

# 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 8953  
Madison, WI 53708-8953  
Phone: (608) 266-2343

## JOINT COMMITTEE ON FINANCE

May 13, 2020

Secretary Joel Brennan  
Department of Administration  
101 East Wilson Street, 10<sup>th</sup> Floor  
Madison, WI 53707

Dear Secretary Brennan:

We are writing to inform you that the Joint Committee on Finance has reviewed the Department of Administration's request, originally received on April 23, 2020, pursuant to s. 16.515/16.505(2), Stats., for additional expenditure authority of \$2,269,000 PR-S in fiscal year 2019-20 and \$3,099,000 PR-S in fiscal year 2020-21 in its risk management administration appropriation under s. 20.505(2)(ki) for payment of excess insurance premiums.

The request for additional expenditure authority of \$2,269,000 PR-S for 2019-20 is approved. We appreciate your willingness to address concerns that members had with approving the 2020-21 adjustment at this time. Therefore, the request for increased expenditure authority of \$3,099,000 for 2020-21 is not approved. Rather, as you agreed, we would ask that the Department submit a request for 2020-21 funding once the amount of the additional expenditure authority for that year is known.

Sincerely,

  
ALBERTA DARLING  
Senate Chair

  
JOHN NYGREN  
Assembly Chair

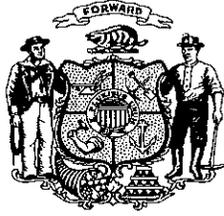
AD/JN/jm

cc: Members, Joint Committee on Finance  
Robert Lang, Director, Legislative Fiscal Bureau  
Brian Pahnke, Department of Administration

# State of Wisconsin

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ASSEMBLY CHAIR  
**John Nygren**

308 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: April 23, 2020

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

Attached is a copy of a request from the Department of Administration, received April 23, 2020, pursuant to s. 16.515/16.505(2), Stats.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Tuesday, May 12, 2020**, 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

Tony Evers, Governor  
Joel Brennan, Secretary

**Date:** April 23, 2020

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

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

**From:** Joel T. Brennan, Secretary  
Department of Administration

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

APR 23 2020

*St. Finance*

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	2019-20		2020-21	
		AMOUNT	FTE	AMOUNT	FTE
DOA 20.505(2)(ki)	Risk management administration	\$2,269,000	0	\$3,099,000	0

As provided in s. 16.515, the request(s) will be approved on May 14, 2020, 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



STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor  
Joel Brennan, Secretary  
Brian Pahnke, Administrator

**Date:** April 16, 2020

**To:** Joel Brennan, 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 \$2,269,000 PR-S in fiscal year 2019-20 and \$3,099,000 PR-S in fiscal year 2020-21 in the risk management administration appropriation under s. 20.505(2)(ki).

**Revenue Source for Appropriation:**

The program revenue appropriation for risk management administration under s. 20.505(2)(ki) is funded from revenue transferred annually 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, including the University of Wisconsin System, and is 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 excess insurance premiums paid by the department in fiscal year 2019-20 will total \$9,561,491. The department also estimates that excess insurance premiums incurred in fiscal year 2020-21 will total \$10,391,491. The department has \$7,292,500 budgeted in fiscal year 2019-20 for both property and liability excess insurance premiums. This estimate is based on the average annual increases in property and liability excess insurance premiums between fiscal years 2016-17 and 2019-20. Large state government losses that have occurred since fiscal year 2016-17 and overall market pressures have resulted in significant year-over-year excess insurance premium costs.

Due to the volatility of excess insurance premiums and the unpredictability of insurable events, there have been several adjustments to the appropriation under s. 20.505(2)(ki) in recent years. During fiscal year 2015-16, the Joint Committee on Finance approved a request under s. 16.515 that increased the expenditure authority in the appropriation by \$561,100 PR-S in fiscal year 2015-16 and \$1,894,900 PR-S in fiscal year 2016-17. In December 2018, the Committee approved another request under s.16.515 that increased the expenditure authority by \$1,412,500 PR-S in fiscal year 2018-19. In addition, the previous two gubernatorial budgets have included a provision that would have converted the appropriation from annual to continuing. In both instances, the Governor's recommendation was not adopted by the Legislature.

The cost for excess insurance premiums will constitute 73.3 percent of fiscal year 2019-20 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 for 16.45 FTE positions.

**Analysis:**

Premiums for excess property insurance have increased consistently since fiscal year 2010-11. The most considerable annual excess insurance premium costs have occurred during the past several fiscal years. Between fiscal years 2016-17 and 2019-20, state government excess insurance premiums have increased by 306 percent. State government experienced significant property losses during fiscal year 2018-19, including damage resulting from flooding in south central Wisconsin and the January 2019 polar vortex. The state expects to recover approximately \$4.6 million from excess property insurance carriers for losses related to the polar vortex. 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 2016-17 and 2018-19, excess liability insurance premium costs paid by the department increased 278 percent; premium costs have increased by an additional 7 percent between fiscal years 2018-19 and 2019-20. Claims reported by state government and general market conditions have driven up liability insurance premiums during recent years. For example, during fiscal year 2017-18, an \$18.9 million claim involving the Department of Corrections was settled and paid. Additional nationwide trends attributed to automobile liability, sexual misconduct claims and police brutality allegations have fueled overall increases in excess liability insurance premiums.

The risk management program has taken steps to mitigate the impact of excess property and liability insurance premium increases. Prior to the current fiscal year, the department increased the self-funded aggregate retention amount for the property program (the amount that must be used prior to use of excess insurance) from \$2.7 million to \$5 million and increased the maintenance deductible from \$25,000 to \$100,000. In addition, beginning in fiscal year 2019-20, the department increased the property deductible from \$3 million to \$4 million per occurrence and increased the

Joel Brennan, Secretary

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aggregate deductible from \$5 million to \$6 million. The department also increased the self-funded retention amount for the liability program from \$4 million per occurrence to \$5 million per occurrence during the current fiscal year. These adjustments have assisted in slowing the annual growth in premiums between fiscal years 2018-19 and 2019-20. However, existing expenditure authority and reductions to current spending are insufficient to cover the increased premium costs.

If the request to provide sufficient expenditure authority is denied, the department's excess insurance coverage could be canceled for the final two months of fiscal year 2019-20. If the excess insurance coverage is canceled, the state's self-funded insurance program would need to cover any potential liability and property claims that occur during May and June 2020. This would expose the state to increased risk of significant loss in the case of accidents, fire and weather that cause damage to state-owned property, as well as any liability losses related to the COVID-19 pandemic. This would also result in significantly increased self-funded insurance premiums assessed to state agencies and the University of Wisconsin System.

**Recommendation:**

Approve the request.

Prepared by: Derek Sherwin  
266-3382

**Date:** April 16, 2020  
**To:** Brian Pahnke  
**From:** Derek Sherwin  
**Subject:** Request under s. 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:**

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<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2019-20</u> <u>AMOUNT</u>	<u>FTE</u>	<u>2020-21</u> <u>AMOUNT</u>	<u>FTE</u>
DOA 20.505(2)(ki)	Risk management administration	\$2,269,000		\$3,099,000	

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**AGENCY REQUEST:**

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<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2019-20</u> <u>AMOUNT</u>	<u>FTE</u>	<u>2020-21</u> <u>AMOUNT</u>	<u>FTE</u>
DOA 20.505(2)(ki)	Risk management administration	\$2,269,000		\$3,099,000	

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BP APPROVAL SD (FORWARD TO GAIL TAPPEN)



**STATE OF WISCONSIN**  
**DEPARTMENT OF ADMINISTRATION**

Tony Evers, Governor  
Joel Brennan, Secretary

**Date:** April 13, 2020

**To:** Brian Pahnke, Administrator  
Division of Executive Budget and Finance

**From:** Joel Brennan, Secretary *Joel Brennan*  
Department of Administration  
DocuSigned by: E4417D74CC...

**Subject:** Request for Expenditure Authority Increase Under s. 16.515

REQUEST

The Department of Administration requests increases of \$2,269,000 PR and \$3,099,000 PR expenditure authority in fiscal years (FY) 2019-20 and 2020-21, respectively, in the Department's risk management administration appropriation under s. 20.505(2) (ki), Wis. Stats. The request is necessary to provide for continued excess property and liability insurance coverage for state agencies and the University of Wisconsin (UW) System. Current expenditure authority in the appropriation under s. 20.505 (2) (ki), Wis. Stats., is not sufficient to provide for the FY 2019-20 cost of excess insurance premiums, and the Department estimates it will also not be sufficient to provide for FY 2020-21 costs. Increases in insurance premium costs have continued to substantially increase over the past decade, and current expenditure authority has not been commensurately increased by the Department each year given the appropriation's sum certain structure.

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 and UW, 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.

Risk management appropriation costs include \$9,561,491 for excess insurance premiums, which comprises 73.3% of FY 2019-20 estimated costs. The remaining amount estimated for expenditures authorized from the appropriation include costs such as: salary and fringe for 16.45 FTE positions; the review/auditing of worker's compensation medical and other bills; Department of Workforce Development (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; and space rent. The following table summarizes the FY 2019-20 expenditure authority and estimated expenditures for s. 20.505 (2) (ki), Wis. Stats.:

Allotment Line	FY 2019-20 Expenditure Authority	FY 2019-20 Estimated Expenditures
0/Unallotted Reserve <sup>1</sup>	\$ 1,442,500	\$ 0
1/Salaries (including LTE)	\$ 990,100	\$ 1,063,300
3/Fringe	\$ 365,000	\$ 431,900
4/Supplies (excluding Excess Insurance Premiums)	\$ 2,120,600	\$ 1,980,500
4/Supplies (Excess Insurance Premiums) <sup>2</sup>	\$ 5,850,000	\$ 9,561,500
Totals	\$ 10,768,200	\$ 13,037,200

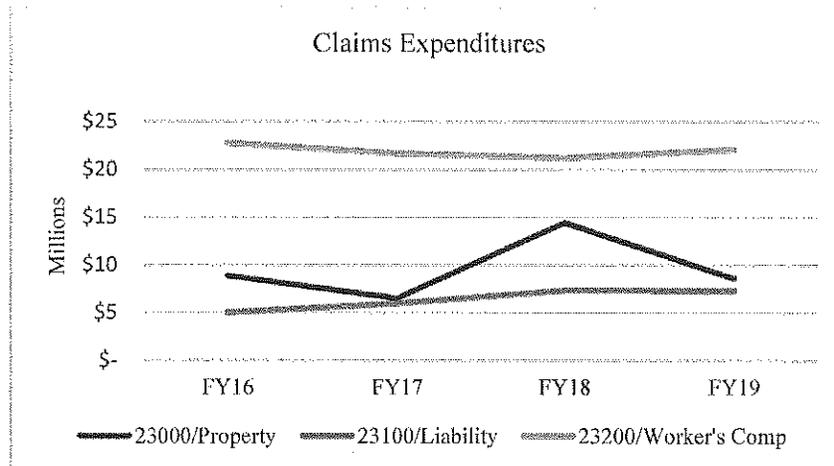
<sup>1</sup> Original line 0/Unallocated statutory expenditure authority of \$1,442,500 has been moved to line 4/Supplies.

<sup>2</sup> Expenditures provided for Excess Insurance Premiums are the actual FY 2019-20 costs.

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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, corresponding with the numeric appropriations 23000, 23100 and 23200. Claims expenditures from FY 2015-16 through FY 2018-19 are indicated in the chart below. The authority of this continuing appropriation can be increased by the Department to provide for these costs and, therefore, is not the subject of this request.



