



Frank Lasee

WISCONSIN STATE SENATOR

FIRST SENATE DISTRICT



Senator Lasee's Testimony Senate Bill 437 – Local Government Property Insurance Fund

The Local Government Property Insurance Fund (LGPIF) is government-administered insurance pool meant to cover property and buildings owned by local units of government.

The LGPIF has been the preferred options for many local governments because the premiums have been lower than many other private market coverage. The problem is, the premiums have been held artificially low through subsidy by the state's general fund. This has left local governments exposed to insufficient coverage in the event of catastrophic claims much like occurred in the Milwaukee County court house fire. With this massive claim, the fund was completely drained leaving other municipalities without sufficient coverage.

A recent audit found the fund to be in debt to the tune over \$700,000.00 at the end of FE 2014 and has since only gotten worse. In September of 2015, the LGPIF had to dip into the general fund again to remain solvent. They needed \$2 million from state taxpayers on top of what they charged in premiums. As a result of the deficit, the premiums have skyrocketed and many municipalities have gone to the private market seeking savings and better coverage.

It is clear that not being held to the same standards as private insurers has caused an ongoing fiscal crisis in the fund and has increased risk and exposure to the local governments who thought they were covered. The perpetually insolvent fund must be rehabilitated to avoid exposing local governments to risk of insufficient coverage in the event of a large claim.

This bill would preserve the fund but hold it to higher standards. The Office of the Commissioner of Insurance will have the ability to more closely oversee the fund and ensure that a healthy balance will be maintained to protect both policy holders and taxpayers.

This is a good-government bill addressing a glaring problem. It maintains the fund's continuation for those municipalities that need it, ensures that proper coverage is in place, and safeguards taxpayers from further subsidy to this broken system.

Thank you for supporting this legislation.



John Nygren

WISCONSIN STATE REPRESENTATIVE ★ 89TH ASSEMBLY DISTRICT

**LGPIF Testimony
State Rep. John Nygren
January 5, 2016**

Thank you Chair Lasee and members of the Senate Committee on Insurance, Housing, and Trade for holding a public hearing on Senate Bill 437.

This bill will make essential changes to the rate regulations, assessment levies, and dividends for the local government property insurance fund. These changes are necessary to re-establish and maintain solvency of the fund. Senate Bill 437 ensures that the fund will be subjected to the same rate standards private insurance carriers are subjected to. In making this change, the fund must maintain a net premium to surplus ratio equivalent to the private market place. By applying these rate standards and premium to surplus ratio to the fund, it will alleviate the general fund from being on the hook to “loan” the fund money to cover claims in the event the fund has a negative balance, as it does currently.

This bill will also allow the fund, via the Office of the Commissioner of Insurance, to levy an assessment on policy holders if there is not adequate surplus in the fund. This will ensure that the fund maintains a healthy surplus. Importantly, this provision will alleviate the general fund’s responsibility unless a major catastrophe happens.

Finally, Under the Doyle administration, Commissioner Sean Dilweg granted a “premium holiday” or “dividend” to policy holders in the amount of \$12,000,000. This dividend contributed to the downward spiral the fund is currently experiencing. This bill will prevent the current or any future administration from granting such a dividend unless the fund has a healthy surplus. In the event that the fund is over capitalized and has a healthy surplus, it could pay a dividend to policy holders. This will ensure stabilization in that if the fund brought in too much money that it could return it to local units of government.

I appreciate the opportunity to testify before your committee today on this piece of legislation and welcome any questions you may have at this time.

Senate Bill 437 – Public Hearing

Insurance Carrier Premium Development

- Premium = Rate times Value
 - Value = building and business personal property values, revenues, etc.

Insurance Carrier Property Rating Factors – Construction, Occupancy, Protection, Exposures, Losses. Over 20 plus factors go into rate development.

- Examples of some rating factors are:
 - Construction
 - 6 categories from Concrete to Frame
 - Includes age of buildings and ages of roof and utilities
 - Occupancy
 - Varies based on use of building
 - Schools, offices, garage, repair, manufacturing, etc.
 - Includes unique exposures like cooking, storage, maintenance, painting, manufacturing, etc.
 - Protection
 - Fire Department Public Protection Class from PC 1 to PC 10. PC 1 is the best
 - Sprinklered versus non-sprinklered and are sprinklers adequate for the occupancy.
 - Adequate protection for special hazards
 - Alarms, guards, monitoring
 - Exposure
 - Area of country
 - Exposures within 200 ft of buildings
 - Loss History – current year and 3 prior years.
 - Policy terms and conditions including coverages and deductibles.

Premium to Surplus

- Target of \$2 premium to \$1 surplus (bank account)
- Majority of private carriers closer to \$1 to \$1.
- Measure of Financial Solvency.
- Ability to pay claims and handle catastrophic losses.