



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

DATE: August 18, 2017

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

WITNESS: Lara White-Davis, Director, Risk Management Division, GSD, Sammy Quintana, Executive Director, NMPSIA, Todd Torgerson, Associate Superintendent, Human Resources and Legal Services Support, APS

PREPARED BY: Anne Hanika-Ortiz, Principal Analyst, LFC

EXPECTED OUTCOME: Informational

In addition to the General Services Department (GSD), New Mexico Public School Insurance Authority (NMPSIA) 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.

BACKGROUND INFORMATION

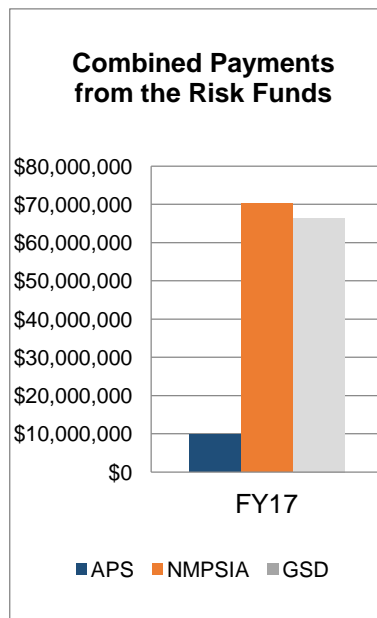
GSD, NMPSIA and APS are self-insured and reinsure for some large claims. Each covers different risks and exposures and carries different lines of coverage and self-insured amounts. For example, NMPSIA and APS do not have prisons or railroads to cover like GSD and do not have a need for medical malpractice coverage. NMPSIA has many schools in rural areas with limited access to fire or life safety services. The majority of schools in APS are in the metro area and very accessible to fire and life safety services. The geographic differences also impact workers compensation rates in that APS has better access to care and a broader medical provider network to treat work-related injuries. For FY17, appropriations to the three agencies totaled \$186 million, to cover in-house and out-sourced claims management, loss control services, and maintain adequate reserves.

Creating Effective Risk Management Programs

Risk Management Division (RMD). The Risk Management Advisory Board (Section 15-7-4/5) 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 the RMD. The statute does not specify how often the board meets; but, it is clear what the board should review. The committee has not met since 2015.

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 sends out an exposure survey for agencies to complete. Data is collected on payroll, equipment, FTE's, hospital beds, buildings, contents, etc. In the past, not all agencies provided the most up-to-date information which had resulted in inaccurate premiums over time. Surveys are important because excess coverage insurers may limit coverage for undocumented exposures. In recent years, the program reports it is seeing more accurate reporting.

RMD self-insures liability losses up to \$5 million and property losses up to \$500 thousand and buys excess coverage only for property losses above the self-insured amount. Last year, the program paid \$5.9 million in excess premiums. For workers' compensation, the program self-insures all losses.



RMD Total Budgeted Appropriations

(in thousands)

FY16	FY17	FY18	Change FY16-FY18
\$95,756	\$87,467	\$86,987	-9%

Source: GSD and LFC files

Up until FY16, appropriations to the risk funds were increased to maintain reserves and sufficient budget authority to reduce the need for BARs. For FY18, due to larger cash balances and uncertainty about state revenues, the rates reflected a 12 percent decrease in the total risk premium from FY17. GSD credited better loss control, decreased reinsurance premiums, and lower legal defense expenditures -- although less exposure from a smaller workforce likely contributed. The FY18 rates saved \$9.3 million compared to FY17 by excluding factors in calculations that increased cash balances.

Payments from RMD Funds

(in thousands)

Coverage	FY15	FY16	FY17	Change FY15-FY17
Workers' Comp	\$18,868	\$19,065	\$21,001	11%
Property & Liability	\$58,858	\$46,775	\$37,812	-36%
Unemployment	\$7,575	\$6,351	\$7,511	-1%
Total	\$85,301	\$72,191	\$66,324	-22%

*does not include \$30 million sweep

Source: GSD and LFC files

Rates for FY19. During FY17, the Legislature passed and the governor signed into law Chapter 12 (House Bill 311), Chapter 4 (Senate Bill 2) and Chapter 2 (Senate Bill 113) that swept over \$22 million in total from the three risk funds to the general fund. This month, the Department of Finance and Administration published rates for executive agencies and other covered entities to incorporate into their appropriation requests for FY19. The proposed rates for FY19 reflect an overall increase of 4 percent from FY18 rates and will raise an additional \$2.5 million for the risk program. About one-third of the requested increases will come from general fund revenues. Naturally, the rates were apportioned based on experience and exposure so agencies may see premiums increase or decrease accordingly.

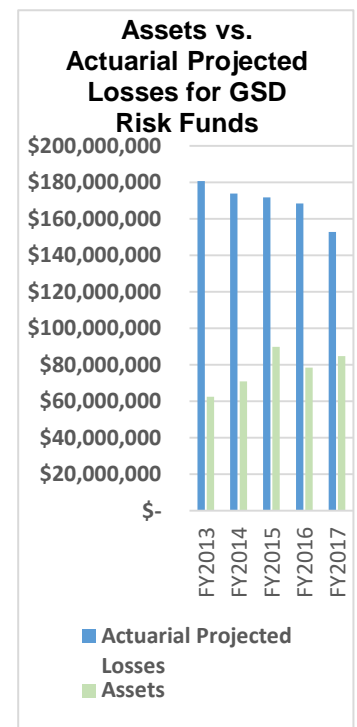
For FY19, GSD, Energy, Minerals and Natural Resources Department, Department of Public Safety, Department of Transportation, and University of New Mexico Hospital are some of the agencies that will see increases in their workers' compensation premiums because of higher risk job duties performed by laborers, public safety, and healthcare workers. In terms of public liability, premiums will increase for the Administrative Office of the Courts, Attorney General, and Public Defender Department among others, which will need to be considered when planning budgets for FY19. The Office of the Superintendent of Insurance will see some of the largest increases, of over 200 percent. Some higher-risk executive agencies such as Children, Youth & Families Department, Corrections Department, and Department of Health will actually see their liability premiums decrease.

GSD has a total insured value of \$8.9 billion.

GSD's Risk Management Advisory Board

Tom Clifford
John Franchini
Steve French
Hector Balderas
Raul Burciaga
Thomas Turbett
Judith Scharmer
John Wolfe

*Inactive



Source: GSD and LFC files

On a cash basis, total assets for the public liability, public property and workers' compensation fund are currently \$83 million.

NMPSIA's Oversight Board

Mary Parr-Sanchez, National Educational Association, Board President

Marc Space, Ed.D, New Mexico Superintendent Association

David Martinez, National Education Association of New Mexico

Tim Crone, American Federal of Teachers

Lowell Irby, New Mexico School Boards Association, Board Vice President

Robert Lowery, Governor Appointee
Trish Ruiz, Governor Appointee
Vacant, Governor Appointee

Chris Parrino, New Mexico Association of School Business Officials

Millie Pogna, Public Education Commission

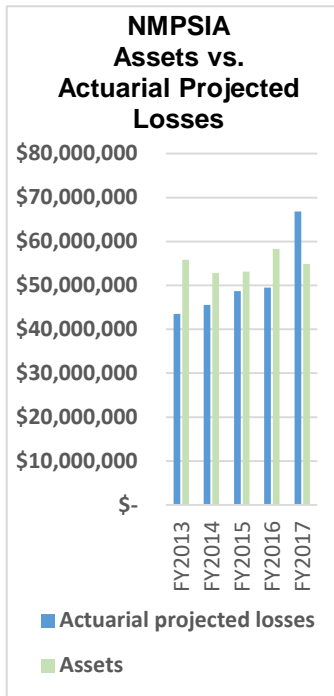
Katherine Ulibarri, Educational Institutions

NMPSIA and GSD have been in disagreement over an opinion issued by the Attorney General that higher educational institutions may participate in either risk pool. Higher educational institutions currently participate in GSD for risk and in some instances in NMPSIA for group health coverage. GSD protested Western and Eastern New Mexico universities joining NMPSIA, one-third of the revenue to insure its pool comes from higher education institutions. Depending upon how many institutions follow, insurance costs could rise for executive, judicial, and legislative agencies.

