

# **State of Alaska FY2007 Governor's Operating Budget**

## **Department of Administration Risk Management RDU/Component Budget Summary**

**RDU/Component: Risk Management***(There is only one component in this RDU. To reduce duplicate information, we did not print a separate RDU section.)***Contribution to Department's Mission**

Mitigate state's risk of financial loss (cost of risk) from accidental loss and injury.

**Core Services**

Claims processing, litigation management, contract review, insurance administration and consulting.

End Results	Strategies to Achieve Results
<b>A: Reduced property loss costs.</b>  <u>Target #1:</u> Reduce property cost of risk (premium) by 2% annually. <u>Measure #1:</u> Percentage of reduction of property value to property premium.  <u>Target #2:</u> Reduce property loss costs (claims expense) by 2% annually. <u>Measure #2:</u> Percentage reduction of property losses to property value.	<b>A1: Improve Property loss recovery.</b>  <u>Target #1:</u> Increase recovery of state property damages from those responsible to 65% success rate. <u>Measure #1:</u> % of successful subrogation recoveries.  <u>Target #2:</u> Reduce frequency of theft claims by 5% annually. <u>Measure #2:</u> Deductible amounts paid as a percentage of total claim expense.
End Results	Strategies to Achieve Results
<b>B: Reduced Workman's Compensation claims administration costs.</b>  <u>Target #1:</u> Reduce by 2% annually late payment penalties as part of disability benefits paid. <u>Measure #1:</u> Percentage of late payments penalties as part of indemnity benefits paid.	<b>B1: Pursue payment if late submission of initial report of injury caused penalty obligation.</b>  <u>Target #1:</u> Improve by 3% late penalty payments owed by each agency to all indemnity payments paid. <u>Measure #1:</u> Percentage of late penalty payments owed as a percentage of indemnity benefits paid.

**FY2007 Resources Allocated to Achieve Results**

<b>FY2007 Component Budget: \$37,867,300</b>	<b>Personnel:</b>	
	Full time	5
	Part time	0
	<b>Total</b>	<b>5</b>

**Performance Measure Detail****A: Result - Reduced property loss costs.****Target #1:** Reduce property cost of risk (premium) by 2% annually.**Measure #1:** Percentage of reduction of property value to property premium.

**% of reduction of property value to property premium.**

Fiscal Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
FY 2004	*	*	*	*	-10.33%
FY 2005	-20.49%	-20.49%	-20.49%	-20.49%	0

\* Data measured on an annual basis in FY 2004.

**Target #2:** Reduce property loss costs (claims expense) by 2% annually.

**Measure #2:** Percentage reduction of property losses to property value.

**% of property losses to property value.**

Fiscal Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
FY 2004	*	*	*	*	-90.0%
FY 2005	**350.0%	-1.0%	4.3%	36.0%	

\* Data measured on an annual basis in FY 2004.

\*\*Large increase attributable to large property claim during this period.

**A1: Strategy - Improve Property loss recovery.**

**Target #1:** Increase recovery of state property damages from those responsible to 65% success rate.

**Measure #1:** % of successful subrogation recoveries.

**Analysis of results and challenges:**

07/01/03–06/30/04: No subrogation opportunities during period.

07/01/04–09/30/04: No subrogation opportunities during period.

01/01/05–03/31/05: +78%

04/01/05–06/30/05: No subrogation opportunities during period.

**Target #2:** Reduce frequency of theft claims by 5% annually.

**Measure #2:** Deductible amounts paid as a percentage of total claim expense.

**Deductible amounts paid as a % of total claim expense.**

Fiscal Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
FY 2004	*	*	*	*	283.0%
FY 2005	-60.0%	100.0%	-25.0%	-67.0%	

\* Data measured on an annual basis in FY 2004.

**Analysis of results and challenges:**

07/01/03–06/30/04: 283% increase based on an increase from 2 to 5 theft claims.

07/01/04–09/30/04: -60% decrease based on a decrease from 5 to 2 theft claims.

10/01/04–12/31/04: 100% increase based on an increase from 2 to 4 theft claims.

01/01/05–03/31/05: -25% decrease based on a decrease from 4 to 3 theft claims.

04/01/05–06/30/05: -67% decrease based on a decrease from 3 to 1 theft claims.

**B: Result - Reduced Workman's Compensation claims administration costs.**

**Target #1:** Reduce by 2% annually late payment penalties as part of disability benefits paid.

**Measure #1:** Percentage of late payments penalties as part of indemnity benefits paid.

**% of late payment penalties as part of indemnity benefits paid.**

Fiscal Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
FY 2004	*	*	*	*	-48.48%
FY 2005	-1.0%	-10.0%	-70.0%	490.0%	

\* Data measured on annual basis in FY 2004.

**Analysis of results and challenges:**

07/01/03–06/30/04: -48.48%

07/01/04–09/30/04: -1%

10/01/04–12/31/04: -10%

01/01/05–03/31/05: -70%

04/01/05–06/30/05: +490% (large increase due to one claim where the Permanent Partial Impairment Rating was in dispute. Ultimately the State lost the dispute and we had to pay the 40% rating plus a penalty back to when the rating was first issued).

**B1: Strategy - Pursue payment if late submission of initial report of injury caused penalty obligation.**

**Target #1:** Improve by 3% late penalty payments owed by each agency to all indemnity payments paid.

**Measure #1:** Percentage of late penalty payments owed as a percentage of indemnity benefits paid.

**Analysis of results and challenges:**

07/01/03–06/30/04: 0% (based on 100% success from FY03 to FY04).

07/01/04–09/30/04: 0% (no late penalty payments attempted or recovered).

10/01/04–12/31/04: 0% (no late penalty payments attempted or recovered).

01/01/05–03/31/05: 0% (no late penalty payments attempted or recovered).

04/01/05–06/30/05: 0% (no late penalty payments attempted or recovered).

**Key Component Challenges**

Risk Management (RM), exclusively funded by interagency receipts, attempts to pay all claim settlements and defense costs as they become due and payable, drawing from the Catastrophic Reserve Account (CRA) whenever there is insufficient appropriation to meet ongoing claim obligations.

Financing of the state's comprehensive self-insurance program continues to be dependent on the CRA to meet the actual cost of risk each year. This account is annually refilled by a year-end "sweep" of unexpended general funds from other state operating budgets. Over the last three fiscal years, RM has averaged total cost of risk expenditures greater than \$12.9 million beyond authorized appropriations. In FY2005 \$9.31million was expended beyond RM's appropriation - using third party recoveries, insurance receipts, the full CRA and additional direct appropriation of judgment and claims.

As was the case last year, increased insurance premiums were experienced at FY2006 coverage renewals.

**Significant Changes in Results to be Delivered in FY2007**

- Provide new workers' compensation loss reports to line management evidencing injury trends and increased loss costs.
- Enabled accurate and timely OSHA log reporting using RM's RiskMaster software application.

**Major Component Accomplishments in 2005**

- Resolved hull damage, pollution response costs and most passenger injury claims on M/V LeConte grounding for \$6.5 million excess \$1 million self insured retention.
- Obtained supplemental funding to address large first party property losses.
- Obtained direct appropriation for full refill of Catastrophe Reserve Account.

- Continued participation in return to work program (Work First) mitigating long term w/c disability benefits.
- Underwrite workplace violence, marine employee fire response, workplace safety and emergency medical training programs and limited security patrol services.
- Advise agency safety committees focusing on workers' compensation loss trends to develop prevention strategies.
- Address high risk agency supervisors explaining tort liability, review operating practices to mitigate future loss exposures.

## Statutory and Regulatory Authority

AS 23.30.045 Employer's liability for compensation  
AS 23.30.090 Self-insurance certificates  
AS 37.05.287 Insurance for State assets  
AS 37.05.289 State insurance catastrophe reserve account  
AS 09.50.250 Actionable claims against the State  
AS 44.21.040 Records or accounts of claims and warrants  
AS 09.50.270 Payment of judgment against the State

### Contact Information

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### Risk Management Component Financial Summary

*All dollars shown in thousands*

	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	456.6	473.3	501.0
72000 Travel	4.9	17.4	17.4
73000 Services	26,488.1	24,405.0	37,335.4
74000 Commodities	10.1	10.0	10.0
75000 Capital Outlay	0.0	3.5	3.5
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>26,959.7</b>	<b>24,909.2</b>	<b>37,867.3</b>
<b>Funding Sources:</b>			
1004 General Fund Receipts	2,093.7	0.0	0.0
1007 Inter-Agency Receipts	24,866.0	24,909.2	37,867.3
<b>Funding Totals</b>	<b>26,959.7</b>	<b>24,909.2</b>	<b>37,867.3</b>

### Estimated Revenue Collections

Description	Master Revenue Account	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
<b><u>Unrestricted Revenues</u></b>				
None.		0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b><u>Restricted Revenues</u></b>				
Interagency Receipts	51015	24,866.0	24,909.2	37,867.3
<b>Restricted Total</b>		<b>24,866.0</b>	<b>24,909.2</b>	<b>37,867.3</b>
<b>Total Estimated Revenues</b>		<b>24,866.0</b>	<b>24,909.2</b>	<b>37,867.3</b>

**Summary of Component Budget Changes  
From FY2006 Management Plan to FY2007 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2006 Management Plan</b>	<b>0.0</b>	<b>0.0</b>	<b>24,909.2</b>	<b>24,909.2</b>
<b>Adjustments which will continue current level of service:</b>				
-FY 07 Wage Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	16.7	16.7
-FY 07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	1.8	1.8
-FY 07 Retirement Systems Cost Increase	0.0	0.0	31.2	31.2
<b>Proposed budget increases:</b>				
-Risk Management Self-Insurance Funding Increase	0.0	0.0	2.6	2.6
-Risk Management FY2007 Cost Recovery	0.0	0.0	12,905.8	12,905.8
<b>FY2007 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>37,867.3</b>	<b>37,867.3</b>

**Risk Management  
Personal Services Information**

<b>Authorized Positions</b>		<b>Personal Services Costs</b>	
	<b>FY2006 Management Plan</b>	<b>FY2007 Governor</b>	
Full-time	5	5	Annual Salaries 333,329
Part-time	0	0	COLA 9,018
Nonpermanent	0	0	Premium Pay 0
			Annual Benefits 174,793
			Less 3.12% Vacancy Factor (16,140)
			Lump Sum Premium Pay 0
<b>Totals</b>	<b>5</b>	<b>5</b>	<b>Total Personal Services 501,000</b>

**Position Classification Summary**

<b>Job Class Title</b>	<b>Anchorage</b>	<b>Fairbanks</b>	<b>Juneau</b>	<b>Others</b>	<b>Total</b>
Accounting Tech I	0	0	1	0	1
Claims Administrator	0	0	2	0	2
Division Director	0	0	1	0	1
Risk Manager	0	0	1	0	1
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>5</b>