

DAS ISF – RISK MANAGEMENT

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE

BUDGET BRIEF

SUMMARY

For the Risk Management internal service fund, the Analyst recommends estimated revenue of \$37,312,500, authorized FTE of 26, authorized capital outlay of \$300,000, and approval of requested rates for FY 2013. The Analyst further recommends authorizing an additional FTE for Charter School workload in FY 2013. These recommendations are detailed below, as well as in the funding table on page 4.

BACKGROUND

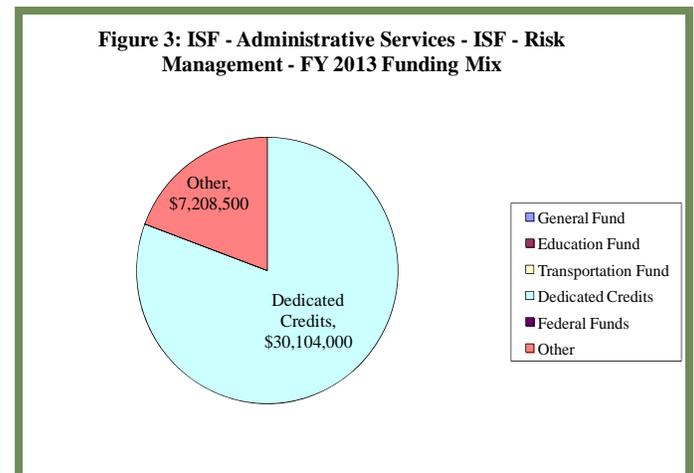
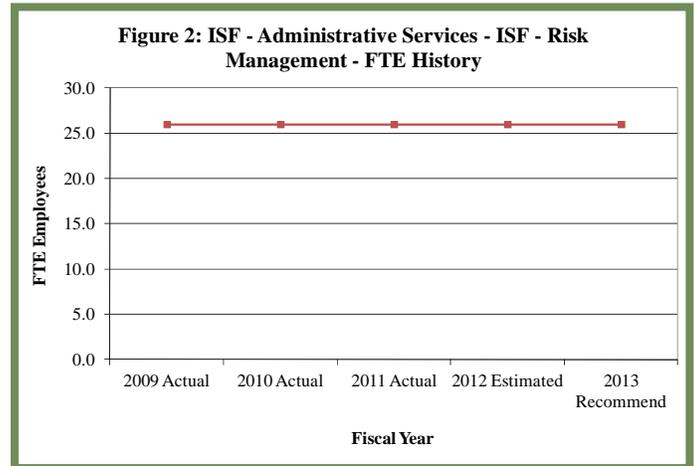
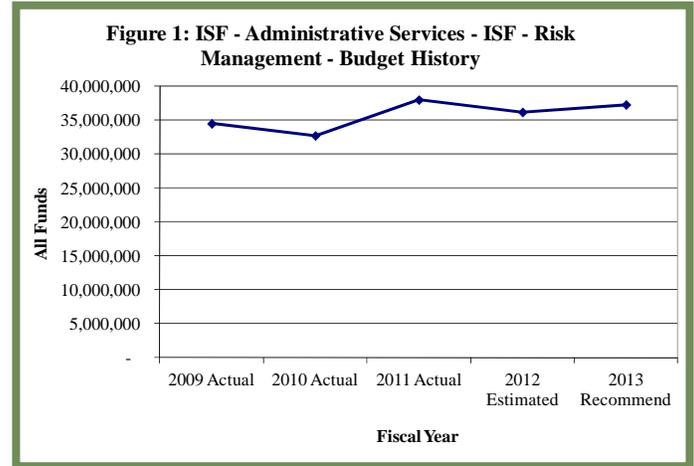
The Division of Risk Management was organized in 1980 to implement a self-insurance program for the state. The division provides liability, property, and auto physical damage coverage to all state agencies, the 41 school districts, over 70 charter schools, and all state-owned colleges and universities except medical malpractice coverage at the University of Utah. The division also acts as an agent in purchasing aircraft insurance for various state entities.

The liability insurance and auto physical damage programs are entirely self-insured, while the property insurance program is self-insured up to a \$3.5 million aggregate yearly deductible with private insurance purchased for amounts in excess of the deductible.

ISSUES AND RECOMMENDATIONS

Liability Rates

Liability rates are calculated each year by an outside actuarial firm with experience in insurance. The rates are based on the history of losses (with the highest weight given to losses in the last 5 years), relative size of budgets, insurance industry factors, and statistical analysis of reserves. Total liability premiums (\$14,005,769) did not change in FY 2013; however, individual premiums for agencies and institutions were adjusted according to losses and budgets. Please see the Issue Brief for a review of each rate change. The Analyst recommends adopting these rate changes.



