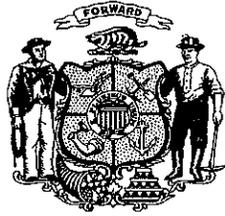


# State of Wisconsin

SENATE CHAIR  
**Alberta Darling**

317 East, State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882  
Phone: (608) 266-5830



ASSEMBLY CHAIR  
**John Nygren**

309 East, State Capitol  
P.O. Box 8593  
Madison, WI 53708-8953  
Phone: (608) 266-2343

## Joint Committee on Finance

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Alberta Darling  
Representative John Nygren

Date: December 5, 2018

Re: s. 16.515/16.505(2), Stats. Request

Attached is a copy of a request from the Department of Administration, received December 5, 2018, pursuant to s. 16.515/16.505(2), Stats.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Wednesday, December 26, 2018**, if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

AD:JN:jm



STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor  
Ellen Nowak, Secretary

**Date:** December 5, 2018

**To:** The Honorable Alberta Darling, Co-Chair  
Joint Committee on Finance

The Honorable John Nygren, Co-Chair  
Joint Committee on Finance

**From:** Ellen E. Nowak, Secretary *EN*  
Department of Administration

DEC 05 2018  
*J. Fincane*

**Subject:** s. 16.515/16.505(2) Request(s)

Enclosed are request(s) that have been approved by this department under the authority granted in s. 16.515 and s. 16.505(2). The explanation for each request is included in the attached materials. Listed below is a summary of each item:

AGENCY	DESCRIPTION	2017-18		2018-19	
		AMOUNT	FTE	AMOUNT	FTE
DOA 20.505(2)(k)	Risk management administration			\$1,412,500	

As provided in s. 16.515, the request(s) will be approved on December 28, 2018 unless we are notified prior to that time that the Joint Committee on Finance wishes to meet in formal session about any of the requests.

Please contact Kirsten Grinde at 266-1353, or the analyst who reviewed the request in the Division of Executive Budget and Finance, if you have any additional questions.

Attachments

**Date:** November 30, 2018  
**To:** Waylon Hurlburt  
**From:** Derek Sherwin  
**Subject:** Section 16.515

Attached is a s. 16.515 request analysis for your approval and processing. Listed below is a summary of each item:

**DOA RECOMMENDATION:**

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2017-18</u>		<u>2018-19</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
DOA 20.505(2)(ki)	Risk management administration			\$1,412,500	

**AGENCY REQUEST:**

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2017-18</u>		<u>2018-19</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
DOA 20.505(2)(ki)	Risk management administration			\$1,412,500	

WRH APPROVAL WRH (FORWARD TO GAIL TAPPEN)



STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor  
Ellen Nowak, Secretary  
Waylon Hurlburt, Administrator

**Date:** November 30, 2018

**To:** Ellen Nowak, Secretary  
Department of Administration

**From:** Derek Sherwin  
Executive Policy and Budget Analyst

**Subject:** Request Under s. 16.515 from the Department of Administration for increased expenditure authority to cover excess insurance premiums paid by the department.

**Request:**

The Department of Administration requests additional expenditure authority of \$1,412,500 PR in fiscal year 2018-19 for the risk management administration appropriation under s. 20.505(2)(ki).

**Revenue Sources for Appropriation(s):**

The program revenue appropriation for risk management administration under s. 20.505(2)(ki) is funded from revenue annually transferred from the risk management costs appropriation under s. 20.505(2)(k), which is funded from charges to state agencies for: (a) paying claims for losses of, and damage to, state property; (b) settlements of state liability; (c) state employer costs for worker's compensation claims of state employees; and (d) related administrative costs.

**Background:**

The Department of Administration manages a self-funded risk management program to insure state agencies against liability, property and worker's compensation losses. Coverage is provided to all state agencies, funded by an annual premium based on prior losses and current exposure. The state also purchases excess coverage from private insurance carriers to provide coverage for losses in excess of self-funded coverage for the property and liability programs.

The department estimates that excess insurance premiums will total \$8,705,000 during fiscal year 2018-19. Large state government losses during fiscal year 2016-17 and overall market pricing pressures have resulted in significant excess insurance premium cost increases.

