

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	17.00	17.00	17.00	17.00	17.00	17.00	0.00	0.00 %
Personal Services	1,447,559	1,324,232	1,552,812	1,554,712	2,771,791	3,107,524	335,733	12.11 %
Operating Expenses	6,916,017	7,058,264	7,492,438	7,479,093	13,974,281	14,971,531	997,250	7.14 %
Grants	520,113	0	520,113	520,113	520,113	1,040,226	520,113	100.00 %
Benefits & Claims	6,235,087	5,956,769	6,235,087	6,235,087	12,191,856	12,470,174	278,318	2.28 %
Transfers	0	124,999	0	0	124,999	0	(124,999)	(100.00)%
Total Costs	\$15,118,776	\$14,464,264	\$15,800,450	\$15,789,005	\$29,583,040	\$31,589,455	\$2,006,415	6.78 %
Proprietary Funds	15,118,776	14,464,264	15,800,450	15,789,005	29,583,040	31,589,455	2,006,415	6.78 %
Total Funds	\$15,118,776	\$14,464,264	\$15,800,450	\$15,789,005	\$29,583,040	\$31,589,455	\$2,006,415	6.78 %

Program Description

The Risk Management & Tort Defense Division administers a comprehensive plan of property/casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles. State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers & machinery, bonds (various), crime, cyber/information security, fine art, property, professional liability, and miscellaneous.

The state self-insures most commercial insurance risks under \$2,000,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), mobile/specialized equipment, and foster care risks. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

The division investigates, evaluates, and resolves tort claims (i.e. personal injury or property damage to third parties), and coordinates the adjudication and settlement of other claims involving property damage. This division operates under the authority of 2-9-101 through 2-9-305, MCA.

Program Highlights

<p>Risk Management and Tort Defense Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • The division is solely funded through proprietary funds generated through state agencies and the Montana University System premium payment • The executive proposes increases for insurance premiums to state agencies including: <ul style="list-style-type: none"> ◦ 30.5% for automobiles ◦ 20.4% for general liability ◦ 39.2% for property insurance
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> • Changes in assessments of vacancy savings increase premium costs charged to state agencies

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 24-Risk Management & Tort Defense Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02098 Insurance Proceeds - State Bld	0	0	2,403,022	2,403,022	100.00 %	
State Special Total	\$0	\$0	\$2,403,022	\$2,403,022	7.07 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06532 Agency Insurance Int. Svc.	0	31,589,455	0	31,589,455	100.00 %	
Proprietary Total	\$0	\$31,589,455	\$0	\$31,589,455	92.93 %	
Total All Funds	\$0	\$31,589,455	\$2,403,022	\$33,992,477		

Proprietary Funding

The majority of the division's budget is supported by proprietary funds that are derived from premium assessments on insurance risks paid by state agencies and the Montana University System. These funds are considered and approved as rates charged to other state agencies and are discussed in the "Proprietary Rate" section of the narrative.

Statutory Appropriations

About 7% of the division's funding is derived from statutory appropriations for the receipts of insurance reimbursements on state agency buildings.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	13,363,958	13,363,958	26,727,916	0.00 %
PL Adjustments	0	0	0	0.00 %	2,436,492	2,425,047	4,861,539	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$15,800,450	\$15,789,005	\$31,589,455	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	0	0	0.00	0	0	0	0
DP 99 - LEG. Present Law	0.00	0	0	0	0	0.00	0	0	0	0
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$0	\$0	\$0	\$0

DP 98 - LEG. Personal Services Present Law -

Because the division is funded through proprietary rates, the present law adjustment table does not include any changes for personal services.

DP 99 - LEG. Present Law -

Because the division is funded through proprietary rates, the present law adjustment table does not include any changes for operating costs.

Other Issues -

Proprietary Rates

Program Description

The Risk Management & Tort Defense Division (division) administers a comprehensive plan of property/casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles. State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers & machinery, bonds (various), crime, cyber/information security, fine art, property, professional liability, and miscellaneous.

The state self-insures most commercial insurance risks under \$2,000,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), mobile/specialized equipment, and foster care risks. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

The division investigates, evaluates, and resolves tort claims (i.e. personal injury or property damage to third parties) and coordinates the adjudication and settlement of other claims involving property damage.

Program Narrative

The State of Montana self-insures for risks including automobile, aviation, general liability, and property. State agencies and the Montana University System (MUS) pay premiums to the Risk Management and Tort Defense Division. Premium amounts for state agencies are based on the predicted costs of losses the state may incur as a result of claims and the operating costs of the division. Payments for claims and the operational expenses incurred by the division are expended from the proprietary fund. In addition, reserves for each insurance risk are maintained within the fund. Reserves are used for higher than anticipated claims costs or loss adjustment expenses and for incurred but not yet reported claims.

Costs for insurance in state agencies are increased by:

- \$0.7 million for automobile
- \$3.3 million for general liability
- \$7.5 million for property

Aviation insurance costs are unchanged from FY 2015.

