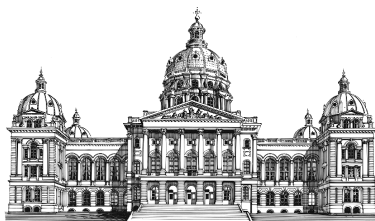


# Iowa Legislative Fiscal Bureau



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## Self Insurance Of State Facilities

### ISSUE

The self insurance policy of the State of Iowa for casualty losses. Tort liabilities will be addressed in a separate *Issue Review* later this year.

### AFFECTED AGENCIES

State agencies with State facilities supported by the State General Fund

### CODE AUTHORITY

Section 18.12(18), Chapter 25, and Section 29C.20, Code of Iowa

### BACKGROUND

The State of Iowa has elected to self insure for a number of potential risks that are inherent to the operation of State Government. Some of the risks the State of Iowa self insures are:

- Workers' compensation
- Unemployment compensation
- Medical coverage
- Loss of life
- Dental coverage
- Long-term disability
- Tort liabilities
- Casualty (property) liabilities

A portion of the self-insured risks are assigned to third-party interests through the purchase of insurance policies. When risk is transferred to a third party, the State assumes the liability for any deductibles and claims in excess of coverage limitations included within the policies. Examples of these liabilities are:

- Aircraft liability (in excess of \$10.0 million)

- Buildings with debt obligations
- Medical malpractice for employees at the University of Iowa Hospital and Clinics
- Revenue generating facilities at Regents Institutions
- Fidelity bond for State employees

The State of Iowa chose to be self insured for casualty losses because the Department of General Services (DGS) found in FY 1986, the cost of transferring this liability to a third party was not cost effective. The DGS received only one bid when bids were requested for catastrophic insurance for Capitol Complex facilities and this bid required the State to assume the first \$10.0 million of loss per occurrence. The task of management of State property loss exposure and State liability-risk exposure is assigned to the DGS in Section 18.12(18), Code of Iowa. The DGS has assigned the previously mentioned responsibilities for the Regents Institutions to the Board of Regents.

Prior to FY 1989, the DGS had a staff member dedicated to risk management. This position has been vacant since FY 1989. Currently, the Board of Regents has a risk management policy and each institution has at least one staff member assigned to risk management responsibilities.

If a State facility or equipment is damaged or destroyed by fire, storm, theft, or other unavoidable causes, the agency may request monies from a standing unlimited fund assigned to the Executive Council to fund repairing, replacing, or restoring the affected facility or equipment pursuant to Section 29C.20, Code of Iowa. On October 21, 1985, the Executive Council adopted a resolution stating that any casualty loss of \$500,000 or more would be referred to the General Assembly for consideration.

Based on the most recent information collected by State agencies, the State of Iowa has facilities with a replacement value of approximately \$9.2 billion. (See Attachment A.) Attachment A includes replacement cost information gathered by the Department of Management (DOM) in conjunction with the DGS in 1990 for some of the State facilities. This information has not been updated since. Approximately 90.0% of the total replacement value of facilities is represented by Regents Institutions and the Department of Corrections facilities.

A problem regarding reliability of the available replacement values is the lack of a uniform method used for collecting this data by the various State agencies and inconsistent updating of this data. The Board of Regents updates replacement value of their facilities on a yearly basis.

Methods available for collecting replacement values include:

- The method used by the Board of Regents is to determine the square footage of space by type of facility and to multiply the square footage amount for each type of facility times an industrial average for construction of such a facility. This method is widely utilized and is an accepted accounting practice.
- The DOM applied construction price averages to the square footage of the facilities when calculating replacement costs. However, they only used four categories in their calculations including: sheds, office buildings, power plants, and hospitals. With this in mind, many of the estimates given for buildings including classrooms, dormitories, laboratories, and other special use facilities not fitting into these categories may be understated.

**CURRENT SITUATION**

The State of Iowa is self insured for casualty losses to State facilities. However, facilities that have a debt obligation or are revenue generating at the Regents Institutions have insurance coverage. The State of Iowa has not established an actuarially funded self- insurance fund but has established a standing unlimited appropriation to the Executive Council for casualty losses.

The concern with the current method of funding the self-insurance losses is the potential for catastrophic losses. The majority of State facilities are clustered in Des Moines, Iowa City, Ames, and Cedar Falls. If a tornado or some other catastrophic event were to occur in these communities, the losses would be too large to be covered by the standing unlimited appropriation to the Executive Council. This would require the State to pursue other alternatives such as leasing space or bonding for the reconstruction of damaged facilities.

A uniform system for collecting the replacement value of State facilities does not exist. It would seem that the statutes, specifically Section 18.12(18), Code of Iowa, intended for such information to be collected by the DGS. It would be advantageous for the State to collect such information at a central location on an annual basis so that an accurate inventory of the replacement value is available.

**ALTERNATIVES**

The alternatives for funding losses available to the State include:

- Maintain the current standing unlimited appropriation to the Executive Council.
- Establish a self-insurance fund that is actuarially calculated with an annual appropriation.
- Create a hybrid system that establishes a self-insurance fund for State facilities that are nonrevenue generating and require income-generating facilities to purchase insurance coverage.
- Purchase insurance coverage for all State facilities from third-party providers on a competitive-bid basis.
- Distribute an appropriation equal to the historical standing unlimited appropriation to the Executive Council to State agencies with State facilities and assign the responsibility for insurance to the individual agencies up to a certain catastrophic limit that would then be considered by the Legislature.

**BUDGET IMPACT**

The budget impact for future fiscal years is dependent upon loss occurrences and the approach selected to address insuring State facilities. The claims approved for casualty losses to State facilities for the last three years covered by the standing unlimited appropriation to the Executive Council are:

- FY 1991    \$379,948
- FY 1992    \$0
- FY 1993    \$151,092
- FY 1994    \$17,000,000\*

\* This is a preliminary damage assessment estimate.

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## Replacement Cost Values for State Facilities

Department	Square Footage	Replacement Costs - 1993	Comments
General Services	1,913,763	\$ 270,942,870	1990 DOM-DGS value*
Natural Resources	N/A	N/A	
Human Services	1,913,763	417,223,860	1990 DOM-DGS value
Veterans Home	595,836	80,629,850	
Corrections	2,609,135	3,293,666,012	Additional replacement costs calculated from construction costs and added to 1990 DOM-DGS value.
Board of Regents	28,236,400	4,957,118,000	
State Fair Authority	1,687,661	121,332,892	
Public Safety	N/A	N/A	
Transportation	2,760,049	137,765,640	
Public Defense	2,268,771	148,341,317	
IPTV	81,784	20,227,965	
ILEA	49,589	1,512,872	
Total	<u>42,067,162</u>	<u>\$ 9,447,248,406</u>	

\*Note: The 1990 information was gathered by the Department of Management and the Department of General Services. Because of the method used for calculating the replacement cost value, the values may be low.