



Budget Brief: DAS Risk Management (ISF)

SUMMARY

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 forty school districts, over 50 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 Owner Controlled Insurance Program (OCIP) fund provides optional construction project insurance, but at present the only building project insured is the State Capitol renovation. Due to the lack of interest and funding concerns, the division will be phasing out this program.

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 being purchased for amounts in excess of the deductible.

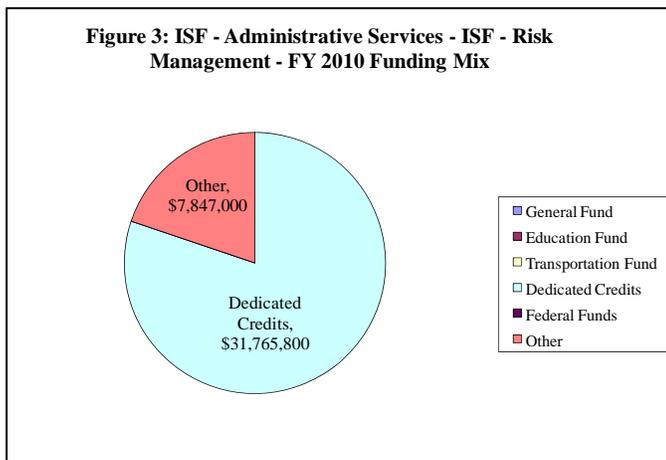
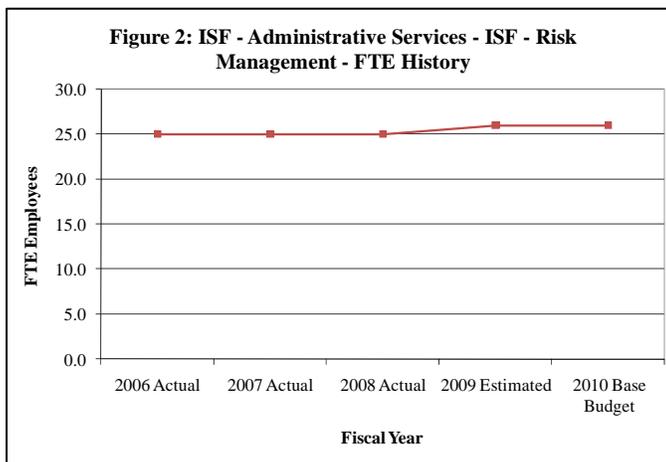
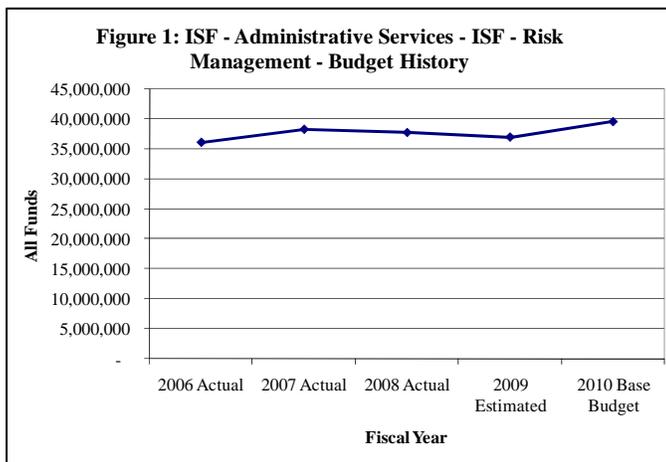
ISSUES AND RECOMMENDATIONS

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. Liability rates, excluding school district rates, decreased from \$9,435,785 in FY 2009 to \$9,373,451 in FY2010. 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 2010, the underlying insurance rates changed slightly in addition to the value of state buildings and increases in inventory (new buildings). These changes will cause state agency premiums to increase. The additional rate impacts to state agencies and to higher education are estimated at \$337,859 and \$805,702 respectively. Please see the Issue Brief for a review of each rate change. The Analyst recommends adopting these rates.



Workers Compensation Rate Decrease

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. In FY the Workers Compensation Fund of Utah decreased workers compensation rates for UDOT by 22% and for all other State agencies by 8%. This year the workers compensation rates will again decrease by an additional 20% for UDOT and 7% for all other state agencies; which translates into a \$1 million reduction in rates.

