



Government Operations Appropriations Subcommittee Meeting Packet

**September 17, 2015
3:00 p.m. – 5:00 p.m.
Morris Hall**



AGENDA

Government Operations Appropriations Subcommittee
September 17, 2015
3:00 p.m. – 5:00 p.m.
Morris Hall

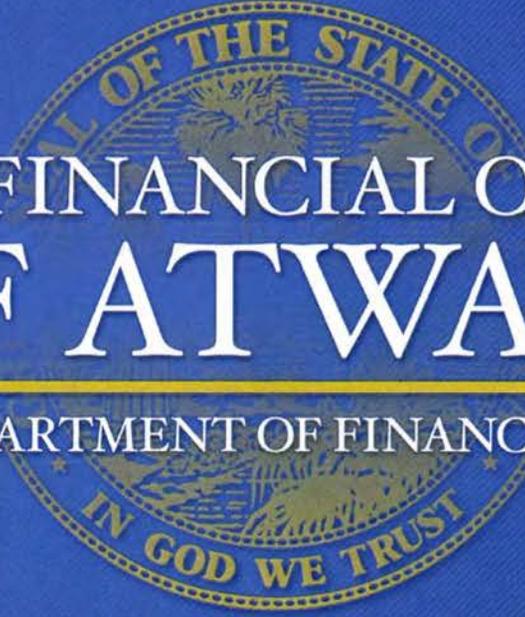
- I. Call to Order/Roll Call
- II. Opening Remarks
- III. Fiscal Year 2016-17 Legislative Budget Requests

Fiscal Year 2016-17 Priority Listing of Agency Budget Issues for Possible Reduction

Department of Financial Services
Paul Whitfield, Deputy CFO

Office of Financial Regulation
Drew J. Breakspear, Commissioner

Office of Insurance Regulation
Caitlin Murray, Director of Government Affairs
- IV. Closing Remarks/Adjournment



CHIEF FINANCIAL OFFICER
JEFF ATWATER
FLORIDA DEPARTMENT OF FINANCIAL SERVICES

**Legislative Budget Request Issues and
Schedule VIII B-2 Possible Reduction Issues
for
Fiscal Year 2016 - 2017**

*House Government Operations Appropriations Subcommittee
September 17, 2015*

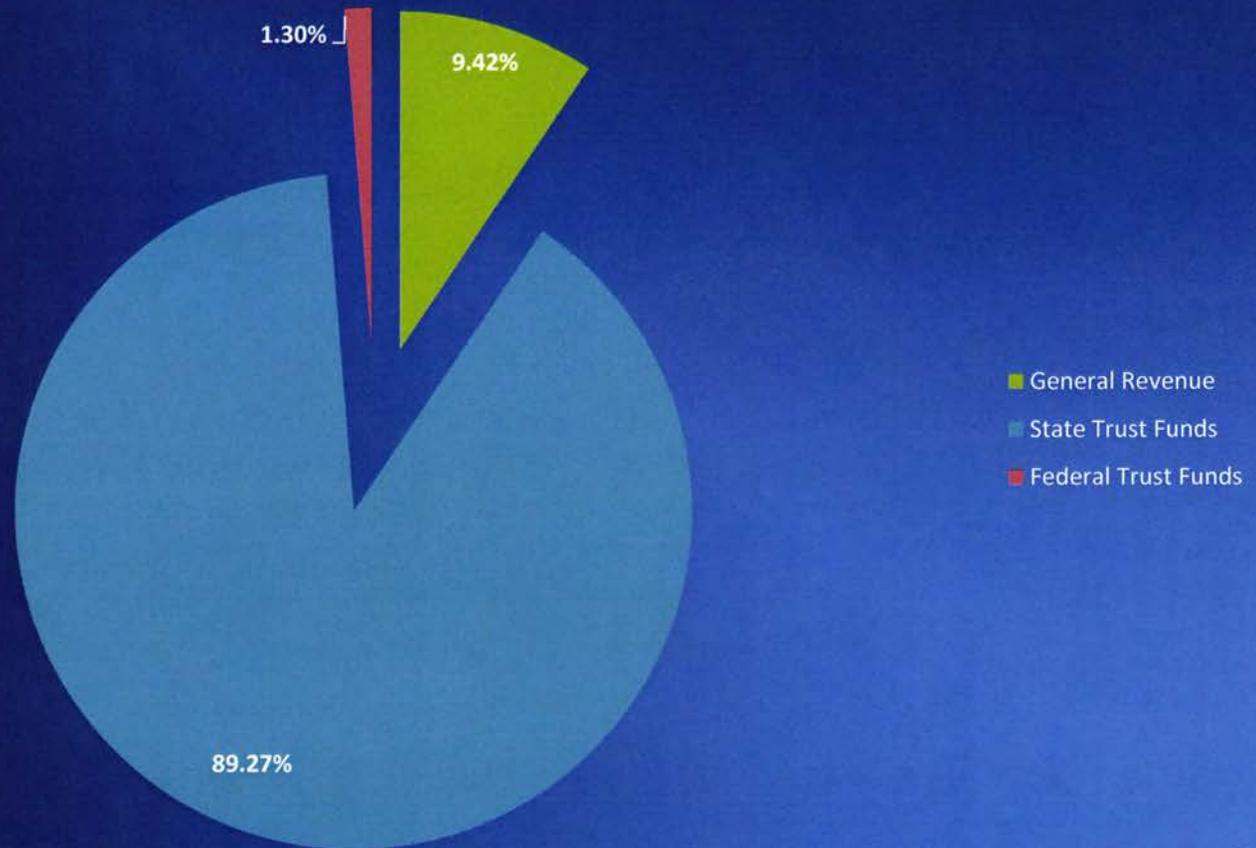
Funding Sources for FY 2015 – 16

Recurring, Non-recurring and Fixed Capital Outlay

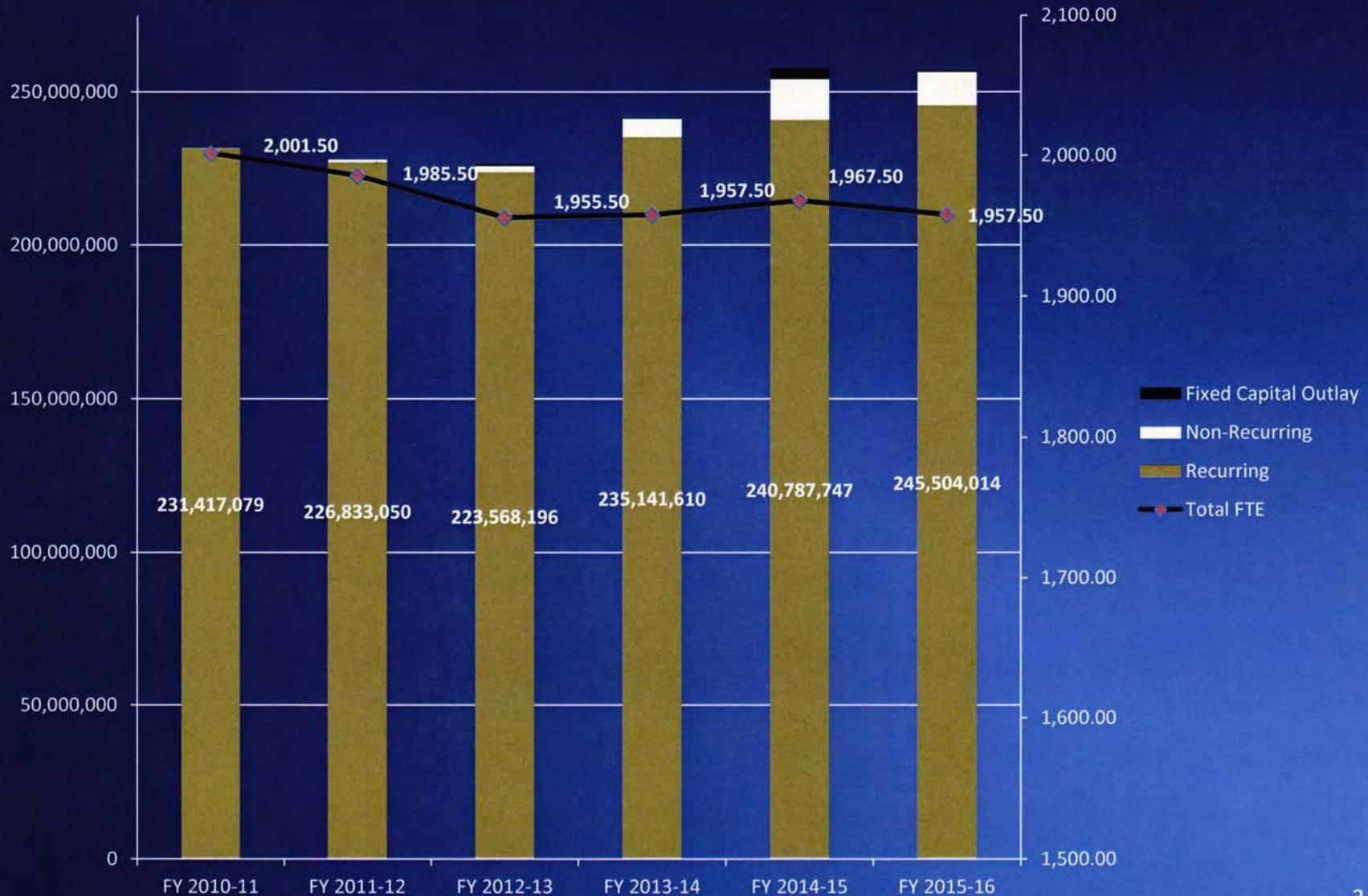
General Revenue \$24,208,235

State Trust Funds \$229,302,885

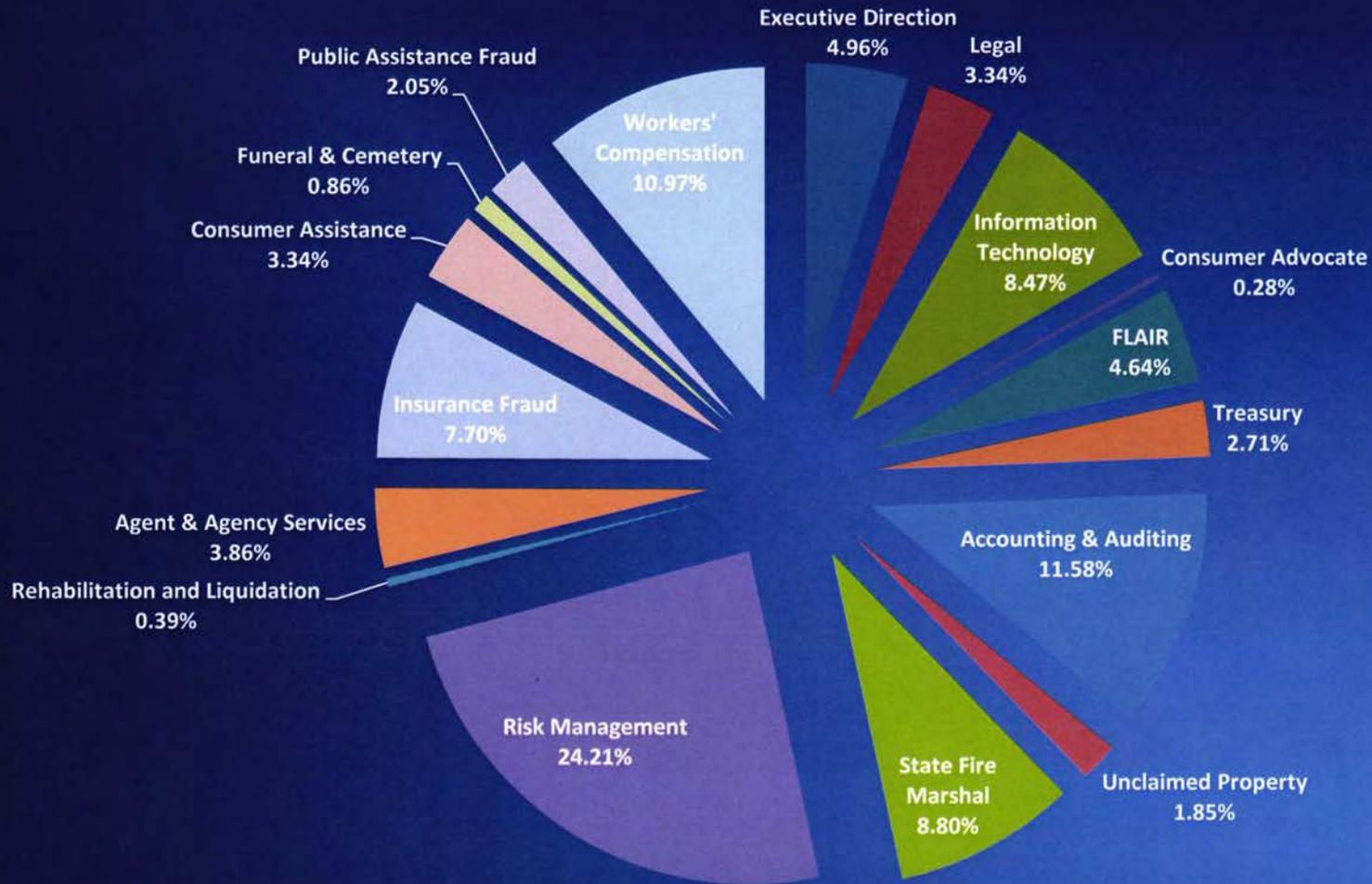
Federal Trust Funds \$3,347,434



Historical Funding Levels



FY 2015 – 16 Funding



DFS Operations

- **Executive Direction and Support Services:**
 - Provides overall direction for the department's constitutional, statutory, and administrative responsibilities. (CFO, IG, Cabinet, Legislative Affairs, Communications, Admin)
- **Legal Services:**
 - Advises the CFO and program staff on legal matters pertinent to their responsibilities. Legal also responds to inquiries from external customers and manages the agency's public records office.
- **Information Technology:**
 - Provides expertise for IT assessments, design, development, purchase, project management, implementation, desktop support, internal consultants, and customer services support for DFS, OIR and OFR.
- **Consumer Advocate:**
 - Examines rate and form filings submitted to the OIR and recommends to DFS or OIR any position deemed to be of public interest.
- **Information Technology – FLAIR:**
 - Provides day-to-day operations for the State of Florida's accounting system.
- **Treasury:**
 - Evaluates deposit collateral, performs cash management services, and administers the state's deferred compensation program for all state employees.

- **Accounting and Auditing:**

- Maintains the Florida Accountability Contract Tracking System (FACTS), settles the state's accounts, maintains the state's financial information in FLAIR, and issues the annual financial report.

- **Unclaimed Property:**

- Locates and returns unclaimed property to the rightful owners.

- **State Fire Marshal:**

- Enforces laws and rules relating to the fire systems and evacuation plans of state-owned buildings, the Boiler Safety Act; licenses and regulates fire equipment, fire protection systems, construction mining, explosive/fireworks; investigates fires/explosions; runs the State Fire College for training; certifies other fire academies; administers fire service certification; and runs the State Fire Lab.

- **Risk Management:**

- Ensures state agencies are provided quality workers' compensation, general liability, federal civil rights, auto liability, and property insurance coverage.

- **Rehabilitation and Liquidation:**

- Coordinates the rehabilitation and liquidation of financially impaired or insolvent insurance companies.

- **Agent and Agency Services:**
 - Administers the insurance laws related to insurance representative licenses, examination, continuing education and pre-licensing schools and courses; and investigates complaints by licensees and unlicensed individuals.
- **Insurance Fraud:**
 - Investigates insurance fraud and related criminal offenses
- **Consumer Assistance:**
 - Educates consumers regarding purchasing appropriate insurance products; resolves insurance problems with insurance companies; assists with insurance claims, complaints and inquires.
- **Funeral and Cemetery:**
 - Oversees regulation of the death care industry by issuing licenses; conducting inspections; performing financial exams of pre-need contracts; and investigating consumer complaints.
- **Public Assistance Fraud:**
 - Identifies irregularities incidental to the disbursement of public monies, food stamps, or other items or benefits authorized to recipients.
- **Workers' Compensation:**
 - Ensures the self-execution of the workers' compensation system through education and enforcement.

5% Target Reductions

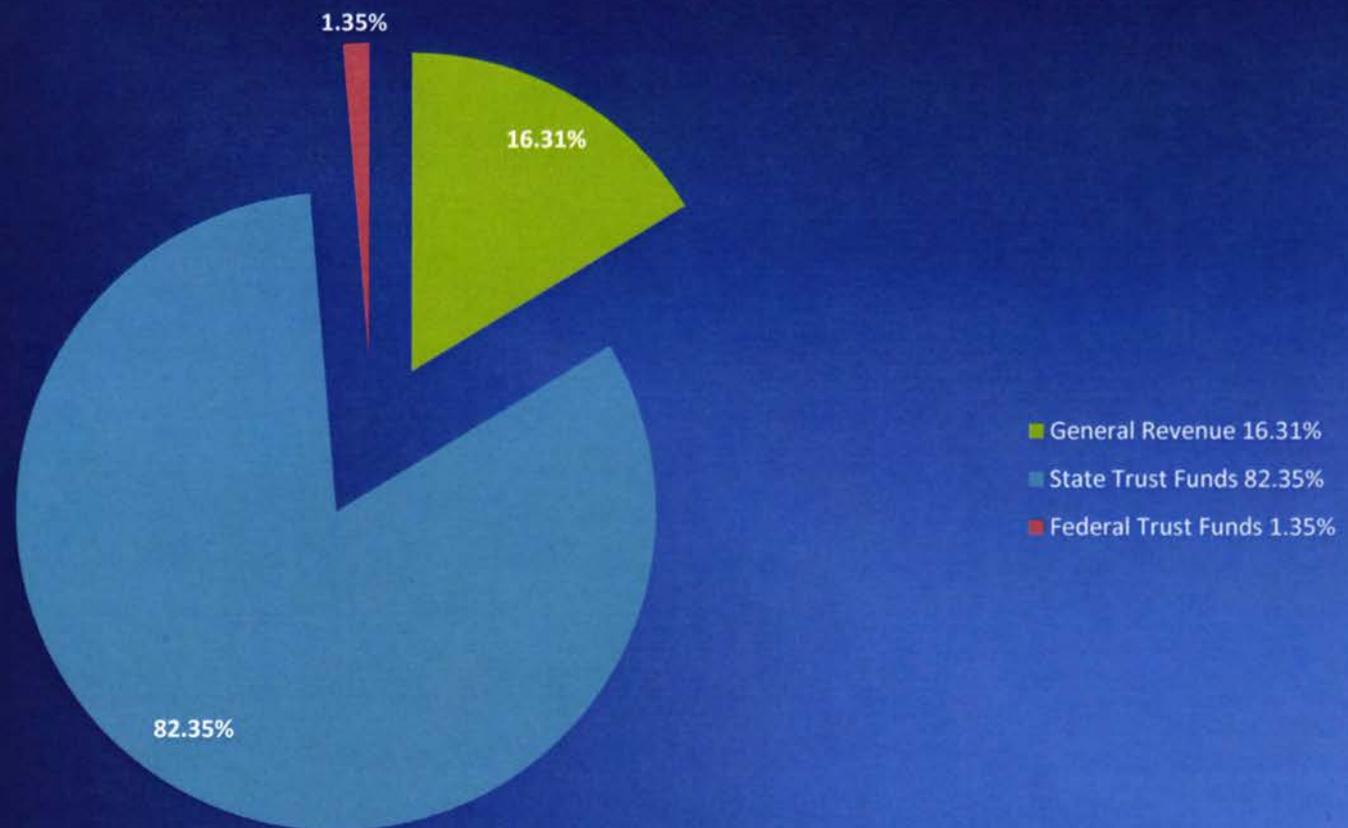
- The 5% reduction target for the Department of Financial Services in FY 2016 – 17.
 - General Revenue = \$1.2 million
 - Trust Funds = \$10.5 million
 - Minimum = \$1.7M TF (10 FTE)
 - Moderate = \$.2M TF
 - Significant = \$1.4M GR \$9.0M TF (52 FTE)
- Minimum: EDSS, Treasury, Accounting, Funeral & Cemetery, Consumer Assistance, Workers' Comp
- Moderate: Information Technology, Funeral & Cemetery
- Significant: IT, FLAIR, Treasury, Accounting, Unclaimed Property, State Fire Marshal, Risk Management, Agent & Agency, Consumer Assistance, Funeral & Cemetery, Public Assistance Fraud

FY 2016 – 17 Funding Request

General Revenue \$50,750,461

State Trust Funds \$256,232,802

Federal Trust Funds \$4,185,345



New Budget Issues

- Total LBR request is \$311.2 million – \$50.8M in General Revenue and \$260.4M in trust funds.

- This equates to a 21% increase in total budget, largely attributable to PALM funding.

- Highest priority – FLAIR:

- Year 3 of FLAIR replacement funding – \$25.5M in GR & \$17M TF for total funding request (recur and NR) = \$45.3M

- CY project funding is non-recurring – \$11.3M in TF

- FTE and salary was made recurring last FY – \$2.9M TF & 25 FTE

- Quarterly progress updates are given to Legislative staff

- FLAIR support – \$2M

- Expertise in antiquated computer systems

New Budget Issues – cont'd

•Operational Needs:

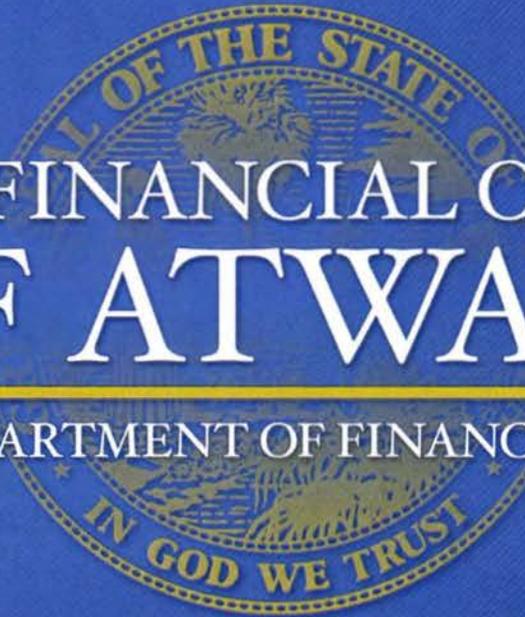
- Law Enforcement – \$2.2M
 - Retention – \$1.1M
 - Spending authority for state/federal seizure cash – \$612K
 - Arson Lab equipment – \$200K
 - State Fire Marshal operational expenses – \$251K
- Non Law Enforcement – \$11.8M
 - Risk Management legal & medical contract increases – \$7.5M
 - Information Technology infrastructure – \$887K (\$825K non-recurring)
 - Additional Risk Management contract review – \$2.8M
 - Federal grant for fire truck – \$406K
 - Electronic Plans review – \$175K
 - State Fire Marshal operational needs – \$111.7K
- Operational FTE increases – 16 FTE and \$1.6M
 - Public Assistance Fraud – 12 FTE and \$825K
 - Workers' Compensation business compliance – 3 FTE and \$189K
 - Volunteer Firefighter program – 1 FTE and \$579K
- Year 3 Workers' Compensation Arson investigators – 3 FTE and \$210,000
- Fixed Capital Outlay – Fire College & Arson Lab
 - Maintenance and Repairs – \$285K (College – \$250K; Lab – \$35K)

PALM Project

- The State of Florida's current accounting and cash management systems have been performing the State's accounting and financial management functions for thirty years. Although they have been maintained and modified over the years to accommodate state and federal mandates, the systems are becoming increasingly unable to meet the State's changing and growing needs. A study was conducted in 2013-2014 that ultimately recommended the replacement of FLAIR and CMS with a single, integrated Enterprise Resource Planning (ERP) solution. As a result, the Department of Financial Services established a project in 2014 to replace FLAIR and CMS with an ERP. The project was originally referred to as the FLAIR and CMS Replacement (FCR) project but has since been updated to the Florida PALM (Planning, Accounting, and Ledger Management) project.
- The goals of implementing an ERP in the State of Florida are to:
 - Reduce the state's risk exposure by harnessing modern financial management technology built on the premises of scalability, flexibility, and maintainability
 - Improve state and agency specific decision making by capturing a consistent and an expandable set of data
 - Improve the state's financial management capabilities to enable more accurate oversight of budget and cash demands today and in the future
 - Improve productivity, reduce operational complexity and increase internal controls by enabling standardization and automation of business processes within and between DFS and agencies

Contracts for Support Services

- **Business Process Standardization (BPS)**
 - Purchase Order Issued on February 17, 2015
- **Independent Verification & Validation (IV&V) Services**
 - Purchase Order Issued on August 25, 2015
 - **Outside Legal Counsel**
- Procurement Support Counsel
 - Procured under Chapter 287.059, F.S.
 - Contract Executed on June 26, 2015
- **Project Management Office (PMO)**
- PMO Support (1)
 - Purchase Order Issued on March 26, 2015
- SSI Procurement Support
 - Purchase Order Issued on March 3, 2015
- PMO Support (2)
 - Purchase Order Issued on 08/12/2015



CHIEF FINANCIAL OFFICER
JEFF ATWATER

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

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Florida House of Representatives Government Operations Appropriations Subcommittee

Drew J. Breakspear
Commissioner
September 17, 2015



Mission Statement

To protect the citizens of Florida, promote a safe and sound financial marketplace, and contribute to the growth of Florida's economy with smart, efficient and effective regulation of the financial services industry.



Smart, Efficient and Effective Regulation

Employees: 360

Budget: \$38.1 million

Registrants: 415,000

Reports to Financial Services Commission

- Governor Rick Scott
- Chief Financial Officer Jeff Atwater
- Attorney General Pam Bondi
- Agriculture Commissioner Adam Putnam





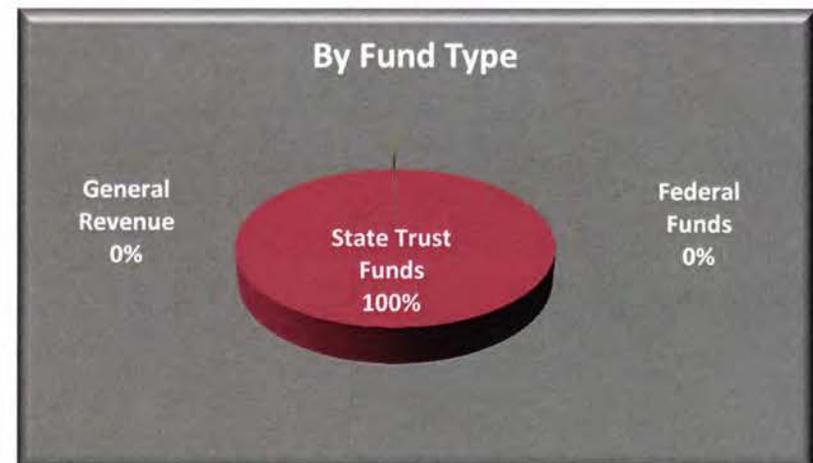
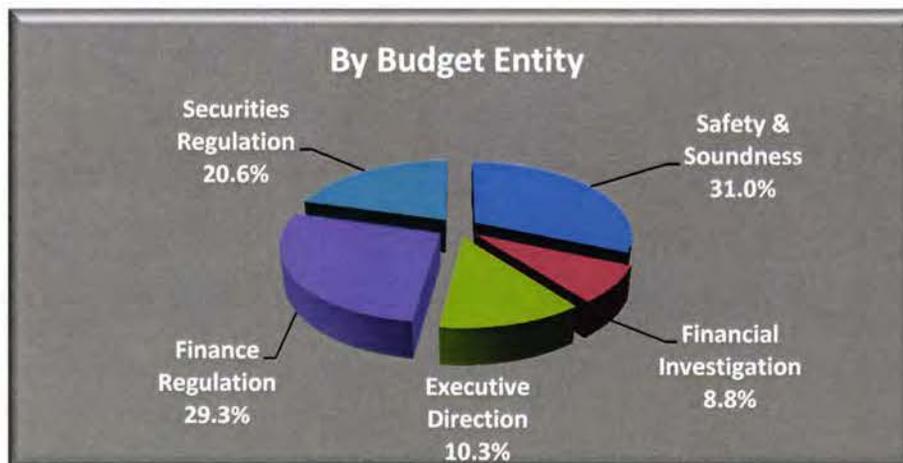
OFR Operational Units

