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Modify Appropriation Authority for Risk Management
(Administration -- General Agency Provisions)

[LFB 2017-19 Budget Summary: Page 30, #13]

CURRENT LAW

The Department of Administration (DOA) operates the state's risk management program, which provides insurance coverage for state property, liability, and worker's compensation losses. Each year, DOA charges risk management premiums to state agencies based on total program costs, claims history, and risk exposure. Funding for risk management administration, including an unallotted reserve, is $11,150,100 PR and 15.45 PR positions in 2016-17.

GOVERNOR

Modify DOA's appropriation for risk management administration from an annual appropriation to a continuing appropriation that is not sum certain. Under the bill and under current law, at the end of each fiscal year the unencumbered balance of the appropriation would be transferred from the risk management administration appropriation to the risk management costs appropriation.

Reduce estimated risk management administration expenditures by $557,500 PR annually from the appropriation's $2 million unallotted reserve, which provides for variability in excess insurance costs. Expenditures for administration would be estimated at $10,671,600 PR in 2017-18 and $10,677,400 PR in 2018-19.

DISCUSSION POINTS

1. The risk management program is self-funded to insure state agencies against property,

liability, and worker's compensation losses. Coverage for state agencies is funded by an annual premium based on prior losses, current exposure, and administrative expenses. The state also purchases excess property and excess liability coverage from private insurance carriers for losses that exceed self-funded coverage for the programs. Payment to private insurance carriers is funded from the risk management administration appropriation, which would be modified under the bill.

2. Expenditures for the risk management program are made from two appropriations: (a) risk management costs (a continuing PR appropriation under s. 20.505(2)(k) of the statutes); and (b) risk management administration (an annual PR appropriation under s. 20.505(2)(ki) of the statutes). The appropriation for risk management costs, from which transfers of revenue are made to the administration appropriation, receives assessment revenues from state agencies. The costs appropriation is used to pay claims for state property, liability, and worker's compensation losses.

3. In May, 2016, the Joint Committee on Finance approved an increase to the program administration unallotted reserve from $105,100 PR to $2,000,000 PR, for increased excess property insurance costs and to allow for variable excess insurance expenses in the future (an increase of $1,894,900). Of the increase, $561,100 was needed for 2015-16. The remaining $1.3 million was requested so that DOA could "meet any increased premium payments that may result from additional market volatility or an increase in utilization of the insurance." In 2015-16, administrative expenses totaled $9,445,300 PR (approximately $1.7 million less than the amount authorized). Expenditures were made for the following purposes: (a) salaries ($940,000); (b) fringe benefits ($416,500); (c) insurance ($6,682,900); and (d) other supplies, services, and transfers ($1,405,900).

4. The Executive Budget Book indicates that the Governor recommends "converting the appropriation from annual to continuing due to unpredictability of insurable events." Currently, expenditure authority for risk management administration is limited to the amount appropriated for the fiscal year, which includes the permanent $1,894,900 increase approved by the Committee in 2015-16, noted above. Under the bill, expenditures would be limited only to the amount of revenue transferred from the risk management costs appropriation to the administration appropriation. The amount transferred would also not be limited under the bill. With regard to anticipated expenses in the 2017-19 biennium, the administration indicates that "the Department is not estimating that costs will be higher than what is currently included in the budget request, although this may occur."

5. The recommended reestimate of -$557,500 PR annually is equal to the amount included in DOA's 2017-19 agency budget request under its 5% reduction plan. The Department indicated in the plan that the reduction represented 5% of the appropriation total ($11,150,100) and that the reduction would be to the appropriation's "unalloted reserve, which provides for variability in excess insurance costs." However, with regard to the reestimate under the bill, the administration indicates that "the Department does not plan on expenditure decreases occurring in fiscal years 2017-18 or 2018-19 at this time."

6. The risk management program appears to have sufficient expenditure authority at this time and the administration indicates costs are not expected to be any greater than the estimate under the bill, nor less than recent expenditures. However, given that excess insurance premiums are unpredictable and comprise the majority of risk management administrative expenses, the

Committee could choose to approve the Governor's recommendation to modify the appropriation to make it continuing, and reduce estimated expenditures by $557,500 PR annually. [Alternative 1]

7. On the other hand, the proposed modification could have an adverse effect on program costs with regard to excess insurance premiums or other administrative expenses. Specifically, under current law when the state negotiates with insurance companies over premiums, it does so with a limitation on expenditures because the appropriation from which excess insurance premiums are paid is annual. If proposed premiums would cause anticipated expenses to exceed the amount appropriated, the increase would be subject to approval by the Committee under passive review. Requiring the state to administer the program with a limited budget may have the effect of limiting price increases when it negotiates over excess insurance premiums. If the appropriation were modified so that it was continuing, an expenditure limit would not exist, which could impair the state's position in negotiations. Therefore, the Committee may wish to maintain the annual appropriation, thus limiting expenditure authority.

8. Further, given that DOA does not anticipate an increase or a reduction in expenditures, and recent expenditures have been significantly lower than the amount appropriated, it could be argued that a reduction in expenditure authority for the annual appropriation could be made. Therefore, the Committee could modify the provision to maintain the current law appropriation as annual while reducing expenditure authority by $557,500 PR annually (the 5% reduction amount under the bill). Under this alternative, remaining expenditure authority would total $10,671,600 PR in 2017-18 and $10,677,400 PR in 2018-19 (about $1.2 million more than was expended in 2015-16). If the Department anticipated a need for increased expenditure authority, it could submit a passive review request to the Committee under s. 16.515 of the statutes. [Alternative 2]

9. Finally, if the Committee wishes to maintain an expenditure limit while providing DOA more flexibility for fluctuating excess insurance premiums, consistent with the passive review approval in May, 2016, it could choose to delete the provision. The Department would continue to have an unallotted reserve of $2 million annually, from which unanticipated excess insurance premium increases could be funded. [Alternative 3]

ALTERNATIVES

1. Approve the Governor's recommendation to modify DOA's risk management administration appropriation from annual to continuing, and reduce estimated expenditures by $557,500 PR annually.

ALT 1	Change to Base	Change to Bill
PR	- $1,115,000	$0

2. Modify the provision to maintain the current law appropriation as annual while reducing expenditure authority by $557,500 PR annually.

ALT 2	Change to	
	Base	Bill
PR	- $1,115,000	$0

3. Delete provision.

ALT 3	Change to	
	Base	Bill
PR	$0	$1,115,000

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