



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT



Employment First State for Individuals with Disabilities

ROY COOPER
GOVERNOR

KRISTIN WALKER
STATE BUDGET DIRECTOR

April 29, 2024

TO: Joint Legislative Commission on Governmental Operations
FROM: Kristin Walker
SUBJECT: Deviation Requests from the NC Department of Insurance

Pursuant to G.S. 143C-6-4 (b1) prior consultation with Governmental Operations is required when the over expenditure would cause a department's total requirements for a fund to exceed the department's certified budget for a fiscal year for that fund by more than three percent (3%) prior to authorizing the over expenditures.

The Department of Insurance (DOI) is requesting to deviate in its Public Education Property Insurance (budget code 54625) and Insurance-Trust-Internal Service (budget code 63903) to pay required reinsurance premiums for the 2023-24 fiscal year.

The deviation requests are outlined below:

1. Budget Code 54625 - The School Property Insurance Fund (SPIF)

Request to utilize fund balance to budget for over expenditures in account 532919 - Other Insurance in the amount of \$15,778,776 to pay reinsurance premium for FY 2023-24. The three percent threshold is \$790,705. The reinsurance premium cost is \$30,000,000. The premium for insurance has increased in the past few years due to frequency of catastrophic natural disasters, the outbreak of two wars, and worldwide inflation. Internally, reinsurance carriers are not confident in the state's value for their portfolio of properties and have raised premiums. Also, the difference in participant deductibles as compared to program deductibles has led to use of revenues from premiums to cover costs of losses which has resulted in unplanned increases in expenditures. The insurance premium being paid is for excess property coverage.

2. Budget Code 63903 - The State Property Fire Insurance Fund (SPFIF)

Table with 3 columns: Budget Code, RK 325 as of 03/21/24, 3% Threshold. Rows include budget code 63903 and Fund Type 27XXX Total.

Request to utilize fund balance to budget for over expenditures in account 52919000 - Other Insurance and account 55252001 - Claims-All Risk in the amount of \$2,844,020 and \$8,000,000 respectively.

The premium for the reinsurance has increased due to several factors including catastrophic natural disasters, inflation and disparity between participant and program deductibles. The reinsurance being paid is for excess property coverage. The reinsurance premium is \$30,000,000. There are also two claims that have been settled – UNC Wilmington and NC State University.

Please see the attached Deviation Exception Request Form for more details.

If you have questions or concerns, please contact DOI analyst, Mercidee Benton, at mercidee.benton@ncdoi.gov or OSBM budget analyst, Alice Saunders, at Alice.Saunders@osbm.nc.gov.

CC:

Jennifer Neisner, OSBM
Alice Saunders, OSBM
Tanya Oginski, DOI
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REQUEST TO DEVIATE UNDER G.S. 143C-6-4(b)(3)(b1):

(b1) Prior consultation with Governmental Operations is required when the over expenditure would cause a department's total requirements for a fund to exceed the department's certified budget for a fiscal year for that fund by more than three percent (3%) prior to authorizing the over expenditures.

DEPARTMENT: Insurance
FISCAL YEAR: 2023-2024
Date: 03-28-2024
Budget Revision #: 12-0009

Budget Code	Certified Requirements	3% Deviation Threshold	Amount of the Over expenditure Request	Amount the Request Exceeds the Deviation Threshold
63903	\$ 45,375,054	\$ 1,361,252	\$ 10,844,020	\$ 9,482,768
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
Fund Type 27XX Total	\$ 45,375,054	\$ 1,361,252	\$ 10,844,020	\$ 9,482,768

JUSTIFICATION FOR REQUEST:

Per G.S. 58-31, The State Property Fire Insurance Fund (SPFIF) was created for the purpose of providing a reserve against loss from fire at State departments and institutions. This statute allows extended coverage insurance, and other property insurance, to be provided on designated state owned property which is insured by the SPFIF. Premiums are paid by the requesting department, agency, or institution and any subsequent losses are paid for out of the SPFIF. The program is administered by OSFM's Risk Management Division. The Risk Management Division manages both this program and the Public School Insurance Fund (PSIF) and procures insurance coverage for all state government property and public education property.

