

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

JLBC: Shelli Carol  
 OSPB: Matt Gottheiner

DESCRIPTION	FY 2004 ACTUAL	FY 2005 ESTIMATE	FY 2006 JLBC
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	200.0	200.0	96.0
Personal Services	3,456,100	3,850,100	3,850,100
Employee Related Expenditures	953,000	1,167,700	1,097,200
Professional and Outside Services	73,600	172,500	172,500
Travel - In State	40,600	53,800	53,800
Travel - Out of State	700	13,400	13,400
Other Operating Expenditures	1,571,400	1,909,000	1,959,900
Equipment	139,400	53,600	53,600
<b>OPERATING SUBTOTAL</b>	<b>6,234,800</b>	<b>7,220,100</b>	<b>7,200,500</b>
<b>SPECIAL LINE ITEMS</b>			
Risk Management Losses and Premiums	41,998,700	55,945,700	43,686,700
Workers' Compensation Losses and Premiums	20,318,900	23,044,400	24,587,500
Attorney General Defense	7,322,700	7,746,700	0
External Legal Services	0	0	5,085,800
Non-Legal Related Expenditures	0	0	2,877,200
<b>PROGRAM TOTAL</b>	<b>75,875,100</b>	<b>93,956,900</b>	<b>83,437,700</b>
<b>FUND SOURCES</b>			
<u>Other Appropriated Funds</u>			
Risk Management Fund	75,875,100	93,956,900	83,437,700
SUBTOTAL - Other Appropriated Funds	75,875,100	93,956,900	83,437,700
<b>SUBTOTAL - Appropriated Funds</b>	<b>75,875,100</b>	<b>93,956,900</b>	<b>83,437,700</b>
Other Non-Appropriated Funds	1,179,200	1,856,300	2,005,700
<b>TOTAL - ALL SOURCES</b>	<b>77,054,300</b>	<b>95,813,200</b>	<b>85,443,400</b>

**CHANGE IN FUNDING SUMMARY**

	FY 2005 to FY 2006 JLBC	
	\$ Change	% Change
Other Appropriated Funds	(10,519,200)	(11.2%)
Total Appropriated Funds	(10,519,200)	(11.2%)
Non Appropriated Funds	149,400	8.0%
Total - All Sources	(10,369,800)	(10.8%)

**COST CENTER DESCRIPTION** — The Risk Management Division acts as the state's insurance agent, making property loss, liability, and workers' compensation payments, defending and recovering damages for the state and its employees, and directing loss prevention programs. With the exception of certain specialty and excess coverage, for which the division purchases insurance, the state is self-insured, paying for its own losses and liabilities. Costs of claims are paid through the Risk Management Fund.

PERFORMANCE MEASURES	FY 2003	FY 2004	FY 2005	FY 2006
	Actual	Actual	Estimate	JLBC
• Workers' compensation incidence rates/100 FTE Positions	4.6	5.2	5.4	5.0
• Customer satisfaction with self-insurance (Scale 1-8) (NEW)	6.3	6.7	--	6.8
• Number of settlements and judgments greater than \$250,000	10	5	15	--
• Number of liability claims opened	3,583	3,402	3,800	--
• % of workers' compensation claims reported within 48 hours	75	75	75	--

**Comments:** Workers' compensation incidence rates rose slightly between FY 2003 and FY 2004. Meanwhile, customer satisfaction with the division's self-insurance program improved slightly, based on an annual survey of state employees who use any department service.

## RECOMMENDED CHANGES FROM FY 2005

### Operating Budget

The JLBC recommends \$7,200,500 from the Risk Management Fund for the operating budget in FY 2006. This amount would fund the following adjustments:

<b>Standard Changes</b>	<b>OF</b>	<b><u>FY 2006</u></b>
The JLBC recommends a decrease of \$(19,600) from the Risk Management Fund in FY 2006 for standard changes.		<b>\$(19,600)</b>

### Special Line Items

The JLBC recommends a reallocation of the Risk Management Division's Special Line Items to distinguish between the state's losses, fees for private counsel, and other related expenditures. The chart below summarizes the recommended line items and their purposes:

#### *Risk Management Losses and Premiums*

Liability and property settlements, medical expenses, and premiums for supplemental insurance.

#### *Workers' Compensation Losses and Premiums*

Payments to workers' compensation beneficiaries for the state's liability in workplace injuries, hospital and medical expenses, and premiums for supplemental insurance.

#### *External Legal Services*

Legal representation from outside the Office of the Attorney General in Risk Management or Workers' Compensation related lawsuits against the state.

#### *Non-Legal Related Expenditures*

Financial and actuarial analyses, investigative services, and related travel.

Additionally, the JLBC recommends the future appropriation of *Attorney General Defense* directly to the Office of the Attorney General.

#### *Risk Management Losses and Premiums*

The JLBC recommends \$43,686,700 from the Risk Management Fund for Risk Management Losses and Premiums in FY 2006.

This line item represents estimated liability and property settlements, as well as premiums for supplemental insurance. An actuarial study annually updates the projected amount to reflect current loss exposures.

The previous General Appropriation Act referred to this line item as Risk Management Losses, Premiums, and Related Expenditures. This line item would continue to include medical expenses. However, new line items would capture the costs of private counsel, investigations, and financial services, as detailed below.

The recommended amount would fund the following adjustments:

#### **External Legal Services** **OF (6,000,000)**

The JLBC recommends a decrease of \$(6,000,000) from the Risk Management Fund in FY 2006 to transfer funding for private counsel to a new special line item. (See *External Legal Services Special Line Item* below.)

#### **Non-Legal Related Expenditures** **OF (2,304,000)**

The JLBC recommends a decrease of \$(2,304,000) from the Risk Management Fund in FY 2006 to transfer funding for financial and actuarial analyses, investigative services, and related travel to a new special line item. (See *Non-Legal Related Expenditures Special Line Item* below.)

#### **Actuarial Estimates** **OF (3,955,000)**

The JLBC recommends a decrease of \$(3,955,000) from the Risk Management Fund in FY 2006 to match actuarial estimates of risk management losses.

#### **Workers' Compensation Losses and Premiums**

The JLBC recommends \$24,587,500 from the Risk Management Fund for Workers' Compensation Losses and Premiums in FY 2006.

This line item funds payments to workers' compensation beneficiaries for the state's liability in workplace injuries. An actuarial study annually updates the projected amount to reflect current loss exposures.

The previous General Appropriation Act referred to this line item as Workers' Compensation Losses, Premiums, and Related Expenditures. This line item would continue to include hospital and medical expenses. However, new line items would capture the costs of private counsel, investigations, and financial services, as detailed below.

The recommended amount would fund the following adjustments:

**External Legal Services OF (200,000)**

The JLBC recommends a decrease of \$(200,000) from the Risk Management Fund in FY 2006 to transfer funding for private counsel to a new special line item. (See *External Legal Services Special Line Item* below.)

**Non-Legal Related Expenditures OF (561,000)**

The JLBC recommends a decrease of \$(561,000) from the Risk Management Fund in FY 2006 to transfer funding for financial and actuarial analyses, investigative services, and related travel to a new special line item. (See *Non-Legal Related Expenditures Special Line Item* below.)

**Actuarial Estimates OF 2,304,100**

The JLBC recommends an increase of \$2,304,100 from the Risk Management Fund in FY 2006 to match actuarial estimates of workers' compensation losses.

**Attorney General Defense**

The JLBC recommends \$0 and no FTE Positions from the Risk Management Fund for Attorney General Defense in FY 2006.

This line item funds the Risk Management Division's contract with the Attorney General Insurance Defense Section for legal representation in Risk Management related lawsuits against the state. This interagency service agreement currently funds 104 FTE Positions within the Office of the Attorney General. Prior to FY 2005, the budget did not reflect these FTE Positions within the Arizona Department of Administration.

The recommended amount would fund the following adjustments:

**Special Line Item Transfer OF (7,746,700)**

The JLBC recommends a decrease of \$(7,746,700) and 104 FTE Positions from the Risk Management Fund in FY 2006 to transfer this line item to the Attorney General budget. (See *Risk Management Interagency Service Agreement Special Line Item in the Attorney General section.*) The JLBC believes this transfer would more accurately reflect the budgets of the 2 departments and avoid double-counting FTE Positions.

**External Legal Services**

The JLBC recommends \$5,085,800 from the Risk Management Fund for External Legal Services in FY 2006.

This new line item funds legal representation from outside the Office of the Attorney General in Risk Management or Workers' Compensation related lawsuits against the state. The division hires private counsel in circumstances where a legal conflict of interest exists. In the past few years, the division has also sought outside counsel when staffing from the Office of the Attorney General was not available, as detailed below.

The recommended amount would fund the following adjustments:

**External Services Consolidation OF 6,200,000**

The JLBC recommends an increase of \$6,200,000 from the Risk Management Fund in FY 2006 to consolidate funding for external legal services. This amount consists of \$6,000,000 transferred from the Risk Management Losses and Premiums Special Line Item and \$200,000 transferred from the Workers' Compensation Losses and Premiums Special Line Item.

**Caseload Estimates OF (644,200)**

The JLBC recommends a decrease of \$(644,200) from the Risk Management Fund in FY 2006 to match caseload estimates.

**Attorney General Staffing OF (470,000)**

The JLBC recommends a decrease of \$(470,000) from the Risk Management Fund in FY 2006 to transfer funding for additional staff to the Office of the Attorney General and to capture savings from the resulting reduced use of private counsel. This amount consists of \$(264,700) that would be transferred to the Risk Management Interagency Service Agreement Special Line Item of the Attorney General for 3 new FTE Positions, as well as \$(205,300) in savings to the fund. (See *Risk Management Interagency Service Agreement Special Line Item in the Attorney General section.*)

With the generally increasing prevalence of litigation, Risk Management caseloads have increased. In the past 3 fiscal years, the Office of the Attorney General was not always able to provide staffing to meet the Risk Management Division's needs. Hence, the division had to seek private counsel, at a cost of \$1.2 million over the 3 years.

**Non-Legal Related Expenditures**

The JLBC recommends \$2,877,200 from the Risk Management Fund for Non-Legal Related Expenditures in FY 2006.

This new line item funds such services as financial and actuarial analyses, relevant investigations, and related travel.

The recommended amount would fund the following adjustments:

**Related Expenditures Consolidation OF 2,865,000**

The JLBC recommends an increase of \$2,865,000 from the Risk Management Fund in FY 2006 to consolidate funding for non-legal related expenditures. This amount consists of \$2,304,000 transferred from the Risk Management Losses and Premiums Special Line Item and \$561,000 transferred from the Workers' Compensation Losses and Premiums Special Line Item.

**Workload Estimates OF 12,200**

The JLBC recommends an increase of \$12,200 from the Risk Management Fund in FY 2006 to match workload estimates.

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**JLBC RECOMMENDED FORMAT** — Operating Lump Sum with Special Line Items by Fund

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**SUMMARY OF FUNDS - SEE AGENCY SUMMARY**

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