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September 12, 2006

MEMORANDUM

TO: Legislative Education Study Committee

FR: Frances R. Maestas

RE: STAFF BRIEF: NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY (NMPSIA)

The 2006 Interim Workplan of the Legislative Education Study Committee (LESC) includes a report by the New Mexico Public Schools Insurance Authority (NMPSIA) on anticipated insurance cost increases for FY 08 and a discussion of insurance-related issues that affect public schools statewide.

Because the provisions of the *Public School Insurance Authority Act* allow Albuquerque Public Schools (APS) to opt out of NMPSIA participation, APS staff will be in attendance to respond to committee questions relating to insurance coverage for APS employees.

Issues:

- Each year, the Legislature appropriates dollars to the State Equalization Guarantee distribution (Public School Funding Formula) to fund the school districts' employer's share of insurance covered by NMPSIA and for APS.
- For FY 08, an appropriation of approximately \$14.0 million (\$8.2 million for NMPSIA and approximately \$5.8 million for APS) would be required to cover the employer's share of increased insurance premiums for public schools statewide. According to NMPSIA, the agency is using \$7.2 million of its benefits fund balance to offset increases for its member districts.

- The benefits portion of the FY 08 budget request includes a:
 - 10.6 percent increase in medical insurance premiums for NMPSIA that would go into effect for public school employees October 1, 2007. NMPSIA projects no increases for dental, vision, life, and disability insurance; and
 - 4.0 percent overall increase in medical, dental, and prescription drug coverage for APS employees effective December 1, 2007.
- Regarding the risk program, the FY 08 request reflects:
 - for NMPSIA, a 19.6 percent decrease in property/liability insurance and 47.4 percent increase in workers' compensation insurance premiums. According to NMPSIA, the percentage increase in workers' compensation is due primarily to a court ruling that the compensation period allowed for mental disabilities must be equivalent to that allowed for physical disabilities, i.e., compensation for life for permanent physical disabilities and up to 700 weeks for permanent partial physical disabilities; and
 - for APS, no more than a 5 percent to 10 percent increase in property, liability and workers' compensation premiums.
- For FY 06, the Legislature appropriated \$16.3 million to fund insurance increases for public schools, including APS. The final appropriation was based on NMPSIA's recommendation that approximately \$15.7 million of its benefits fund balance could be used to offset the insurance increases for NMPSIA's participating entities, which decreased the percentage increase from 11 percent to 3.0 percent. The appropriation included a 15 percent increase in insurance costs for APS; however, according to testimony by APS staff during the 2005 interim, the district budgeted a 6.0 percent increase in insurance costs for APS employees effective December 1, 2005.
- For FY 07, the Legislature appropriated over \$21.2 million to fully fund increases in the employer's share of insurance costs for public schools, including APS. The final appropriation was based on the use of approximately \$7.4 million of NMPSIA's benefits fund balance to offset insurance increases for NMPSIA's participating entities, which decreased the percentage from 13 percent to 11.5 percent. The appropriation for APS assumes a 6.0 percent increase for APS employees.

Background:

- In 1986, the Legislature enacted the *Public School Insurance Authority Act*. Among its provisions, the act created the Public Schools Insurance Authority to serve as a purchasing agency for public school districts, postsecondary educational entities, and charter schools.
- All school districts (with the exception of APS) and all charter schools are required to participate in NMPSIA unless the NMPSIA Board of Directors grants a waiver based on the school district's or charter school's ability to meet the minimum benefits and financial standards set by the NMPSIA Board. However, the law exempts any school district with a student enrollment in excess of 60,000 students, which applies only to APS.

- NMPSIA is currently a self-insured pool of over 60,200 members. APS is also a self-insured pool of nearly 17,000 members.
- According to the act, the state pays 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 sliding scale 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. According to NMPSIA, Los Lunas Public Schools and a couple of charter schools are utilizing this provision in FY 07. APS reports that beginning with school year 2006-2007, APS will provide 80 percent of the cost of insurance for employees earning less than \$20,000 a year.
- The *Health Care Purchasing Act*, enacted in 1997, requires NMPSIA, APS, the Risk Management Division of the General Services Department, and the Retiree Health Care Authority to enter into a cooperative, consolidated, single purchasing effort to provide health care plans for the benefit of eligible participants of the respective agencies.
- In 2005, legislation was introduced to create a 10-member joint interim committee to solicit public input and to examine current law and the financial health of funds supporting the retirement programs for state and educational employees. The legislation did not pass; however, for the 2005 interim, the Legislative Council created a subcommittee to receive public testimony and to review the benefit programs of the General Services Department's Risk Management Division, the Retiree Health Care Authority, NMPSIA, and APS, to determine whether the entities are providing the best possible programs for their employees and are operating in a fiscally sound manner.
- In 2006, based on the recommendations of the 2005 interim subcommittee, legislation was introduced to amend the *Public School Insurance Authority Act* to increase the employer's share of health insurance benefit costs; consolidate APS' health benefits program into NMPSIA; and change the composition of the NMPSIA board of directors to include APS. In a separate piece of legislation, the 2006 Legislature also considered legislation to require NMPSIA and APS to provide general liability coverage for after hours community use of facilities but to limit that coverage to \$1.0 million per event. However, neither of those two bills passed.

Presenters:

Mr. Sammy Quintana, Executive Director, and Ms. Christy Edwards, Deputy Executive Director, NMPSIA, will discuss the projected increases in NMPSIA's FY 08 budget request.

The following APS personnel will be in the audience to respond to questions relating to insurance coverage for APS employees: Ms. Andrea Trybus, Executive Director, Human Resources; Mr. James Dorn, Director of Risk Management; and Ms. Vera Dallas, Benefits Manager.

Questions the committee may wish to consider:

1. What measures can the state take to provide comparable and affordable health benefits for public education employees statewide?
2. How many times has APS used its benefits fund balance to offset insurance increases?
How many times has NMPSIA used its benefit fund balance to offset insurance increases?
3. What are the projected FY 07 fund balances for NMPSIA and APS?
4. What, if any, would be the effect on rates and benefits for both APS and other school districts if APS were to be included in NMPSIA?
5. What options have NMPSIA and APS implemented or considered to mitigate the potential for liability claims arising from the general public's use of school facilities as was proposed in the 2006 legislation??
6. Under what circumstances might a school district still be charged with negligence regardless of liability coverage of the general public's use of school facilities?