

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 153 w/CS State Risk Management Trust Fund
SPONSOR(S): Gottlieb and others
TIED BILLS: None. **IDEN./SIM. BILLS:** SB 1934 (s)

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Health Services (Sub)	11 Y, 0 N	Mitchell	Collins
2) Health Care	21 Y, 0 N w/CS	Mitchell	Collins
3) State Administration	5 Y, 0 N	Brazzell	Everhart
4) Finance & Tax			
5) Health Appropriations (Sub)			
6) Appropriations			

SUMMARY ANALYSIS

HB 153 w/CS adds to s. 284.01(1), F.S., the provision that a hospital district created by special act, shall be considered a state agency, and its property interests shall be considered owned by the state, for the purpose of property insurance coverage by the State Risk Management Trust Fund. Upon the request of such district, and the payment of the premiums, the trust fund is required to insure the property of the district in the same manner as property owned by state agencies.

A search of the Department of Community Affairs' roster of special districts classified as "health facilities" lists 27 independent special districts. It has not yet been determined which of these are considered hospital districts and which of these currently operate one or more hospitals, nursing homes, or other health care facilities. An additional 2 special districts are nursing home authorities.

The bill may help reduce property insurance rates for certain hospitals. It has an indeterminate fiscal impact on the state. It does not appear to have a fiscal impact on local governments.
(See Fiscal Comments)

This document does not reflect the intent or official position of the bill sponsor or House of Representatives.

STORAGE NAME: h0153d.sa.doc
DATE: April 3, 2003

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

- | | | | |
|--------------------------------------|------------------------------|--|---|
| 1. Reduce government? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> | N/A <input type="checkbox"/> |
| 2. Lower taxes? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> | N/A <input type="checkbox"/> |
| 3. Expand individual freedom? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. Increase personal responsibility? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. Empower families? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

This bill extends state fiscal and agency responsibility for property insurance coverage to private sector hospitals. (See Fiscal Comments below.)

B. EFFECT OF PROPOSED CHANGES:

Background:

State Risk Management Trust Fund

Under provisions of Part I of Chapter 284, F.S., the state provides its own insurance coverage to state agencies through the State Risk Management Trust Fund, administered by the Risk Management Program of the Department of Financial Services. It insures all state-owned and leased buildings, and state-owned contents, specifically for those damages caused by fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, riot, civil commotion, sinkhole collapse and flood (s. 284.01, F.S.). Other causes of damages are not covered. Property coverage is provided for approximately 22,000 locations statewide. Total property covered is valued at more than \$14 billion.

The State Risk Management Trust Fund program has 100 FTE staff located in Tallahassee and has current annual funding of \$163 million. Claims and operating costs are paid from the State Risk Management Trust Fund. The trust fund is financed on a "cash flow" basis; only annual estimated cash needs are funded. There is no reserve funding provided for ultimate liabilities.

Current funding for the program is 65 percent General Revenue and 35 percent Trust Fund. Once the Legislature determines the total amount to be funded (based on claims expected to be paid that year), the program calculates the amount owed by each covered entity based on a variety of factors, including property value and claims history. Premiums pay claims and the operating costs of the division, as well as to purchase commercial insurance to cover potentially catastrophic losses in property damage (large property claims are especially unpredictable from year to year because of exposure to hurricanes and now terrorism). State funds from the trust fund pay claims below the deductible level and in excess of the commercial coverage; the deductible level historically has rarely been reached.

The current, FY 2002-2003, commercial premium for excess coverage to cover catastrophic damage to state property is \$10,595,000, an increase of 51 percent over the previous year, according to the department. Prior to Hurricane Andrew, premiums for excess property exposure cost only about \$800,000. For the current premium, the state gets \$200 million total coverage, with a \$2 million deductible known as Self-Insured Retention--except for wind storm damage. Wind storm damage is covered up to \$70 million, with a \$4 million self-insured deductible. Terrorism and related acts are excluded from the coverage. Of the \$10.6 million premium, \$8,020,000 is for the first \$30,000,000 of coverage.

Subsection (1) of s. 284.01, F.S., permits one instance of non-state agency participation in state property insurance coverage. The statute provides for coverage of the State Regional Office Building in Jacksonville, which is jointly owned by the State of Florida and the City of Jacksonville. The City of Jacksonville is responsible for the payment of all premiums charged by the fund to insure property owned by the City of Jacksonville.