Excess insurance coverage from private insurance carriers provides coverage for losses in excess of self-funded limits for the property and liability programs. The following table shows the excess insurance premiums, by program and in total, paid by the Department since FY 2010-11. As the table shows, the total cost for excess insurance premiums has increased substantially since FY 2010-11.

FY	Property Excess Insurance Exp	Liability Excess Insurance Exp	Total
FY 2010-11	\$ 2,450,322	\$ 600,700	\$ 3,051,022
FY 2011-12	\$ 2,649,645	\$ 582,520	\$ 3,232,165
FY 2012-13	\$ 2,708,607	\$ 651,231	\$ 3,359,838
FY 2013-14	\$ 4,686,945	\$ 682,766	\$ 5,369,711
FY 2014-15	\$ 4,728,726	\$ 682,766	\$ 5,411,492
FY 2015-16	\$ 5,866,197	\$ 691,159	\$ 6,557,356
FY 2016-17	\$ 5,365,008	\$ 742,871	\$ 6,107,879
FY 2017-18	\$ 5,294,292	\$ 1,474,652	\$ 6,768,944
FY 2018-19	\$ 5,899,766	\$ 2,805,187	\$ 8,704,953
FY 2019-20	\$ 6,546,799	\$ 3,014,692	\$ 9,561,491

Excess property insurance premium costs are subject to increases in the amount of state property covered (replacement cost), significant losses and recoveries made from an excess carrier, and general insurance market conditions. In FY 2018-19, the state experienced several losses related to flooding in south central Wisconsin, four fire claims, and claims resulting from the 2019 polar vortex. The polar vortex claims are currently reserved (i.e., remaining to be paid as of FY 2019-20) at \$7.6 million, including the largest polar vortex claim of \$6.1 million for the UW Madison. With this loss, the state will meet its \$3 million per occurrence deductible and expects to recover \$4,562,600 from its excess insurance partners. Additionally, the excess insurance general market continues to be impacted by significant losses, including catastrophic hurricane and flood losses.

April 13, 2020

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Excess liability insurance premium costs are subject to significant losses and recoveries made from an excess carrier and general insurance market conditions. The state experienced a 306% increase in excess liability insurance premiums from FY 2016-17 to FY 2019-20, by an increase of \$2,271,821, from \$742,871. The Department's excess liability insurance carriers began adjusting pricing for the FY 2017-18 renewal based on several claims reported and general insurance market conditions. A large claim involving the Department of Corrections was settled and paid during FY 2017-18. This \$18.9 million loss, combined with the public entity insurance market being relatively limited, impacted FY 2018-19 excess liability renewal pricing and has also impacted the FY 2019-20 renewal pricing. Further impacting the premium were nationwide trends in police brutality allegations, incarceration liabilities, automobile liability losses, sexual misconduct claims and concussion injuries occurring in higher education sports programs.

The Department has worked to manage the cost of the excess insurance premiums and conducts extensive negotiations regarding this insurance coverage and associated premiums. 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. For FY 2019-20, the Department further increased the property program's per occurrence deductible from \$3 million to \$4 million, and the aggregate deductible from \$5 million to \$6 million. Similarly, for the liability program, the Department has increased the liability program's self-funded retention from \$4 million per occurrence to \$5 million per occurrence. These changes have assisted in mitigating the excess insurance premium increases.

Although the amount of the excess property and liability insurance premiums may decrease if there is a period with no state losses in excess of the self-funded retentions \$4 million per occurrence and \$6 million aggregate for property, and (\$5 million per occurrence for liability) and market conditions improve, the occurrence of losses and, therefore, future premiums is unpredictable.

