

# THE STATE OF WISCONSIN

SENATE CHAIR  
BRIAN BURKE

316-S Capitol  
P.O. Box 7882  
Madison, WI 53707-7882  
Phone: (608) 266-8535



ASSEMBLY CHAIR  
JOHN GARD

315-N Capitol  
P.O. Box 8952  
Madison, WI 53708-8952  
Phone: (608) 266-2343

## JOINT COMMITTEE ON FINANCE

November 12, 1999

Secretary George Lightbourn  
Department of Administration  
101 E. Wilson Street, 10<sup>th</sup> Floor  
Madison, WI 53702

Dear Secretary Lightbourn:

We are writing to inform you that the Joint Committee on Finance has reviewed your request, dated October 15, 1999, pursuant to s. 16.515/16.505(2), Stats., pertaining to a request from the Office of the Insurance Commissioner.

The objection previously raised has been withdrawn and no further objections have been raised. Therefore, a meeting of the committee is no longer necessary and the request is approved.

Sincerely,

Handwritten signature of Brian Burke in black ink.

BRIAN BURKE  
Senate Chair

Handwritten signature of John G. Gard in black ink.

JOHN G. GARD  
Assembly Chair

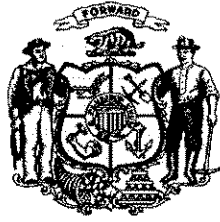
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cc: Members, Joint Committee on Finance  
Connie O'Connell, Commissioner of Insurance  
Robert Lang, Legislative Fiscal Bureau  
Vicky LaBelle, Department of Administration

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## JOINT COMMITTEE ON FINANCE

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Brian Burke  
Representative John Gard  
Co-Chairs, Joint Committee on Finance

Date: November 5, 1999

Re: s. 16.515/16.505, Stats. Request

Yesterday, your office received notification that an objection has been raised concerning the request from the Office of the Commissioner of Insurance (OCI), dated October 15, 1999, pursuant to s. 16.515. The Committee would routinely schedule a future meeting to consider such a request.

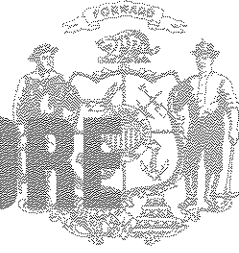
However, our offices were notified this morning that the objection to the request has been withdrawn. In order to give all members an opportunity to further consider the request, we will delay until **Friday, November 12, 1999**, before we notify OCI that the objection has been removed.

Please notify us by that time if you have any concerns about the request or if you would like to meet formally to consider it. If there are no further objections by that time, we will notify OCI that the request is approved and that a meeting of the Committee is not necessary.

Feel free to contact us should you have any questions or concerns.

BB/JG/js

*State Senator*  
**GWENDOLYNNE MOORE**



**Capitol Office:**  
P. O. Box 7882, Madison, WI 53707-7882  
Phone: (608) 266-5810 Fax: (608) 267-2353  
**District Telephone:** (414) 442-3080  
**Toll-free Legislative Hotline:** 1-800-362-9472  
**E-Mail:** sen.moore@legis.state.wi.us  
**Member:** Joint Finance Committee  
**Board Member:** Wisconsin Housing and  
Economic Development Authority

November 4, 1999

Senator Brian Burke  
Senate Chair of the Joint Committee on Finance  
316 South, Capitol  
Madison, WI 53703

Representative John Gard  
Assembly Chair of the Joint Committee on Finance  
315 North, Capitol  
Madison, WI 53707

HAND-DELIVER

Dear Senator Burke and Representative Gard,

I am writing to withdraw my objection to the s. 16.515 request from the Office of the  
Commissioner of Insurance.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in cursive script that reads "Gwendolynne S. Moore".

Gwendolynne S. Moore  
State Senator

Cc: Connie O'Connell, Commissioner, OCI  
Vicky LaBelle, DOA

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JOHN GARD

315 North, State Capitol  
P.O. Box 8952  
Madison, WI 53708-8952  
Phone: 266-2343

## JOINT COMMITTEE ON FINANCE

November 4, 1999

Mr. George Lightbourn, Acting Secretary  
Department of Administration  
101 East Wilson Street, 10<sup>th</sup> Floor  
Madison, WI 53703

Dear Acting Secretary Lightbourn:

We are writing to inform you that the Joint Committee on Finance has reviewed your request, dated October 15, 1999, pursuant to s. 16.515, Stats., pertaining to a request from the Office of the Commissioner of Insurance.

A meeting will be scheduled to further discuss this request. Therefore, the request is not approved at this time.

Sincerely,

Handwritten signature of Brian Burke in black ink.

BRIAN BURKE  
Senate Chair

Handwritten signature of John Gard in black ink.

JOHN GARD  
Assembly Chair

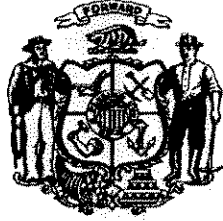
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cc: Members, Joint Committee on Finance  
Connie O'Connell, Commissioner, OCI  
Vicky LaBelle, DOA

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## JOINT COMMITTEE ON FINANCE

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Brian Burke  
Representative John Gard  
Co-Chairs, Joint Committee on Finance

Re: s. 16.515/16.505, Stats. Request

Date: October 15, 1999

Attached is a copy of a request from the Department of Administration, dated October 15, 1999, pursuant to s. 16.515/16.505(2), Stats., pertaining to a request from the Office of the Commissioner of Insurance.

Please review the material and notify **Senator Burke** or **Representative Gard** no later than **Wednesday, November 3, 1999**, if you have any concerns about the request or if you would like to meet formally to consider it.

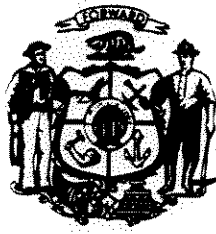
Also, please contact us if you need further information.

Attachment

BB:JG:dh

STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION  
101 East Wilson Street, Madison, Wisconsin

TOMMY G. THOMPSON  
GOVERNOR  
GEORGE LIGHTBOURN  
ACTING SECRETARY



Office of the Secretary  
Post Office Box 7864  
Madison, WI 53707-7864  
Voice (608) 266-1741  
Fax (608) 267-3842  
TTY (608) 267-9629

**Date:** October 15, 1999

**To:** The Honorable Brian Burke, Co-Chair  
Joint Committee on Finance

The Honorable John Gard, Co-Chair  
Joint Committee on Finance

**From:** George Lightbourn, Acting Secretary  
Department of Administration

**Subject:** S. 16.515/16.505(2) Request(s)

A handwritten signature in cursive script, appearing to read 'George Lightbourn'.

Enclosed are request(s) that have been approved by this department under the authority granted in s. 16.515 and s. 16.505(2). The explanation for each request is included in the attached materials. Listed below is a summary of each item:

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>1999-2000</u>		<u>2000-01</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
OCI 20.145(1)(g)	General program operations	\$ 964,300			

As provided in s. 16.515, the requests will be approved on November 5, 1999, unless we are notified prior to that time that the Joint Committee on Finance wishes to meet in formal session about any of the requests.

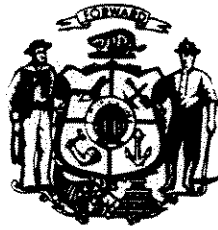
Please contact Vicky LaBelle at 266-1072, or the analyst who reviewed the request in the Division of Executive Budget and Finance, if you have any additional questions.

Attachments

STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION  
101 East Wilson Street, Madison, Wisconsin

TOMMY G. THOMPSON  
GOVERNOR

GEORGE LIGHTBOURN  
ACTING SECRETARY



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Post Office Box 7864  
Madison, WI 53707-7864  
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TTY (608) 267-9629

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**Date:** October 12, 1999

**To:** George Lightbourn, Acting Secretary  
Department of Administration

**From:** Susan Jablonsky, Budget Analyst SS  
Division of Executive Budget and Finance

**Subject:** Request Under s. 16.515 from the Office of the Commissioner of Insurance for the Blue Cross Blue Shield Conversion

**REQUEST:**

The Office of the Commissioner of Insurance (OCI) requests an expenditure authority increase of \$964,300 in s. 20.145(1)(g), general program operations, to support the costs of evaluating the conversion of the Blue Cross Blue Shield (BCBS) insurance company from a non-profit to a for-profit corporation.

**REVENUE SOURCES FOR APPROPRIATION:**

Under current law, OCI is required to approve the conversion of a service insurance company, which has non-profit status, to a stock-issuing for-profit corporation. All costs associated with the examination process including the cost of OCI staff and supplies and services as well as the costs of external consultants must be paid by the company that is converting. As a result, OCI has established a separate internal accounting code to which it will charge all costs associated with the examination. Periodically, they will bill these costs to BCBS.