Public School Insurance Authority. Section 22-29-2 NMSA 1978 created the Public School Insurance Authority Act to provide for comprehensive core insurance programs to maximize cost containment opportunities for public schools. Section 22-29-4 created the Public School Insurance Authority 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 NMPSIA. NMPSIA's premium computation is a combination of changes in exposure, such as in property values, numbers of students and employees, loss experience, and school buildings' proximity to services such as police and fire departments. Since FY12, insured assets have increased from \$15 billion to over \$22 billion.

Projections for losses and the amounts for reserves are based on NMPSIA's experience and national insurance industry data and there is a range of variability around the best estimates of settling all unpaid claims. The program self-insures liability losses up to \$1 million, property losses up to \$750 thousand, and workers' compensation losses up to \$600 thousand and buys excess coverage for larger claims. In FY17, the program paid out over \$35 million for excess liability, property, and workers compensation premiums and collected over \$5 million in excess recoveries. After years of increases due to an unfavorable loss history, costs for excess insurance have now slowed which reflects a flat reinsurance market trend.



NMPSIA Budgeted Appropriations
(in thousands)

FY16	FY17	FY18	Change FY16-FY18
\$76,040	\$73,205	\$70,799	-7%

Source: NMPSIA and LFC files

Since FY16, appropriations to the risk program have declined to hold down increases for insurance. For FY18, the program asked for an additional \$3 million, or 4 percent, and an increase in the state equalization distribution to schools for insurance. However, due to uncertainty about state revenues, the Legislature appropriated a smaller amount and asked the program to revisit coverage, limits, and excess insurance. During FY17, as state revenues continued to decline, the Legislature passed and the governor signed into law Chapter 4 (Senate Bill 2) and Chapter 2 (Senate Bill 113) that swept \$16 million from the risk fund to the general fund for solvency.

Payments from NMPSIA Risk Fund

(in thousands)

Coverage	FY15	FY16	FY17	Change FY15-FY17
Workers' Comp	\$13,797	\$14,388	\$14,734	7%
Property & Liability	\$53,279	\$42,800	\$55,398	4%
Total	\$67,076	\$57,188	\$70,132	5%

*does not include \$16 million sweep

Source: NMPSIA and LFC files

For FY19, NMPSIA will request an increase of 17 percent, or \$12 million, from school premiums increases for property appraisals and to rebuild reserves. This would require an increase from the general fund in the state equalization guarantee distribution to school districts if funding for educational services is not to be reduced. If supported, the increase would lift NMPSIA out of its negative fund position, on an actuarial reserve basis, which includes projected liabilities of \$29 million in total for case reserves and \$36 million for incurred-but-not-reported claims. On a cash basis, total assets for the program were \$55 million as of June 30 which includes cash and investments with the State Treasurer and State Investment Council.

Albuquerque Public Schools. APS is the only school district not covered by NMPSIA. 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 decided to continue in-house claims management for property and liability.

APS Budgeted Appropriations

(in thousands)

FY15	FY16	FY17	Change FY15-FY17
\$25,564	\$26,046	\$21,129	-17%

Source: APS and LFC files

Payments from APS Risk Fund

(in thousands)

Coverage	FY15	FY16	FY17	Change FY15-FY17
Workers' Comp	\$5,246	\$6,216	\$5,178	-1%
Property and Liability	\$3,505	\$5,045	\$4,669	33%
Total	\$8,751	\$11,261	\$9,847	13%

Source: APS and LFC files

For the past three years, APS has not asked for additional appropriations from the state equalization guarantee distribution to schools for insurance. Instead, APS set payroll collection rates (a.k.a. employer contributions) for its schools to cover claims paid plus additional funds to maintain reserves.

APS's Oversight Board

Dr. David E. Peercy, President

Dr. Analee Maestas, Secretary

Peggy Muller-Aragón, Finance

Lorenzo Garcia, Vice President

Barbara Petersen, Policy and Instruction

Candelaria Patterson, District Equity and Engagement

Elizabeth Armijo, Capital Outlay, Property, and Technology

APS's has a total insured value of \$2.5 billion.