Due to the volatility of excess insurance premiums and the unpredictability of insurable events, there have been several adjustments to the appropriation under s. 20.515(2)(ki) over the past several years. During fiscal year 2015-16, the Joint

Ellen Nowak, Secretary

Page 2

November 30, 2018

Committee on Finance approved a request under s. 16.515 that increased the expenditure authority in the appropriation by \$561,100 PR in fiscal year 2015-16 and \$1,894,900 PR in fiscal year 2016-17. The 2017-19 biennial budget reduced the unallotted reserve line by \$557,500 annually to \$1,442,500 annually after adopting the department's 2015 Wisconsin Act 201 reduction proposal, but did not convert the appropriation from annual to continuing as requested in the Governor's Executive Budget.

The department estimates that the cost for excess insurance premiums will constitute 71.8 percent of fiscal year 2018-19 costs in the appropriation under s. 20.505(2)(ki). The department has already transferred \$1,442,500 of unallotted reserve expenditure authority to the supplies and services line, which will partially offset the higher premium payments. This appropriation also funds other costs necessary for the administration of the risk management program, including the salary and fringe benefits costs for 15.45 FTE positions.

**Analysis:**

Premiums for excess property insurance have increased significantly since fiscal year 2012-13. Specifically, property losses near the end of fiscal year 2016-17, including a fire at the University of Wisconsin-Milwaukee Peck School of the Arts and various storm-related damage throughout the state, including significant damage at the University of Wisconsin-Stevens Point, have increased the use of the excess property insurance coverage. The state expects to recover approximately \$8.1 million during the current biennium from excess property insurance carriers for losses that occurred during fiscal year 2016-17. Nationwide property insurance market conditions have been impacted by recent catastrophic hurricane losses, which have contributed to increased excess property insurance premiums.

Premiums for excess liability insurance have also increased substantially over the past several fiscal years. Between fiscal years 2017-18 and 2018-19, excess liability insurance premium costs paid by the department have increased 90 percent; between fiscal years 2016-17 and 2018-19, these costs have increased 278 percent. Claims reported by the state and general market conditions have driven up liability insurance premium cost increases during recent years. For example, during fiscal year 2017-18, an \$18.9 million claim involving the Department of Corrections was settled and paid. In addition, nationwide trends attributed to several risk factors, including sexual misconduct claims and police brutality allegations, contributed to overall excess liability insurance pricing pressures.

The risk management program has already taken steps to mitigate the increases, including increasing the self-funded retention amount (the amount that must be used prior to use of excess insurance) from \$2.7 million to \$5 million and increasing the deductible from \$25,000 to \$100,000 during the previous biennium.

The department has also curtailed costs from this appropriation during fiscal year 2018-19, by reducing funding for property loss control activities and the safety

Ellen Nowak, Secretary

Page 3

November 30, 2018

initiative program, which provides grants to state agencies for safety projects. However, existing expenditure authority and reductions to current spending are insufficient to cover the increased premium costs.

Without an increase to expenditure authority in the risk management administration appropriation, the department would be unable to pay the premiums for its property and liability excess property insurance. This would expose the state to increased risk of significant loss in the case of accidents, fire and weather events that cause damage to state-owned property that exceed the self-funded risk management limits. The department would also be forced to renege on contracts that are funded through the appropriation.

**Recommendation:**

Approve the request.

Prepared by: Derek Sherwin  
266-3382



STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor  
Ellen Nowak, Secretary

**Date:** November 26, 2018  
**To:** Waylon Hurlburt, Administrator  
Division of Executive Budget and Finance  
**From:** Ellen Nowak, Secretary  
Department of Administration *EN*  
**Subject:** Request for Expenditure Authority Increase Under s. 16.515

REQUEST

The Department of Administration requests an increase of \$1,412,500 in PR expenditure authority in the Department's risk management administration appropriation under s. 20.505(2) (ki), Wis. Stats., in fiscal year 2018-19. The request is necessary to provide for increased excess insurance premiums paid by the Department for the FY19 policy period.

