



# REPORT TO COUNCIL

## City of Sacramento

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915 I Street, Sacramento, CA 95814-2604  
www. CityofSacramento.org

Consent  
May 11, 2010

Honorable Mayor and  
Members of the City Council

Title: 2009 Risk Management Annual Report

Location/Council District: Citywide

Recommendation: Receive and File

Contact: Patrick Flaherty, Risk Manager, 808-8587

Presenters: None

Department: Human Resources

Division: Risk Management

Organization No: 08001311

### Description/Analysis

**Issue:** Rendering of the 2009 Risk Management Annual Report to the City Council

**Policy Considerations:** The Risk Manager provides an annual report to advise the City Council of risk management activity.

### Environmental Considerations:

#### California Environmental Quality Act (CEQA):

Under the California Environmental Quality Act (CEQA) guidelines, continuing administrative activities do not constitute a project and are therefore exempt from review.

**Sustainability Considerations:** There are no sustainability considerations applicable to this action.

**Other:** None

**Commission/Committee Action:** None

**Rationale for Recommendation:** The Risk Manager is responsible for administering and reporting on risk management related activity.

**Financial Considerations:** None

**Emerging Small Business Development (ESBD):** There is no discretionary expenditure involved in this report; consequently ESBD policies and procedures are not applicable.

Respectfully Submitted by: \_\_\_\_\_



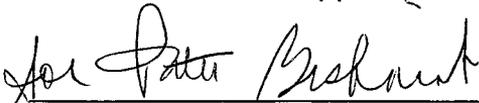
Patrick Flaherty, Risk Manager

Approved by: \_\_\_\_\_



Geri Hamby, Director of Human Resources

Recommendation Approved:



Gus Vina  
Interim City Manager

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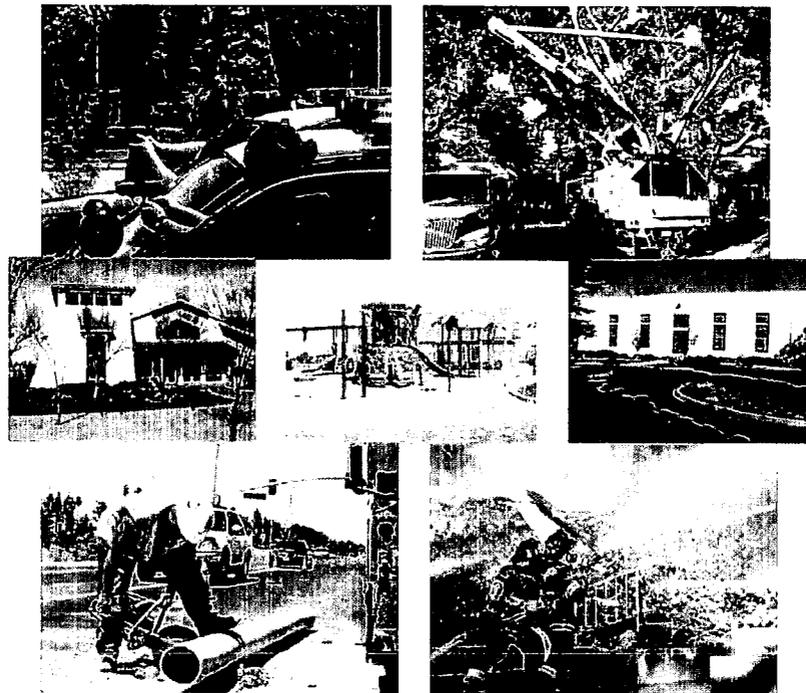
**Attachment 1**

**BACKGROUND INFORMATION:**

The Risk Management Division is part of the Human Resources Department and is responsible for administering the City's risk management program. The 2009 Risk Management Annual Report is designed to provide the City Council and City management with an overview of risk management programs for the fiscal year. The intent of this report is to provide City leadership and managers with exposure and loss information so effective loss prevention activities may be implemented to eliminate or reduce these losses. The report contains summaries of workers' compensation, general liability, and automobile liability losses by fiscal year. Loss prevention activities and types of insurance purchased, including insurance limits and premiums are also included. Significant risk management related activities are also summarized.

# Human Resources Department Division of Risk Management Annual Report

Fiscal Year Ending June 30, 2009



City of Sacramento

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*On the Cover: Top row – Police Department shooting demonstration; Urban Forestry pruning trees  
Middle row – South Natomas Community Center; Shasta Community Park; Sacramento River  
Water Treatment Plant  
Bottom left – Department of Utilities Water Distribution employee on a tap installation on Elder Creek;  
Firefighters battle blaze*

## EXECUTIVE SUMMARY

The Risk Management Division of the Human Resources Department is pleased to present this Risk Management Annual Report for fiscal year 2009 (FY 2009).

This report provides the City Council and management with an overview of Risk Management programs for the prior year. The intent of this report is to provide City leadership and managers with departmental exposure and loss information so effective loss prevention activities may be implemented to eliminate or reduce these potential future losses. The report contains summaries of workers' compensation, general liability and auto liability losses by fiscal year, as well as excess insurance limits and premiums. Significant Risk Management-related activities are also summarized.

The Risk Management Internal Service Fund provides risk financing and administrative support services for workers' compensation and general and auto liability claims. The fund also supports the City's loss prevention programs and division administration costs. The fund charges all fund participants for program costs based on actuarial estimates of the amounts needed to pay the ultimate cost of claims and operational costs for the Risk Management Division. The Risk Management budget was reduced \$1,305,284 in FY 2009, from a FY 2008 budget of \$27,805,391 to a FY 2009 budget of \$26,500,107. Reductions in workers' compensation and liability claim costs accounted for the budget decrease.

Excess insurance costs were down \$66,668 or 3% in FY 2009. The City purchased an additional \$5,000,000 in excess liability insurance in FY 2009, bringing the total amount to \$30,000,000, thereby providing additional protection to the City from catastrophic claims. Workers' compensation excess insurance limits were increased from \$300,000,000 to statutory coverage. Statutory coverage has no policy limits and payments will be made in accordance with the Labor Code. This increase in excess insurance coverage also provides additional protection from catastrophic events. An additional \$15,000,000 in fine arts insurance was also purchased, bringing the total amount to \$50,000,000.

The number of workers' compensation claims reported each year has continued to decline since FY 2003 when 764 claims were reported. In FY 2009 only 607 claims were reported. The average cost of workers' compensation claims has been increasing the last four years. The increases in recent years were due primarily to medical inflation and increasing hospital costs. This is consistent with findings from the Workers' Compensation Insurance Rating Bureau, which also shows increases in the average cost of workers' compensation claims in recent years, primarily due to medical and hospital cost increases. Strains and sprains are the most common types of injuries that result in claims against the City. To reduce the number and severity of these claims, a "Preventing Sprains and Strains" training program was introduced in FY 2009.

The number of general liability claims reported in FY 2009 was 435, which is 67 lower than the previous year. The general liability severity rate (cost of claims) increased slightly in FY 2009. Risk Management and York Insurance Services Group – California (York) personnel, the City's third party administrator for liability claims, continue to improve communication with City departments to proactively manage open and potential claims to help minimize the cost of claims.

## Risk Management Annual Report FY 2009

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The number of automobile liability claims has dropped steadily from FY 2003 when 205 claims were reported. Only 127 claims were reported in FY 2009. The automobile liability severity rate (cost of claims) is slightly lower than FY 2003 levels and has remained steady in recent years. To continue to address our risk of vehicle accidents, Risk Management will assist in the development of a long-range plan for the Sacramento Regional Driver Training Facility (SRDTF). All City personnel, including police and fire, complete the majority of their driver training requirements at the Mather facility.

It is important to note that workers' compensation benchmarking comparisons with similar sized cities in California show the City is between 16% and 30% lower than the average for the number and cost of claims. General and auto liability claims comparisons are also favorable.

The City's loss prevention activities are committed to preventing accidents before they occur and are focused on the following areas: training, vehicle safety, consultation, employee recognition, environmental, support services and special projects.

In addition to the action items listed previously, our action plan for fiscal year 2010 includes the development of a cost allocation model to encourage cost containment by implementing equitable cost allocation to City departments based on claims experience and exposures (payroll or number of employees), implementing a web based certificate of insurance tracking system that City departments may access, and assisting in the Fire and Police wellness and fitness initiatives.

### **RISK MANAGEMENT MISSION STATEMENT**

Risk Management staff protect City employees and assets by providing exceptional customer service through effective loss prevention, claims administration, and risk financing. Our commitment enhances safety and livability for the citizens and employees of the City of Sacramento.

### **RISK MANAGEMENT VISION STATEMENT**

The Risk Management Division will be integrated into the City's business practices and considered a valued and respected partner.

### **RISK MANAGEMENT DIVISION**

The Risk Management Division consists of three operational units: Loss Prevention, Workers' Compensation, and Risk Administration. The units are detailed in the organization chart on page three. Responsibility for the Risk Management Internal Service Fund (Risk Fund), which provides risk financing and support services related to the workers' compensation and general/auto liability programs, is an important function of the Risk Management Division. All City Departments are Risk Fund participants and are charged for program costs based on actuarial estimates of the amounts required to pay the ultimate cost of workers' compensation and general/auto liability claims that occur in that fiscal year as well as the operational costs of the Risk Management Division. The City self-insures the first \$2,000,000 of all workers' compensation and general/auto liability claims and purchases excess insurance for catastrophic

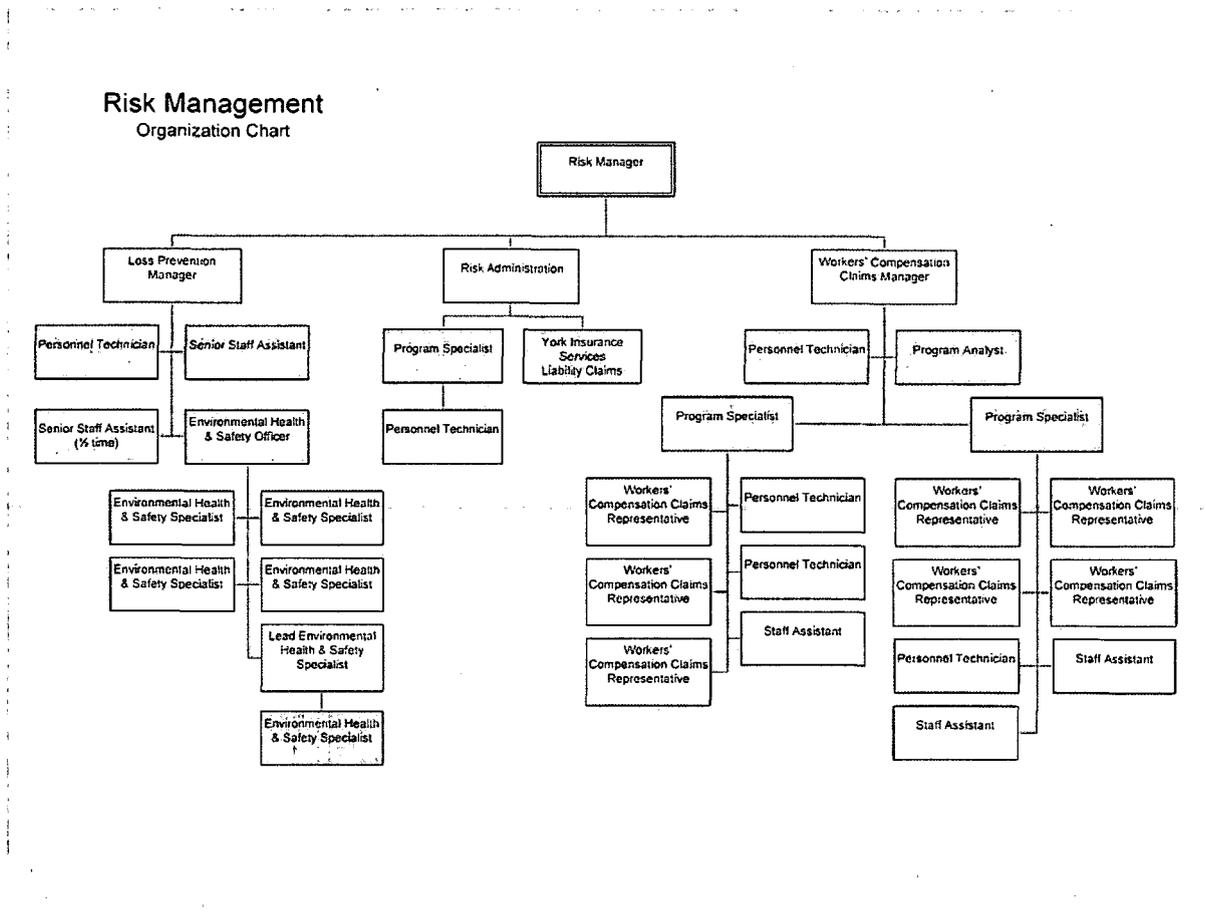
# Risk Management Annual Report FY 2009

losses. Property insurance is purchased to protect against damage to City buildings and assets with a \$100,000 deductible.

## RISK MANAGEMENT BUDGET

The Risk Management budget was reduced by 9% in FY 2007, from \$30,652,752 in FY 2006 to \$27,923,784 in FY 2007. This was a \$2,728,968 reduction which reduced costs to all City departments. This decrease was achieved by aligning our workers' compensation and liability claim costs with our actuarial reports. The FY 2008 budget was \$27,805,391, a slight decrease of \$118,393 from the 2007 budget. The Risk Management budget was reduced another \$1,305,284 or 4% in FY 2009 for a total budget of \$26,500,107. Reductions of \$900,000 in workers' compensation claim costs and \$596,000 in liability claim costs accounted for the FY 2009 overall budget decrease.

Figure 1: Risk Management Organizational Chart



## **EXCESS INSURANCE PREMIUMS**

The City of Sacramento has entered into an agreement with Alliant Insurance Services to design, market, solicit quotations, place, and service insurance policies for the City of Sacramento.

The City of Sacramento purchases excess liability and workers' compensation insurance to protect the City in the case of catastrophic incidents. The initial \$2,000,000 of each liability and workers' compensation claim is self-insured and therefore paid by the Risk Fund. Settlement amounts for covered losses in excess of \$2,000,000 are paid by the excess insurer up to the coverage limits.

### **LIABILITY**

Excess liability insurance includes coverage for the following risks: general liability, automobile liability, public official's errors and omissions liability, and unfair employment practices liability. All coverage is on an occurrence basis. Excess liability limits were increased from \$25,000,000 in FY 2008 to \$30,000,000 in FY 2009. Excess liability insurance premiums increased 7% or \$55,010, from \$710,062 in FY 2008 to \$765,072 in FY 2009. The City is currently participating in the Alliant National Municipal Liability Program (ANML) for the purchase of excess liability insurance. ANML provides comprehensive liability coverage to public agencies across the nation. Participants in ANML do not share risk and each participating member selects its own limits of liability insurance and self-insured retention. As a group purchase, the program provides greater stability as the insurance market fluctuates. Additionally, the combined size of the program ensures competitive pricing in hard and soft markets.

### **WORKERS' COMPENSATION**

Excess workers' compensation limits have been increased from \$300,000,000 in FY 2008 to statutory coverage in FY 2009. Statutory coverage provides coverage for claims up to the amount required by law, without limits. Excess workers' compensation insurance premiums decreased 7% or \$35,924 from \$481,089 in FY 2008 to \$445,165 in FY 2009. Excess workers' compensation insurance is purchased through California State Association of Counties Excess Insurance Authority (CSAC), which uses pool purchasing power to achieve broad coverage for the lowest rates available. The CSAC program is the largest pool in the nation and provides services to 95% of the counties and 60% of the cities in California. The program has a \$3,000,000 pooled limit and statutory reinsurance coverage for each accident.

### **PROPERTY**

Property insurance is currently purchased through the Public Entity Property Insurance Program (PEPIP). PEPIP was formed in 1993 to meet the property insurance needs faced by public entities and is currently the largest property insurance placement in the world. PEPIP is a joint purchase program and there is no risk of assessments. Because of PEPIP's large size, members receive low premiums with the best possible coverage terms. The total insurable property values for the City are \$1,500,611,071, an increase of 1% or \$20,650,334 over last year's values of \$1,479,960,737. Insurable values increased primarily due to trend increases in the property market. However, even with the increase in insured values, insurance premiums were down 4%

## Risk Management Annual Report FY 2009

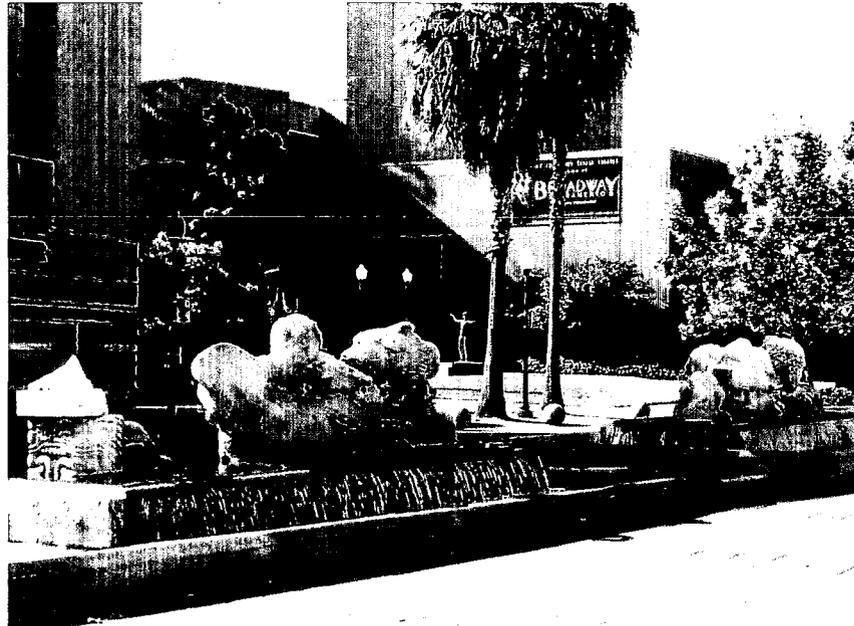
or \$33,868 from \$736,925 in FY 2008 to \$703,057 on FY 2009. The property policy contains a \$100,000 deductible with coverage limits of \$1,000,000,000. Coverage limits are shared with other PEP members in different geographical areas to reduce the risk of one large property loss affecting a high percentage of members. Earthquake insurance is not purchased due to the high cost and limited coverage.

### **OTHER INSURANCE**

In addition to the insurance referenced previously, in FY 2009 the City purchased the following insurance:

- Fine arts insurance with limits of \$50,000,000. Coverage is provided for the Crocker Art Museum, Discovery Museum, and Sacramento Archives & Museum Collection Center. Any other City owned fine art or fine art on loan to the City is also covered.
- Aircraft insurance with limits of \$20,000,000 and airport liability insurance with limits of \$5,000,000. Coverage is provided for the City's small plane and two helicopters.
- Crime insurance with limits of \$10,000,000. Coverage is provided for employee theft, forgery, and other crime-related losses.
- Pollution legal liability insurance with limits of \$10,000,000.
- Bounce house liability insurance with limits of \$1,000,000. Coverage is provided for the two bounce houses the city owns and utilizes at special events.

