

# MEMORANDUM

---

**TO:** Joint Budget Committee

**FROM:** Alfredo Kemm, JBC Staff (303-866-4549)

**SUBJECT:** Department of Personnel, Risk Management Program Premiums Line Items Bottom-line Funding – Proposed Long Bill Conference Committee Amendment

**DATE:** April 10, 2013

---

The Department of Personnel and OSPB have raised a concern about how the Risk Management Program line items were reflected in the Long Bill based on the OSPB comeback at the end of figure-setting.

## Overview

At the Department's figure-setting, staff recommended that the Risk Management Premiums line items – Liability Premiums, Property Premiums, and Workers' Compensation Premiums – be split into additional lines due to identified variances between the information provided to the JBC in the Department's budget request and the Department's operating expenses included in the fund balance detail worksheet provided to staff as a part of the December 2012 1331 request for extraordinary liability claims. Additionally, staff recommended the split based on staff's belief that administrative expenses were being included and paid for out of the *premiums* lines, which for the liability and property programs are continuously appropriated in statute, but not continuously appropriated for payment of administrative expenses.

The OSPB comeback request (attached) at the end of figure-setting suggested a middle ground solution that would still provide transparency that staff was seeking in the recommendation, while providing flexibility for the Department for expenditures related to claims, premiums, and legal services. OSPB requested *bottom-line funding* of the premiums-related line items in order to allow flexible spending authority across those lines for the three insurance programs.

The Committee approved the OSPB request and staff added *bottom-line funding* (as bottom-line funding is understood and practiced in the budget) for these premiums-related lines in the Long Bill.

The Department and OSPB dispute that the *bottom-line funding* reflected in the Long Bill is not what was requested by OSPB or approved by the Committee.

## Options

Because line items are not reflected in the budget with a blank appropriation line, staff suggests that the Committee consider three options for resolution of this issue:

1. Leave the *bottom-line funding* with lines as they are currently reflected in the Long Bill.

April 10, 2013

2. Return to *premiums* lines as were used in previous budget years, which include a single lump sum appropriation from which all premiums-related expenses, as determined by the Department, may be paid.
3. Add a footnote allowing the Department to transfer spending authority among lines within a premiums group.

### **Recommendation**

**Staff recommends that the Committee leave lines as they are currently reflected in the Long Bill for the Liability and Property Programs.** The Liability and Property Programs already have continuous spending authority provided in statute. There was no reason for the Department or OSPB to request *a solution for additional spending flexibility* for these programs. There would be a reason to request a dilution of transparency if program expenditures are in some way materially different than what is provided to the JBC in the budget request.

**Staff also recommends that the Committee leave the lines as they are reflected in the Long Bill for the Workers' Compensation Program and add a footnote allowing the Department to transfer spending authority among lines within the Workers' Compensation premiums group.** Staff is aware that while the property and liability programs are continuously appropriated for the purposes of claims, legal, and premiums-related expenditures, the workers' compensation program does not have that statutory authority and built-in spending flexibility. It was staff's intention only to reflect the expenditure types and amounts as provided by the Department in its budget request documentation and not to severely hinder the Department's administration as suggested in the OSPB comeback request. A footnote will provide the Department with the spending flexibility among lines for the Workers' Compensation Program as is provided to the Liability and Property Programs through their continuous spending authority.

### **Proposed Footnote**

"55b Department of Personnel and Administration, Division of Human Resources, Risk Management Services, Workers' Compensation -- It is the intent of the General Assembly that the Department of Personnel be authorized to transfer spending authority for the (4) Workers' Compensation group among the line items within that group."

## Office of State Planning and Budgeting FY 2013-14 Comeback Requests

Department:	Personnel & Administration
Title:	Risk Management Funding

	FY 2012-13 Appropriation	FY 2013-14 Request	JBC Action	Comeback Request	Difference Between Action and Comeback Request
<b>Total</b>	<b>\$58,289,506</b>	<b>\$58,608,182</b>	<b>\$58,373,182</b>	<b>\$58,373,182</b>	<b>\$0</b>
FTE	10.5	11.5	11.5	11.5	0.0
GF	\$0	\$0	\$0	\$0	\$0
CF	\$0	\$0	\$0	\$0	\$0
RF	\$58,289,506	\$58,608,182	\$58,373,182	\$58,373,182	\$0
FF	\$0	\$0	\$0	\$0	\$0

### Summary of Initial Request:

The Department of Personnel and Administration requested funding for its Risk Management Program through the appropriations structure that existed in the current Long Bill (HB 12-1335). The following table shows the seven appropriated line items that were requested for FY 2013-14 for the Risk Management Program.

