

Office of the
Legislative Fiscal Analyst

FY 2002 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 2002 Base	Analyst FY 2002 Changes	Analyst FY 2002 Total
Financing			
Premiums	21,804,400		21,804,400
Interest Income	2,900,000		2,900,000
Total	<u>\$31,249,000</u>	\$0	<u>\$31,249,000</u>
Programs			
ISF - Risk Management Administration	24,704,400		24,704,400
ISF - Workers' Compensation	6,544,600		6,544,600
Total	<u>\$31,249,000</u>	\$0	<u>\$31,249,000</u>
FTE/Other			
Total FTE	25		25
Authorized Capital Outlay	\$50,000	\$0	\$50,000
Retained Earnings	\$7,789,500	\$0	\$7,789,500
Vehicles	6		6

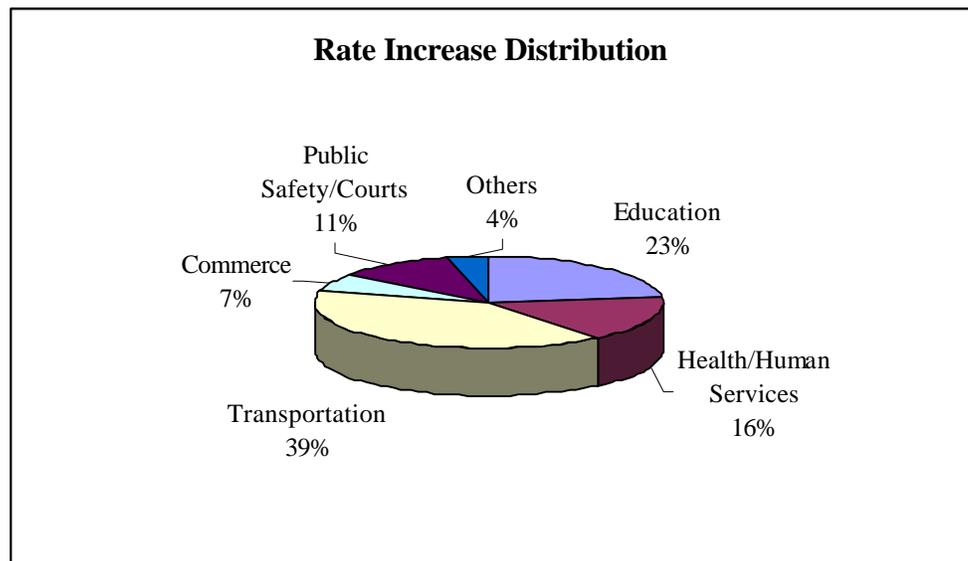
2.0 Issues: Division of Risk Management

2.1 State agency liability premium increases

The analyst is recommending full funding of rate increases totaling \$1,190,800 for all state agencies.

<i>Rate Impacts by Agency</i>			
Administrative Services	(\$1,734)	Higher Ed.	\$283,899
Commerce & Revenue	\$90,276	Human Services	\$177,946
Corrections	(\$238,491)	Legislature	\$7,612
Courts	\$42,297	National Guard	\$1,041
DCED-HR	\$24,080	Natural Resources	\$49,203
DEQ	\$27,057	Public Ed	\$40,854
Elected Officials	(\$6,633)	Public Safety	\$106,627
Health	\$38,688	Transportation	\$548,500

The Department of Transportation must fund the biggest single impact for insurance.



2.2 Tort Liability Limits

Senate Bill 35 (Third Substitute), approved during the 2000 General Session, doubled the cap on liability awards that may be leveled against state or local government. This bill accounts for 74 percent of the increase in liability premiums for Fiscal Year 2002. Further information is available in section 3.1.

2.3 Retained Earnings

Each year the Division of Risk Management performs an actuarial study to ensure that rates are charged at appropriate levels. When excess retained earnings are found, rebates flow to agencies based on their share of premiums. The largest recipients of these rebates are the federal government and UDOT, who received a refund of \$464,000 in FY 2000. This year, Risk Management is projected to break even with UDOT but will refund \$291,600 to the Federal Government.

3.0 Programs: Internal Service Funds – Risk Management

3.1 Programs: Risk Management - Insurance Coverage

Recommendation

The Analyst is recommending the agency request, with the understanding that actual retained earnings will be reduced following a year end actuarial assessment.

	2000	2001	2002	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
Premiums	17,091,900	20,246,600	21,804,400	1,557,800
Interest Income	2,852,400	2,900,000	2,900,000	
Total	\$19,944,300	\$23,146,600	\$24,704,400	\$1,557,800
Expenditures				
Personal Services	1,632,300	1,686,400	1,542,900	(143,500)
In-State Travel	22,800	18,500	16,800	(1,700)
Out of State Travel	22,400	24,200	21,900	(2,300)
Current Expense	20,454,000	24,977,600	21,769,000	(3,208,600)
DP Current Expense	86,100	86,100	86,100	
DP Capital Outlay	40,400	33,000	15,000	(18,000)
Capital Outlay	25,100	450,000	435,000	(15,000)
Other Charges/Pass Thru	199,900	79,000	76,800	(2,200)
Total	\$22,483,000	\$27,354,800	\$23,963,500	(\$3,391,300)
Profit/Loss	(\$2,538,700)	(\$4,208,200)	\$740,900	\$4,949,100
FTE/Other				
Total FTE	23	23	23	
Authorized Capital Outlay	\$39,000	\$7,800	\$50,000	42,200
Retained Earnings	\$1,100,200	\$3,316,500	\$4,054,500	738,000
Vehicles		6	6	

Purpose

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.