Table 1 on the following page is the Schedule of Insurance which summarizes coverage, self-insured retentions, limits, premiums and carriers for the last five years and provides a total cost of insurance by year at the bottom of the table. Information for FY 2010 is also included as these insurance policies have already been purchased.



*Community Center*

# Risk Management Annual Report FY 2009

Table 1: Schedule of Insurance

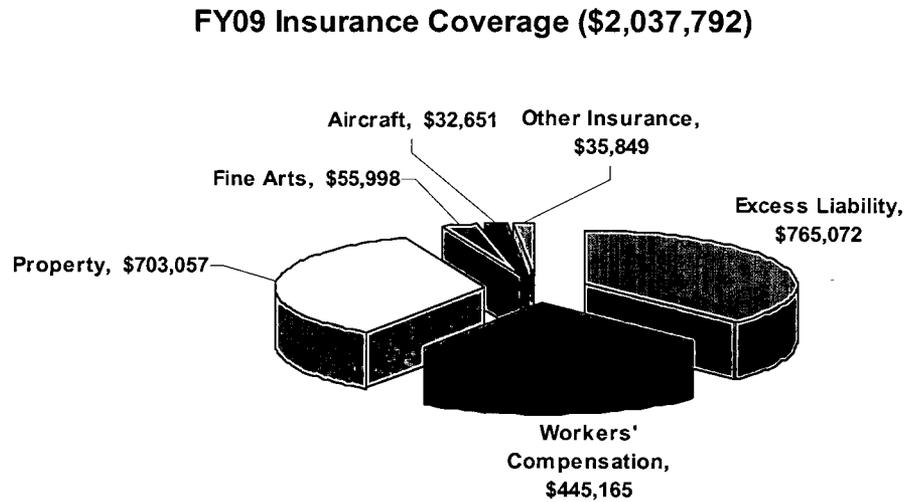
| SCHEDULE OF INSURANCE   |                        |               |                   |                                   |  |
|---|------------------------|---------------|-------------------|-----------------------------------|--|
| Fiscal Year   | Self Insured Retention | Policy Limits | Premium           | Carrier                           |  |
| <b>Excess Liability</b>   |                        |               |                   |                                   |  |
| FY10  | 2,000,000              | 30,000,000    | 837,001           | Everest, American Merchants       |  |
| FY09  | 2,000,000              | 30,000,000    | 765,072           | Everest, American Merchants       |  |
| FY08  | 2,000,000              | 25,000,000    | 710,062           | Everest, North American Specialty |  |
| FY 07   | 2,000,000              | 20,000,000    | 687,771           | Everest, Traders and Pacific      |  |
| FY 06   | 2,000,000              | 10,000,000    | 510,411           | Ins. Co. of the State of Penn.    |  |
| <b>Total</b>  |                        |               | <b>3,510,317</b>  |                                   |  |
| <b>Workers' Compensation</b>  |                        |               |                   |                                   |  |
| FY10  | 2,000,000              | Statutory     | 407,521           | CSAC EIA                          |  |
| FY09  | 2,000,000              | Statutory     | 445,165           | CSAC EIA                          |  |
| FY08  | 2,000,000              | 300,000,000   | 481,089           | CSAC EIA                          |  |
| FY 07   | 2,000,000              | 200,000,000   | 467,991           | CSAC EIA                          |  |
| FY 06   | 2,000,000              | 150,000,000   | 389,750           | CSAC EIA                          |  |
| <b>Total</b>  |                        |               | <b>2,191,516</b>  |                                   |  |
| <b>Property</b>   |                        |               |                   |                                   |  |
| FY10  | 100,000                | 1,000,000,000 | 835,300           | PEPIP                             |  |
| FY09  | 100,000                | 1,000,000,000 | 703,057           | PEPIP                             |  |
| FY08  | 100,000                | 1,000,000,000 | 736,925           | PEPIP                             |  |
| FY 07   | 100,000                | 1,000,000,000 | 736,648           | PEPIP                             |  |
| FY 06   | 100,000                | 1,000,000,000 | 636,102           | PEPIP                             |  |
| <b>Total</b>  |                        |               | <b>3,648,032</b>  |                                   |  |
| <b>Fine Arts</b>  |                        |               |                   |                                   |  |
| FY10  | 1,000                  | 50,000,000    | 48,101            | Ace American                      |  |
| FY09  | 1,000                  | 50,000,000    | 55,998            | Commerce and Industry             |  |
| FY08  | 1,000                  | 50,000,000    | 62,518            | Commerce and Industry             |  |
| FY 07   | 1,000                  | 35,000,000    | 58,001            | Commerce and Industry             |  |
| FY 06   | 1,000                  | 25,000,000    | 39,518            | Commerce and Industry             |  |
| <b>Total</b>  |                        |               | <b>264,136</b>    |                                   |  |
| <b>Aircraft</b>   |                        |               |                   |                                   |  |
| FY10  | Varies                 | 20,000,000    | 30,151            | Old Republic                      |  |
| FY09  | Varies                 | 20,000,000    | 32,651            | Old Republic                      |  |
| FY08  | Varies                 | 20,000,000    | 47,440            | Old Republic                      |  |
| FY 07   | Varies                 | 20,000,000    | 55,272            | Old Republic                      |  |
| FY 06   | Varies                 | 20,000,000    | 64,416            | Old Republic                      |  |
| <b>Total</b>  |                        |               | <b>229,930</b>    |                                   |  |
| <b>Other Insurance <i>Includes pollution, crime, airport and bounce house insurance</i></b> |                        |               |                   |                                   |  |
| FY10  |                        |               | 59,894            |                                   |  |
| FY09  |                        |               | 35,849            |                                   |  |
| FY08  |                        |               | 66,426            |                                   |  |
| FY 07   |                        |               | 17,803            |                                   |  |
| FY 06   |                        |               | 27,329            |                                   |  |
| <b>Total</b>  |                        |               | <b>207,301</b>    |                                   |  |
| <b>Total Insurance</b>  |                        |               |                   |                                   |  |
| FY10  |                        |               | 2,217,968         |                                   |  |
| FY09  |                        |               | 2,037,792         |                                   |  |
| FY08  |                        |               | 2,104,460         | (Includes pollution insurance)    |  |
| FY07  |                        |               | 2,023,486         |                                   |  |
| FY06  |                        |               | 1,667,526         |                                   |  |
| <b>Total</b>  |                        |               | <b>10,051,232</b> |                                   |  |

## Risk Management Annual Report FY 2009

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Figure 2 shows the cost breakdown by the various types of insurance purchased in FY 2009 with a total cost of \$2,037,792.

*Figure 2: FY09 Insurance Coverage*



*City Hall Plaza*

## ACTUARIAL REPORT

An actuarial report is prepared each fiscal year for the City of Sacramento's self-insured workers' compensation and general/auto liability programs by a professional actuarial firm experienced in self-insured public entity program analysis. The actuarial report provides two key pieces of information. The first is the amount that should be budgeted for claim costs and expenses for claims that occur in the coming fiscal year. The second is the program's liability for outstanding claims. Outstanding claims represent the ultimate value of losses, less any amounts already paid. The City utilizes an 80% confidence level (an estimate for which there is an 80% chance that the amount budgeted will be sufficient to pay loss costs). The actuarial results of the last three years' data are provided in Table 2. The estimated outstanding liability for all claims was reduced \$4,729,000 in FY 2007 and \$8,027,000 in FY 2008. The majority of the reductions were associated with workers' compensation claims, although several high value liability claims were also settled. These significant reductions were important as they reduce the amount of funds the City must set aside on the balance sheet for outstanding liabilities. After two years of dramatic decreases, in FY 2009 there was an increase in outstanding liabilities of \$384,000 for workers' compensation claims and \$177,000 for liability claims for a total increase of \$561,000. The increases were primarily attributed to increases in medical and hospital costs.

*Table 2: Comparison of Estimated Outstanding Losses*

| <b>COMPARISON OF ESTIMATED OUTSTANDING LOSSES</b>      |              |  |              |                                     |  |              |                                     |
|--|--------------|--|--------------|-------------------------------------|--|--------------|-------------------------------------|
| As of<br>June 30, 2007                                 |              | As of<br>June 30, 2008                                 |              | Difference<br>Between<br>FY 2007-08 | As of<br>June 30, 2009                                 |              | Difference<br>Between<br>FY 2008-09 |
| <b>WORKERS' COMPENSATION</b>                           |              |  |              |                                     |  |              |                                     |
| Estimated Liability for Outstanding Claims             | \$41,063,000 | Estimated Liability for Outstanding Claims             | \$35,259,000 | (\$5,804,000)                       | Estimated Liability for Outstanding Claims             | \$35,643,000 | \$384,000                           |
| Estimated Ultimate Cost of Claims for FY 2007-08       | \$8,913,000  | Estimated Ultimate Cost of Claims for FY 2008-09       | \$7,623,000  | (\$1,290,000)                       | Estimated Ultimate Cost of Claims for FY 2009-10       | \$8,071,000  | \$448,000                           |
| <b>GENERAL AND AUTO LIABILITY</b>                      |              |  |              |                                     |  |              |                                     |
| Estimated Outstanding Liability for Outstanding Claims | \$16,641,000 | Estimated Outstanding Liability for Outstanding Claims | \$14,418,000 | (\$2,223,000)                       | Estimated Outstanding Liability for Outstanding Claims | \$14,595,000 | \$177,000                           |
| Estimated Ultimate Cost of Claims for FY 2007-08       | \$6,374,000  | Estimated Ultimate Cost of Claims for FY 2008-09       | \$6,229,000  | (\$145,000)                         | Estimated Ultimate Cost of Claims for FY 2009-10       | \$6,425,000  | \$196,000                           |
| <b>TOTALS</b>  |              |  |              |                                     |  |              |                                     |
| Total Estimated Liability for Outstanding Claims       | \$57,704,000 | Total Estimated Liability for Outstanding Claims       | \$49,677,000 | (\$8,027,000)                       | Total Estimated Liability for Outstanding Claims       | \$50,238,000 | \$561,000                           |
| Total Estimated Ultimate Cost of Claims for FY 2007-08 | \$15,287,000 | Total Estimated Ultimate Cost of Claims for FY 2008-09 | \$13,852,000 | (\$1,435,000)                       | Total Estimated Ultimate Cost of Claims for FY 2009-10 | \$14,496,000 | \$644,000                           |

## **FISCAL YEAR 2009 RESULTS**

### **Workers' Compensation**

The City of Sacramento has self administered workers' compensation claims since 1981. Utilizing City of Sacramento employees to handle our injured workers claims, instead of outsourcing the claim handling function to a third party claims administrator, results in better customer service and superior claim handling, which benefits injured workers and reduces the costs of claims.

