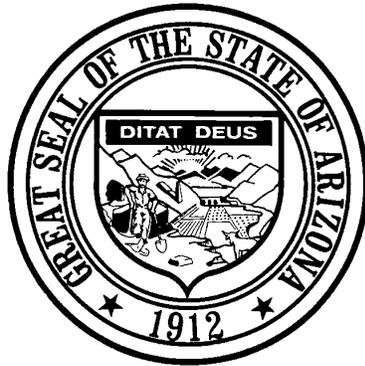


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RISK MANAGEMENT DIVISION



FISCAL YEAR 2016 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2016 Annual Report, as required by A.R.S. § 41-623, summarizes liability, property, and workers' compensation expenditures, and 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 2016 marked a year of significant achievements:

- Risk Management successfully outsourced the Workers' Compensation Medical Processing and Cost Containment Program aimed at significantly improving injured workers' medical care and providing an annual cost savings. After accounting for medical inflation, savings for FY 2016 are \$1.2 million and are expected to approach \$1.5 million in FY 2017. Savings resulted from better medical pricing, a reduction in unnecessary care, a decrease in emergency room utilization, and internal cost reductions. We also estimate a minimum annual productivity savings of \$500,000 by returning employees to work sooner.
- The State prevailed in three of five court trials. Of the two judgments awarded, one was significantly less than the final plaintiff offer.
- Risk Management recorded savings of over \$2.8 million dollars through numerous subrogation efforts.
- Based on workers' compensation claim data, Risk Management identified several significant loss exposures and developed and presented 29 new training courses for 774 state employees (curriculum addressed employee safety, security, emergency response, and environmental and occupational safety compliance issues).
- The State recorded its lowest occupational injury and illness incident rate in the last fourteen years (3.64 compared to the national average of 3.80 as reported by the Bureau of Labor Statistics).

- Risk Management implemented a statewide vehicle-use policy aimed at setting minimum vehicle-use standards. The policy was presented to all agency fleet operators and vehicle training programs were updated. The State recorded its lowest frequency in auto liability losses in five years.

- Risk Management applied LEAN to several of its processes and achieved significant improvements by:
 - decreasing the Vehicle Incident Review Committee (VIRC) determination process from an average of 144 days to 4 days
 - standardizing and completing 45 building plan reviews
 - decreasing the property and liability pre-claim notification process from 8 to 4 steps
 - decreasing the property and liability pre-claim notification turnaround time from 24- 48 hours to 4-8 hours
 - streamlining the Document Management System (DMS) property and liability claim coding indexing scheme from 176 to 94 codes
 - developing an electronic exchange between Risk Management and the Industrial Commission of Arizona that reduced workers' compensation claim processing time from 3 hours to 30 minutes per day
 - reducing the workers' compensation supportive care medical benefit eligibility authorization processing time by 50%

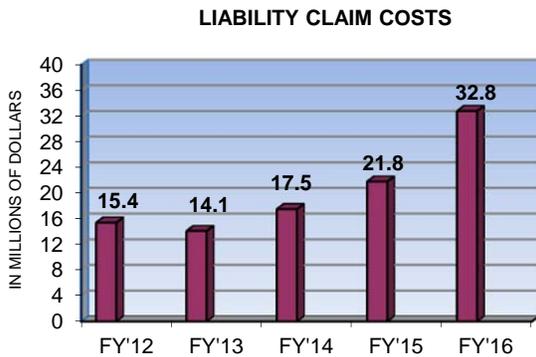
FISCAL YEAR 2016 COSTS AND COMPARISONS

Liability expenditures for Fiscal Year 2016 were \$32.8 million. The five-year average for liability expenditures (excluding an extraordinary bodily injury claim of \$7.8 million in Fiscal Year 2015, and four extraordinary bodily injury claims totaling \$8.7 million in Fiscal Year 2016) is \$14.7 million.

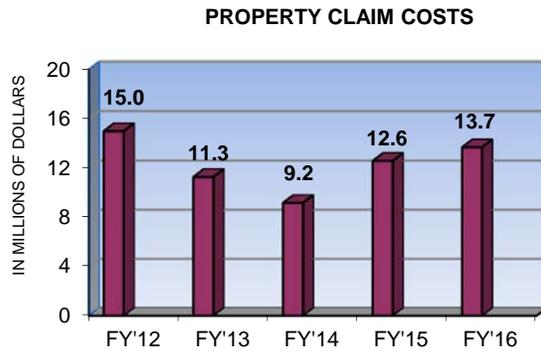
Property expenditures in Fiscal Year 2016 were \$13.7 million. The five-year average for property expenditures (excluding an extraordinary real property damage claim of \$2.8 million in Fiscal Year 2016) is \$11.8 million.

Workers' Compensation expenditures in Fiscal Year 2016 showed a \$2.8 million dollar increase over Fiscal Year 2015.

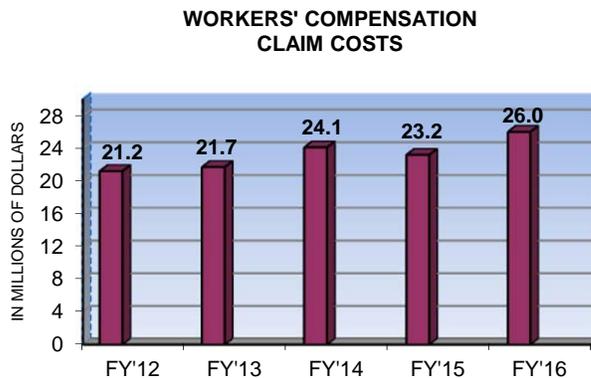
The following charts depict five-year cost comparisons:



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'16 includes one extraordinary real property damage claim of \$2.8 million



LIABILITY PROGRAM

In the Fiscal Year 2016, there were 3,349 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2016, including outside counsel and allocated loss adjustment expenditures, were \$32.8 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 64% of the total cost. Auto Liability – Bodily Injury was second and represented 21% of the total cost.

The following table lists by loss type the frequency of claims reported in Fiscal Year 2016 and amounts paid regardless of occurrence date:

Loss Type	Frequency FY 2016	Liability Losses FY 2016
General Liability – Bodily Injury	693	\$21,000,000
Automobile Liability – Bodily Injury	124	\$6,800,000
Personal Liability	591	\$3,150,000
General Liability – Property	1135	\$950,000
Automobile Liability – Property	752	\$600,000
Medical Malpractice	54	\$300,000
Total	3349	\$32,800,000

The following table shows Fiscal Year 2016 liability losses and frequency of claims for agencies with the largest liability losses:

Agency	Liability Losses FY 2016	Frequency FY 2016
Department of Transportation	\$16,900,000*	531
Department of Corrections	\$7,800,000	916
Department of Public Safety	\$936,000	362
Department of Forestry	\$880,000	1
University of Arizona	\$878,000	169
Department of Administration	\$838,000	152
Department of Health Services	\$686,000	33
Department of Economic Security	\$620,000	312
Department of Child Safety	\$619,000	136
Arizona State University	\$543,000	95
Sub-Total	\$30,700,000	2538
All Other Agencies	\$2,100,000	811
Total	\$32,800,000	3349

*includes four bodily injury claims resulting from similar circumstances totaling \$8.7 million

PROPERTY PROGRAM

In Fiscal Year 2016, there were 5,457 property claims reported by state agencies. Losses totaled \$13.7 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 2016 and amounts paid regardless of occurrence date:

Loss Type	Frequency FY 2016	Property Losses FY 2016
Real Property	867	\$9,900,000
Personal Property	4587	\$3,600,000
Environmental Property	3	\$200,000
Total	5457	\$13,700,000

Property losses and frequency of claims reported in Fiscal Year 2016 for the agencies with the largest property losses are as follows:

Agency	Property Losses FY 2016	Frequency FY 2016
Arizona State University	\$6,500,000*	506
Department of Corrections	\$1,300,000	844
University of Arizona	\$1,200,000	355
Department of Public Safety	\$800,000	770
State Fair and Coliseum	\$775,000	3
Northern Arizona University	\$750,000	434
Department of Administration	\$550,000	526
Department of Transportation	\$500,000	891
Department of Economic Security	\$200,000	356
Department of Child Safety	\$170,000	82
Sub-Total	\$12,745,000	4767
All Other Agencies	\$955,000	690
Total	\$13,700,000	5457

*includes one extraordinary real property damage claim of \$2.8 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, 3000 physicians and 12 industrial clinics are available to employees within the network.

The Early Claims Notification System continues to be successful with sixty-five 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 these modified duty positions enables the employee to make a smooth and safe transition to their former duties or to a new position that is suitable for them. 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 2016 regardless of occurrence date, and the frequency of claims reported by agency:

Agency	WC Losses FY 2016	Frequency FY 2016
Department of Corrections	\$8,200,000	1845
Department of Public Safety	\$2,700,000	228
Department of Economic Security	\$2,200,000	411
Department of Transportation	\$1,900,000	218
University of Arizona	\$1,750,000	300
Arizona State University	\$1,500,000	220
Department of Health Services	\$1,400,000	183
Department of Juvenile Corrections	\$1,300,000	123
Arizona Superior Courts	\$1,000,000	252
Northern Arizona University	\$630,000	182
Sub-total	\$22,580,000	3962
All other agencies	\$3,420,000	700
Total	\$26,000,000	4662

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 in a variety of areas including property, liability, environmental, and worker protection to reduce or eliminate their exposure to risk. Loss Prevention provides professional safety consultants, industrial hygienists and environmental specialists to assist agencies in developing and implementing loss prevention programs. Safety consultants also provide assistance in solving everyday loss prevention problems in the following areas:

- Construction Safety
- Industrial Safety
- Hazard Communication
- Fire Safety
- Fair Safety
- Security
- Course of Construction
- Motor Vehicle Safety
- Emergency Planning
- Site and Hazard Assessment
- Health and Safety Education
- CPR
- Ergonomics

Assistance is provided in risk assessment and corrective action, program development and implementation by means of Assessment, Consultation, and Evaluation (ACE) Reports. An ACE report is a focused inspection and consultation to assess a particular risk exposure, along with written recommendations for corrective actions. The top three ACE subjects and recommended corrective actions are:

Fire and Security

- Fire Extinguisher Inspection, Maintenance, Service and Training
- Training on Fire Protection Practices
- Wildfire Preventative Actions
- Security Lighting Enhancements
- Fire Door Repair

Safety Inspection

- Guardrail Installation
- Emergency Evacuation Plans (Drills)
- Repair of Emergency Lighting/Exit Signs
- Secure Machinery

Building Indoor Air Quality

- Air Diffuser Cleaning
- General HVAC Maintenance
- Mold Consultation/Testing/Mitigation

OCCUPATIONAL HEALTH SERVICES

Occupational Health Services is responsible for the post-offer physical examinations of potential state employees whose jobs put them at risk of occupational illness or injury. Occupational Health Services schedules, evaluates, and pays for these examinations for various state agencies.

In Fiscal Year 2016, 1,252 post-offer exams were conducted. The average number of days to process exam findings was less than 11 days (measures the turn-around period from the time the agency requests a physical exam for the prospective state employee until the agency is notified of the candidate's clearance). The total cost of post-offer exams in Fiscal Year 2016 was \$94,897.

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.