



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #231

Risk Management (Corrections -- Departmentwide)

[LFB 2015-17 Budget Summary: Page 118, #3]

CURRENT LAW

The state's risk management program is an insurance program for state agencies administered by the Department of Administration (DOA). Each year, DOA assesses state agencies risk management premiums based generally on total program costs, claims history, and risk exposure. Funding for the Department of Corrections' risk management includes insurance premiums for liability, property, and workers' compensation. Base funding for Corrections' risk management premiums is \$3,518,100 GPR, \$455,500 PR, and \$4,400 SEG.

GOVERNOR

Provide \$3,067,300 GPR and \$432,700 PR annually for increased premium costs associated with Corrections' risk management program.

DISCUSSION POINTS

1. The Department of Administration assesses risk management premiums to Corrections based on the following: (a) liability premiums are allocated based upon the prior eight years experience of claims costs; (b) property premiums are calculated through the application of property premiums to Corrections' property values, then adjusted based upon property losses; and (c) workers' compensation premiums are allocated based upon Corrections' percentage of the prior three years of paid losses.

2. In its agency budget request, the Department requested increased funding for risk management premiums assessed by DOA for liability, property, and workers' compensation. There

has been no adjustment to the Department's risk management funding since the 2005-07 biennial budget, although risk managements premiums have increased over time.

3. In a January 23, 2015, memorandum to agencies, the DOA Bureau of State Risk Management indicated that total premiums for all agencies would increase by 20.8% in 2014-15:

"FY14 proved to be a year that challenged the risk management program as we experienced larger than anticipated losses in two of three program areas. While the state's risk management program was able to effectively respond to these losses, the overall impact has been reflected in the current premiums...

The 20.8% overall FY15 premium increase is driven by the unexpected increase in workers' compensation costs and the continued large property losses. Our future projection assumes property losses returning to levels of around \$5 million in paid claims per year, our excess property insurance renewal minimizing increases as best possible and work comp totals are similar to those projected for FY15."

4. Corrections' base funding for risk management premiums is \$3,978,000 (\$3,518,100 GPR, \$455,500 PR, and \$4,400 SEG). While the Department has historically been able to fund higher risk management costs within its existing resources, the Department indicates: "Due to continued budget reductions and lapses the Department has reached the point where requesting additional funding, as allowed by a cost to continue budget, had to be done." The table below identifies Corrections' risk management premiums for liability, property, and workers' compensation since 2008-09.

<u>Fiscal Year</u>	<u>Liability</u>	<u>Property</u>	<u>Workers' Compensation</u>	<u>Total</u>	<u>% Increase</u>	<u>Difference from Base Funding</u>
2008-09	\$1,126,200	\$727,400	\$4,098,200	\$5,961,800		-\$1,983,800
2009-10	1,647,300	691,200	3,959,600	6,298,100	5.6%	-2,320,100
2010-11	1,321,200	710,300	5,067,200	7,098,700	12.7	-3,120,700
2011-12	2,196,400	780,700	4,440,200	7,417,300	4.5	-3,439,300
2012-13	2,742,500	803,400	4,115,400	7,661,300	3.3	-3,683,300
2013-14	2,053,600	1,008,700	4,376,500	7,438,800	-2.9	-3,460,800
2014-15	2,201,100	1,089,100	6,028,600	9,318,800	25.3	-5,340,800

5. The January 23, 2015, memorandum indicated that increases in workers' compensation costs were largely driven by increased medical costs on claims. Regarding property losses, there were several large losses experienced by the state, including fire loss at the State Labor Building in Madison (GEF 1), wind/storm damage at UW-Platteville, and flood loss at UW-Superior.

6. Considering the higher premium rates that have been required of the Department in recent years, the Committee may wish to approve the recommendation to provide additional funding. [Alternative 1] On the other hand, Corrections has historically managed to cover the risk management premiums utilizing its existing resources. [Alternative 3] Balancing the concerns of the Department regarding its ability to continue covering higher costs with overall fiscal concerns of

the state and the Department's prior ability to support higher assessments, the Committee could provide additional funding, but at a lesser amount [Alternatives 2a-2c] as indicated below:

<u>Percent of Recommendation</u>	<u>Annually</u>		<u>Biennial Change to Bill</u>	
	<u>GPR</u>	<u>PR</u>	<u>GPR</u>	<u>PR</u>
a. 75%	\$2,300,500	\$324,500	-\$1,533,600	-\$216,400
b. 50%	1,533,700	216,400	-3,067,200	-432,600
c. 25%	766,800	108,200	-4,601,000	-649,000

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$3,067,300 GPR and \$432,700 PR annually for increased premium costs associated with Corrections' risk management program.

2. Modify the Governor's recommendation to provide funding for increased risk management premiums by one of the following:

<u>Percent of Recommendation</u>	<u>Annually</u>		<u>Biennial Change to Bill</u>	
	<u>GPR</u>	<u>PR</u>	<u>GPR</u>	<u>PR</u>
a. 75%	\$2,300,500	\$324,500	-\$1,533,600	-\$216,400
b. 50%	1,533,700	216,400	-3,067,200	-432,600
c. 25%	766,800	108,200	-4,601,000	-649,000

3. Delete provision.

ALT 3	Change to Bill
GPR	- \$6,134,600
PR	- 865,400
Total	- \$7,000,000

Prepared by: Chris Carmichael