FY 2013-14 November 1 Request	
Line Item Name	Amount
Personal Services	\$753,646
Operating Expenses	\$283,427
Legal Services	\$3,056,460
Liability Premiums	\$4,977,729
Property Premiums	\$8,254,831
Workers' Comp Premiums	\$41,240,079
Indirect Cost Assessment	\$42,010
<b>Total</b>	<b>\$58,608,182</b>

### Committee Action:

The Joint Budget Committee approved the JBC staff's recommendation to break the seven Risk Management Program line items (listed above) into 14 distinct line items with their own appropriations. The JBC staff made this recommendation in an effort to increase the transparency related to Risk Management Program expenses. The JBC staff's recommendation, which the Joint Budget Committee adopted, is shown below.

<b>FY 2013-14 Joint Budget Committee Action</b>	
<b>Line Item Name</b>	<b>Amount</b>
Personal Services	\$753,646
Operating Expenses	\$68,427
Actuarial and Broker Services	\$326,516
Workers' Compensation TPA Fees and Loss Control	\$2,200,000
Risk Management Information System	\$137,448
Indirect Cost Assessment	\$42,010
Liability Claims	\$4,584,689
Liability Excess Policy	\$299,151
Liability Legal Services	\$3,056,460
Property Policies	\$5,074,822
Property Deductibles and Payouts	\$2,909,193
Workers' Compensation Claims	\$36,883,838
Workers' Compensation Excess Policy	\$951,893
Workers' Compensation Legal Services	\$1,085,089
<b>Total</b>	<b>\$58,373,182</b>

**OSPB Comeback:**

OSPB respectfully requests that the Joint Budget Committee modify its action to accommodate bottom-line funding for a portion of these new line items.

OSPB and DPA acknowledge the benefit in providing as much transparency in the Department's appropriations as possible. However, the way the lines have been separated will severely hinder the DPA's flexibility to administer with the greatest possible efficiency.

First and foremost, a number of expenses within each of the program areas can be relatively volatile, requiring more or less expenditure in one particular area, such as legal expenses, than can be reasonably predicted. This volatility leads to a strong likelihood that DPA will be required to submit supplemental or emergency supplemental requests in order to make necessary payments from these line items without over-expenditure. In turn, this could lead to delays in the payment of claims or other obligations from DPA's risk management program.

For this reason, OSPB requests that the Risk Management Program maintain the appropriations adopted by the Joint Budget Committee, with the exception that the major program costs be bottom-line funded. The following table presents the Department's vision of how this might look.

<b>FY 2013-14 Comeback Request</b>	
<b>Line Item Name</b>	<b>Amount</b>
Personal Services	\$753,646
Operating Expenses	\$68,427
Actuarial and Broker Services	\$326,516
Risk Management Information System	\$137,448

<b>FY 2013-14 Comeback Request</b>	
<b>Line Item Name</b>	<b>Amount</b>
Indirect Cost Assessment	\$42,010
<b><i>Total Risk Management Program Administrative Cost</i></b>	<b><i>\$1,328,047</i></b>
Liability Claims	
Liability Excess Policy	
Liability Legal Services	
<b><i>Total Liability Costs</i></b>	<b><i>\$7,940,300</i></b>
Property Policies	
Property Deductibles and Payouts	
<b><i>Total Property Costs</i></b>	<b><i>\$7,984,015</i></b>
Workers' Compensation Claims	
Workers' Compensation TPA Fees and Loss Control	
Workers' Compensation Excess Policy	
Workers' Compensation Legal Services	
<b><i>Total Workers' Comp Costs</i></b>	<b><i>\$41,120,820</i></b>
<b>Total Risk Management Program</b>	<b>\$58,373,182</b>

This bottom-line funding will provide the JBC with information concerning actual expenditures that has not been available in the past. At the same time, it will provide DPA with the operational flexibility necessary to ensure that claims and bills are paid in a timely manner without the need for additional budgetary modification by the JBC.