BACKGROUND

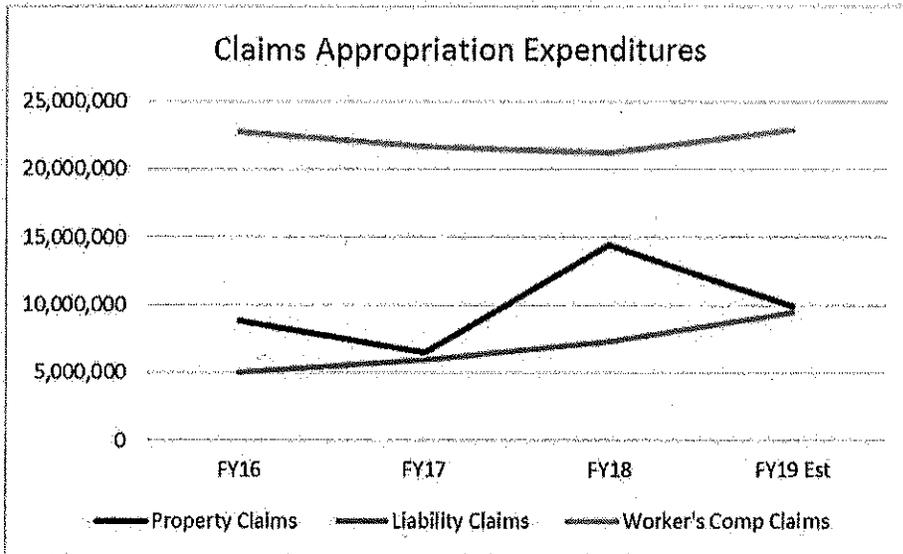
The Department operates a self-funded risk management program to insure against liability, property and worker's compensation losses. Coverage is provided to state agencies, funded by an annual premium generally based on prior losses and current exposure. Costs for the administration of the risk management program are paid from the appropriation under s. 20.505 (2) (ki), Wis. Stats., Risk management administration.

Costs in this appropriation include excess insurance premiums. This cost comprises 71.8% of the total FY19 estimated costs in the appropriation. Other costs in the appropriation include: salary and fringe for 15.45 FTE positions; the review/auditing of worker's compensation medical and other bills; DWD Worker's Compensation assessment of insurance carriers and self-funded employers; preventative safety projects conducted by state agencies; staff travel and training; IT/telecommunications; space rent; etc. FY19 expenditure authority and estimated expenditures for s. 20.505 (2) (ki), Wis. Stats., consist of the following:

Allotment Line	FY19 Exp Authority	FY19 Est Expenditures
0/Unallotted Reserve*	\$1,442,500	\$0
1/Salaries	\$913,200	\$951,100
3/Fringe	\$359,500	\$383,900
4/Supplies	\$2,112,200	\$2,049,900
4/Excess Insurance	\$5,850,000	\$8,705,000
Totals	\$10,677,400	\$12,089,900

\*Original line 0/Unallocated statutory expenditure authority of \$1,442,500 has been moved to line 4/Supplies.

Costs for property, liability and worker's compensation claims are paid from the appropriation under s. 20.505 (2) (k), Wis. Stats., Risk management claims. The authority of this continuing appropriation can be increased by the Department to provide for these costs, and is not the subject of this request.



Excess insurance coverage from private insurance carriers provides coverage for losses in excess of self-funded coverage for the property and liability programs.

The following are total excess insurance premiums paid by the Department since FY11. As indicated, the total cost for excess insurance premiums has increased substantially since FY11.

FY	Property Excess Insurance Exp	Liability Excess Insurance Exp	Total
FY11	\$2,450,322	\$600,700	\$3,051,022
FY12	\$2,649,645	\$582,520	\$3,232,165
FY13	\$2,708,607	\$651,231	\$3,359,838
FY14	\$4,686,945	\$682,766	\$5,369,711
FY15	\$4,728,726	\$682,766	\$5,411,492
FY16	\$5,866,197	\$691,159	\$6,557,356
FY17	\$5,365,008	\$742,871	\$6,107,879
FY18	\$5,294,292	\$1,474,652	\$6,768,944
FY19	\$5,899,766	\$2,805,187	\$8,704,953

Excess property insurance premiums are subject to general insurance market conditions, increases in the amount of state property covered (replacement cost), and significant losses and recoveries made from an excess carrier. Most recently, the state experienced several large losses late in FY17 that impacted the FY19 renewal. These losses include a fire at UW Milwaukee Peck School of the Arts Theatre, and various storm-related losses

throughout the state, including a significant loss at UW Stevens Point. During FY18 and FY19, the state expects to recover approximately \$8.1 million from its excess property insurance carriers for losses that occurred in FY17. The state's overall loss history, including these recent losses and general property insurance market conditions that have been impacted by recent catastrophic hurricane losses, have resulted in FY19 excess insurance premium increases.

