

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0919-02
Bill No.: Truly Agreed to and Finally Passed HCS for SB 243
Subject: Administration, Office of; Insurance – Property; Property – Real and Personal;
Public Buildings
Type: Original
Date: May 16, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$937,759	\$1,189,665	\$1,308,632
Total Estimated Net Effect on General Revenue Fund	\$937,759*	\$1,189,665*	\$1,308,632*

*** Does not include unknown appropriation to State Property Preservation Fund.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
State Property Preservation Fund	(Unknown) to Unknown	(Unknown) to Unknown	(Unknown) to Unknown
Various	\$249,277	\$316,241	\$347,864
Total Estimated Net Effect on Other State Funds	(Unknown) to Unknown	(Unknown) to Unknown	(Unknown) to Unknown

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Treasurer's Office** and the **Office of Administration – Division of Design and Construction** assume the proposal would have no fiscal impact on their offices.

Officials from the **Office of Administration – Division of General Services (DGS)** state they expect the proposal to save the state significantly in insurance costs. However, in any given year there is the risk that a bonded building may be damaged and the state would be liable for the cost to repair or replace the damaged building. DGS notes over the past 15 years the state has recovered on two claims totaling \$281,000 on losses to covered buildings. This translates to approximately \$18,733 per year average claims costs. Current premium costs for insurance to cover bonded buildings is approximately \$730,795. DGS states the Jefferson City Correctional Center, upon completion of construction (projected May 2004), will increase the state's insurance obligation by an additional \$277,750. DGS notes only five (5) months of prorated coverage of approximately \$116,000 would be paid in FY '04.

DGS notes the state is currently looking at issuing revenue bonds backed by state buildings to meet the FY '03 budget shortfall. DGS estimates insuring this additional \$284 million in covered property would increase the insurance cost by approximately \$225,000 annually. DGS notes cost may vary depending on how the bond covenants are drafted and if renovation projects to be

ASSUMPTION (continued)

included would require the purchase of insurance for the underlying asset, (such as a requirement to insure an entire building when only the roof is being renovated). DGS states this could increase the costs significantly.

DGS brokers are projecting next year's renewal to increase approximately 12.5%. DGS assumes a 10% increase may be likely the following year. DGS assumes a positive net effect on state funds of \$1.2m in FY 2004; \$1.5m in FY 2005; and \$1.6m in FY 2006. DGS assumes the split between General Revenue and Other Funds to be 79 to 21 percent, respectively.

Oversight assumes the State Property Preservation Fund will operate similarly to the Legal Expense Fund – there would be no money in the fund unless it's needed whereby money would be transferred to the fund from General Revenue. **Oversight** cannot estimate the amount needed by the fund each year and therefore has assigned positive and negative unknown amounts.

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Savings – DGS</u>			
Avoidance of Premium Costs	\$952,558	\$1,205,944	\$1,326,539
<u>Costs – DGS</u>			
Average Annual Claims Cost	(\$14,799)	(\$16,279)	(\$17,907)
<u>Costs – Appropriation to State Property Preservation Fund</u>			
To Pay for Property Loss	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$937,759*</u>	<u>\$1,189,665*</u>	<u>\$1,308,632*</u>

*** Does not include Unknown transfer to State Property Preservation Fund**

FISCAL IMPACT - State Government FY 2004 FY 2005 FY 2006

OTHER FUNDS

Savings – DGS

Avoidance of Premium Costs	\$253,211	\$320,568	\$352,624
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Costs – DGS

Average Annual Claims Cost	<u>(\$3,934)</u>	<u>(\$4,327)</u>	<u>(\$4,760)</u>
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**ESTIMATED NET EFFECT ON
OTHER FUNDS**

	<u>\$249,277</u>	<u>\$316,241</u>	<u>\$347,864</u>
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**STATE PROPERTY
PRESERVATION FUND**

Transfer-In – General Revenue

Appropriation from General Revenue	Unknown	Unknown	Unknown
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Costs – State Property Preservation Fund

Payments for Property Losses	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ESTIMATED NET EFFECT ON
STATE PROPERTY
PRESERVATION FUND**

	<u>(Unknown) to Unknown</u>	<u>(Unknown) to Unknown</u>	<u>(Unknown) to Unknown</u>
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FISCAL IMPACT - Local Government

	FY 2004	FY 2005	FY 2006
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal creates the "State Property Preservation Fund." Moneys in the fund would be used for the purpose of repairing or replacing state-owned or leased property damaged from natural or man-made events.

Subject to appropriations, the fund would pay claims for property loss for state-owned or leased buildings. In order for the fund to make payment for property loss, a notice of coverage must be issued by the Office of Administration for the property and the state must be contractually obligated to provide insurance for such property.

The proposal limits the aggregate amount of money to be paid out of the fund to not exceed the cost of repairing or restoring the building or the defeasance of outstanding debt secured by the property. Payments from the fund come only after other insurance policies have been exhausted.

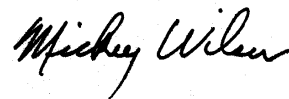
Moneys remaining in the fund at the end of an appropriation period shall not be transferred to General Revenue. The fund shall satisfy all covenants requiring the state to provide property insurance for state-owned or leased buildings and their contents.

This proposal contains an emergency clause.

This proposal is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
– Division of Design and Construction
– Division of General Services/Risk Management
State Treasurer's Office



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