LSU

Office of the President

October 10, 2014

The Honorable James R. "Jim" Fannin, Chairman
Joint Legislative Committee on the Budget
P.O. Box 44294
Baton Rouge, LA 70804

Dear Representative Fannin,

In accordance with Act 418 of the 2011 Regular Legislative Session, Louisiana State University (LSU) seeks approval by the Joint Legislative Committee on the Budget for the High Level Risk Management Autonomy. The Division of Administration has determined LSU possesses the requisite operational capacity for the autonomy as evidenced by the attached letter dated December 16, 2013. Subsequent discussions between the Division of Administration and LSU have now concluded and a decision on an implementation schedule has been reached.

Pursuant to R.S. 17:3139.5(5)(c)(ii)(aa), LSU has completed the attached business plan, which includes a phased-in-plan of implementation developed in collaboration with the Attorney General and the Division of Administration.

We respectfully request placement of this matter on the agenda for the October 17 meeting of the Joint Legislative Committee on the Budget.

Please do not hesitate to contact my office with any questions or requests for additional materials.

Sincerely,

F. King Alexander

F. King Alexander
President and Chancellor

Louisiana State University
3810 West Lakeshore Drive
Baton Rouge, LA 70808

O 225-578-2111
F 225-578-5524
www.lsu.edu

Bobby Jindal
GOVERNOR

Kristy H. Nichols
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Office of the Commissioner

December 16, 2013

RECEIVED
OFFICE OF
RISK MANAGEMENT
2013 DEC 16 PM 1:40

Dr. Jim Purcell
Commissioner of Higher Education
1201 N. Third St., Suite 6-200
Baton Rouge, LA 70802

Re: Capacity Determination for Risk Management Autonomies – LSU at Baton Rouge

Dear Dr. Purcell:

The Division of Administration has completed its review of the application for Risk Management autonomy submitted by LSU at Baton Rouge. Our review has concluded that the University has the operational capacity to perform the risk management function, as defined by Act 418 of the 2011 Regular Session of the Legislature.

Our understanding is that tentative implementation dates have been discussed, but that no final decision has been made in that regard. Once all parties have agreed to a schedule, the Office of Risk Management will provide assistance as needed to ensure the ultimate success of this transition.

If you have any questions or need further information regarding this matter, please contact Bud Thompson at 225-342-6331.

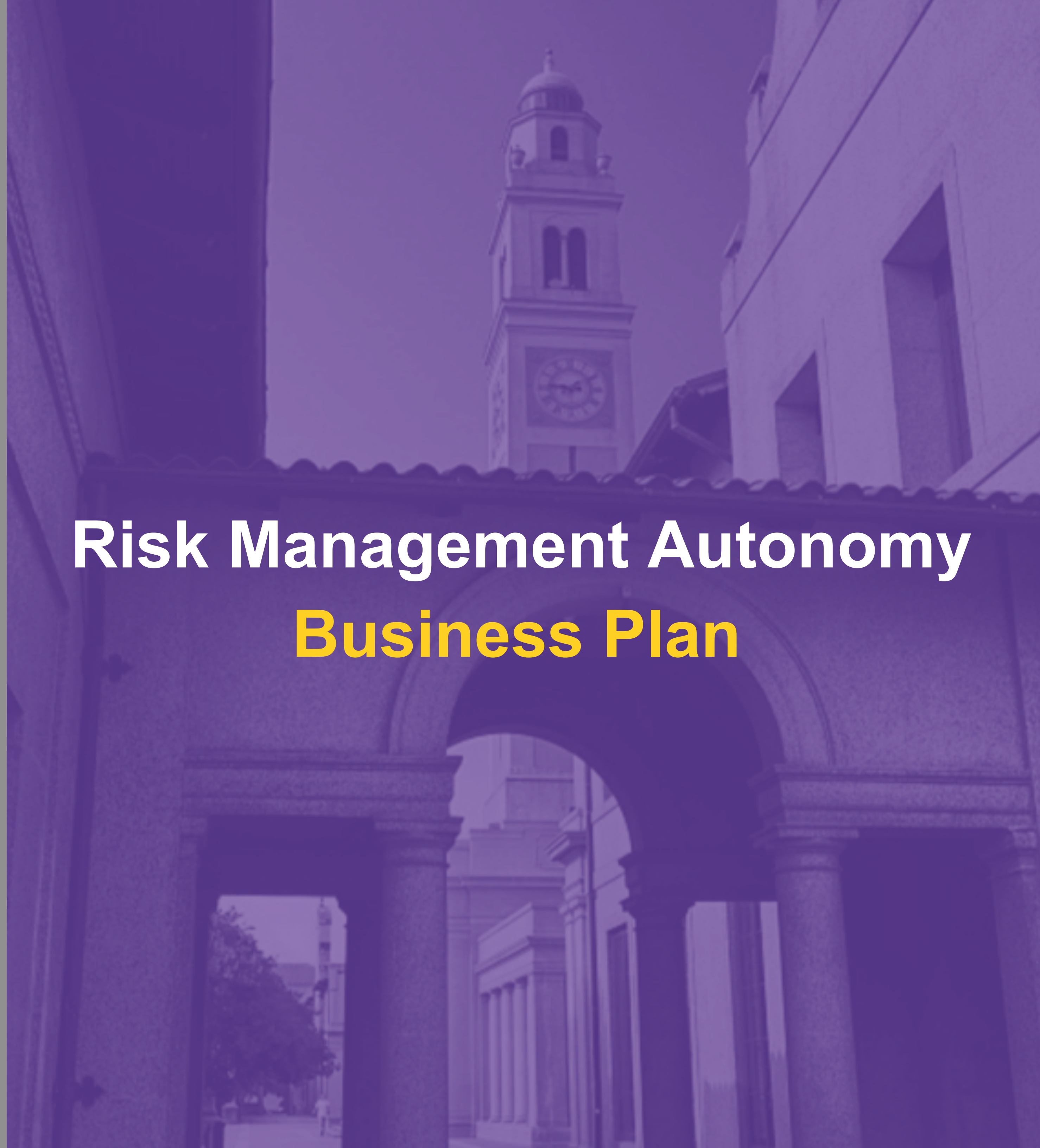
Sincerely,

Kristy H. Nichols
Commissioner of Administration

KHL/pg

cc: Dr. F. King Alexander, Louisiana State University System President
J. S. "Bud" Thompson, Jr., State Risk Director

LSU



Risk Management Autonomy
Business Plan

October
2014

Prepared by:

Office of Risk Management

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Executive Summary

As required by LA R.S. 17:3139.5(5)(c)(ii)(aa) Louisiana State University and Agricultural and Mechanical College (LSU) hereby requests approval of the phased-in-plan of implementation developed in collaboration with the Attorney General and the Division of Administration (DOA) for transition to the high level risk management autonomy afforded through Act 418 of the 2011 Regular Legislative Session, popularly known as “LA Grad Act 2.0”.

Benefits of an Autonomous Program

- ☑ Broader Coverage Tailored to the University
- ☑ Insurance Programs Defined for Students
- ☑ Comprehensive Insurance Programs
- ☑ Flexibility to Respond to Changing Market Conditions
- ☑ Independent Protection for the State, University, and Students
- ☑ Potential for Savings

This document provides the key steps to be taken over the next 10 months with risk management autonomy being granted. Implementation of this business plan will allow LSU to develop an independent comprehensive risk management program that will serve to reduce risks to the University, and to assure appropriate and continuous insurance coverage for LSU at the lowest possible cost, along with the outsourcing of services currently provided by or through the State Office of Risk Management (ORM).

To date, LSU has completed all necessary steps to seek risk management autonomy and has received approval from the Board of Regents, Louisiana Division of Administration, and the Board of Supervisors of Louisiana State University Agricultural and Mechanical College.

LSU’s Office of Risk Management has been developing over the past several years in anticipation of the autonomy being granted and boasts a staff of approximately 20 full-time qualified professionals in the Risk Management and Environmental Health and Safety field. The aforementioned resources will be augmented by contracted professional services. In addition to appropriate staffing, LSU has also collaborated with the State Office of Risk Management (ORM) since 2012 to implement a high deductible program to provide the University with experience in managing retained losses, along with establishing relationships with excess property carriers.

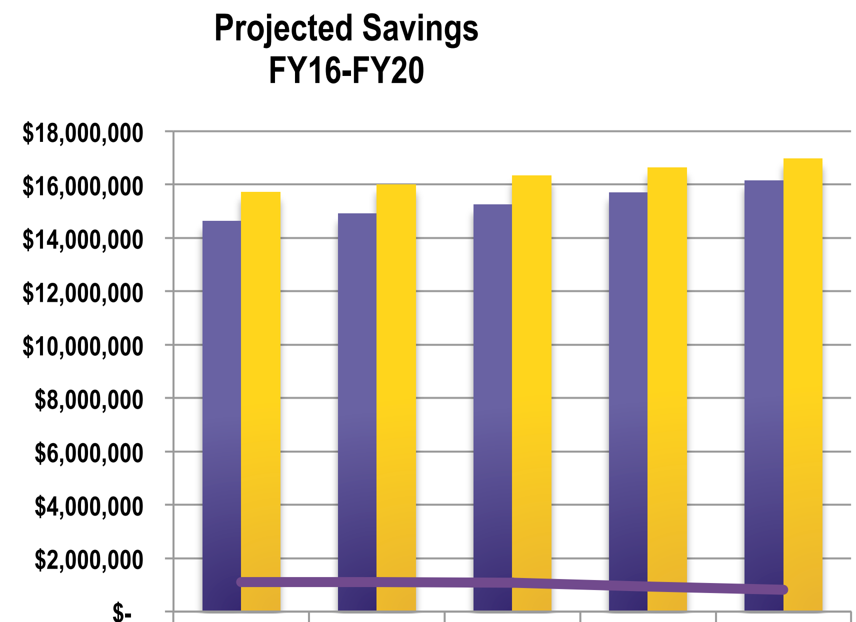
ORM currently provides all lines of insurance coverage for the University in which LSU shares limits and premiums with other State agencies and makes up approximately 5% of total claims, 3% of the total losses, and has on average been allocated 5% of the State’s annual premiums.

The University anticipates initiating the phased-in implementation of risk autonomy upon approval by Joint Legislative Committee on the Budget (JLCB) for Workers Compensation, Property and Boiler and Machinery, General Liability, Bond, Crime, Automobile Liability, Automobile Physical Damage, and Wet Marine and Hull beginning in FY16. Along with coverage, associated insurance and risk services will be transferred including claims administration, brokerage services, loss control, and appraisals. Further, the University will become responsible for financial, compliance reporting, and cost of legacy claims as agreed upon with ORM.

LSU has engaged with the Louisiana Department of Justice (DOJ) Litigation Program to develop an interagency agreement, which will provide for the legal representation of LSU in litigation of insurance-related cases. As stated in the LA Grad Act, LSU's exemption shall not abrogate, amend, or alter the authority of the Attorney General or the Department of Justice under Article IV, Sections 1 and 8 of the Constitution of Louisiana or any other provision of law to represent the State and all departments and agencies of State government in all litigation arising out of or involving tort or contract. LSU's exemption shall not be construed as creating any independent or separate cause of action against the State. Neither the State nor ORM shall be responsible for payment of any judgment against the exempt institution's management board.

LSU has become proactive in facing the challenges associated with the changing landscape of insurance and risk management. However, the University must have the ability to control all facets of its program and thus, its total cost of risk to not only reduce cost, but also to develop a comprehensive insurance program with broader coverage that will best protect the University and the State. The total cost of risk model implemented by the University (see page 23) is a model that has been adopted by many public institutions that addresses the unique needs of higher education by controlling external cost, internal cost, and retained losses along with insurance premiums. Approval of a fully autonomous program by the Joint Legislative Committee on the Budget (JLCB) facilitates this process.

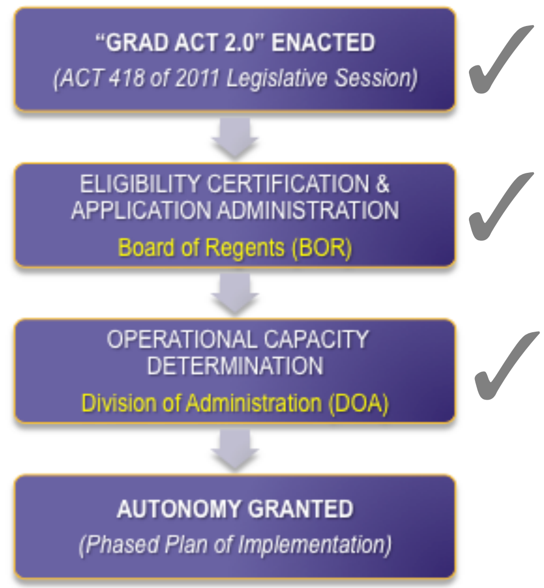
LSU, in coordination with risk management professionals and consultants, has conservatively projected savings of approximately $5 million through FY20 for the implementation of a fully autonomous program. LSU anticipates that these savings will cover the cost of legacy claims and have a considerable impact on the mission of the University by allowing student tuition dollars to be spent in the classroom rather than on administrative overhead.



	FY16	FY17	FY18	FY19	FY20
Autonomous Program	$14,625,304	$14,906,387	$15,244,117	$15,705,387	$16,153,261
State ORM Program	$15,725,965	$16,008,212	$16,336,166	$16,646,012	$16,970,335
Savings	$1,100,661	$1,101,825	$1,092,049	$940,625	$817,074
Cumulative Savings	$1,100,661	$2,202,486	$3,294,535	$4,235,159	$5,052,232

Background

LA Grad Act 2.0 provided Louisiana State University and Agricultural and Mechanical College (LSU) an opportunity to pursue autonomies in several areas that could reduce cost and/or increase revenues to support the mission of the University along with protecting its academic core. Exemption from the State's risk management program is one such autonomy that the University chose to pursue as LSU's premiums more than doubled from FY06 to FY11.[1]



To date, LSU has completed all necessary steps as outlined by both the Board of Regents and the Division of Administration (DOA). First, LSU met specific performance objectives established with the Board of Regents.[2] Second, the University provided an application for risk management autonomy to the Division of Administration, which demonstrated that the qualifications of LSU's staff, processes, and policies were satisfactory for an autonomous program. This application was used to evaluate LSU's operational capacity as outlined in LA Grad Act 2.0, which was subsequently determined to be sufficiently capable by DOA in December of 2013.

LA Grad Act 2.0

Specifically the LA Grad Act provides the following in relation to the risk management autonomy in accordance with R.S. 17:3139.5(5)(c)(ii):

> *(c) High level. Notwithstanding any provision of law to the contrary and in addition to the base level and intermediate level autonomies granted pursuant to Subparagraphs (a) and (b) of this Paragraph, any institution that is determined by the Board of Regents to have met the short-term targets established in the performance agreement may be granted the autonomies as provided in this Subparagraph; however, no institution shall be granted such an autonomy until after the division of administration determines that for the following year the institution possesses the capacity relevant to the autonomy including, at a minimum, a review of the most recent fiscal audit by the legislative auditor and has a one hundred fifty percent of normal-time Integrated Postsecondary Education Data System graduation rate within five percent of the average graduation rate for its classification according to the Southern Regional Education Board.*

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[1] Premiums increased from $5,685,606 in FY06 (Invoice No. 10341) to $13,020,930 in FY11 (Invoice No. 12843) as billed by the State Office of Risk Management.

[2] The Board of Regents entered into a Granting Resources and Autonomy for Diplomas Agreement with LSU in FY11. LSU has submitted FY13 annual report, which was approved by the Board of Regents at its meeting on June 26, 2013 and subsequently assigned LSU an Annual Evaluation Designation of GREEN and determined LSU had met the high level autonomy threshold of 150% of normal-time Integrated Postsecondary Education Data System graduation rate within five percent of the Southern Regional Education Board average graduation rate for its classification.

(ii)(aa) Exemption from participation in the state's risk management program established by R.S. 39:1527 et seq. and administered by the office of risk management, pursuant to a phased-in plan of implementation as determined by the institution in collaboration with the attorney general and the division of administration, subject to the prior review and approval of the Joint Legislative Committee on the Budget. This exemption shall not include the coverage provided by the state's risk management program pursuant to R.S. 40:1299.39."[3]

(bb) Nothing in this exemption shall abrogate, amend, or alter the authority of the attorney general or the Department of Justice under Article IV, Sections 1 and 8 of the Constitution of Louisiana or any other provision of law to represent the state and all departments and agencies of state government in all litigation arising out of or involving tort or contract. Any institution that is granted an exemption under this Item shall enter into an interagency agreement with the attorney general and pay the attorney general reasonable attorney fees and expenses incurred in representing the institution.

(cc) Nothing in this Item shall be construed as creating any independent or separate cause of action against the state. The state shall continue to be sued only through the exempt institution's management board and cannot be sued in addition to or separately from the exempt institution's management board in any cause of action asserted against the exempt institution. Neither the state nor the office of risk management shall be responsible for payment of any judgment against the exempt institution's management board. The state's obligation to indemnify a covered individual as provided in R.S. 13:5108.1 shall not be performed by the office of risk management.

(dd) Any contract between the exempt institution's management board and its insurer shall name the state as an additional insured. Any provision in any contract between the exempt institution's management board and its insurer that conflicts with the provisions of this Section shall be deemed null and void.

(ee) Nothing in this Item shall be construed to adversely affect any of the substantive and procedural provisions and limitations applicable to actions against the state, including but not limited to the provisions of R.S. 13:5106, 5107, 5108.1, and 5112, and R.S. 9:2800 which would continue to apply equally to any exempted institution. Those provisions that will not apply are those that are specifically excluded in this Section. Upon transfer of each line of coverage to the exempted institution under this Section, the provisions of R.S. 39:1527 et seq., as well as the provisions of R.S. 13:5106(B)(3)(c), shall not apply to the line of coverage so transferred, nor to any claims asserted against the exempted institution within the transferred line of coverage.

[3] R.S. 39:1527 et seq. provides for the creation of the office of risk management within the Division of Administration. R.S. 40:1299.39 provides for medical malpractice liability for State services.

Board of Supervisors Support and Approval

Former LSU System President Dr. William Jenkins granted the flagship campus the authority to pursue High Level Risk Management Autonomy and to take all necessary steps to develop a phased-in plan of implementation as determined by the institution in collaboration with the Office of Attorney General, the Office of Risk Management (ORM), and the DOA.[4] Furthermore, the Board of Supervisors granted LSU the authority to administer an Autonomous Risk Management Program, and endorsed this implementation plan through an enacting resolution on March 21, 2014.[5]

Operational Capacity

LA Grad Act 2.0[6] along with the Division of Administration (DOA) guidelines published on February 3, 2012, provide for the approval process for granting and renewing operational autonomies by verifying each institution has the appropriate operational capacity. Thus, in compliance with the statutes and guidelines, LSU conducted a thorough review of its current risk management programs to complete the operational capacity application provided by the DOA through ORM. The application document included a detailed assessment of University policies and procedures, a review of future staff responsibilities, a fiscal impact analysis, an outline of the plans for the solicitation procurement and placement of commercial insurance, and how the ancillary services including loss prevention, adjusting services, and appraisals would be provided after autonomy is granted.

Upon submission of the application document in September of 2013,[7] DOA and ORM completed a thorough review and granted LSU the initial operational capacity in December of 2013[8] along with approval to develop this business plan for Joint Legislative Committee on the Budget (JLCB) review and approval. LSU will complete an annual renewal process as outlined in the guidelines published by DOA and shall also submit a yearly report to JLCB.

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[4] Dr. William Jenkins LSU System President, Letter to Dr. William Jenkins, Chancellor. September 24, 2012
[5] Request from LSU A&M to Approve the Autonomy Stipulate in Act 418 of the 2011 Regular Session of the Louisiana Legislature to Administer an Autonomous Risk Management Program. March 21, 2014
[6] LA R.S. 17:3139.5(5)(c)
[7] Dr. F. King Alexander, LSU President and Chancellor, Letter to Dr. Steven Procopio, Chief of Staff. September 18, 2013
[8] Kristy H. Nichols, Commissioner of Administration, Letter to Dr. Jim Purcell, Commissioner of Higher Education. December 16, 2013

LSU's Risk Management Program Overview

LSU's Risk Management program is administered by Administrative Services and Risk Management (ASRM) within the Division of Finance and Administrative Services and reports to the Vice President and Chief Financial Officer. ASRM's mission is to protect people, property, the environment, financial resources, and other assets in support of the University's teaching, outreach, research, and student services missions.

ASRM includes both Risk Management and Environmental Health and Safety (EHS). Risk Management is responsible for the administration of the University's risk transfer and risk financing programs, including insurance services. EHS is responsible for loss prevention and risk control programs including campus safety, health, and environmental programs. Administrative Services and Risk Management works closely with campus leaders and departments to continually identify, analyze, and monitor risk through an active enterprise risk management (ERM) program, traditional risk and safety assessments, and formal audits.

The University has begun to develop its insurance program with a focus on optimizing the total cost of risk, which may include various loss retentions, commercial coverages, outsourcing of professional services to assure efficient and cost effective risk transfer, and financing with minimum exposure for LSU. The University will continue to utilize a Third Party Administrator(s) (TPA) to provide claims and loss prevention services. Furthermore, the University has engaged an actuary who will continue to conduct reserve analysis, develop loss projections, and assist with the development of a comprehensive cost allocation model for departments and cost centers to encourage and reward departmental implementation of effective safety and loss prevention programs.

The University's risk management, safety, and loss prevention teams are made up of approximately 20 full-time qualified staff members, many of whom hold masters and doctoral degrees. LSU EHS and Risk Management personnel also hold active certifications and professional designations including Certified Risk Manager, Certified Internal Auditor, and Certified Safety Professional. Augmentation and realignment of personnel will occur as needs arise and the transition of coverage takes place. In addition to a contracted broker, actuary, and TPA, the transition will also be supported by the retired Assistant Vice Chancellor for System-wide Risk Management and Public Safety for the California State University (CSU) System who played a leading role in the separation of CSU's risk management program from the State of California. Other risk professionals from the University of Texas System Risk Management Office have also provided consulting services on the organizational structure and administration of future programs and will continue to support LSU as needed.

LSU's current program has been steadily evolving over the past two years as the State Office of Risk Management has allowed LSU more responsibility for its Property and Workers Compensation coverages by the introduction of high deductibles and the independent placement of LSU's excess property insurance. Both of these opportunities have contributed to the University's preparedness for full autonomy.

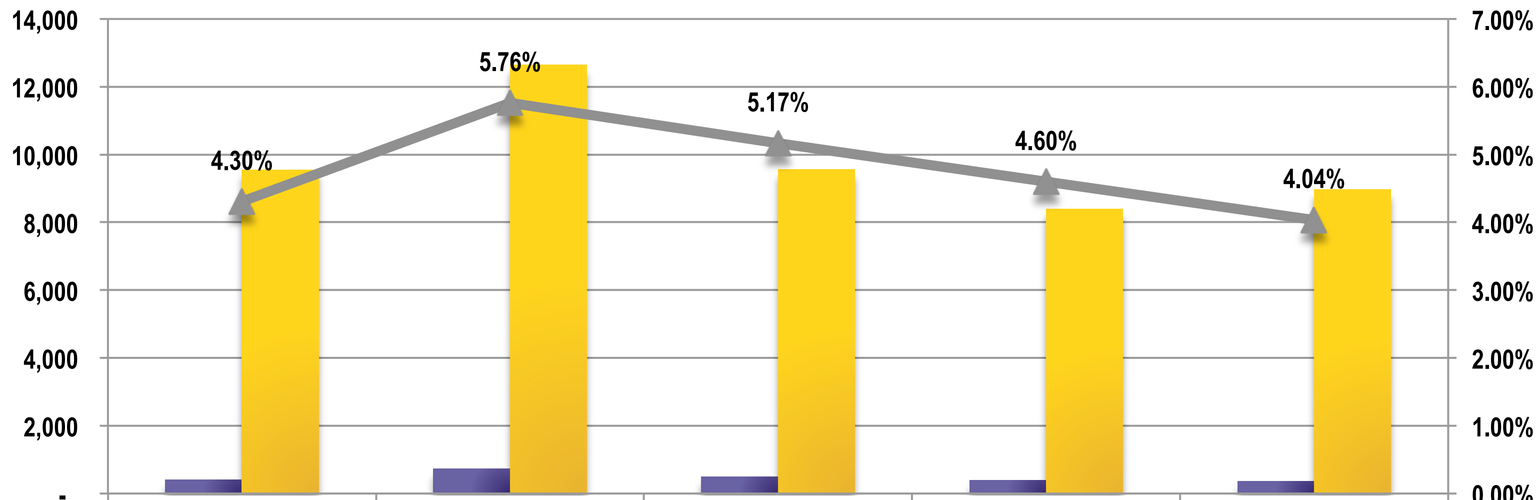
Scope of Current Program

LSU's current insurance program consists of the following coverages administered by the State Office of Risk Management:

- Auto Liability & Physical Damage
- Boiler & Machinery
- Bonds & Crime
- General Liability
- Medical Malpractice
- Property
- Wet Marine
- Workers Compensation

LSU's claims, on average, account for approximately 5% of ORM's total claims as reported in ORM's most recent annual report (note - the spike in 2009 can be explained due to the large number of property claims associated with Hurricane Gustav).

LSU's Claims as a Percent of Total ORM Claims
FY08-FY12

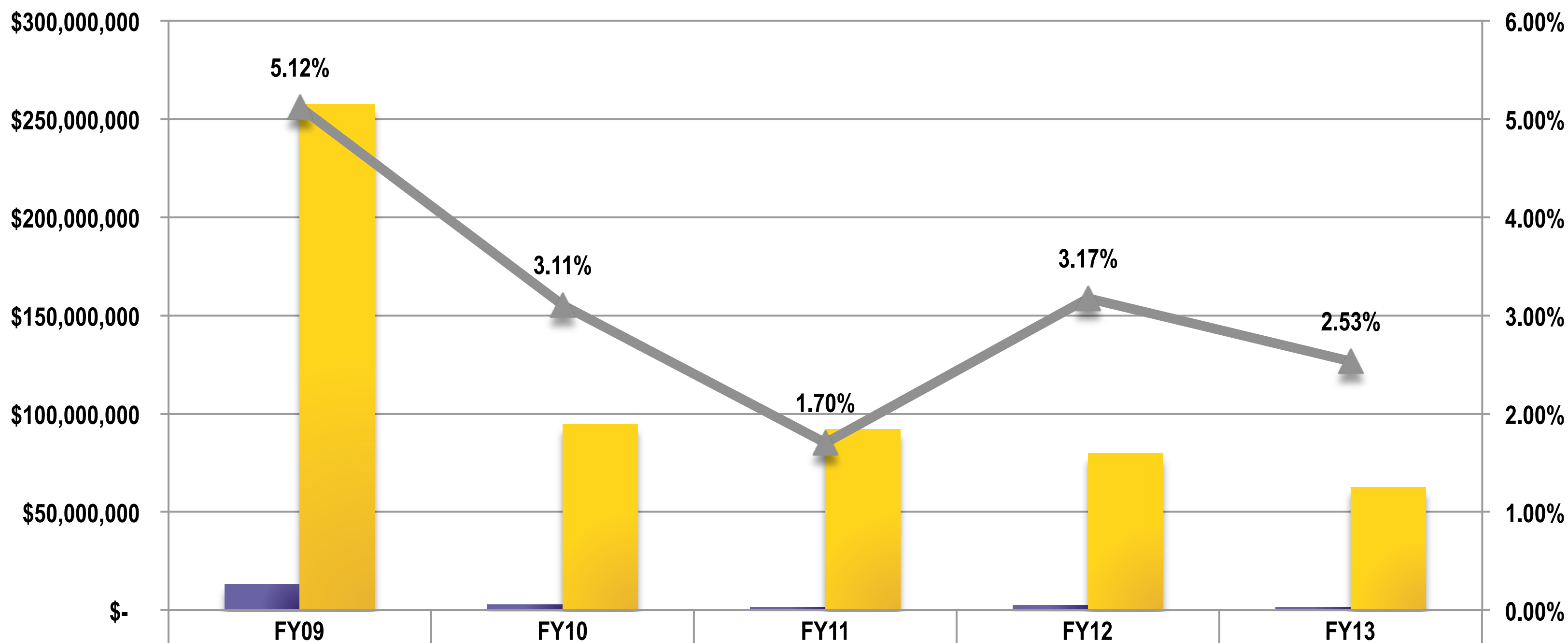


	FY08	FY09	FY10	FY11	FY12
LSU Claims	411	728	494	386	362
ORM Claims	9,551	12,641	9,564	8,399	8,971
LSU Percent of Total Claims	4.30%	5.76%	5.17%	4.60%	4.04%

Source: State Office of Risk Management's FY12 Annual Report: doa.louisiana.gov/orm/pdf/FY2012AnnualReport.pdf

LSU's losses, on average, account for 3% of ORM's total losses as calculated from loss data provided to LSU. As can be seen from the graph below, losses vary significantly from year-to-year driven largely by catastrophic wind events such as Hurricane Gustav in FY09.