**BACKGROUND:**

BCBS submitted a 1,000-page plan to OCI for approval last June that described the conversion to for-profit status. OCI is studying the plan and may only approve it if the plan meets certain statutory criteria and the interests of policyholders and the public are served. BCBS anticipates that it will realize approximately \$250 million from the sale of the stock, which will be used to establish a trust fund to better the health of people in Wisconsin. This can be considered a payback to the state for all of the years of tax-exempt status which the company enjoyed.

OCI has established an appraisal committee of the Deputy Insurance Commissioner, the Director of the State Investment Board and an outside certified public accountant. Their charge is to determine if the value of the company is reasonable. They expect to produce their opinion by the end of October. In addition to this internal review, OCI will also hire an outside investment banking firm, which will assist in the study of the mechanics of the

conversion and the assessment of value. All costs of OCI staff reviewing the conversion as well as the services of the investment banking firm will be charged back to BCBS as allowed by statutes. This request would increase expenditure authority by \$964,300 for this fiscal year to cover OCI's internal costs as well as the costs of the investment banker services. This process will continue into the next fiscal year but due to the uncertainty of what actual costs will be, OCI will update expenditure estimates next year in a new s. 16.515 request.

**ANALYSIS:**

In order to develop this request for expenditure authority, OCI staff reviewed the experiences of other states that have examined similar conversions (New Jersey, New York, Ohio, Virginia, Connecticut and California). They looked at the other states' requests for proposals to identify the various types of services provided by the investment bank consultants and then they contacted these states to determine what services were more or less useful. In general, they found that the services are provided over a lengthy time period and they are expensive. For example, a New York conversion examination took 18 months and cost \$4.5 million. They also found that some states had not included certain safeguards in their proposals so that the consultants performed work which, in hindsight, was probably not useful. Based on these discussions, staff developed a very tightly constructed request for proposal which built in safeguards against cost overruns which other states had experienced. OCI has received responses to the request for proposal from four companies.

OCI prepared cost estimates based on the experiences of other states and used a high and a low estimate. They determined that by deleting some of the activities other states paid for that the cost should be 60% of the difference between the two extremes, resulting in a cost of \$964,300 in FY00 and a projected cost of \$1,068,700 in FY01. It is very difficult to estimate what the actual costs will be, but it appears that OCI has used as much actual experience as possible to develop the cost estimate.

OCI's cost estimate assumes that the services of the investment consultant would begin in October 1999. It could be argued that the expenditure authority should be adjusted to account for a later starting date, but it is difficult to project what that reduction should be. As a result, it might be appropriate to place a portion of the total into unallotted reserve, which could be released by DOA if necessary.

**RECOMMENDATION:**

Approve the request for an increase in expenditure authority of \$964,300 but place \$100,000 in unallotted reserve to be released if necessary.





State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tommy G. Thompson  
Governor

Connie L. O'Connell  
Commissioner

September 16, 1999

121 East Wilson Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: ocioci@mail.state.wi.us  
[http://badger.state.wi.us/agencies/oci/oci\\_home.htm](http://badger.state.wi.us/agencies/oci/oci_home.htm)

To: George Lightbourn, Acting Secretary  
Department of Administration

From: *Connie L. O'Connell*  
Connie O'Connell, Commissioner

SEP 20 1999

Subject: S. 16.515 Request from OCI

**Request**

The Office of the Commissioner of Insurance (OCI) under s. 16.515, Wis. Stat., requests an increase for FY 2000 of \$964,300 in expenditure authority in s.20.145(1)(g). The purpose of the funding is to provide additional budget authority due to the additional expenses that will be incurred in connection with the Blue Cross & Blue Shield conversion. This increase in expenditure authority will be used in a single organization code and will not impact OCI's regular budget structure or appropriation levels.

**Background**

On June 14, 1999, Blue Cross & Blue Shield United of Wisconsin filed with the Office of the Commissioner of Insurance (OCI) a proposed plan to convert from a non-profit service insurance corporation to a for profit stock insurance corporation. Under Wis. Stat. sec. 613.75 and 611.76(10), there is statutory language that governs the reimbursement of the costs of the Office of the Commissioner of Insurance in reviewing the conversion. The language states, "All expenses of the conversion, including the expenses incurred by the commissioner and the prorated salaries of any insurance office staff members involved, shall be borne by the corporation being converted."

