

Governor's Budget Proposes Closing Local Government Property Insurance Fund

Governor Walker's state budget proposes to eliminate the state run Local Government Property Insurance Fund. A February 2015 report shows \$52.2 billion in insured property values and 974 insureds including 68 counties insured by the fund. Over the past few years the number of insureds has steadily declined. The June 30, 2014 financial statements show slightly more than \$27 million in annual written premium.

The fund has operated for many years at a level with which the private market could not compete resulting in the vast majority of local units of government participating in the fund. With over \$41 million in surplus in 2009, the fund was well capitalized. Some believed the fund was over capitalized and forced a \$12 million dividend to be given back to participants. This dividend was provided in the 2009/10 state fiscal year.

After the dividend was declared and paid the fund began to experience a series of unfortunate events resulting in claims. These claims led to a drop in surplus that continued through the most recent financial report.

In 2012, the Legislative Audit Bureau conducted a study of the fund and reported that a drop in surplus levels resulted in the fund making changes to the amount of risk it was retaining in the fund. The fund also modified its reinsurance policy to cover events at a lower retention level.

Although the Office of the Commissioner of Insurance (OCI) took steps to increase premium beginning in 2011, the fund continued to experience a surplus decline. The June 30, 2014 annual statement of the fund shows the surplus at negative \$1.3 million. It is not known if the fund's negative surplus position continues today.

Discussion has taken place at OCI to correct the shortage of surplus should the Governor's proposal not pass the legislature. An on-site property evaluation process has already begun. Many members of the fund have property that is undervalued, thus not producing the premium necessary to support the fund. In addition, discussions have occurred regarding policyholder rate increases, however, no decisions have been made.

Under the budget proposal, no new coverage may be issued through the fund on or after July 1, 2015 and no coverage may be renewed after December 31, 2015. All money remaining in the fund after claims are paid will be distributed among local governments that were insured on July 1, 2015.

WCA is working with its insurance partners to better understand the upcoming transition period and coverage options for local governments should the budget proposal pass the Legislature.

For more information on the Local Government Property Insurance Fund, visit <http://oci.wi.gov/lgpif.htm>