

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

A.R.S. § 41-622

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	<b>FY 2005 Actual</b>	<b>FY 2006 Estimate</b>	<b>FY 2007 Approved</b>
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	200.0	96.0	96.0
Personal Services	3,582,600	4,055,200	4,242,500
Employee Related Expenditures	1,059,200	1,270,200	1,532,000
Professional and Outside Services	135,200	142,500	142,500
Travel - In State	42,600	53,800	53,800
Travel - Out of State	300	13,400	13,400
Other Operating Expenditures	1,544,700	1,916,200	1,924,100
Equipment	73,900	53,600	53,600
<b>OPERATING SUBTOTAL</b>	<b>6,438,500</b>	<b>7,504,900</b>	<b>7,961,900</b>
<b>SPECIAL LINE ITEMS</b>			
Attorney General Defense	7,549,600	0	0
External Legal Services	0	5,085,800	5,672,100
Non-Legal Related Expenditures	0	2,877,200	3,153,800
Risk Management Losses and Premiums	49,397,900	43,686,700	47,322,400
Workers' Compensation Losses and Premiums	21,666,300	24,587,500	24,517,700
<b>PROGRAM TOTAL</b>	<b>85,052,300</b>	<b>83,742,100</b>	<b>88,627,900<sup>1/</sup></b>
<b>FUND SOURCES</b>			
<i>Other Appropriated Funds</i>			
Risk Management Revolving Fund	85,052,300	83,742,100	88,627,900
SUBTOTAL - Other Appropriated Funds	85,052,300	83,742,100	88,627,900
<b>SUBTOTAL - Appropriated Funds</b>	<b>85,052,300</b>	<b>83,742,100</b>	<b>88,627,900</b>
Other Non-Appropriated Funds	1,614,800	2,005,700	1,672,500
<b>TOTAL - ALL SOURCES</b>	<b>86,667,100</b>	<b>85,747,800</b>	<b>90,300,400</b>

**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 Revolving Fund.

<b>PERFORMANCE MEASURES</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Actual</b>	<b>FY 2007 Approved</b>
• Workers' compensation incidence rates/100 FTE Positions	4.6	5.2	4.2	5.0
• Customer satisfaction with self-insurance (Scale 1-8)	6.3	6.7	6.7	6.8

**Operating Budget**

The budget provides \$7,961,900 from the Risk Management Revolving Fund for the operating budget in FY 2007.

**Statewide Adjustments**

This amount includes an increase of \$449,100 from the Risk Management Revolving Fund for statewide adjustments. (Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)

<sup>1/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Fund.

**Rent Increases**

The budget includes an increase of \$7,900 from the Risk Management Revolving Fund in FY 2007 for lease-purchase and privatized lease-to-own agreements.

<b><i>Special Line Items</i></b>
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***Attorney General Defense***

The budget provides no funding from the Risk Management Revolving Fund for the Attorney General Defense SLI in FY 2007. This amount is unchanged from FY 2006.

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

This line item funded the Risk Management Division's contract, with the Attorney General Insurance Defense Section, for legal representation in Risk Management related lawsuits against the state.

***External Legal Services***

The budget provides \$5,672,100 from the Risk Management Revolving Fund for External Legal Services in FY 2007.

**Actuarial Estimates**

The amount includes an increase of \$586,300 from the Risk Management Revolving Fund in FY 2007 to match actuarial estimates of external legal services.

The External Legal Services budget amount is based on a percentage of the actuarial determined property and liability losses and workers' compensation losses. Of the \$586,300 increase, \$586,900 is due to estimated increases in property and liability losses and \$(600) is due to estimated decreases in workers' compensation losses.

This 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.

***Non-Legal Related Expenditures***

The budget provides \$3,153,800 from the Risk Management Revolving Fund for Non-Legal Related Expenditures in FY 2007.

**Actuarial Estimates**

The amount includes an increase of \$276,600 from the Risk Management Revolving Fund in FY 2007 to match actuarial estimates of non-legal related expenses.

The Non-Legal Related Expenditures budget amount is based on a percentage of the actuarial determined property and liability losses and workers' compensation losses. Of the \$276,600 increase, \$278,200 is due to estimated increases in property and liability losses and \$(1,600) is due to estimated decreases in workers' compensation losses.

This line item funds financial and actuarial analyses, relevant investigations, and related travel.

***Risk Management Losses and Premiums***

The budget provides \$47,322,400 from the Risk Management Revolving Fund for Risk Management Losses and Premiums in FY 2007.

**Actuarial Estimates**

The amount includes an increase of \$3,635,700 from the Risk Management Revolving Fund in FY 2007 to match actuarial estimates of property and liability losses.

This line item represents estimated payments for liability and property settlements, medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

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

The budget provides \$24,517,700 from the Risk Management Revolving Fund for Workers' Compensation Losses and Premiums in FY 2007.

**Actuarial Estimates**

The amount includes a decrease of \$(69,800) from the Risk Management Revolving Fund in FY 2007 to match actuarial estimates of workers' compensation losses.

This line item accounts for the state's liability in workplace injuries. The funding represents payments for workers' compensation beneficiaries, hospital and medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.