



Douglas A. Ducey
Governor

Craig C. Brown
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

RISK MANAGEMENT DIVISION
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September 12, 2017

The Honorable Douglas A. Ducey
Governor, State of Arizona
1700 West Washington Street, 9th Floor
Phoenix, Arizona 85007

The Honorable Steve Yarbrough
President of the Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable J.D. Mesnard
Speaker of the Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Governor Ducey, President Yarbrough, and Speaker Mesnard:

I am pleased to present the Fiscal Year 2017 Annual Report of the Arizona Department of Administration, Risk Management Division, in compliance with the requirements of A.R.S. § 41-623.

The report summarizes liability, property, and workers' compensation expenditures for fiscal year 2017. It also contains information regarding frequency and severity of insurance losses for select agencies, as well as information on loss prevention efforts.

If you have any questions, comments, or concerns, please do not hesitate to contact me at 602-542-1791.

Sincerely,

A handwritten signature in cursive script that reads "Ray Di Ciccio".

Ray Di Ciccio
State Risk Manager

Enclosure

cc/enc: Ashley Beason, Budget Analyst, Governor's Office of Strategic Planning & Budgeting
Rebecca Perrera, Fiscal Analyst, Joint Legislative Budget Committee
Holly Henley, State Librarian & Director, State Library, Archives & Public Records
Craig C. Brown, Director, Department of Administration
Kevin Donnellan, Deputy Director, Department of Administration

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RISK MANAGEMENT DIVISION



FISCAL YEAR 2017 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2017 Annual Report, as required by A.R.S. § 41-623, summarizes liability, property, and workers' compensation expenditures, and it provides information on loss prevention efforts and several achievements of the Arizona Department of Administration Risk Management Division during the fiscal year.

The Risk Management Division was established in 1976 and is responsible for the management and mitigation of liability, property, and workers' compensation claims. Statutes found in A.R.S. § 41-621 et seq., and administrative rules found in A.A.C. R2-10-101 through R2-10-601, outline the parameters of the program, including coverage for agencies, employees, boards, and commissions. The Risk Management Division provides consultations with state agency personnel to recommend programs and procedures aimed at reducing or eliminating risk. On an annual basis, Risk Management performs a comprehensive evaluation of its insurance program to determine the proper combination of purchased commercial insurance and risk retention.

ACHIEVEMENTS

Fiscal Year 2017 marked a year of significant achievements:

- Risk Management's Medical Processing and Cost Containment Program continues to achieve significant savings. Direct savings for FY 2017 YTD are over \$2 million. Savings resulted from better medical pricing, a reduction in unnecessary care, and a decrease in emergency room utilization.
- Risk Management completed the Hillside Mine soil contamination remediation project. The Hillside Mine is located on Arizona State Trust land in Western Yavapai County near Boulder Creek. Contamination discharges from the lower tailings pile were draining into Boulder Creek. 80% of the \$2.6 million project costs were funded by an EPA grant. The successful remediation project required collaboration with multiple federal, state, and private sector entities to obtain appropriate permits, negotiate access agreements, and build a 5-mile-long access road. Grant match requirements and project costs were reduced by the incorporation of 26,260 tons of soil and 8,400 tons of rock generated from onsite sources to build a soil cap for the tailings and a rock-lined water diversion channel.
- Risk Management negotiated a reduction of \$435,000 for its property and liability insurance broker retail commission fees.
- Risk Management negotiated a pricing reduction of \$235,000 for its workers' compensation third party administrator services.
- Risk Management Loss Prevention enhanced engagement with state agencies through collaboration toward injury reduction, clarification of emergency action procedures, standardization of ergonomic assessments, and improvements in building indoor air quality processes.

FISCAL YEAR 2017 COSTS AND COMPARISONS

Liability expenditures for Fiscal Year 2017 were \$22.4 million. The five-year average for liability expenditures is \$21.7 million.

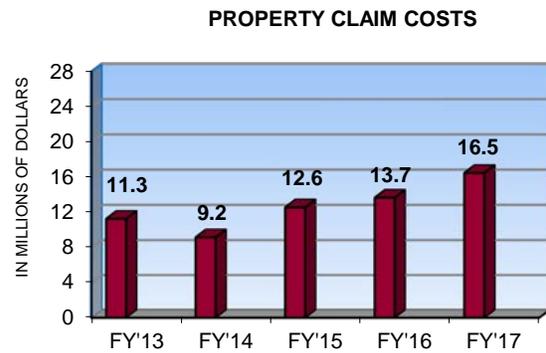
Property expenditures in Fiscal Year 2017 were \$16.5 million. The five-year average for property expenditures is \$12.7 million.

Workers' Compensation expenditures in Fiscal Year 2017 showed an increase of \$1.98 million over Fiscal Year 2016.

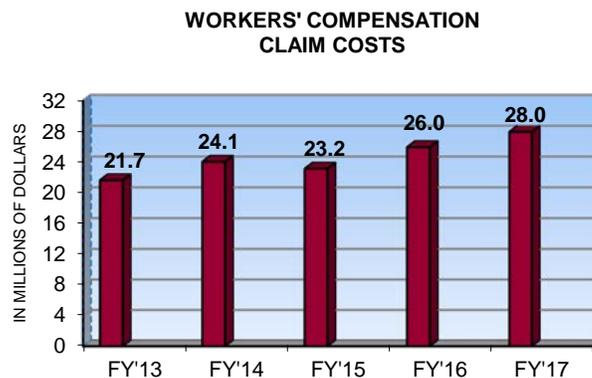
The following charts depict five-year cost comparisons:



FY 15 includes one extraordinary bodily injury claim of \$7.8 million.
FY 16 includes four bodily injury claims resulting from similar circumstances totaling \$8.7 million.
FY 17 includes four extraordinary bodily injury claims totaling \$8.2 million.



FY 16 includes one extraordinary real property damage claim of \$2.8 million.
FY 17 includes one extraordinary fidelity and surety claim of \$4.0 million.



LIABILITY PROGRAM

In Fiscal Year 2017, there were 3,764 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2017, including outside counsel and allocated loss adjustment expenditures, were \$22.4 million. General liability claims include third-party bodily injury and property damage resulting from alleged negligence in oversight of state-managed programs. The category of personal liability includes such areas as employment discrimination, defamation, and civil rights violations. Medical malpractice includes errors and omissions by state medical professionals. Automobile liability includes third-party claims for injuries and property damage resulting from the use of automobiles by state employees engaged in state business. General Liability – Bodily Injury claims were the most expensive claims in the liability category, representing 49% of the total cost. Automobile Liability – Bodily Injury was second and represented 25% of the total cost.

The following table lists by loss type the frequency of claims reported in Fiscal Year 2017 and amounts paid regardless of occurrence date:

Loss Type	Liability Losses FY 2017	Frequency FY 2017
General Liability – Bodily Injury	\$10,871,376	323
Automobile Liability – Bodily Injury	\$5,548,506	76
Personal Liability	\$3,157,420	621
General Liability – Property	\$1,526,906	1,988
Medical Malpractice	\$720,005	45
Automobile Liability – Property	\$529,383	711
Total	\$22,353,596	3,764

The following table shows Fiscal Year 2017 liability losses and frequency of claims for agencies with the largest liability losses:

Agency	Liability Losses FY 2017	Frequency FY 2017
Department of Transportation	\$6,440,687 ¹	625
Department of Child Safety	\$5,380,357 ²	138
Department of Public Safety	\$1,853,630	316
Department of Corrections	\$1,612,919	873
University of Arizona	\$1,595,010	153
Office of the Governor	\$1,007,110 ³	1
Department of Economic Security	\$626,520	283
ADEMA	\$550,243	784
Arizona State University	\$547,303	94
Department of Public Safety Retirement	\$376,269	0
Sub-total	\$19,990,048	3,267
All Other Agencies	\$2,363,548	497
Total	\$22,353,596	3,764

1- includes two extraordinary bodily injury claims resulting from similar circumstances totaling \$2.7 million.

2- includes one extraordinary bodily injury claim in the amount of \$4.5 million.

3- includes one extraordinary bodily injury claim preceding CY2014 in the amount of \$1 million.

PROPERTY PROGRAM

In Fiscal Year 2017, there were 5,321 property claims reported by state agencies. Losses totaled \$16.5 million.

The top two loss categories by frequency of occurrence and severity of payments were personal and real property. Personal property includes state-owned vehicles, furniture, computers, and other tangible property. Real property covers state-owned facilities such as office buildings, prison facilities, and general infrastructure. Environmental property covers state buildings and state lands that sustain environmental damage.

The following table lists by loss type the frequency of claims reported in Fiscal Year 2017 and amounts paid regardless of occurrence date:

Loss Type	Property Losses FY 2017	Frequency FY 2017
Real Property	\$10,630,509	953
Personal Property	\$5,175,196	4,360
Environmental Property	\$740,638	8
Total	\$16,546,343	5,321

Property losses and frequency of claims reported in Fiscal Year 2017 for the agencies with the largest property losses are as follows:

Agency	Property Losses FY 2017	Frequency FY 2017
Arizona Health Care Cost Containment System	\$4,539,446 ¹	6
Arizona State University	\$2,108,567	369
University of Arizona	\$1,954,540	434
Department of Public Safety	\$1,803,264	805
Northern Arizona University	\$1,709,446	568
Department of Transportation	\$1,123,921	904
Department of Corrections	\$669,968	669
Land Department	\$635,576	0
Historical Society	\$427,504	4
Department of Administration	\$406,979	499
Sub-total	\$15,379,211	4,258
All Other Agencies	\$1,167,132	1,063
Total	\$16,546,343	5,321

¹- Includes one extraordinary fidelity and surety claim in the amount of \$4 million.

WORKERS' COMPENSATION PROGRAM

The State Workers' Compensation Program provides benefits to state employees injured during the course and scope of their employment. The program pays medical, surgical, lost wages, and hospital disability benefits as provided by law under the Arizona Workers' Compensation Act.

The Managed Care Incentive Program provides quality medical care for state employees injured on the job. More than 48 hospitals, 3,000 physicians and 12 industrial clinics are available to employees within the network.

The Early Claims Notification System continues to be successful with seventy-six percent of injured workers using the service. This system involves early notification of workers' compensation claims by injured state employees or their supervisors, allowing them to call in the first report of an industrial injury to the workers' compensation section 24 hours a day, 7 days a week.

The Early Return to Work with Modified Duty Program continues to prove effective in many state agencies. A disability management specialist works with injured workers, their supervisors, and managers to find positions within their agency that allow the injured worker to return to work as soon as possible. Placing an injured worker in a modified duty position enables the employee to make a smooth and safe transition to his/her former duties or to a new position that is suitable for the employee. In addition to managing the Modified Duty Program, the disability management nurse has helped implement an in-house Utilization Review Program. All medical diagnostic procedures must be reviewed for medical necessity and appropriateness before authorization. This process is typically completed within 24 hours to help ensure recovery of injured employees.

The following table lists amounts paid in Fiscal Year 2017 regardless of occurrence date and the frequency of claims reported by agency:

Agency	WC Losses FY 2017	Frequency FY 2017
Department of Corrections	\$8,819,389	1,706
Department of Public Safety	\$2,724,411	236
Department of Transportation	\$2,670,378	221
Department of Economic Security	\$2,634,749	500
University of Arizona	\$1,889,670	255
Arizona State University	\$1,456,511	206
Department of Health Services	\$1,235,665	193
Department of Juvenile Corrections	\$1,076,843	115
Arizona Superior Courts	\$977,464	198
ADEMA	\$699,916	52
Sub-total	\$24,184,996	3,682
All Other Agencies	\$3,794,040	770
Total	\$27,979,036	4,452

LOSS PREVENTION PROGRAM

The Arizona Revised Statutes require each state agency to conduct risk identification and assessment, and implement a loss prevention program to reduce frequency and severity of losses in the following areas:

- Real and personal property protection
- Employee safety in the work environment
- Federal and state standards for industrial hygiene and environmental protection
- Negligent acts that cause harm to third parties

The primary responsibility of the Loss Prevention Section is to work with state agencies to protect workers by identifying and reducing workplace illness and injuries. This is achieved through the assignment of consultants that specialize in occupational safety, program management and education, and industrial hygiene. To further reduce risk, the unit focuses on property protection, utilization and retention, management of environmental risk, and emergency planning, preparation, and continuity. Consultants provide assistance in solving loss prevention problems in the following areas:

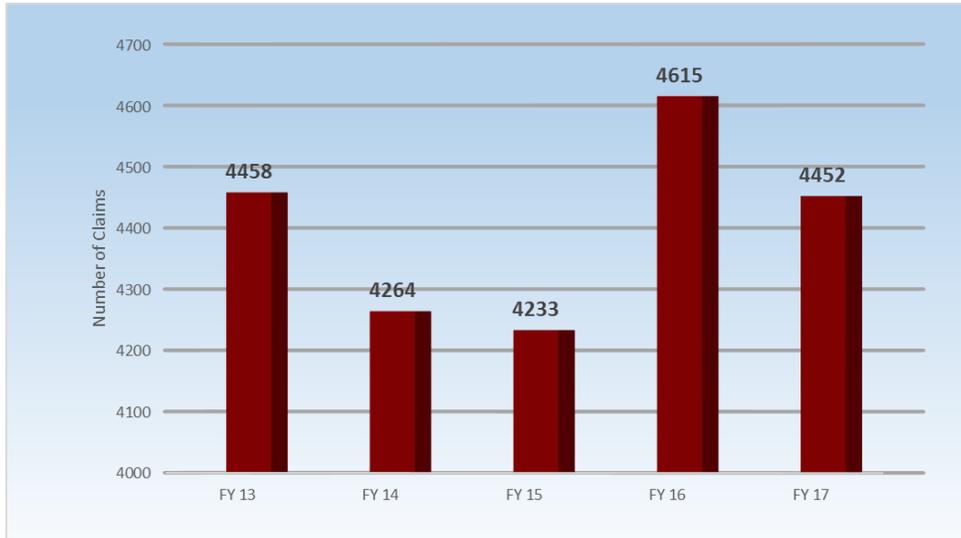
- Construction safety
- Industrial safety
- Hazard communication
- Fire safety
- Fair safety
- Security
- Motor vehicle safety
- Emergency planning
- Site and hazard assessment
- Health and safety education
- Ergonomics

Loss Prevention consultants assist assigned agencies by analyzing agency exposures and loss data. The consultants then work with agency staff to focus loss prevention efforts on those areas with the highest potential for loss. The consultants work closely with the agencies to identify and implement training and operational procedures intended to reduce employee injuries; these collaborative efforts have resulted in a reduction of accepted workers' compensation claims.

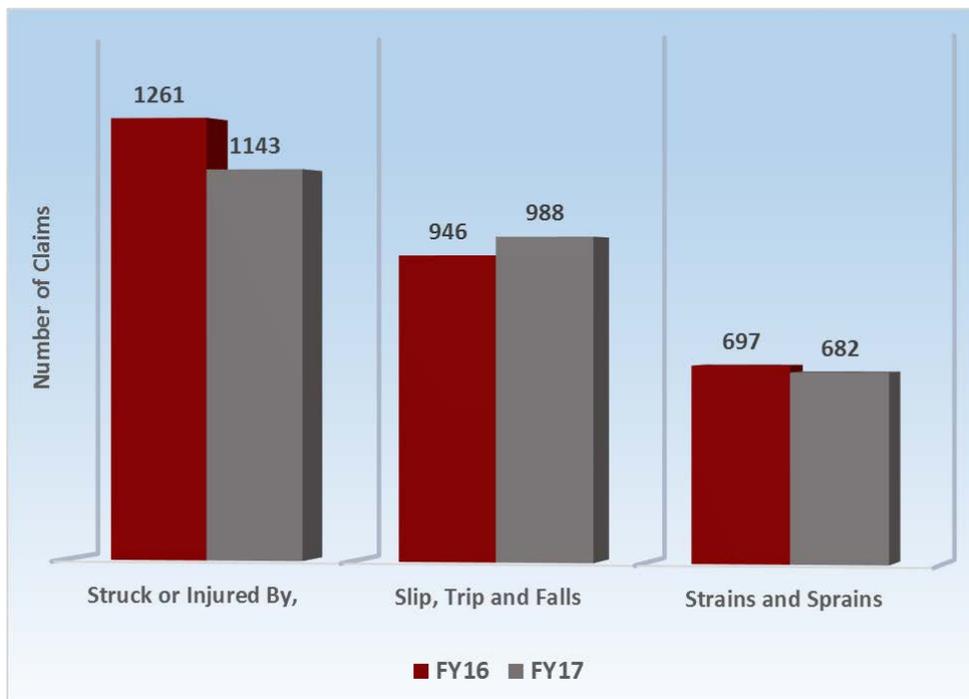
The most commonly occurring injury types include injuries associated with lifting, violent acts, and slips, trips, and falls. Loss Prevention has focused on the reduction of these injury types in the top 33 agencies by improving hazard identification and reporting at state-owned facilities, establishing agency safety committees, and developing and implementing training.

The following charts depict five-year workers' compensation claim comparisons and leading injury category comparisons:

Statewide – All Workers' Compensation Claims



Statewide – Leading Injury Categories



RISK MANAGEMENT FUNDING SOURCES

Funding for Risk Management programs is provided from the Risk Management Revolving Fund. Revenues into the fund are generated as follows:

- An actuarial projection is developed for property, liability, outside counsel, and allocated loss-adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums, and attorney general defense. The total is then allocated and invoiced to agencies based on a formula assessing risk exposure as well as historical losses.
- An actuarial projection is also developed for workers' compensation time loss, medical, outside counsel, and allocated loss-adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums, and attorney general defense. The total is then allocated to agencies based on an allocation method from the National Council on Compensation Insurance (NCCI). The NCCI method calculates a rate per payroll using employee classifications modified by the agency's historical losses.