- Division of Financial Institutions
(Safety & Soundness of State Banking System)
- Division of Securities
(Securities Regulation)
- Division of Consumer Finance
(Finance Regulation)
- Bureau of Financial Investigations
- Executive Direction



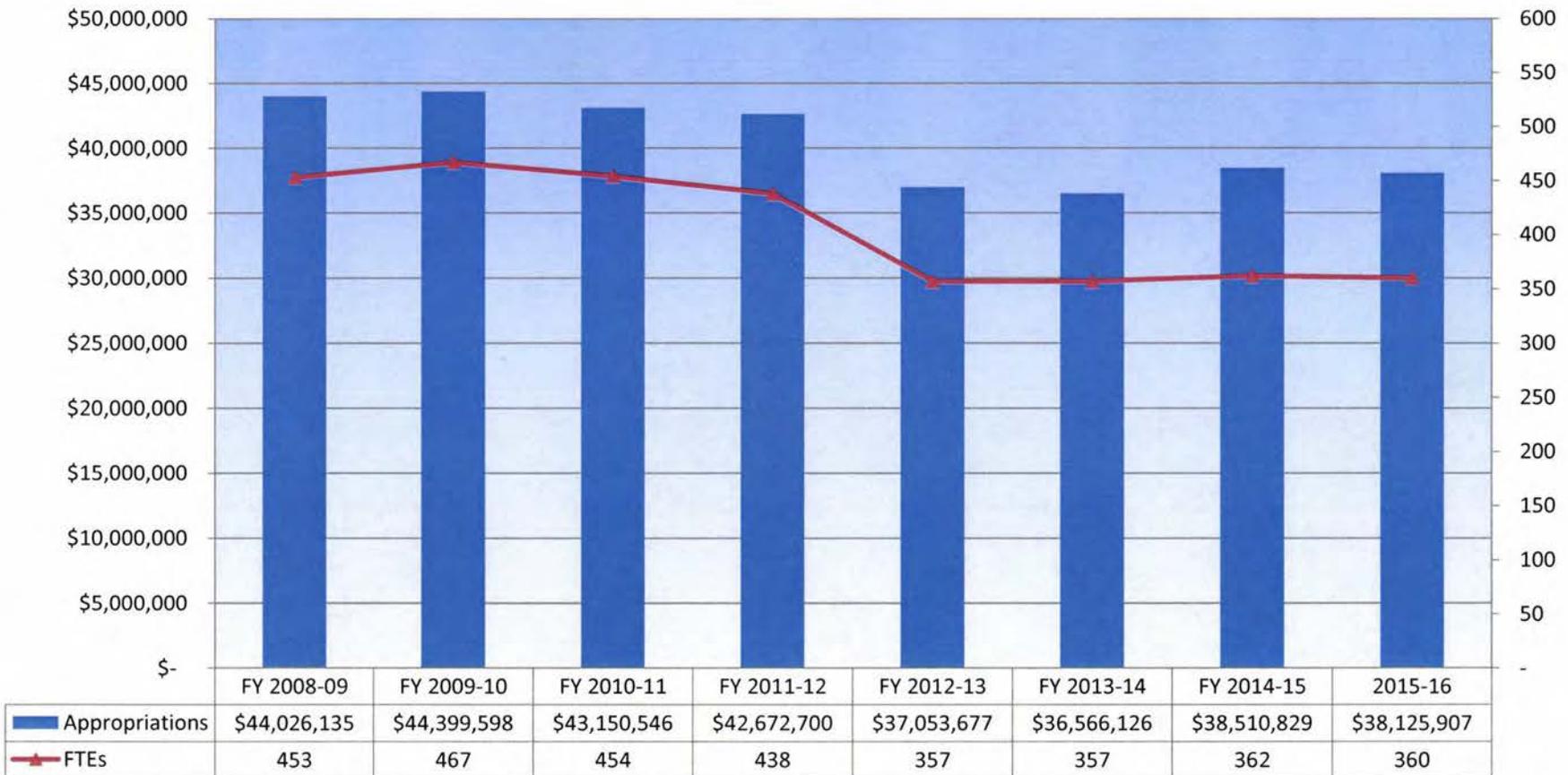
Fiscal Year 2016-17 Base Budget Review – Agency Summary

Program	FTE	General Revenue	State Trust Funds	Federal Funds	Total
Safety and Soundness of State Banking System	113.00	\$ -	\$ 11,805,937	\$ -	\$ 11,805,937
Financial Investigation	39.00	\$ -	\$ 3,291,454	\$ 51,758	\$ 3,343,212
Executive Direction and Support Services	15.00	\$ -	\$ 3,919,016	\$ -	\$ 3,919,016
Finance Regulation	98.00	\$ -	\$ 11,189,298	\$ -	\$ 11,189,298
Securities Regulation	95.00	\$ -	\$ 7,868,444	\$ -	\$ 7,868,444
Total	360.00	\$ -	\$ 38,074,149	\$ 51,758	\$ 38,125,907





Historical Perspective Fiscal Years 2008-09 to 2015-16





Fiscal Year 2016-17 Legislative Budget Request

Program Name	Priority	Budget Request	Federal Funds	General Revenue	State Trust Funds		Total All Funds
					Recurring	Non-Recurring	
Executive Direction	1	Request Funding for Re-Procurement of the Operations and Maintenance Vendor for the Office's Regulatory, Enforcement, And Licensing (REAL) System.	\$0	\$0	\$1,216,000	\$655,600	\$1,871,600
Division of Financial Institutions	2	Request Funding for 7 FTEs to establish an IT Examinations Unit	\$0	\$0	\$645,943	\$29,610	\$675,553
Executive Direction	3	Request Funding for Update of the Portal into Office's Regulatory, Enforcement, And Licensing (REAL) System.	\$0	\$0	\$220,352	\$3,642,148	\$3,862,500
Executive Direction	4	Request Funding for Migrating the Division of Financial Institutions into the Office's Regulatory, Enforcement, And Licensing (REAL) System.	\$0	\$0	\$632,090	\$2,432,410	\$3,064,500
Division of Securities	5	Request Funding OPS Staff for Crowdfunding Initiative	\$0	\$0	\$0	\$100,000	\$100,000



