HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 1841 w/CS (PCB AP 04-06) Budget Stabilization Fund (Risk Management)
SPONSOR(S): Appropriations; Brummer
TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Appropriations	33 Y, 0 N w/CS	Belcher	Baker
2)			
3)			
4)			
5)			

SUMMARY ANALYSIS

HB 1841 CS allows for a substantial savings in the cost of property insurance for state properties. By self-insuring up to $40 million, the state can save approximately $6-$9 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. An emergency exists when uninsured losses exceed $2 million per occurrence or $5 million annual aggregate in a fiscal year.

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:

<u>Present Situation:</u>

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. The state has historically self-insured the first level of losses usually up to $2 million per occurrence and $5 million annual aggregate, and purchased excess insurance through a number of sources.

The department has advised that since September 11, 2001, the state has been paying increasingly higher premiums for less coverage of state properties, and that requests for property coverage have exceeded market capacity. In addition to higher premiums, the insurance does not cover terrorism and related acts.

Coverage from the $2 million per occurrence, $5 million annual aggregate level, up to $40 million is the most expensive, costing approximately $8.5 million for coverage for FY 2002-2003. This is despite the fact that in the last 10-year period there has been only one year in which claims exceeded $2 million.

Last year, the state reacted to the high cost of purchasing the first $20 million of coverage. The appropriations bill authorized the payment of losses in excess of $2 million per occurrence and $5 million annual aggregate out of the Working Capital Fund, up to a maximum of $20 million.

By constitutional requirement, Florida maintains a Budget Stabilization Fund in an amount at least equal to 5% but not more than 10% of the previous year's net revenue collections, Article III, s. 19(g), Florida Constitution. 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, Florida Statutes, authorizes the transfer of funds to the General Revenue Fund to address a deficit, to provide funding if an emergency is declared by the Governor, and to meet temporary deficiencies in any other fund.

<u>Effect of Proposed Changes:</u>

This bill provides a mechanism for paying unanticipated losses out of the Budget Stabilization Fund, up to a maximum of $38 million.

The bill provides that uninsured losses above the historical retention level of $2 million per occurrence, $5 million annual aggregate constitute an emergency, since the losses are unanticipated and the state has an essential responsibility to maintain its property.

Under the procedure set forth in the bill, the Division of Risk Management will continue to pay losses below $2 million per occurrence, $5 million annual aggregate out of the Risk Management Trust Fund. Once the

Division of Risk Management certifies that uninsured losses exceed $2 million per occurrence or $5 million annual aggregate, it must request a budget amendment to transfer funds from the Budget Stabilization Fund to the State Risk Management Trust Fund, not to exceed a total of $38 million in any fiscal year. The state would continue to purchase insurance for claims in excess of $40 million.

C. SECTION DIRECTORY:

Section 1. Amends s. 216.222, F. S., to add as a criterion for the transfer of funds from the Budget Stabilization Fund an emergency as evidenced by uninsured property losses exceeding $2 million per occurrence or $5 million annual aggregate.

Section 2. Amends s. 215.18, F.S., to conform a cross reference.

Section 3. Provides an effective date of July 1, 2004.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues: None.

2. Expenditures: The state will save approximately $6-$9 million per year, depending on the insurance market, by self-insuring the first $40 million in property insurance coverage.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   None

2. Expenditures:

   None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None

D. FISCAL COMMENTS:

See Effect of Proposed Changes.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

   This bill does not impact municipal or county government.

2. Other:

   None

B. RULE-MAKING AUTHORITY:

None

C. DRAFTING ISSUES OR OTHER COMMENTS:

None

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES