

In addition to the General Services Department (GSD), New Mexico Public School Insurance Authority (PSIA) and Albuquerque Public Schools (APS), a number of other governmental entities provide insurance coverage on behalf of cities, counties, and municipalities. Most have workers' compensation programs to cover occupational injuries and similar exposures for property and liability losses. Each has a different funding mechanism to protect against the risk of loss as a result of these exposures.

GSD and APS are primarily self-insured, but reinsure for larger claims while PSIA relies on a more robust excess insurance program to manage risk. Each entity covers different risks and exposures and carries different lines of coverage and self-insured amounts. For example, PSIA and APS do not have prisons or railroads to cover like GSD and do not have a need for medical malpractice coverage. PSIA has many schools in rural areas with limited access to fire or life safety services while the majority of APS schools are very accessible to fire and life safety services. For FY20, appropriations to the three agencies totaled \$180 million, to cover in-house and out-sourced claims management, loss control services, and maintain adequate reserves and actual expenditures for FY19 totaled \$157 million.

Review of Risk Management Programs

Risk Management Division (RMD). RMD sets rates to reflect an agency's five year loss history and exposure to losses with regards to a particular line of coverage. Each spring, RMD collects exposure data from agencies to determine the drivers on each line of coverage, for example, payroll, equipment, FTE's, hospital beds, buildings, vehicles, etc. Surveys are important because excess coverage insurers may limit or deny coverage for undocumented exposures.

RMD self-insures all liability and workers compensation losses. RMD purchases excess property and fine arts coverage for catastrophic losses. Property losses are self-insured up to \$500 thousand, and boilers and special equipment are self-insured up to \$250 thousand. For FY19, the program paid \$3.3 million in excess insurance premiums to cover \$8.7 billion in assets.

The Risk Management Advisory Board (Section 15-7-4/5 NMSA 1978) is comprised of the Attorney General, Superintendent of Insurance, secretary of the Department of Finance and Administration, and director of the Legislative Council Service, among others, and is tasked with reviewing insurance policies, professional services contracts, rules, and all certificates of coverage issued by RMD. The statute does not specify how often the board meets; but, it is clear what the board should review. The board has not met since 2015.

RMD Total Budgeted Appropriations

(in thousands)

FY17	FY18	FY19	FY20	Change FY17-FY20
\$87,467	\$86,987	\$78,038	\$82,538	-6%

AGENCY: General Services Department, New Mexico Public School Insurance Authority, Albuquerque Public Schools

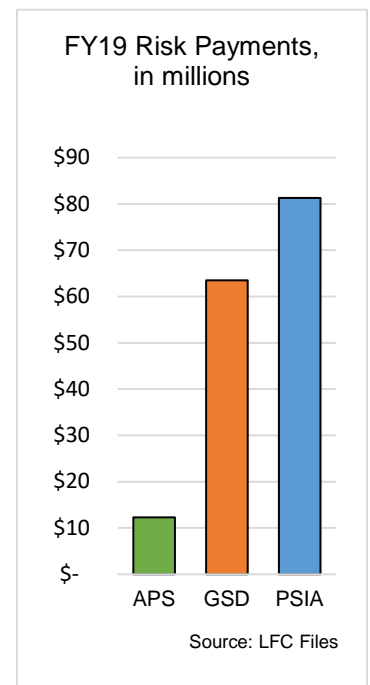
DATE: August 27, 2019

PURPOSE OF HEARING: Review of publicly-funded risk management programs

WITNESS: Clinton Nicely, Director, Risk Management Division, GSD, Ernestine Chavez, Executive Director, PSIA, Todd Torgerson, Chief of HR and Legal Support, APS

PREPARED BY: Connor Jorgensen, Analyst, LFC

EXPECTED OUTCOME: Informational



Payments from RMD Funds

(in thousands)

Coverage	FY16	FY17	FY18	FY19	Change FY16- FY19
Workers' Comp	\$19,720	\$17,565	\$16,945	\$15,493	-21%
Property & Liability	\$45,803	\$39,894	\$41,506	\$43,350	-5%
Unemployment	\$6,351	\$7,511	\$5,848	\$4,690	-26%
Total	\$71,875	\$64,969	\$64,299	\$63,533	-12%

Source: GSD

NMPSIA's Oversight Board

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Rates for FY21. This month, the Department of Finance and Administration published rates for covered entities to incorporate into the FY21 appropriation requests. The proposed rates reflect an overall decrease of 2.6 percent from FY20, reducing the risk program by \$1.8 million. Just over half of the requested decreases will come from general fund revenues. The rates were apportioned based on experience and exposure so agencies may see premiums increase or decrease accordingly. For FY21, rates fell for 57 of the 136 participating agencies and 34 agencies experienced increases over \$5 thousand.

Public School Insurance Authority. Section 22-29-2 NMSA 1978 created PSIA to provide group health and risk coverage and due process reimbursement with the exception of coverage provided by RMD. All K-12 school districts (except APS), charter schools (including those in Albuquerque), students, employees, volunteers, and contracted bus drivers are covered under policies administered by PSIA. The total value of insured assets is \$26 billion.

PSIA's risk program self-insures liability losses up to \$1 million, property losses up to \$1 million, and workers' compensation losses up to \$1 million and buys excess coverage for larger claims. In FY19, the program paid \$37.7 million for excess liability, property, and workers compensation premiums. After years of increases due to an unfavorable loss history, costs for excess insurance have now slowed which reflects a flat reinsurance market trend.

PSIA Budgeted Appropriations

(in thousands)

FY17	FY18	FY19	FY20	Change FY17-FY20
\$ 73,205	\$ 70,799	\$ 75,078	\$ 70,081	-4%

PSIA Budgeted Appropriations

(in thousands)

Coverage	FY16	FY17	FY18	FY19	Change FY16-FY19
Workers' Comp	\$13,201	\$12,854	\$11,643	\$11,202	-15%
Property & Liability	\$16,367	\$18,938	\$21,695	\$26,361	61%
Excess Insurance	\$35,994	\$36,082	\$36,077	\$37,727	5%
Total	\$70,282	\$73,318	\$75,011	\$81,329	16%

Source: PSIA

PSIA has taken a different approach to excess coverage insurance than GSD and APS. In FY19, PSIA spent \$22.9 million in excess property insurance premiums, more than the \$10.6 million paid out in property claims and the \$4 million in recoveries from excess insurance carriers.

PSIA paid \$13.6 million for excess coverage in liability insurance and paid claims totaling \$15.8 million in FY18. However, litigation on child molestation cases, including the Gary Gregor case, is on-going. Given the number of victims, it is likely claims payouts will exceed the limits of the excess liability coverage and force PSIA to pay settlement costs out of fund balance.

Rates for FY21. PSIA will request an increase for the risk program of 9.52 percent which is anticipated to increase program revenue by \$7.9 million. In FY19, the risk program’s largest costs were \$26 million paid for claims expenses, \$37 million for excess coverage insurance, and \$6 million in fees for total FY19 expenditures of \$82.1 million compared with revenues totaling \$83.1 million. The increase will further bolster the risk program’s cash balance, currently \$82 million.

Albuquerque Public Schools. APS is the only school district not covered by PSIA. APS pays up to \$650 thousand for workers compensation and up to \$250 thousand and \$350 thousand for property and liability exposure and carries excess coverage for large claims. Before FY12, claims were handled by third-party administrators. From FY12 to FY16, claims were handled internally and costs increased. In FY17, APS hired a third-party administrator for workers’ compensation services and continued in-house claims management for property and liability.

APS’s Oversight Board

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- Barbara Petersen, Policy and Instruction
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- Elizabeth Armijo, Capital Outlay, Property, and Technology

APS Budgeted Risk Appropriations

(in thousands)

FY17	FY18	FY19	FY20	Change FY17-FY19
\$23,898	\$21,435	\$26,838	\$27,640	3%

Payments from APS Risk Fund

(in thousands)

Coverage	FY16	FY17	FY18	FY19	Change FY16-FY19
Workers’ Comp	\$6,197	\$4,902	\$4,425	\$4,693	-24%
Property and Liability	\$4,950	\$2,834	\$3,173	\$4,757	-4%
Excess Insurance	\$2,351	\$2,499	\$2,724	\$2,837	21%
Total	\$13,499	\$10,409	\$9,546	\$12,287	-9%

Source: APS

Rates for FY21. APS will impose a rate increase of 3 percent to 5 percent to cover increased costs of liability insurance. Workers’ compensation insurance rates will remain unchanged in FY21. APS has insured assets totaling \$2.8 billion.