

S B

Z O O

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.

f SB 399

University of Alaska
Risk Management Collateral Fund
HB-531/SB-399

1986 Risk Management Problems:

- **Premiums have increased for primary layers of coverage.**
- **Selected primary and excess coverages are not available.**

Effect on University of Alaska

- **The University must respond to increased costs by:**
 - **Increasing deductible levels**
 - **Decreasing limits of insurance coverage**
 - **Deleting of selected insurance coverages**
 - **Limiting funds available for loss prevention**
 - **Assessing campus instructional programs for losses**
- **The University must thus assume greater loss liability, meaning:**
 - **Specific exposures and coverages are uninsured**
 - **Budget instability due to large uninsured exposures**
 - **Wide fluctuation in annual loss levels**
 - **Decreased ability to forecast loss levels**
 - **Inability to settle claims promptly once funds are depleted**

Risk Management Collateral Fund Characteristics:

- **Nonlapsing collateral fund held by Department of Revenue**
- **Pays for uninsured losses in excess of self-insured levels**
- **Used for liability and property losses**
- **Legislature may replenish fund as necessary**
- **Independent actuarial determination of loss assumption levels used each year by Department of Administration and University**
- **Annual reporting of activity to OMB and Legislative Budget & Audit**

Benefits of Fund:

- **Provides alternative to high-cost primary coverage**
- **Provides security to excess insurance carriers**
- **Provides budget stability**
 - **Funds large uninsured claims**
 - **Funds excluded coverages above self-insurance levels**
 - **Limits annual loss levels in operating budget**
- **Provides funding for prompt settlement of claims**
- **Provides alternative to campus assessment or deficits**
- **Investment earnings accrue to state instead of insurance companies**

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
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)

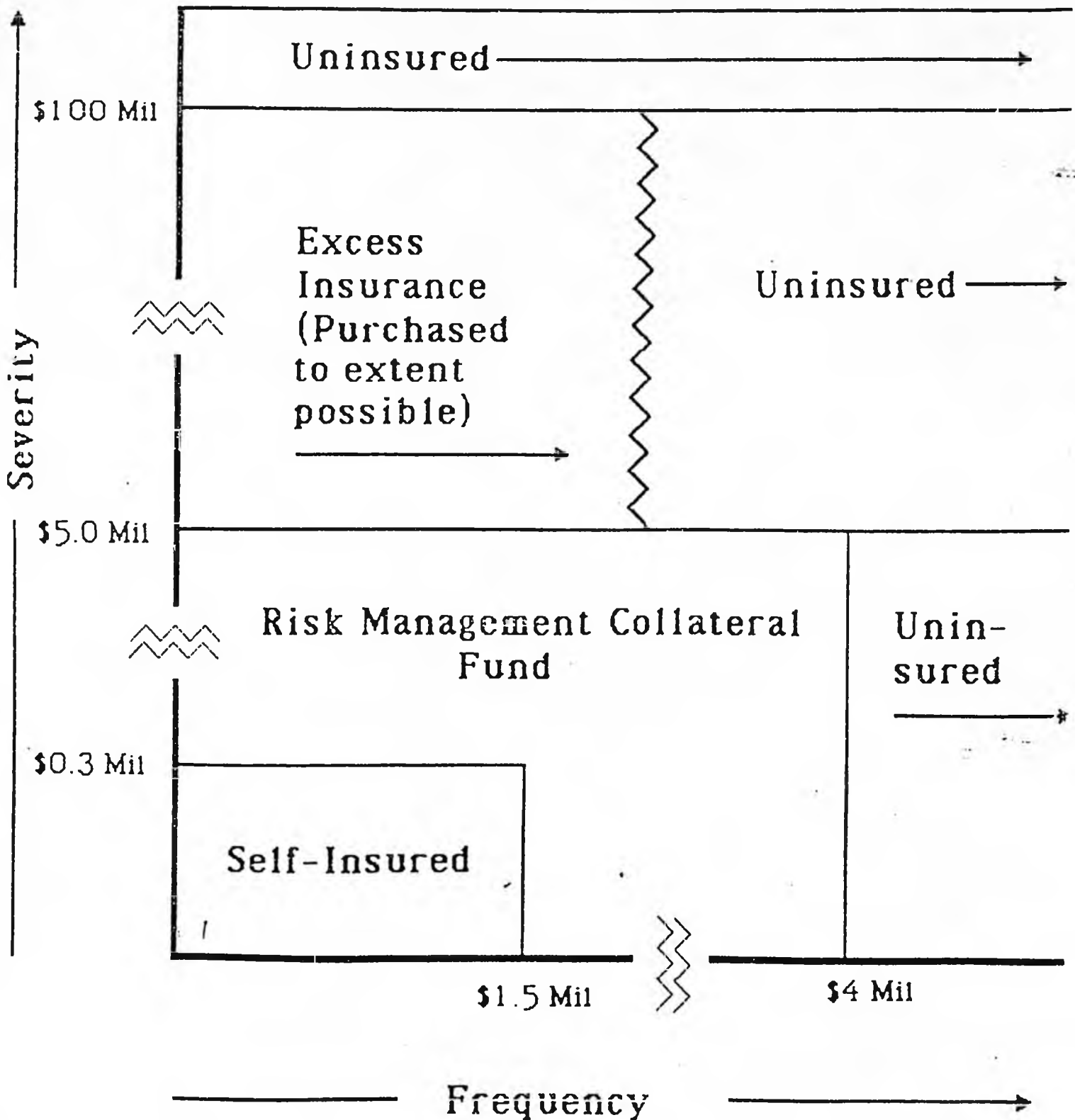
Confidence Level	Loss Projection
80%	\$789.7
70%	\$889.6
50%	\$1,034.8
25%	\$1,230.0
10%	\$1,425.1

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

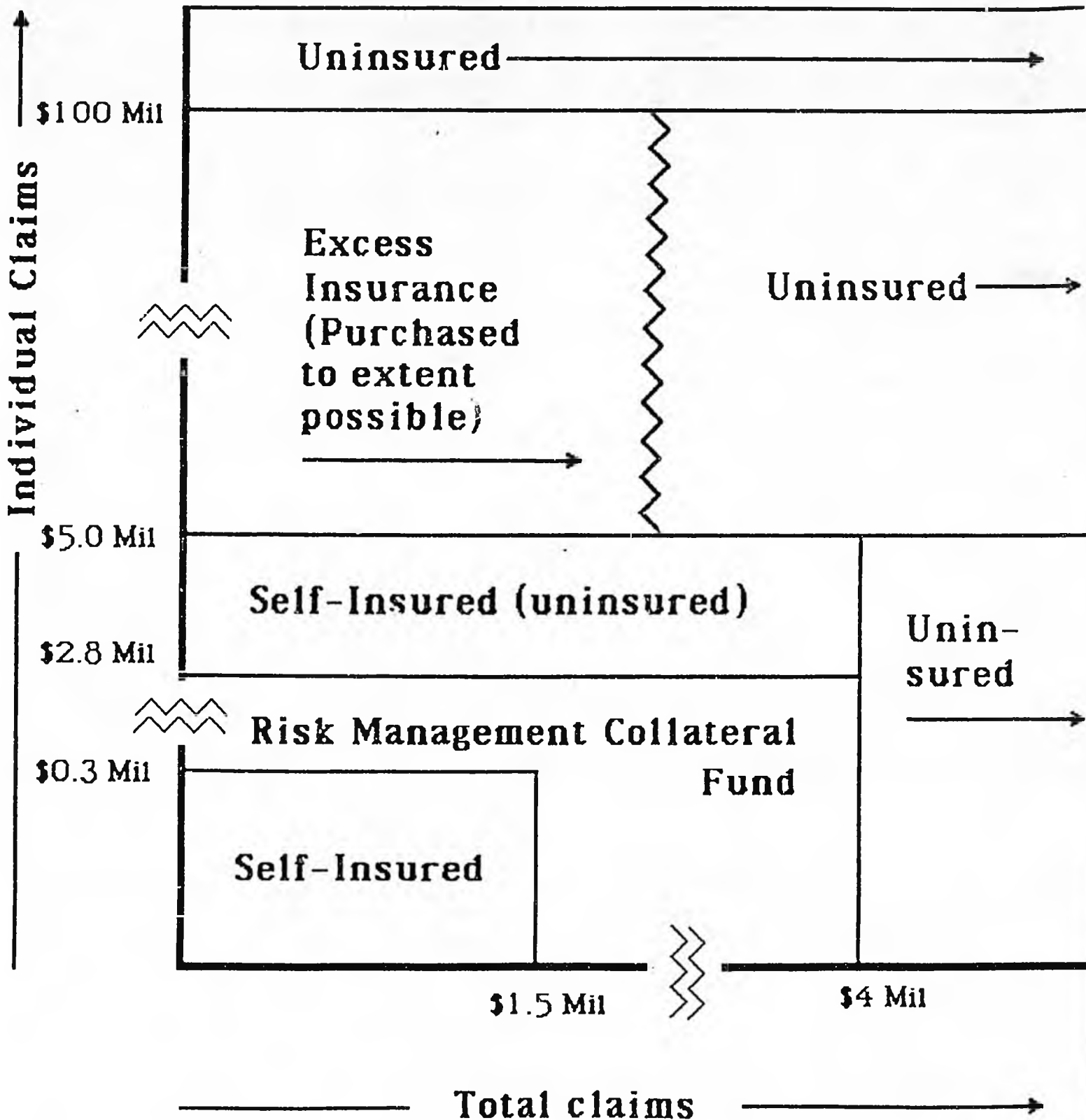
University of Alaska
**General Liability Premium Cost
 Per Layer of Coverage**

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

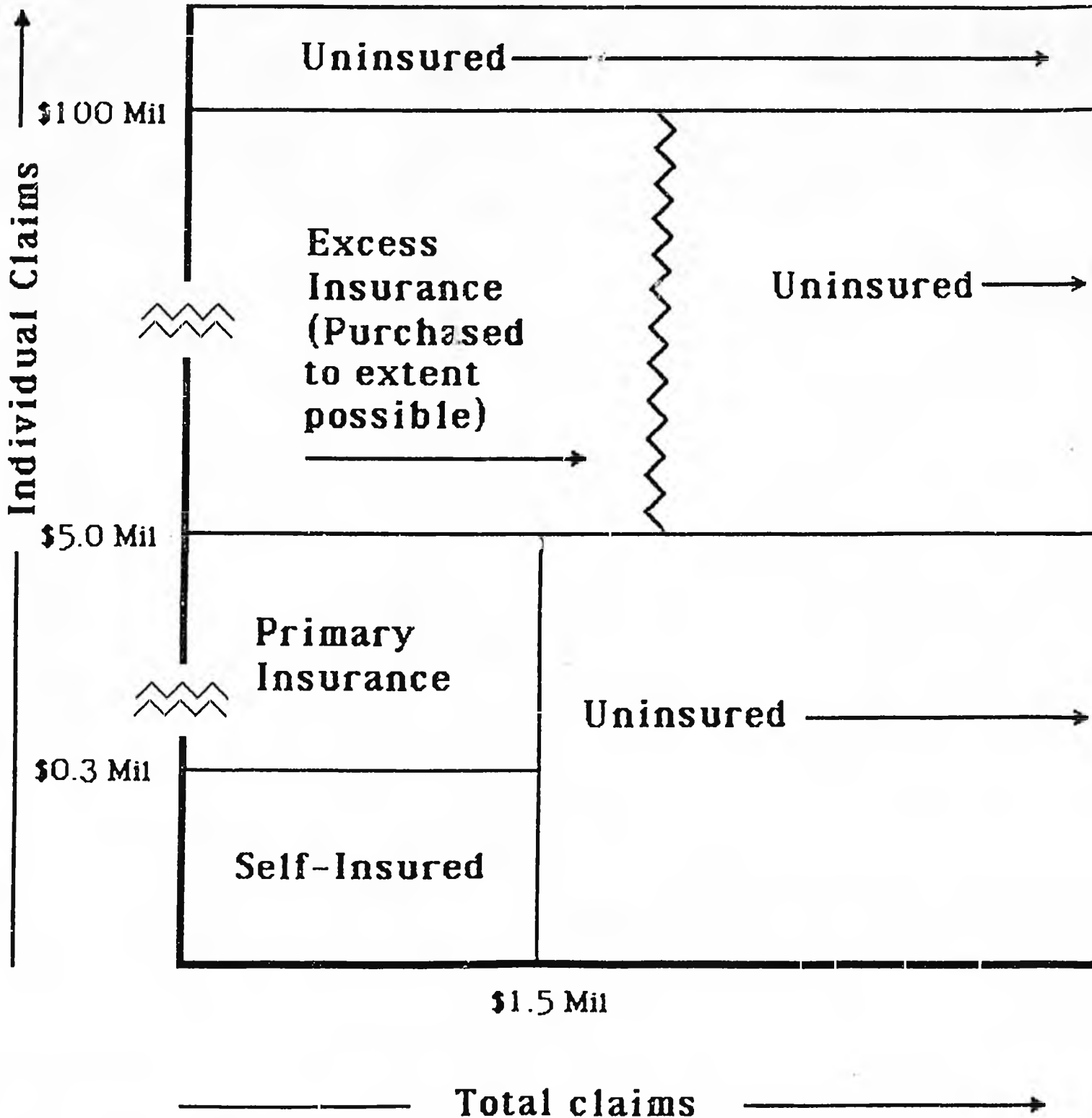
University of Alaska FY87 Risk Funding Plan



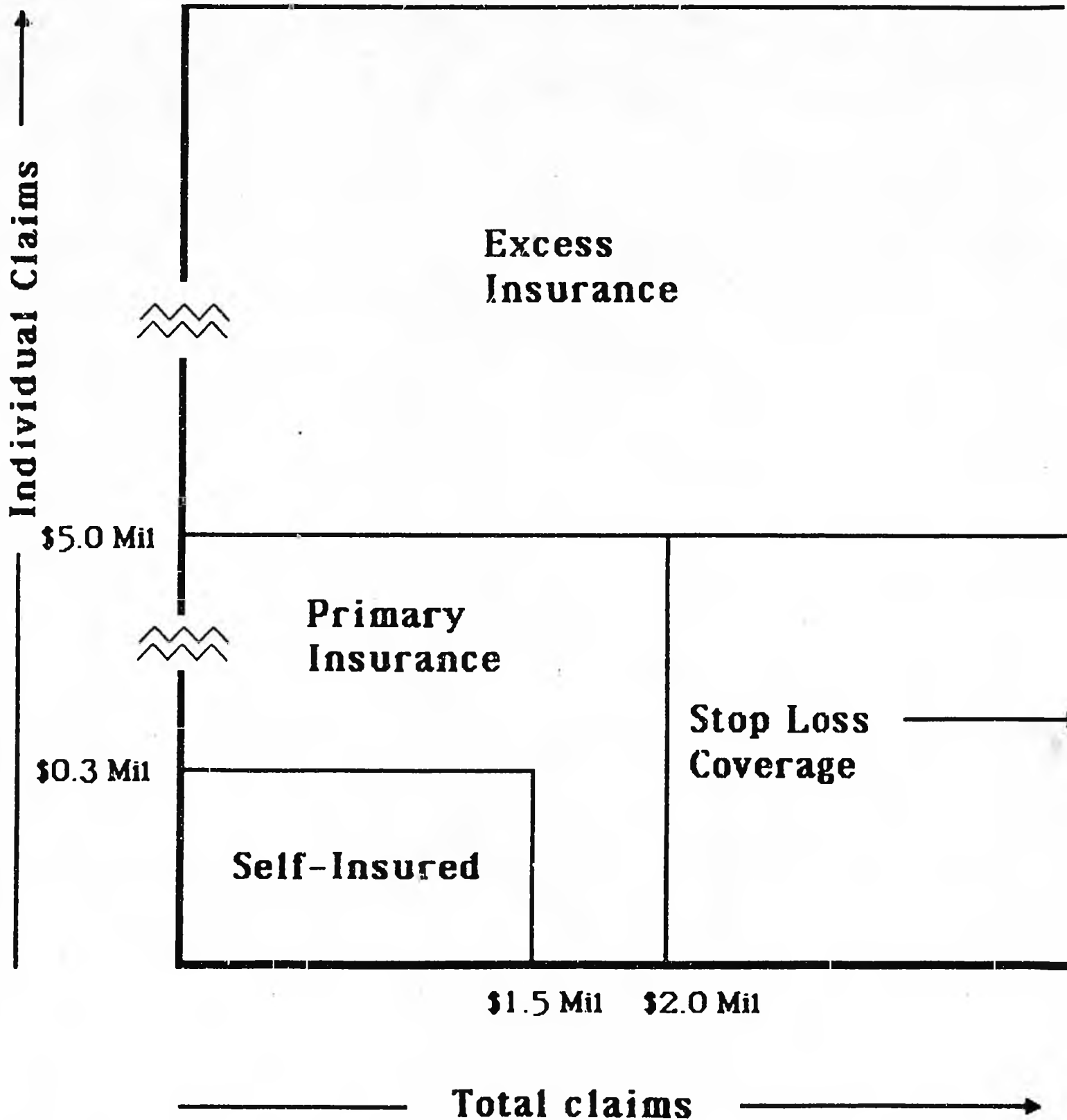
University of Alaska
FY87 Risk Funding Plan
 Under HB-531/SB-399



