

20th Anniversary *Risk Management* *Division*



Annual Report Fiscal Year 2007

MISSION STATEMENT

1988

The mission of the Risk Management Division of the Department of Administration is to:

- ◆ develop cost effective property management programs that shield the state from fortuitous loss and are responsive to individual agency needs;
- ◆ promote risk management principles and techniques through consultation with state agencies in the implementation of risk management programs;
- ◆ provide the means to determine the total cost of risk to the state; and,
- ◆ provide the policy initiative to effectively control the state's cost of risk.

Current

Preserve Minnesota's governmental assets by managing customer risk.

Goals/Strategies

Reduce risk by using proactive risk management techniques

Maintain financial stability

Deliver comprehensive, cost-effective, insurance services

Vision

Our vision is to be a leader in providing high quality risk and insurance management products and services to our customers and to be recognized as a leader in the state and insurance community.

Photo Credits:

Front Cover

1988 Chevrolet Red Pickup Truck

*St Cloud State University – Lawrence Hall Tower
Photograph courtesy of St Cloud State University*

Minnesota State Colleges and Universities Logo

*Alexander Ramsey House
Photograph courtesy of Minnesota Historical Society*

Back Cover:

*Governor's Residence
St. Paul, MN*

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Commissioner's Statement



Back in 1991, when I first had the honor of reflecting on Risk Management Division's annual report of accomplishments, I noted their keen emphasis on proactive and preventive approaches, rather than on reactive solutions, to key issues of risk facing government and the citizens of Minnesota.

Today, 16 years later, it is even more evident that this strategy, in concert with a steadfast commitment to helping their customers succeed, is realizing the division's vision of reducing risk, maintaining financial stability and delivering comprehensive, cost-effective insurance services for Minnesota government. Some specific examples from this past year include:

- The development, in cooperation with the state's Automobile Fleet Task Force, of a new rating program for auto liability insurance that uses a four-tier structure for determining rates based on loss experience and features competition and incentives for keeping losses and premiums low.
- The completion of infrared-imaging electrical system surveys at all 54 campuses of the Minnesota State Colleges and Universities system as part of an ongoing and statewide loss control program for identifying potential electrical "hot spots." These hot spots can lead to equipment damage, service interruptions, or fire. To prevent damage, Risk Management recommends repairs and requires their completion within a specified timeframe.
- A change in state law, sought by the division, now permits division personnel to represent state agencies in conciliation court.

Risk Management Division over the past 16 years has experienced an average annual growth rate of *50 percent*, with premiums rising from \$1.2 million in 1991 to \$9.8 million in FY2007. Since its establishment by the 1986 Minnesota Legislature, the division has maintained an expense ratio well below that of private sector insurance companies, clearly indicating extreme discipline in their processes and wise use of customers' premium dollars.

Division personnel respond quickly to disasters both large and small. The division continues to lead efforts toward reducing their incidence through the development of programs and guidelines, such as the State Auto Fleet Safety Standards. These standards, as one example, help manage the safety and costs of the state's automobile fleet and prevent and control losses before they happen.

As the division observes its 20th anniversary, a dedicated professional staff continues to build on a strong reputation among customers and peers for effective, pro-active preservation of Minnesota's governmental assets through managing customer risk.

I am sure everyone joins me in congratulating the Risk Management Division on its remarkable 20-year record of accomplishment on behalf of its customers.

A handwritten signature in black ink that reads "Dana B. Badgerow".

Dana B. Badgerow, Commissioner
Department of Administration

Director's Message



This annual report celebrates Risk Management's first twenty years, which have been in many respects, extremely rewarding to those involved.

Fred Johnson, the first Director hired for the new Risk Management Division (RMD) in 1986, was a superb choice for the hiring committee that probably had little or no property and casualty insurance background to draw on. As you can see from his interview in this report, Fred does a good job of providing his perspective on how Risk Management got to where it is today.

From the modest start in 1987, when the first auto coverage was written, Risk Management has experienced many events. We have had insurance claims that include large fires, tornados, water main breaks, liability claims, and severe auto accidents. Over \$80 million have been paid out for losses.

We have benefited from the Legislature's foresight with our enabling legislation contained in Minnesota Statutes, Section 16B.85, and have had knowledgeable and cooperative clients. We have also been blessed with Department of Administration management who could see the benefit to the state and taxpayers for this type of program and were there to provide their support when needed. We have grown in total number of staff from three in the early years to eleven. They are professional and dedicated personnel who know and carry out their roles.

I also want to recognize the Risk Management Advisory Committee (RMAC) and all the members that have served on the Committee over the last 20 years. The RMAC was set up in the beginning of the RMD and has been instrumental in providing advice and counsel to the Division. Any success that has been achieved by the RMD needs to be shared with this dedicated Committee.

The positive contribution this program added to the state was no accident. There were a lot of ups and downs, but the positives far outweigh the negatives. In addition, we have had a lot of fun and enjoyment along the way since this is a labor of love for many of us.

As we look forward to the future, it is beneficial to look in the rearview mirror to reflect on where we have been. The future holds a lot of promise. The risk management concept is generally accepted as a win-win for the state of Minnesota. As we go forward, we want to thank all of the players from the past for helping the RMD get to where it is today.

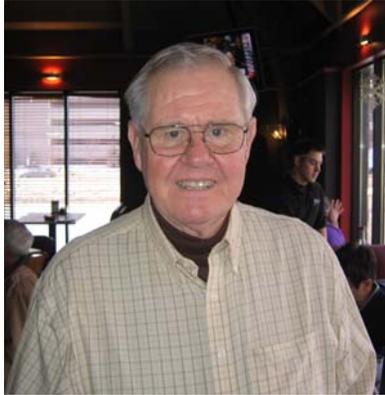
It is up to future participants to continue striving to be a positive force for Minnesota.

We fervently believe that the next twenty years will be even more challenging and rewarding than the past twenty. The die is cast!

A handwritten signature in cursive script that reads "Phillip E. Blue".

Phillip Blue
Director

Interview of Risk Management Division's First Director



For this 20th anniversary Annual Report, we interviewed Fred Johnson, Director of Risk Management from 1986 to 2004, to gain some insight on how things went in the early years and how the RMF grew and prospered.

Question: *What were some of your early thoughts before you took this job in regards to the potential of a State of Minnesota Risk Management Fund?*

The legislation that created the RMD and RMF was well-founded and enabled the Division to create a program that could grow and diversify to meet state agency needs. In the private sector, risk management had become an established concept during the 1970's and 1980's, but had not been utilized in the public sector. I felt it was a concept that could be of great benefit to the state of Minnesota.

I knew that it would be a challenging and interesting opportunity, and it proved to be that as well as very satisfying.

Question: *How did you set up the initial auto liability program?*

Prior to creation of the RMD, Automobile Liability insurance was purchased from the conventional insurance market on competitive bid based on low price. It is interesting to note that the original statute creating the RMD was entitled "Alternatives to Conventional Insurance." Prices the prior year had increased fourfold and the number of companies offering coverage had declined to one. I decided that we should explore a funded self-insurance program while maintaining the option for traditional insurance. Bids were received and the premiums were still very high.

In December, it was recommended that we self-insure automobile liability insurance in the newly created RMF that was permitted in the enabling legislation. Since we had very limited loss information, the approach to determining the premium was to take the insurance quote and reduce it by eliminating the redundancies that included agent commissions, taxes, and other expenses that self-insureds would not have to pay. I believe that we reduced the cost about 35 percent. We also incorporated a dividend concept to reward agencies with good loss experience which would lower premiums if experience warranted. This also incorporated and encouraged safety and the use of other loss reduction techniques.

In that first year, the lowest commercial quote for the state's auto liability program premium was approximately \$700K. The RMF ended up writing the same business for \$459K for a premium savings of \$241K. That is how the RMF started out. Twenty years later, it is even more positive, with greater savings, as the program has grown from \$459K in premium the first year, to over \$10 million in premium, in addition to many more lines of business.

Question: *What can you tell us about the first couple of years that would give us a good feel for the people and the process you had undertaken?*

Risk Management and I began our journey on September 2, 1986. Marlys Lockman was my first hire in November. Marlys was a very dedicated person and was instrumental in establishing many of the procedures that are still in place. Bill Dustin joined the Division in early 1987 as an insurance analyst. Bill's initial efforts to develop the rating and reporting procedures are also still in use today.

The program was well received by state agencies since it had substantially reduced insurance costs providing cost savings for them. It was also well supported by the Department of Administration's management team. We undertook several risk management consulting studies for agencies, established requirements for contracts, and opened new insurance markets that had previously not been open to the state. I believe it was viewed as a positive by all concerned based on the increasing activity that the RMD was experiencing.

Question: *Did you ever have any doubts that the RMF would be a success?*

No, not really. With the Tort Claim limits of \$200,000 per person/\$600,000 per occurrence at that time, we could manage a single event, but it was a concern that, if we had a series of catastrophic events, it could affect the RMD, but we did have the ability to purchase reinsurance to restrict our exposure in the event we needed it.

Question: *What do you think was the biggest challenge you faced during the early days?*

We only had three staff members, with no sales staff except myself, to sell the concepts. It was also a challenge to set up the underwriting approach and continue to progress with such a small staff, but we did it.

Question: *Why did you think an Advisory Committee should be formed?*

We were a new concept to state government and one that state agencies had little or no knowledge about. The RMAC was created for two reasons: 1) to get buy-in from state agencies and have them better understand the risk management process and, likewise, for us to better understand their needs; and, 2) to provide credibility. To achieve the second goal, we included not only large client agencies, but also the Department of Employee Relations, the Department of Finance, the Attorney General's office, and the Department of Commerce. To expand further, we included academia with C. Arthur Williams, a noted insurance scholar from the University of Minnesota, and Mike Dempsey, Director of Risk Management for General Mills.

Question: *How would you describe the time you were at the state from the beginning to your retirement?*

It was an exciting and satisfying job. I feel that I left a mark by setting up a solid risk management foundation for the state of Minnesota that will endure for some time to come.

Question: *Was there anything you wanted to do with the RMF that did not materialize for whatever reason?*

There are always some things that don't materialize as you would like to have them, but, by and large, we accomplished the things we set out to accomplish. There were some coverages that agencies wanted, but we were unable to produce without putting the RMF in jeopardy by taking on risk that would not be based on sound underwriting principles and for the benefit of all participating state agencies.

Question: *Knowing what you know today, what would you do differently if this was a brand new opportunity?*

In the beginning, I had a vision of a multi-line operation, but I needed to determine how to accomplish that goal. The state had a big property exposure; however, statute prohibited agencies from buying property insurance. I wanted to change that legislation, and, in the mid-1990's, Minnesota Statute, Section 16B.85, Subdivision 2(a) was amended to read, "All state agencies . . . may, in cooperation with the commissioner, participate in insurance programs . . . provided by the risk management fund." It took three years to pass the statute change because it was part of the Department of Administration housekeeping bill that did not pass until the third try. Once this was changed, the RMF started writing some of the State's property risks. Today, there is over \$10 billion of property insured by the RMF.

Question: *What do you think was your most significant accomplishment during your tenure?*

I feel my most significant accomplishment was setting up a solid foundation for the state's risk management program that, in large part, continues to this day.

Question: *Tell us about your first large loss and how was it handled?*

That was a Department of Corrections claim. A group of youths who were being released the next day from the Sauk Centre Juvenile Detention Center, was being treated to a movie in Alexandria. Their van was in an accident on I-94 after a light snow. The van driver lost control, crossed the median, and was struck by a semi. The Tort Claims cap was \$200,000/\$600,000, and the loss, based on the fatalities and injuries, was clearly a tort cap claim. The challenge was to manage the claim, preserve the tort cap, and bring a quick and equitable resolution of the claim.

Clearly, the settlement of the claim would have had an adverse effect on the financial stability of the RMF. The Advisory Committee approved the concept of a Rate Stabilization Adjustment which all state agencies contributed to through a surcharge that spread over four years the impact of the claim. Through the leadership of the RMAC, the RMF survived and continued to grow in financial strength, therefore permitting the many accomplishments of the RMD.



Marlys Lockman, Fred Johnson, Bill Dustin, and Geri Lambach reunite to remember days of old

When we can identify a problem and face the problem with confidence and enthusiasm, the solution is on the way. - Zig Ziglar

Then and Now

As the RMD celebrates its' 20th Anniversary, we pause to take a brief look at technology and news stories that captured our attention in 1987 and in 2007.

Technology Then – 1987

- ◆ Policies rated and issued manually.
- ◆ Certificates of Insurance processed using a template.
- ◆ Policy declarations issued using a word processor.
- ◆ Loss control efforts in the formative stage.

Technology Now – 2007

- ◆ Policy and claims management systems capable of rating and issuing policies, producing meaningful reports and policy declarations, and providing stakeholders with evidence of insurance.
- ◆ Loss control efforts with technological advances.
- ◆ Global Positioning Systems (GPS) provide a method of identifying flood zones.
- ◆ Thermal imaging equipment detects electrical “hot spots,” allowing quick discovery of electrical components operating outside the normal temperature range.

News Stories Then – 1987

- ◆ Minnesota Twins become 1987 World Series Champions!
- ◆ Stock market crashes on Black Monday.
- ◆ Average cost of one gallon of gasoline – \$.89.
- ◆ Celebrated film – Good Morning, Vietnam.
- ◆ Popular song – Livin’ On a Prayer by Bon Jovi.
- ◆ The world’s population reaches approximately five billion (5,000,000,000).

News Stories Now – 2007

- ◆ Legislation enacted to merge the Department of Employee Relations’ Workers’ Compensation Program with the Department of Administration’s Risk Management Division!
- ◆ Minneapolis, Minnesota’s I-35W bridge collapses (August 1, 2007).
- ◆ New home sales at lowest level in 12 years.
- ◆ Average cost of one gallon of gasoline – \$2.98.
- ◆ Celebrated film – Pirates of the Caribbean: At World’s End.
- ◆ Popular song – Don’t Blink by Kenny Chesney.
- ◆ After 10 years, bird flu still baffles scientists.

RMF rates are about the only thing that haven’t changed drastically over the years!



DNR “Old Truck”



Minnesota Dept of Public Safety
State Patrol Motorcycles



STAR Program client using today’s
technology to perform her job duties

Risk Management Fund Advisory Committee

Frank Ahrens
Department of Public Safety
Fiscal & Administrative Services

Sieglinde Bier
Minnesota State Colleges
and Universities

Phillip Blue
Department of Administration
Risk Management Division

Mary Lou Houde
Department of Commerce
Registration & Insurance

Bill Hoyt
Metropolitan Airports
Commission

Tom Hugdahl
3M Insurance Department
(Retired)

John King
Department of Corrections

Terry Lahti
Department of Natural
Resources

Peggy Lexau
Department of Finance

Tim Morse
Department of Administration
Travel Management Division

Mary Pittelko
State Agricultural Society
(State Fair)

Sheila Reger
Deputy Commissioner
Department of Administration

Billi Sanders
Department of Administration
Financial Mgmt and Reporting

John Scharffbillig
Department of Transportation

Gary Westman
Department of Employee
Relations

Andrew Whitman
University of Minnesota

Comments from Advisory Committee Member Tom Hugdahl

As the current longest-serving member of the Advisory Committee, we asked Tom Hugdahl to comment on his years with the RMAC.

At the time of my retirement in 2002, after 31 years in the Insurance Department, I was serving as Director of Insurance for 3M's worldwide operations. In this capacity, my department and I dealt with a multitude of property, financial, and liability risk exposures.

In the fall of 1989, I was asked by Fred Johnson to join the Risk Management Advisory Committee. I have enjoyed my time on this committee and have been very impressed with the staff of the RMD. They bring an expertise that is providing an invaluable service to the state of Minnesota.

One of the risk management rules is to buy insurance only for losses that are unexpected and to self-insure those losses that are predictable. The RMD provides the vehicle for the State to accomplish this by financing a self-retention program for predictable losses such as general liability and auto liability exposures that fall within the state's immunity law protection limits. The avoidance of having to purchase insurance for these predictable losses saves the State millions of dollars. The RMD's success is contingent upon the continued involvement of the various departments, etc. within the state. Their participation makes the program work.

Purchasing reinsurance also continues to be an important role as some losses are not easy to predict, e.g. property losses. The RMD has impressed me with their marketing skills when the purchase of reinsurance is advisable.

Greater savings are ahead with the merger of RMD and Workers' Compensation. My congratulations to Phil Blue and his staff for continuing to look for new opportunities to bring additional cost reductions to the state of Minnesota.

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Left to right: Dave Agren, Bryan Freeman, Marlys Williamson, Lea Shedlock, Erica Richards, Phil Blue, Denise McGovern, Gay Scharpen, Caroline Wisniewski, Tom Chukel, Carol Morgan

I never did anything alone. Whatever was accomplished in this country was accomplished collectively. - Golda Meir

Customer Agencies and Political Subdivisions



Administrative Hearings, Office of
Agriculture, Department of
Amateur Sports Commission
Anoka County
Attorney General
Barbers & Cosmetologist Examiners, Board of
Behavioral Health & Therapy, Board of
Center for Criminal Justice &
 Law Enforcement
Chicano Latino Affairs Council
Chiropractic Examiners, Board of
Commissioner's Office, Dept of Administration
Communications Media
 Central Mail
 DocuComm/ReComm
Corrections, Department of
Council on Black Minnesotans
Dakota County
Dentistry, Board of
Developmental Disabilities Council
Dietetics & Nutrition Practice, Board of
Education, Department of
Emergency Medical Services Regulatory Board
Employee Relations, Department of
Employment and Economic Development,
 Department of
Enterprise Technology, Office of
Explore Minnesota Tourism
Financial Management & Reporting Division
Gambling Control Board
Governor's Office
Health, Department of
Health Professional Services Program
Higher Education Facilities Authority
Higher Education Services Office
Housing Finance Agency
Human Rights, Department of
Human Resources, Dept of Administration
Human Services, Department of
Indian Affairs Council
Information Policy Analysis Division
Insurance Fraud Prevention, Division of
Investment Board
Iron Range Resources
Judicial Standards, Board of
Labor & Industry, Department of
Lawyers Professional Responsibility Board
Management Analysis Division
Marriage & Family Therapy, Board of
Medical Practice, Board of
Metropolitan Airports Commission
Metropolitan Council
Military Affairs, Department of
Minnesota Historical Society
Minnesota State Academies
MN Legislature – Office of the Revisor
 of Statutes
MN State Lottery
MN State Colleges and Universities
 all facilities
MN Technology
Natural Resources, Department of
Nursing, Board of
Nursing Home Examiners BENHA, Board of
Office Supply Connection
Ombudsman for Mental Health &
 Mental Retardation
Optometry, Board of
Pennington County
Perpich Center for Arts Education
Pharmacy (ASU), Board of
Physical Therapy, Board of
Plant Management Division
Podiatric Medicine, Board of
Pollution Control Agency
Port Authority of the City of St Paul
Psychology, Board of
Public Defense, Board of
Public Employees Retirement Association
Public Safety, Department of
Public Service, Weights & Measures
Public Utilities Commission
Revenue, Department of
Risk Management Division
Secretary of State
Social Work, Board of
STAR Program
State Agricultural Society (State Fair)
State Architect's Office
State Armory Building Commission
State Arts Board
State Auditor
Supreme Court – State Court Administration
Supreme Court – State Court Admin/Law
 Library/Court of Appeals
Supreme Court – Board of Law Examiners
Surplus Services Division
Teachers Retirement Association
Transportation, Department of
Travel Management Division
Veterans Affairs, Department of
Veterans Homes Board – all locations
Veterinary Medicine, Board of
Zoological Board

Fiscal Year 2007 Notable Accomplishments

The major portion of a tragic van claim was settled within the insurance available, thus protecting the agency from a potentially very large budget hit.

The FY2005 dividends paid in FY2007 totaled \$1,036,430 – \$375,589 Auto Liability and \$660,841 General Liability. Hats off to our policyholders for their proactive approach to safety and loss control, which made this dividend possible!

The project to conduct an infrared electrical systems survey at each of the 54 Minnesota State Colleges and Universities (MnSCU) campuses was completed. During the inspections, 186 hot spots were identified.

The Property reinsurance program received a boost in the policy limit. At the FY2007 renewal, during a hard reinsurance market, the policy limit for the reinsurance program suffered a reduction of \$650 million. By mid-FY2007, the shortfall in the limit was restored to the original \$1 billion limit.

The Auto Liability program added a new four-tier rating matrix so the cost of insurance is based on the policyholder's loss ratio. The lower the loss ratio, the more favorable the premium, and vice versa. This adds an incentive to generate better auto liability results in order to receive lower premium rates.

Secured subscription to USIS to obtain motor vehicle records (MVRs) for non-residents who drive state-owned, leased, or rented vehicles. Secured the ability to obtain MVRs (at no cost to RMD) for Minnesota residents from the Department of Public Safety, Division of Vehicle Services.

Minnesota Statutes, Section 491A.02, Subdivision 4, was amended to give an employee of the Division of Risk Management the authority to represent the State in conciliation court without written authorization.

RMD issued 36 new policies with a total written premium of \$88,107.

To attract other financially strong property reinsurers, in case we need an alternate program in the future, we met with F.M. Global to discuss their role in meeting property reinsurance needs of the State. F.M. Global visited ten of our larger property sites and was impressed with the quality of our building program. However, at this time, it was determined they did not want to meet our current rates. We left the door open for this strong reinsurer to be a future participant for our property program.

RMD received an aviation quote from a competing market. Although their pricing was not competitive, it provided a comparison of our existing program to another key aviation program. The comparison resulted in obtaining several coverage enhancements from the incumbent as well as a 7 percent premium decrease (\$15,395).

The first Aviation Safety and Loss Control meeting with representatives from each state agency that operates aircraft was held. The Director of Safety and Loss Control for AIG Aviation, RMD's insurer, was the presenter. Aviation personnel were dubious about the benefit of this type of training, but it was determined by the pilots to be time well spent.

Non-insured tort claims reduced paperwork handling by changing from two to one the number of times one of the departments reviews requests for payment, which will save about two weeks per claim. Time is money!

Safety Programs

The RMD continues to provide several important loss prevention services to our policyholders. In cooperation with the RMF property reinsurer, an annual budget, with dollars allocated between the programs, has been established for property loss conservation surveys and infrared electrical system surveys. The plan of the RMD is to survey the higher valued State of Minnesota facilities on a three year cycle. A budget has also been established for real property appraisals.

Fleet Safety

The Fleet Safety Task Force continues to meet on a regular basis as they work with state agencies to implement the Model Fleet Safety Management Standards. The Model Fleet Safety Standards were approved by the RMAC at their April 2006 meeting. The Task Force has worked with a number of state agencies to adapt the fleet safety program to their specific mission. The RMD has made arrangements with the Division of Motor Vehicle Services to obtain a copy of the MVR for state employees that drive state vehicles. The MVR is an important piece of information for reviewing a driver's performance. The RMD has obtained an outside vendor that can provide the MVRs for employees living in neighboring states. The Task Force will continue to assist state agencies with adoption of the Model Fleet Safety Management Standards.

COPE

COPE is a property insurance acronym referring to the construction, occupancy, protection, and exposure for a specific building. Property loss conservation surveys are referred to as COPE surveys. COPE surveys are conducted by an outside property loss control consultant and/or a RMD staff member. A COPE survey includes examination of the sprinkler system, fire pumps, alarm systems, storage of flammable liquids, and other property exposures. These surveys help to insure that the state properties insured in the RMF are in compliance with fire and life safety codes. During FY2007, surveys were conducted at the National Sports Center, two MnSCU campuses, two historical properties, and two correctional facilities. The RMD will continue to conduct COPE surveys.

Infrared Electrical Systems Surveys

Electrical distribution components are designed to operate within a specific temperature range. When the operating temperature exceeds the designed level, damage or failure may occur. An Infrared Electrical Systems Survey involves the use of thermal imaging equipment to locate and identify anomalies within the electrical distribution system of a building. Anomalies include faulty connections, overloaded circuits, or other problems that have the potential for an unscheduled shut down, serious damage to equipment, or being a fire source. RMD added this service to their Loss Control program in FY2005. Since then, infrared surveys have been conducted at over 50 state-owned buildings and at each of the 54 MnSCU campuses.

Appraisals

The RMF insures in excess of \$10 billion of state-owned real property. It is very important that the values used for each building are an accurate reflection of the cost to replace the building in the event it is destroyed by a fire or other catastrophic event. The RMD utilizes the services of a nationally recognized property valuation firm to physically survey state buildings and provide a formal property appraisal. During FY2007, appraisals were completed of the Governor's Residence and one of the MnSCU campuses.

Involvement in Outside Public Projects

Northstar Commuter Rail – Minneapolis to Big Lake

After a Congressional review in the fall and the Full Funding Grant Agreement in December, securing final federal funding, the Northstar Commuter Rail Project appears to be going full-steam ahead.

Northstar Line locomotive

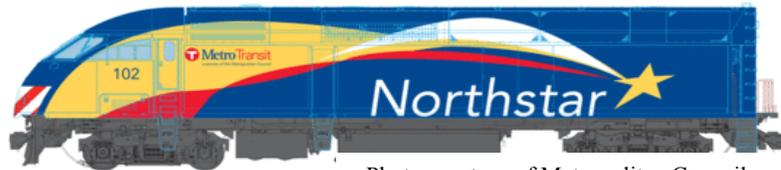


Photo courtesy of Metropolitan Council

Two of the five construction packages – the downtown Minneapolis Hiawatha Light Rail Transit (LRT) connection and Northstar station and the vehicle maintenance facility and yard in Big Lake – have been bid and awarded. The LRT connection and vehicle maintenance facility are well on their way, putting the Northstar project right on schedule. The three remaining construction packages relate to commuter rail stations and Park & Rides, locomotives, and passenger coaches.

Guidelines have been fully established for claim notification. *The great news is that there were no accidents or injuries in 2007.* An injury and accident-free year is a tribute to the emphasis that the contractors and the Northstar Project place on safety.

The 40-mile Northstar Commuter Rail line will run on existing BNSF Railway tracks between downtown Minneapolis and Big Lake (a 43 minute trip). When the Northstar line opens in late 2009, it will have the capacity to provide more than 2 million rides each year and much needed relief to congested highways. *Get ready to ride!*

Republican National Convention Risk Management Advisory Committee

The Risk Management Advisory Committee (RMAC) for the Republican National Convention (RNC) was set up over a year ago to ensure that the insurance coverages necessary to put on such an event are in place. This Committee is made up of risk managers representing the cities of St Paul, Minneapolis, and Bloomington; Hennepin County; Metropolitan Airports Commission; Met Council; as well as the State of Minnesota.

The RMAC has been planning for its role in this event since early in the cycle and has stayed ahead, planning wise, from the very beginning. We are the first national convention planning group that has arranged for police professional liability insurance to provide coverage that is necessary for a successful and safe convention. It is the mission of the RMAC to assist the Host Committee and the RNC in carrying out the most successful convention ever.

The RNC will take place from September 1 through September 4, 2008. The RMAC has planned well and, most importantly, their success stems from its ability to work as a team with the common objective of helping Minnesota's political entities put on a first class event for the world to see. Bring on the show!

Patience is a key element of success. - Bill Gates

THROUGH THE YEARS WITH THE RISK MANAGEMENT DIVISION

1987
1st Automobile Liability policy is written



1991
Minnesota State Fair joins the RMF



1989
Giant's Ridge Ski Area & IronWorld, USA become insured by the RMF



1993
Lines of insurance are expanded to include Auto Physical Damage & General Liability



1995
Comprehensive Self-Insurance Program for Property & Casualty is created for Departments, Agencies, Boards, & Commissions of State Government



1997
The first *ALERT* newsletter is published



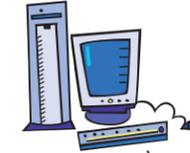
1999
Enhanced customer service initiative takes shape



2001
Basic automated Policy Management System is upgraded



2003
RiskSmart™ Policy System implementation



2005
Auto Fleet Task Force Statewide Safety Committee is formed



2007
Minnesota State Legislature authorizes the merger of Admin's RMD with DOER's Workers' Compensation Program



1988
First Annual Report is published



1992
Technical College System joins the RMF



1994
RMF saves \$1,211,000 for Auto Liability policyholders in the program's 1st 18 months



1996
Minnesota State Colleges and Universities (MnSCU) joins the RMF



1998
RMF developed to a full-line Property/Casualty Fund



2000
Educational seminars & one-on-one meetings begin



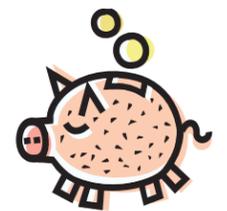
2002
Property Loss Conservation Program is implemented



2004
Builder's Risk coverage on construction of 3 Capitol Complex buildings is put in place



2006
Due to improvement in loss experience and lower reinsurance costs, RMD policyholders see a 21% drop in Property renewal rates



1986
RMD is born



1990
RMF's first dividend is declared



A Glimpse into the Future

In this 20th anniversary issue of the RMD Annual Report, we thought it was fitting to compare and contrast RMD operations throughout the division's history. To this end, it's been fun looking back and celebrating RMD successes. Equally enjoyable is the anticipation of what the next 20 years will bring. While we can't speak with certainty concerning future RMD opportunities, several key initiatives are on the horizon.

A Winning Combination – Property and Casualty and Workers' Compensation

In 2007, the Minnesota Legislature paved the way for merging the Department of Employee Relations, Workers' Compensation Program, with the RMD Property and Casualty program. The RMD will be responsible for administering all of the Property and Casualty lines for the state, which include automobile, general liability, property, and workers' compensation. The Property and Casualty and Workers' Compensation programs have considerable synergy in the areas of loss control and safety, Risk Management Information Systems, and other operational matters. Great opportunities also exist for Web development.

Defensive Driving

The Auto Fleet Task Force, comprised of representatives from a cross section of state agencies, has produced and implemented minimum fleet safety management standards for statewide use. As a part of the safety standards, agencies are charged with ensuring that all drivers attend a defensive driving course at least every three years. The Department of Transportation and MnSCU are at the forefront of this initiative. In cooperation with other members of the Auto Fleet Task Force, the RMD will be working toward coordinating this effort.

Risk Management Information System (RMIS)

The union of Property and Casualty and Workers' Compensation presents the perfect opportunity to locate a policy and claims management system that meets the needs of both groups. The system must have policy rate and issuance capabilities and provide critical management, trending, and loss reports, to name a few.

Public Project Involvement

There will always be public projects where the state of Minnesota has an interest, such as the Central Corridor Light Rail Transit line, which will connect downtown Minneapolis and downtown St. Paul. The RMD needs to play an active role in the risk management and insurance aspects of these projects. Equally important is monitoring past projects to ensure that any new insurance and risk management issues are appropriately addressed.

New Customers

The mission of the RMD is to preserve Minnesota's governmental assets by managing customer risk. One of the methods used to fulfill this mission is the delivery of comprehensive, cost-effective, insurance programs. Many state agencies are not currently insured and will, unfortunately, realize the value of insurance only after loss or damage to their property, or when a third party sustains injury on their premises. Until all agencies are insured, the RMD has considerable work to do in the area of marketing.

Succession Planning

Succession planning has become a key strategic planning initiative in both the public and private sectors, particularly in view of the aging workforce. A proactive plan must be implemented to train and develop employees for key areas of responsibility before they are actually needed in these critical positions.

Training and Program Development

The first annual Statewide Safety Conference is expected to be a great success. Many employees are already expressing their enthusiasm in anticipation of receiving a wealth of new resources and tools for program effectiveness, timely breakout sessions and networking opportunities with colleagues in safety, risk management, and workers' compensation. This is a conference that will benefit *all* state employees and is certain to become a time-honored tradition.



MnSCU students working safely in the Science Lab



Minnesota Department of Public Safety - Motorcycle Training Course



MnDOT Supervisors Training Session



Ouch!

*The Chinese use two brush strokes to write the word "crisis."
One brush stroke stands for danger; the other for "opportunity."
In a crisis, be aware of the danger – but recognize the opportunity.
- John F. Kennedy*

Dividends

The FY2007 dividend of \$1,875,409 was calculated as of June 30, 2007, and declared and paid in FY2008. This brings the total dividends paid to \$14,308,332. FY2007 dividends and total dividends paid from inception of the program, by line of insurance, are as follows:

	<u>Calculated in FY2007</u>	<u>Total Dividends Declared</u>
Auto Liability	\$ 258,329	\$6,916,693
General Liability	534,704	4,284,322
Property Insurance	<u>1,082,376</u>	<u>3,107,317</u>
	\$1,875,409	\$14,308,332

The following outlines the dividend strategy exercised by the RMF:

- ◆ Dividend declarations vary by line of insurance and maturity or conclusion of claims. Property losses typically have the shortest maturity and dividend payout period. In FY2007, the RMD made the recommendation to amend the property dividend payout schedule as large losses and fluctuations in property reinsurance costs were shown to impact the dividend payout. By spreading the payout, the financial impact should not be as great. The RMAC approved the following change, a 25 percent dividend declaration 24 months after the close of the policy year, with 25 percent paid out each year for the remaining three years.
- ◆ Automobile liability losses take longer than property losses to mature and be paid. Dividends are declared 36 months after the close of the policy year, based on the experience of that year, and are paid out over a four-year time period (35 percent, 25 percent, 25 percent, and 15 percent respectively).
- ◆ General liability takes the longest time to mature, resulting in a 48-month period before the first dividend declaration. However, the payout pattern is the same as automobile liability (35 percent, 25 percent, 25 percent, and 15 percent respectively). Exhibit 1 illustrates dividend payout percents by line of business.

Exhibit 1

Dividend Payout Pattern in Years after Policy Year is Closed

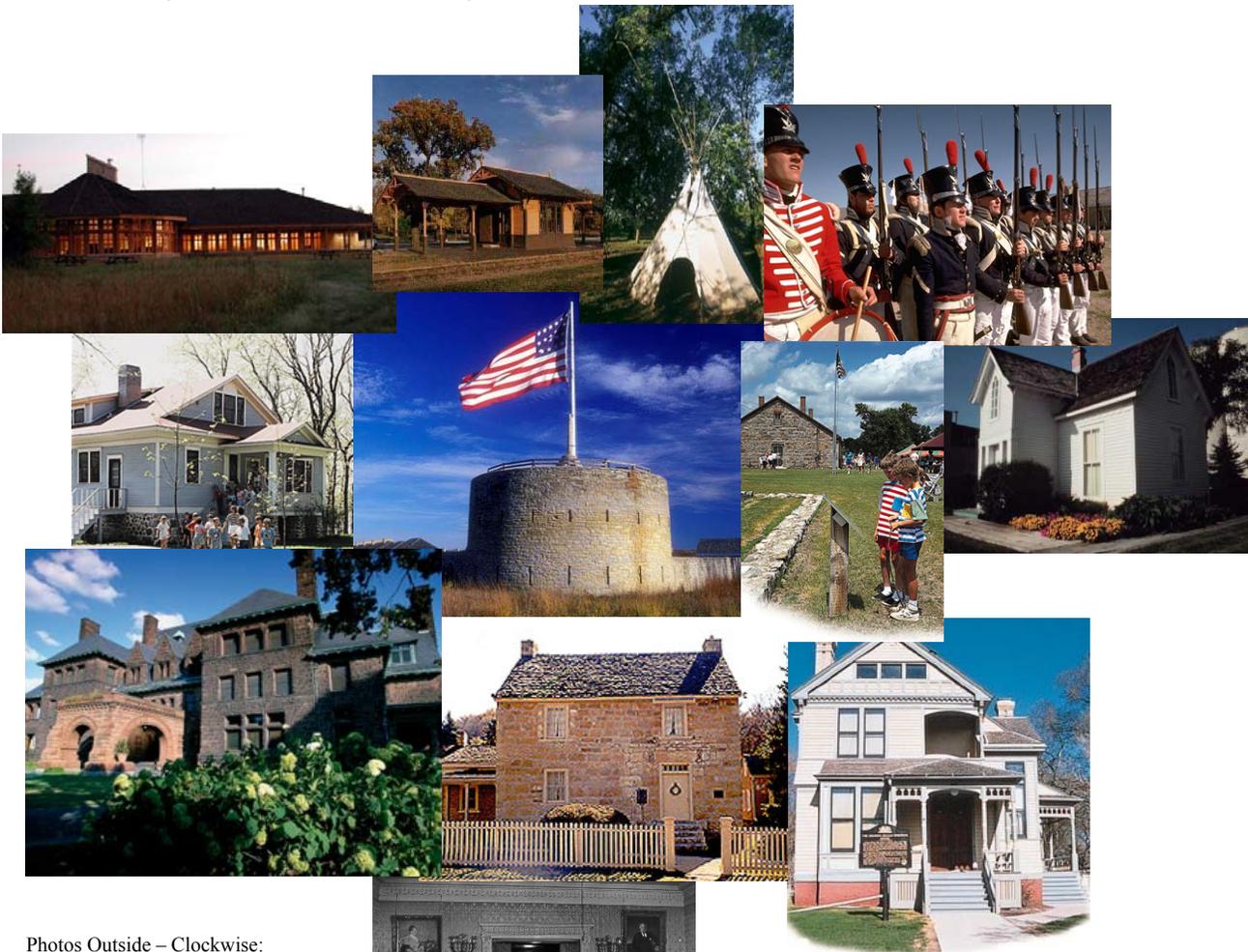
Line of Business	Dividends Start Date	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total
Property	24 mos. after fiscal year closes	0%	0%	25%	25%	25%	25%	0%	0%	100%
Auto Liability	36 mos. after fiscal year closes	0%	0%	0%	35%	25%	25%	15%	0%	100%
General Liability	48 mos. after fiscal year closes	0%	0%	0%	0%	35%	25%	25%	15%	100%

Dividends represent the return of premium for superior loss and expense experience. Premium funds collected are invested by the state’s Board of Investment. The difference between premium and investment income, less deductions for incurred losses and loss adjustment expenses, administrative expenses, and reinsurance costs, equals the amount of funds that are eligible for dividend declaration, if there is a positive balance. The evaluation process to determine how much, if any, dividends will be paid involves the analysis of each line of insurance. This analysis takes into account the RMF’s performance for each line of business for each policy year. If there is a positive balance and sufficient development time has elapsed, a dividend is determined for that year and line of business.

In the event of unsatisfactory experience, it is possible that no dividend will be declared or a favorable year’s dividend will be used to offset the poor experience. This approach creates a more level dividend over time, and also minimizes the possibility of a premium assessment, which can be very disruptive to an agency’s budget planning.

Minnesota Historical Society – a New Insured

Photos Courtesy of Minnesota Historical Society



Photos Outside – Clockwise:
 Historical Fort Snelling
 W.W. Mayo House
 Comstock House
 James J Hill House – Music Room
 James J Hill House
 Lindberg House
 North West Company Fur Post
 Minnehaha Depot
 Lower Sioux Agency

Photos Inside – Clockwise
 Fort Ridgely
 Sibley House
 Historic Fort Snelling

Division Summary of Operations

In FY2007, the RMD continued to provide four major areas of service to state departments, boards, bureaus, commissions, and component units of the state of Minnesota, as well as political subdivisions. Those services include:

- ◆ Managing the RMF, which operates as the state's internal insurance company. The RMF provides property and casualty insurance coverages tailored to meet our customers' needs.
- ◆ Purchasing commercial insurance to meet customers' needs when the placement of insurance coverage in the RMF may not be appropriate or cost effective.
- ◆ Providing risk management consulting and training services on a wide variety of issues.
- ◆ Providing internal underwriting, loss control, and claims expertise that are dedicated to the unique needs of our customers.

The RMD annually develops a business plan for each line of insurance underwritten by the RMF. Each line of insurance is evaluated for the development of losses, adjusting expenses, reinsurance expenses, and administrative expenses.

An objective of the RMD is to maintain operating expenses well below the industry average for comparable insurance companies (as reported by A.M. Best in its annual publication *Aggregates and Averages*). The five-year performance of the RMF, compared to industry averages, as demonstrated in Exhibit 2, indicates that we have met our objective in each of the past five years, with all five years better than 40 percent lower than the industry. FY2007 operating expense ratio, at 18.1 percent, is up from last year; however, the RMF continues to experience a very stable expense ratio, resulting in a five-year savings slightly over \$4.5 million.

Exhibit 2 Summary of Operations

	FY2003	FY2004	FY2005	FY2006	FY2007
Net Premium Written	\$5,911,569	\$6,309,145	\$6,996,519	\$6,453,114	\$6,654,412
Industry average operation expense ratio	29.9%	29.5%	30.3%	30.0%	30.8%
Projected industry average operation expense based on RMD's actual premium	\$1,767,559	\$1,861,198	\$2,119,945	\$1,935,934	\$2,049,559
Actual RMD operating expenses	\$1,029,334	\$ 941,969	\$ 968,275	\$1,025,712	\$1,208,208
RMD operating expense ratio	17.4%	14.9%	13.8%	15.9%	18.1%
Savings to clients	\$ 738,225	\$ 919,229	\$1,151,670	\$ 910,222	\$ 841,351
Five-year total savings	\$4,560,697				

Financial Position Discussion

Exhibit 3 illustrates a four-year comparison of the RMF's gross premiums earned and combined loss and expense results, by line of business, before Incurred But Not Reported (IBNR) and dividends. The loss experience of the RMF has been very steady and the results have been excellent. The combined ratio after reinsurance is the most significant result and, as the exhibit reflects, the "bottom line" results have been under 80 percent over the last four years.

FY2007 total earned premium was up nearly 6 percent over the previous year, with the biggest increase in the property line. This represents almost 76 percent of the total earned premium increase.

Reinsurance costs increased 13 percent in FY2007 over the previous year. The majority of the \$378K increase was due to a rise in the property account's total insurable values coupled with a mid-term increase in the property reinsurance limit (the limit had been reduced at the FY2007 renewal, which was at the height of a hard reinsurance market).

There were two instances where the combined loss ratios by line exceeded 100 percent. In FY2005, the auto liability poor loss result was primarily due to a serious out-of-state van claim. In FY2004, a boiler & machinery loss of under \$100,000 resulted in a 102 percent combined loss ratio because the premium is lower in that line. However, overall results are excellent.

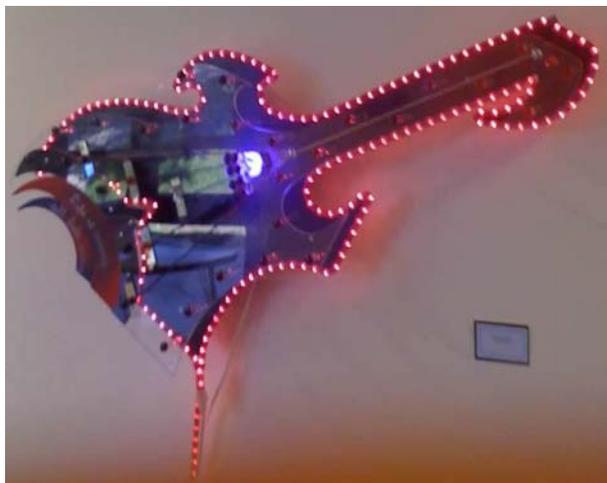
The gross combined loss and expense results for FY2007 continue to be very good, with a 40 percent first year development factor.

Exhibit 4 reflects the RMF's performance over the past four years, detailed for the four major items representing the financial integrity of the RMF – net premium written (NPW), net losses and expenses before IBNR losses, policyholders' surplus, and dividends paid.

Over the last four years, NPW has been in the \$6 million range. The drop in net premium written in FY2006 is largely due to the 21 percent property rate decrease enacted that year.

The Net Losses and Expenses have been variable over the four year period with FY2004 being the low point and FY2005 being the high year. FY2005 was high due to poor loss results in the auto liability line. There were five fatalities that year. In addition, the liability lines of business take more time to develop to ultimate, so in the newer years losses are still immature.

Policyholder Surplus is the net asset position reflected in the financials. The \$8.3 million in FY2007 is the highest the policyholder surplus has ever been, which is primarily due to the FY2007 positive loss results.



Perpich Center for Arts Education – Student Artwork

Dividends Paid represent monies available for our insureds due to their fine efforts at managing loss activities. In the last few years, the average reduction in agency premium attributable to dividends paid is approximately 17 percent.

The last metric is NPW to Policyholder Surplus which represents the NPW to policyholder surplus ratio. In FY2007, this stood at an outstanding position of .80. This is very conservative and highlights the strength and security of the RMF.

*For I don't care too much for money.
For money can't buy me love.
- John Lennon*

Exhibit 3

Self-Insurance Property and Casualty Underwriting Results

Premiums Earned by Line

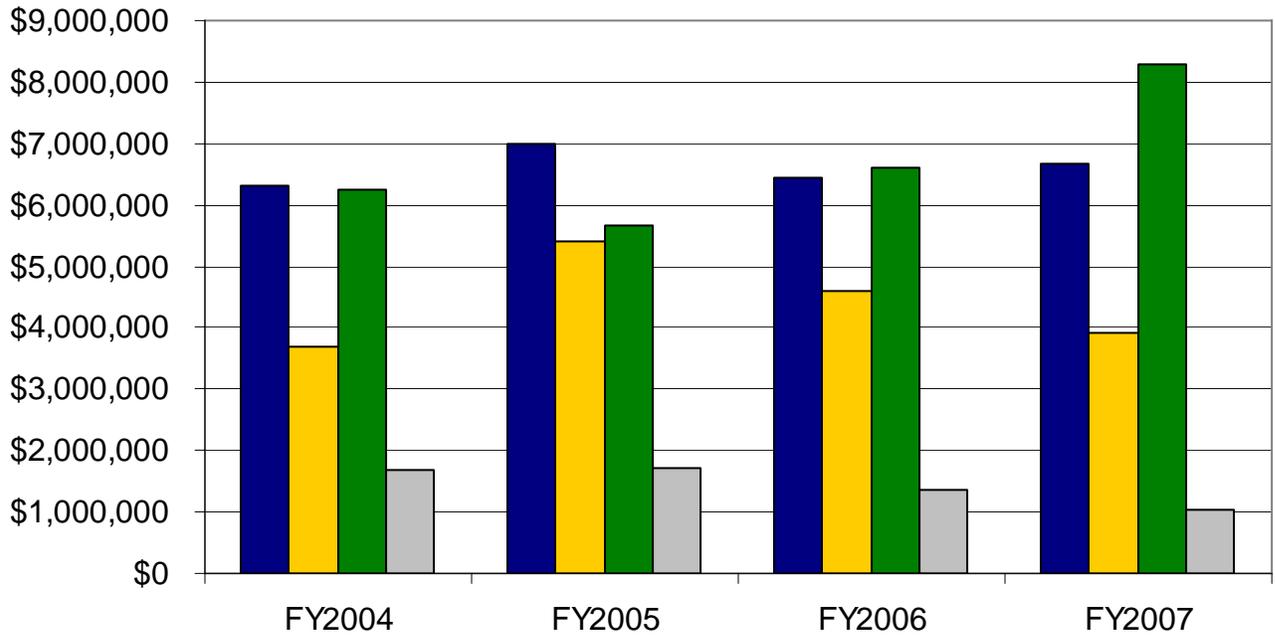
	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>
Auto Insurance				
Auto Liability	\$2,040,527	\$2,102,050	\$2,503,659	\$2,676,529
Auto Physical Damage	806,788	780,091	961,667	943,007
Garagekeeper's Legal Liability	33,743	33,500	30,668	31,177
Standard Commercial Insurance				
Property	\$4,437,164	\$4,696,156	\$3,822,477	\$4,256,236
Boiler & Machinery	154,573	167,778	88,577	108,491
General Liability	1,307,708	1,336,936	1,383,029	1,349,079
Crime	70,387	76,690	84,032	91,393
Other*	<u>320,632</u>	<u>360,638</u>	<u>369,625</u>	<u>360,047</u>
Total Premiums Earned	<u>\$9,171,522</u>	<u>\$9,553,839</u>	<u>\$9,243,734</u>	<u>\$9,815,959</u>
Less Reinsurance Ceded	\$2,903,662	\$2,605,036	\$2,845,774	\$3,224,278
Total Net Premiums Earned	6,267,860	6,948,803	6,397,960	6,591,681
Plus Unearned Premium	<u>41,285</u>	<u>47,716</u>	<u>55,154</u>	<u>62,731</u>
Total Net Premiums Written	<u>\$6,309,145</u>	<u>\$6,996,519</u>	<u>\$6,453,114</u>	<u>\$6,654,412</u>

Combined Loss and Expense Ratio (Before Dividends and IBNR)

	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>
Auto Insurance				
Auto Liability	77%	382%	83%	54%
Auto Physical Damage	70%	87%	79%	82%
Garagekeeper's Legal Liability	10%	14%	18%	38%
Standard Commercial Insurance				
Property	20%	11%	41%	16%
General Liability	45%	34%	20%	66%
Boiler & Machinery	102%	9%	10%	12%
Crime	10%	40%	34%	33%
Other*	<u>63%</u>	<u>52%</u>	<u>53%</u>	<u>16%</u>
Combined Loss Ratio Before Reinsurance	43%	104%	53%	40%
Combined Loss Ratio After Reinsurance	62%	74%	77%	59%

* Other includes Inland Marine and Vendor Warranty

Exhibit 4
RMF Performance by Fiscal Year



	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>
Net Premium Written (NPW)	\$6,309,145	\$6,996,519	\$6,453,114	\$6,654,412
Net Losses & Expenses	3,694,938	5,405,373	4,612,193	3,906,897
Policyholders' Surplus	6,258,717	5,664,417	6,616,058	8,288,762
Dividends Paid	1,668,215	1,729,215	1,361,289	1,036,430
NPW to Policyholder Surplus Ratio	1.01/1	1.24/1	.98/1	.80/1



Lea Shedlock,
Senior Claim Representative
(kneeling), works hard at the
Minnesota State Fair's Little
Farm Hands exhibit

State of Minnesota
 Risk Management Fund
 Statement of Net Assets
 June 30, 2007

ASSETS

	FY2007	FY2006
CURRENT ASSETS		
Cash	17,144,341.74	16,354,700.32
Accounts Receivable	26,418.00	26,087.00
Prepaid Expenses	400.00	800.00
Prepaid Reinsurance	0.00	0.00
Prepaid Billback Insurance	105,238.81	109,801.10
Reinsurance Recoverable	495,000.00	200,000.00
Due from Others – Nonoperating (Note 3)	<u>8,959.29</u>	<u>17,517.37</u>
Total Current Assets	<u>17,780,357.84</u>	<u>16,708,905.79</u>
NONCURRENT ASSETS		
Capital Assets (Note 3)	14,180.72	14,180.72
Less: Accumulated Depreciation	(14,180.72)	(13,002.00)
Due from Others – Nonoperating (Note 3)	<u>8,959.28</u>	<u>17,918.57</u>
Total Noncurrent Assets	<u>8,959.28</u>	<u>19,097.29</u>
TOTAL ASSETS	<u>17,789,317.12</u>	<u>16,728,003.08</u>

LIABILITIES

CURRENT LIABILITIES		
Accounts Payable	67,681.54	74,713.66
Salaries Payable	45,812.63	42,440.68
Claims Payable	4,402,168.00	4,938,151.02
Claims Payable – IBNR (Note 1)	4,657,584.00	4,728,727.00
Due to Other Funds – Nonoperating (Note 6)	23,410.72	49,002.04
Unearned Premium – Self Insurance	62,731.00	55,154.00
Unearned Premium – Billback	155,385.00	144,631.00
Compensated Absences Payable (Note 5)	<u>6,234.07</u>	<u>6,148.45</u>
Total Current Liabilities	<u>9,421,006.96</u>	<u>10,038,967.85</u>
NONCURRENT LIABILITIES		
Due to Other Funds – Nonoperating (Note 6)	786.67	1,574.35
Compensated Absences Payable (Note 5)	<u>78,761.78</u>	<u>71,402.51</u>
Total Noncurrent Liabilities	<u>79,548.45</u>	<u>72,976.86</u>
TOTAL LIABILITIES	<u>9,500,555.41</u>	<u>10,111,944.71</u>
NET ASSETS (Note 7)		
Invested in Capital Assets, Net of Related Debt	0.00	1,178.72
Unrestricted Net Assets	<u>8,288,761.71</u>	<u>6,614,879.65</u>
TOTAL NET ASSETS	<u>8,288,761.71</u>	<u>6,616,058.37</u>

**State of Minnesota
Risk Management Fund
Statement of Revenues, Expenses & Changes in Net Assets
For Period Ended June 30, 2007**

	FY2007 YTD	FY2006 YTD
OPERATING REVENUES		
Insurance Premiums – Self Insurance	9,815,959.00	9,243,734.00
Insurance Premiums – Billback	1,044,639.00	1,149,247.00
Non-Insured Tort Claims	121,055.00	113,488.00
Consulting Services	<u>1,800.00</u>	<u>1,750.00</u>
Total Operating Revenues	<u>10,983,453.00</u>	<u>10,508,219.00</u>
OPERATING EXPENSES (Note 1)		
Claims – Self Insurance	3,470,103.28	3,583,167.41
Claims – IBNR	(71,143.00)	60,365.00
Salaries & Benefits	872,646.94	853,821.91
Rent	34,930.09	35,458.80
Advertising	0.00	0.00
Repairs	413.85	2,612.69
Insurance	1,040.00	1,134.00
Insurance Premium – Billback	1,044,639.00	1,149,247.00
Insurance Premium – Self Insurance	3,224,278.40	2,845,773.94
Printing	5,162.52	4,655.96
Professional Services – Adjuster	232,605.48	228,642.99
Professional Services – Broker	150,000.00	0.00
Professional Services – Legal and Other	316.70	5,249.29
Computer Services	73,837.66	66,737.12
Communications	41,449.82	38,136.01
Travel	6,747.00	8,329.35
Other Operating Costs	10,748.02	11,963.70
Memberships and Employee Development	2,826.00	1,476.00
Supplies	17,171.76	24,748.86
Depreciation	1,178.72	4,728.00
Indirect Costs	<u>75,987.00</u>	<u>39,827.00</u>
Total Operating Expenses	<u>9,194,939.24</u>	<u>8,966,075.03</u>
OPERATING INCOME (LOSS)	<u>1,788,513.76</u>	<u>1,542,143.97</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Earnings	920,207.58	721,887.04
Policyholder Dividend Expense	(1,036,430.00)	(1,361,289.00)
Nonoperating Revenues (Note 3)	<u>0.00</u>	<u>48,899.01</u>
Total Non-Operating Revenues (Expenses)	<u>(116,222.42)</u>	<u>(590,502.95)</u>
CHANGE IN NET ASSETS	1,672,291.34	951,641.02
NET ASSETS, BEGINNING	6,616,058.37	5,664,417.35
Adjustment to Net Assets	<u>412.00</u>	<u>0.00</u>
NET ASSETS, ENDING	<u>8,288,761.71</u>	<u>6,616,058.37</u>

**State of Minnesota
Risk Management Fund 410
Footnotes to Financial Statements
For Period Ended June 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Risk Management Internal Service Fund utilizes full accrual accounting, pursuant to M.S. § 16A.055.

The Fund provides automobile liability, general liability, automobile physical damage, property, boiler and machinery insurance on real and personal property, business interruption, and other insurance coverage to state agencies. Insurance coverage generally coincides with the fiscal year, and revenue is recognized over the period of coverage. Coverage was first issued beginning January 1, 1987. The Fund also purchases reinsurance from reinsurance companies to protect itself from catastrophic losses and the aggregation of losses. The Fund also purchases commercial insurance at the request of state agencies and bills those agencies at cost; these revenues and expenses are referred to as "Billbacks" and are pro-rated over the lives of the various policies; those revenues and expenses are identified separately.

Expenses are based on data received from the MAPS accounting system, and from subsidiary records.

An estimated liability has been included for claims incurred but not reported (IBNR).

This financial statement includes claims information known as of June 30, 2007 for claims incurred prior to July 1, 2007.

2. LEGISLATION AND AUTHORITY

The Risk Management Internal Services Fund was created by Minnesota Laws 1986, Chapter 455, Section 3.

3. DUE FROM OTHERS

In FY06, a settlement agreement was filed by the New York Attorney and an Amended Citation issued by the New York State Superintendent of Insurance to compensate eligible policyholder clients. The total compensation is \$53,607.36: Risk Management \$48,899.01, other state agencies and political subdivisions \$4,708.35. Risk Management has received \$34,093.79 to date and will receive additional payments of \$8,959.29 in FY08 and \$8,959.29 in FY09 totaling \$17,918.57 as outstanding from the settlement.

4. CAPITAL ASSETS

	Acquisition Cost	Accrued Depreciation
Balances as of 07/01/06	14,180.72	(13,002.00)
Additions		
Deletions		
Write-offs		
Current Depreciation	-	(1,178.72)
Balances as of 06/30/07	<u>14,180.72</u>	<u>(14,180.72)</u>

As of the 1st quarter of FY07, all capital assets were fully depreciated.

5. COMPENSATED ABSENCES

State employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in their collective bargaining agreements. This leave is liquidated in cash only at the time of separation from state employment. The accumulated leave is shown as a liability.

	Short Term	Long Term
Compensated Absences, Beginning Balance	6,148.45	71,402.51
Increases in Compensated Absences	85.62	7,359.27
Decreases in Compensated Absences	-	-
Compensated Absences, Ending Balance	<u>6,234.07</u>	<u>78,761.78</u>

6. DUE TO OTHER FUNDS

In FY03, the Department of Administration became a participant in a new Workers' Compensation plan. The previous Workers' Comp plan for the Department of Administration, administered by Risk Management, had a surplus balance. Funds are returned to the appropriate divisions based on the status of outstanding claims.

In FY07, the total Due To Other Funds of \$24,197.39 is the summation of the following:

\$10,315.26 to health and safety committee to purchase supplies and/or memberships
 \$12,307.78 to Comm.Media
 \$ 1,574.35 to other state agencies and political subdivisions as a settlement agreement, filed by New York Attorney General & New York State Superintendent of Insurance for overcharges of brokerage fees. This amount will be returned as received from the settlement as follows: \$787.68 in FY08, and \$786.67 in FY09.

In FY06, the total Due To Other Funds of \$50,576.39 is the summation of the following:

\$10,315.26 to health and safety committee to purchase supplies and/or memberships
 \$37,147.78 to Comm.Media
 \$ 3,113.35 to other state agencies and political subdivisions as a settlement agreement, filed by New York Attorney General & New York State Superintendent of Insurance for overcharges of brokerage fees. This amount will be returned as received from the settlement as follows: \$1,539.00 in FY07, \$787.68 in FY08, and \$786.67 in FY09.

7. NET ASSETS

During FY02, the State of Minnesota implemented new accounting standards, as prescribed by the Governmental Accounting Standards Board (GASB). The standards include revised statement formats which resulted in the change from retained earnings to net asset reporting. For historical cost comparison, the total net assets and the retained earnings have been reconciled as shown below.

Invested in Capital Assets, Net of Related Debt	0.00			
Unrestricted Net Assets	<u>8,288,761.71</u>			
Total Net Assets	<u>8,288,761.71</u>			
Schedule of Retained Earnings				
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
Beginning Retained Earnings	6,616,058.37	6,435,087.18	7,264,157.56	8,005,595.65
Prior Period Adjustment	0.00	0.00	0.00	0.00
Quarterly Net Income (Loss)	(180,971.19)	829,070.38	741,026.09	283,166.06
Ending Retained Earnings	6,435,087.18	7,264,157.56	8,005,595.65	8,288,761.71
Add: Capital Contributions	0.00	0.00	0.00	0.00
Reconciliation to Total Net Assets	<u>6,435,087.18</u>	<u>7,264,157.56</u>	<u>8,005,595.65</u>	<u>8,288,761.71</u>

8. ADJUSTMENTS TO NET ASSETS

During the 3rd quarter of FY07, there was an adjustment to net assets for \$412.00. This reflects a reduction to overstated FY05 salary expense.

**Minnesota Department of Administration
Risk Management Division
Retained Liability Lines of Coverage
Statement of Actuarial Opinion
as of March 31, 2007**

Identification

I, Kevin J. Moynihan, Principal, Upper Midwest Insurance Services, LLC am a Member of the American Academy of Actuaries and an Associate of the Casualty Actuarial Society. I meet the qualification standards to render a Statement of Actuarial Opinion ("Opinion") with respect to property and casualty loss and allocated loss adjustment expense ("ALAE") reserves. I have been retained by the Minnesota Department of Administration, Risk Management Division ("Division") to render this Opinion with respect to the Division's loss and ALAE reserves as of March 31, 2007.

Scope

The Division is responsible for the self-insurance program for the State of Minnesota ("State") which includes the automobile liability and general liability risks of the State.

I have examined the reserves summarized below in Table A, as shown in the current Annual Report of the Division as prepared for filing with regulatory officials, as of March 31, 2007.

**Table A
Net Loss and Allocated Loss Adjustment Expense Reserves**

Line of Coverage	Low	Expected	High
Automobile Liability	\$ 3,924,000	\$ 4,186,000	\$ 4,600,000
General Liability	\$ 1,319,000	\$ 1,526,000	\$ 1,763,000
Total	\$ 5,243,000	\$ 5,712,000	\$ 6,363,000

In forming my opinion on the loss and ALAE reserves, I prepared an actuarial analysis using loss and ALAE data valued as of March 31, 2007. The actuarial analysis employs methodologies considered generally acceptable by the Casualty Actuarial Society.

Unallocated loss adjustment expense ("ULAE") reserves, if any, are outside the scope of this Opinion. The loss and ALAE reserves indicated above make no provision for ULAE reserves.

This Opinion is limited to loss and ALAE reserves. All other balance sheet or income statement items are excluded from the Opinion. The Opinion assumes that reserves are supported by valid assets, which have suitably scheduled maturities and adequate liquidity to meet cash flow requirements. Further, the Opinion assumes that any reinsurance is valid and collectible.

The Division does not discount its loss and ALAE reserves for the time value of money.

This Opinion makes no provision for future emergence of new classes of losses or types of losses that are not sufficiently represented in the historical data or which are not yet quantifiable.

An accrual outside the range of reserves indicated above in Table A will provide increased (decreased for the low range) conservatism in the form of a risk margin.

Finally, actuarial projections involve estimates of future events. Thus, there can be no assurance that actual results will not differ, perhaps materially, from the estimates reflected above.

Review and Verification of Data

Responsible parties representing the Division have provided the necessary data. I have relied upon the accuracy and completeness of this data without independent audit or verification.

The data included:

- Paid and incurred loss and allocated loss adjustment expense data organized by individual claimant and organized by fiscal year.
- Exposure data organized by fiscal year.
- Per occurrence retention level by fiscal year

Expression of Opinion

In my opinion, the net loss and ALAE reserves indicated above in Table A:

- meet the requirements of the insurance laws of the State of Minnesota;
- are computed in accordance with generally accepted loss reserving standards and principles; and
- make a reasonable provision in the aggregate for all net unpaid loss and ALAE obligations of the Division under the terms of its policies and agreements.

This Opinion is based on information available to March 31, 2007.

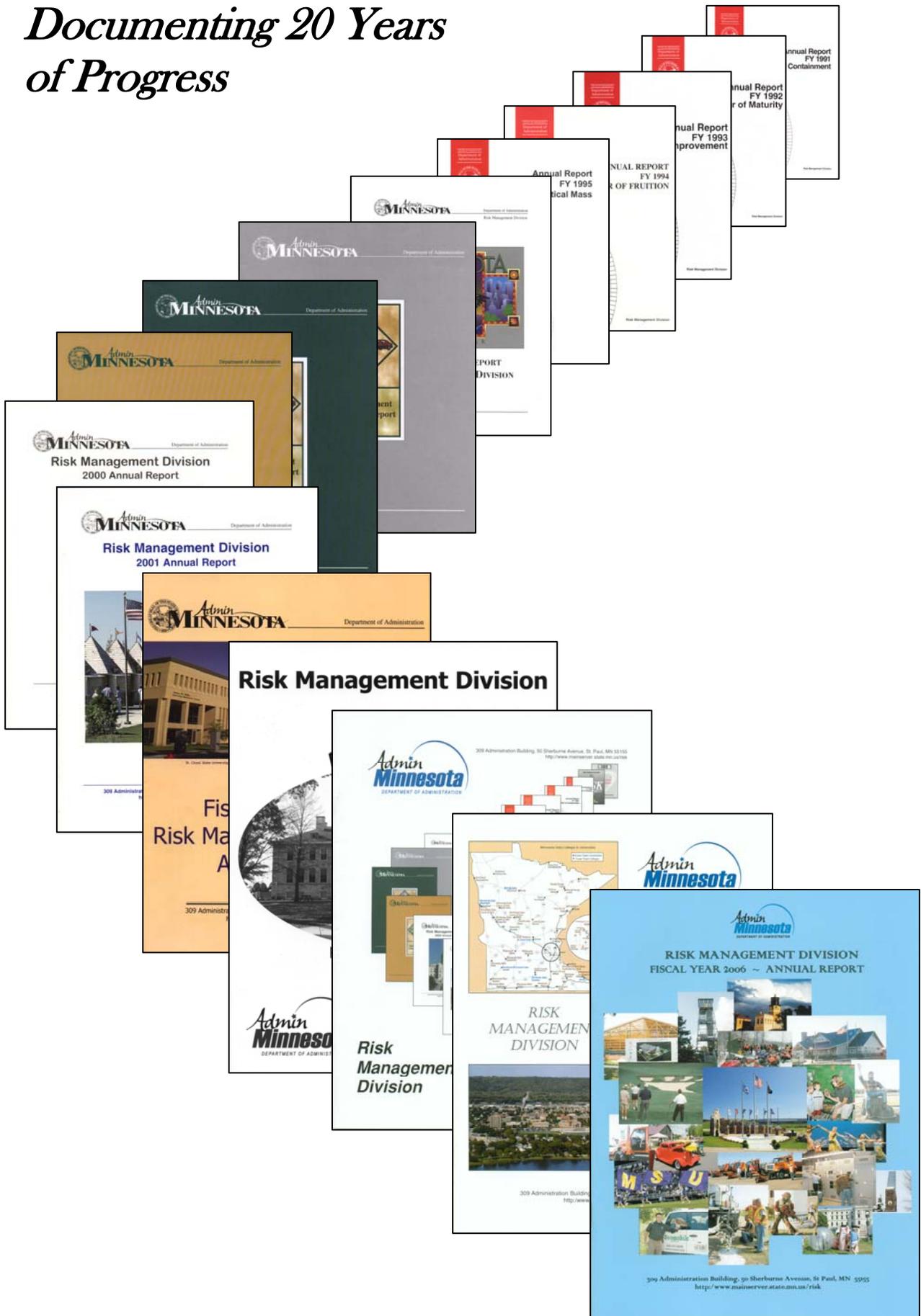
Work Papers

Copies of the relevant work papers are kept at the Minnesota Department of Administration, 309 Administration Building, 50 Sherburne Ave., St. Paul which is the Division's principal office.



Kevin J. Moynihan ACAS MAAA
April 10, 2007

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A snapshot of the Governor's Residence



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