

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Legislative Budget 2016	Legislative Budget 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	8,235,087	8,235,087	12,191,856	16,470,174	4,278,318	35.09 %
Transfers	0	124,999	0	0	124,999	0	(124,999)	(100.00)%
Total Costs	\$15,118,776	\$14,464,264	\$17,800,450	\$17,789,005	\$29,583,040	\$35,589,455	\$6,006,415	20.30 %
Proprietary Funds	15,118,776	14,464,264	17,800,450	17,789,005	29,583,040	35,589,455	6,006,415	20.30 %
Total Funds	\$15,118,776	\$14,464,264	\$17,800,450	\$17,789,005	\$29,583,040	\$35,589,455	\$6,006,415	20.30 %

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

Risk Management and Tort Defense Division Major Budget Highlights
<ul style="list-style-type: none"> • The division is solely funded through proprietary funds generated through premiums paid by state agencies and the Montana University System • The legislature increased insurance premiums to state agencies including: <ul style="list-style-type: none"> ◦ 30.5% for automobiles ◦ 33.8% for general liability ◦ 39.2% for property insurance • Higher claim costs and depleted reserves are driving the increases

Program Narrative

The legislature provided \$6.0 million in general fund supplemental funding for FY 2015 for the Risk Management and Tort Defense Division. The funding is to shore up depleted reserves for the self-insurance funds. Higher than anticipated claim costs for automobiles, property, and general liability contributed to the reduction in reserves.

Funding

The following table shows 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	2,400,000	2,400,000	100.00 %	
State Special Total	\$0	\$0	\$2,400,000	\$2,400,000	6.32 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06532 Agency Insurance Int. Svc.	0	35,589,455	0	35,589,455	100.00 %	
Proprietary Total	\$0	\$35,589,455	\$0	\$35,589,455	93.68 %	
Total All Funds	\$0	\$35,589,455	\$2,400,000	\$37,989,455		

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

Less than 10% 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	75.10 %
PL Adjustments	0	0	0	0.00 %	4,436,492	4,425,047	8,861,539	24.90 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$17,800,450	\$17,789,005	\$35,589,455	

Present Law Adjustments

The "Present Law Adjustments" table shows the adopted changes from the FY 2015 legislative appropriation. Each is discussed in the narrative that follows.

	Fiscal 2016					Fiscal 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 700 - Proprietary Fund Adjustments	0.00	0	0	0	4,436,492	0.00	0	0	0	4,425,047
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$4,436,492	0.00	\$0	\$0	\$0	\$4,425,047

***Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 700 - Proprietary Fund Adjustments -

The legislature approved proprietary rates for this division.

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 \$2.0 million 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
- \$5.6 million for general liability
- \$3.5 million for property

Aviation insurance costs are unchanged from FY 2015.

Losses paid for automobile claims were 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.

General liability premiums increase 33.8% to cover increased operational costs, losses for general liability claims, and further strengthen 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. The legislature increased premiums 39.2% to ensure costs of the program are funded through premiums.

Proprietary Rates

For the 2017 biennium the following rates were adopted by the legislature. 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	10,824,476	10,824,476
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	18,792,637	18,792,637

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.