#### **Accomplishments**

- The City's excess workers' compensation provider, CSAC, conducts audits of member's workers' compensation claim handling operations every two years to ensure adequate reserving and claims handling practices. In February of 2009, CSAC audited the City's operations and concluded that "the City is effectively providing claims service to its employees and is meeting the industry best practices, state laws, and CSAC's own guidelines with an overall score of 97%." The score is higher than CSAC's acceptable performance requirement of 95%.
- A Pharmacy Benefit Management program was introduced to achieve savings on pharmacy costs and to provide oversight on drug prescribing patterns of physicians.
- A new Utilization Review vendor was integrated into the City's workers' compensation program to assist in evaluating the medical necessity of treatment programs. This process ensures that treatment provided to injured workers is consistent with the Medical Treatment Utilization Schedule or any other evidence based studies.
- A new Nurse Case Management vendor was integrated into the City's workers' compensation program to assist in the coordination of return to work and treatment programs. This program is targeted to City employees who suffer serious injury or are having medical complications in the recovery process.
- Annual meetings with Department Heads were conducted to review workers' compensation claim trends and discuss loss prevention activity. Key risk management initiatives were developed with each department to address in the subsequent year to reduce losses and costs.
- Meetings between Department staff and Risk Management were conducted to review open and potential workers' compensation claims. The frequencies of the meetings were dictated by the number and types of open claims per Department.
- Interactive process meetings with departments were conducted to facilitate injured workers' return to work and identify reasonable accommodation opportunities.

## Risk Management Annual Report FY 2009

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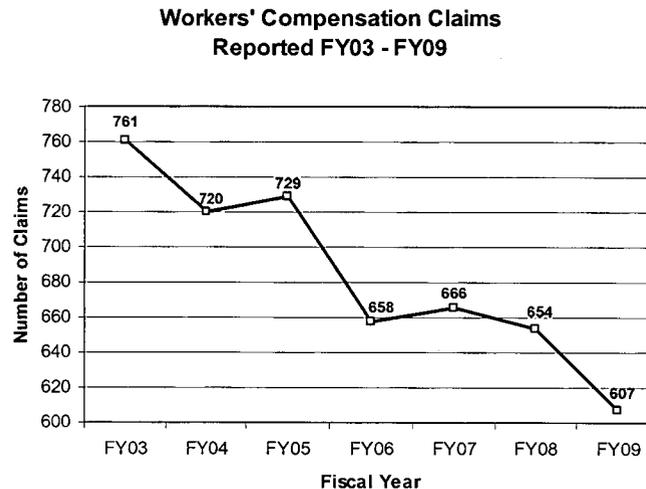
- The litigation rate was maintained at 7%. We know from experience that litigation increases the length of time claim files remain open and their costs.
- A City employee was convicted of workers' compensation fraud and the City was granted restitution. An estimated savings of \$640k in industrial disability retirement benefits resulted from the fraud conviction.
- Workers' compensation forms were placed on-line reducing paper usage and the need to carry an inventory of forms.

### Results

The following data is presented from our most recent actuarial report which was completed in September of 2009.

Figure 3 shows the number of workers' compensation claims reported for the last seven years. In FY 2006, 2007, and 2008 the number of claims was relatively constant. The number dropped significantly in FY 2009 (from 654 to 607).

*Figure 3: Workers' Compensation Claims Reported FY03 – FY09*

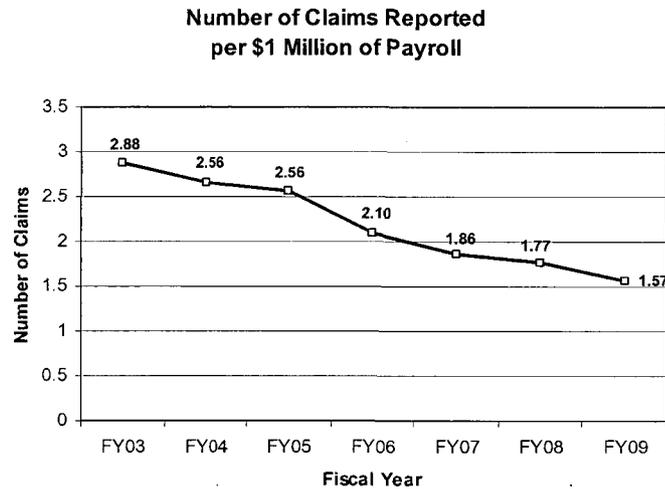


## Risk Management Annual Report FY 2009

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The number of claims reported per \$1 million of payroll (# claims/ (payroll/\$1,000,000)) for the last seven years is illustrated in Figure 4. This number has decreased each of the previous seven years. The rates continue to decrease due to loss prevention efforts and managements emphasis on providing a safe and healthy workplace.

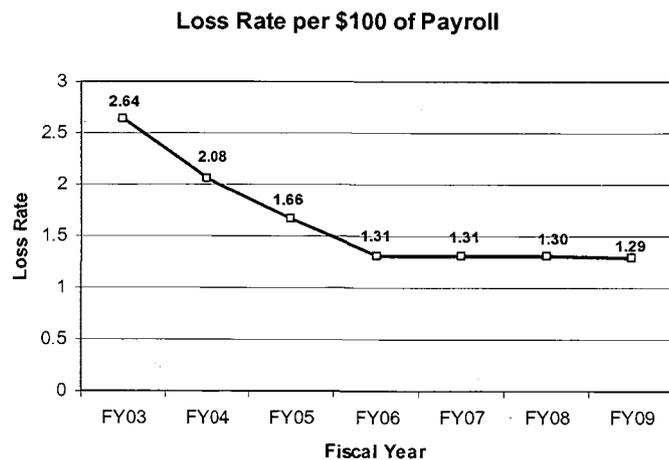
Figure 4: Number of Claims Reported per \$1 Million of Payroll FY03 – FY09



The data in Figures 5 and 6 limits claim values to \$100,000 per occurrence to provide more stable trending information and avoid skewing of the data due to a large loss.

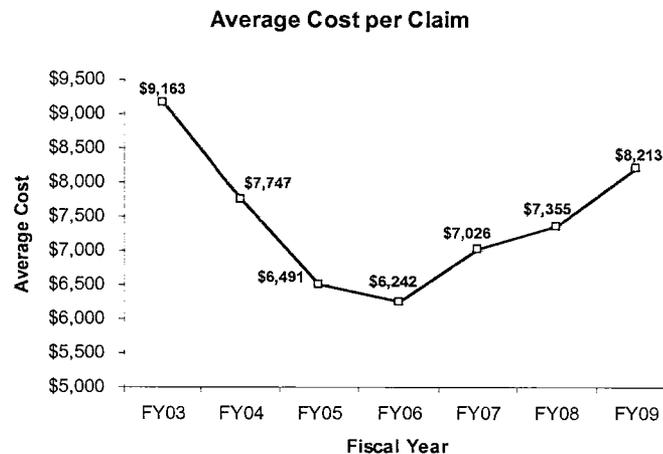
The loss rate per \$100 of payroll (losses/ (payroll/\$100)) for the last seven years is illustrated in Figure 5. Workers' compensation reforms contributed to the decrease in the loss rate from FY 2003 to FY 2006. The loss rate has been steady the last three years as most of the cost savings from the reforms have been realized.

Figure 5: Loss Rate per \$100 of Payroll FY03 – FY09



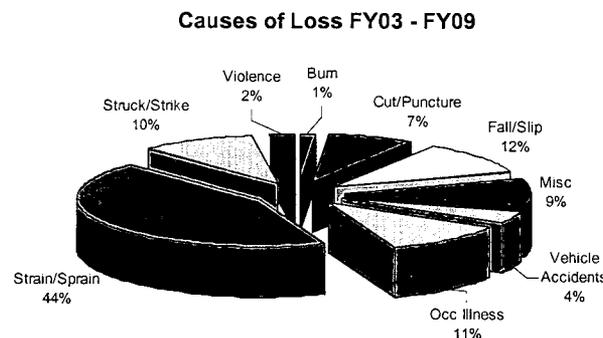
Workers' compensation reforms also contributed to the decrease in average cost per claim (estimated ultimate cost of claims/# of claims) from FY 2003 to FY 2006. While the number of claims continues to decrease, the average cost per claim has increased the last four years, as illustrated in Figure 6. Claim costs began increasing in FY 2007 as the cost savings from the reforms had been realized and medical (especially hospital costs) and pharmaceutical costs have been rising dramatically in recent years. For example, in May of 2009 the State Workers' Compensation Fund reported sixteen percent increases in medical costs each of the last three years. The FY 2009 average cost per claim is still below the FY 2003 number.

Figure 6: Average Cost per Claim FY03 – FY09



The causes of loss for workers' compensation claims are depicted in Figure 7. Strain and sprain injuries continue to be the most common type of injury. Our Loss Prevention staff provides department specific training on reducing these types of injuries. Additionally, a voluntary stretching and walking program and the opening of a gym at the 24<sup>th</sup> Street Corporation Yard are designed to help reduce the number of strain and sprain injuries.

Figure 7: Causes of Loss FY03 – FY09



Injuries on duty (IOD) hours are illustrated in Figure 8. IOD hours are work hours recorded for injured employees who are unable to work because of an industrial injury. This number has remained relatively stable the past three years after a large decrease in FY 2005.

Figure 8: Injury on Duty Hours

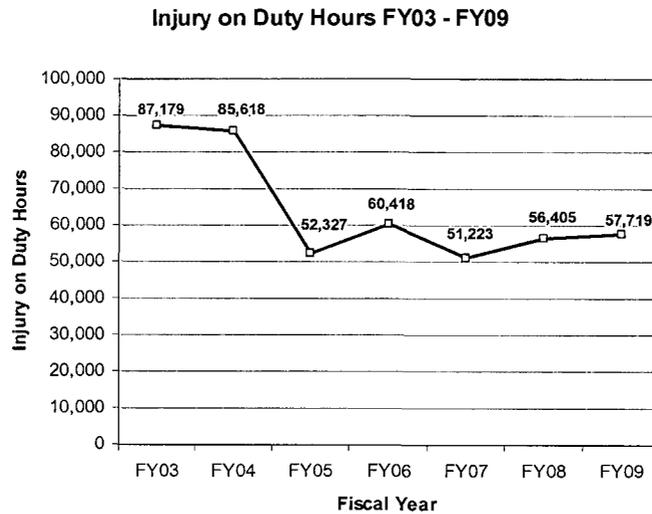


Figure 9 illustrates bill review savings from the City's bill review vendor and reflects the amount workers' compensation medical bills were reduced to comply with the workers' compensation fee schedule as well as Preferred Provider Organization (PPO) savings. Bill review savings can increase dramatically based on high medical costs for large or catastrophic injuries, which was the case in fiscal years 2005 and 2006 when the City experienced two catastrophic claims. Medical cost increases, especially hospital costs, in recent years have resulted in increases in bill review savings. The City averages a 60% reduction in costs for all workers' compensation bills processed.

Figure 9: Bill Review Savings

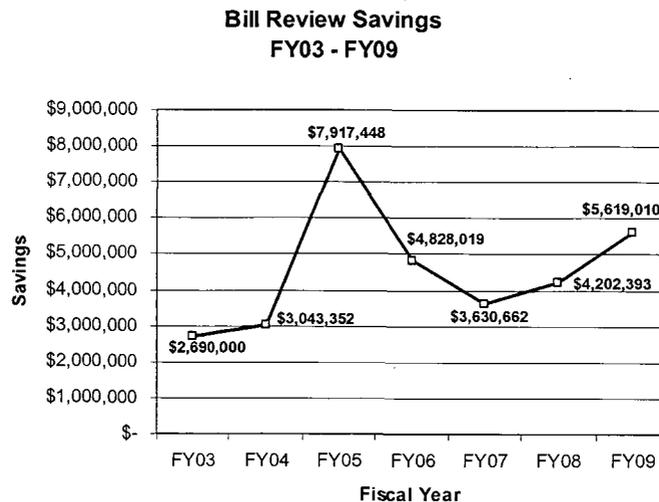


Figure 10 shows the percentage of workers' compensation claims filed in the last seven years broken down by Police, Fire and all other City Departments.

Figure 10: Percentage of Workers' Compensation Claims by Department

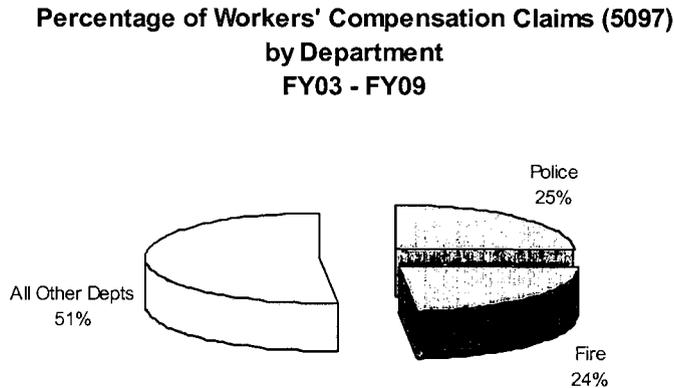
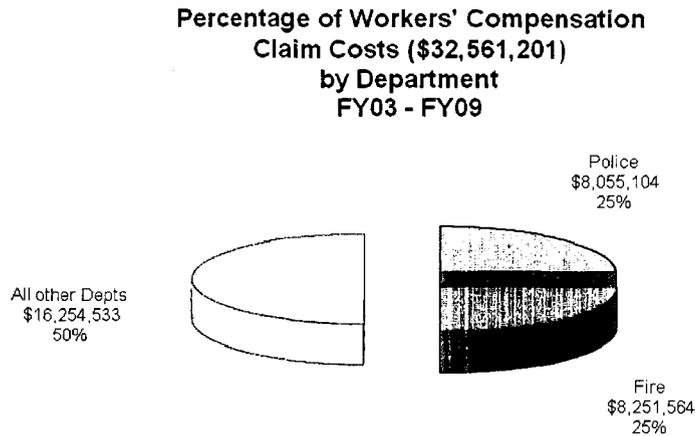


Figure 11 shows the percentage of costs paid for workers' compensation claims in the last seven years broken down by Police, Fire and all other City Departments.

Figure 11: Percentage of Workers' Compensation Cost by Department



### Benchmarking

The data in Table 3 is taken from the California Institute for Public Risk Analysis (CIPRA) website. CIPRA summarizes the annual report data that self-insured's submit to the California

## Risk Management Annual Report FY 2009

Department of Industrial Relations. When compared with eight other medium to large sized cities in California and compiled from data from July, 2004 to June, 2007 (the latest period data is available), the City of Sacramento was sixteen to thirty percent lower than the average in all categories.

*Table 3: Benchmarking Data from the California Institute for Public Analysis (CIPRA)*

### Workers' Compensation Benchmarking Data 4 Year Average

|   | Average of 9<br>Medium to<br>Large Cities * | City of<br>Sacramento | Percentage<br>Difference |
|---|---|-----------------------|--------------------------|
| <b>Average Cost Per Claim</b><br>(Total incurred losses '04 to '07)/(Total<br>claims '04 to '07)          | 10,167                                      | 8,539                 | -16%                     |
| <b>Loss Rate per Employee</b><br>(Total incurred losses '04 to '07)/(Total<br>employ. '04 to '07) x 100   | 1,515                                       | 1,057                 | -30%                     |
| <b>Loss Rate per \$100 of Payroll</b><br>(Total incurred losses '04 to<br>'07)/(Payroll '04 to '07) x 100 | 2.80  | 2.35                  | -16%                     |
| <b>Incident Rate</b><br>(Reported claims '04 to '07)/(Total<br>employees '04 to '07) x 100                | 14.90                                       | 12.38                 | -17%                     |

\* Cities included are as follows:  
Fresno, Oakland, Long Beach, Riverside, Sacramento, San Diego, San Jose, Santa Ana, Stockton

## LIABILITY

The City of Sacramento utilizes York Insurance Services Group - California (York), a third-party administrator, to handle liability claims filed against the City. Claims are broken down into two categories: auto and general liability.

### Accomplishments

- The claim intake process with the City Clerk's Office was streamlined to improve customer service and timely claim handling.
- York took on additional duties regarding claim set up and filing thereby freeing up risk management staff time for other duties.
- A Liability Response Team was organized with the Police Department, Risk Management and York to quickly respond to potential claims at incident scenes.
- Monthly meetings were conducted with the City Attorney's Office, Risk Management and York to review existing and potential litigation.
- Meetings between Department staff and Risk Management were conducted to review open and potential liability claims.
- Annual meetings with Department Heads and their management staff were conducted to review liability claim trends and discuss loss prevention activity.
- The number of open liability claims was reduced from 364 to 257.

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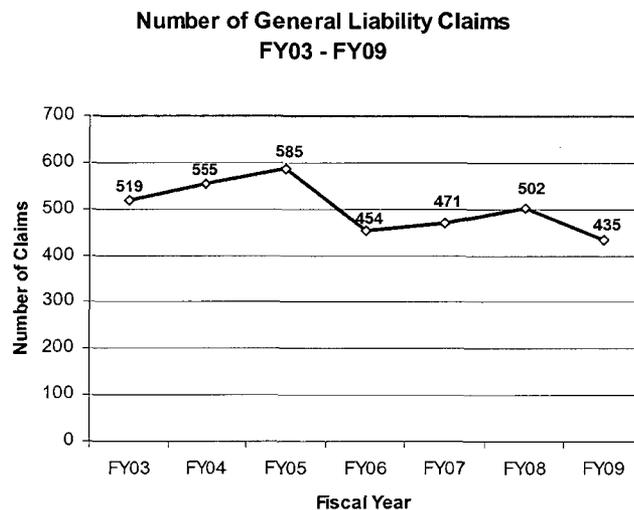
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- Claim forms filed against the City are now provided to the appropriate City Departments so they may review claims filed against them and take corrective action, if necessary.

### General Liability Results

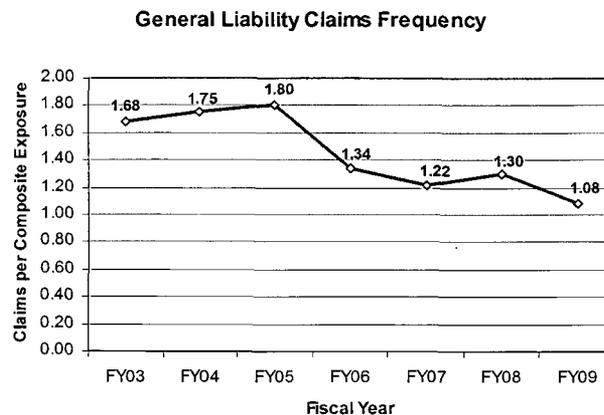
The following data is presented from the most recent actuarial report which was completed in October of 2009. Figure 12 shows the number of liability claims reported for the last seven years. The number of claims reported has been fairly steady over this time period, even as the City has grown.

