

**Arizona Department of Administration**  
**Risk Management**

A.R.S. § 41-622

JLBC Analyst: Paul Shannon

	<b>FY 2000 Actual</b>	<b>FY 2001 Estimate</b>	<b>FY 2002 Approved</b>	<b>FY 2003 Approved</b>
<b>PROGRAM BUDGET</b>				
Full Time Equivalent Positions	85.0	85.0	91.0 <sup>1/</sup>	91.0 <sup>1/</sup>
Risk Management	4,507,100	6,019,800	7,081,100	7,223,700
Risk Management Losses and Related Expenditures SLI	33,966,500	34,347,000	38,549,000	38,998,000
Workers' Compensation Losses and Related Expenditures SLI	17,996,600	22,071,000	21,254,200	23,401,000
Insurance Premiums SLI	4,520,800	6,205,400	6,910,400	6,910,400
Attorney General Defense SLI	6,281,100	6,660,400	6,930,300	7,231,700
<b>TOTAL APPROPRIATIONS</b>	<b>67,272,100</b>	<b>75,303,600</b>	<b>80,725,000</b> <sup>2/</sup>	<b>83,764,800</b> <sup>2/</sup>
<b>FUND SOURCES</b>				
Risk Management Fund	67,272,100	75,303,600	80,725,000	83,764,800
Subtotal - Other Appropriated Funds	67,272,100	75,303,600	80,725,000	83,764,800
<b>TOTAL APPROPRIATIONS</b>	<b>67,272,100</b>	<b>75,303,600</b>	<b>80,725,000</b>	<b>83,764,800</b>

**COST CENTER DESCRIPTION** — *The Risk Management section acts as the state's insurance agent, which includes making property loss and liability payments, as well as developing and administering loss control programs. With the exception of certain limited areas of coverage, the state is self-insured, paying for its own losses and liabilities. Costs of claims are paid by the Risk Management Fund.*

<b>PERFORMANCE MEASURES</b>	<b>FY 1999 Est./Actual</b>	<b>FY 2000 Est./Actual</b>	<b>FY 2001 Estimate</b>	<b>FY 2002-03 Estimate</b>
• Number of settlements and judgments of greater than \$150,000	29/29	32/14	25	25
• Number of liability claims opened	4,000/3,813	4,000/3,767	4,200	4,200
• Cost of risk per capita	11.0/14.5	13.8/13.6	14.0	14.3
• Workers' Compensation incidence rates/100 FTE Positions	7.9/5.1	6.0/5.4	5.5	6.0
• % of Workers' Compensation claims reported within 48 hours	58/72	66/76	75	75

**Operating Budget Issues**

**Equipment** — The approved amount includes a FY 2002 increase of \$690,300 and 1 FTE Position above FY 2001 and a FY 2003 increase of \$664,300 and 1 FTE Position above FY 2001 to fund the replacement of the Risk Management Information System. The approved amount also includes a FY 2002 increase of \$15,000 above FY 2001 for a vehicle to be used by adjusters investigating claims. These items are funded to the Risk Management program.

**Personal Services** — The approved amount includes a FY 2002 decrease of \$(71,100) below FY 2001 and a FY 2003 decrease of \$(81,500) below FY 2001 due to savings associated with the decreased use of outside adjusters, medical screeners, temporary personnel and rehabilitation nurses. The total savings of this issue are actually \$(239,000) in both FY 2002 and FY 2003. A portion of the savings, however, will be used to fund 5 new FTE Positions in both FY 2002 and FY 2003, leaving the net savings at \$(71,100) in FY 2002 and \$(81,500) in FY 2003. The savings are greater in FY 2003 due to one-time equipment purchases. The 5 new positions will

<sup>1/</sup> Excludes 104 FTE Positions funded from Special Line Items in FY 2002 and FY 2003, but appropriated as FTE Positions in the Attorney General's budget rather than in this cost center.

<sup>2/</sup> General Appropriation Act funds are appropriated as a Lump Sum by Fund with Special Line Items.

provide in-house expertise in adjusting, medical consulting and clerical tasks that are currently provided by contract with non-state workers.

### ***Program Budget***

**Risk Management Losses and Related Expenditures Special Line Item** — The approved amount represents funding for estimated liability and property claims, settlements and other losses, as well as related legal and loss adjustment expenditures for aspects of the claims handled by the private sector rather than in-house. The projected loss amount is updated annually to reflect current loss exposures and is based on an annual actuarial estimate. The approved amount from the Risk Management Fund includes an increase of \$4,202,000 in FY 2002 and \$4,651,000 in FY 2003 above FY 2001.

**Workers' Compensation Losses and Related Expenditures Special Line Item** — The approved amount represents payments to workers' compensation beneficiaries for the state's liability resulting from workplace injuries, as well as related legal and loss adjustment expenditures for aspects of claims handled by the private sector rather than in-house.

The approved amount from the Risk Management Fund includes a FY 2002 decrease of \$(576,900) below FY 2001 and a FY 2003 increase of \$1,569,900 above FY 2001. The approved amounts reflect the FY 2002 and FY 2003 actuarial estimates for the state, using a 70% confidence interval. The confidence interval used reflects the perceived volatility for workers' compensation losses.

**Insurance Premiums Special Line Item** — The approved amount provides for the cost of private insurance policies purchased for specific property and liability losses where the state deems it more cost effective to cede risk to an outside insurer. The approved amount includes an increase of \$705,000 in both FY 2002 and FY 2003 above FY 2001 to fund higher private insurance costs.

**Attorney General Defense Special Line Item** — The approved amount represents funding for the Risk Management section's contract with the Attorney General's Insurance Defense Section for legal representation in Risk Management related lawsuits against the state. The appropriation funds an interagency service agreement that procures the services of 104 FTE Positions within the Attorney General's budget.

[Click here to return to the Table of Contents](#)