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November 15, 2011 (revised)

MEMORANDUM

TO: Legislative Education Study Committee

FR: Mr. Craig J. Johnson

RE: STAFF REPORT: FY 13 INSURANCE PROJECTIONS: NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY (NMPSIA) AND ALBUQUERQUE PUBLIC SCHOOLS (APS) [REVISED]

REVISED FY13 APPROPRIATION REQUEST

On October 13, 2011, the Legislative Education Study Committee (LESC) heard testimony regarding the FY 13 insurance requests from the New Mexico Public School Insurance Authority (NMPSIA) and Albuquerque Public Schools (APS). At that time, NMPSIA staff reported that the agency would be requesting an appropriation of \$277,900 to fund insurance increases for NMPSIA's members.

Since then, NMPSIA has informed LESC staff that their request will be revised upward. According to NMPSIA, the revised appropriation request for FY 13 is \$8,236,861. Inclusion of the appropriation request from APS of \$2,048,003 brings the total appropriation amount requested for insurance increases in the State Equalization Guarantee in FY 13 to approximately \$10.3 million.

INTRODUCTION

Each year, if funding is available, the Legislature appropriates dollars to the State Equalization Guarantee (SEG) distribution to provide for projected increases in the employer's group health and risk insurance contribution rates of the state's public schools. Current law provides for all of New Mexico's charter schools and 88 of its school districts to participate in the New Mexico Public Schools Insurance Authority (NMPSIA). The remaining school district, Albuquerque

Public Schools (APS), due to its size, is exempted from participation in NMPSIA, and is self-insured.

Consideration of the appropriation to the SEG is based on NMPSIA's and APS's respective budget requests. These requests are based on projected contribution rates considered to be adequate to provide for anticipated insurance claims, administrative costs, and reserves in the next fiscal year. These increases may be offset by NMPSIA or APS board action that allows the agencies to use reserve fund balances to reduce the projected increases.

This staff report includes:

- FY 13 budget requests for NMPSIA and APS; and
- background information on public school insurance in New Mexico.

FY 13 REQUESTS

New Mexico Public Schools Insurance Authority

For FY 13, effective October 1, 2012 through September 30, 2013, NMPSIA has requested an appropriation of \$277,900, which is less than a 1.0 percent increase.

Use of Fund Balance

To minimize the impact of these increases, NMPSIA reports the use of \$9.0 million from the risk fund, leaving a projected FY 13 fund balance of \$8.0 million.

With regard to the benefits program, NMPSIA reports no use of benefits fund balance in FY 13, leaving a projected FY 13 benefits fund balance of \$18.4 million.

Albuquerque Public Schools

For FY 13, effective January 1, 2013 through December 31, 2013, APS is requesting a total appropriation of \$2,048,003. The request includes:

- \$1,827,003 for the benefits program; and
- \$221,000 for the risk program.

Use of Fund Balance

With regard to the benefits program, APS reports that as of July 1, 2011, the unaudited fund balance for medical, dental, and vision reserves was approximately \$19.8 million. The APS Board of Education approved the use of \$10.0 million from reserves to offset costs. APS reports that the projected balance on December 31, 2012 will be approximately \$9.8 million.

Regarding the risk program, APS reports that the property and liability reserves reached unacceptably low levels and required a transfer of approximately \$1.0 million to restore reserve levels. APS did not include a projection for risk fund balances for FY 13.

BACKGROUND

In 1986, NMPSIA was created in the *Public School Insurance Authority Act* to serve as a purchasing agency for public school districts, postsecondary educational entities, and charter schools.

Currently, NMPSIA provides health and risk insurance coverage for 88 of New Mexico's public school districts and its charter schools. (Current law exempts any school district with a student enrollment in excess of 60,000 students from NMPSIA coverage, which applies only to APS.)

Health coverage by NMPSIA includes basic life and accidental death and dismemberment, voluntary life, long-term disability, two medical plans, a dental plan with basic and comprehensive coverage, and a vision plan. Risk coverage includes property insurance, liability insurance, workers' compensation, student catastrophic insurance, student accident insurance, boiler and machinery insurance, and underground storage tanks coverage.

NMPSIA's medical plans are "self-insured" which means that NMPSIA is responsible for the design of the plan and the setting of contributions. NMPSIA sets the contribution rates to provide the necessary revenue to pay for the claims its participating members incur. When the claims exceed the contributions, the contribution rates have to be increased to cover any deficit.

The *Public School Insurance Authority Act* requires the state to pay for a portion of the group insurance premiums for employees (this portion translates into the employer's share of the insurance costs that the Legislature appropriates every year) based on a percentage of the employee's salary as follows:

- 75 percent of the premium for employees earning less than \$15,000 per year;
- 70 percent for employees earning \$15,000 but less than \$20,000 per year;
- 65 percent for employees earning \$20,000 but less than \$25,000 per year; and
- 60 percent for employees earning \$25,000 or more per year.

In 2004, the Legislature amended the act to allow participating entities, if revenue is available, to contribute up to 80 percent of the cost of insurance for all employees.

In 2009, the Legislature amended the act (effective July 1, 2010) to enable NMPSIA to:

- promulgate rules to establish a policy to be followed by participating members relating to the use of volunteers and the use of school facilities by private persons;
- promulgate rules to establish a policy to be followed by participating members relating to the use of school facilities by private persons, provided that the policy:
 - relate only to liability and risk issues; and
 - does not affect the rights and responsibilities of local school boards to determine how, when, and by whom school district facilities are used; and
- insure, by negotiated policy, self-insurance or any combination thereof, participating members against claims of bodily injury, personal injury, or property damage related to the use of school facilities by private persons. The coverage is subject to the following provisions:

- no more than \$1.0 million may be paid for each occurrence; and
- the coverage applies only if the participating member was following the policy adopted by NMPSIA.