EXHIBIT 2
DATE 1/15/13
HB 2

(2)

Department of Administration

Risk Management and Tort Defense Division

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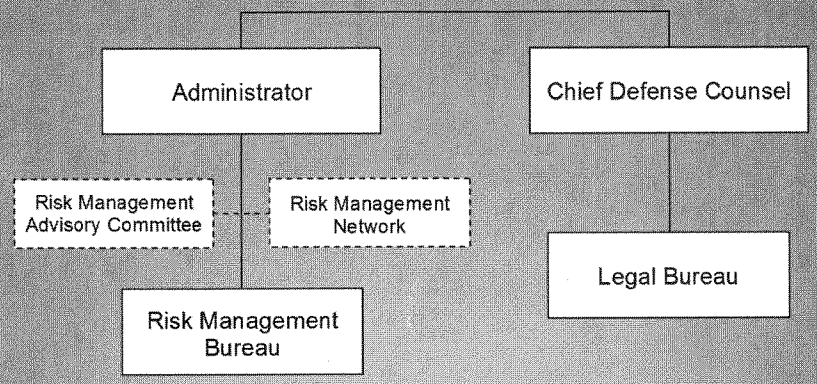

Total number of FTEs: 17.00 HB 2 FTEs: 0

Division Structure

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- Administer property/casualty insurance programs for 57 state agencies, 8 universities, and numerous boards, councils, and commissions.
- Insure 4,500 properties, 22,000 state and university employees, and 6,000 vehicles.
- Insure $220 million in revenue streams at state and university properties. Examples: parks, tuition, fees, bookstores, and cafeterias.
- Insure property values exceeding $4.7 billion. Insure fine art values exceeding $385 million.

Background

- Receive approximately 700 claims/lawsuits annually.
- Resolve approximately 750 claims/lawsuits annually.
- Provide risk management consulting and loss prevention training services to state and university clients.
- Investigate, evaluate, and resolve claims and tort lawsuits for state agencies and universities.

Background

- Operates an internal service fund.
- Four rates: Auto, Aviation, General Liability, and Property.
- Legislature authorizes funding for insurance in agency budgets each biennium.
- Insurance proceeds are used to pay claims, purchase insurance, and fund other operational expenditures.

Funding

- Awarded $297,000 in loss mitigation grants during FY 2012 for projects, equipment, or training to prevent or mitigate potential claims.
- Awarded $511,059 in insurance premium discounts during FY 2012 to state agencies and universities that participated in auto and property loss prevention programs.
- Provided 2,100 employees with loss prevention training during FY 2012 resulting in a reduction in auto claims.
- Achieved $153,000 in cost savings and more favorable insurance terms and conditions in a recent commercial insurance bid.

Key Accomplishments

- Resolved 71 lawsuits during the 2013 biennium (excluding Libby asbestos settlement).
  - 47 lawsuits were dismissed.
  - 18 lawsuits were settled.
  - 5 of 6 trials were won.
- Completed independent claims audit. Auditor stated, "This is my first audit in 25 years where there are no recommendations directed at staff performance.... MTD is providing a solid value to taxpayers through competence, ethical behavior, and fair treatment of claimants."

Michael Patterson
Patterson Management Group

Key Accomplishments

- Establish a reasonable loss reserve position.
- Educate state and university managers about cyber/data information security breaches. Maintain appropriate levels of funding and insurance to respond to cyber/data information security attacks.
- Re-design information systems to make them more user friendly and improve their reporting capabilities.

Upcoming Priorities

- Large, unpredictable losses that have arisen from high risk services have had a significant impact on operations costs.
- Catastrophic events worldwide have resulted in commercial insurance premium increases.
- Funding recommendations provided by the state's actuary, Towers Watson, were included in the proposed rates for the 2015 biennium.
- A HB 3 supplemental appropriation of $26.8 million addresses a $13 million unfunded liability and $13 million in lost reserves from the Libby asbestos settlement in FY 2012. Absent a supplemental appropriation, rates for each line of insurance would need to increase as much as 210%.
- There are four rates: auto, aviation, general liability, and property.

Budget Issue Background

Insures state and university vehicles for a wide range of uses including highway maintenance, law enforcement, construction, and employee travel. Liability risk is significant. Propose a 10% rate increase each year of the 2015 biennium.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2014 and FY 2015 $ Change from FY 2012
Auto	1,135,000	1,135,000	1,248,000	1,248,000	113,500

Auto Insurance

Factors Influencing the Proposed Rate Increase

- Catastrophic auto losses
- Lower investment earnings
- No rate increases in the past six years
- Vehicle repair costs, medical costs, adjuster fees, legal fees, and court costs have increased

Auto Insurance, *continued*

Insures state-owned aircraft and airports used for law enforcement, game management, fire fighting, and aerial topography. The cost of the state's commercial aviation insurance has declined. Propose a 20% rate reduction each year of the 2015 biennium.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2014 and FY 2015 $ Change from FY 2012
Aviation	212,451	212,451	169,961	169,961	(42,490)

Aviation Insurance

Insures state agencies for vital, high risk functions including prisons, hospitals, universities, highway maintenance/design, and law enforcement. Propose a 12% rate increase each year of the 2015 biennium.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2014 and FY 2015 $ Change from FY 2012
General Liability	6,750,000	6,750,000	7,575,000	7,575,000	825,000

General Liability Insurance

Factors Influencing the Proposed Rate Increase

- Catastrophic liability settlements/judgments and associated defense costs.
- Lower investment earnings.
- No rate increases in the past six years.
- Medical costs, legal fees, and court costs have increased.

General Liability Insurance, *continued*

Insures 4,500 state and university-owned and operated properties with an estimated replacement value of over $4.7 billion. Insures fine art market values of over $385 million. Propose a 20% rate increase each year of the 2015 biennium.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2014 and FY 2015 $ Change from FY 2012
Property	4,200,000	4,200,000	5,040,000	5,040,000	840,000

Property Insurance

Factors Influencing the Proposed Rate Increase

- Catastrophic losses to state properties and worldwide catastrophic events.
- Lower investment earnings.
- No rate increases in the past six years.
- Total insured building and content values have increased.

Property Insurance, *continued*

PROPERTY/CASUALTY INSURANCE RATE SUMMARY						
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2014 and FY 2015 $ Change from FY 2012	FY 2014 and FY 2015 % Change from FY 2012
Auto	1,135,000	1,135,000	1,248,000	1,248,000	113,500	10%
Aviation	212,451	212,451	169,961	169,961	(42,490)	-20%
General Liability	6,750,000	6,750,000	7,575,000	7,575,000	825,000	12%
Property	4,200,000	4,200,000	5,040,000	5,040,000	840,000	20%
Total	12,297,451	12,297,451	14,033,461	14,033,461	1,7363,010	14%

Summary