



State of Wisconsin  
Scott McCallum, Governor

**Department of Agriculture, Trade and Consumer Protection**  
James E. Harsdorf, Secretary

November 30, 2001

The Honorable Brian Burke, Co-Chair  
Joint Committee on Finance  
317 East, State Capitol  
Madison, WI 53702

The Honorable John Gard, Co-Chair  
Joint Committee on Finance  
308 East, State Capitol  
Madison, WI 53702

*Brian*  
Dear Senator Burke and Representative Gard:

At the last quarterly meeting of the Joint Committee on Finance the 5% GPR reduction plan for the Department of Agriculture, Trade and Consumer Protection was deferred. Since then the Department discussed the proposed plan and a concern expressed by a member.

I am requesting that our plan be included on the agenda for the committee meeting in December. The Department is proposing a revision to the 5% GPR reduction plan. In place of eliminating .50 GPR Meat Inspector position we propose to fund .50 of a Food Inspector position with program revenue in place of GPR. There is a sufficient cash reserve to fund the .50 position with PR.

Sincerely,

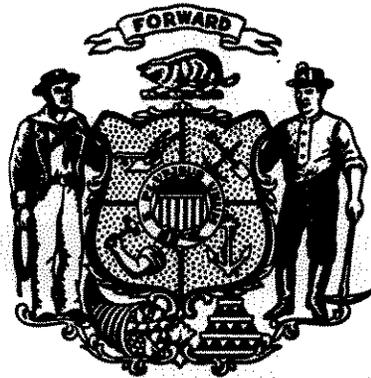
*James E. Harsdorf*  
James E. Harsdorf  
Secretary

Cc: Bob Lang  
Dave Schmiedicke

DEPARTMENT OF AGRICULTURE, TRADE AND  
CONSUMER PROTECTION  
2001-03 GPR Reduction Proposal - Revised November, 2001

Alpha Appr	Reduction Proposal	2001-02			2002-03				
		Sal	Fringe	S/S	FTE	Sal	Fringe	S/S	FTE
2a	Eliminate AH Inspector vacancy	24,800	10,200	0.4112	1,000	24,800	10,200	1,000	1,000
2a	Convert 1.0 Program Asst. to PRO (Insp, Test, Enf.)	30,800	12,700		1,000	30,800	12,700	1,000	1,000
2a	Convert 1.0 Veterinarian Spec. to PRO (Insp, Test, Enf.)	52,800	21,700		1,000	52,800	21,700	1,000	1,000
1a	Freeze PA2 vacancy	11,300	0		0.000	0	0	0.000	0.000
1a	Freeze Meat Inspector vacancy	14,500	0						
1a	Eliminate PA1 vacancy	2,600	1,100		0.125	2,600	1,100	0.125	0.125
1a	Eliminate PA2 vacancy	5,700	2,300		0.250	5,700	2,300	0.250	0.250
1a	Convert .25 Program Asst. to PRF (Food Insp.)	6,300	2,600		0.250	6,300	2,600	0.250	0.250
4a	Eliminate Meat-Inspector vacancy	14,500	6,000		0.500	14,500	6,000	0.500	0.500
1a	<b>Convert .50 Food Safety Inspector to PRO (Food Insp.)</b>	<b>15,100</b>	<b>6,200</b>		<b>0.500</b>	<b>15,100</b>	<b>6,200</b>	<b>0.500</b>	<b>0.500</b>
1a	Eliminate PA2 vacancy	11,300	4,600		0.500	11,300	4,600	0.500	0.500
1a	Convert 1.0 Food Safety Inspector to PRO (Food Insp.)	32,500	13,400		1,000	32,500	13,400	1,000	1,000
4a	Reduce supplies & services - DFS								
1a	<b>Reduce supplies &amp; services - DFS</b>								
1a	Eliminate Permanent Property - DFS								
7a	Convert 1.0 FTE Nutrient Mgmt Planning to SEG (Ag Chem Mgmt)	35,100	14,400		1,000	35,100	14,400	1,000	1,000
7a	Convert 1.0 FTE Nutrient Mgmt Planning to SEG (Ag Chem Mgmt)	47,500	19,500		1,000	47,500	19,500	1,000	1,000
7a	Require counties or landowner pay filing fee to Register of Deeds for cost share contracts > \$25,000.								
7a	Convert Training Officer to PRS								
8a	Eliminate 1.0 I.S. Tech Services Sr. vacancy	43,700	18,000		1,000	43,700	18,000	1,000	1,000
8a	Reduce supplies & services - DMS	32,200	13,200		1,000	32,200	13,200	1,000	1,000
3a	Eliminate Ag Svcs Bureau Director (retirement 1/11/02)	0	0		0.000	0	0	0.000	0.000
3a	Reduce supplies & services - DMKT	26,800	11,000		1,000	26,800	11,000	1,000	1,000
3a	Fund .50 Alice through fees for service and SSFW								
3a	Eliminate Administrative Manager vacancy	62,000	25,500		1,000	62,000	25,500	1,000	1,000
3a	Reduce LTE line & related fringe								
1a	Convert .40 Financial Spec to PRO (Dairy Trade)	15,200	6,300		0.400	15,200	6,300	0.400	0.400
1a	Convert .50 Grain Auditor to PRO (Grain Dealers)	16,700	6,900		0.500	16,700	6,900	0.500	0.500
1a	Convert .50 Cons Prot Inv-Supv to PRO (Wts & Meas)	19,200	7,900		0.500	19,200	7,900	0.500	0.500
1a	Convert .25 BPA-Supv Division to PRO (Ozone)	9,600	3,900		0.250	9,600	3,900	0.250	0.250
1a	Convert .25 Financial Spec to PRO (Ozone)	6,100	2,500		0.250	6,100	2,500	0.250	0.250
1a	Convert .50 Metrologist to PRO (Wts & Measures)	25,900	10,700		0.500	25,900	10,700	0.500	0.500
<b>TOTAL</b>		<b>547,700</b>	<b>214,600</b>	<b>250,900</b>	<b>14,525</b>	<b>562,100</b>	<b>231,200</b>	<b>219,900</b>	<b>14,525</b>
<b>GRAND TOTAL</b>			<b>1,013,200</b>				<b>1,013,200</b>		

*END*



*END*



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor  
Connie L. O'Connell, Commissioner

Wisconsin.gov

121 East Wilson Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [information@oci.state.wi.us](mailto:information@oci.state.wi.us)  
[http://badger.state.wi.us/agencies/oci/oci\\_home.htm](http://badger.state.wi.us/agencies/oci/oci_home.htm)

October 5, 2001

Senator Brian Burke  
317- E Capitol  
P O Box 7882  
Madison WI 53707-7882

Representative John Gard  
308-E Capitol  
P O Box 8952  
Madison WI 53708-8952

REVISED

Re: 13.10 Request for Actuarial Services for Local Government Property Insurance Fund

Dear Senator Burke and Representative Gard:

The Office of the Commissioner of Insurance (OCI) on behalf of the Local Government Property Insurance Fund (Fund) requests a supplement under s. 13.10 of \$45,000 in FY 2002 and \$30,000 in FY 2003 in expenditure authority in s. 20.145(3)(u), the Fund Administration appropriation. The expenditure authority is being requested to cover the costs of hiring an actuarial firm to provide actuarial services to the Fund.

The purpose of the Fund is to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries, and motor vehicles. The Fund provides policy and claim service to the policyholders. Under s. 604.04(3), Stats., each insurance fund operated by the state, including this Fund, is required to bear all expenses associated with the administration of the Fund including salaries of persons who do work for the Fund and other expenses. There are currently no funds available in this appropriation for the services of an actuarial consultant.

### Revenue Source for the Appropriation

The revenue to support this s.13.10 request comes from the Local Government Property Insurance Fund which is a segregated fund that insures local government property. The Fund has sufficient cash to support this request, but needs expenditure authority prior to entering into a contract. The cost of this contract will be included in rate development for future years.

### Background

Under s. 604.04 (4), Wis. Stat., and in accordance with s. 604.04 (5), Wis. Stat., the Fund is authorized to join or subscribe to a rate service organization. For many years the Fund has contracted with Insurance Services Office (ISO), who provides this type of service for most of the property and casualty insurance industry. ISO has provided survey, quote and loss cost factors to the Fund for specific risks. The Fund has been able to generate adequate premiums and has consistently deviated from these rates by charging .47 (the multiplier) of the ISO indicated rate. The Fund also offers credits for certain loss prevention or reduction devices,

(sprinklers, alarms, etc.) offers dispersion credits up to 15% of the premium for entities with favorable loss experience, and offers premium reductions if Fund insureds accept a higher deductible.

