

Office of the
Legislative Fiscal Analyst

FY 2004 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
Internal Service Funds – Risk Management

Contents:

- 1.0 Summary
- 2.0 Issues
- 3.0 Programs
- 4.0 Additional Information

1.0 Summary: Division of Risk Management

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 coverage to all state agencies, forty school districts, all state-owned colleges and universities and to eight city/county health departments. The liability insurance program is entirely self funded, while the property insurance program is self-funded up to a \$2.5 million deductible with a private carrier. The Division has four internal sections: claims, loss control, ADA/Workers Compensation, and support staff.

- The Claims section processes losses by state agencies and handles claims against state agencies.
- The Loss Control group provides valuable service to the insured by presenting training throughout the state and making annual inspections. Loss control provides corrective action suggestions, assists with all types of safety problems, monitors the disposal of hazardous materials and examines blueprints for building construction and fire code applications. The objective of this section is to design and manage programs in a way that reduces the state’s risk exposure.
- The ADA/Workers Compensation section provides training and assistance for issues relating to worker’s compensation and the Americans With Disabilities Act. Services include claims review, case management, loss prevention programs, return to work programs and assistance in processing Workers Compensation claims.
- The Support Staff provides all of the necessary services to sustain division operations. Services include management of financial, administrative, and data processing systems. They also provide management of property valuation and premium computation.

	Analyst FY 2004 Base	Analyst FY 2004 Changes	Analyst FY 2004 Total
Financing by Source			
Premiums	28,480,600		28,480,600
Restricted Revenue	8,942,700		8,942,700
Total	\$37,423,300	\$0	\$37,423,300
Expenditures by Program			
ISF - Risk Management Administration	30,971,600		30,971,600
ISF - Workers' Compensation	7,874,000		7,874,000
Total	\$38,845,600	\$0	\$38,845,600
Profit/Loss	(\$1,422,300)	\$0	(\$1,422,300)
FTE/Other			
Total FTE	25		25
Authorized Capital Outlay	12,000		12,000
Retained Earnings	1,176,100		1,176,100

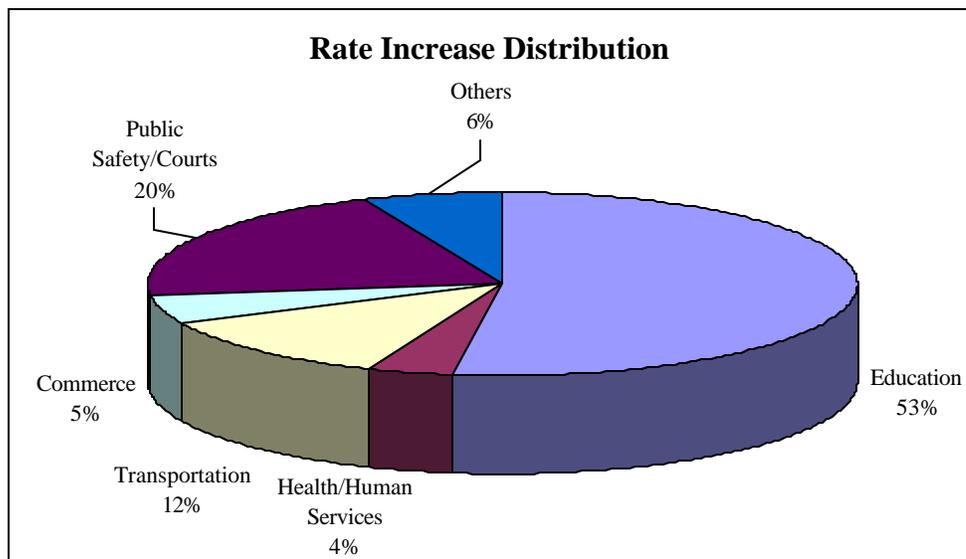
2.0 Issues: Division of Risk Management

2.1 State agency premium increases

The analyst is recommending approval of rate increases totaling \$825,100 for all state agencies. Property premiums account for ninety-six percent of the increase, with terrorism fears serving as a driving force in the new rate. In the past the Legislature fully funded insurance increases even though official requests assumed that agencies would fund one-third of the impact. This year the Analyst recommends that agencies absorb impacts within existing budgets in order to provide additional flexibility in funding statewide priorities.

<i>Rate Impacts by Agency (Total increase: \$825,100)</i>			
Administrative Services	\$52,500	Higher Ed./UCAT	\$525,900
Commerce & Revenue	\$54,100	Human Services	(\$3,500)
Corrections	\$240,200	Legislature	\$5,800
Courts	\$49,300	National Guard	\$8,600
DCED-HR	\$2,600	Natural Resources	(\$16,100)
DEQ	\$3,200	Public Ed	\$44,600
Elected Officials	\$14,000	Public Safety	(\$67,000)
Health	\$43,700	Transportation	(\$132,800)

The Utah System of Higher Education must fund the biggest single impact for insurance. This is primarily due to increases in property premiums, so the facility intensive System absorbs a larger impact than others. The Utah System of Higher Education manages more than two-thirds of all state space, so its share of the increase will be significantly larger in actual dollars. The USHE amount actually reflects a lower share of the increase in proportion to state space occupied.



3.0 Programs: Internal Service Funds – Risk Management

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 coverage to all state agencies, forty school districts, all state-owned colleges and universities and to eight city/county health departments. The Division has four internal sections: claims, loss control, ADA/Workers Compensation, and support staff.

