

H B

467

HOUSE COMMITTEE REPORT

(7)

Date referred: 2/15/88

FURTHER REFERRALS: Finance

DATE: 2-25-88

The Health, Education and Social Services Committee has considered HB 467

"An Act relating to University of Alaska risk management fund; and providing for an effective date."

RECOMMENDS:

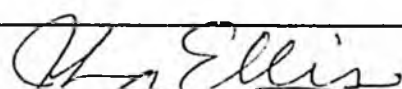
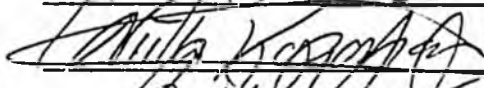
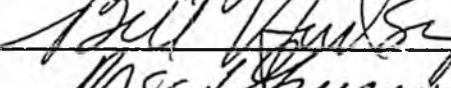
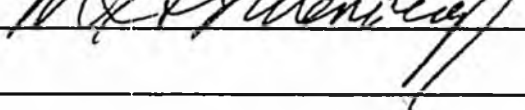
- replace with _____ the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent


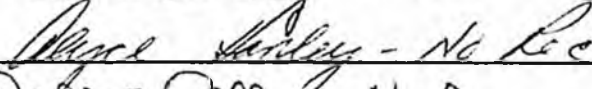
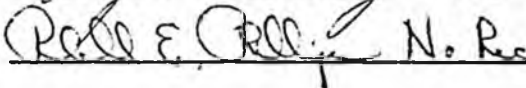
ATTACHES NEW FISCAL NOTE(S):

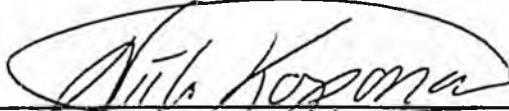
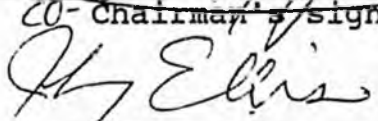
- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:


 CO-Chairman's signature




Brian Rogers
Vice President for Finance
(907) 474-7448

University of Alaska
Fairbanks, Alaska 99775-5260

February 22, 1988

The Honorable Mike Davis
Alaska State Representative
P.O. Box V, Capitol Room 411
Juneau, AK 99811

Subject: House Bill 467, University of Alaska Risk Management Fund

Dear ^{Mike} Representative Davis:

Attached is a revised fiscal note for inclusion with House Bill 467, "An Act relating to the University of Alaska risk management fund." The draft fiscal note given to you two weeks ago listed the expenditure as "capital" in error.

This legislation is modelled after a similar bill which passed into law last year, allowing the Department of Administration to use lapse balances from risk management accounts to build the state's risk management fund. House Bill 467 gives similar authority to the University of Alaska, allowing the university to fund the reserve account created by the legislature two years ago.

The existence of a funded risk management fund will allow the university to essentially self-insure to the \$5 million level for liability and property insurance, thus reducing the amount of insurance which would otherwise need to be purchased. Without such a fund, the university would have to either spend an additional \$300-\$500,000 annually for insurance or to assess campuses for any losses which occur in excess of funded insurance retention levels. A single large loss could wreak havoc with the university's instructional programs without the existence of the risk management fund. Attached are two charts which show the university's current risk management program, and the effect of the risk management fund on that program.

When the legislation creating the fund was proposed two years ago, the university sought an appropriation of \$2.5 million. Due to falling oil revenues, the legislature declined to make the appropriation, but amended the bill to allow the university to place money in the fund through the revised program process through the Legislative Budget and Audit Committee. In late 1987, the university proposed to place \$1,077,000 of interest income earned in prior years into the fund. The Office of

University of Alaska

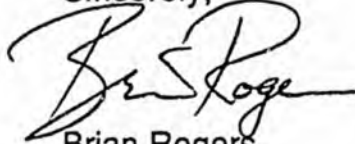
Rep. Mike Davis
February 22, 1988

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Management and Budget did not forward this request to LB&A, stating that they believed such a deposit should be made by the entire legislature. The fiscal note attached to this bill makes this deposit. The money would be placed in the risk management fund and would be managed by the Department of Revenue. The university could draw upon the account only for risk management losses which exceed the self-insured retention level.

This is an important bill to the University of Alaska, and we appreciate your help in securing passage. If you or your staff have any questions or if I can be of any assistance, please let me know.

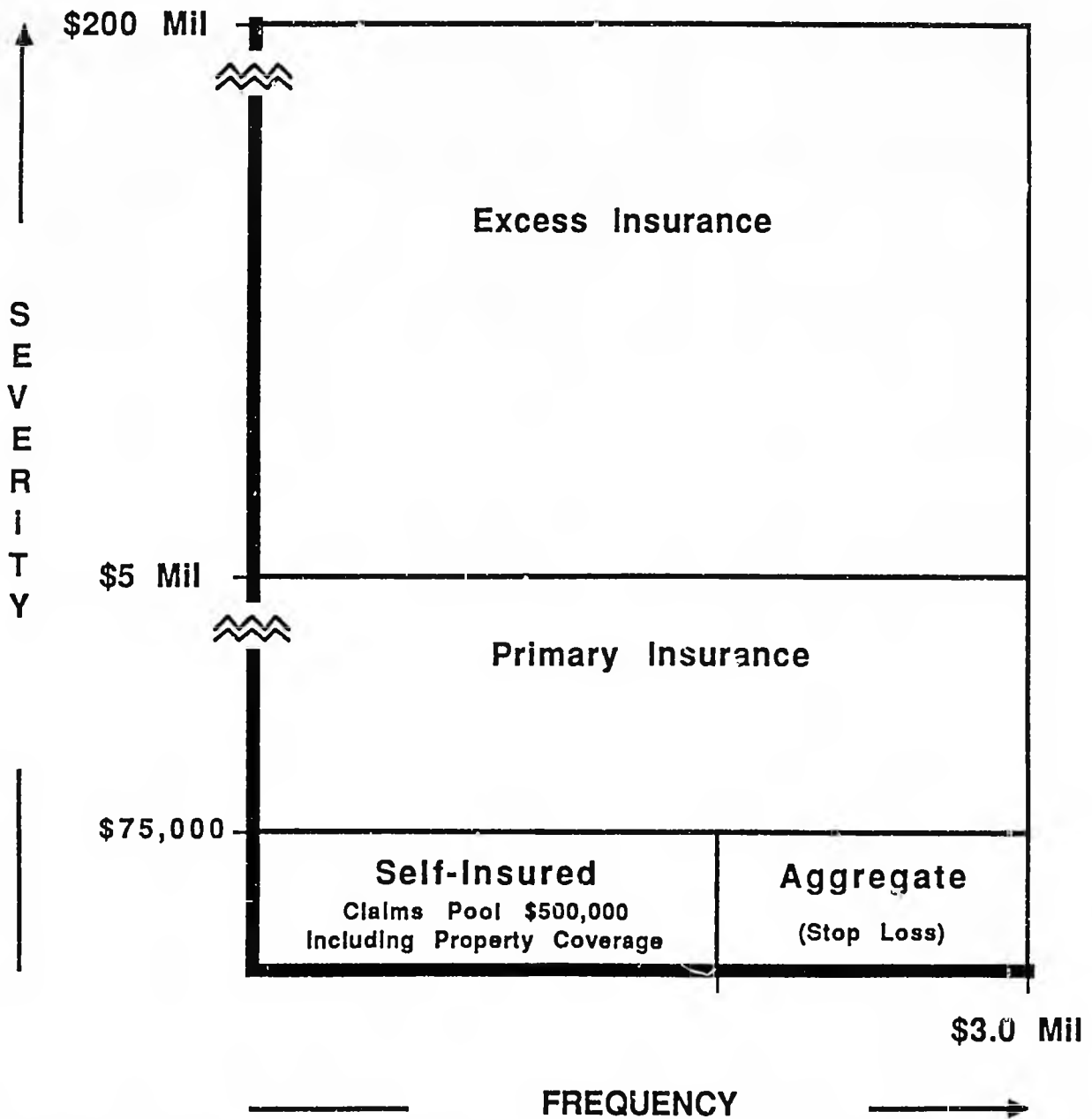
Sincerely,

A handwritten signature in cursive script, appearing to read "B. Rogers".

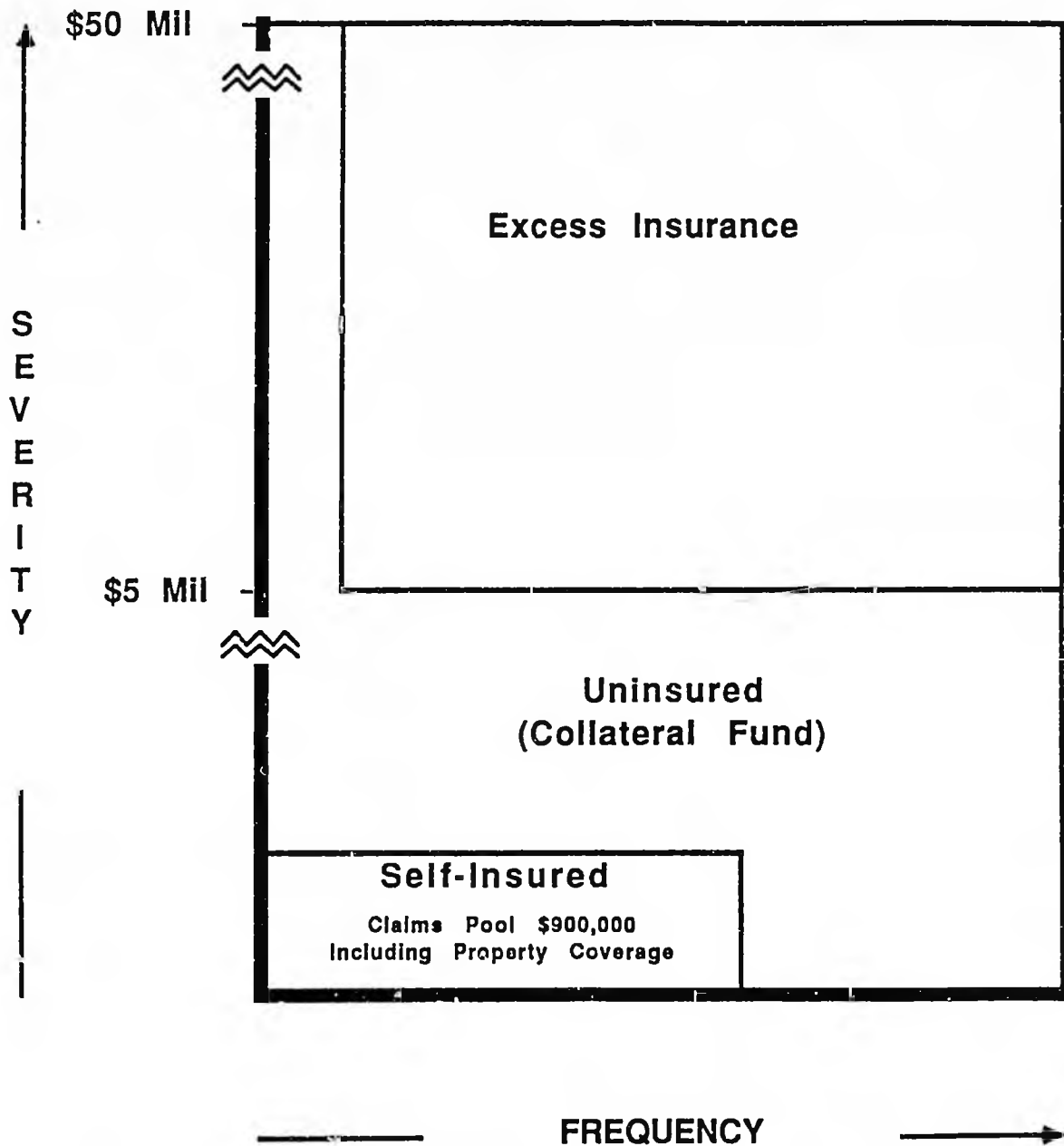
Brian Rogers
Vice President for Finance

Enclosure

**University of Alaska
FY85 General Liability Funding Plan**



University of Alaska
FY88 General Liability Funding Plan



FISCAL NOTE

REQUEST:

Revision Date: 1/28/83
Title: University Risk Management Fund
Sponsor: Rep. Davis
Requestor: _____

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS		1,077.0				
TOTAL OPERATING		1,077.0				
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER Interest Income		1,077.0				
TOTAL						

POSITIONS:

FULL-TIME		None				
PART-TIME		None				
TEMPORARY		None				

ANALYSIS : (Attach a separate page if necessary)

Prepared by: James F. Lynch, Associate Vice President Phone: 474-7711
Division: University of Alaska Date: 2/15/88

Approved by Commissioner: *Ben Rogers* Date: 2/15/88
Agency: University of Alaska

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

CONTINUATION OF FISCAL NOTE ANALYSIS

For Bill/Resolution No. House Bill 467

Assumptions:

The transfer of interest income to the risk management collateral fund will result in reduced general fund expenditures for claims in future years.

Program Summary:

The university is seeking authorization to transfer revenues into the University Risk Management Collateral Fund, which is held by the Department of Revenue. The transfer will allow additional budget stability for the instructional units by capping loss levels and minimizing the necessity for assessment of instructional units for extraordinary losses and will provide for prompt settlement of uninsured claims. Most importantly, the transfer will provide assurance to excess insurance carriers that claims can be paid promptly, when such payment is necessary.

The purpose of the fund, which was created by the legislature in 1986, was to provide sufficient funding to allow the university to increase its self-insured deductible levels (e.g. general liability deductible from \$75,000 to \$5,000,000) and eliminate high cost primary insurance coverage. The increase in deductibles was done in conjunction with the State Division of Risk Management/university co-marketing program.

Due to declining oil revenues and other funding priorities the \$2.5 million general fund appropriation originally requested has not been available for the risk management collateral fund. Failure to provide funding for the risk management collateral fund limits the university's ability to acquire excess insurance coverages and to maintain cost saving aspects of its co-marketing program with the State Division of Risk Management and may also require large assessments to instructional units for uninsured losses.

Schedules A and B attached indicate the differences in the general liability funding plan resulting from implementation of the collateral fund concept. There is currently no source of funds for payment of uninsured claims which are to be covered by the collateral fund.

Positions

No positions will be effected by this request.

Other Expenditures

Expenditures represent transfer of funds to the Department of Revenue for deposit to the University risk management fund (A.S. 14.40.455) authorized by the legislature in 1986.

Funding

The university has unspent prior period operating fund interest income of \$1,076,917 in the Statewide Programs and Services BRU. The funds were previously scheduled for one-time transitional expenditures in FY87; however, due to significant expenditure reductions these funds were not committed as planned. These funds are now available for one-time expenditure.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

HHESS

2-25-88

8:30 a.m.