization. The selected organization will conduct external independent reviews that involve issues of medical necessity.		
Funds Expended	129,700	110,800
Year-End Fund Balance	196,800	205,400
Insurance Examiners' Revolving (IDA2034/A.R.S. § 20-159)		Non-Appropriated
Source of Revenue: Payments made by insurance companies for costs of financial, rate, and market conduct examinations performed by contract examiners.		
Purpose of Fund: To provide funds for contract examiners' per diem compensation and funds to reimburse contract examiners for travel and living expenses, as approved by the Director of the Department of Insurance. Monies are also used to cover the department's related administrative costs.		
Funds Expended	3,923,400	5,737,700
Year-End Fund Balance	620,700	815,800
Life and Disability Insurance Guaranty (IDA2154/A.R.S. § 20-683)		Non-Appropriated
Source of Revenue: Assessments on life and disability insurance companies, and reimbursements from the sale of insolvent companies' assets by the department's Receivership Division.		
Purpose of Fund: To provide funds for the covered policy claims of insolvent insurance companies for life and disability insurance policies and annuity contracts. The fund also pays the administrative costs of the 9-member Life and Disability Insurance Guaranty Fund Board authorized by A.R.S. § 20-684. Monies are held in a depository designated by the Director of the Department of Insurance.		
Funds Expended	626,000	519,500
Year-End Fund Balance	19,650,200	21,455,700

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
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Arizona Property and Casualty Insurance Guaranty (IDA2114/A.R.S. § 20-662) Non-Appropriated

Source of Revenue: Assessments on property and casualty insurance, and reimbursements from the sale of insolvent companies' assets by the department's Receivership Division.

Purpose of Fund: To provide funds for the covered policy claims of insolvent insurance companies for property and casualty insurance policies. The fund also pays the administrative costs of the 11-member Property and Casualty Insurance Guaranty Fund Board authorized by A.R.S. § 20-663. Monies are held in a depository designated by the Director of the Department of Insurance.

Funds Expended	2,955,000	3,184,600
Year-End Fund Balance	18,875,000	19,406,400

Receivership Liquidation (IDA3104/A.R.S. § 20-648) Non-Appropriated

Source of Revenue: Consists of 10% of an insolvent insurer's statutory deposit with the State Treasurer authorized by A.R.S. § 20-213. Upon termination of a receivership, the court may award proceeds to the fund, up to the amount of the department's administrative costs.

Purpose of Fund: To support the department's Receivership Division, which administers the liquidation of insurance companies to insure maximum recovery of assets. The balance forward represents cash on hand. It does not include the state's unfunded liability for deposits being held as assurance against future insolvencies.

Funds Expended	159,200	236,700
Year-End Fund Balance	472,400	247,700

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