Recent claim history has suggested that the Fund cannot continue with the current rating system. In each of the past 3 years, claims payments have exceeded premium earned. Over the last five years, the Fund's total insurance inforce (amount of property it insures against loss) has risen from \$18.8 billion to \$27.6 billion. During this time, the number of insureds has also increased from 1,046 to 1,133. The Fund had been able to negotiate a reinsurance contract with very favorable terms, enabling the Fund to collect \$17 million in reinsurance payments for premiums of \$2.5 million over a 3-year period. Beginning in 2001, the reinsurers demanded more reasonable terms and increased both premiums and retentions (meaning that the Fund is required to pay a greater amount of its losses). While Fund management realized that the favorable reinsurance program it had in place would not last forever, it also realized that increasing rates at a time the Fund was experiencing a positive net income would not be favorably received by its insureds. Based on both increased claims volume and changes in the reinsurance program, the Fund found it necessary to implement a 24% rate increase effective July 1, 2001. It has also announced plans to phase out the use of the multiplier to generate more premiums in the future.

In response, the Fund's Advisory committee, which is comprised of Fund policyholders, has requested that the Fund retain the services of an independent actuarial firm. The actuary would review the Fund's past claims experience, evaluate its current rating methodology, and assist with establishing appropriate rates and incurred but not reported (IBNR) loss reserves for the Fund. OCI agrees that this request is reasonable. An independent actuarial firm will also provide Fund insureds with the necessary actuarial rate justification they require when they discuss any premium increase with their respective local governmental units.

This request meets the statutory criteria in s.13.101 (3) and (4):

- 1) Without independent actuarial services, the Fund can not address concerns being voiced by its policyholders over the need for rate increases. And without this actuarial review, policyholders may turn to legislative inquiries to ask for such a remedy.
- 2) The Fund's administrative line can not absorb this additional cost.
- 3) The purpose for this supplemental appropriation is to cover administrative costs that each insurance fund operated by the state is required to bear associated with the administration of the Fund.

**Cost Analysis**

Based on conversations with an actuarial firm, the actuarial services that will be needed can be divided into 4 components with estimates for each component:

Fiscal Year 2002:

Description of Services:	Estimates Range from:
1) Review six years of claims data	\$7,500 to \$12,500
2) Review Existing Rating Methodology	\$5,000 to \$10,000
3) Review and Establish IBNR reserves	\$7,500 to \$12,500
4) Prepare Report with Recommendations	\$5,000 to \$10,000
Total Fiscal Year 2002	\$45,000

Fiscal Year 2003:

Description of Services:	Estimates Range from:
5) Review claims data, additional year	\$5,000 to \$10,000
6) Review and Establish IBNR reserves	\$7,500 to \$10,000
7) Prepare Report with Recommendations	\$5,000 to \$10,000
Total Fiscal Year 2002	\$30,000

<b>Total Estimated Fiscal Biennial Costs</b>	<b>\$75,000</b>
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Without approval for this request, the Fund will not be able to enter into this contract. While the Fund will be able to continue to establish premiums, we will not be able to address the questions from the local units of government that are our policyholders.

OCI respectfully requests approval for \$75,000, budget authority for Actuarial Services for the Local Government Property Insurance Fund. Clare Stapleton Concord, Administrator, Division of Administrative Services, and Eileen Mallow, Assistant Deputy Commissioner, will represent OCI and the Fund at the meeting:

Sincerely,



Connie L. O'Connell  
Commissioner

cc: Clare Stapleton Concord  
Eileen Mallow  
Dan Bubolz

CLO:dcb

*END*



*END*

**McGinnis, Cindy**

**From:** Anderson, John  
**Sent:** Tuesday, February 12, 2002 3:51 PM  
**To:** McGinnis, Cindy  
**Subject:** RE: who's chairing

Thanks much, Cindy. I know you get tons of these 'special' considerations. sorry to add to it. Our constituents name is **William Schalk**.

Muchas Gracias! i'll be down there at 9.

-----Original Message-----

**From:** McGinnis, Cindy  
**Sent:** Tuesday, February 12, 2002 3:45 PM  
**To:** Anderson, John  
**Subject:** RE: who's chairing

We'll try to accommodate as best we can. I urge you to get there right at 9:00 when the doors to the room open and fill out a slip right away. I can't promise anything, but I'll make Brian aware of this. I've had lots of these requests and we can't get everybody on in the first 2 hours. We'll just do the best we can.

What's the person's name so I know who to look for when sorting slips?

Cindy McGinnis  
Legislative Aide  
Senator Brian Burke  
State Capitol, Room 317 East  
266-8535, 1-800-249-8173  
FAX: 267-0274

-----Original Message-----

**From:** Anderson, John  
**Sent:** Tuesday, February 12, 2002 3:42 PM  
**To:** McGinnis, Cindy  
**Subject:** RE: who's chairing

KP wants me to get a slip in for an early slot for the Pres of the Racine School Board. Can i get that to you so one of Brian's first people he calls on is our school bd prez? let me know if this is possible. i realize everyone wants to go FIRST. thanks.

-----Original Message-----

**From:** McGinnis, Cindy  
**Sent:** Tuesday, February 12, 2002 3:36 PM  
**To:** Anderson, John  
**Subject:** RE: who's chairing

John-

Gard's going to chair for the first ½ hour or so & then Brian will take over. I'm sure they'll switch off & on during the day.

Cindy McGinnis  
Legislative Aide  
Senator Brian Burke  
State Capitol, Room 317 East  
266-8535, 1-800-249-8173  
FAX: 267-0274

**McGinnis, Cindy**

**From:** Audra Millen [millenad@mail.milwaukee.k12.wi.us]  
**Sent:** Tuesday, February 12, 2002 11:41 AM  
**To:** McGinnis, Cindy  
**Subject:** RE:

I certainly understand - tomorrow is bound to be a chaotic day. Thanks for the consideration though!

The Milwaukee Education Panel will include Tim Sheehy, Sam Carmen, and Willie Jude (deputy superintendent for MPS)

Thanks,  
Audra

At 09:41 AM 2/12/02 -0600, you wrote:

Audra-

Sorry, I can't make any guarantees about who can speak when tomorrow. Nobody wants to sit there all day, so everybody calls to try to get preferential treatment & get out of there early. Obviously, we can't accommodate everyone.

I would suggest that you get there right at 9:00 when the doors to the committee room open and join the 100+ others who will be filling out hearing slips hoping to be called upon early. I'll tell Brian of your time constraints, but I can't make any guarantees. We'll do the best we can for you, and everyone else who shows up to testify.

Cindy McGinnis  
Legislative Aide  
Senator Brian Burke  
State Capitol, Room 317 East  
266-8535, 1-800-249-8173  
FAX: 267-0274

-----Original Message-----

**From:** Audra Millen [mailto:millenad@mail.milwaukee.k12.wi.us]  
**Sent:** Monday, February 11, 2002 5:42 PM  
**To:** cindy.mcginis@legis.state.wi.us  
**Subject:**

Cindy,

Bill Broydrick recommended that I contact you regarding our plans for a Milwaukee panel for the JFC committee hearing.

Milwaukee Public Schools and the Milwaukee Teachers Education Association would like to make a joint statement to the Joint Finance Committee on Wednesday. We are also hoping that Tim Sheehy of the MMAC will join us, but that will not be finalized until Tuesday morning.

What is the likelihood of this panel being able to present by 11:30? Our best MPS spokesperson will not be available unless we can get her out by 11:30.

Othwise, I will secure another representative.

