HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: H1853 Budget Stabilization Fund
SPONSOR(S): Appropriations
TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Appropriations		Kearney	Hansen
2)			
3)			
4)			
5)			

SUMMARY ANALYSIS

House Bill 1853 allows for a substantial savings in the cost of property insurance for state properties. By self-insuring up to $20 million, the state can save at least $6 million per year in premiums. Experience shows that the risk of claims above the current self-insurance reserve is low; however, provision is made to access the Budget Stabilization Fund in the event of an emergency, defined as the depletion of the property insurance reserve.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

1. Reduce government?	Yes[]	No[]	N/A[x]
2. Lower taxes?	Yes[]	No[]	N/A[x]
3. Expand individual freedom?	Yes[]	No[]	N/A[x]
4. Increase personal responsibility?	Yes[]	No[]	N/A[x]
5. Empower families?	Yes[]	No[]	N/A[x]

For any principle that received a "no" above, please explain:

B. EFFECT OF PROPOSED CHANGES:

Property insurance coverage for state properties is handled by the Department of Financial Services, Division of Risk Management. The State Risk Management Trust Fund is used to reimburse agencies for covered claims, including fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, riot, civil commotion, sinkhole collapse and flood. The state self-insures the first level of losses—up to $2 million per occurrence and $5 million aggregate and purchases excess insurance through a number of sources.

The Department has advised that since the terrorist activities of September 11, 2001, the state is paying higher and higher premiums for less coverage of state properties and that requests for property coverage exceed market capacity. The premium for FY 2002-2003 of $10,595,000 for $200 million in coverage was an increase of 51% over the previous year's premium, and terrorism and related acts are not covered by the insurance.

The first $20 million in coverage is the most expensive at $6,120,000 for FY 2002-2003. This is despite the loss experience of only $15,834,281 for the 10-year period from FY 1991-1992 through FY 2001-2002. And, in only one year of that period (FY 1995-1996) did claims exceed $1,000,000. The average annual total claims for the past five years is $224,800.

By constitutional requirement, Florida maintains a Budget Stabilization Fund in an amount at least equal to 5% of the previous year's net revenue collections, but not more than 10% of that amount. Art. III, s. 19(g), Fla. Const. The purpose of the fund is to cover General Revenue Fund shortfalls and to provide funding in the event of an emergency, as defined by general law. The Budget Stabilization Fund comprises a reserve for "exigent" circumstances. *Resolution of the Taxation and Budget Reform Commission* (1992).

The Legislature is authorized to establish criteria for the withdrawal of funds from the Budget Stabilization Fund within the two allowed areas—General Revenue shortfall and emergency as defined by general law. Currently, s. 216.222 authorizes the transfer of funds to the General Revenue Fund to address an emergency declared by the Governor.

HB 1853 requires that the self-insurance reserve fund be maintained at existing levels (i.e., $2 million per occurrence/$5 million annual aggregate for all other perils except; $4 million per occurrence/$8 million annual aggregate windstorm, $100,000 per occurrence trailing). Experience indicates that the risk of exceeding these amounts is low. In the event the state has suffered calamities causing in excess of the state's self-insurance reserve, the bill defines such an event as an emergency for purposes of accessing the Budget Stabilization

Fund. Once the Division of Risk Management certifies the depletion of the reserve, the Division must request a budget amendment to transfer funds to the State Risk Management Trust Fund in $2 million allotments, not to exceed a total of $20 million. The state would continue to purchase insurance for claims in excess of $20 million.

C. SECTION DIRECTORY:

Section 1. Amends s. 216.222, Fla. Stat. to add as a criterion for the transfer of funds from the Budget Stabilization Fund, an emergency as evidenced by depletion of the property insurance reserve.

Section 2. The bill is effective upon becoming law.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues: None.

2. Expenditures: The state would expend at least $6,120,000 less per year than it is currently expending for the first $20 million in property insurance coverage (excluding the state's self-insurance reserve). At this rate, in approximately 3 years the state would have made up enough in savings to offset the risk.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues: None

2. Expenditures: None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

D. FISCAL COMMENTS:

See Effect of Proposed Changes

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

2. Other:

B. RULE-MAKING AUTHORITY:

C. DRAFTING ISSUES OR OTHER COMMENTS:

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES