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F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	2/20/07		
SPONSOR	Rawson	**LAST UPDATED**		**HB**	
SHORT TITLE	Contributions Against State Agencies			**SB**	797
				ANALYST	Wilson

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	**FY08**	**FY09**		
		Significant	Recurring	Workers Compensation Fund
		Significant	Recurring	Public Liability Fund
		Significant	Recurring	Property Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Relates to Appropriation in the General Appropriation Act: HB 2 (appropriated amounts for Risk Management Division assessments) will end up in conflict with this bill if the actuarially required amount exceeded the amounts agencies were notified to request.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total			Significant	Significant	Recurring	All funds including General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Corrections Department (CD)
Department of Transportation (DOT)
General Services Department (GSD)
Public Education Department (PED)
Energy, Minerals & Natural Resources (EMNRD)

SUMMARY

Synopsis of Bill

Senate Bill 797 adds a section to the language that establishes and governs the Risk Management Division (RMD). The added section provides that the agency assessed contributions shall equal not less than 110% of the total incurred claims against that fund in the fiscal year before the preceding fiscal year, if any particular fund is actuarially unsound at the beginning of a fiscal year.

FISCAL IMPLICATIONS

Agencies do not have the capacity to respond to substantial increased rates except through the appropriation process. If the added clause is not applied until the beginning of a fiscal year, the appropriation and operating budget for an agency are already in place. Meeting increased costs will require reducing programs or operations in other areas.

SB 797 will cause significant increases in the premiums assessed to all agencies, which will impact the general fund as well as enterprise agencies and local public bodies. RMD costs will increase to pay the actuarial firm to recalculate rates.

SIGNIFICANT ISSUES

RMD administers four major funds: group benefits, workers compensation, public liability, and property. Only the group benefits fund is statutorily required to be actuarially sound pursuant to Section 10-7B-7 (F) NMSA 1978. RMD rule 1.6.2.9 NMAC prescribes premium development and sets a 40% maximum rate fluctuation per year.

As each claim is filed, an amount is established as a reserve which represents the maximum potential payout and includes payment to investigators, adjustors and attorneys. The only payments made prior to a settlement award to the claimant are court costs and fees to contract investigators, adjustors, and attorneys.

RMD rates are synchronized with the annual budget request cycle, which means premium assessments are calculated in May or June, published July 1, incorporated into agency budgets on September 1, and funding is determined by the legislature in January/February/March. The period covered by the rates is July 1 (a year after rates are published) to June 30 (two years after the rates are published).

To ameliorate the impact of high loss years, rates for public liability and public property are based on payouts in the previous five years. The five year recovery period stabilizes premiums and increases predictability of budget requirements.

The term "actuarially sound" is not defined. If that means requiring all RMD fund balances to meet 100% of the maximum potential liability for all open cases, premiums would double, triple or more, depending on the fund.

The goal of GSD is to reach 50% of actuarial soundness. The public liability fund is at 37% of the amount of the reserves for all open claims. Public property is at approximately 50%.

ADMINISTRATIVE IMPLICATIONS

Additional staff time would be required to redefine rates, actuarial contracts would have to be amended, and premiums would be increased to all agencies.

DW/nt