SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/CS/SB 1934

SPONSOR: Governmental Oversight & Productivity Committee, Health, Aging, and Long-Term Care Committee and Senator Atwater

SUBJECT: State Risk Management Trust Fund

DATE: April 14, 2003 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Munroe	Wilson	HC	Favorable/CS
2.	Wilson	Wilson	GO	Fav/CS
3.			JU	
4.			AGG	
5.			AP	
6.				

I. Summary:

The bill provides that a hospital district created by special act which owns or operates one or more hospitals, nursing homes, or other health care facilities must be considered a state agency and its property must be considered owned by the state. The State Risk Management Trust Fund must insure the property of such district in the same manner as property owned by other state agencies, boards, or bureaus, upon the request of such district and payment of the premium for such insurance.

This bill amends section 284.01, Florida Statutes.

II. Present Situation:

State Risk Management Trust Fund

Part I, chapter 284, F.S., authorizes the state to provide its own insurance coverage to state agencies through the State Risk Management Trust Fund. The Division of Risk Management of the Department of Financial Services manages the state's self-insurance program. The program handles claims against state agencies under the executive, legislative, and judicial branches for worker's compensation, property damage, general liability, auto liability, federal civil rights, and employment discrimination. The program collects premiums from state agencies to pay the claims and operating costs of the division and to purchase commercial insurance to cover potential large losses caused by property damage and worker's compensation.

The program provides six major types of insurance coverage:

- Workers' compensation (state employee injuries);

- Property (state-owned buildings and content);
- General liability (state agency premises and operations);
- Auto liability (state employees on state business);
- Federal civil rights (actions of state officials alleged to have violated someone's civil rights); and
- Employment discrimination (actions of state managers violating the rights of employees)

The State Risk Management Trust Fund Program has 100 staff located in Tallahassee and handles about 20,000 new claims per year, with current annual funding of $163 million. Claims and operating costs are paid from the State Risk Management Trust Fund which is financed on a cash flow basis so that only the estimated cash needs of the program are funded each year with no reserve funding to cover any portion of the total estimated ultimate liabilities of the program. The funding needs of the program are determined by a Revenue Estimating Conference assigned to the Risk Management Trust Fund. The program is currently funded by 65 percent General Revenue funds and 35 percent Trust Fund monies.

Property coverage is provided for about 22,000 locations and the total insured value of covered state property equals $14 billion. [The valuation made by state agencies of their property to be covered, and their share of contribution to the trust fund, is based on an established cost per square foot, based on the type of structure and its function, to create a replacement value for the building at today's construction costs.] Property claims are highly unstable due to Florida's exposure to hurricanes and terrorism, relative to general liability and auto liability which are very predictable.

Section 284.01(4), F.S., authorizes the Department of Financial Services to determine deductibles and what coverages or risks are insurable. Under s. 284.01(5), F.S., the premiums to be charged to agencies for coverage must be promulgated on a retrospective rating arrangement, based on actual losses to the fund, taking into account reasonable expectations, maintenance, and stability of the fund and cost of reinsurance.

For fiscal year 2002-2003, the commercial premium for excess insurance coverage for catastrophic damage to state property is $10,595,000. This represents a 51 percent increase over the previous year ($7 million), according to the Department of Financial Services. Prior to 1992 when Hurricane Andrew hit Florida, the excess property premiums paid were about $800,000. For the current coverage, the state receives $200 million total coverage with a $2 million deductible (Self-Insured Retention) except for wind storm damage, per occurrence. Wind storm damage is covered up to $70 million, with a $4 million self-insured deductible. Flood damage is covered up to $50 million, with a $2 million deductible. Terrorism and related acts are excluded from both coverages.

Special Districts

Chapter 189, F.S, defines special districts and establishes methods for creation, election, bond issuance, merger, dissolution, comprehensive planning, and reporting. Section 189.403(1), F.S., defines "special district" in part, to mean a local unit of special purpose, as opposed to general-purpose, government within a limited boundary, created by general law, special act, local ordinance, or by rule of the Governor and Cabinet. The Department of Community Affairs, pursuant to s. 189.4035, F.S., must compile the official list of special districts.

III. Effect of Proposed Changes:

The bill provides that a hospital district created by special act which owns or operates one or more hospitals, nursing homes, or other health care facilities must be considered a state agency and its property must be considered owned by the state. The State Risk Management Trust Fund must insure the property of such district in the same manner as property owned by other state agencies, boards, or bureaus, upon the request of such district and payment of the premium for such insurance.

The effective date of the bill is July 1, 2003.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

The provisions of this bill have no impact on municipalities and the counties under the requirements of Article VII, s. 18 of the Florida Constitution.

B. Public Records/Open Meetings Issues:

The provisions of this bill have no impact on public records or open meetings issues under the requirements of Art. I, s. 24(a) and (b) of the Florida Constitution.

C. Trust Funds Restrictions:

The provisions of this bill have no impact on the trust fund restrictions under the requirements of Article III, Subsection 19(f) of the Florida Constitution.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

To the extent facilities own or operated by hospital districts created by special act may be covered under the state property insurance program under the bill, such districts that choose to participate in the state property insurance program administered through the Department of Financial Services may experience lower costs for property insurance coverage.

C. Government Sector Impact:

The fiscal impact of the bill is dependent on the number of qualifying hospital districts that choose to participate in the state property insurance program administered by the

Department of Financial Services. There are approximately 77 special hospital districts according to the research of the staff of the House Committee on Local Government and Veteran Affairs, of which 58 were created by special act of the Legislature.[1] The Department of Financial Services reports that to fully assess the fiscal impact of the bill on its program, an inventory of the existing health care facilities of qualifying hospital districts should be conducted to determine the number, location, loss histories, current property insurance coverage costs, and actual cash values of potential participants in the state self-insured program. The department indicates that the inventory will have to be completed before an assessment can be made. If the number of participants is minimal, then existing staff should be able to handle the increased workload due to the addition of the hospital districts. However, if the number of participants is significant, additional staffing may be required to accommodate the increased workload. There will be an additional impact on the excess property insurance premiums paid by the department due to the additional building values added to the excess policies.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The Department of Financial Services has indicated that there needs to be some provision as to how loss payments in excess of premiums billed to the hospital districts will be handled.

This bill creates a significant financial subsidy of the participating hospital district by permitting it to share in the coverage of the state risk pool without paying premiums for the first policy year. Since the Department of Financial Services has already indicated its desire to change its coverage limits, the effect of the bill will provide full state pool coverage for losses up to $20 million and above $70 million. With two principal exceptions (Shands Hospital at Gainesville and Florida Hospital in Orlando) the state's major hospital facilities are all located in coastal counties and have elevated windstorm risk exposure. Many state agency facilities are located in inland counties.

For illustrative purposes, a south Florida hospital district alone has an insurable exposure of $1.1 billion. The exposure of the State of Florida in its entirety is $14 billion with moderate to low exposure to windstorm peril.

VIII. Amendments:

None.

[1] See also House Committee on Health Care, "Florida Hospital Districts" 1996.