University of Alaska
FY87 Risk Funding Plan
Without HB-531 /SB-399



University of Alaska
FY85 Risk Funding Plan
(Prior to 1985 Crisis)



AS37.07.080 DOCUMENT
 CHAPTER = 37.07
 SECTION = 37.07.080
 TITLE = 37
 HEADINGS TITLE 37.
 Public Finance.
 CHAPTER 07.
 Executive Budget Act.
 CITATION Sec. 37.07.080.
 CATCH LINE
 PROGRAM EXECUTION.

TEXT (a) Except as limited by policy decisions of the governor, appropriations by the legislature, and other provisions of law, the several state agencies have full authority for administering their program service assignments and are responsible for their proper management.

(b) Each state agency shall prepare an annual plan for the operation of each of its assigned programs except for programs that are exempted from this requirement by the office. The operations plan shall be prepared in the form and content and be transmitted on the date prescribed by the office.

(c) The office shall

(1) review each operations plan to determine that it is consistent with the policy decisions of the governor and appropriations by the legislature, that it reflects proper planning and efficient management methods, that appropriations have been made for the planned purpose and will not be exhausted before the end of the fiscal year;

(2) approve the operations plan if satisfied that it meets the requirements under (1) of this subsection; otherwise, the office shall require revision of the operations plan in whole or in part.

(d) No state agency may increase the salaries of its employees, employ additional employees, or expend money or incur obligations except in accordance with law and properly approved operations plan.

(e) Transfers or changes between objects of expenditures or between allocations may be made by the head of a state agency upon approval of the office. No transfers may be made between appropriations except as provided in an act making the transfers between appropriations.

(f) The office shall report quarterly to the governor and the legislature on the operations of each state agency, relating

actual accomplishments to those planned and modifying, if necessary, the operations plan of any agency for the balance of the fiscal year.

(g) The governor may direct the withholding or reduction of appropriations to a state agency at any time during the fiscal year only if the governor determines that

(1) the planned expenditures can no longer be made due to factors outside the control of the state which make the expenditure factually impossible; or

(2) estimated receipts and surpluses will be insufficient to provide for appropriations.

(h) The increase of an appropriation item based on additional federal or other program receipts not specifically appropriated by the full legislature may be expended in accordance with the following procedures:

(1) the governor shall submit a revised program to the Legislative Budget and Audit Committee for review;

(2) 45 days shall elapse before commencement of expenditures under the revised program unless the Legislative Budget and Audit Committee earlier recommends that the state take part in the federally or otherwise funded activity;

(3) should the Legislative Budget and Audit Committee recommend within the 45-day period that the state not initiate the additional activity, the governor shall again review the revised program and if the governor determines to authorize the expenditure, the governor shall provide the Legislative Budget and Audit Committee with a statement of the governor's reasons before commencement of expenditures under the revised program.

HISTORY

(Sec. 1 ch 188 SLA 1970; am secs. 1-3 ch 26 SLA 1976; am secs. 2, 3 ch 74 SLA 1977; am secs. 4, 5 ch 60 SLA 1979; am secs. 9-12 ch 63 SLA 1983)



Official Business

Alaska State Legislature

Senate

Committee on Labor & Commerce

Pouch V
State Capitol
Juneau, Alaska 99811

SB 399: SUMMARY

SB 399 would allow the legislature to appropriate funds to establish a non-lapsing risk management collateral fund for the University of Alaska to cover uninsured losses. After the fund is established the legislature would be able to appropriate earnings from temporary investments from the fund, restore funds spent on claims and reappropriate recoveries from losses to the fund. The Department of Administration and University of Alaska would set loss assumption levels. The Department of Administration would be required to submit a yearly report on activities and expenditures to the Office of Management and Budget and to the Legislative Budget and Audit Committee.

L- SB 399

February 24, 1986

HOUSE JOURNAL
SUPPLEMENT

No. 90

REQUEST Page 1 of 2

HB 531

Revision Date: _____

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 Center Date: 2/19/86
 Agency: University of Alaska



RB 531

For Bill/Resolution No. HB 531 Page 1 of 2

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 \$317,500 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.

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 399
 Title: An Act Establishing the Risk Management Collateral Fund for the University of Alaska
 Sponsor: Senator Fahrenkamp
 Requestor: Senator Zharoff
 Date of Request: March 26, 1986

FISCAL DETAIL

Agency Affected: Department of Administration
 BRU: Division of Risk Management
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Brad Thompson, Deputy Director *BT*
 Division: Risk Management

Phone: 465-2180
 Date: 03/28/86

Approved by Commissioner: Eleanor Andrews *Eleanor Andrews*
 Agency: Department of Administration

Date: 4/1/86

Distribution (by Agency preparing fiscal note):

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

Position Paper
SB 399

SB 399 establishes a risk management collateral fund for the University of Alaska. This fund will be utilized to pay uninsured property and casualty claims excess of established loss assumption levels.

The fund creates a viable method for the university to increase self insurance obligations, avoid prohibitive premium costs for primary layer excess insurance and maintain uninterrupted program operations.

The bill as proposed requires the Department of Administration to submit an annual report on the activity of the fund. This requirement adds an insignificant administrative task, with no fiscal impact, on the department.

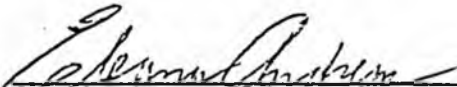
The Department of Administration supports the proposed legislation.



for Donald J. Hitchcock, Director
Division of Risk Management

Date

3-28-86



Commissioner Eleanor Andrews
Department of Administration

Date

4/2/86

CHAIRMAN'S INFORMATION: SB 399

- 1) BILL TITLE: "An act establishing the risk management collateral fund for the university of Alaska; and providing for an effective date."
 - a) Introduced: Sen Fahrenkamp
 - b) Co-sponsors:
- 2) INTENT: This measure authorizes the Legislature to appropriate funds to establish a non lapsing risk management collateral fund for the U of A to cover uninsured losses.

FISCAL NOTE: \$2,500,000 appropriation; U of A is only looking for enabling legislation at this time, and would defer on the appropriation until the state has the bucks.

- 3) ADDITIONAL REFERRALS: Finance and Rules
- 4) PUBLIC HEARINGS:
 - a) Sponsor:
 - b) Public Witnesses:
- 5) BILL ACTION:
 - a) Hold in committee?
 - b) Assign to sub committee for further review?
 - c) Move from committee?
 - d) Close public hearings?
- 6) COMMITTEE ACTION?
 - a) amendments?
 - b) CS adoption?