FY 2016-17 Schedule VIII-B 5% Reduction Exercise sorted by Priority

Issues	Impact	Priority	General Revenue	State Trust Funds	Federal Funds	Total All Funds
Reduce Expense Allocation - Financial Investigations	Moderate	1	-	(54,280)	-	(54,280)
Reduce Contracted Services Allocation – Finance Regulation	Moderate	2	-	(35,000)	-	(35,000)
Reduce 1 FTE (Financial Specialist, PG 025) – Securities Regulation	Moderate	3	-	(62,983)	-	(62,983)
Reduce Contracted Services Allocation – Financial Institutions	Significant	4	-	(135,446)	-	(135,446)
Reduce Expense Allocation – Securities Regulation	Significant	5	-	(80,127)	-	(80,127)
Reduce Contracted Services Allocation – Securities Regulation	Significant	6	-	(250,000)	-	(250,000)
Reduce Expense Allocation – Finance Regulation	Significant	7	-	(225,118)	-	(225,118)
Reduce OPS Allocation – Finance Regulations	Significant	8	-	(130,000)	-	(130,000)
Reduce OPS Allocation - Executive Direction	Significant	9	-	(196,415)	-	(196,415)
Reduce 3 FTEs (Financial Examiner Analyst All, PG 023) – Finance Regulation	Significant	10	-	(172,240)	-	(172,240)
Reduce 2 FTE (1 Financial Investigator - Criminal Enforcement PG 025, 1 Financial Investigator PG 021)	Significant	11	-	(115,671)	-	(115,671)
Reduction of OPS Examiners & Related Expenses – Financial Institutions	Significant	12	-	(454,917)	-	(454,917)
Total			-	(1,912,197)	-	(1,912,197)



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FLORIDA OFFICE OF
INSURANCE REGULATION

KEVIN M. McCARTY
Insurance Commissioner



Florida House of Representatives
Government Operations Appropriations Subcommittee

Fiscal Year 2016-2017
Legislative Budget Request & Schedule VIII-B Reductions

Caitlin Murray, Director of Government Affairs
Office of Insurance Regulation

September 17, 2015

The Florida Legislature created the Office of Insurance Regulation (Office) in 2003:

“Effective January 7, 2003, there is created within the Department of Financial Services the Financial Services Commission, composed of the Governor, the Attorney General, the Chief Financial Officer, and the Commissioner of Agriculture, which shall for purposes of this section be referred to as the commission. Commission members shall serve as agency head of the Financial Services Commission. The commission shall be a separate budget entity and shall be exempt from the provisions of s. 20.052. Commission action shall be by majority vote consisting of at least three affirmative votes. The commission shall not be subject to control, supervision, or direction by the Department of Financial Services in any manner, including purchasing, transactions involving real or personal property, personnel, or budgetary matters...

The Office of Insurance Regulation shall be responsible for all activities concerning insurers and other risk bearing entities, including licensing, rates, policy forms, market conduct, claims, issuance of certificates of authority, solvency, viatical settlements, premium financing, and administrative supervision, as provided under the insurance code...

Commission members shall serve as the agency head for purposes of rulemaking... Each director (Office) is agency head for purposes of final agency action under Chapter 120 for all areas within the regulatory authority delegated...”