Losses paid for automobile claims are almost three times higher in FY 2014 than in FY 2013 and have been generally increasing since FY 2010. In addition, expenses for automobile claims and related operational costs have exceeded earned premiums since FY 2010, which has reduced reserves for the program. Premium costs increase 30.5% to ensure costs for the program are provided for by the premiums.

Aviation costs continue to hold steady with no claims since FY 2012. Premiums remain at FY 2015 rates.

Premium revenues exceed general liability claims by approximately \$2.0 million in FY 2014. This funding is provided to rebuild reserves depleted for the payment of the Libby asbestosis settlement payment in FY 2012. Premiums increase 20.4% to cover increased operational costs, losses for general liability claims, and further strengthening of reserves.

Property insurance claims have increased, in part due to flooding and hail damage in recent storms. In addition, the deductible on the catastrophic property insurance doubled for FY 2014 and beyond from \$1.0 million to \$2.0 million, increasing costs to the reinsurance program. Losses for the program in FY 2014 were 33.9% above those in FY 2010. Expenses for losses and operational costs have exceeded premium revenues in FY 2013 and FY 2014. Premium costs increase 39.2% to ensure costs of the program are funded through premiums.

Expenses

Significant costs for the program as proposed by the executive and outlined in the budgeting system are shown in the figure below:

Department of Administration Risk Management and Tort Defense				
Category	Actual 2014	Appropriated 2015	Proposed 2016	Proposed 2017
Personal Services				
Salaries	\$1,106,810	\$932,938	\$1,176,282	\$1,176,902
Employee Benefits	<u>340,749</u>	<u>290,988</u>	<u>376,413</u>	<u>377,697</u>
Total Personal Services	1,447,559	1,223,926	1,552,695	1,554,599
Operating Expenses				
Other Services	6,603,883	5,607,478	7,163,508	7,156,039
Supplies & Materials	44,985	161,646	45,040	45,060
Communications	25,484	17,845	25,842	25,842
Travel	24,685	22,693	23,595	23,740
Rent	69,631	58,380	69,631	69,631
Utilities	7,070	5,781	7,190	7,262
Repair and Maintenance	4,059	3,188	4,059	4,059
Other Expenses	<u>136,220</u>	<u>181,253</u>	<u>153,573</u>	<u>147,460</u>
Total Operating Expenses	6,916,016	6,058,264	7,492,438	7,479,093
Grants				
Grants to Governmental Entities	<u>520,113</u>	<u>0</u>	<u>520,113</u>	<u>520,113</u>
Benefits and Claims				
General Liability	1,082,589	(1,398,814)	1,082,589	1,082,589
Physical Damage/non-Owned Vehicles	620,978	410,163	620,978	620,978
Automobile Liability - Claims	1,293,932	629,776	1,293,932	1,293,932
Cyber Claims	120,360	191	120,360	120,360
Self Ins. Property Deductible	3,106,211	6,011,946	3,106,211	3,106,211
Estimated Tort Claims Liability	0	0	0	0
Fidelity Bond	3,105	301,507	3,105	3,105
Inland Marine	5,208	0	5,208	5,208
Fine Arts	2,704	0	2,704	2,704
Airport Aircraft	<u>0</u>	<u>2,000</u>	<u>0</u>	<u>0</u>
Total Benefits and Claims	6,235,087	5,956,769	6,235,087	6,235,087
Grand Total	<u>\$15,118,775</u>	<u>\$13,238,959</u>	<u>\$15,800,333</u>	<u>\$15,788,892</u>

Personal services increased in FY 2016 when compared to what was provided in FY 2015 as the proprietary funds provided:

- Employee salary increases comparable to employees funded through HB 13
- State share contributions for employee health insurance included in HB 13
- Elimination of 4% vacancy savings without corresponding reductions in FTE

**LFD
ISSUE**Changes in Vacancy Savings Result in Personal Service Increases

As discussed in the agency summary, proprietarily funded programs were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs. As a result, the division's proprietary program personal services costs increased by about \$62,000 each year of the biennium.

A review of the positions within the division shows that all of the positions were filled for a portion of the year. 2.00 FTE, a financial specialist and administrative assistant were filled 85% and 65% of the year respectively. As there are not obvious vacancies in the program the legislature may wish to consider assessing vacancy savings to offset the increases in personal services.

Legislative Option

If the legislature wishes to mitigate the impact of higher personal services costs it may assess vacancy savings to permanent proprietarily funded positions in the division to reduce total costs of the programs.

Operating expenses changes between FY 2014 and FY 2016 include two primary adjustments:

- Other services include \$0.7 million in additional commercial insurance premiums. It should be noted that FY 2014 actuals were \$0.5 million higher than anticipated in the 2015 biennium budget
- Increases in other expenses are for adjustments to indirect administrative costs for the Director's Office and statewide indirect costs

Benefits and claims are unchanged from FY 2014 actual costs.

Revenues

Montana self-insures its property via this program, and so all state agencies pay insurance premiums to the Risk Management and Tort Defense Division. Depending on the type of property owned and the agency's claims history, insurance premiums paid by agencies can vary. The 2017 Biennium Report on Internal Service and Enterprise Funds is shown on the following page.