Hospital Districts

Ch. 184, F.S., contains general provisions regarding special districts, and s. 189.403, F.S., defines "special district" as "a local unit of special purpose, as opposed to general-purpose, government within a limited boundary, created by general law, special act, local ordinance, or by rule of the Governor and Cabinet. The special purpose or purposes of special districts are implemented by specialized functions and related prescribed powers." School districts, community college districts, certain special improvement districts, certain municipal service taxing or benefit units, or certain boards which provide electrical service are excluded from the definition. The statutes further classify special districts as independent or dependent, with dependent special districts being under greater control of the governing body of a county or municipality.

The term "hospital district" is not defined in statute. However, the term is used in statute (s. 154.12, F.S.), and a number of independent special districts are known as hospital districts (e.g., the North Lake County Hospital District). Other independent special districts organized to provide health care are titled "health systems", "Medical Centers", and "healthcare districts". A search of the Department of Community Affairs' roster of special districts classified as "health facilities" lists 27 independent special districts. It has not yet been determined which of these are considered hospital districts and which of these currently operate one or more hospitals, nursing homes, or other health care facilities. An additional 2 special districts are nursing home authorities.

Section 189.404, F.S., provides that for independent special districts created by general law or special act after September 30, 1989, their charters must contain information relating to their ability to levy ad valorem taxes, issue bonds, or raise revenue in other fashions, and the processes for doing so; the membership and organization of the governing board; planning requirements; and geographic boundaries.

According to Memorial Healthcare System in Broward County, in the last two years their insurance premiums for property damage have increased almost 700 percent, from just over \$500,000 in 2001 to \$3.5 million in 2002. Memorial Healthcare is one of the largest hospital systems in Florida with a total property value of approximately \$1.2 billion, and was established by the Legislature as a special district, the South Broward Hospital District.

Proposed changes:

HB 153 w/CS adds to s. 284.01(1), F.S., the provision that a hospital district created by special act, shall be considered a state agency, and its property shall be considered owned by the state, for the purpose of property insurance coverage by the State Risk Management Trust Fund. Upon the request of such district, and the payment of the premiums, the trust fund is required to insure the property of the district in the same manner as property owned by state agencies.

C. SECTION DIRECTORY:

Section 1. Amends s. 284.01(1), F.S., to provide for State Risk Management Trust Fund property coverage for certain hospital districts.

Section 2. Provides an effective date of July 1, 2003.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

Not yet determined. See comments below.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

May reduce cost of property insurance to certain hospitals. See comments below.

D. FISCAL COMMENTS:

Hospitals which chose to participate in the State Risk Management Trust Fund under the provisions of HB 153 w/CS could expect to pay lower premiums as part of the larger risk pool according to the department.

State coverage may not cover hospitals' full losses due to the statutory limitation to covering only "named perils" and because it pays Actual Cash Value of the affected properties, not full replacement costs.

The fiscal impact on the state depends on the number of hospitals in special districts that choose to participate in the state's insurance program, and the total property value of their hospital buildings and contents. The valuations of their property would be added to the total the state must self-insure and buy excess coverage for. The special district hospitals would represent additional risk for the self insured deductible assumed by the state and the costs of running the program, which are covered by General Revenue and the Trust Fund. To avoid the need for unexpected appropriations by the Legislature, the department would have to carefully assess the value of the added properties and their risk of damages, and charge appropriate premiums to the hospitals for their participation in the fund.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds. This bill does not reduce the percentage of a state tax shared with counties or municipalities. This bill does not reduce the authority that municipalities have to raise revenues.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

The Department of Financial Services, pursuant to s. 284.17, F.S., has the authority to adopt rules to implement the provisions of the bill.

C. DRAFTING ISSUES OR OTHER COMMENTS:

According to staff of the Risk Management Program, coverage for the FY 2003-04 cycle is in the process of being purchased for participants of the trust fund and will have been purchased prior to the effective date of this bill; thus if the bill passes, coverage for any hospital districts electing to participate will not have been factored in for the FY 2003-04 cycle.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

On March 12, 2003, the Health Services Subcommittee adopted an amendment that:

- removes the provision that requires the hospital special district to own the hospital and other health care facilities; and
- removes the provision that leasehold interests would be covered by the provisions of the bill.

On March 19, 2003, the Committee on Health Care adopted the amendment and reported the bill favorably "with a CS."