In FY 2019-20, a total of \$7,292,500 in expenditure authority (\$5,850,000 in supplies and services and \$1,442,500 transferred from unallotted reserve) is available in the appropriation under s. 20.505 (2) (ki), Wis. Stats., for excess insurance premium costs. The requested increase of \$2,269,000 PR to the supplies and services line for FY 2019-20 would provide for the excess insurance costs. The Department requests \$3,099,000 PR for FY 2020-21, consisting of the FY 2019-20 increase of \$2,269,000 PR plus an additional \$830,000 PR, calculated based on the average annual increase in excess property and liability premiums from FY 2016-17 to FY 2019-20. The Department requests that the FY 2020-21 amount also be placed on the supplies and services line. Alternatively, the amount could be placed in unallotted reserve and available for transfer to the supplies and services line upon finalization of the FY 2020-21 excess insurance premiums and approval by the State Budget Office .

#### JUSTIFICATION

The Department of Administration requests increases of \$2,269,000 PR and \$3,099,000 PR expenditure authority in fiscal years (FY) 2019-20 and 2020-21, respectively, in the Department's risk management administration appropriation under s. 20.505(2) (ki), Wis. Stats., to fully provide for excess property and liability insurance premiums for FY 2019-20 and FY 2020-21. Alternatively, the FY 2020-21 request amount could be placed on the unallotted reserve line, and would be available once FY 2020-21 premiums have been established and per the approval of a request to the State Budget Office to move the funds to the supplies and services line. The FY2019-20 authority available for excess property and liability insurance premiums is \$7,292,500, which is \$2,269,000 less than the amount required. The insufficiency is the result of significant property losses since FY 2011-12, liability claims that have occurred since FY 2016-17, and general insurance market conditions. Therefore, additional expenditure authority is needed in FY 2019-20 and will also be needed in FY 2020-21 to provide for the cost of premiums.

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The Department does not otherwise have FY 2019-20 expenditure authority in s. 20.505 (2) (ki), Wis. Stats., to provide for the shortfall associated with premium increases and, due to the portion of the appropriation's costs the premiums represent, reductions cannot be made in amounts sufficient to provide for the increase.

The Department paid excess insurance premiums for FY 2019-20 in a total amount of \$9,561,491, of which \$287,327 was immediately expensed and \$9,274,164 recognized as prepaid insurance based on cancellation provisions of the underlying policies. Monthly, \$772,847 of the prepaid premium is expensed as the premium is earned by the insurer. As of March 31, 2020, there remained \$2,318,541 of prepaid premiums. If the request for additional expenditure authority to provide for the full, annual cost of the excess insurance is not approved, the Department estimates that the expenditure authority under s. 20.505 (2) (ki), Wis. Stat., would be exhausted and insufficient to provide coverage for May and June 2020, resulting in the potential cancellation of the Department's excess coverage for those periods. All other required administrative personnel and supplies and services expenditures that occur once the appropriation expenditure authority is exhausted would also cause expenditures under s. 20.505(2)(ki), Wis. Stats, to exceed the expenditure authority.

Should the Department need to cancel its excess insurance coverage, any losses that occur that would have been covered by excess insurance would be instead covered by the self-funded insurance program operated by the Department. Because the losses covered by excess insurance are significant (in excess of the self-funded retentions for the programs), commensurate increases for self-funded premiums assessed to state agencies and the UW would be required to provide for the same. For property-related claims, the increased amounts would be more immediately known because coverage is on a claims made basis (i.e., the period in which the loss occurs). For liability losses, the impact of the terminated coverage may not be known for months or years because liability coverage is on an occurrence basis (i.e., claims may be made for a loss event that occurs during the period at any time subsequent to the period) resulting in a perpetual period of increased exposure for the self-funded programs.

In summary, excess insurance coverage would be required to be canceled for the periods May through June 2020 in order to plan to cover the remainder of the year's administrative expenditures without forestalling or exceeding expenditure authority.

#### SUMMARY

The Department of Administration requests an increase of \$2,269,000 PR in fiscal year 2019-20 and \$3,099,000 PR in fiscal year 2020-21 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 and general insurance market conditions. The increase is critical to continued insurance coverage of the state, and for the operations of the risk management program providing insurance for 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: Chris Patton, 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