The Department of Insurance, Office of the State Fire Marshall, has submitted budget revision 12-XXXX in budget code 63903 to budget additional funds that will be required to pay the annual reinsurance premium and claims for the State Property Fire Insurance Fund. The policy renewal period is effective May 1st of each fiscal year. The estimated reinsurance premium renewal cost for the SPFIF is \$30,000,000. There are also two claims that have been settled that will result in additional requirements for this fiscal year; begin installment payments to UNC Wilmington - estimated need \$2,000,000 this fiscal year; and, payment for NC State University claim - estimated need \$6,000,000 this fiscal year. Account 52919000 has a current

availability remaining in the amount of \$27,155,980; an additional \$2,844,020 is required to meet the reinsurance payment and an additional \$8,000,000 is required in account 55250001 to make claims payments to UNC Wilmington and NC State University for a total of \$10,844,020 in additional requirements supported from the current fund balance in this program.

G.S. 143C-6-4 (b1), requires that any authorized budget adjustments that results in an over expenditure that causes a department's total requirements for a fund to exceed the department's certified budget for a fiscal year for that fund by more than three percents (3%), the Director shall consult with the Joint Legislative Commission on Governmental Operations prior to authorizing the over expenditure. The 3% deviation threshold for this Fund Type is \$1,361,252; the amount of the estimated over expenditure is \$10,844,020; and the amount the request exceeds the deviation threshold is \$9,482,768.

REQUEST TO DEVIATE UNDER G.S. 143C-6-4(b)(3)(b1):

(b1) Prior consultation with Governmental Operations is required when the over expenditure would cause a department's total requirements for a fund to exceed the department's certified budget for a fiscal year for that fund by more than three percent (3%) prior to authorizing the over expenditures.

DEPARTMENT: Insurance - Office of State Fire Marshall
FISCAL YEAR: 2023-2024
Date: 3/27/2024
Budget Revision #: 12-0009

Budget Code	Certified Requirements	3% Deviation Threshold	Amount of the Overexpenditure Request	Amount the Request Exceeds the Deviation Threshold
54625	\$ 17,356,828	\$ 520,705	\$ 15,778,776	\$ 15,258,071
63902	\$ 9,000,000	\$ 270,000	\$ -	\$ (270,000)
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
Fund Type 25XX Total	\$ 26,356,828	\$ 790,705	\$ 15,778,776	\$ 14,988,071

JUSTIFICATION FOR REQUEST:

G.S. 115C-523.1 - Duty to insure pubic school property (c) requires that local school boards of education may purchase insurance from a duly licensed and authorized to sell insurance in this State or may obtain insurance in accordance with the provisions of Article 31A of Chapter 58 of the General Statutes, "State Insurance of Public Education Property." The Office of the State Fire Marshall administers the School Property Insurance Fund on behalf of the Commissioner of Insurance per G.S. 58-31A-5. G.S. 58-31A-40 further states that the Commissioner shall determine the annual premium rate to be charged for insurance of public education properties.

The Department of Insurance, Office of the State Fire Marshall, has submitted budget revision 12-0009 in budget code 54625 to budget additional funds that will be required to pay the annual reinsurance premium for the School Property Insurance Fund (SPIF). The policy renewal period is effective May 1st of each fiscal year. The estimated reinsurance premium renewal cost for the SPIF is \$30,000,000. Account 52919000 is currently budgeted at \$14,221,224. An additional \$15,778,776 is required from the fund balance for this program to pay the estimated reinsurance premium during FY 2023-24.

G.S. 143C-6-4 (b1), requires that any authorized budget adjustments that results in an overexpenditure that causes a department's total requirements for a fund to exceed the department's certified budget for a fiscal year for that fund by more than three percents (3%), the Director shall consult with the Joint Legislative Commission on Governmental Operations prior to authorizing the overexpenditure. The 3% deviation threshold for this request is \$790,705; the amount of the estimated over expenditure is \$15,778,776; and the amount the request exceeds the deviation threshold is \$14,988,071.