



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT



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GOVERNOR

KRISTIN WALKER
STATE BUDGET DIRECTOR

May 5, 2025

TO: Joint Legislative Commission on Governmental Operations

FROM: Kristin Walker *Kristin Walker*
State Budget Director

SUBJECT: Deviation Requests from the NC Department of Insurance

G.S. 143C-6-4 (b1) requires prior consultation with the Joint Legislative Commission on Governmental Operations when an over-expenditure would cause a department's total requirements for a fund to exceed the department's certified budget for a fiscal year by more than three percent (3%).

The Department of Insurance (DOI) is requesting to deviate in its Public School Property Insurance Fund (Budget Code 54625) and Insurance-Trust-Internal Service Fund (Budget Code 63903) to pay required reinsurance premiums for the 2024-25 fiscal year.

The deviation requests are outlined below:

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

DOI requests to over-expend Account 52919000 - Other Insurance in the amount of \$30,711,866. This amount is in excess of the three percent deviation threshold for this Fund of \$1,076,628. The over-expenditure would be covered by budget code fund balance, as well as receipts. The over expenditure is necessary to pay reinsurance premiums for FY 2024-25. The premium for insurance has increased in the past few years due to increased frequency of catastrophic natural disasters, and other events that have led to worldwide inflation. Additionally, reinsurance carriers have raised premiums, likely because they consider the value of the state's portfolio of properties underestimated. Also, the difference in participant deductibles as compared to program deductibles has required the use of revenues from premiums to cover costs of losses, resulting in unplanned increases in expenditures. The insurance premium causing the over-expenditure is for excess property coverage.

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

The Office of State Fire Marshall administers the Auto Retrospective Adjustment Fund. The current Traveler's Auto Retrospective liability policy consists of three elements – premium, collateral to pay claims (largest), and claim handling charges. The Department of Insurance requests to utilize available budget code fund balance, in the amount of \$10,000,000, for over expenditures in account 52912000 - Motor Vehicle Insurance. The agency would use the amount to cover premium and claims payments in excess of their current budget.

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

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

Attachments: Budget Code 54625 Deviation Exception Request Form; Budget Code 63903 Deviation Exception Request Form

CC: Jennifer Neisner, OSBM
Taylor Coburn, OSBM
Alice Saunders, OSBM
Sheila Hirt, DOI
Mercidee Benton, DOI

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: 2024-25
Date: 03-18-2025
Budget Revision #: 12-0041

Budget Code	Certified Requirements	3% Deviation Threshold	Amount of the Over expenditure Request	Amount the Request Exceeds the Deviation Threshold
63903	\$ 65,017,242	\$ 1,950,517	\$ 10,000,000	\$ 8,049,483
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
Fund Type 27XX Total	\$ 65,017,242	\$ 1,950,517	\$ 10,000,000	\$ 8,049,483

JUSTIFICATION FOR REQUEST:

The Department of Insurance, Office of the State Fire Marshall, administers the Auto Retrospective Adjustment Fund. The current Travelers Auto Retrospective liability policy, consists of three basic elements - premium, collateral to pay claims (the largest component), and claim handling charges. At the end of each year, there is a true-up that covers the most recent years and prior years if there are still open claims. The premium is determined by a vehicle count audit that compares the total vehicle count difference from the beginning of the policy to the end of the policy. For FY 2024-25, the premium is \$6,456,216.

Travelers collects a portion of collateral throughout the year to pay for auto losses. At the true-up, Travelers will compare the incurred auto losses to paid auto losses and collect the difference in additional collateral. This will be used to fund ongoing open claims. Payment for the FY 2023-24 claims shortage was \$4,479,282 which wasn't paid until the current fiscal year. It is estimated that the amount required for the claims shortage (true up) for FY 2024-25 will be in excess of \$5,500,000 based on prior periods actual true up cost invoiced.

The Department of Insurance, Office of the State Fire Marshall, has submitted budget revision 12-0041 in budget code 63903 to budget additional funds that will be required to pay the annual premium and year end true up for the Auto Retrospective Adjustment Fund for FY 2024-25.

Account 52912000 has a current authorized budget of \$6,631,358.. The required budget level for this program for FY 2024-25 is \$16,631,358. Therefore, an additional \$10,000,000 is required to meet the needs of this program for fiscal year 2024-25.

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 \$1,950,517; the amount of the estimated over expenditure is \$10,000,000; and the amount the request exceeds the deviation threshold is \$8,049,483..

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: 2024-25
Date: 3/28/2025
Budget Revision #: 12-0032

Budget Code	Certified Requirements	3% Deviation Threshold	Amount of the Over expenditure Request	Amount the Request Exceeds the Deviation Threshold
54625	\$ 26,887,595	\$ 806,628	\$ 30,711,866	\$ 29,905,238
63902	\$ 9,000,000	\$ 270,000	\$ -	\$ (270,000)
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
Fund Type 25XX Total	\$ 35,887,595	\$ 1,076,628	\$ 30,711,866	\$ 29,635,238

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 12-0032 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 Office of the State Fire Marshall has estimated that the total for the reinsurance invoice for FY 2024-25 is \$62,000,000. The estimated reinsurance premium renewal cost for the SPIF is \$31,000,000.

Account 52919000 has a current availability remaining in the amount of \$288,134; an additional \$30,711,866 is required to meet the reinsurance payment estimate for the SPIF in the amount of \$31,000,000. The total additional requirements that are needed for the SPIF for FY 2024-25 is estimated to be \$30,711,866 and will be provided by increasing the budgeted requirements from over realized receipts that have been deposited into the Fund and the use of available fund balance.

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 request is \$1,076,628; the amount of the estimated over expenditure is \$30,711,866; and the amount the request exceeds the deviation threshold is \$29,635,238.