Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2009 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 09-3135/1	Introduction Number SB-282

Description
Local government property insurance fund premiums

Fiscal Effect

State:

☐ No State Fiscal Effect
☐ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☒ Decrease Existing Revenues
- ☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
- ☐ Decrease Costs

Local:

☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs
   ☐ Permissive ☐ Mandatory
2. ☒ Decrease Costs
   ☐ Permissive ☒ Mandatory
3. ☐ Increase Revenue
   ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue
   ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☒ Towns ☒ Village ☒ Cities
   ☒ Counties ☒ Others Sewer, Fire, Utility, etc.
   ☒ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☒ SEG ☐ SEGS

Affected Ch. 20 Appropriations
20.145 (3) (v)

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

OCI 9/28/2009

LRB Number **09-3135/1**	Introduction Number **SB-282**	Estimate Type **Original**
Description Local government property insurance fund premiums		

Assumptions Used in Arriving at Fiscal Estimate

SB 282 requires OCI to reduce Local Government Property Insurance Fund (LGPIF) premiums for the period October 1, 2009 through September 30, 2010 by an amount equivalent to the amount paid for LGPIF premiums in 2008 or the amount of the October 1, 2009 to September 30, 2010 renewal premium, whichever is less. The renewal premium after the reduction, may not be reduced below zero and no refunds may be issued based on the amount of the premium reduction. For any current policyholders who did not pay a premium in 2008, it is presumed that they will not receive a premium reduction.

Overall Fund premiums collected from Fund insureds in 2008 total $22,162,261. Included in the 2008 premiums is $445, 773 of premium relating to 46 policyholders who subsequently elected not renew their Fund policy after 2008 and went with another insurer. For the fiscal note it is assumed these insureds would re-enter the Fund and be eligible for the premium holiday credit.

The overall amount of renewal premium projected during the October 1, 2009 to September 30, 2010 period relating to current Fund insureds that were also insured during calendar 2008 is estimated to be $21,024,000. While this represents an overall decline over 2008 total premium, it is not an across the board reduction in every entity's 2008 premium amount due to some insureds having more property insured or having their types of property insured change.

This bill will reduce or eliminate premiums for local government property insurance policyholders on a one-time basis. For many local governments participating in the fund their renewal premiums will be reduced to zero. For others their premiums will be greatly reduced but there will still be a premium due to the LGPIF.

Making insureds less sensitive to premium costs could result in insureds electing a lower policy deductible amount. This is because every insured would have an economic incentive to adjust its renewal premium to be at least equal to the 2008 premium reduction amount. Having a higher insured deductible is a good thing because not only does it reduce the amount of each loss the Fund has to pay but it also encourages better loss control practices by the insured if the insured retains a greater amount of each loss. While not every insured would likely resort to a lower, $500 deductible during the holiday premium period, if they did it is projected that the Fund's losses would increase by $4.5 million.

A reduction in Fund premium revenue of $22.1 million, when combined with projected losses and expenses is likely to reduce the Fund's surplus balance below $20 million using actuarial expected losses and expenses. The $20 million amount is critically important because it's the minimum balance the Fund must maintain per INS 6.72(1), which states no single risk assumed by any insurance company shall exceed 10% of surplus as regards policyholders. The fund retains the first $2 million per each loss occurrence which means its minimum surplus level must be $20 million.

Specifically, analysis prepared by OCI indicates that the Fund's current surplus balance of $41,157,000 would decline to $16,833,000- if the Fund collected no premium and pays actuarial expected losses and operating expenses totaling $24,822,000 and earns net investment income of $488,000. To repair surplus to the minimum $20 million level would require a rate increase of $3,167,000, or 15% using a projected renewal premium of $21,024,000.

The Fund's current surplus balance would have dipped to $13.9 million in the bad claims year (2008) or been $23 million in the very good claims year (2009) if actual 2008 and 2009 loss and operating expenses are used for modeling purposes. And to repair surplus from $13.9 million to the $20 million required level, would require a $6.1 million rate increase representing a 29% increase on a projected renewal premium level of $21,024,000.

It should also be noted that the Fund currently pays for excess of loss insurance (reinsurance) it purchases from the direct premiums it collects from its insureds. But without premium revenue this $5.2 million expense (based on most recent March 2009 renewal premium) will be paid out of current assets.

There are also certain implementation issues with SB 282 that will raise the estimated agency administrative cost. OCI will need to make determinations of 2008 premium payments and what should be included, develop communications for insureds, and work with contractual staff to ensure provisions of the bill are implemented correctly and appropriately. Additionally, the effective date (10/1/09) is currently set up for an extremely short time frame to implement the changes that SB 282 mandates. It is possible for these administrative costs to be absorbed into the agency's current budget.

Long-Range Fiscal Implications

For the past 8 years LGPIF premiums have been trending downward. SB 282 could affect this trend. A significant loss in revenue due to the premium holiday from the bill is likely to push the surplus below its required $20 million level. This will create a need to restore the surplus back to a $20 million position at a minimum in the following cycle, which could mean an increase in premiums by as much as 29%. Assuming no amendment in the bill's applicable timeframe (currently October 2009 through September 2010 policy renewals) the anticipated premium notice for policies renewing on or after October 1, 2010 would normally be sent at least 60 days prior to the renewal date to comply with statutory policy notice requirements. Additionally, the LGPIF risks losing investment income from the loss of surplus funds. LGPIF premiums have been fairly stable due to the amount of surplus on hand. Insurance loss costs that fluctuate from year to year will have a greater effect on premium instability with a reduced level of surplus. With a much smaller surplus, the Fund must necessarily raise premium rates to offset a large loss year, whereas a larger surplus insulates the Fund and its insureds from having to make up for a large loss in the very next year. If the Fund experiences several years having large losses, rate increases can be expected every year, just to keep the required minimum $20 million surplus. A premium holiday bill that did not reduce the surplus level below $20 million would enable the fund to estimate future premiums based on expected loss costs and lessen the need to immediately increase premiums to raise surplus to the required level.

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Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

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LRB Number **09-3135/1**		Introduction Number **SB-282**
Description Local government property insurance fund premiums		
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): Local Government Property Insurance Fund one time decrease in revenue of $22,162,000. Local goverments will see a similar decrease in costs due to premium reductions, although local governments with premiums less than 2008 premiums will see less savings than their 2008 payments.		
II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$**	**$**
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S	3,167,000	
TOTAL State Revenues	**$3,167,000**	**$**
NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	$	$3,167,000
NET CHANGE IN REVENUE	$3,167,000	$

Agency/Prepared By	**Authorized Signature**	**Date**
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