LSU's Losses as a Percent of ORM's Total Losses
FY09-FY13

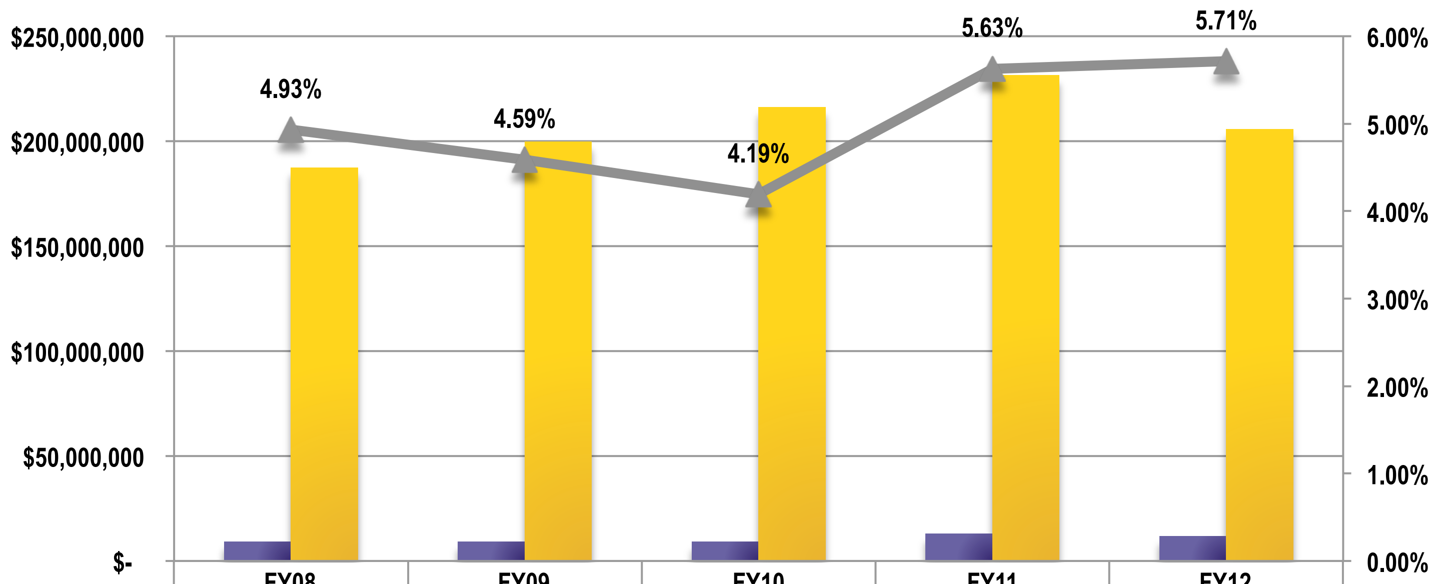


	FY09	FY10	FY11	FY12	FY13
LSU Losses	$13,180,872	$2,937,858	$1,569,606	$2,529,343	$1,586,156
ORM Losses	$257,634,645	$94,586,068	$92,202,149	$79,695,509	$62,630,820
LSU Percent of ORM Losses	5.12%	3.11%	1.70%	3.17%	2.53%

Source: Incurred losses provided by the State Office of Risk Management.

LSU's premiums, on average, account for 5% of ORM's total collected premiums as reported in ORM's most recent annual report when compared to the University's invoices. As can be seen from the graph below, premiums have increased over time. Furthermore, FY15 base premium projections reached an all-time high of approximately $13.8 million.

LSU's Premiums Paid as a Percent of Total Premiums Collected
FY08-FY12



	FY08	FY09	FY10	FY11	FY12
LSU Premiums Paid	$9,234,692	$9,162,178	$9,061,176	$13,020,930	$11,753,001
Total ORM Premiums Collected	$187,357,889	$199,656,108	$216,203,915	$231,293,527	$205,738,206
LSU Percent of Total ORM Premiums Collected	4.93%	4.59%	4.19%	5.63%	5.71%

Source: State Office of Risk Management's FY12 Annual Report and LSU's State Office of Risk Management Premium Invoices (No. 11660, 12171, 12557, 12843, and 13135)
doa.louisiana.gov/orm/pdf/FY2012AnnualReport.pdf

High Deductible Transition

In the fall of 2011, LSU began meeting regularly with ORM to discuss the path to risk management autonomy. During the initial discussion, ORM proposed several options to reduce the total cost of risk to the University before full autonomy was granted. Thus, LSU worked with ORM to develop high deductible coverages for Workers Compensation ($500,000 per occurrence) and Property ($250,000 per occurrence). With the implementation of these programs, ORM-billed premiums to the University have been reduced by approximately $8 million over FY13 and FY14. The majority of these gross premium reductions have been used to establish reserves to fund payment of claims within the high deductibles (i.e., retained losses) that would have previously been funded by premiums paid to ORM. In addition to the University assuming financial responsibility for a large portion of claims, ORM has granted LSU more control over the claims management process. However, LSU continues to be insured by ORM under this program as it is not an exercise of autonomy granted pursuant to LA GRAD Act 2.0. This transitional program has allowed LSU to reduce its total cost of insurance, protecting the University against the risk of loss, while also allowing the University to establish a base upon which to grow an autonomous program.

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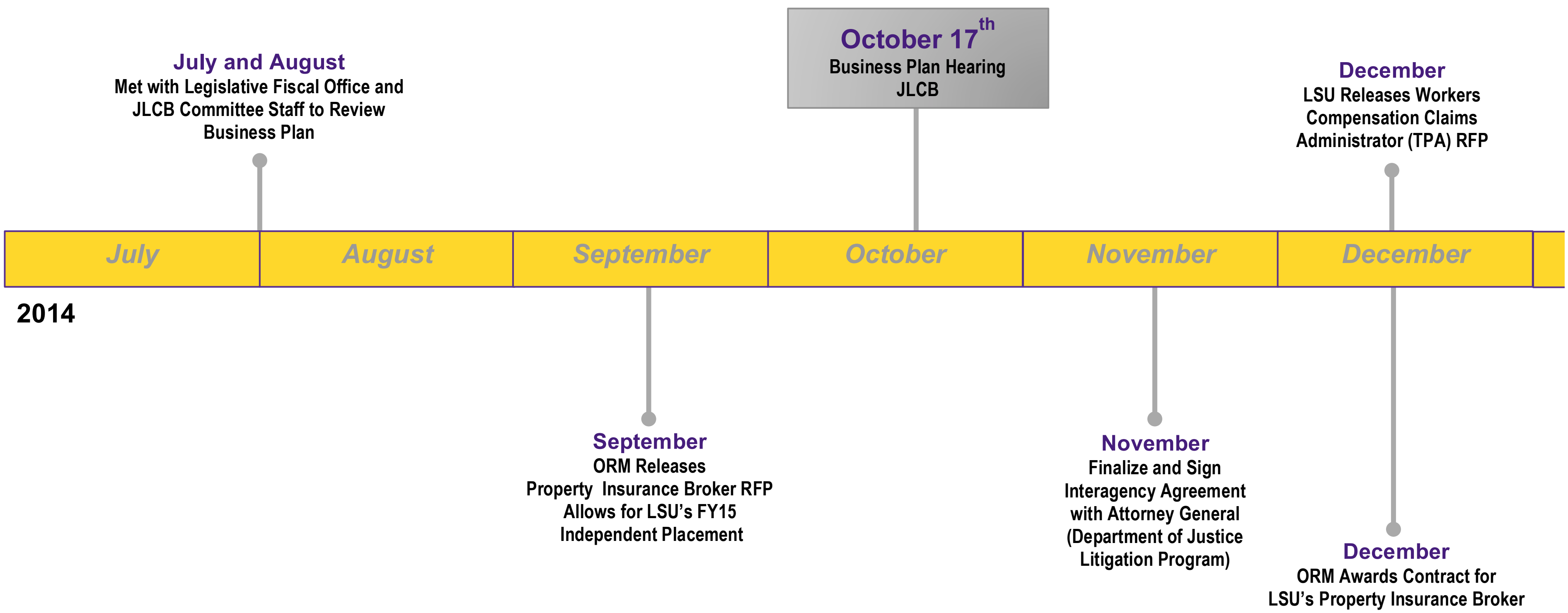
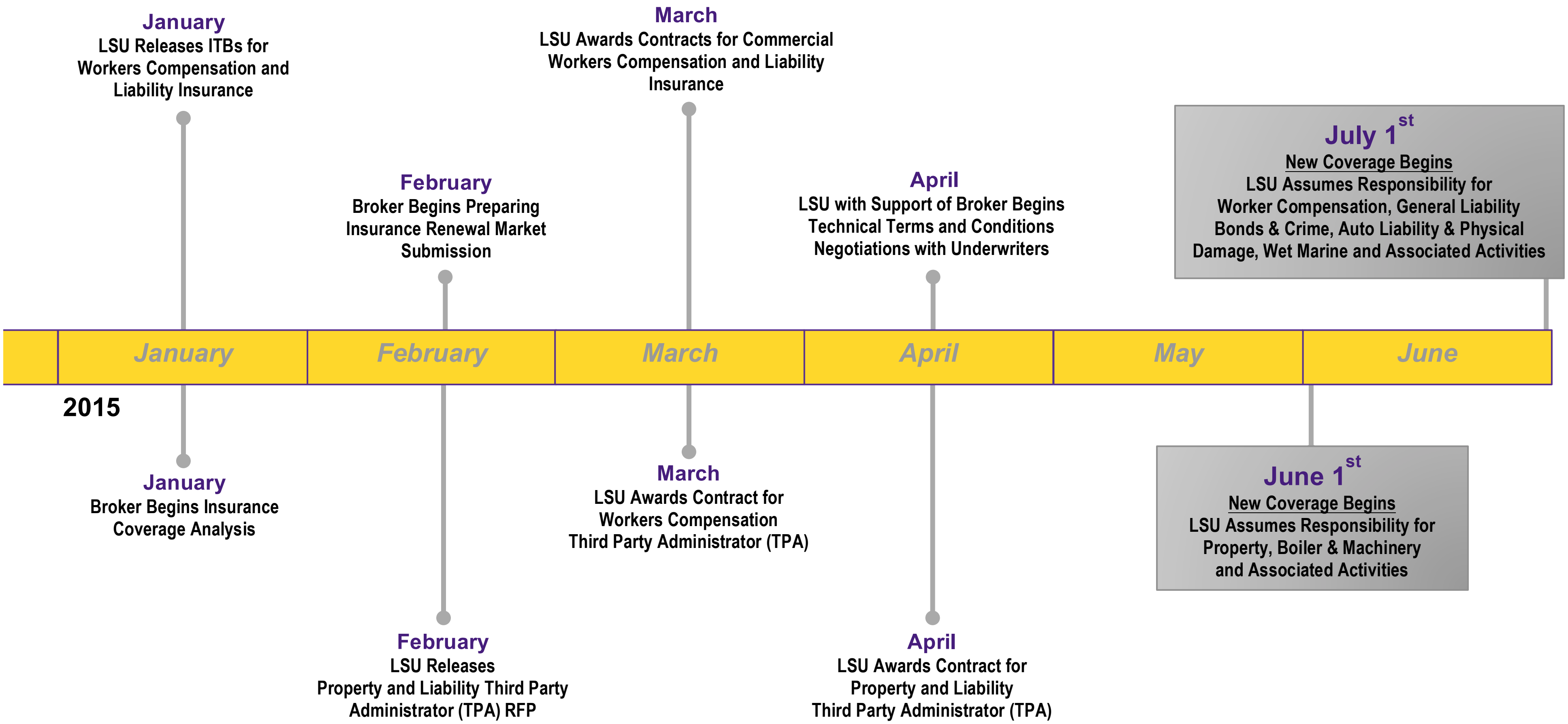
Anticipated Implementation Timeline

In an effort to provide the key steps of implementation the timeline below has been established to reflect program development as defined in the autonomy application approved by the Division of Administration. All projected future steps assume approval of this Business Plan by JLCB on October 17th.



Anticipated Implementation Timeline



Phased-in Plan of Implementation - Program Development

Claims Management

Prior to Autonomy

LSU will continue to engage ORM in the management of past claims so they can be resolved in a timely manner.

After Autonomy

The University anticipates releasing a competitive RFP for the selection of a Third Party Administrator (TPA) to maintain a highly responsive program through active claims management, cost reduction, and follow-up for all lines of coverages. When applicable, TPA services may be provided as value added services through selected brokers.

Coverages

Property and Boiler & Machinery

Commercial coverage will be procured for property and builder risk exposure, and will meet or exceed current policies provided by ORM. Deductibles will be determined based on actuarial projections and the premiums available in the market. Adequate limits and sub-limits will be determined in coordination with a broker upon completion of catastrophic modeling.

Commercial coverage will be procured for boiler & machinery equipment breakdown including, but not limited to, coverage for losses or damages resulting from accidents to boilers, pressure vessels, turbines (including the Co-generation facility), machinery, air conditioning motors, and compressors located in University buildings. Commercial coverage will meet or exceed current polices in-force with ORM, including repair or replacement of the object and also the losses or damages caused to property and persons as a result of the accident, business interruption, extra expense, and consequential damage. The current deductible of $1,000 may be increased based on actuarial projections and the premiums available in the market. LSU expects to obtain Property and Boiler & Machinery coverage during FY15 with implementation in FY16. In addition, LSU will be included in ORM's RFP for broker services under the authority granted by Act 715 of the 2014 Regular Legislative Session in fall 2014.

Workers Compensation

Commercial Workers Compensation and employer's liability coverage will be procured in compliance with State of Louisiana law, rules, and regulations. LSU expects to obtain Workers Compensation coverage during FY15 with an implementation in FY16.

General Liability

Commercial coverage will be procured for the legal liability of LSU arising out of occurrences resulting in injuries or property damage to others that do not involve licensed vehicles, as well as certain obligations of others assumed under contract. General Liability coverage will also include Personal and Advertising Injury liability (coverage B as defined by the Insurance Services Office), and will follow current policy wording provided by ORM with the addition of specific Cyber and Educators Legal Liability coverage. Deductibles will be assumed based on actuarial projections and the premiums available in the market.

Current policies provided by ORM shall be reviewed by LSU's selected broker along with current University activities to determine adequate commercial coverage and to ensure no gaps exists between liability lines. The following coverage shall be the minimum required or included within a comprehensive policy. In addition, LSU will place coverages to cover student academic experiences along with registered student organization activities, which are not offered through ORM. LSU will obtain General Liability coverage with an implementation in FY16.

- Premises and operations shall cover the ownership, maintenance, or use of buildings or property (operations on or off premises), including conduct of University employees.

- Completed Operations and Products Liability provides coverage that protects against losses that occur after operations have been completed or abandoned including bodily injury and property damage arising out of products the University administers, sells, or handles after possession of the product has been relinquished to others.

- Elevator and Escalator Liability shall provide coverage for losses arising out of the ownership, maintenance, or use of elevators and escalators.

- Watercraft Liability shall provide coverage for all watercraft of 26 feet or less in length and rowboats of any length owned, used by, or rented to the University. Hull and Machinery on Boats/Ships/Tugs over 26 feet in length insures loss or damage to a vessel covered, including its machinery, fittings, and equipment and LSU's liability for loss of life or bodily injury; property on another ship; property other than on a ship, such as goods on a wharf, dock, bridge, etc.

- Wrongful Acts including errors and omissions shall provide errors and omissions coverage for University employees rendering professional services, including failure by public officials to perform duties, file reports, solicit bid quotations, issue or nullify licenses, frequent absence from meetings, or making unauthorized expenditures.

- Garage Keepers Legal Liability shall provide coverage to protect against loss of or damage to an automobile left in the University's care for parking.

- Fire Damage Legal Liability shall provide coverage for damage by fire, caused by the University's negligence to premises rented by the University.

- False Arrest, Detention, or Imprisonment shall provide coverage for an act that involves unlawful, unjustified, forcible retention or detaining a person against their will based on groundless accusations.

- Malicious Prosecution shall provide coverage for intentional acts that involve the instituting of legal proceedings, either criminal or civil, against another without probable cause or proper cause.

- Wrongful Entry or Eviction shall provide coverage for wrongly expelling a person from a premise, wrongly entering (trespassing) a premise or otherwise invading or preventing the private right to occupy a premise.

- Libel, Slander, or Defamation of Character shall provide coverage for harm to a person's reputation resulting from a false statement, defamation by speech, defamation in written or visual form, or disparagement that involves a comparison that detracts/discredits the goods, products or services of another because of false statements.

- Violation or Deprivation of Rights, Privileges or Immunities Secured by Law shall provide coverage for the release of secure information (i.e. medical records, financial information, social security numbers) or the misappropriation of a person's likeness of name, intrusion of a person's right of seclusion, solitude, or private affairs or public disclosures of private facts, even if the information is true and not defamatory, if the revelation is embarrassing or otherwise reasonably objectionable.

- Cyber Liability will provide coverage for liability that arises out of unauthorized use of, or unauthorized access to, electronic data or software within the University's network or business services platforms.

- Educator's Legal Liability will provide coverage for a broad range of non-bodily injury/non-property damage third party liability claims, made against the administrators, employees, and staff members of the University.

- Professional Liability will provide coverage to protect professionals and quasi-professionals against liability incurred as a result of errors and omissions (E&O) in performing their professional services.

- Law Enforcement Officer Liability will provide E&O coverage for the LSU Police Department. Activities to be covered shall include false arrest, excessive force, and invasion of privacy.

Auto Liability and Physical Damage

Commercial coverage will be procured for comprehensive, collision, liability, and non-ownership liability. Commercial coverage will meet or exceed current insurance policies provided by the ORM. Deductibles will be determined based on actuarial projections and the premiums available in the market. The University will further ensure that policies provide an appropriate aggregate deductible. LSU will obtain Auto Liability and Physical Damage coverage during FY15 with an implementation in FY16.

Bonds & Crime

The University shall purchase commercial coverage which will be procured for both Employee Faithful Performance and Crime coverage as described below.

An Employee Faithful Performance Blanket Bond covers a loss sustained by the insured because of dishonest or fraudulent acts of employees. "Faithful Performance" provides coverage for losses caused by failure of an employee to faithfully perform duties. This may include Property Manager Bond for dishonest or fraudulent acts, or failure to faithfully perform duties, in connection with handling and control of State Property, resulting in a loss to LSU; Notary Bond to guarantee that a notary public will comply with applicable laws and regulations; Postal Bond to ensure that a post office contract, branch or station located at a university or college shall faithfully discharge all duties required under the rules and regulations of the U.S. Post Office Department. It must account for, deliver, and pay over monies, mail matters, and other properties that come in its possession to the proper post office official; Public Official Bond for persons elected or appointed to fill positions of trust. It protects against dishonest and fraudulent acts as well as a person's failure to perform duties required.

A crime policy shall also be placed to cover all perils as provided by the ORM policy for money and securities within premises and outside premises while being conveyed by messenger. Property other than money and securities shall be insured against robbery or safe burglary. Coverage shall be provided against loss through forgery or alteration of checks drawn by the University. LSU will obtain Bonds & Crime coverage during FY15 with an implementation in FY16.

State Reporting Procedures

LSU will require the selected property broker or sub-contractor to hold the proper certification to conduct building appraisals. Commercial property appraisals will be completed on all buildings that capture the details of the building including up-to-date ISO construction data, federal flood zones, and roof age. Appraisals (excluding land) will be performed upon completion of construction, after significant additions/enhancements, or periodically on a 4-year schedule. Information and the current schedule provided by the ORM, State Facility Planning & Control, and FARA (State TPA) shall be used as the baseline to begin appraisals. LSU Risk Management in coordination with LSU Office of Facility Services (OFS) and the LSU Office of Property Management (OPM) will maintain an updated Schedule of Values (SOV) including replacement and content values and exposure reporting to carriers. The University will provide all necessary reporting as determined by ORM and State Facility Planning & Control. In addition to standard commercial appraisals, LSU will also complete a wind assessment study on all high value buildings to provide secondary wind modifiers to commercial underwriters.

LSU will require the selected property broker or sub-contractor to complete boiler inspections in compliance with the State Boiler Inspection Law (Louisiana Revised Statute Title 23 Chapter 5) and all other requirements as established by University policy and the insurance provider of Equipment Breakdown coverage. Inspections shall be conducted by a third-party as well as by LSU personnel. A qualified provider, as part of insurance coverage or independently, will conduct annual inspections including thermal imaging on the Co-generation power facility and other large boilers.

LSU will contract with elevator inspection firms through competitive bidding among qualified vendors for inspections for elevators, escalators, dumbwaiters, and lifts for the disabled at all University buildings. The contractor will be required to provide reports to LSU Risk Management and Office of Facility Services within 10 business days of inspection.

LSU Property Management maintains all University inventory records, and each individual campus entity is responsible for the oversight of department equipment inventory. Property valuation is maintained by Office of Facility Services and provided as needed.

LSU's Office of Financial Accounting and Reporting includes liabilities and payments associated with claims in the LSU System's consolidated financial statements provided each fall for the previous fiscal year. Financial Accounting and Reporting will also provide any additional reports upon request to Office of Statewide Reporting and Accounting Procedures or other State agencies as required.

LSU's Third Party Administrator will be responsible for reporting claims information to the Louisiana Workforce Commission, Office of Workers' Compensation.

Claims Litigation

Interagency Agreement with Department of Justice

LSU has engaged the Louisiana Department of Justice (DOJ) Litigation Program to develop an interagency agreement,[9] which will provide for the legal representation of LSU and its various departments and their officials, officers, and employees in all tort claims. In these claims, the DOJ shall appoint counsel to represent LSU and its various departments and their officials, officers, and employees. LSU shall enter into an interagency agreement with the DOJ to pay reasonable attorney fees and expenses incurred in representing the institution.

As stated in the LA Grad Act, LSU's exemption shall not abrogate, amend, or alter the authority of the Attorney General or the Department of Justice under Article IV, Sections 1 and 8 of the Constitution of Louisiana or any other provision of law to represent the State and all departments

[9] James D. "Buddy" Caldwell Attorney General, Letter to Honorable James R. "Jim" Fannin, Representative and Chairmen, Appropriations; and Joint Legislative Committee on the Budget. May 1, 2014

and agencies of State government in all litigation arising out of or involving tort or contract. LSU's exemption shall not be construed as creating any independent or separate cause of action against the State. The State shall continue to be sued only through the exempt institution's management board and cannot be sued in addition to or separately from the exempt institution's management board in any cause of action asserted against the exempt institution. Neither the State nor ORM shall be responsible for payment of any judgment against the exempt institution's management board. The State's obligation to indemnify a covered individual as provided in R.S. 13:5108.1 shall not be performed by ORM. All contracts between LSU and commercial brokers and insurer carriers shall name the State as an additional insured.

Fiscal Impact Analysis

With the implementation of the risk management autonomy and the adoption of the total cost of risk model, including placement of independent commercial coverage through an insurance broker, LSU will be adopting a practice that is common throughout the country for large public universities. The University of Texas System is an excellent example of this practice and has provided LSU with a recommendation to pursue independent coverage resulting in the possibility of substantial savings. Upon receiving autonomy, LSU will not only acquire more comprehensive coverage, but also savings from the implementation of high deductibles and the ability to place coverage based on LSU's independent loss history and exposure. It is projected that the largest savings will be realized by making changes to excess property coverage placement.

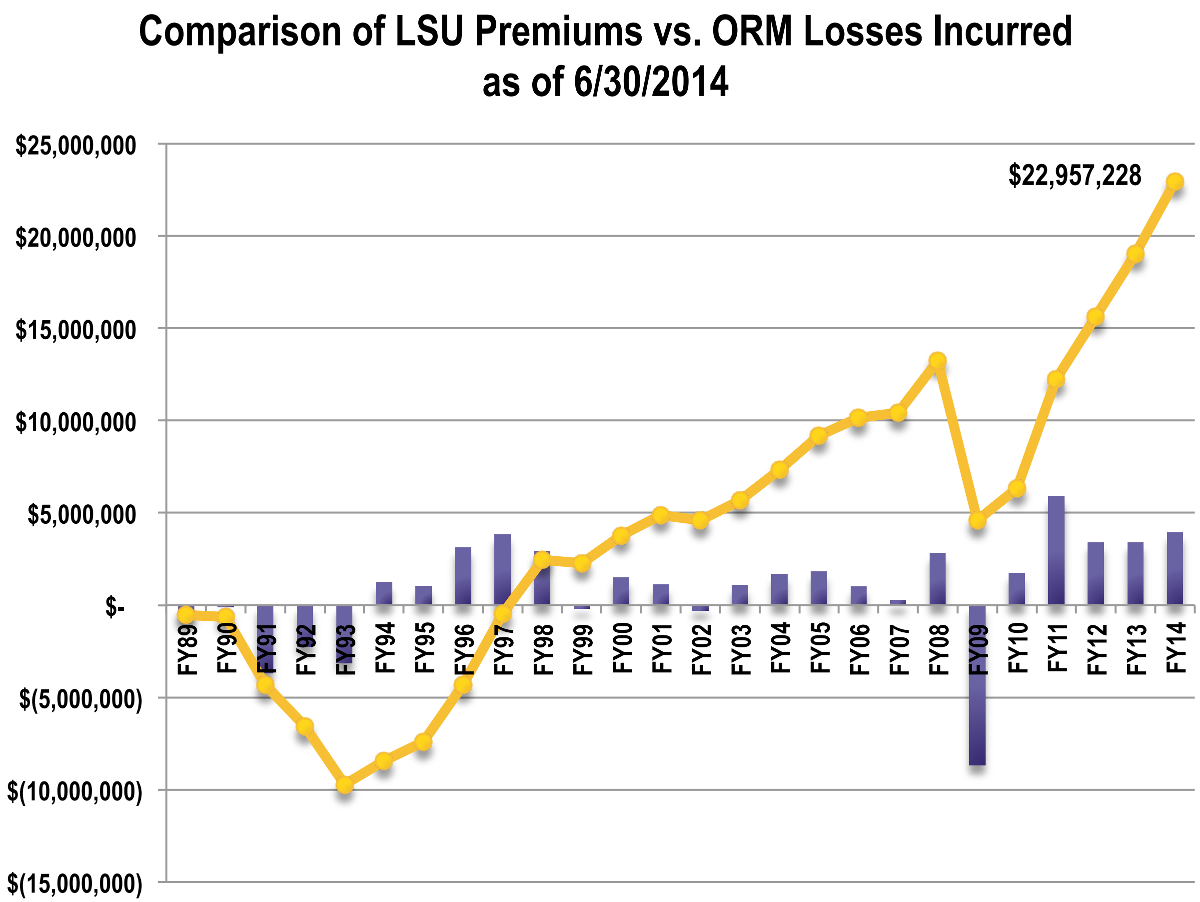
In addition to a more efficient procurement process, risk management autonomy will allow LSU to manage independent claim reserves. The development of claims reserves will allow the University to save additional premiums by eliminating the trading of dollars with insurance carriers. Initial savings resulting from autonomy will also allow an increase in investment for loss prevention programs, which create further savings through reductions in claims and claims costs. In addition to retaining the cost of claims, LSU will be able to leverage surplus claim reserves to increase deductibles when determined to be in the best interest of the University during hard market cycles, but also capitalize on opportunities during soft market cycles by obtaining broader coverage at little to no cost.

Once LSU receives risk management autonomy, it does not anticipate a return to ORM in the future. LSU's program has been conceived to provide the University the ability to respond to unforeseen circumstances in the market through the development of reserves funded on sound actuarial projections.

ORM's Traditional Insurance Program

LSU has been part of the State Office of Risk Management (ORM) program since 1988 and paid premiums calculated by ORM for the coverage provided. More specifically, the University has averaged 3% (FY09-FY13) of total losses incurred by the State, but has paid an average of 5% (FY08-FY12) of total ORM premiums collected annually (see pages 9-11).

Historically, ORM has allocated the exposure portion of premiums, that portion of premiums based on the value of the assets to be insured, at an equal rate to all State agencies regardless of the agency's level of risk. For example, LSU pays the same rate per dollar of payroll for general liability insurance as the State Police and the Department of Transportation and Development (DOTD) even though both entities have greater risks and liability exposure. The same pattern appears to hold true for property insurance. Geographic location is an important factor in pricing property insurance. However, property insured under the State's risk management program is lumped together regardless of its location. For example, a building on the LSU flagship campus is as costly to insure with ORM as another agency's building located directly on the Gulf Coast. Not only do commercial property underwriters and catastrophic modeling projections take into account geographic locations, but they also classify colleges and universities as preferable risk. This classification rewards higher education institutions with lower premiums, a benefit ORM has historically not passed on to the University. LSU estimates that it has contributed nearly $23 million in premiums above losses through FY14, as outlined in the accompanying graph. On average LSU has contributed approximately $900,000 annually in premiums when one compares LSU's ORM losses incurred vs. premiums paid (less 15% for ORM admin cost) during the period of LSU's participation in the State self-insurance program[10].



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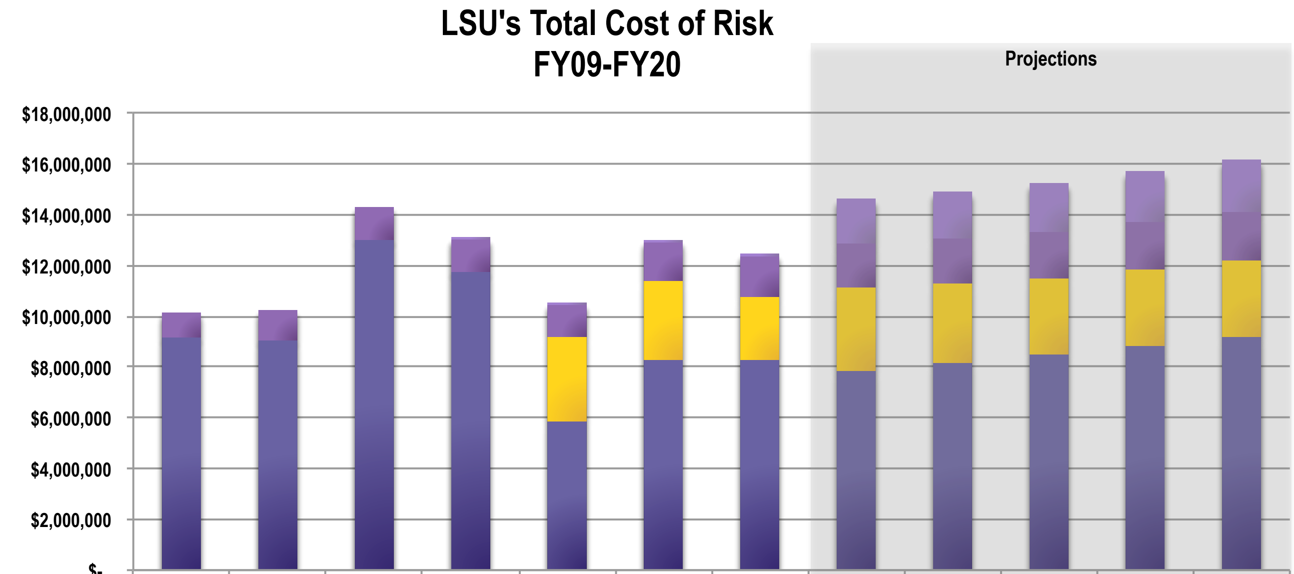
[10] *LSU's premiums as indicated include only those for ORM's self-insured coverages, which have been reduced by 15% to account for administrative overhead of ORM. Losses were developed by LSU's actuary and are ultimate losses as of 6/30/14 including allocated loss adjustment expenses (ALAE).*

Adopting the Total Cost of Risk Model

LSU has become proactive in facing the challenges associated with the changing landscape of insurance and risk management. However, LSU must have the ability to control all facets of its program and thus, its total cost of risk to not only reduce cost, but also to develop a more comprehensive and unique insurance program with broader coverage that will best protect the University and the State.



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
External Cost	$-	$-	$-	$25,000	$37,500	$84,450	$98,200	$1,760,000	$1,841,750	$1,911,876	$1,989,823	$2,037,988
Internal Cost	$975,419	$1,167,221	$1,276,114	$1,282,977	$1,260,739	$1,504,274	$1,604,359	$1,732,295	$1,766,941	$1,837,619	$1,874,371	$1,911,858
Retained Losses	$-	$-	$-	$-	$3,340,000	$3,110,000	$2,485,000	$3,271,500	$3,121,550	$2,991,243	$2,997,482	$3,005,750
Insurance Premiums	$9,162,178	$9,061,176	$13,020,930	$11,753,001	$5,854,798	$8,292,296	$8,281,926	$7,861,509	$8,176,147	$8,503,380	$8,843,711	$9,197,665
Total Cost of Risk	$10,137,597	$10,228,397	$14,297,044	$13,060,978	$10,493,037	$12,991,020	$12,469,485	$14,625,304	$14,906,389	$15,244,117	$15,705,387	$16,153,262

LSU's Total Cost of Risk can be seen in the accompanying chart, which captures the total projected cost associated with an autonomous program. Each of the following sections describes the components of the total cost of risk as well as the key benefits when compared to the current ORM program.

External Costs

External costs are currently captured as administrative overhead and allocated expenses calculated into ORM's annual insurance premiums. However, with an autonomous program, LSU will directly outsource key professional and associated services. For example, LSU will hire a third party administrator (TPA) through a competitive RFP process. Initial cost in FY16 is expected to be approximately $450,000 and increase to approximately $525,000 with fully developed return to work and loss prevention programs. Legal costs currently paid to counsel by ORM will also be paid directly by LSU. The University is currently working with the Office of the Attorney General on an interagency agreement as required by the LA Grad Act to be completed this fall. Finally, a key external component of LSU's program will be engaging brokers with experience in the development and placement of higher education property and casualty insurance. By hiring a full services brokerage firm who will also provide associated services, LSU will be able to develop a more efficient and effective program. LSU anticipates external costs will be funded through insurance premium savings.

Internal Costs

Internal cost captures the salaries, benefits, and administrative expenses associated with LSU Risk Management and Environmental, Health and Safety (EHS). Senior leadership from the University of Texas System Risk Management Office completed an operational assessment in 2012 of the LSU Risk Management program. Based on the review, the University has reorganized staff to better align the department for an autonomous program and anticipates hiring additional financial analysts, one in FY15 and one in FY16 ($70,000 each), as the program develops.

Retained Losses

Retained losses are the cost assumed by LSU within the self-insured retentions (deductibles) selected for each line of coverage (i.e. $500,000 Workers Compensation, $250,000 Property and Boiler & Machinery). LSU, in coordination with an independent actuary, will select each coverage deductible annually that will allow the University to assume expected losses at the most efficient rate while purchasing insurance to cover unexpected or catastrophic losses. The University will fund retained losses with the development of claim reserves to save additional premiums by eliminating the trading of dollars with insurance carriers for small, frequent losses.

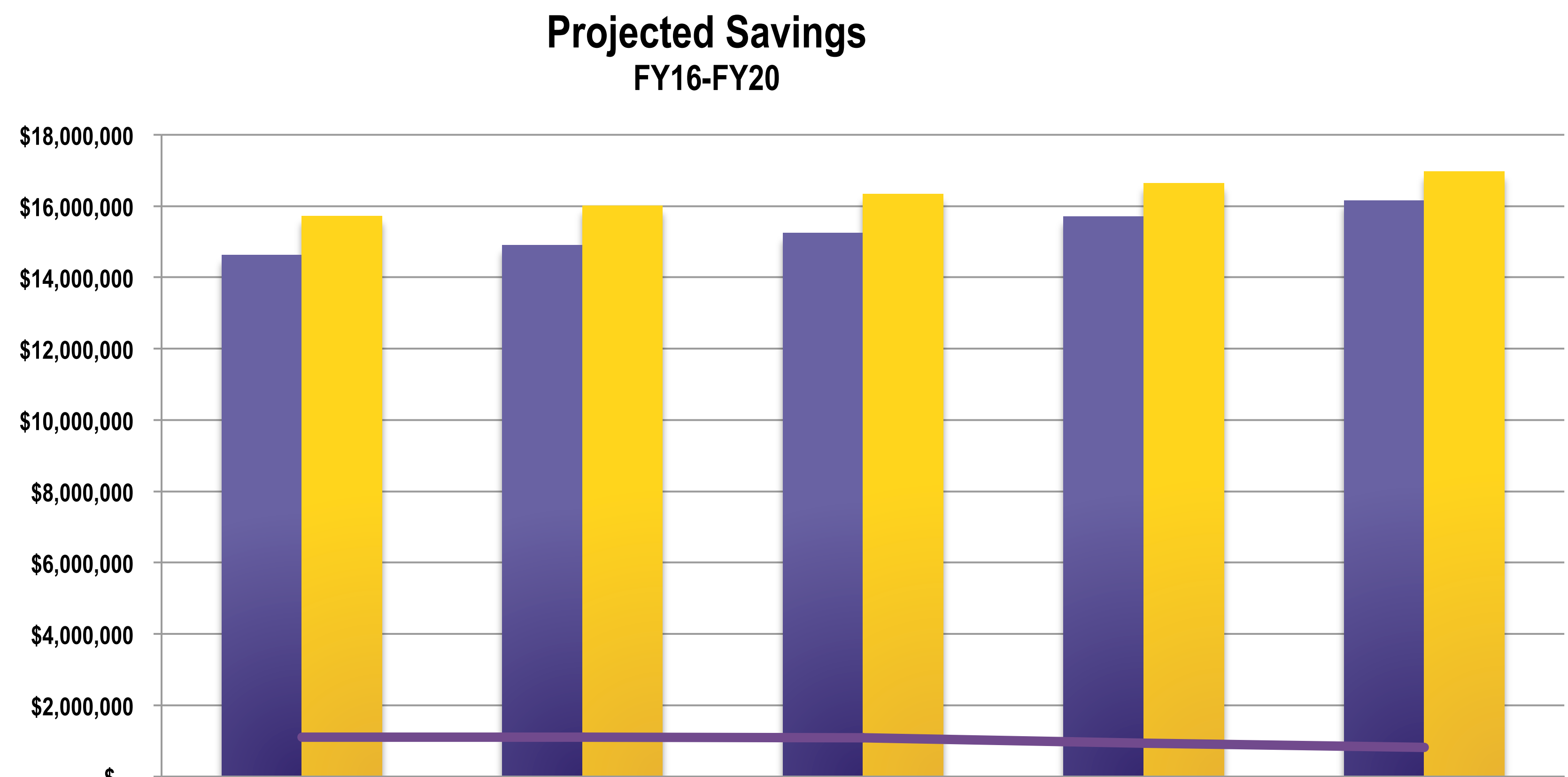
To project LSU's future losses, the University's actuary completed a loss projection analysis for FY15. For FY16-FY20, LSU's actuary developed historical projected losses based on analyses completed in FY11-FY14 (an annual loss trend factor was applied at selected deductibles that took into account the projected impact of direct control over the losses and administration of LSU autonomous insurance programs). LSU will complete an annual loss projection each winter for the following fiscal year to determine reserve allocation amounts to fully fund expected losses. A reserve analysis will also be completed at the end of each fiscal year to ensure reserves are fully funded for ultimate claims (including incurred, but not reported) at which point additional savings or contributions could be realized, along with ensuring liability reporting compliance under Governmental Accounting Standards Board (GASB).

Insurance Premiums

Insurance premiums include the cost of coverage provided through the commercial markets. LSU expects to achieve stability over time as well as consistent or improved terms/conditions favorable to the University. For instance, with the placement of independent property coverage under the high deductible collaborative program with ORM, LSU no longer shares a $200 million limit with the remainder of the State, but has its own $150 million limit based on industry accepted catastrophic modeling. The University can also adapt to market trends by adjusting the self-insured retentions, as described above, with market cycles (hard vs. soft) to reduce the total cost of risk. Insurance premium projections do not take into account the impact of future catastrophic events and have been developed using trend factors of LSU's current premiums and selected deductibles.

Projected Savings

To determine LSU's projected savings, the University has adopted the total cost of risk model as described above and compared it to ORM's historical insurance program. In summary, LSU in coordination with risk management professionals and consultants developed a trend factor for FY16 premiums provided by ORM and has projected savings of approximately $5 million through FY20.



	FY16	FY17	FY18	FY19	FY20
Autonomous Program	$14,625,304	$14,906,387	$15,244,117	$15,705,387	$16,153,261
State ORM Program	$15,725,965	$16,008,212	$16,336,166	$16,646,012	$16,970,335
Savings	$1,100,661	$1,101,825	$1,092,049	$940,625	$817,074
Cumulative Savings	$1,100,661	$2,202,486	$3,294,535	$4,235,159	$5,052,232

The University has reached an agreement with ORM to assume financial responsibility for legacy claims. In return, LSU will provide claims management and associated services beginning on July 1, 2015. LSU currently projects the cost of such claims to be approximately $5 million. However, the University is exploring several options to significantly reduce these costs such as a loss portfolio transfer of open claims along with active claims management to reduce expected payouts.

Projected Exit Cost					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**Total**
$ 2,990,615	$ 812,523	$ 549,117	$ 377,266	$ 227,818	$ 4,957,339

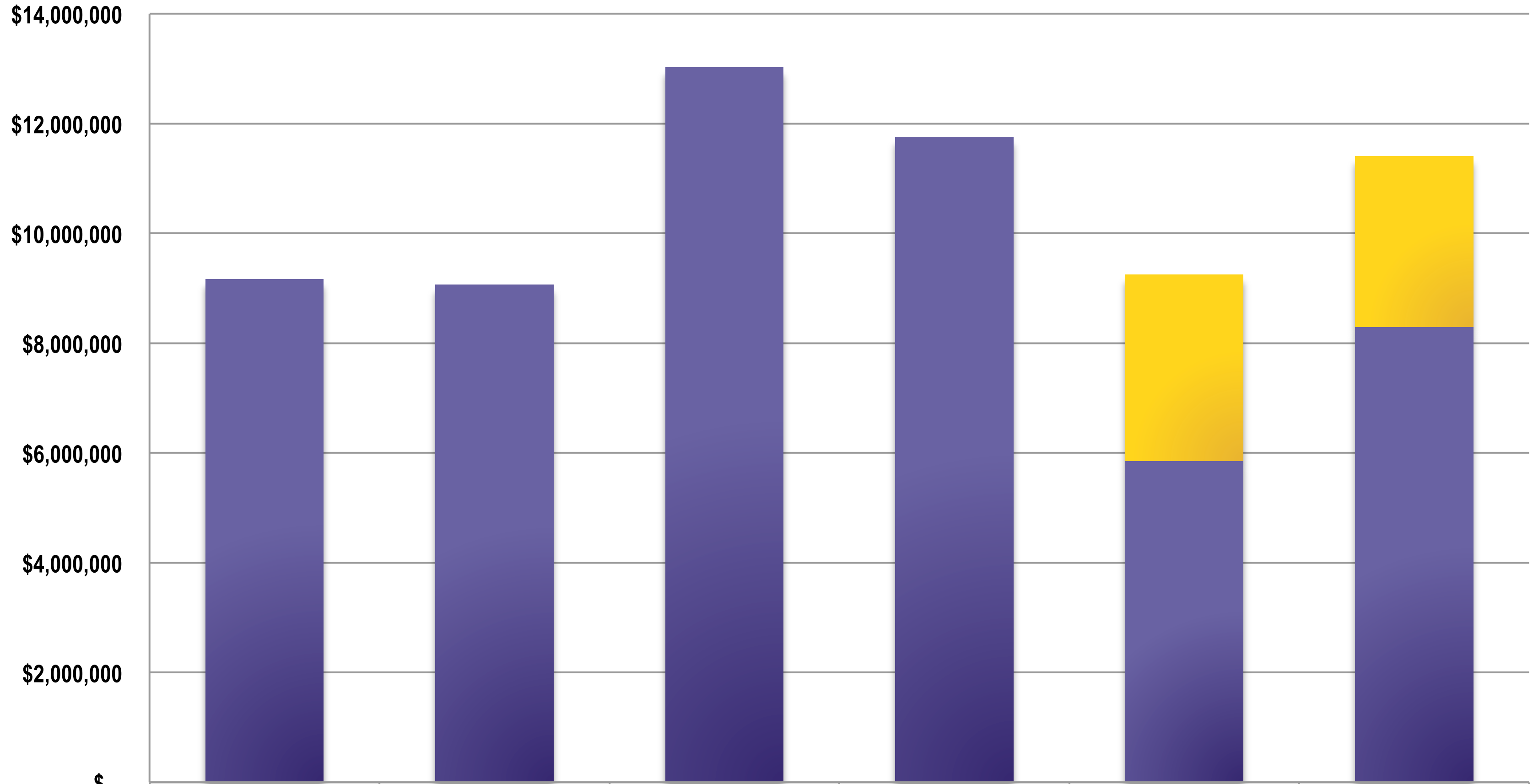
Source: "Legacy Claims Analysis" Prepared by Casualty Actuarial Consultants Inc.

Disclaimer

It must be understood that all projections in this report are based on current knowledge and cannot guarantee the future cost/savings of LSU's autonomous risk management program. The complex variables associated with the purchase of insurance and the occurrence of claims (e.g., hurricanes, fire, class action employment practices, global catastrophic events) may impact the financial reserves and/or premium cost for each program.

Appendix I

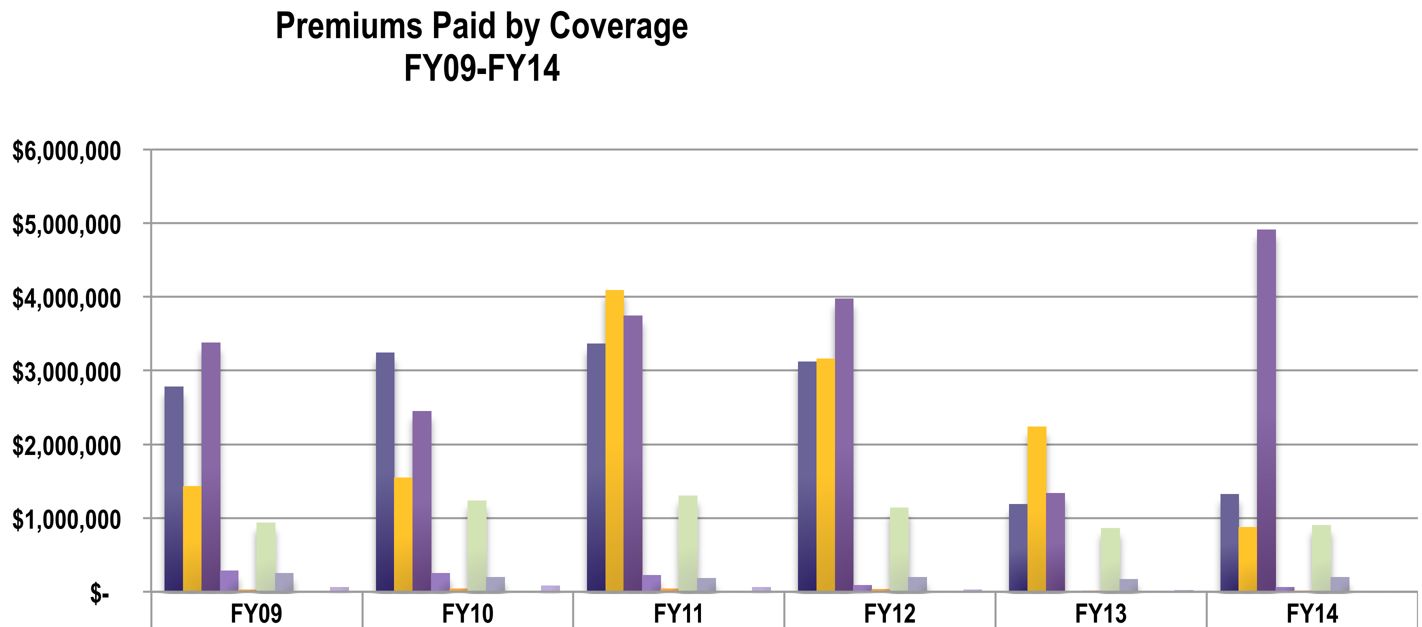
Total Premiums Paid and Reserve Allocations
FY09-FY14



	FY09	FY10	FY11	FY12	FY13	FY14
Reserve Allocations					$3,390,000	$3,110,000
Premium Paid to ORM	$9,162,178	$9,061,176	$13,020,930	$11,753,001	$5,854,798	$8,292,296

Source: ORM Invoices 12171, 12557, 12843, 13135, 13558, 13425, 13562.

Appendix II



	FY09	FY10	FY11	FY12	FY13	FY14
Worker's Compensation	$2,777,265	$3,243,115	$3,360,914	$3,121,549	$1,189,181	$1,319,698
Property ORM Insured Layer	$1,427,957	$1,547,680	$4,091,950	$3,158,986	$2,236,966	$873,662
Excess Property/B&M*	$3,378,195	$2,450,012	$3,742,775	$3,975,549	$1,338,255	$4,906,936
Boiler and Machinery ORM Insured Layer	$283,704	$254,348	$222,392	$91,486	$5,944	$61,895
Medical Malpractice	$30,120	$39,667	$38,330	$31,824	$15,082	$11,370
General Liability (Including Personal Injury)	$938,784	$1,236,989	$1,304,999	$1,137,579	$863,907	$905,132
Automobile Liability	$254,488	$199,259	$186,229	$196,257	$172,158	$196,274
Wet Marine	$8,186	$7,439	$8,658	$9,169	$9,055	$8,884
Bond and Crime	$3,728	$3,401	$3,704	$1,741	$1,510	$2,171
Auto Physical Damage	$59,751	$79,266	$60,979	$28,861	$22,740	$6,274

Source: ORM Invoices 12171, 12557, 12843, 13135, 13558, 13425, 13562.

*Excess coverage provided by ORM for 9-month period (July 1, 2012 – March 31, 2013). Prorated (FY13-FY14) excess property policy was placed for 14-month period (April 1, 2013 – May 31, 2014). Excess coverage provided by ORM is reflected in property ORM insured layer.

Appendix III

Reserve Allocations by Coverage
FY09-FY14

	FY09	FY10	FY11	FY12	FY13	FY14
Workers Compensation	$-	$-	$-	$-	$2,000,000	$2,000,000
Property and B&M	$-	$-	$-	$-	$1,390,000	$1,110,000