



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab

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Joe Chrisman
State Auditor

December 13, 2016

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

In report 15-16, which was our most recent audit of the Local Government Property Insurance Fund (Property Fund), we reported that the Property Fund's net position as of June 30, 2014, was a deficit of \$703,000. When the Property Fund's cash balance becomes insufficient to pay claims that are due, the Department of Administration must transfer an amount sufficient to pay the claims from the General Fund, as provided under s. 605.30, Wis. Stats. In report 15-16, we also reported that the Property Fund's cash was depleted in September 2015, at which time it borrowed \$2.0 million from the State's General Fund. We recommended that the Office of the Commissioner of Insurance (OCI) report by July 8, 2016, to the Joint Legislative Audit Committee on the sufficiency of the Property Fund's minimum targeted premium-to-surplus ratio and the steps taken to address the deficit balance and reach the targeted minimum balance. We indicated in report 15-16 that we would review OCI's submission and update the Legislature on the financial condition of the fund.

In its July 28, 2016 letter, OCI reported a decrease in the number of insured entities from 983 as of July 1, 2014, to 231 as of July 1, 2016. OCI also reported outstanding losses of \$10.7 million and a decline in premiums in force from \$27.1 million as of July 1, 2014, to \$3.2 million as of July 1, 2016. The letter also discussed actions taken by OCI to increase the Property Fund's net position, which included decreasing the deductible for claims made through its reinsurance program, increasing premiums, and making other policy changes.

In its September 15, 2016 agency budget request for the 2017-19 biennium, OCI proposed to cease operations of the Property Fund. Specifically, OCI recommended stopping the issuance of new policies and the renewal of existing policies. OCI cited a continuing decline in the number of entities insured by the Property Fund as private market coverage has become more affordable. A report we obtained from OCI indicates 174 entities were insured as of November 4, 2016.

In its unaudited financial report draft for fiscal year (FY) 2015-16, the Property Fund reported net premium revenues of \$4.9 million for FY 2015-16 compared to \$17.3 million reported for FY 2014-15. It also reported a cash balance of \$238,700 and a deficit net position of \$3.7 million as of June 30, 2016. However, \$11.5 million in reported Property Fund assets relates to an

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amount currently in litigation for collection from the Property Fund's excess-loss-provider. If the Property Fund does not prevail, the Property Fund's net position may further decline.

Section 605.30, Wis. Stats., also specifies that the Property Fund must repay the General Fund for amounts borrowed as soon as there are assets in the Property Fund. In October 2015, the Property Fund repaid the \$2.0 million it had previously borrowed in September 2015 from the State's General Fund. However, the Property Fund borrowed an additional \$15.1 million from the State's General Fund from November 2015 through October 2016, none of which was repaid as of November 30, 2016. The Property Fund reported, in its draft unaudited financial report, a liability of \$8.4 million for the amount borrowed from the General Fund as of June 30, 2016.

With the continued decline in the number of insured entities, the Property Fund will likely earn less in premiums in FY 2016-17 than was earned during FY 2015-16. Because the Property Fund's resources available to pay claims have continued to decline, the Property Fund may need to borrow additional amounts from the State's General Fund. At this time, the total amount that may need to be paid by transfers from the State's General Fund, and the ability of the Property Fund to repay the State's General Fund, is not known.

I hope you find this information helpful. As required by s. 13.94 (1) (de), Wis. Stats, we plan to begin our next financial audit of the Property Fund in 2017.

Sincerely,



Joe Chrisman
State Auditor

JC/KE/cb

cc: Senator Mary Lazich
Senator Alberta Darling
Senator Kathleen Vinehout
Senator Janet Bewley

Representative John Macco
Representative John Nygren
Representative Melissa Sargent
Representative Terese Berceau

Mr. Theodore K. Nickel, Commissioner of Insurance