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HOUSE
COMMITTEE REPORT

HESS

2/24

(7)
Date referred: 1/31/86

FURTHER REFERRALS: FINANCE

DATE: Feb 20 1986

The LABOR & COMMERCE Committee has considered HB 531

"An Act establishing the risk management collateral fund for the University of Alaska; and providing for an effective date."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with _____ same title
- _____ new title

and recommends _____

further referral to the _____ Committee

- and attaches:
- letter of intent
 - first fiscal note *Sup 90*
 - new fiscal note
 - zero fiscal note

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

Mike Savane

[Signature]

[Signature]

[Signature]

George Henley - No Rec

[Signature] - No Rec

Mike Savane
Chairman

ALASKA
STATE LEGISLATURE
MEMORANDUM

February 7, 1986

TO: Representative Mike Navarre, Chairman
House Labor and Commerce

FROM: Representative Jim Duncan

SUBJECT: Insurance

Attached is the back-up for HB 531, "An Act establishing the risk management collateral fund for the University of Alaska; and providing for an effective date.", for your use in Committee meetings scheduled for the week of February 17, 1986.

If you have any other questions regarding this bill please contact Dale Staley of my office at 465-4766.

Introduced: 1/31/86
Referred: Labor & Commerce,
Health, Education & Social
Services and Finance

BY DUNCAN, M.M. MILLER AND
LARSON

1 IN THE HOUSE

2

HOUSE BILL NO. 531

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act establishing the risk management collateral
7 fund for the University of Alaska; and providing for
8 an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 14.40 is amended by adding a new section to article 3
11 to read:

12 Sec. 14.40.455. UNIVERSITY RISK MANAGEMENT FUND. (a) There is
13 established in the general fund the University of Alaska risk manage-
14 ment fund. The fund consists of money appropriated by the legislature
15 for the purpose of providing a nonlapsing collateral fund for payment
16 of uninsured losses of the University of Alaska in excess of pre-
17 established loss assumption levels.

18 (b) The fund may be used only for the purposes of making pay-
19 ments as a result of

20 (1) civil suits;

21 (2) claims, damages, or losses to real and personal proper-
22 ty owned by or in the actual or constructive possession of the Univer-
23 sity of Alaska;

24 (3) losses of income from real and personal property; and

25 (4) expenses, attorney fees, and claims investigation costs
26 associated with claims or losses.

27 (c) The legislature may appropriate into the fund earnings
28 derived from temporary investment of collateral fund assets, recover-
29 ies of losses previously charged to the fund, and restoration of funds

University of Alaska
Risk Management Collateral Fund

Collateral Fund:

Pool of money for payment of large uninsured claims.

Benefits:

Provides security to excess carriers.

Alternative to purchase of high cost primary coverage.

Alternative to campus assessments for large losses.

Provides annual investment income.

Characteristics:

Limited access to only large specified claims.

Reimbursement requests on a specific claim basis.

Investment earnings available for reimbursement of claims or expansion of the fund.

1 utilized for specified claims. The amount of the fund may not exceed
2 the amount necessary and prudent based on independent actuarial deter-
3 minations. The University of Alaska may request that University of
4 Alaska funds be deposited into the risk management collateral fund
5 under AS 37.07.080(h).

6 (d) The Department of Administration and the University of
7 Alaska shall determine the loss assumption levels at the beginning of
8 each fiscal year for the purpose of assessing the risk management
9 collateral fund. The loss assumption levels shall be established at
10 the amount necessary and prudent based on independent actuarial
11 determinations.

12 (e) An annual report of the activity of the fund and loss as-
13 sumption levels shall be submitted by the Department of Administration
14 to the Office of Management and Budget and the Legislative Budget and
15 Audit Committee.

16 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
17 10.070(c).

University of Alaska
Schedule of Unplaced Insurance Coverage
 (Excluding Workers' Compensation Coverage)

	<u>July 1</u> <u>1985</u>	<u>Aug 1</u> <u>1985</u>	<u>Nov 1</u> <u>1985</u>
	(% Not Placed)		
Property:			
Primary \$10 Mil	18%	18%	13%
\$30 Mil excess of \$10 Mil	67%	58%	-
\$30 Mil excess of \$40 Mil	74%	27%	-
Casualty:			
Primary \$5 Mil (Placed 8/1/85)	100%	-	-
\$5 Mil excess of \$5 Mil	75%	20%	20%
\$40 Mil excess of \$10 Mil	-	-	-
\$50 Mil excess of \$50 Mil	10%	-	-
Aggregate (Stop Loss):			
\$2 Mil	50%	50%	50%
Board Errors and Omissions:			
\$1 Mil	100%	100%	100%
Medical Malpractice:			
\$1 Mil	100%	100%	100%
Environmental Impairment:			
\$1 Mil	100%	100%	100%

University of Alaska
**General Liability Premium Cost
 Per Layer of Coverage**

\$100 Mil	Total	\$397.6
— ≡ — \$50 Mil — ≡ — \$10 Mil — ≡ — \$5 Mil — ≡ —	\$50 Mil excess of \$50 Mil \$100 Per Million	\$5.0
	\$40 Mil excess of \$10 Mil \$750 Per Million	\$30.0
	\$5 Mil excess of \$5 Mil \$9,000 Per Million	\$45.0
	Primary \$5 Mil \$63,250 Per Million	\$317.6
Coverage		Premium

University of Alaska
 FY87 Risk Management
 Cost Projections

(Excluding Workers' Compensation Coverage)

	<u>Low</u>	<u>High</u>	<u>Forecast</u>
Sources of funds:			
State General Fund	<u>\$910.4</u>	<u>\$910.4</u>	<u>\$910.4</u>
 Expenditures:			
Premiums	1,358.6	1,594.9	1,476.8
Claims	789.7	1,230.0	1,034.8
Loss prevention	48.7	48.7	48.7
Other	<u>48.3</u>	<u>86.8</u>	<u>50.1</u>
 Total	 <u>2,245.4</u>	 <u>2,960.4</u>	 <u>2,610.4</u>
 Deficiency	 <u>(\$1,335.0)</u>	 <u>(\$2,050.0)</u>	 <u>(\$1,700.0)</u>
 Premium increase rate	 <u>15%</u>	 <u>35%</u>	 <u>25%</u>
Loss confidence level	<u>80%</u>	<u>25%</u>	<u>50%</u>

University of Alaska
FY87 Risk Management Loss Projections
(Excluding Workers' Compensation Coverage)

<u>Confidence Level</u>	<u>Loss Projection</u>
80%	\$789.7
70%	\$889.6
50%	\$1,034.8
25%	\$1,230.0
10%	\$1,425.1

Confidence level - assurance that actual losses will meet or exceed loss projection

**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 531
 Title : Establishing Risk Management
 Collateral Fund for University of
 Alaska , ed.
 Sponsor : Duncan
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : University of Alaska
 BRU : Statewide Programs and Services

 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL		2,500.0				
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND		2,500.0				
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

See attached

Prepared by : Brian Rogers Phone : 907-474-7593
 Division : University of Alaska Date : 2/19/86

Approved by Commissioner : *Brian Rogers for Sherman Carter* Date : 2/19/86
 Agency : University of Alaska

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. HB 531

This bill establishes a Risk Management Collateral Fund in the general fund. The fund is to be used to pay for uninsured losses at the University of Alaska in excess of pre-established loss assumption levels. The loss assumption levels are to be determined annually by the Department of Administration and the University of Alaska based on independent actuarial assumptions.

Creation of a risk management collateral fund was recommended to the University by Corroon and Black Corporation, the State's risk management consultants. Their proposal considered the primary layer of general liability insurance, the \$4.7 million in coverage between \$300,000 and \$5 million. This coverage currently costs the University \$317,600 annually. Corroon and Black recommended an initial appropriation to the fund "in the range of \$2.5 - \$5.0 million." The University is requesting establishment of the fund at the lower end of this range. Also covered by the fund would be losses in other lines of insurance, or in areas not covered by insurance companies.

Coopers and Lybrand, certified public accountants, gave preliminary estimates to the University based on insurance industry statistics and estimates. The actuarial assumptions used for this fiscal note should be revised prior to the beginning of the fiscal year, but will have little effect on the size of the fund. Assuming that the risk management collateral fund provides coverage for claims of up to \$5 million, the estimated retained loss for fiscal year 1987 in general liability would be \$2,119.3. For auto liability, the estimated retained loss would be \$76.4. Retained losses for property insurance were not calculated by Coopers and Lybrand.



RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

9/5/89
Date