Thanks,

Audra  
Audra D. Millen  
Legislative Policy Specialist  
Milwaukee Public Schools  
414-475-8250

Audra D. Millen  
Legislative Policy Specialist  
Milwaukee Public Schools  
414-475-8250

**Swiderski, Julie**

**From:** Harmelink, Diane  
**Sent:** Tuesday, October 09, 2001 2:05 PM  
**To:** Swiderski, Julie  
**Subject:** FW: 13.10 Requests

Julie: Here's the list

-----Original Message-----

**From:** Harmelink, Diane  
**Sent:** Tuesday, October 09, 2001 10:56 AM  
**To:** Hanson, Lori  
**Subject:** 13.10 Requests

This is what I've received:

DOA - state agencies proposing reallocations of 5% state operations reductions

DOA - funding additional assistant DAs

DHFS - Transfer of \$39,400 in FY 02 and \$24,000 in FY 03 to Medical Assistance Program Benefits; and \$391,400 of expenditure authority in FY 02 and \$717,000 in FY 03 and permanent transfer of 10 FTE

WHS - Move GPR position between appropriations

OCI - Supplement of \$45,000 in FY 02 and \$25,000 in FY 03 for Fund Administration of Local Government Property Insurance Fund and a second request for funding for actuarial services for same program

DOJ - Oct 2nd letter on reallocation of reductions in operating budget and Oct. 5 letter on reductions

DMI - Contingency funding for injuries incurred by emergency management volunteers

DOT - Request an increase of \$2,000,000 in FY 02 Dept. Mgt and Operation - lapse to General Fund

UW System - transfer proceeds from sale of land at UW Parkside

Objections: Arndt and Pawelko stewardship purchases are only objections I have in my file.



State Senator  
**Chuck Chvala**  
SENATE MAJORITY LEADER

February 5, 2002

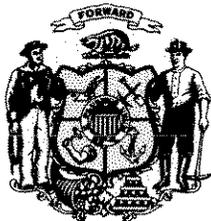
The Honorable, The Senate:

Pursuant to Senate Rule 20 (2)(a), I have appointed Senator Jim Baumgart to the Joint Committee on Finance, and removed Senator Gwendolynne Moore.

Sincerely,

A handwritten signature in cursive script that reads "Chuck Chvala".

CHUCK CHVALA  
Chair, Committee on Senate Organization



# **BRIAN BURKE**

**WISCONSIN STATE SENATOR**

Senate Chair, Joint Committee on Finance

September 12, 2002

The Honorable, The Senate:

Pursuant to Senate Rule 20 (2)(a) and (b), I have appointed Senator Joanne Huelsman and Senator Scott Fitzgerald to the Joint Committee on Finance, and removed Senator Rosenzweig and Senator Darling.

I have appointed Senator Judy Robson and Senator Dave Hansen to the Joint Committee on Finance, and removed Senator Moore and Senator Plache.

With regard to members of the minority party, appointments are made based on nominations made by that caucus.

Sincerely,

**CHUCK CHVALA**  
Chair, Committee on Senate Organization



State Senator  
**Chuck Chvala**  
SENATE MAJORITY LEADER

February 19, 2002

The Honorable Brian Burke  
Wisconsin State Senator  
317 East – State Capitol  
Madison, Wisconsin 53703

Dear Senator Burke:

The Senate Committee on Organization has approved your request for the Members of the Joint Committee on Finance to attend a public hearing on the state budget at the UW – Marathon County Theater in Wausau, Wisconsin on February 20, 2002.

It is the Committee's understanding that your request includes approval for possible expenses related to the set-up of the room and some technical support, and extra Sergeant-at-Arms' staff support.

Your request has been approved contingent upon the Senate not being in session. Please let me know if you have any questions.

Sincerely,

*Chuck Chvala*

CHUCK CHVALA  
Chairman  
Senate Committee on Organization

# STATE OF WISCONSIN

SENATE CHAIR  
**BRIAN BURKE**

316 South, State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882  
Phone: 266-8535



ASSEMBLY CHAIR  
**JOHN GARD**

315 North, State Capitol  
P.O. Box 8952  
Madison, WI 53708-8952  
Phone: 266-2343

## JOINT COMMITTEE ON FINANCE

February 13, 2002

TO: Members  
Joint Committee on Finance

FROM: Senator Brian Burke, Senate Chair  
Representative John Gard, Assembly Chair  
Joint Committee on Finance

SUBJECT: Arrangements for the Wausau Public Hearing

### Wausau, February 20

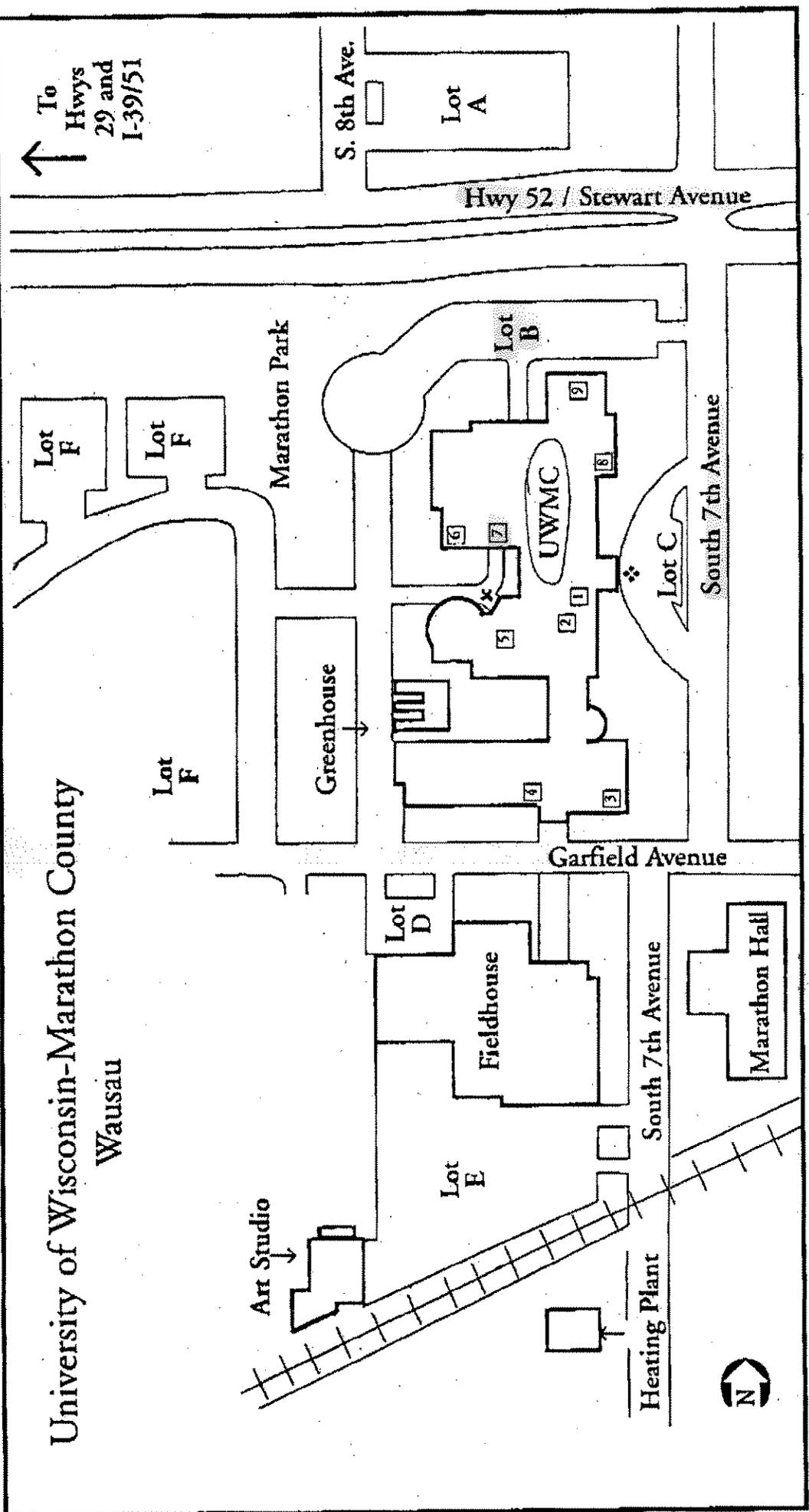
The Wausau public hearing on Wednesday, February 20<sup>th</sup> is being held at UW Marathon County Campus--Theatre. Attached are maps, which provide directions to the hearing site. There will be reserved parking for Committee members and staff in Parking Lot B, which is adjacent to the Theatre. Please place the attached goldenrod sign identifying you as a member of the Joint Committee on Finance on the car's dashboard. This parking area is reserved until 10:15 a.m. After that time, it will be open to visitors and faculty. If you need additional parking passes, please contact Vicki Holten of the Legislative Fiscal Bureau.

The public hearing will be held in the Theatre (Room 133) and is scheduled to begin at 10:00 a.m.

BB/JG/dh  
Attachments



# University of Wisconsin-Marathon County Wausau



## Parking Lot Key

- A - General Parking
- B - Faculty, Staff, Visitors & Disabled Only
- C - Visitors & Disabled
- D - General Parking & Disabled
- E - Fieldhouse & Marathon Hall
- F - General Parking

## Main Building Key

- ❖ - Main Entrance
- x - West Entrance
- 1 - Information, Student Services
- 2 - Library (upper level)
- 3 - Ahrnsbrak Room 182
- 4 - Continuing Ed., WI Public Radio, UW Oshkosh Nursing
- 5 - Bookstore, Student Union
- 6 - Terrace Room 100
- 7 - Theatre
- 8 - Administration, Business Office
- 9 - Distance Education Classrooms

**McGinnis, Cindy**

**From:** Grapentine, Mark  
**Sent:** Friday, February 08, 2002 9:26 AM  
**To:** McGinnis, Cindy  
**Subject:** RE: February 20th hearing in Wausau

Hey there, Cindy.

Peggy will be there, as will I. Peggy doesn't eat much -- unfortunately, I do!

mg

-----Original Message-----

**From:** McGinnis, Cindy  
**Sent:** Friday, February 08, 2002 9:08 AM  
**To:** Anderson, John; Bablitch, Kelly; Grapentine, Mark; Holschbach, Todd; Meyer, Amber; Tormey, Jessica; Worcester, Barbara  
**Subject:** February 20th hearing in Wausau

Hi Gang-

I need a head count of all Senate JFC members and staff who will be attending the public hearing in Wausau so we know how much food to order for lunch. Please get back to me by Tuesday, February 12<sup>th</sup> and let me know who from your office will be attending.

Thanks, and Happy Friday!

Cindy McGinnis  
Legislative Aide  
Senator Brian Burke  
State Capitol, Room 317 East  
266-8535, 1-800-249-8173  
FAX: 267-0274

**McGinnis, Cindy**

**From:** Tormey, Jessica  
**Sent:** Friday, February 08, 2002 9:28 AM  
**To:** McGinnis, Cindy  
**Subject:** RE: February 20th hearing in Wausau

Hi Cindy. Just wondering since I've never traveled to for a hearing before: what type of turnout do you have? Are you planning to go, etc? I am planning to, but especially want to know what all the other ladies of the Committee are going to be doing? Thanks!

-----Original Message-----

**From:** McGinnis, Cindy  
**Sent:** Friday, February 08, 2002 9:08 AM  
**To:** Anderson, John; Bablitch, Kelly; Grapentine, Mark; Holschbach, Todd; Meyer, Amber; Tormey, Jessica; Worcester, Barbara  
**Subject:** February 20th hearing in Wausau

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Legislative Aide  
Senator Brian Burke  
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266-8535, 1-800-249-8173  
FAX: 267-0274

**McGinnis, Cindy**

**From:** Meyer, Amber  
**Sent:** Monday, February 11, 2002 11:08 AM  
**To:** McGinnis, Cindy  
**Subject:** RE: February 20th hearing in Wausau

I don't believe that anyone from our office will be going (besides Bob).

-----Original Message-----

**From:** McGinnis, Cindy  
**Sent:** Friday, February 08, 2002 9:08 AM  
**To:** Anderson, John; Bablitch, Kelly; Grapentine, Mark; Holschbach, Todd; Meyer, Amber; Tormey, Jessica; Worcester, Barbara  
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Cindy McGinnis  
Legislative Aide  
Senator Brian Burke  
State Capitol, Room 317 East  
266-8535, 1-800-249-8173  
FAX: 267-0274

**McGinnis, Cindy**

**From:** Mason, Teresa

**Sent:** Monday, February 11, 2002 12:43 PM

**To:** McGinnis, Cindy; Bergstrom, Leanne; Erickson, Jessica; Stromme, Denise; Erickson, Pat; Krueger, Matt; Southworth, Scott; Dake, Marsha; Droessler, Tina; Disch, Kent; Rinehart, Mark; Boryczka, Nicole; Battles, Cale; Sellen, Jayme; Skoldberg, Alyson

**Subject:** February 20th pre-hearing reception

### **Pre-Hearing Reception**

**Members of the Joint Committee on Finance are invited to a pre-hearing reception beginning at 9:00 AM, prior to the hearing Wednesday, February 20th at the UW-Marathon County Theater - Wausau, WI.**

**Area and community leaders have been invited as well.  
Coffee, Juice and Rolls will be served.**

**If you haven't already, please contact me if unable to attend.  
Thank You!**

**Teresa Mason**

Legislative Assistant

Office of State Senator Russ Decker

323S State Capitol

(608) 266-2502

e-mail: [teresa.mason@legis.state.wi.us](mailto:teresa.mason@legis.state.wi.us)

**McGinnis, Cindy**

**From:** Tormey, Jessica  
**Sent:** Monday, February 11, 2002 2:32 PM  
**To:** McGinnis, Cindy  
**Subject:** RE: February 20th hearing in Wausau

Cindy,

Both Alberta and I will be attending. Thanks for all your efforts to organize.

Jessica

-----Original Message-----

**From:** McGinnis, Cindy  
**Sent:** Friday, February 08, 2002 9:08 AM  
**To:** Anderson, John; Bablitch, Kelly; Grapentine, Mark; Holschbach, Todd; Meyer, Amber; Tormey, Jessica; Worcester, Barbara  
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Cindy McGinnis  
Legislative Aide  
Senator Brian Burke  
State Capitol, Room 317 East  
266-8535, 1-800-249-8173  
FAX: 267-0274

**Mcginnis, Cindy**

**From:** Mason, Teresa  
**Sent:** Monday, February 11, 2002 12:43 PM  
**To:** Mcginnis, Cindy; Bergstrom, Leanne; Erickson, Jessica; Stromme, Denise; Erickson, Pat; Krueger, Matt; Southworth, Scott; Dake, Marsha; Droessler, Tina; Disch, Kent; Rinehart, Mark; Boryczka, Nicole; Battles, Cale; Sellen, Jayme; Skoldberg, Alyson  
**Subject:** February 20th pre-hearing reception

### **Pre-Hearing Reception**

**Members of the Joint Committee on Finance are invited to a pre-hearing reception beginning at 9:00 AM, prior to the hearing Wednesday, February 20th at the UW-Marathon County Theater - Wausau, WI.**

**Area and community leaders have been invited as well.  
Coffee, Juice and Rolls will be served.**

**If you haven't already, please contact me if unable to attend.  
Thank You!**

**Teresa Mason**  
Legislative Assistant  
Office of State Senator Russ Decker  
323S State Capitol  
(608) 266-2502  
e-mail: [teresa.mason@legis.state.wi.us](mailto:teresa.mason@legis.state.wi.us)

June 11, 2002

The Honorable, The Senate:

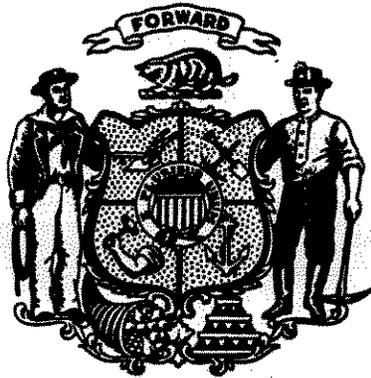
Pursuant to Senate Rule 20 (2)(a) and (b), I have appointed Senator Sheila Harsdorf to the Joint Committee on Finance, and removed Senator Darling.

With regard to members of the minority party, appointments are made based on nominations made by that caucus.

Sincerely,

CHUCK CHVALA  
Chair, Committee on Senate Organization

*END*



*END*

III. Department of Financial Institutions – John F. Kundert, Secretary

The department requested a supplement under s. 16.515 of \$1,191,200 PR from the Committee's appropriation under s. 20.865(4)(g) to the department's general program operations appropriation under s. 20.144(1)(g) to significantly revise the Uniform Commercial Code lien filing system.

Due to an objection from a Committee member, this request is now before the Committee under s. 13.10.

**13.10 Meeting  
December 18, 2001  
Agenda Item III**

**Issue:** DFI: Uniform Commercial Code Article 9 Filings

**Staff Recommendation:**

UCC Lien Filing Request            Alt. 2 or 3  
Across-the-Board Reduction    5(b)????

**Comments:**

This item is before the Committee because Rep. Duff objected to it during the passive review process. I assume he will have a motion to deal with the whole paper. If not, either Alternative 2 or 3 could be justified. I imagine Sen. Decker will have something to say about this item, so you should just go with whatever he wants. LFB has also presented an option to subject the agency to the 3.5% across the board reduction. Seems okay to do that, since LFB didn't really give any reason not to. See what Decker wants.

Prepared by: Julie



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

December 18, 2001

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Financial Institutions: Section 16.515 Request for Supplemental Program Revenue Funding to Address Unanticipated Workload Increases Related to Uniform Commercial Code Article 9 Filings -- Agenda Item III

### BACKGROUND

The Department of Financial Institutions (DFI) requests increased expenditure authority in its general program operations appropriation [20.144(1)(g)] of \$1,191,200 PR in 2001-02 and \$89,000 PR in 2002-03 and thereafter to enhance its internet-based system for completing Article 9 Uniform Commercial Code (UCC) filings. Of the \$1,191,200 in one-time funding in 2001-02, \$1,128,800 would be for information technology-related purposes, while \$62,400 would be dedicated to staff overtime to relieve a significant filing backlog that has developed. The \$89,000 in ongoing funding would be for hardware repairs, technical consulting, and license costs.

After reviewing this request, the Department of Administration (DOA) recommends increasing DFI's expenditure authority by \$1,128,800 on a one-time basis in 2001-02 and approving the use of up to \$62,400 PR in current DFI unallotted reserve funding to address the overtime costs. In effect, DOA's recommendation removes \$62,400 from DFI's original request in 2001-02 and funds it from an alternative source. No ongoing funding would be provided in 2002-03. It is this proposal that is before the Committee for its consideration.

Revenue in this appropriation is derived from a variety sources, including fees for bank examinations, various financial and securities institution licenses and fees, corporate registration fees, and UCC filings. At the end of each fiscal year, any balances remaining in the appropriation lapse to the general fund. Therefore, any changes that affect the revenues credited to the appropriation or expenditures from the appropriation also have an impact on the general fund. While revenue from these filings is adequate to support the additional funding request, approval of

the request would impact the amount of funding that will lapse to the general fund at the close of 2001-02.

Article 9 of the UCC governs any transaction, with the exception of a finance lease, that involves the granting of credit that is secured by personal property of a debtor. If the debtor defaults, the creditor can then seize the property (collateral).

Wisconsin statutes require DFI to maintain a statewide database of all UCC lien filings. Housed within DFI, this database is linked to the 72 county register of deeds offices. UCC lien filings generally consist of financing statements submitted by banks, credit unions, small businesses, service companies, and other lending institutions. These public records are used to help establish the priority of liens against property.

### **Modernization of the System for Filing Liens**

Within the context of a national effort, 2001 Wisconsin Act 10 modernized the state's statutory framework for establishing and administering all liens with the exception of real estate-related liens by incorporating the provisions of a national "model" version of Article 9. One of the changes the new system requires is the creation of a centralized filing location in each state--one place in every state at which financing statements are filed. On July 1, 2001, DFI formally became this location. Historically, business and personal-property lien records have been filed with DFI or at county register of deeds offices. Register-of-deeds offices continue to serve as the filing locations for real-property lien records.

A second important aspect of the revised UCC Article 9 is the shorter processing deadlines for filing and indexing of documents imposed by the Article. Initially, a five-day turnaround is required; on July 1, 2003, this deadline becomes two days. In order to meet the shorter turnaround deadlines, DFI indicates that the majority of filings must be processed electronically. Electronic filings are faster and more efficient than paper filings because they immediately become part of DFI's database once submitted, assuming all required informational items have been completed on the electronic form. In contrast, the paper filing process involves staff hand-entering filings into the Department's database.

DFI began offering electronic filing of original lien documents via the agency's internet site in early August, 2001, with payment required to be billed to a credit card. To encourage filers to utilize the electronic option, DFI established the fee for filing electronically at \$10, half the \$20 fee for a paper-based filing.

Act 10 provided DFI with \$442,600 in additional budget authority in 2001-02 to develop and deploy the revised filing system. Major activities the agency indicated would be needed to accomplish this include redesigning the database that houses the record filings and developing electronic filing capabilities.

The Department of Administration has recommended that the \$1,128,800 information technology-related funding be approved, in addition to the use of up to \$62,400 PR for staff overtime from the agency's unallotted reserve balance. The Department of Electronic Government (DEG) has requested that it be responsible for the information technology portion of the initiative. Under the Department of Administration's recommendation, DEG would oversee the project and work with DFI to reduce the associated costs.

## **ANALYSIS**

DFI indicates that unforeseen circumstances have resulted in a seven-week backlog of filings awaiting processing, with two factors primarily responsible: (1) a greater-than-anticipated shift of filings from the county level to the state level; and (2) a continued preference among filers for the paper format over the on-line format. The agency states that the backlog is having a negative impact on the ability of businesses, farmers and other individuals to obtain financing.

### **Shift of UCC Filing Workload from the Counties**

Last February, DFI projected that the new filing system would bring about an approximate 50% increase in filings; today, DFI believes the actual workload will increase by 100% -- in effect, double. Therefore, instead of the approximate 93,000 filings it anticipated processing in 2001-02 under the new system, it now believes the figure will be closer to 180,000 filings.

### **Importance of Electronic Filings to the New System**

In its request for additional budget authority, DFI notes that paper UCC filings must constitute only a small part of total UCC transactions in order for the agency to accommodate the workload with existing staff and within the time constraints imposed by the new federal law. In the amount of time since electronic-filing has been offered, however, DFI indicates that the level of electronic filings has come in well below that expected. In its request for the supplemental PR expenditure authority, DFI indicates that the price differential between electronic and paper filings has not created the shift to on-line filings necessary to compensate for the added workload that has resulted from the reduced role of counties in processing UCC filings without creating a backlog.

The Department cites several factors that impact the extent to which filers utilize the new internet filing option: (1) reluctance to use credit cards as a method of payment; (2) difficulty using credit cards when multiple submitter locations are involved; (3) a need for the internet-based application to be able to accommodate all UCC transactions; (4) degree of comfort with the internet as a means of transacting business; and (5) the short time frame prior to the suggested implementation date of July 1, 2001, to build understanding and acceptance of the internet-based filing system.

In addition, DFI representatives have indicated that, overall, large institutions with multiple locations from which filings are submitted have been more reluctant than have smaller institutions to utilize the web-based filing option. Because these institutions tend to be high-volume filers, DFI indicates the reluctance to use electronic filing is a significant problem. Part of the reluctance of large institutions to use on-line filing stems from a hesitancy to have filings submitted from multiple locations with credit cards used for payment at each site. Instead, large filers prefer an automated clearinghouse (ACH) payment option. ACH technologies provide a medium of paperless exchange of debit and credit transactions between the accounts of the firms or institutions involved.

In its comments on the s. 16.515 request, the Department of Electronic Government indicates that it will work with DFI to ascertain if an internet interface to the automated clearing house already exists and, if so, how the interface might be used in UCC filings.

**Functional Enhancements for Which DFI Requests Additional Budget Authority**

DFI indicates that the following steps need to be taken in order to address the current filing backlog and to make on-line filing a more attractive option to a wider audience: (1) continuation of staff overtime to reduce the backlog; (2) development and implementation of an ACH payment process for large volume filers; (3) development and implementation of single-sign-on capability for submitters with multiple user locations; (4) development of bulk-filing-process (XML) capability; (5) establishment of accounting controls that will interact properly with ACH, bulk-filing and state accounting processes; and (6) automation of additional components of the UCC lien-filing process to direct more work to the internet.

To bring about the additional functionality and address the backlog, DFI intends to allocate the additional dollars as follows. As noted, the \$62,400 for staff overtime would be funded with unallotted reserve currently appropriated to DFI.

<u>Item</u>	<u>Amount</u>	<u>Pct. of Grand Total</u>
General Functional Features	\$297,360	25.0%
Equipment	246,700	20.7
Accounting	200,400	16.8
Single-Sign-On Capability	136,800	11.5
ACH Capability	106,800	9.0
On-line Amendments Capability	85,920	7.2
XML (Bulk Filing)	<u>54,800</u>	<u>4.6</u>
Total, Information Technology	\$1,128,780	94.8%
UCC Overtime	<u>62,400</u>	<u>5.2</u>
Grand Total, One-Time Request	\$1,191,180	100.0%

If this proposal is adopted, DFI believes it would realize additional revenue from filing fees and UCC lien searches of \$565,000 in 2001-02. With these additional fee revenues and \$1,128,800 in additional expenditure authority, the net impact on GPR-earned would be a reduction of \$563,800 in 2001-02.

### **Scaled-Back Proposal for Technology Enhancements to the UCC Lien Filing System**

DFI has raised the possibility of modifying its original proposal by deleting the development of single-sign-on capability (\$136,800) and on-line ACH capability (\$106,800) from the proposal. In addition, \$143,000 less in equipment funding would be required. If the overtime costs were funded from unallotted reserve as recommended by DOA, the net cost of this proposal would be \$742,200, which is \$386,600 lower than DOA's recommendation. DFI indicates that it may be able to implement a form of manual ACH technology in place of the on-line form contained in the original request. In addition, this option incorporates a more abbreviated accounting process for accumulating and collecting monthly charges from large users.

If this proposal is adopted, DFI believes it would realize additional fee revenues of \$565,000 in 2001-02. With these additional revenues and \$742,200 in additional expenditure authority, the net impact on GPR-earned would be a decrease of \$177,200 in 2001-02.

### **Option of Hiring Additional Staff as a Substitute for Technology Enhancements**

DFI currently has 10.0 FTE positions dedicated to processing UCC filings and 3.0 program assistant positions funded by Act 10 through the current fiscal year to help the Department implement the revised filing system the act incorporates. An alternative to using technology enhancements to resolve the current filing backlog and accommodate the workload previously processed by the counties would be to add staff. Under this option, the Department would move forward with the system it currently has in place with the additional staff.

To process the filings previously handled at the county level without the requested system upgrades, DFI estimates that it would need 10.0 additional FTEs at a total cost of \$360,000 for the last half of 2001-02 and about \$560,000 on an annual ongoing basis thereafter. These estimates include salaries and fringe benefits, additional telephones, ten additional personal computers, rent for additional office space, and additional overhead costs associated with the new positions.

Compared to DOA's original recommendation, this option would reduce costs in the current biennium by \$208,800, but would entail increased costs in future years because the additional positions would be needed on an ongoing basis. This option would be more costly than DFI's scaled-back proposal over the remainder of the 2001-03 biennium and in future years. A potential advantage of this approach is that it would be workable even if the number of paper filings remains high.

Under this scenario, DFI believes it would receive \$556,600 in additional fee revenues in 2001-02. With these revenues and \$360,000 in additional expenditure authority, the net impact on GPR-earned would be an increase of \$196,000 in 2001-02. Compared to the other alternatives, GPR-earned would likely be reduced in future years due to the ongoing staff costs.

### **Across-the-Board Agency Cuts**

Because it is funded with program revenue, DFI was not subject to the 5% budget reductions most GPR-funded agencies absorbed under Act 16. Nor was the agency subject to the 3.5% reductions that were recently announced by the Governor. In order to improve the condition of the general fund, the Committee may wish to approve a reduction in DFI's general program operations appropriation by placing an amount of its choosing into unallotted reserve. A separate paper before the Committee (Agenda Item II) includes an option to implement a 5% reduction in 2001-02. If it wishes, the Committee could adopt the alternative in that paper and, in addition, impose a 5% reduction in 2002-03. The Committee may additionally consider imposing a 3.5% reduction, either independently of or in addition to a 5% reduction. A 3.5% reduction against the agency's 2001-02 budget would amount to \$531,400 and a 5% reduction would amount to \$759,100.

Since all balances remaining in the general program operations appropriation lapse to the general fund at the close of the fiscal year, placing dollars into unallotted reserve would ensure that the general fund would receive the amount placed in reserve over and above the amount that would be transferred at the close of the year under current law, which DFI now estimates at approximately \$23,400,000.

## **ALTERNATIVES**

### **UCC Lien Filing Request**

1. Approve DOA's recommendation to provide \$1,128,800 PR in 2001-02 in additional expenditure authority in DFI's general program operations appropriation [20.144(1)(g)] for information technology-related enhancements to the UCC lien filing system and to address overtime costs related to the current filing backlog. Under this alternative, DFI estimates that revenues from filing fees and on-line lien searches would increase by \$565,000 in 2001-02. With these additional fee revenues and \$1,128,800 in additional expenditure authority in 2001-02, the net impact on GPR-earned would be a reduction of \$563,800 in that year.

2. Approve the Department's revised proposal to provide \$742,200 PR in 2001-02 in additional expenditure authority in DFI's general program operations appropriation [20.144(1)(g)] for information technology-related enhancements to the UCC lien filing system and to address overtime costs related to the current filing backlog. Under this alternative, DFI estimates that revenues from filing fees and on-line lien searches would increase by \$565,000 in 2001-02. With

these additional fee revenues and \$742,200 in additional expenditure authority in 2001-02, the net impact on GPR-earned would be a reduction of \$177,200 in that year.

3. Deny DFI's request for technology enhancements. Instead, provide \$360,000 PR in 2001-02 and \$560,000 PR in 2002-03 for 10.0 FTE positions to resolve the current filing backlog and accommodate the workload previously processed by the counties. Under this alternative, DFI estimates that revenues from filing fees and on-line lien searches would increase by \$556,000 in 2001-02. With these additional fee revenues and \$360,000 in additional expenditure authority in 2001-02, the net impact on GPR-earned would be an increase of \$196,000 in that year. GPR-earned would likely be reduced in future years because the positions would be ongoing.

4. Deny the request.

**Across-the-Board Reduction**

5. In addition to any of the above-identified alternatives, reduce the agency's baseline budget by:

a. Placing \$759,100 PR into unallotted reserve in 2002-03 (5% reduction in the second year).

b. Placing \$531,400 PR into unallotted reserve in 2001-02 and in 2002-03 (3.5% reduction in each year).

Prepared by: Drew B. Larson

MO# \_\_\_\_\_

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
BAUMGART	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
FITZGERALD	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE \_\_\_\_\_ NO \_\_\_\_\_ ABS \_\_\_\_\_

FINANCIAL INSTITUTIONS

Section 16.515 Request for Supplemental Program Revenue Funding for  
Enhancements to Agency's Uniform Commercial Code Lien-Filing System

Motion:

Move to approve Alternative 2 and, in addition, reduce the agency's baseline budget in 2001-02 by \$177,200 PR by placing this amount into unallotted reserve.

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Note:

This motion would adopt DFI's scaled-back proposal for technology enhancements to its Uniform Commercial Code lien-filing system. It would provide DFI with \$742,200 PR in 2001-02 in additional expenditure authority in the Department's general program operations appropriation [s. 20.144(1)(g)].

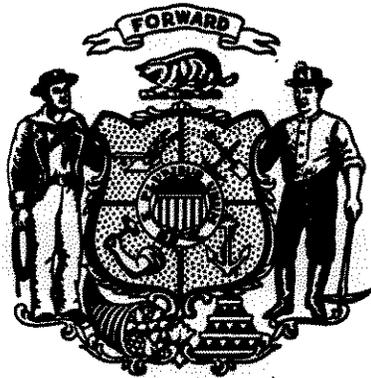
Under Alternative 2, DFI estimates that revenues from filing fees and on-line lien searches with the filing system would increase by \$565,000 in 2001-02. With these additional fee revenues, \$742,200 in additional expenditure authority and the requirement that \$177,200 PR be placed into unallotted reserve, no loss or gain to GPR-earned would result in 2001-02.

MO# \_\_\_\_\_

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
BAUMGART	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
FITZGERALD	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS \_\_\_\_\_

*END*



*END*

IV. Office of the Commissioner of Insurance – Clare Stapleton Concord, Administrator,  
Division of Administrative Services and Eileen Mallow, Assistant Deputy  
Commissioner

The agency requests an increase in expenditure authority of \$45,000 SEG in fiscal year 2001-02 and \$30,000 SEG in fiscal year 2002-03 for the local government property insurance fund's administration appropriation under s. 20.145(3)(u) to hire an actuary to review the fund's rate-setting methodology.

Governor's Recommendation

Approve the request.



