

Director: Larry J. Etchechury

JLBC Analyst: Steve Grunig

	FY 2004 Actual	FY 2005 Estimate	FY 2006 Approved	FY 2007 Approved
OPERATING BUDGET				
Full Time Equivalent Positions	282.0	282.0	285.0	285.0
Personal Services	8,407,900	9,616,300	9,897,200	9,731,800
Employee Related Expenditures	2,390,000	2,732,000	3,196,500	2,834,400
Professional and Outside Services	1,462,900	1,471,300	1,471,300	1,471,300
Travel - In State	223,000	242,700	247,100	247,100
Travel - Out of State	7,500	16,000	16,000	16,000
Other Operating Expenditures	2,372,400	2,606,100	2,637,900	2,637,900
Equipment	294,000	265,500	273,900	265,500
AGENCY TOTAL	15,157,700	16,949,900	17,739,900^{1/}	17,204,000^{1/}

FUND SOURCES

Other Appropriated Funds

Industrial Commission Administrative Fund	15,157,700	16,949,900	17,739,900	17,204,000
SUBTOTAL - Other Appropriated Funds	15,157,700	16,949,900	17,739,900	17,204,000
SUBTOTAL - Appropriated Funds	15,157,700	16,949,900	17,739,900	17,204,000
Other Non-Appropriated Funds	25,625,400	59,146,200	52,356,200	50,716,200
Federal Funds	3,654,400	4,514,500	4,519,500	4,519,500
TOTAL - ALL SOURCES	44,437,500	80,610,600	74,615,600	72,439,700

AGENCY DESCRIPTION — The Industrial Commission regulates the workers' compensation insurance industry. The commission is also responsible for child labor issues, occupational safety and health issues, wage claim dispute resolutions, licensing of private employment agencies and providing workers' compensation coverage for claimants of uninsured and self-insured employers or insolvent carriers.

PERFORMANCE MEASURES

- Average number of days to resolve a case by the Administrative Law Judge Division
- % of worker's compensation claims processed within 5 days
- Elevator inspections conducted
- Customer satisfaction rating for Workers' Compensation Program (Scale 1-8)

	FY 2003 Actual	FY 2004 Actual	FY 2006 Approved
Average number of days to resolve a case by the Administrative Law Judge Division	133.5	130.5	125
% of worker's compensation claims processed within 5 days	97	97	99
Elevator inspections conducted	5,398	4,771	5,500
Customer satisfaction rating for Workers' Compensation Program (Scale 1-8)	7.1	7.0	7.0

Comment: The additional elevator inspectors provided by the budget will permit increased elevator inspections to be made.

Operating Budget

The budget provides \$17,739,900 from the Industrial Commission Administrative Fund for the operating budget in FY 2006 and \$17,204,000 in FY 2007.

The approved amount includes an increase of \$573,000 from the Industrial Commission Administrative Fund in FY 2006 and an increase of \$45,500 in FY 2007 for statewide adjustments. (Please see the Statewide

Adjustments section at the end of this Appropriations Report for details.)

Inspection and Enforcement Staff

The approved amount includes an increase of \$160,700 and 3 FTE Positions from the Industrial Commission Administrative Fund in FY 2006 and an increase of \$152,300 in FY 2007 for an additional elevator inspector and 2 additional compliance officers for the Arizona Division of Occupational Safety and Health (ADOSH). The number of units the Elevator Section of ADOSH is

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

statutorily mandated to inspect has grown from 4,925 units in 2000 to 5,873 in 2004. A full-time inspector can conduct between 850 and 875 inspections a year. The current staff of 6 inspectors and a supervisor are responsible for 929 inspections per year. The number of required inspections has exceeded staff capabilities and the section is currently 5 to 6 months behind schedule in their inspections. The Industrial Commission has indicated that a normal inspection level of 796 inspections per inspector can be restored by hiring 1 additional elevator inspector.

The Tucson office of ADOSH is responsible for enforcing statutory occupational safety and health standards in the southern part of Arizona. Staffing levels of the Tucson office have not kept pace with the continued growth in southern Arizona. ADOSH compliance officers also investigate employment complaints. The number of safety and health complaints has increased from 168 in FY 1993 to 232 in FY 2003. The Industrial Commission has indicated that the addition of 2 compliance officers will allow ADOSH to respond to the growth in work place complaints in a timely manner. Hiring these positions will have associated one-time equipment costs of \$8,400 in FY 2006.

Rent Adjustment for Agency Owned Buildings

The approved amount includes an increase of \$56,300 from the Industrial Commission Administrative Fund in FY 2006 and FY 2007 for a rent adjustment. Two of the investments of the Industrial Commission's Special Fund are office buildings used by the Industrial Commission. The Investment Committee to the Special Fund voted to increase the rental rate charged to the Industrial Commission to \$15.50 per square foot in Phoenix and \$12.00 per square foot in Tucson. The Industrial Commission will also use \$5,000 in Federal Funds to contribute to the increased rent cost. The total rent increase from all fund sources will be \$61,300 in FY 2006 and FY 2007.

Additional Legislation

Industrial Commission; Administrative Fund; Transfer

The Industrial Commission Administrative Fund Bill (Laws 2005, Chapter 213), enables the Industrial Commission to transfer surpluses from the Administrative Fund to the Special Fund in order to offset actuarial deficits. The Industrial Commission Administrative Fund is used for all expenses associated with carrying out the powers and duties of the Commission. Administrative Fund revenue is provided through an annual tax on workers' compensation premiums which may not exceed 3%.

The Industrial Commission Special Fund's main functions are providing long term care for workers injured prior to 1973; providing benefits for injured workers employed by companies with no insurance; providing rehabilitation for

workers disabled by industrial injury or disease; providing compensation for workers who are also affected by either a pre-existing medical condition, or a previous injury; and providing reimbursement to the State Compensation Fund for benefits paid to injured claimants of insolvent carriers and self insurers. The first 4 functions create relatively stable requirements for money, however, a Special Fund shortfall has been caused by a sudden increase in payments for insolvent carriers.

The Special Fund's total actuarial liability from insolvent carriers (total amount of all claims if paid off at the present time in current dollars) was \$21.4 million for FY 2001, but it increased to \$241.3 million by the end of FY 2004. The Special Fund had a net cash flow surplus of \$3.7 million in FY 2004. It will have a net cash flow deficit of \$(12.3) million in FY 2005. The Industrial Commission has addressed the cash shortfall and increased liability by increasing the Special Fund assessment on workers' compensation premiums from 0% to 2.5% for FY 2005. The shortfall will also be addressed through the transfer of funds into the Special Fund provided by Chapter 213.

Chapter 213 provides that if the Industrial Commission's Special Fund is not actuarially sound, at least once each fiscal year, the Industrial Commission shall determine if there is a revenue surplus greater than expenses and other expenditures from the Industrial Commission's Administrative Fund. If an Administrative Fund surplus exists, the surplus is transferred to the Special Fund. Chapter 213 also provides that if the Special Fund is not actuarially sound, the Industrial Commission will not adjust the tax rate or premiums for the Administrative Fund downward, as it did previously when a surplus in the Administrative Fund existed. The Commission believes that these changes will enable it to meet all current Special Fund obligations and to make progress in eliminating the Special Fund actuarial liability.