Section 20.121,(3)(a),1, Florida Statutes

Office Mission and Vision

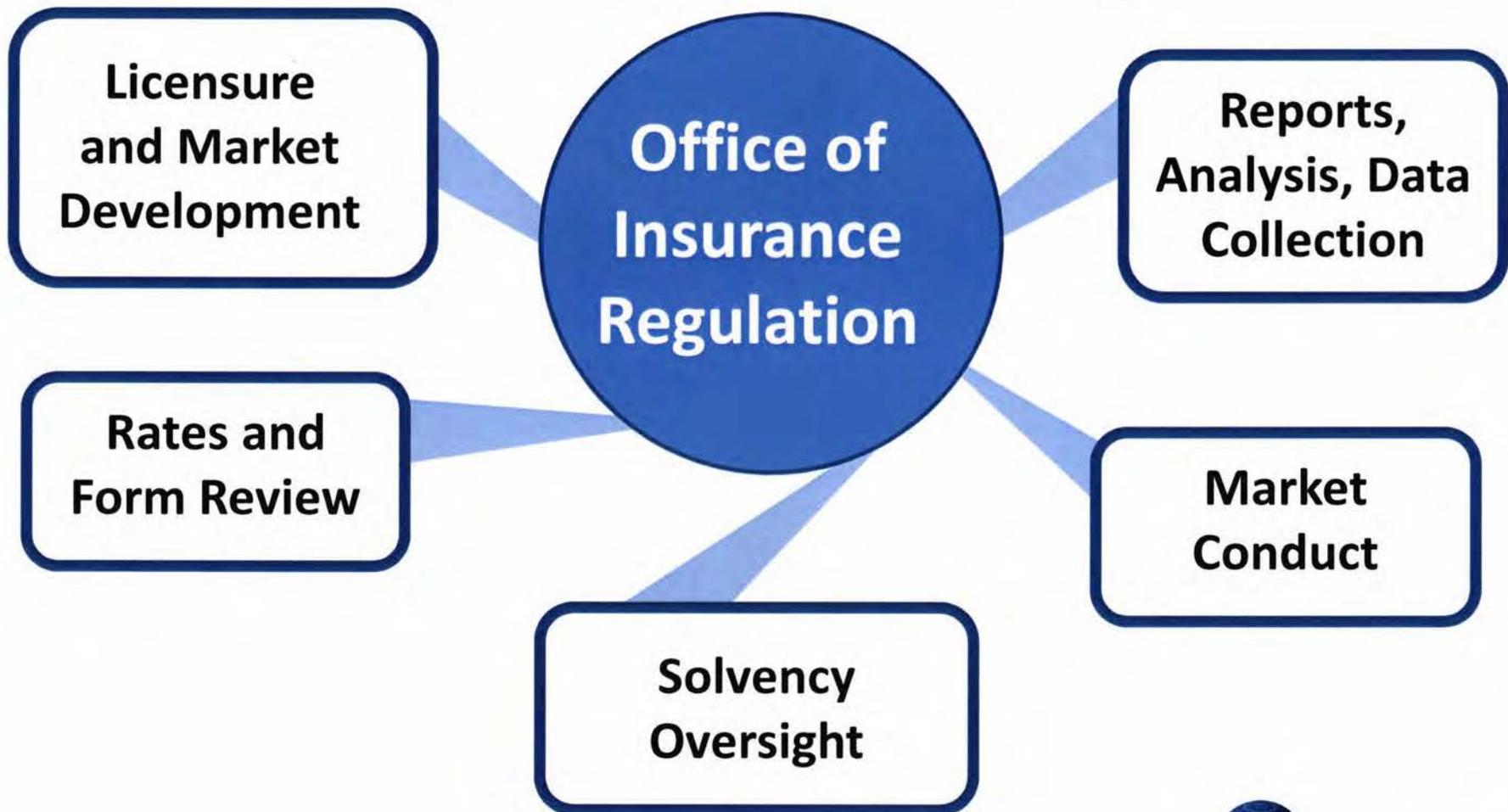
Mission Statement

To promote a ***stable and competitive insurance market for consumers.***

Vision

The (Office) envisions a robust and competitive insurance market while ***maintaining protections for the insurance-buying public***

Office Functions



Budget – Fiscal Year 2015-16

- **Team of 292 Employees (Down 7.8% from 315 Employees in Fiscal Year 2007-08)**
 - **Total Budget of \$31,849,115***
 - * Includes Non-Recurring funding and special budget categories for budget authority associated with the outsourcing of financial examinations.*
 - **The Office is exclusively funded by the Insurance Regulatory Trust Fund (IRTF). The main revenue sources for the Office are Industry Fees, Agent Fees, and Surplus Lines Premium Tax. No General Revenue is utilized for the Office Budget.**
 - **The Office is administratively housed within the Department of Financial Services (DFS) for some administrative and technology support services.**
-



Florida's cost of regulation is **25 cents per \$1,000 of premium**. This is less than the national average and lowest among the four most populous states (Texas, New York, Florida, California)

➤ NAIC 2014 Insurance Department Resources Report. Budget figures reflect OIR and the insurance functions of DFS. Florida's total insurance regulation investment for this purpose is \$80 million. 5

OIR Budget – Fiscal Year 2015-16

Appropriation Category	Amount
Salaries and Benefits (292 FTE)	\$19,993,117
Other Personal Services	\$ 265,169
Expenses (includes \$1 million for office building rent to DMS)	\$ 2,559,164
Operating Capital Outlay	\$ 35,000
Contracted Services	\$ 1,430,726
Florida Public Hurricane Model - Maintenance & Support to FIU	\$ 632,639
Florida Public Hurricane Model – Year 3 Enhancements (<i>Non-recurring</i>)	\$ 1,700,000
Property & Casualty Examinations (budget authority only)	\$ 4,276,763
Life & Health Examinations (budget authority only)	\$ 650,000
Lease/Purchase/Equipment	\$ 27,403
Risk Management Insurance	\$ 181,293
Transfer to DMS (HR Contract)	\$ 97,841
TOTAL	\$31,849,115

Legislative Budget Request – Fiscal Year 2016-17

The Office of Insurance Regulation is not submitting any request for additional funding for FY 2016-17.

- **Office is requesting a ‘Continuation Budget’**
- **No new positions or additional funding are being requested**

Schedule VIII-B Budget Reductions

Reduction Category	Savings Amount
Expenses	\$275,000
<i>*Compliance and Enforcement - \$250,000</i>	
<i>*Executive Direction - \$25,000</i>	
Contracted Services	\$275,000
<i>*Compliance and Enforcement - \$250,000</i>	
<i>*Executive Direction - \$25,000</i>	
Florida Hurricane Model	\$411,215
Vacant Positions (5 FTE)	<u>\$284,774</u>
TOTAL	\$1,245,989

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**Agency 5% Targets for
Possible Reduction**

**Government Operations Appropriations Subcommittee
Schedule VIII B-2 5% Target Reductions for Fiscal Year 2016-17**

	Agency	5% Target			Schedule VIII B-2 Submission		
		General Revenue	Trust Fund	Total	General Revenue	Trust Fund	Total
1	Financial Services	1,157,270	10,455,713	11,612,983	1,416,563	10,997,757	12,414,320
2	Office of Insurance Regulation	-	1,245,989	1,245,989	-	1,245,989	1,245,989
3	Office of Financial Regulation	-	1,891,126	1,891,126	-	1,912,143	1,912,143
4	Total	1,157,270	13,592,828	14,750,098	1,416,563	14,155,889	15,572,452

The Legislative Budget Instructions require agencies to submit Schedule VIII B-2 for the purpose of identifying recurring budget reductions that can be made in Fiscal Year 2016-17 in the event budget reductions are necessary.