Figure 1: Fire Destroys OWATC Facility at Defense Depot Ogden

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.

*Effect of
Senate Bill 35*

Senate Bill 35 (Third Substitute) doubled the state's liability limit. The bill changed Utah Code to read:

Utah Code 63-30-34. *Limitation of judgments against governmental entity or employee -- Insurance coverage exception -- Process for adjustment of limits.*

(1) (a) Except as provided in Subsections (2) and (3), if a judgment for damages for personal injury against a governmental entity, or an employee whom a governmental entity has a duty to indemnify, exceeds \$500,000 for one person in any one occurrence, or \$1,000,000 for two or more persons in any one occurrence, the court shall reduce the judgment to that amount.

(b) A court may not award judgment of more than \$500,000 for injury or death to one person regardless of whether or not the function giving rise to the injury is characterized as governmental.

(c) Except as provided in Subsection (2), if a judgment for property damage against a governmental entity, or an employee whom a governmental entity has a duty to indemnify, exceeds \$200,000 in any one occurrence, the court shall reduce the judgment to that amount...

The total increase for liability coverage in Fiscal Year 2002 will be \$1,171,600. Of that increase, \$865,000 (or 74 percent) is the result of increased limits on the state's liability.

3.2 Programs: Risk Management - Workers Compensation

Recommendation The Analyst is recommending the agency request.

	2000	2001	2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Restricted Revenue	6,033,300	6,299,000	6,544,600	245,600
Total	\$6,033,300	\$6,299,000	\$6,544,600	\$245,600
Expenditures				
Personal Services	116,500	143,500	143,500	
In-State Travel	1,700	1,700	1,700	
Out of State Travel	1,800	3,300	3,600	300
Current Expense	4,511,900	5,386,300	5,592,200	205,900
DP Current Expense			2,200	2,200
Other Charges/Pass Thru	123,100	2,200		(2,200)
Total	\$4,755,000	\$5,537,000	\$5,743,200	\$206,200
Profit/Loss	\$1,278,300	\$762,000	\$801,400	\$39,400
FTE/Other				
Total FTE	2	2	2	
Retained Earnings	2,171,600	2,933,600	3,735,000	801,400

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

4.0 Tables: Division of Risk Management

	1998	1999	2000	2001	2002
Financing	Actual	Actual	Actual	Estimated	Analyst
Premiums	11,645,900	15,362,200	17,091,900	20,246,600	21,804,400
Interest Income	2,747,900	2,586,600	2,852,400	2,900,000	2,900,000
Restricted Revenue	5,748,300	5,878,100	6,033,300	6,299,000	6,544,600
Total	<u>\$20,142,100</u>	<u>\$23,826,900</u>	<u>\$25,977,600</u>	<u>\$29,445,600</u>	<u>\$31,249,000</u>
Programs					
ISF - Risk Management Administration	14,351,000	17,865,100	19,944,300	23,146,600	24,704,400
ISF - Workers' Compensation	5,791,100	5,961,800	6,033,300	6,299,000	6,544,600
Total	<u>\$20,142,100</u>	<u>\$23,826,900</u>	<u>\$25,977,600</u>	<u>\$29,445,600</u>	<u>\$31,249,000</u>
Expenditures					
Personal Services	1,463,700	1,607,800	1,748,800	1,829,900	1,686,400
In-State Travel	21,100	19,600	24,500	20,200	18,500
Out of State Travel	17,600	14,000	24,200	27,500	25,500
Current Expense	17,397,700	21,461,100	24,965,900	30,363,900	27,361,200
DP Current Expense	149,200	86,500	86,100	86,100	88,300
DP Capital Outlay	37,000	136,800	40,400	33,000	15,000
Capital Outlay			25,100	450,000	435,000
Other Charges/Pass Thru			323,000	81,200	76,800
Depreciation	152,000	47,400			
Total	<u>\$19,238,300</u>	<u>\$23,373,200</u>	<u>\$27,238,000</u>	<u>\$32,891,800</u>	<u>\$29,706,700</u>
Profit/Loss	<u>\$903,800</u>	<u>\$453,700</u>	<u>(\$1,260,400)</u>	<u>(\$3,446,200)</u>	<u>\$1,542,300</u>
FTE/Other					
Total FTE	23	24	25	25	25
Authorized Capital Outlay	\$39,400	\$39,000	\$39,000	\$7,800	\$50,000
Retained Earnings	\$2,891,700	\$2,369,300	\$3,271,800	\$6,250,100	\$7,789,500
Vehicles				6	6