The costs involved in reviewing the conversion will include expenses such as staff salary, fringe, travel, postage, printing, copying, and the services of an appraisal committee and an investment banker. The major expenditure will most likely be the cost of the investment banker services. The investment banker services will be needed to assist in determining the value of the corporation and providing expertise related to stock transactions. The agency is currently following the Request for Proposal process to obtain the services of an investment banker.

Because of the nature of the required regulatory review the actual expenses incurred can not be established with certainty this early in the review process. This figure was arrived at by reviewing the experience of other states. The Wisconsin experience will be similar but not the same as these other states. Specifically Wisconsin has taken steps to constrain costs for this contract. Thus, the requested amount is somewhat less than the experience of other states might predict.

Again because of the type of transaction being reviewed the need for an investment banker may extend beyond this fiscal year. OCI currently anticipates increased need in FY 2001 of \$1,06,700 in expenditure authority in s.20.145(1)(g). However we are not requesting that increase at this time because of inherent uncertainties in the evolution of this type of regulatory review. Hence, the request is for one year at this time.

#### Expenditure Tracking

In order to more effectively track the expenditures associated with this conversion, OCI has established a separate organization code in the WISMART system. This organization code will be 0140 "Blue Cross & Blue Shield Conversion". All costs associated with the conversion will be charged to this organization code. The reporting and accounting framework has been reviewed and approved by the State Controller's Office.

The agency will send an invoice to Blue Cross & Blue Shield United of Wisconsin on a periodic basis. While the timing of the review and transaction are not yet fixed, the costs incurred will be obtainable at any time from regular Wismart reports.

Thank you for your consideration of this request. If you have further questions with regard to this request please contact Clare Stapleton Concord [6-5673].

cc Randy Blumer  
Guenther Ruch  
Clare Stapleton Concord

**Additional Expenditure Authority Needed to Review the Conversion of Blue Cross & Blue Shield United of Wisconsin**

Investment Banker:	Biennial Total		Totals By Fiscal Year				60th percentile
	High	Low	FY 2000	Low	FY 2001	FY 2000	
Consultation Fee:							
October-99	\$125,000	\$150,000	\$125,000		\$150,000	\$140,000	
November-99	\$125,000	\$150,000	\$125,000		\$150,000	\$140,000	
December-99	\$125,000	\$150,000	\$125,000		\$150,000	\$140,000	
January-00	\$125,000	\$100,000	\$125,000		\$100,000	\$115,000	
February-00	\$125,000		\$125,000			\$75,000	
March-00	\$125,000		\$125,000			\$75,000	
April-00	\$125,000		\$125,000			\$75,000	
May-00	\$125,000		\$125,000			\$75,000	
June-00	\$125,000		\$125,000			\$75,000	
July-00	\$125,000		\$125,000			\$75,000	
August-00	\$125,000	\$150,000	\$125,000	\$125,000	\$150,000	\$140,000	\$75,000
September-00	\$125,000	\$150,000	\$125,000	\$125,000	\$150,000	\$140,000	\$140,000
October-00	\$125,000	\$100,000	\$125,000	\$125,000	\$100,000	\$115,000	\$115,000
	\$1,625,000	\$950,000	\$1,125,000	\$500,000	\$400,000	\$910,000	\$470,000
Fairness Opinion:	\$500,000	\$400,000	\$500,000		\$400,000		\$460,000
Bring down letter:	\$125,000	\$100,000	\$125,000		\$100,000		\$115,000
Investment Banker Legal Services:	\$25,000	\$25,000	\$12,500		\$12,500	\$12,500	\$12,500
Travel:							
Oct-99	\$11,200	\$11,200	\$11,200		\$11,200	\$11,200	\$11,200
Nov-99	\$5,600	\$5,600	\$5,600		\$5,600	\$5,600	\$5,600
Sep-00	\$11,200	\$11,200	\$11,200		\$11,200	\$11,200	\$11,200
	\$28,000	\$28,000	\$16,800		\$16,800	\$16,800	\$11,200
Appraisal Committee:							
100 hrs X \$250	\$25,000	\$25,000	\$25,000		\$25,000	\$25,000	\$25,000
Total	\$2,328,000	\$1,528,000	\$1,179,300	\$1,148,700	\$923,700	\$964,300	\$1,068,700
			\$2,328,000		\$1,528,000		\$2,033,000

245,000  
1,014,000

575,000

111,200  
5,600  
11,200  
28,000

9/14/99