Property Rates

Unlike liability rates which are self-funded, property rates are based on premiums set by private insurance companies at various levels of coverage. These rates are determined by the value of a building and its contents and specific insurance premiums for location, risk, and type of property. In FY 2013 the underlying insurance rates did not change though additions to the value of state buildings and increases in inventory (new buildings) may change actual premiums to state agencies and institutions. The additional premiums to state agencies and to higher education are estimated at \$147,553. Please see the Issue Brief for a review of each rate change. The Analyst recommends adopting these rates.

Workers Compensation Program

The Workers Compensation program is a pass-through of workers compensation expenses paid by the state and its employees to the Workers Compensation Fund of Utah. The workers compensation rates did not change from FY 2012 to FY 2013 – 1.25% for UDOT and 0.7% for all other state agencies.

Additional FTE for Charter School workload

Risk Management requests one additional FTE to handle issues and training related to charter schools. The number of charter schools that are insured by Risk Management has increased from less than ten seven years ago to over 70 charter schools today. A new position is needed to respond to the additional workload. In addition, the ownership/management structure of charter schools has become much more complex requiring additional resources to answer questions and resolve issues that occur.

ACCOUNTABILITY DETAIL

Claims Processing

Risk Management resolves liability claims against the state. While these claims may take months to years to resolve, the program endeavors to process claims within seven days of receiving them.

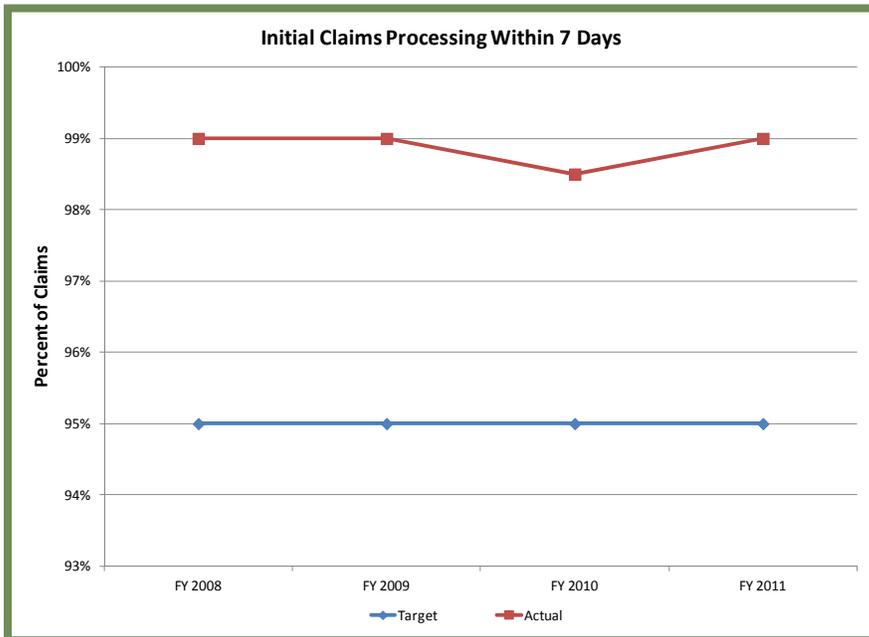


Figure 4

Internal Adjuster Superior Rating

The division contracts with an insurance consulting firm to audit adjustors’ work to see if they are meeting standards in documentation, timeliness, fairness to both sides, compliance with regulations, etc. The contractor uses a rating scale to assign a score and considers 95 percent or above a "Superior Rating."