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Risk Management & Tort Defense			
	Fund	Fund Name					
	06532	Agency Insurance Int. Svc.					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		11,736,438	11,783,758	13,886,428	13,926,531	17,688,161	17,688,161
Revenue A		27,923	13,526	23,869	7,000	7,000	7,000
Revenue B		2,449	36	27	-	-	-
Revenue C		60	226	14	-	-	-
Total Operating Revenues		11,766,870	11,797,546	13,910,338	13,933,531	17,695,161	17,695,161
Expenses:							
Personal Services							
Other Operating Expenses		43,951,107	10,054,095	14,593,984	13,148,968	14,247,638	14,234,293
Total Operating Expenses		44,855,646	11,014,709	15,612,712	14,473,200	15,800,450	15,789,005
Operating Income (Loss)		(33,088,776)	782,837	(1,702,374)	(539,669)	1,894,711	1,906,156
Nonoperating Revenues:							
Other Revenue A		120,542	61,952	61,321	182,000	182,000	182,000
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		120,542	61,952	61,321	182,000	182,000	182,000
Income (Loss) Before Contributions and Transfers		(32,968,234)	844,789	(1,641,053)	(357,669)	2,076,711	2,088,156
Transfers In							
Transfers Out		3,493,765	13,563,564	1,201,511	450,000	1,400,000	1,400,000
Change in Net Position		(29,608,209)	14,360,207	(440,867)	92,331	3,476,711	3,488,156
Beginning Net Position - July 1		13,177,490	(16,430,719)	(2,070,512)	(2,511,379)	(2,419,048)	1,057,663
Change in Net Position		(29,608,209)	14,360,207	(440,867)	92,331	3,476,711	3,488,156
Ending Net Position - June 30		(16,430,719)	(2,070,512)	(2,511,379)	(2,419,048)	1,057,663	4,545,819
Net Position (Fund Balance) Analysis							

Budget authority to pay insurance premiums is a fixed cost item in the agency's budgets. The statewide fixed cost in the executive budget increases from the 2015 biennium due to increases in all but aviation risks. Increases from FY 2015 by insurance risk are shown below.

Department of Administration Risk Management and Tort Defense Division Changes to Premium Costs for State Agencies				
	Actual FY 2015	Increases FY 2016	Increases FY 2017	% Change
Insurance Risk				
Auto/Comp/Collision	\$1,139,497	\$358,703	\$358,703	31.48%
Aviation	169,961	0	0	0.00%
General Liability	8,088,660	1,631,340	1,631,340	20.17%
Property/Miscellaneous	<u>4,528,413</u>	<u>1,771,587</u>	<u>1,771,587</u>	<u>39.12%</u>
Total	\$13,926,531	\$3,761,630	\$3,761,630	27.01%

It should be noted that the executive is not projecting any increased risk in FY 2017.

As shown, the executive proposes to increase insurance costs to state agencies by \$3.8 million each year of the biennium or 27% when compared to FY 2015. Premiums for the 2017 biennium are apportioned based upon exposure and uniform reductions in loss experience as follows:

- Automobile – comprised of two separate components: 1) comprehensive and collision based upon total values of reported vehicles; and 2) auto liability premium based on agency losses and number of vehicles reported
- Aviation – allocated to those agencies that have aircraft based upon charges from commercial insurance carriers for each aircraft, depending on the year, make, model, and value of the aircraft. Airport premium is apportioned to those agencies that have airports based upon the number of airports
- General liability – comprised of commercial coverage, which is based on commercial coverage negotiated with commercial insurance carriers and self-insurance for those risks that are not insurable through commercial coverage
- Property – allocated to each agency based on its percentage of reported exposures (e.g. building replacement cost values, boilers and machinery, etc.)

LFD COMMENT In addition to the rate increases RMTD has included a request for \$13.4 million in general fund in the supplemental appropriation bill. According to RMTD the fund may incur unfunded liabilities without this additional appropriation. The 2017 Report on Internal Service and Enterprise Funds for this account, prepared by RMTD, does not include the supplemental appropriation as a revenue. As shown in the figure on the previous page, the account is estimated to have a fund balance of \$4.5 million at the end of FY 2017 without the supplemental appropriation.

For further information on the specific risks insured by the program see the Appendix for the Department of Administration. All four risks insured by the state are funded through the agency insurance internal service account in the internal service fund. A summary of the activity in the fund is provided on the previous page.

Proprietary Rates

For the 2017 biennium the following rates are proposed by executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information						
	Actual FY12	Actual FY13	Actual FY14	Actual FY15	Budgeted FY16	Budgeted FY17
Fee Description:						
Auto/Comp/Collision	1,031,347	1,037,665	1,174,091	1,139,497	1,498,200	1,498,200
Aviation	212,451	212,451	173,466	169,961	169,961	169,961
General Liability	6,750,000	6,750,000	8,008,078	8,088,660	9,720,000	9,720,000
Property/Miscellaneous	3,733,020	3,783,090	4,521,541	4,528,413	6,300,000	6,300,000
Total	11,726,818	11,783,206	13,877,176	13,926,531	17,688,161	17,688,161

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.