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

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## 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. Base funding for risk management administration, including an unallotted reserve, is $10,719,900 PR and 15.45 PR positions. In December, 2018, the Committee approved DOA's request to increase expenditure authority by $1,412,500 PR in 2018-19 to fund excess insurance premiums. The December, 2018, increase is not included in the program's base budget for the 2019-21 biennium.

## GOVERNOR

Modify DOA's appropriation for risk management administration from an annual appropriation to a continuing appropriation. As under current law, specify that 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. 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 bill does not limit the amount that may be transferred.

Increase estimated risk management administration expenditures by $1,412,500 PR annually for supplies and services. This is the amount approved by the Joint Committee on Finance in December, 2018, for the 2018-19 fiscal year.

**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. Excess insurance premiums are generally paid in July of each year.

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 administration appropriation's unallotted reserve, from $105,100 to $2,000,000, for increased excess property insurance costs and to allow for variable excess insurance expenses in the future. During 2017-19 budget deliberations, the Governor recommended modifying the administration appropriation from an annual to a continuing appropriation and reducing estimated expenditures by $557,500 PR annually (resulting in an unallotted reserve of $1,442,500). Under 2017 Act 59, the Joint Committee on Finance and the Legislature approved the Governor's proposal to reduce expenditure authority but maintained the appropriation as annual.

4. The administration indicates that excess insurance premiums have increased in recent years due to claims by the state and general market conditions. For example, several storms led to property losses throughout the state, including a significant loss at University of Wisconsin - Stevens Point in 2016-17. In addition, a claim of $18,900,000 involving the Department of Corrections was paid during 2017-18. According to the administration, property and liability insurance premiums have also increased due to national events, including natural disasters such as hurricanes, and "trends in police brutality allegations, incarceration liabilities, sexual misconduct claims, and concussion injuries."

5. As a result of increased excess insurance premium costs, DOA submitted a request for additional expenditure authority in 2018-19 under s. 16.515 of the statutes. On December 26, 2018, the Committee approved DOA's request for $1,412,500 PR to fund excess insurance premiums. The supplemental authority was limited to 2018-19 and is not included in the agency's base budget. The Governor recommends providing an amount equal to the 2018-19 supplement for the 2019-21 biennium.

6. In 2017-18, administrative expenses totaled $9,573,400 PR (approximately $1.1 million less than the amount authorized). Expenditures were associated with: (a) salaries ($860,500); (b) fringe benefits ($365,800); (c) insurance ($6,768,900); and (d) other supplies, services, and transfers ($1,578,200). Administrative expenditures are expected to total $12,089,900 in 2018-19, including

$8,705,000 for excess insurance premiums. The table below shows expenditures for excess insurance premium in the previous six years.

**Excess Insurance Premiums, 2013-14 to 2018-19**

| Fiscal Year | Property Excess Insurance Premiums | Liability Excess Insurance Premiums | Total Excess Insurance Premiums |
|---|---|---|---|
| 2013-14 | $4,686,900 | $682,800 | $5,369,700 |
| 2014-15 | 4,728,700 | 682,800 | 5,411,500 |
| 2015-16 | 5,866,200 | 691,200 | 6,557,400 |
| 2016-17 | 5,365,000 | 742,900 | 6,107,900 |
| 2017-18 | 5,294,300 | 1,474,700 | 6,769,000 |
| 2018-19 | 5,899,800 | 2,805,200 | 8,705,000 |

7. Currently, expenditure authority for risk management administration is limited to the amount appropriated for the fiscal year. The Division indicates that it has had to reallocate funds budgeted for other administrative purposes when premiums have exceeded budgeted amounts within the appropriation. The administration recommends converting the appropriation from annual to continuing due to the unpredictability of insurable events, which affect premium costs. 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.

8. Given that excess insurance premiums have fluctuated over the past years, comprise the majority of risk management administrative expenses, and have generally increased recently, the Committee could approve the Governor's recommendation to convert the appropriation from annual to continuing, and to increase estimated expenditures by $1,412,500 PR annually. [Alternative 1]

9. However, the proposed modification could have an adverse effect on program costs with regard to excess insurance premiums. 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 or limiting the amount of coverage provided. The Division indicates that current premium costs are based on the state's claim history, nationwide market conditions, and amount of coverage, rather than budgetary limitations. However, removing expenditure limitations could impair the state's position in negotiations or allow the Division to expand the amount and cost of coverage. Therefore, the Committee may wish to maintain the appropriation as annual, thus limiting expenditure authority.

10. Given recent increases in premium costs, the Committee could instead consider providing additional expenditure authority only. Therefore, the Committee could modify the provision to maintain the current law appropriation as annual while increasing expenditure authority

by $1,412,500 PR annually (the amount under the bill). Under this alternative, expenditure authority for the administration appropriation would total $12,132,400 PR annually ($42,500 more than estimated expenditures in 2018-19). [Alternative 2a] In addition, the Committee could consider increasing the appropriation's unallotted reserve by $2,000,000 PR annually (the approximate amount of the most recent increase in premiums) to allow for fluctuations in premiums. The use of the reserve would need to be approved administratively. [Alternative 2b]

11. It should be noted that any expenditure authority provided to the administration appropriation for supplies and services would not be limited to the payment of excess insurance premiums. Therefore, modifying the administration appropriation from annual to continuing could result in increased expenditures and assessments for other supplies and services provided under the appropriation. The Committee may wish to allow for the unpredictability of insurable events while specifying that authorized funds be allocated for premiums.

12. Therefore, the Committee could instead create a separate continuing appropriation for excess insurance premiums. Funding for the new appropriation would be provided by transfers from the risk management costs appropriation. The Committee could estimate expenditures at $7,292,500 PR annually under the continuing appropriation for excess insurance premiums (2018-19 premiums less the amount not included in base funding, $1,412,500) and reduce expenditure authority for the administration appropriation by an equal amount. [Alternative 3a] Alternatively, the Committee could estimate expenditures under the continuing appropriation for excess insurance premiums at $8,705,000 PR annually (the estimated amount under the bill) and reduce expenditure authority for the administration appropriation by $7,292,500 PR annually. [Alternative 3b]

13. Finally, if the Committee wishes to maintain an expenditure limit and current funding levels, it could take no action. Expenditure authority for the risk management administration would continue to be limited to $10,719,900 PR annually. [Alternative 4] Under this alternative, DOA would not have base funding sufficient to support the most recent increase in excess insurance premiums, which was approved by the Committee in December, 2018. However, if the Department anticipates a need for increased expenditure authority, it could submit a passive review request to the Committee under s. 16.515 of the statutes, as was done in December, 2018.

## ALTERNATIVES

1. Approve the Governor's recommendation to modify DOA's risk management administration appropriation from annual to continuing, and increase estimated expenditures by $1,412,500 PR annually.

| **ALT 1** | **Change to** | |
|---|---|---|
| | **Base** | **Bill** |
| PR | $2,825,000 | $0 |

2. Modify the provision to maintain the current law appropriation as annual. In addition:

a. Increase expenditure authority by $1,412,500 PR annually.

| ALT 2a | Change to | |
|---|---|---|
| | Base | Bill |
| PR | $2,825,000 | $0 |

b. Increase expenditure authority by $1,412,500 PR annually and increase the unallotted reserve by $2,000,000 PR annually.

| ALT 2b | Change to | |
|---|---|---|
| | Base | Bill |
| PR | $6,825,000 | $4,000,000 |

3. Create a continuing appropriation under DOA for risk management excess insurance premiums. In addition:

a. Estimate expenditures at $7,292,500 PR annually. Reduce expenditure authority for the risk management administration appropriation by $7,292,500 PR annually, including $1,442,500 PR in unallotted reserve.

| ALT 3a | Change to | |
|---|---|---|
| | Base | Bill |
| PR | $0 | - $2,825,000 |

b. Estimate expenditures at $8,705,000 PR annually. Reduce expenditure authority for the risk management administration appropriation by $7,292,500 PR annually, including $1,442,500 PR in unallotted reserve.

| ALT 3b | Change to | |
|---|---|---|
| | Base | Bill |
| PR | $2,825,000 | $0 |

4. Take no action.

| ALT 4 | Change to | |
|---|---|---|
| | Base | Bill |
| PR | $0 | - $2,825,000 |

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