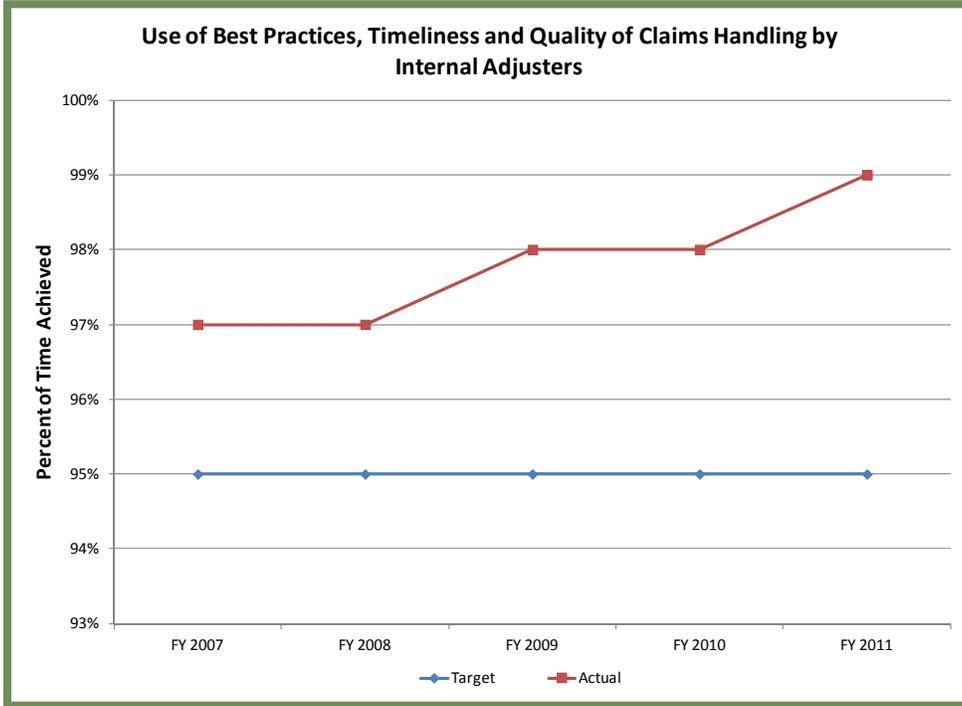


Figure 5

BUDGET DETAIL

Revenue from Premiums represents rates paid by customer agencies for the traditional insurance programs. Restricted revenue comes from Workers’ Compensation premiums that are passed through to the Utah Workers Compensation Fund.

Capital Outlay Authority Request

The Division of Risk Management is in the process of integrating claims processing software with other software utilized within the Division and within the Department of Administrative Services. The Division was not able to complete the integration as quickly as it first estimated; therefore Risk requests an additional \$300,000 in capital outlay to complete the integration in FY 2013.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. Estimated revenues of \$37,312,500 for the Risk Management ISF in FY 2013
2. Rates as presented separately in an Issue Brief
3. FTEs 26.0 for FY 2013

4. Authorized Capital Outlay of \$300,000 for FY 2013
5. An additional FTE for Charter School workload for FY 2013

BUDGET DETAIL TABLE

ISF - Administrative Services - ISF - Risk Management						
Sources of Finance	FY 2011 Actual	FY 2012 Appropriated	Changes	FY 2012 Revised	Changes	FY 2013* Recommended
Premiums	30,493,800	28,751,900	0	28,751,900	997,200	29,749,100
Interest Income	425,800	456,100	0	456,100	(101,200)	354,900
Restricted Revenue	7,108,500	7,000,000	0	7,000,000	208,500	7,208,500
Total	\$38,028,100	\$36,208,000	\$0	\$36,208,000	\$1,104,500	\$37,312,500
Programs						
ISF - Risk Management Administrat	30,892,500	29,208,000	0	29,208,000	896,000	30,104,000
ISF - Workers' Compensation	7,135,600	7,000,000	0	7,000,000	208,500	7,208,500
Total	\$38,028,100	\$36,208,000	\$0	\$36,208,000	\$1,104,500	\$37,312,500
Categories of Expenditure						
Personnel Services	2,579,900	2,570,800	(500)	2,570,300	101,100	2,671,400
In-state Travel	18,900	19,200	0	19,200	1,300	20,500
Out-of-state Travel	18,700	17,800	0	17,800	2,300	20,100
Current Expense	31,323,100	33,542,300	315,700	33,858,000	607,700	34,465,700
DP Current Expense	315,300	305,400	0	305,400	95,800	401,200
Other Charges/Pass Thru	112,400	10,000	(31,900)	(21,900)	(90,200)	(112,100)
Depreciation	0	80,000	32,400	112,400	40,000	152,400
Total	\$34,368,300	\$36,545,500	\$315,700	\$36,861,200	\$758,000	\$37,619,200
Other Data						
Budgeted FTE	26.0	26.0	0.0	26.0	0.0	26.0
Actual FTE	25.7	0.0	0.0	0.0	0.0	0.0
Authorized Capital Outlay	62,100	500,000	0	500,000	(200,000)	300,000
Retained Earnings	6,504,200	2,118,700	3,732,300	5,851,000	(306,700)	5,544,300
Vehicles	7	7	0	7	0	7

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.