Risk Retained Earnings

Retained earnings in the Risk Management programs have increased and decreased over the last few years. In FY 2008, the Legislature allowed Risk to transfer \$2 million in retained earnings from the Liability program to OCIP (\$1 million) and the Property program (\$1 million). The Legislature also reallocated \$1 million of retained earnings from the Liability program to other subcommittee priorities in FY 2008 and \$750,000 of retained earnings in the Workers Compensation program to the General Fund in FY 2009.

Risk Retained Earnings (excluding Workers Comp)				
<u>Fiscal Year</u>	<u>Revenue</u>	<u>Expense</u>	<u>Profit/Loss</u>	<u>Retained Earnings</u>
2001	\$25,559,600	\$24,850,100	\$709,500	\$4,026,000
2002	\$25,126,200	\$26,474,200	(\$1,348,000)	\$2,678,000
2003	\$25,852,800	\$22,841,000	\$3,011,800	\$5,689,800
2004	\$26,742,700	\$24,005,300	\$2,737,400	\$8,427,200
2005	\$28,330,800	\$29,605,800	(\$1,275,000)	\$7,152,200
2006	\$28,057,800	\$29,232,200	(\$1,174,400)	\$5,977,800
2007	\$29,949,500	\$30,357,400	(\$407,900)	\$5,569,900
2008	\$29,690,300	\$28,611,500	\$1,078,800	\$6,648,700

The table above shows the retained earnings history for Risk Management (excluding Workers Compensation retained earnings) for the last eight years. The FY 2008 retained earnings balance for Risk Management programs excluding Workers Compensation was \$6,648,700. The Workers Compensation program ended FY 2008 with a retained earnings balance of \$3,741,600. In FY 2009 the Legislature reduced retained earnings in the Risk Management program and Workers Compensation program by a combined \$6 million and transferred \$4.5 million to the General Fund.

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.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. FY 2010 estimated revenues of \$39,612,800 for the Division of Risk Management ISF
2. Rates as presented separately in the accompanying Issue Brief
3. 26.0 FTE
4. Authorized Capital Outlay of \$100,000 for unforeseen capital expenditures

BUDGET DETAIL TABLE

ISF - Administrative Services - ISF - Risk Management						
Sources of Finance	FY 2008 Actual	FY 2009 Appropriated	Changes	FY 2009 Revised	Changes	FY 2010* Base Budget
Premiums	27,040,000	27,048,600	0	27,048,600	2,294,200	29,342,800
Interest Income	2,650,300	3,611,700	(1,151,700)	2,460,000	(37,000)	2,423,000
Restricted Revenue	8,069,600	7,732,000	(259,000)	7,473,000	374,000	7,847,000
Total	\$37,759,900	\$38,392,300	(\$1,410,700)	\$36,981,600	\$2,631,200	\$39,612,800
Programs						
ISF - Risk Management Administratio	29,690,300	30,660,300	(1,151,700)	29,508,600	2,257,200	31,765,800
ISF - Workers' Compensation	8,069,600	7,732,000	(259,000)	7,473,000	374,000	7,847,000
Total	\$37,759,900	\$38,392,300	(\$1,410,700)	\$36,981,600	\$2,631,200	\$39,612,800
Categories of Expenditure						
Personal Services	2,434,200	2,370,800	197,300	2,568,100	0	2,568,100
In-State Travel	17,200	16,100	1,100	17,200	4,000	21,200
Out of State Travel	24,400	27,100	(2,700)	24,400	0	24,400
Current Expense	28,145,900	35,348,900	(1,229,100)	34,119,800	2,592,700	36,712,500
DP Current Expense	192,600	156,700	500	157,200	7,900	165,100
DP Capital Outlay	0	0	0	0	60,000	60,000
Other Charges/Pass Thru	766,300	117,800	8,000	125,800	(20,800)	105,000
Operating Transfers	3,000,000	0	0	0	0	0
Depreciation	0	60,000	(30,000)	30,000	(89,200)	(59,200)
Total	\$34,580,600	\$38,097,400	(\$1,054,900)	\$37,042,500	\$2,554,600	\$39,597,100
Other Data						
Budgeted FTE	25.0	26.0	0.0	26.0	0.0	26.0
Actual FTE	24.8	0.0	0.0	0.0	0.0	0.0
Authorized Capital Outlay	0	100,000	0	100,000	0	100,000
Retained Earnings	10,390,300	2,325,000	6,004,400	8,329,400	15,700	8,345,100
Vehicles	6	6	1	7	0	7

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