Figure 12: Number of General Liability Claims Reported FY03 – FY09



The claims frequency (# of claims/composite exposure which consists of population, budget, payroll, police payroll and FTEs/\$1,000,000) is illustrated in Figure 13. The rate dropped significantly in FY 2005 and also in 2009.

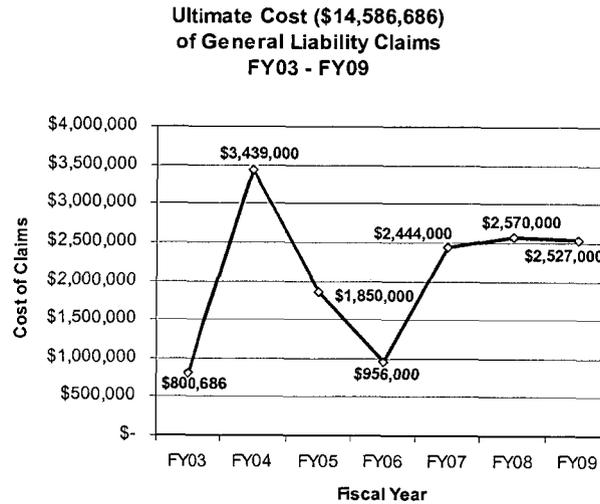
Figure 13: General Liability Claims Frequency



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The ultimate cost of general liability claims for the last seven years is estimated in Figure 14. General liability claim costs vary dramatically each year as one or two large claims can skew the results. A spike in costs in FY 2004 was caused by a wrongful death claim regarding allegations of a dangerous road condition. Some of the claims that are contributing to the costs the last three years include allegations of the following: falling trees, dangerous condition of public property, property damage from water main break, and police civil rights violations.

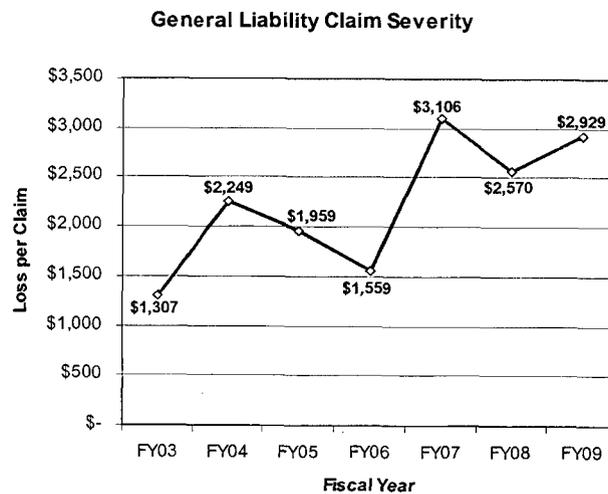
Figure 14: Estimation of Ultimate Cost of General Liability Claims FY03 – FY09



The data in the next three graphs limits claims to \$100,000 per occurrence to provide more stable trending information and avoid skewing of the data due to a large loss.

The claim severity (ultimate losses/# of claims) is depicted in Figure 15.

Figure 15: General Liability Claim Severity



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The general liability loss rate (ultimate losses/ (composite exposure which consists of population, budget, payroll, police payroll and FTEs/\$100)) is depicted in Figure 16. This loss rate has trended downward the last three years.

*Figure 16: General Liability Loss Rate*

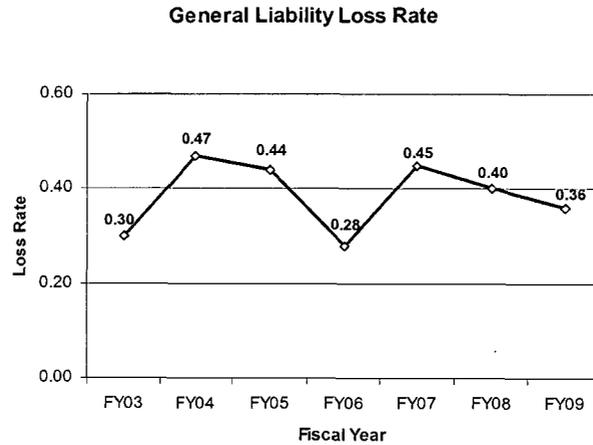


Figure 17 shows the percentage of general liability claims filed against the City during the last six years broken down by Police, Fire and all other City Departments.

*Figure 17: Percentage of General Liability Claims by Department*

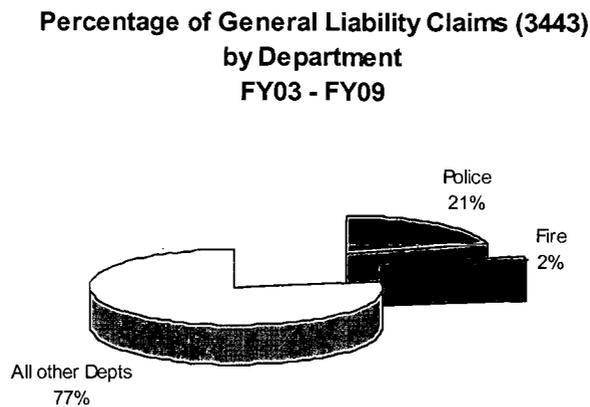
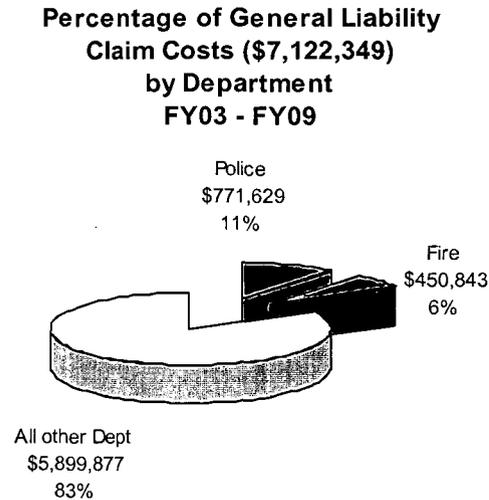


Figure 18 shows the percentage of costs paid for general liability claims in the last seven years broken down by Police, Fire and all other City Departments.

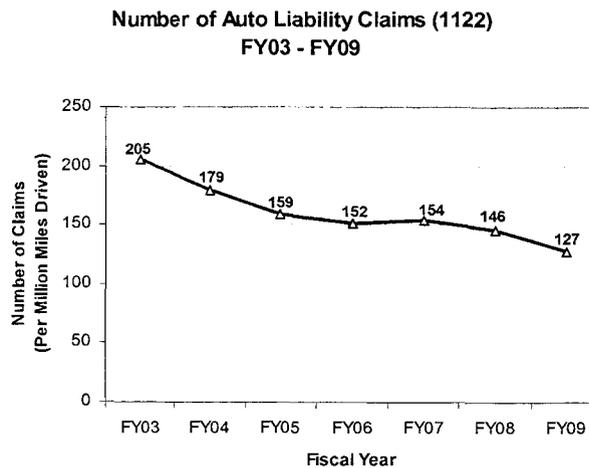
Figure 18: Percentage of General Liability Claim Costs by Department



### Automobile Liability Results

Figure 19 shows the number of auto liability claims filed against the City during the last seven years. The number of claims filed has been decreasing since FY 2003.

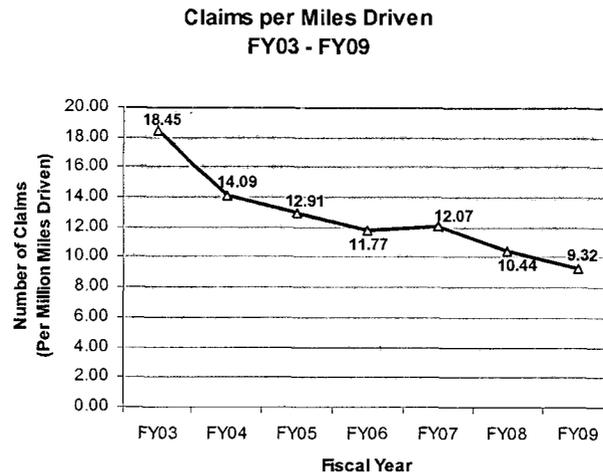
Figure 19: Number of Auto Liability Claims Reported FY03 – FY09



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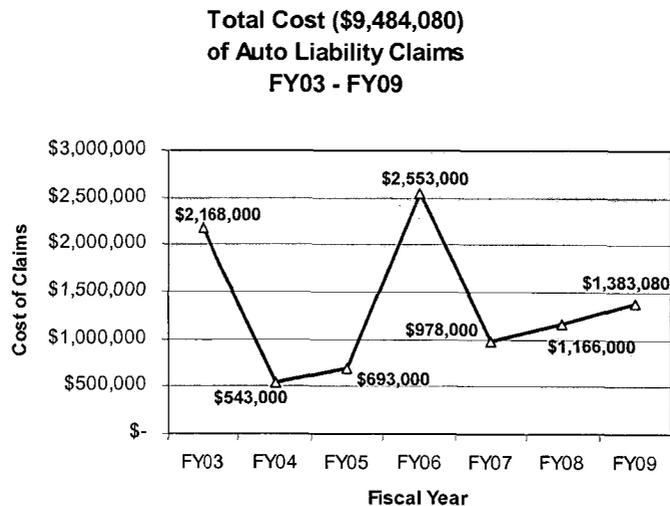
Figure 20 shows the number of auto liability claims per million miles driven (# of claims/ (miles driven/1,000,000)). Claims have been trending lower since FY 2003. These favorable results are driven by the creation of the City Manager's Vehicle Accident Accountability Review Board (discussed in greater detail in the Loss Prevention section of this report) and management's commitment to reducing vehicle accidents.

