HOUSE
RESEARCH
ORGANIZATION bill analysis 4/24/2001

HB 1254
West

SUBJECT: Adding affiliated service contractors to governmental insurance programs

COMMITTEE: County Affairs — favorable, without amendment

VOTE: 5 ayes — Ramsay, G. Lewis, B. Brown, Farabee, Shields

0 nays

4 absent — Chisum, Hilderbran, Krusee, Salinas

WITNESSES: For — Michael F. George, Odessa Chamber of Commerce; Art Roberts, Texas Association of Business & Chambers of Commerce and Texas Chamber of Commerce Executives

Against — None

BACKGROUND: Local Government Code, ch. 172 provides for uniform accident, health, dental, and long-term disability coverage to employees of political subdivisions, such as counties, municipalities, special districts, school districts, junior college districts, housing authorities or other political subdivisions of the state. These entities can establish risk pools to purchase insurance coverage by themselves or through interlocal agreements with other political subdivisions.

DIGEST: HB 1254 would amend Local Government Code, ch. 172 to define an "affiliated service contractor" to mean a 501(c) nonprofit group that receives more than 50 percent of its gross revenues from a political subdivision. The affiliated service contractor would be eligible to contract with or participate in a political subdivision's risk pool for the purposes of offering group benefits to its employees.

HB 1254 would require that the affiliated service contractor pay for its own insurance coverage with separate funds. Participation in the political subdivision's risk pool would not make the affiliated service contractor a governmental entity, nor would its employees be considered government employees.

HB 1254 would be effective Sept. 1, 2001.

SUPPORTERS SAY:

Allowing tax-supported nonprofit groups such as chambers of commerce, visitors and convention bureaus, or economic development foundations to participate in government insurance risk pools would significantly lower the costs of these benefits. These cost savings could be redirected toward providing more services to the public. HB 1254 specifically would prohibit the use of tax money to pay for these benefits, and the organization would have to use funds from other sources to pay for the benefits.

HB 1254 would help nonprofit organizations offer insurance and the other benefits that are needed to recruit and retain quality employees for chambers of commerce, tourism or economic development boards. These benefits are increasingly expensive, especially for smaller organizations that have seen the costs of their insurance coverage more than triple since the 1980s.

Aggregating the smaller organization into the risk pool would lower the costs to the affiliated service contractor without adversely affecting the overall risk pool. Typically, these nonprofit organizations employ fewer than 30 people, while cities or counties have hundreds if not thousands of employees. Risk pools as a matter of prudent business practice buy catastrophic loss reinsurance and adopt other stop-loss procedures to lower exposure to high costs caused by one person. By their nature, risk pools buffer most of their participants from the claims risks associated with individual members.

Government has become increasingly dependent on nonprofit and other organizations to provide service to the public. HB 1254 would provide benefits for those nonprofit employees who dedicate their careers to helping other citizens.

OPPONENTS SAY:

HB 1254 would set a questionable precedent by including non-governmental employees in an insurance risk pool set up for political subdivisions. The line between public and private entities is blurred enough without giving government-sponsored benefits to non-governmental employees.

Expanding the risk pool would increase a political subdivision’s exposure to unacceptable levels of losses. One employee with cancer could require extensive medical payments to treat that illness, driving up costs for the original members of the pool.