

Office of the
Legislative Fiscal Analyst

FY 2003 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 2003 Base	Analyst FY 2003 Changes	Analyst FY 2003 Total
Financing			
Premiums	25,159,800		25,159,800
Restricted Revenue	9,140,900		9,140,900
Total	\$34,300,700	\$0	\$34,300,700
Programs			
ISF - Risk Management Administration	26,909,800		26,909,800
ISF - Workers' Compensation	7,390,900		7,390,900
Total	\$34,300,700	\$0	\$34,300,700
FTE/Other			
Total FTE	25		25
Retained Earnings	10,721,700		10,721,700

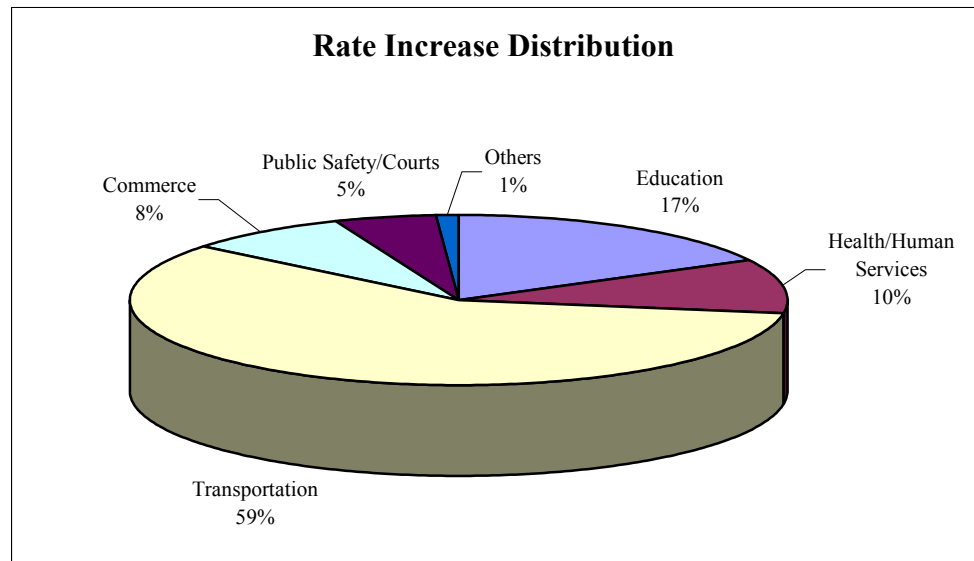
2.0 Issues: Division of Risk Management

2.1 State agency liability premium increases

The analyst is recommending full funding of rate increases totaling \$924,000 for all state agencies. The large jump in premiums for the Department of Corrections is the result of a significant accident and follows two years of decreases that totaled more than \$300,000.

Administrative Services	\$53,515	Higher Ed.	\$102,688
Commerce & Revenue	\$70,556	Human Services	(\$126,553)
Corrections	\$147,601	Legislature	\$7,010
Courts	\$39,791	National Guard	\$2,137
DCED-HR	\$4,863	Natural Resources	\$32,718
DEQ	(\$8,013)	Public Ed	\$47,547
Elected Officials	\$4,811	Public Safety	\$2,572
Health	\$36,396	Transportation	\$507,000

The Department of Transportation must fund the biggest single impact for insurance. This is primarily due to the end of a rebate program designed to eliminate a negative equity balance, a new actuarial analysis and the completion of the I-15 project.



2.2 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. Last year, Risk Management rebated approximately \$300,000 to the Federal Government for their participation in the Workers Compensation Fund.

2.3 Navajo Trust Fund Litigation

The Division of Risk Management funds legal expenses associated with litigation (known as the Pelt Case) brought against the State in regard to its management of the Navajo Trust Fund. The State holds a strong position in this case and is in the process of building a database that will provide long-term protection against similar cases. Collection of data combined with legal work have totaled a cost of \$581,000 to the Division of Risk management and must be included in calculations to set statewide rates for insurance. Rather than fund this from General Fund, the Analyst agrees with the Division that excess funds held by the state for asbestos removal should be applied to this one time expense. To accomplish this the Analyst offers the following intent language as proposed by the Division of Risk Management.

It is the intent of the Legislature that the Division of Risk Management shall use \$581,000 from the Asbestos Litigation Reserve within the Risk Management Administration Internal Service Fund to cover actuarial reserves, premium and expenses for the Pelt Litigation.

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.

	2001	2002	2003	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
Premiums	22,431,600	23,441,200	25,159,800	1,718,600
Interest Income	2,500			
Restricted Revenue	3,125,500	1,750,000	1,750,000	
Total	<u>\$25,559,600</u>	<u>\$25,191,200</u>	<u>\$26,909,800</u>	<u>\$1,718,600</u>
Expenditures				
Personal Services	1,607,700	1,604,800	1,610,200	5,400
In-State Travel	14,700	16,800	16,800	
Out of State Travel	15,400	21,900	21,900	
Current Expense	22,955,700	22,401,200	24,109,000	1,707,800
DP Current Expense	119,000	81,400	81,400	
DP Capital Outlay	26,100	19,700	22,100	2,400
Other Charges/Pass Thru	84,900	84,900	84,900	
Depreciation	26,600	429,400	429,500	100
Total	<u>\$24,850,100</u>	<u>\$24,660,100</u>	<u>\$26,375,800</u>	<u>\$1,715,700</u>
Profit/Loss	\$709,500	\$531,100	\$534,000	
FTE/Other				
Total FTE	23	23	23	(1)
Authorized Capital Outlay	12,800	50,000		(50,000)
Retained Earnings	4,026,000	4,557,100	5,091,100	534,000

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.

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

Recommendation The Analyst is recommending the agency request.

	2001	2002	2003	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Restricted Revenue	7,019,800	7,112,600	7,390,900	278,300
Total	\$7,019,800	\$7,112,600	\$7,390,900	\$278,300
Expenditures				
Personal Services	143,300	146,800	147,400	600
In-State Travel	1,900	1,700	1,700	
Out of State Travel	2,600	3,600	3,600	
Current Expense	4,869,100	6,010,700	6,412,100	401,400
DP Current Expense	3,000			
Other Charges/Pass Thru	300,000	8,400	8,400	
Total	\$5,319,900	\$6,171,200	\$6,573,200	\$402,000
Profit/Loss	\$1,699,900	\$941,400	\$817,700	
FTE/Other				
Total FTE	2	2	2	
Retained Earnings	3,871,500	4,812,900	5,630,600	817,700

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

	1999	2000	2001	2002	2003
Financing	Actual	Actual	Actual	Estimated	Analyst
Premiums	15,362,200	17,091,900	22,431,600	23,441,200	25,159,800
Interest Income	2,586,600	2,852,400	2,500		
Restricted Revenue	5,878,100	6,033,300	10,145,300	8,862,600	9,140,900
Total	\$23,826,900	\$25,977,600	\$32,579,400	\$32,303,800	\$34,300,700
Programs					
ISF - Risk Management Administration	17,865,100	19,944,300	25,559,600	25,191,200	26,909,800
ISF - Workers' Compensation	5,961,800	6,033,300	7,019,800	7,112,600	7,390,900
Total	\$23,826,900	\$25,977,600	\$32,579,400	\$32,303,800	\$34,300,700
Expenditures					
Personal Services	1,607,800	1,748,800	1,751,000	1,751,600	1,757,600
In-State Travel	19,600	24,500	16,600	18,500	18,500
Out of State Travel	14,000	24,200	18,000	25,500	25,500
Current Expense	21,461,100	24,965,900	27,824,800	28,411,900	30,521,100
DP Current Expense	86,500	86,100	122,000	81,400	81,400
DP Capital Outlay	136,800	40,400	26,100	19,700	22,100
Capital Outlay		25,100			
Other Charges/Pass Thru		323,000	384,900	93,300	93,300
Depreciation	47,400		26,600	429,400	429,500
Total	\$23,373,200	\$27,238,000	\$30,170,000	\$30,831,300	\$32,949,000
Profit/Loss	\$453,700	(\$1,260,400)	\$2,409,400	\$1,472,500	\$1,351,700
FTE/Other					
Total FTE	24	25	25	25	25
Authorized Capital Outlay	39,000	39,000	12,800	50,000	
Retained Earnings	2,369,300	3,271,800	7,897,500	9,370,000	10,721,700