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

IV

Scott McCallum, Governor  
Connie L. O'Connell, Commissioner

Wisconsin.gov

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October 5, 2001

Senator Brian Burke  
317- E Capitol  
P O Box 7882  
Madison WI 53707-7882

Representative John Gard  
308-E Capitol  
P O Box 8952  
Madison WI 53708-8952

REVISED

Re: 13.10 Request for Actuarial Services for Local Government Property Insurance Fund

Dear Senator Burke and Representative Gard:

The Office of the Commissioner of Insurance (OCI) on behalf of the Local Government Property Insurance Fund (Fund) requests a supplement under s. 13.10 of \$45,000 in FY 2002 and \$30,000 in FY 2003 in expenditure authority in s. 20.145(3)(u), the Fund Administration appropriation. The expenditure authority is being requested to cover the costs of hiring an actuarial firm to provide actuarial services to the Fund.

The purpose of the Fund is to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries, and motor vehicles. The Fund provides policy and claim service to the policyholders. Under s. 604.04(3), Stats., each insurance fund operated by the state, including this Fund, is required to bear all expenses associated with the administration of the Fund including salaries of persons who do work for the Fund and other expenses. There are currently no funds available in this appropriation for the services of an actuarial consultant.

#### **Revenue Source for the Appropriation**

The revenue to support this s.13.10 request comes from the Local Government Property Insurance Fund which is a segregated fund that insures local government property. The Fund has sufficient cash to support this request, but needs expenditure authority prior to entering into a contract. The cost of this contract will be included in rate development for future years.

#### **Background**

Under s. 604.04 (4), Wis. Stat., and in accordance with s. 604.04 (5), Wis. Stat., the Fund is authorized to join or subscribe to a rate service organization. For many years the Fund has contracted with Insurance Services Office (ISO), who provides this type of service for most of the property and casualty insurance industry. ISO has provided survey, quote and loss cost factors to the Fund for specific risks. The Fund has been able to generate adequate premiums and has consistently deviated from these rates by charging .47 (the multiplier) of the ISO indicated rate. The Fund also offers credits for certain loss prevention or reduction devices,

(sprinklers, alarms, etc.) offers dispersion credits up to 15% of the premium for entities with favorable loss experience, and offers premium reductions if Fund insureds accept a higher deductible.

Recent claim history has suggested that the Fund cannot continue with the current rating system. In each of the past 3 years, claims payments have exceeded premium earned. Over the last five years, the Fund's total insurance inforce (amount of property it insures against loss) has risen from \$18.8 billion to \$27.6 billion. During this time, the number of insureds has also increased from 1,046 to 1,133. The Fund had been able to negotiate a reinsurance contract with very favorable terms, enabling the Fund to collect \$17 million in reinsurance payments for premiums of \$2.5 million over a 3-year period. Beginning in 2001, the reinsurers demanded more reasonable terms and increased both premiums and retentions (meaning that the Fund is required to pay a greater amount of its losses). While Fund management realized that the favorable reinsurance program it had in place would not last forever, it also realized that increasing rates at a time the Fund was experiencing a positive net income would not be favorably received by its insureds. Based on both increased claims volume and changes in the reinsurance program, the Fund found it necessary to implement a 24% rate increase effective July 1, 2001. It has also announced plans to phase out the use of the multiplier to generate more premiums in the future.

In response, the Fund's Advisory committee, which is comprised of Fund policyholders, has requested that the Fund retain the services of an independent actuarial firm. The actuary would review the Fund's past claims experience, evaluate its current rating methodology, and assist with establishing appropriate rates and incurred but not reported (IBNR) loss reserves for the Fund. OCI agrees that this request is reasonable. An independent actuarial firm will also provide Fund insureds with the necessary actuarial rate justification they require when they discuss any premium increase with their respective local governmental units.

This request meets the statutory criteria in s.13.101 (3) and (4):

- 1) Without independent actuarial services, the Fund can not address concerns being voiced by its policyholders over the need for rate increases. And without this actuarial review, policyholders may turn to legislative inquiries to ask for such a remedy.
- 2) The Fund's administrative line can not absorb this additional cost.
- 3) The purpose for this supplemental appropriation is to cover administrative costs that each insurance fund operated by the state is required to bear associated with the administration of the Fund.

### Cost Analysis

Based on conversations with an actuarial firm, the actuarial services that will be needed can be divided into 4 components with estimates for each component:

Fiscal Year 2002:

Description of Services:	Estimates Range from:
1) Review six years of claims data	\$7,500 to \$12,500
2) Review Existing Rating Methodology	\$5,000 to \$10,000
3) Review and Establish IBNR reserves	\$7,500 to \$12,500
4) Prepare Report with Recommendations	\$5,000 to \$10,000
Total Fiscal Year 2002	\$45,000

Fiscal Year 2003:

Description of Services:	Estimates Range from:
5) Review claims data, additional year	\$5,000 to \$10,000
6) Review and Establish IBNR reserves	\$7,500 to \$10,000
7) Prepare Report with Recommendations	\$5,000 to \$10,000
Total Fiscal Year 2002	\$30,000

<b>Total Estimated Fiscal Biennial Costs</b>	<b>\$75,000</b>
--	-----------------

Without approval for this request, the Fund will not be able to enter into this contract. While the Fund will be able to continue to establish premiums, we will not be able to address the questions from the local units of government that are our policyholders.

OCI respectfully requests approval for \$75,000, budget authority for Actuarial Services for the Local Government Property Insurance Fund. Clare Stapleton Concord, Administrator, Division of Administrative Services, and Eileen Mallow, Assistant Deputy Commissioner, will represent OCI and the Fund at the meeting:

Sincerely,



Connie L. O'Connell  
Commissioner

cc: Clare Stapleton Concord  
Eileen Mallow  
Dan Bubolz

CLO:dcb

**WISCONSIN DEPARTMENT OF  
ADMINISTRATION**SCOTT McCALLUM  
GOVERNORGEORGE LIGHTBOURN  
SECRETARYOffice of the Secretary  
Post Office Box 7864  
Madison, WI 53707-7864  
Voice (608) 266-1741  
Fax (608) 267-3842  
TTY (608) 267-9629

**Date:** October 16, 2001

**To:** Members, Joint Committee on Finance

**From:** George Lightbourn, Secretary  
Department of Administration *George Lightbourn*

**Subject:** Section 13.10 Request from the Office of the Commissioner of Insurance for the Local Government Property Insurance Fund

**Request**

The agency requests an increase in expenditure authority of \$45,000 SEG in fiscal year 2001-02 and \$30,000 SEG in fiscal year 2002-03 for the local government property insurance fund's administration appropriation under s. 20.145(3)(u) to hire an actuary to review the fund's rate-setting methodology.

**Background**

The Local Government Property Insurance Fund was established to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries and motor vehicles. There are currently 1,133 entities insured worth a total of \$27.6 billion. The Fund provides policy and claim service to the policyholders through a contract with the AON Insurance Company. The Fund is required to bear all expenses associated with claims and with the administration of the Fund including salaries of those who work for the Fund, the cost of the administrative contract and other expenses. There is currently no expenditure authority available in this appropriation for the services of an actuarial consultant.

**Analysis**

When a governmental entity applies to the Office of the Commissioner of Insurance (OCI) for insurance coverage, OCI contracts with a rate service organization that evaluates the property, establishes a value and recommends a premium appropriate for the property. Because loss experience in the past had been low, OCI historically has charged the policyholder 47 percent of the premium rate recommended by the rate service organization. However, during the last three

years, losses have been significant and the Fund has not collected enough in premiums to cover claims costs. This has resulted in having to make major changes in the contract with the reinsurance company and, in turn, raising premium rates.

In the past, the Fund paid the first \$500,000 on a claim and the reinsurer would cover the balance. OCI has paid \$2.5 million on the reinsurer contract over the last three years and has recouped \$17 million in reinsurance payments. Beginning in 2001, the reinsurer demanded more reasonable terms and increased premiums, increased the amount that the Fund is required to pay up to \$2 million and established a \$2,500 deductible paid out of the Fund for each claim filed. Based on both increased claims volume and changes in the reinsurance contract, the Fund found it necessary to implement a 24percent rate increase effective July 1, 2001. It has also announced plans to phase out the use of the 47percent proration to ensure that sufficient premiums are generated to match loss experience.

In response to such a large premium increase, the Fund's advisory committee, which is comprised of Fund policyholders, has requested that the Fund retain the services of an independent actuarial firm. The actuary would review the Fund's past claims experience, evaluate its current rating methodology, and assist with establishing appropriate premium rates and appropriate loss reserves for claims incurred but not reported (IBNR). OCI agrees that this request is reasonable. An independent actuarial firm will also provide Fund policyholders with the necessary actuarial rate justification they require when they discuss any premium increase with their respective local governmental units.

Based on conversations with an actuarial firm, the cost estimates of the needed actuarial services are shown below.

Fiscal Year 2002:

<u>Description of Services:</u>	<u>Estimates Range from:</u>
Review six years of claims data	\$7,500 to \$12,500
Review existing rating methodology	\$5,000 to \$10,000
Review and establish IBNR reserves	\$7,500 to \$12,500
Prepare report with recommendations	\$5,000 to \$10,000
Total Fiscal Year 2002	\$45,000

Fiscal Year 2003:

<u>Description of Services:</u>	<u>Estimates Range from:</u>
Review claims data, additional year	\$5,000 to \$10,000
Review and establish IBNR reserves	\$7,500 to \$10,000
Prepare report with recommendations	\$5,000 to \$10,000
Total Fiscal Year 2003	\$30,000

Members, Joint Committee on Finance  
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This appropriation totals \$726,100 SEG in fiscal year 2001-02 and \$751,500 SEG in fiscal year 2002-03 and supports 1.07 FTE. While the supplies and service line includes \$639,900 in fiscal year 2001-02 and \$665,300 in fiscal year 2002-03, nearly all of the funds are dedicated to the contracts with the plan administrator and the rate service organization. Excluding these costs as well as the cost of internal and external administrative charges, such as WiSMART charges, leaves \$18,300 in supplies funding. Further, this appropriation spent 98percent of available funding in FY01 and only \$5,200 was left on the supplies line at the end of the fiscal year. This appropriation does not have the capacity to absorb the cost of the actuarial services that OCI wishes to purchase.

The source of revenue for this appropriation is policyholder premiums. The Fund currently has a balance of over \$30 million, including this request, which is certainly sufficient to support this request.

**Recommendation**

Approve the request.

Prepared by: Susan Jablonsky  
267-9546



## Legislative Fiscal Bureau

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November 5, 2001

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Insurance: Section 13.10 Request for Actuarial Services for the Local Government Property Insurance Fund -- Agenda Item IV

The Office of the Commissioner of Insurance (OCI), on behalf of the local government property insurance fund (LGPIF), requests that the appropriation under s. 20.145 (3)(u) be increased by \$45,000 SEG in 2001-02 and \$30,000 SEG in 2002-03 to fund ongoing contracted actuarial services for the LGPIF.

### BACKGROUND

The purpose of the LGPIF is to provide reasonably priced insurance coverage for tax-supported local units of government such as counties, cities, villages, school districts and library boards. The coverage protects government buildings, schools and libraries against all property losses except flood, earthquake, wear and tear, extremes in temperature, war, nuclear reaction and embezzlement. The fund also provides coverage for motor vehicle and inland marine property.

Policyholders pay insurance premiums for property covered by the fund. The LGPIF bears the risk of loss for property covered, subject to deductibles that currently range from \$500 to \$25,000 per claim. Under current law, if the LGPIF had insufficient assets to pay claims, the Department of Administration would be required to transfer funds from the general fund to pay the claims. The fund would then be required to repay the general fund as soon as assets are available. For this reason, the LGPIF must maintain a sufficient surplus to minimize the potential for a premium deficiency.

As of June 30, 2001, 1,133 local units of government participated in the LGPIF, including 71 counties, 296 school districts, 151 cities, 281 towns, 221 villages and 113 other units. By comparison, 1,099 units of government participated in the fund in 1997. In addition to the increase

in the number of participating units, the value of property insured against loss has risen significantly since 1997. In 1997, the program insured property with a value of approximately \$19.4 billion, compared to \$27.6 billion in 2001, an increase of 42%. The higher the value of insured property, the greater potential for loss. The LGPIF has experienced increasing claims over the past several years. The program incurred total losses of over \$12.7 million in 2001, compared with almost \$7.3 million in 1997.

The table below summarizes the growth in program participation, value of insured property, premium collections and incurred losses during each of the last five state fiscal years.

**Local Government Property Insurance Fund Program Activity  
Fiscal Years 1996-97 thru 2000-01**

	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>
Number of policies	1,099	1,138	1,127	1,113	1,133
Insured property value	\$19.4 billion	\$21.5 billion	\$22.5 billion	\$25.1 billion	\$27.6 billion
Premiums	\$9.5 million	\$9.8 million	\$10.1 million	\$10.4 million	\$11.3 million
Direct losses incurred	\$7.3 million	\$15.6 million	\$10.9 million	\$16.8 million	\$12.7 million

**ANALYSIS**

Despite the increases in property value insured under the program and claims increases over the last five years, until July 1, 2001, premium rates had not changed for at least six years. However, incurred losses have exceeded premiums for the last four years, as shown in the table. Part of the reason that the fund did not need to increase premium rates during this period was because of the favorable terms of the LGPIF's reinsurance policy. The reinsurance policy provides coverage for the program for claims that are over a certain level. In the past, the LGPIF's policy paid insurance claims over \$500,000 for a \$500,000 deductible paid from the fund, and paid out all claims once aggregate claims reached \$6 million. As a result, the fund was able to collect reinsurance payments of \$17 million at a cost to the fund of only \$2.5 million over a three-year period. However, recent claims experience has resulted in a reinsurance policy with less favorable terms. The new policy requires the fund to pay the first \$2 million on a claim, and the aggregate claim level for which the fund is responsible doubled to \$12 million. Because of these increased costs, the fund increased some rates by as much as 24% on July 1, 2001. OCI staff expect that premiums will continue to increase over the next few years.

In response to the recent rate increase, the LGPIF advisory committee, which is comprised of policyholders, has requested that the LGPIF retain the services of an independent actuarial firm. The actuary would review past claims experience, evaluate the current premium-setting methodology, assist with establishing new rates and help to establish a loss reserve level for losses incurred but not reported. The estimated cost of these services is \$45,000 the first year and \$30,000

annually for review on an ongoing basis. The costs of these actuarial services would be funded from segregated funds from the LGPIF.

Given that the policyholders have requested the actuarial services and are willing to fund the cost of these services from premiums that they pay, the Committee may wish to approve a funding supplement for this purpose.

Of the funding budgeted in 2001 Wisconsin Act 16 (the 2001-03 biennial budget act) for the administration of the LGPIF (\$726,100 SEG in 2001-02 and \$751,500 SEG in 2002-03), \$10,000 SEG annually is budgeted in unallotted reserve. OCI staff indicate that the agency does not intend to expend these unallotted funds. Therefore, if the Committee wishes to provide supplemental funding to enable OCI to purchase contracted actuarial services for the LGPIF, it could reduce the OCI request by \$10,000 SEG annually so that \$35,000 SEG in 2001-02 and \$20,000 SEG in 2002-03 would be provided for this purpose, and direct the DOA to transfer \$10,000 SEG annually from unallotted reserve to increase funding for supplies and services.

**ALTERNATIVES**

1. Approve OCI's request by increasing the appropriation under s. 20.145(3)(u) by \$45,000 SEG in 2001-02 and \$30,000 SEG in 2002-03 and annually thereafter, to enable OCI to contract with an actuary to review and analyze the LGPIF's program operations.

2. Increase the appropriation under s. 20.145(3)(u) by \$35,000 SEG in 2001-02 and \$20,000 SEG in 2002-03 and annually thereafter; and (b) direct DOA to transfer \$10,000 SEG annually within the LGPIF administration appropriation from unallotted reserve to supplies and services to fund the estimated cost of contracting with an actuary to review and analyze LGPIF's program operations.

3. Deny the request.

Prepared by: Carri Jackel

MO# Att 2

1	BURKE	Y	N	A
	DECKER	Y	N	A
	MOORE	Y	N	A
	SHIBILSKI	Y	N	A
	PLACHE	Y	N	A
	WIRCH	Y	N	A
	DARLING	Y	N	A
	ROSENZWEIG	Y	N	A
2	GARD	Y	N	A
	KAUFERT	Y	N	A
	ALBERS	Y	N	A
	DUFF	Y	N	A
	WARD	Y	N	A
	HUEBSCH	Y	N	A
	HUBER	Y	N	A
	COGGS	Y	N	A

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