The state experienced large increases in excess liability insurance premiums from FY17 to FY19. As indicated, excess liability insurance coverage costs were \$742,871 in FY17, \$1,474,652 in FY18 and \$2,805,187 in FY19. The Department's excess liability insurance carriers began adjusting pricing for the FY18 renewal based on several claims reported and general insurance market conditions. Most recently, a large claim involving the Department of Corrections was settled and paid during FY18 that impacted the FY19 excess liability renewal pricing. The significance of this \$18.9 million loss, combined with the public entity insurance market being relatively limited, impacted the resulting excess liability premium. Also impacting the premium were nationwide trends in police brutality allegations, incarceration liabilities, sexual misconduct claims and concussion injuries occurring in higher education sports programs. These trends contributed to overall market pricing pressure.

Previously, the Department increased the self-funded aggregate retention amount for the property program (i.e., the annual, aggregate amount which property losses must exceed for the use of excess insurance) from \$2.7 million to the current level of \$5 million and increased the maintenance deductible from \$25,000 to \$100,000 to mitigate increases to the excess property insurance premiums.

Although the amount of the excess property and liability insurance premiums may decrease if there is a period with no losses in excess of the self-funded retentions (\$4 million per occurrence for liability, and \$3 million per occurrence and \$5 million aggregate for property), the occurrence of losses and future premiums is unpredictable.

Currently, a total of \$7,292,500 in expenditure authority (\$5,850,000 in supplies and \$1,442,500 in unallotted reserve) is available for excess insurance premium costs. Amounts have historically been provided on the unallotted reserve line, reflecting the unpredictability of this cost. The requested increase of \$1,412,500 to the supplies line would provide a total of \$8,705,000 for excess insurance costs, the actual amount of this cost for FY19. The total available amount reflects an approved request under s. 16.515, Wis. Stats., that increased FY17 authority by \$1,894,900 and a 2017 WI Act 59 reduction of \$557,500.

#### JUSTIFICATION

The Department requests \$1,412,500 in FY19 expenditure authority on the supplies line of s. 20.505 (2) (ki), Wis. Stats., risk management administration, to fully provide for excess property and liability insurance premiums paid in FY19. The current authority available for excess property and liability insurance premiums is \$7,292,500. Significant property losses since FY12 and liability claims that have occurred since FY17 have resulted in premium increases and additional authority is needed in FY19 to provide for the cost of these premiums.

November 26, 2018

Page 4

The Department does not otherwise have FY19 expenditure authority in s. 20.505 (2) (ki), Wis. Stats., to provide for this increase, and reductions to current spending cannot be made to provide for the increase. The Department has curtailed costs, including reduced funding available for property loss control activities and the injury reduction program. These items are preventative in nature and targeted at reductions in future claims.

SUMMARY

The Department of Administration requests an increase of \$1,412,500 in fiscal year 2018-19 in the Department's risk administration appropriation under s. 20.505(2) (ki), Wis. Stats., to provide for increased excess liability and property insurance premiums that have resulted from significant property losses and liability claims. The increase is critical to continued operations of the risk management program, which provides for insurance against the state agency liability, property, and worker's compensation losses.

Thank you for your consideration of the Department's request. Should you have any questions or require additional information, please contact Colleen Holtan, the Director of the Department's Bureau of Financial Management, at (608) 266-1359.

cc: John Hogan, Department of Administration Deputy Secretary  
James Langdon, Division of Enterprise Operations Division Administrator  
Colleen Holtan, Director of the Bureau of Financial Management  
Jason Gates, Director of the Bureau of Risk Management