3.1 Programs: Risk Management

	2002	2003	2004	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
Premiums	23,657,000	27,076,800	28,480,600	1,403,800
Restricted Revenue	1,468,900	1,465,000	2,050,000	585,000
Total	<u>\$25,125,900</u>	<u>\$28,541,800</u>	<u>\$30,530,600</u>	<u>\$1,988,800</u>
Expenditures				
Personal Services	1,594,900	1,668,400	1,674,100	5,700
In-State Travel	13,200	16,800	16,800	
Out of State Travel	15,400	21,900	21,900	
Current Expense	24,635,800	27,772,100	29,065,500	1,293,400
DP Current Expense	75,400	75,400	75,400	
DP Capital Outlay	13,900	27,100	26,000	(1,100)
Other Charges/Pass Thru	91,900	91,900	91,900	
Depreciation	33,200			
Total	<u>\$26,473,700</u>	<u>\$29,673,600</u>	<u>\$30,971,600</u>	<u>\$1,298,000</u>
Profit/Loss	<u>(\$1,347,800)</u>	<u>(\$1,131,800)</u>	<u>(\$441,000)</u>	<u>\$690,800</u>
FTE/Other				
Total FTE	23	23	23	
Authorized Capital Outlay	20,000		12,000	12,000
Retained Earnings	2,678,200	1,546,400	1,105,400	(441,000)

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

The State Risk Manager administers the State's property and liability insurance program. The property insurance program deductible is self-funded to \$2.5 million. A private provider covers any claims beyond that. Liability insurance is entirely self-funded.

The Risk Management Fund handles claims against the state. Although coverage through the Fund may be in formats similar to insurance policies, the relationship between the Fund and entities covered by it is not that of insurer and insured. In managing and defending claims against covered entities, the Risk Management Fund will consider the covered entities' interests, but the final determination as to claim management, defense and settlement is based on the overall impact to the Risk Management Fund.

3.2 Programs: Risk Management - Workers Compensation

	2002	2003	2004	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Restricted Revenue	6,766,200	6,536,000	6,892,700	356,700
Transfers	(2,697,100)			
Total	\$4,069,100	\$6,536,000	\$6,892,700	\$356,700
Expenditures				
Personal Services	148,000	151,200	151,700	500
In-State Travel	2,600	2,600	2,600	
Out of State Travel	2,000	2,000	2,000	
Current Expense	6,062,100	7,044,900	7,713,100	668,200
Other Charges/Pass Thru	4,600	4,600	4,600	
Total	\$6,219,300	\$7,205,300	\$7,874,000	\$668,700
Profit/Loss	(\$2,150,200)	(\$669,300)	(\$981,300)	(\$312,000)
FTE/Other				
Total FTE	2	2	2	
Retained Earnings	1,721,300	1,052,000	70,700	(981,300)

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

The State Risk Manager administers a self-funded program to keep workers compensation claims to a minimum. As a result, rates charged by the Workers Compensation program remain low. Premiums are collected as a percentage of state payroll.

*Workers Comp/
Payroll Project*

Last year the Legislature authorized the use of \$800,000 in retained earnings from the Workers Compensation program to fund part of the statewide payroll project. The retained earnings were slated for return to state agencies as part of lower claims in the program. Since funding comes from state payroll, the Legislature agreed with the Division of Finance and the Governor that this money could be used to address critical upgrades related to payroll.

4.0 Tables: Division of Risk Management

	2000	2001	2002	2003	2004
Financing by Source	Actual	Actual	Actual	Estimated	Analyst
Premiums	17,091,900	22,431,600	23,657,000	27,076,800	28,480,600
Interest Income	2,852,400	2,500			
Restricted Revenue	6,033,300	10,145,300	8,235,100	8,001,000	8,942,700
Transfers			(2,697,100)		
Total	\$25,977,600	\$32,579,400	\$29,195,000	\$35,077,800	\$37,423,300
Financing by Program					
ISF - Risk Management Administration	19,944,300	25,559,600	25,125,900	28,541,800	30,530,600
ISF - Workers' Compensation	6,033,300	7,019,800	4,069,100	6,536,000	6,892,700
Total	\$25,977,600	\$32,579,400	\$29,195,000	\$35,077,800	\$37,423,300
Expenditures					
Personal Services	1,748,800	1,751,000	1,742,900	1,819,600	1,825,800
In-State Travel	24,500	16,600	15,800	19,400	19,400
Out of State Travel	24,200	18,000	17,400	23,900	23,900
Current Expense	24,965,900	27,824,800	30,697,900	34,817,000	36,778,600
DP Current Expense	86,100	122,000	75,400	75,400	75,400
DP Capital Outlay	40,400	26,100	13,900	27,100	26,000
Capital Outlay	25,100				
Other Charges/Pass Thru	323,000	384,900	96,500	96,500	96,500
Depreciation		26,600	33,200		
Total	\$27,238,000	\$30,170,000	\$32,693,000	\$36,878,900	\$38,845,600
Profit/Loss	(\$1,260,400)	\$2,409,400	(\$3,498,000)	(\$1,801,100)	(\$1,422,300)
FTE/Other					
Total FTE	25	25	25	25	25
Authorized Capital Outlay	39,000	12,800	20,000		12,000
Retained Earnings	3,271,800	7,897,500	4,399,500	2,598,400	1,176,100

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency.