

Office of the
Legislative Fiscal Analyst

FY 2005 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
Internal Service Funds – Risk Management

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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 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing by Revenue Source			
Premiums	\$28,430,700	\$0	\$28,430,700
Restricted Revenue	8,517,600		8,517,600
Total	\$36,948,300	\$0	\$36,948,300
Expenditures by Program			
ISF - Risk Management Administration	\$29,745,800	\$0	\$29,745,800
ISF - Workers' Compensation	7,556,500		7,556,500
Total	\$37,302,300	\$0	\$37,302,300
Profit/(Loss)	(\$354,000)	\$0	(\$354,000)
FTE/Other			
Total FTE	25		25
Authorized Capital Outlay	\$120,000	\$0	\$120,000
Retained Earnings	\$6,113,700	(\$3,700,000)	\$2,413,700

2.0 Issues: Division of Risk Management

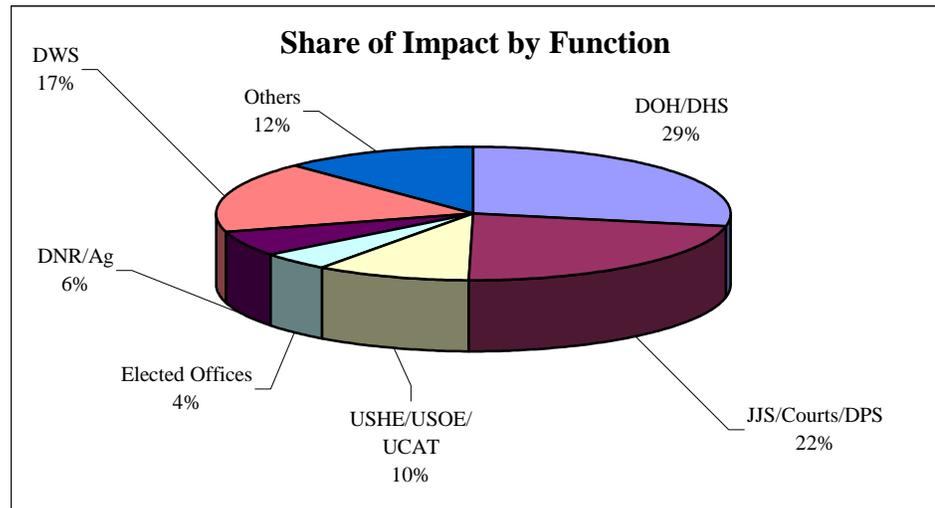
2.1 State agency premium increases

The analyst is recommending approval of rate increases totaling \$424,000 for all state agencies, including non-state funds. Worker’s Compensation is the primary factor in the increase this year. In the past the Legislature fully funded insurance increases even though official requests assumed that agencies would fund one-third of the impact.

Liability	(\$587,100)
Auto/Property (USHE)	42,700
Worker's Compensation	968,400
Total Impact	\$424,000

Source: DAS and GOPB

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.



Source: GOPB and OLFA

2.2 Property and Liability Retained Earnings

On January 15, 2004 the State Auditor released a management report identifying an excess of retained earnings in the Risk Management program. The Auditor noted:

Federal Guidelines permit internal service funds such as Risk Management to have a reasonable working capital reserve (generally no more than 60 days of normal cash expenses). As of June 30, 2003, the Risk Management Fund working capital reserves of \$7.1 million represented approximately 88 days of normal cash expenses.¹

The Department of Administrative Services proposed² a three year plan to come into compliance with acceptable retained earnings. The Analyst believes that retained earnings in the Risk Management program could be reduced by \$3.7 million without adverse impact to the program or to state agencies. This would free up approximately \$3.2 million in state funds and provide a rebate (approximately \$500,000) to the Federal Government for its participation in payment of excess rates.

Given that the excess retained earnings derive from statewide payments for insurance, the Analyst believes that the funds should be used in a way that will help the agencies that built the fund. Two years ago the Department of Administrative Services used retained earnings from this program to upgrade the payroll system. This year the Division of Finance is in the process of upgrading the state financial system (FINET) and requests \$3 million to match non-lapsing funds and savings from the payroll project.³ The Analyst believes that this one-time source of funding lines up well with the one-time expense of the new FINET system.

The Analyst recommends that the Capital Facilities and Administrative Services Appropriation Subcommittee request that the Executive Appropriation Committee apply excess retained earnings in the Risk Management program to the one-time cost of upgrading the statewide financial system.

¹ Johnson, Austin G. (2004). *Report 03-18: Department of Administrative Services Management Letter for the Year Ended June 30, 2003*, (p. 2). Salt Lake City, Utah: Office of the Utah State Auditor.

² Ibid, pp. 2-3.

³ See Ball, Jonathon (2004). *FY 2005 Budget Analysis: Statewide Information Technology Review*. Salt Lake City, Utah: Office of the Legislative Fiscal Analyst. <http://www.le.state.ut.us/Interim/2004/pdf/00000171.pdf>

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

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Premiums	\$24,416,700	\$28,995,900	\$28,430,700	(\$565,200)
Interest Income	218,400			
Restricted Revenue	1,217,700	876,000	876,000	
Total	\$25,852,800	\$29,871,900	\$29,306,700	(\$565,200)
Expenditures				
Personal Services	\$1,569,100	\$1,637,100	\$1,631,400	(\$5,700)
In-State Travel	11,900	16,800	16,800	
Out of State Travel	3,800	21,900	21,900	
Current Expense	20,510,600	27,237,200	27,888,300	651,100
DP Current Expense	57,400	57,400	57,400	
DP Capital Outlay	27,100	30,000	42,000	12,000
Capital Outlay	582,800			
Other Charges/Pass Thru	78,400	81,500	88,000	6,500
Total	\$22,841,100	\$29,081,900	\$29,745,800	\$663,900
Profit/(Loss)	\$3,011,700	\$790,000	(\$439,100)	(\$1,229,100)
FTE/Other				
Total FTE	22	23	23	0
Authorized Capital Outlay	\$0	\$12,000	\$120,000	\$108,000
Retained Earnings	\$5,689,700	\$6,479,700	\$2,340,600	(\$4,139,100)
Vehicles	5	5	5	0

*Non-state 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

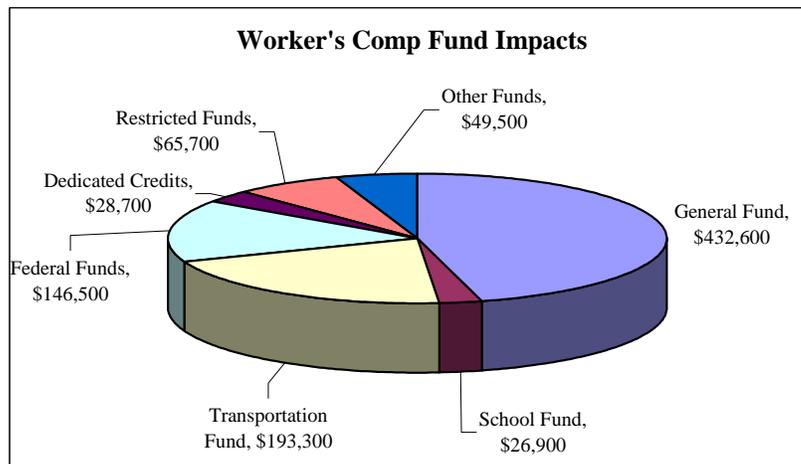
	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Interest Income	\$5,900	\$0	\$0	\$0
Restricted Revenue	6,372,000	6,056,800	7,641,600	1,584,800
Total	\$6,377,900	\$6,056,800	\$7,641,600	\$1,584,800
Expenditures				
Personal Services	\$149,800	\$152,400	\$151,000	(\$1,400)
In-State Travel	1,800	2,600	2,600	
Out of State Travel		2,000	2,000	
Current Expense	6,536,600	7,049,300	7,398,900	349,600
Other Charges/Pass Thru	271,500	2,000	2,000	
Total	\$6,959,700	\$7,208,300	\$7,556,500	\$348,200
Profit/(Loss)	(\$581,800)	(\$1,151,500)	\$85,100	\$1,236,600
FTE/Other				
Total FTE	2	2	2	0
Retained Earnings	\$1,139,500	(\$12,000)	\$73,100	\$85,100

*Non-state 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 (determined as a percentage of payroll) charged by the Workers Compensation program remain low. This program is an internal program that is not affiliated with the Utah Worker's Compensation Fund.

Losses in Workers Comp Program

The economic downturn over the past two years negatively impacted this program, resulting in operating losses totaling \$1.7 million in FY 2002 and 2003. The Rate Committee approved new rates for the program to return financial stability. If approved by the Legislature, rates for state agencies (except UDOT) will climb from 0.68 percent of payroll to 0.82 percent. UDOT rates, if approved, will increase from 1.59 percent to 1.91 percent. Overall the increase in rates total \$968,400. Of that amount, approximately seventy percent will be funded from either General Fund, School Funds or Transportation Funds.



Source: GOPB and OLFA

4.0 Tables: Division of Risk Management

	2001	2002	2003	2004	2005
Financing by Revenue Source	Actual	Actual	Actual	Estimated*	Analyst
Premiums	\$22,431,600	\$23,657,000	\$24,416,700	\$28,995,900	\$28,430,700
Interest Income	2,500		224,300		
Restricted Revenue	10,145,300	8,235,100	7,589,700	6,932,800	8,517,600
Transfers		(2,697,100)			
Total	\$32,579,400	\$29,195,000	\$32,230,700	\$35,928,700	\$36,948,300
Financing by Program					
ISF - Risk Management Administration	\$25,559,600	\$25,125,900	\$25,852,800	\$29,871,900	\$29,306,700
ISF - Workers' Compensation	7,019,800	4,069,100	6,377,900	6,056,800	7,641,600
Total	\$32,579,400	\$29,195,000	\$32,230,700	\$35,928,700	\$36,948,300
Expenditures					
Personal Services	\$1,751,000	\$1,742,900	\$1,718,900	\$1,789,500	\$1,782,400
In-State Travel	16,600	15,800	13,700	19,400	19,400
Out of State Travel	18,000	17,400	3,800	23,900	23,900
Current Expense	27,824,800	30,697,900	27,047,200	34,286,500	35,287,200
DP Current Expense	122,000	75,400	57,400	57,400	57,400
DP Capital Outlay	26,100	13,900	27,100	30,000	42,000
Capital Outlay			582,800		
Other Charges/Pass Thru	384,900	96,500	349,900	83,500	90,000
Depreciation	26,600	33,200			
Total	\$30,170,000	\$32,693,000	\$29,800,800	\$36,290,200	\$37,302,300
Profit/(Loss)	\$2,409,400	(\$3,498,000)	\$2,429,900	(\$361,500)	(\$354,000)
FTE/Other					
Total FTE	25	25	24	25	25
Authorized Capital Outlay	\$12,800	\$20,000	\$0	\$12,000	\$120,000
Retained Earnings	\$7,897,500	\$4,399,500	\$6,829,200	\$6,467,700	\$2,413,700
Vehicles	5	5	5	5	5

*Non-state funds as estimated by agency.