

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 and machinery, bonds (various), crime, fine art, property, professional liability, and miscellaneous. The state self-insures most commercial insurance risks under \$1,000,000 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 Highlights

Risk Management & Tort Defense Major Budget Highlights
<ul style="list-style-type: none"> ◆ The division is solely funded through proprietary funds generated through state agencies and the Montana University System premium payments ◆ The executive proposes to increase insurance costs to state agencies by \$2.3 million each year of the biennium or 19.7 % ◆ The executive is requesting \$26.8 million in the supplemental bill (HB 3) to replenish the fund following payments in the Libby asbestos lawsuit

Program Discussion

The state of Montana self-insures for risks including automobile, aviation, general liability, and property. State agencies and the Montana University System pay premiums to the Risk Management and Tort Defense Division (division). General liability claims include settlements of lawsuits in which the state is found at fault. In September 2011 Judge Sherlock approved a \$43 million settlement with the victims in Libby who had been impacted by asbestos. \$26.8 million of the settlement was paid from the State Property/Casualty Insurance Fund (fund).

The effect the settlement payment of \$26.8 million for Montana asbestos victims had on the fund was that it:

- Eliminated reserves for all insurance risks for FY 2012, not only general liability but automobile, aviation, and property
- Reduced assets in the account to \$3.5 million at the end of FY 2012
- Created an unfunded liability of (\$17.1) million at FYE 2012

In addition a large hail storm in Bozeman resulted in high property claims for the state buildings in the area, most notably the campus of the Montana State University.

Premium amounts for state agencies are determined based on the predicted costs of losses the state may incur as a result of claims and the costs for operating the division. Payments for claims and the operational expenses incurred by the division are expended from the 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. The Governor has included \$26.8 million in the supplemental bill (HB 3) to pay the state's settlement costs on the Libby asbestos case.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Risk Management & Tort Defense							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$0	\$0	\$900,000	\$900,000	3.4%		
02098 Insurance Proceeds - State Bld	\$0	\$0	\$900,000	\$900,000	3.4%	2-17-105	Direct
Proprietary Total	\$0	\$25,711,794	\$0	\$25,711,794	96.6%		
06532 Agency Insurance Int. Svc.	\$0	\$25,711,794	\$0	\$25,711,794	96.6%		
Total All Funds	\$0	\$25,711,794	\$900,000	\$26,611,794	100.0%		
Percent - Total All Sources	0.0%	96.6%	3.4%				

Proprietary Funding

The majority of the division 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 charges to other state agencies and are discussed in the “Proprietary Rates” section of the narrative.

Statutory Appropriations

Less than 20% of the division’s funding is derived from statutory appropriations for the receipts of insurance reimbursements on state agency buildings.

Proprietary Rates

Program Description

The Risk Management and Tort Defense Division administers a comprehensive plan of property and casualty insurance protection on behalf of state government.

Program Narrative

Expenses

Significant costs for the program are for:

- o Personal services of \$2.4 million for 17.00 FTE over the biennium
- o Operating expenses of \$11.8 million over the biennium including
 - o \$5.6 million for commercial insurance
 - o \$3.4 million for legal fees and court costs
 - o \$0.5 million for application development of computer systems
- o Benefits and Claims costs estimated at \$11.5 million over the biennium

Revenues

Montana self-insures its property via this program 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.

Budget authority to pay insurance premiums is a fixed cost item in the agencies’ budgets. The statewide fixed cost in the executive budget increases from the 2013 biennium due to an increases in all insurance risks. Increase by insurance risk are shown in Figure 27.

Figure 27

As shown, the executive proposes to increase insurance costs to state agencies by \$2.3 million each year of the biennium or 19.7 %. Premiums for the 2015 biennium are apportioned based upon exposure and uniform reductions in loss experience as follows:

Department of Administration Risk Management and Tort Defense Division Changes to Premium Costs for State Agencies		
Insurance Risk	FY 2014	FY 2015
Auto/Comp/Collision	\$217,153	\$217,153
Aviation	(42,490)	(42,490)
General Liability	825,000	825,000
Property/Miscellaneous	<u>1,306,980</u>	<u>1,306,980</u>
Total Increase	<u>\$2,306,643</u>	<u>\$2,306,643</u>

- o Automobile - comprised of two separate components: 1) comprehensive and collision based upon total values of reported vehicles; and 2) auto liability premium based upon agency losses and the number of vehicles reported
- o 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
- o General Liability - comprised of commercial coverage, which is based on commercial coverage negotiated with commercial insurance carriers and self-insured
- o Property - allocated to each agency based on its percentage of reported exposures (e.g. building replacement cost values, boilers & machinery, etc.).

For further information on the specific risks insured by the program See the Appendix for the Department of Administration.

Significant Present Law Adjustments

The program has included a reduction of \$30.8 million to the FY 2012 base budget for benefits and claims each year of the biennium. The reduction eliminates costs associated with a settlement to Montana asbestos victims of \$26.8 million and \$4.00 million for catastrophic property losses associated with hail damage.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 28. The rates charged in the base year are shown for comparison purposes.

Figure 28

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual	Budgeted	Budgeted	Budgeted
	FYE 12	FY 13	FY 14	FY 15
Premium				
Auto/Comp/Collision	1,031,347	1,037,665	1,248,500	1,248,500
Aviation	212,451	212,451	169,961	169,961
General Liability	6,750,000	6,750,000	7,575,000	7,575,000
Property/Miscellaneous	3,733,020	3,783,090	5,040,000	5,040,000
Total	11,726,818	11,783,206	14,033,461	14,033,461

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.