Figure 20: Number of Auto Liability Claims per Million Miles Driven FY03 – FY09



The ultimate cost of auto liability claims for the last seven years is estimated in Figure 21. The spike in FY 2007 is primarily caused by an accident involving serious injuries to a ride-along passenger in a Police vehicle.

Figure 21: Total Cost of Auto Liability Claims FY03 – FY09



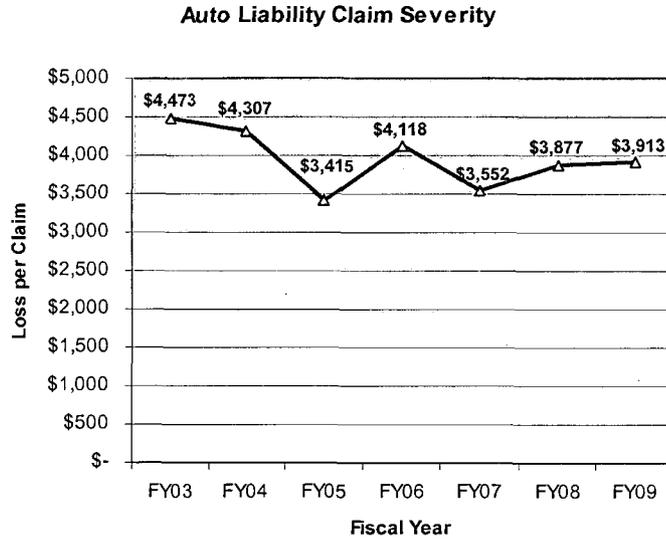
The data in the next three graphs limits claims to \$100,000 per occurrence to provide more stable trending information and avoid skewing of the data due to a large loss.

# Risk Management Annual Report FY 2009

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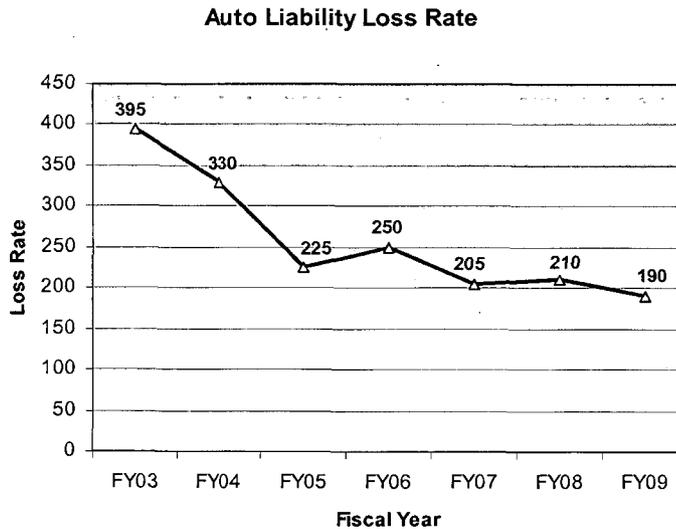
The claim severity (ultimate losses/# of claims) is depicted in Figure 22.

Figure 22: Auto Liability Claim Severity



The loss rate (ultimate losses/ (composite exposure consisting of the number of police vehicles, which have a higher loss rate, and number of other vehicles/\$100)) is depicted in Figure 23. The rate has remained stable the last three years.

Figure 23: Auto Liability Loss Rate



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The claims frequency rate (# of claims/ (composite exposure consisting of the number of police vehicles, which have a higher loss rate, and number of other vehicles/\$1,000,000) is illustrated in Figure 24. This rate has declined each of the last seven years.

*Figure 24: Auto Liability Claims Frequency*

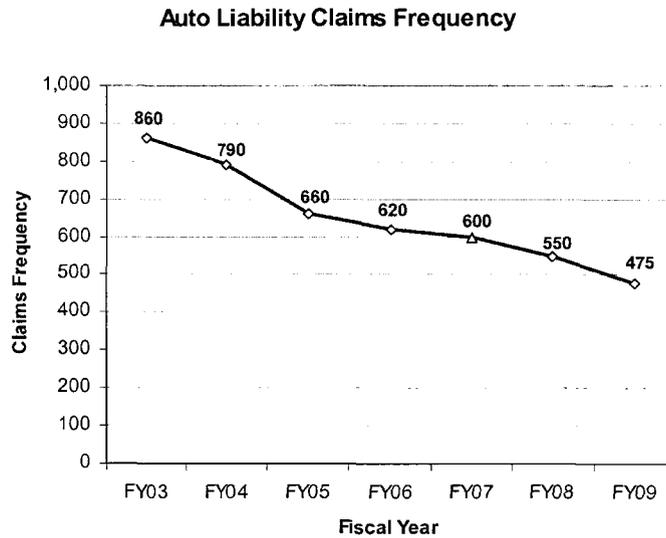


Figure 25 shows the percentage of auto liability claims filed against the City during the last seven years broken down by Police, Fire and all other City Departments.

*Figure 25: Percentage of Auto Liability Claims by Department*

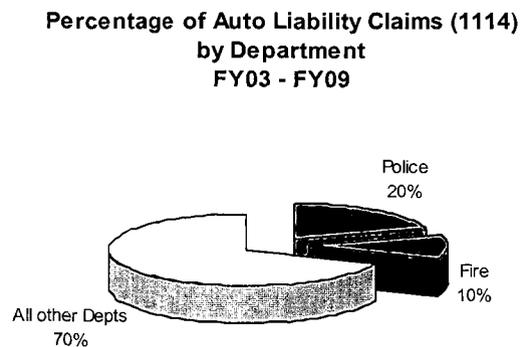
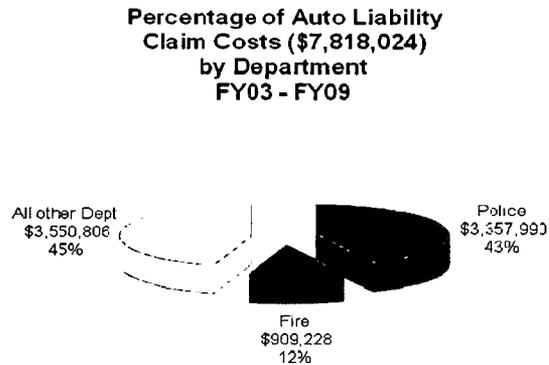


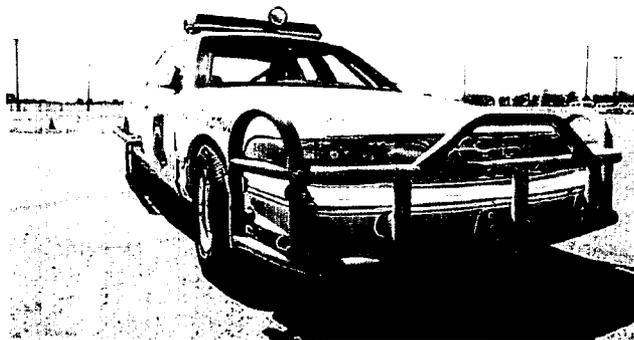
Figure 26 shows the percentage of costs paid for auto liability claims in the last seven years broken down by Police, Fire and all other City Departments. A large loss involving a police ride along injury in FY 2007 resulted in 43% of claim costs attributed to the Police Department.

Figure 26: Percentage of Auto Liability Claim Costs by Department



### Benchmarking

The following data was provided by the City's insurance broker from loss runs submitted by six similar sized California cities for a five year period. When compared with the other cities, the City of Sacramento's average cost for general liability claims was 43% lower. The average cost of auto liability claims for the City of Sacramento was 6% higher, due primarily to the police ride-along accident in 2007 where the City paid its \$2,000,000 self-insured retention. If this case is excluded from our numbers, the City is 35% below the average. The creation of the Vehicle Accident Accountability Review Board in 2004 to address the high cost of vehicle accidents appears to have helped improve our vehicle accident loss history. Additionally, the Sacramento Regional Driver Training Facility, which became operational in 2000, has contributed to the reduction in the number of auto accidents.



Sacramento Regional Driver Training Vehicle

## Risk Management Annual Report FY 2009

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The City has also agreed to join a benchmarking program by Bickmore Risk Services, through CSAC, to provide and compare general and auto liability loss data with other similar sized cities in California. The data will be based on actuarial reports which will provide accurate comparisons with other similar sized public entities in California. This information should be available for next year's annual report.

*Table 4: Auto and General Liability Benchmarking Data*

**Auto and General Liability Benchmarking Data 5 Year Average**

|   | Average of 6<br>Similarly Sized<br>California Cities | City of<br>Sacramento | Percentage<br>Difference |
|---|--|-----------------------|--------------------------|
| <b>Auto Liability</b>   |  |                       |                          |
| <b>Average Cost Per Claim</b><br>(Total incurred losses '04 to '08)/(Total claims '04 to '08) | 6,315  | 6,687                 | 6%                       |
| <b>Auto Liability</b>   |  |                       |                          |
| <b>Average Cost Per Claim</b><br>(Total incurred losses '04 to '08)/(Total claims '04 to '08) | 6,315  | 4,093*                | -35%*                    |
| <b>General Liability</b>  |  |                       |                          |
| <b>Average Cost Per Claim</b><br>(Total incurred losses '04 to '08)/(Total claims '04 to '08) | 10,235   | 4,383                 | -57%                     |

\* Excludes 2007 police ride-along claim

## LOSS PREVENTION

The primary loss prevention goal is to reduce the number and severity of injuries and accidents to minimize claim costs. Each City of Sacramento department has an assigned Environmental Health and Safety Specialist to consult with on workplace health and environmental issues. Reductions in workers' compensation and liability loss rates in recent years illustrate successes in loss prevention. Examples of FY 2009 loss prevention include the following:

### Training

Effective training programs are an important component in reducing losses. Training activities included the following:

- Offered 42 safety, wellness and SMART classes through City University and also participated in the Supervisors' Academy sessions offered by City University
- Trained and recertified approximately 115 employees in forklift operations
- Trained approximately 100 employees in field ergonomics classes tailored to their unique work activities and to reduce sprain and strain injuries
- Implemented a voluntary warm up program for employees at the Department of Utilities to prevent sprain and strain injuries
- Facilitated two leadership classes for City University
- Facilitated the upgrade of on-line training services for all City employees
- Expanded first aid and CPR classes to train more employees
- Trained 140 employees in defensive driving techniques

## Risk Management Annual Report FY 2009

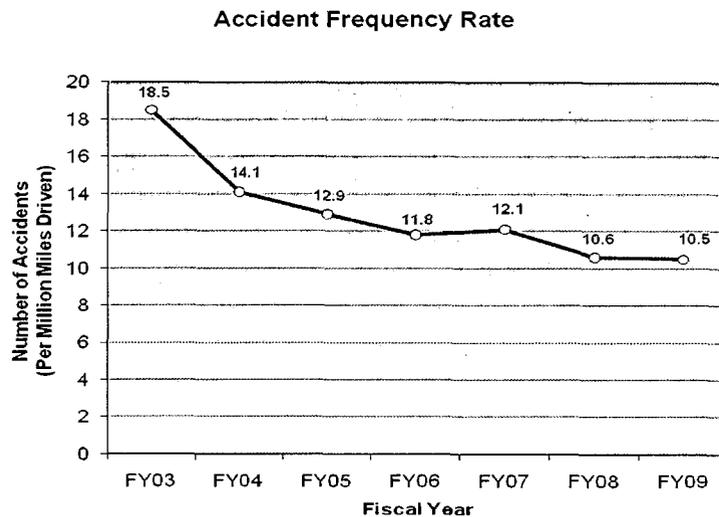
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- Mentored two Sacramento State students as part of their internship program
- Facilitated Emotional First Aid training for Police and Fire officers
- Facilitated Incident Safety Officer training for Fire battalion chiefs
- Facilitated Compassion Fatigue training for Animal Care Staff
- Provided insurance contract requirement training through City University

### Vehicle Safety

Loss Prevention staff track City vehicle accident statistics and provide administrative support for the City Manager's Vehicle Accident Review Board. The City's accident frequency rate (number of chargeable accidents divided by million miles driven) has dropped every year since 2003 with a slight increase in FY 2007, as depicted in Figure 27. The primary reasons for this drop are improved training and accountability and the creation of the City Manager's Vehicle Accident Review Board.

Figure 27: Vehicle Accident Frequency Rate



The City Manager's Vehicle Accident Accountability Review Board re-evaluated its role in FY09. Executives from the City Manager's Office and the six largest operating departments work with Risk Management staff to increase accountability for safe driving with the objective of decreasing vehicle accident losses. This Board reviews loss statistics and policies to assure standard practices city wide. Goals established for FY 2010 focus on employee recognition, presentations and process improvements that promote and encourage loss prevention.

Loss Prevention continues to provide staff support for business operations and program cost recovery at the Sacramento Regional Driver Training Facility.

### **Consultation**

Consulting with City Departments is essential to maintain a safe and healthy work environment. Consulting activities included the following:

- Completed 120 ergonomic evaluations
- Conducted 279 random drug tests and 61 random alcohol tests for commercial drivers with three positive tests
- Updated the emergency action plans for some of the larger City facilities, conducted drills and added ADA compliant evacuation equipment
- Facilitated City's response to five Cal/OSHA investigations resulting from serious injury reporting or employee complaints with only one citation for failure to report medical transport from another employers' work place
- Worked with departments to improve Safety Committee and Accident Review Committee processes
- Worked with Workers' Compensation and departmental staff to increase availability of modified duty to reduce lost time for injured workers
- Conducted a City wide focus group to assist in development of pre-employment background check procedures
- Participated in citywide pandemic planning efforts
- Facilitated fit testing for Police and Fire staff for N-95 respirators to protect them from aerosol transmissible diseases such as influenza viruses
- Collaborated with both Police and Fire staff to minimize the likelihood of work-related methicillin-resistant Staphylococcus aureus (MRSA) infections
- Analyzed the impact of playground location and construction materials in order to reduce losses due to fire and vandalism
- Collaborated with Police to analyze three years of injury data to assist the Police fitness coach to tailor training programs for staff to reduce the number and severity of injuries

### **Environmental**

Environmental regulatory compliance activities included the following:

- Supported environmental remediation projects at the Crocker Art Museum expansion, Amtrak Depot, Coloma Community Center, North Area Corp Yard and Howe Avenue Bridge
- Participated in hazardous materials response operations for incidents throughout the City and minimized the cost to the City by utilizing the Department of Toxic Substances Control's (DTSC) abandoned waste program to cover the costs of mitigation whenever possible
- Conducted asbestos and lead sampling as needed throughout the City as requested by Facilities prior to remodeling
- Assisted the Fire Department in evaluation of environmental contamination and risk of employee exposure at the McClellan training facility

## Risk Management Annual Report FY 2009

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- Applied for and received a grant from DTSC to cover the cost of abandoned tire disposal
- Applied for and received a grant from the Department of Fish and Game to purchase spill response supplies and a trailer for use on local waterways in the event of a petroleum spill. The grant also included training for first responders.

### **Support Services**

Pre-employment and preventative medical programs and contractual risk transfer are also administered by the loss prevention staff. Activities included the following:

- Provided support for the special events insurance program, insurance renewals and liability claim administration
- Scheduled pre-employment, non-industrial return-to-work and specialty physical exams in accordance with City policy

### **Special Projects**

Various special projects were also completed and include the following:

- Analysis of sprain and strain injuries and support of employee fitness programs
- Collaborated with Fire Department Special Operations to standardize operating procedures for river search and rescue
- Supported Parks and Recreation Department loss prevention facility improvements at playgrounds, Camp Sacramento and the softball complex
- Supported fall protection equipment upgrades for the Police Department SWAT Team, General Services and the Community Theater
- Coordinated a pilot project to supply personal protective equipment through an automated vending machine
- Provided support for the Stress Management in Law Enforcement Team and compassion fatigue training for General Services Animal Care staff
- Coordinated compliance with new regulations for worker safety in traffic operations

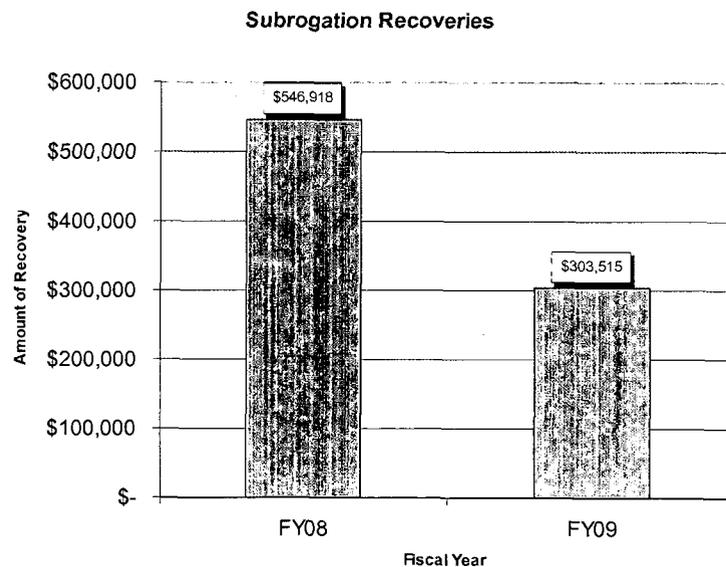


*Field Ergonomics Training*

## SUBROGATION

Subrogation refers to the recovery of funds spent to repair or replace City assets damaged by negligent third parties. Examples are auto accidents where third parties are liable for damages to City vehicles, traffic signals, or street signs. The graph below illustrates the amount of money collected for the last two years by the Risk Management Department. Personnel changes in FY 2007 created a back log of subrogation files that were addressed in FY 2008 which created a spike in recoveries that year. The FY 2009 recoveries were back to what we would expect to recover on an average year.

Figure 28: Subrogation Recoveries



Money recovered from third parties for City vehicle and property damage is deposited directly into the appropriate department fund per City policy.

## FISCAL YEAR 2010 ACTION PLAN

- Develop a cost allocation model to accurately assess departments for workers' compensation and liability costs based on exposure and loss experience with our actuary firm, Bickmore and Associates. This will provide further incentive for departments to reduce losses and control claim-related costs.
- Implement three-year risk management strategic plan.
- Transfer certificate of insurance monitoring from current City developed program, which is only accessible to Risk Management employees, to outside vendor specializing in insurance certificate tracking. This will allow all employees access to certificates of insurance, which will improve the monitoring of insurance for existing contracts. Vendors and contractors currently doing business with the City will have their certificates of insurance

## Risk Management Annual Report FY 2009

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visible in our system, reducing the need to obtain new certificates of insurance for each project or contract.

- Assist in developing a long-range plan for the Sacramento Regional Driver Training Facility.
- Assist Fire and Police in their development of wellness and fitness programs.
- Complete Risk Management Initiatives developed at annual risk management meetings with departments.

In closing, the Risk Management Department would like to thank City departments for their continued support in loss prevention activities to protect the citizens and employees of the City of Sacramento.