



City of Sacramento City Council

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

11

Meeting Date: 4/26/2011

Report Type: Consent

Title: 2010 Risk Management Annual Report

Report ID: 2011-00385

Location: Citywide

Recommendation: Receive and File

Contact: Patrick Flaherty, Risk Manager, (916) 808-8587, Human Resources Department

Presenter: None

Department: Human Resources

Division: Risk Management Division

Dept ID: 08001351

Attachments:

1-Description/Analysis

City Attorney Review

Approved as to Form
Sandra Talbott
4/14/2011 3:44:16 PM

City Treasurer Review

Prior Council Financial Policy Approval or
Outside City Treasurer Scope
Russell Fehr
4/8/2011 1:39:13 PM

Approvals/Acknowledgements

Department Director or Designee: Geri Hamby - 4/14/2011 12:05:08 PM

Assistant City Manager: Patti Bisharat - 4/14/2011 2:22:05 PM



Description/Analysis

Issue: Rendering of the 2010 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): None

Human Resources Department Division of Risk Management Annual Report

Fiscal Year Ending June 30, 2010



City of Sacramento

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On the Cover: View of City Hall from I Street Parking Garage

EXECUTIVE SUMMARY

The Risk Management Division of the Human Resources Department is pleased to present this Risk Management Annual Report for Fiscal Year 2010.

This report provides the City Council and management with an overview of Risk Management programs. 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, risk transfer, loss prevention and administrative support services for workers' compensation, general liability and auto liability claims. 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 \$167,000 in FY 2010, from a FY 2009 budget of \$28,053,000 to a FY 2010 budget of 27,886,000. Reductions in amounts budgeted for workers' compensation and general and auto liability claim costs accounted for the decrease.

There were no changes in insurance coverage or limits from the prior year. Insurance costs were up \$180,176 or 9% in FY 2010. Excess liability costs increased \$71,929 in FY 2010. The increase was primarily driven by excess insurer's payment for an expensive auto liability claim against the City in FY 2009. Property insurance costs were up \$132,243. Property value increases of approximately 6% and a hardening insurance market were the primary drivers of this increase. Excess workers' compensation insurance was \$37,644 lower and other insurance costs were \$24,045 lower than the previous year.

The number of workers' compensation claims in FY 2010 was higher than the previous year but similar to the amount of claims in FY 2006, 2007, and 2008. The average cost per claim increased 3% in FY 2010 due primarily to increases in medical costs. These increases are similar to other public entities according to the California Workers' Compensation Institute (CWCI). The CWCI reported recently that workers' compensation medical costs for self-insured public entities have increased over 25% the past four years. Strains and sprains are still 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 along with a field ergonomics class. Some departments have gone a step further and introduced stretching programs to address these soft tissue issues.

The number of general liability claims reported in the past five years has remained fairly steady. The general liability severity rate (cost of claims) decreased slightly in FY 2010. 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 these costs.

The number of automobile liability claims has trended downward from FY 2003 but increased slightly in FY 2010. The automobile liability severity rate (cost of claims) was higher in FY 2010 but tends to fluctuate each year. 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 Authority (SRDTA). 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 16% lower for average workers' compensation claim costs and 16% lower in reported claims. This means the City has fewer injuries and pays less for the injuries that do occur. 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 FY 2011 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), assisting in the development of a long-range plan for the Sacramento Regional Driver Training Facility, 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 and 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, general liability and 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

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. Property insurance is purchased to protect City buildings and assets from damage or loss caused by covered perils such as fire, theft, wind and flood.

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 remained at \$30,000,000 with a self insured retention of \$2,000,000. Excess liability insurance premiums increased 9% or \$71,929, from \$765,072 in FY 2009 to \$837,001 in FY 2010. Payment by the excess liability insurers for an expensive auto liability claim against the City in FY 2009 was one of the primary reasons for the increase in excess liability insurance premiums. 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 remained at statutory coverage for FY 2010 with a self insured retention of \$2,000,000. Statutory coverage provides payment for claims up to the amount required by law, without limits. Excess workers' compensation insurance premiums decreased 8% or \$37,544 from \$445,165 in FY 2009 to \$407,521 in FY 2010. 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 \$5,000,000 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 \$1,592,634,320, an increase of 6% or \$92,023,249 over last year's values of \$1,500,611,071. Insurable values increased primarily due to trend increases in the property market. Higher reinsurance costs and the difficult economic climate resulted in property insurance rate increases of 12%. This increase combined with the increase in insured values led to insurance premiums increasing 19% or \$132,243 from \$703,057 in FY 2009 to \$835,300 on FY 2010. 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 2010 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.



From left to right: 300 Richards Blvd.; 'Sacramento Stele' artist Beverly Pepper; Department of Utilities employees

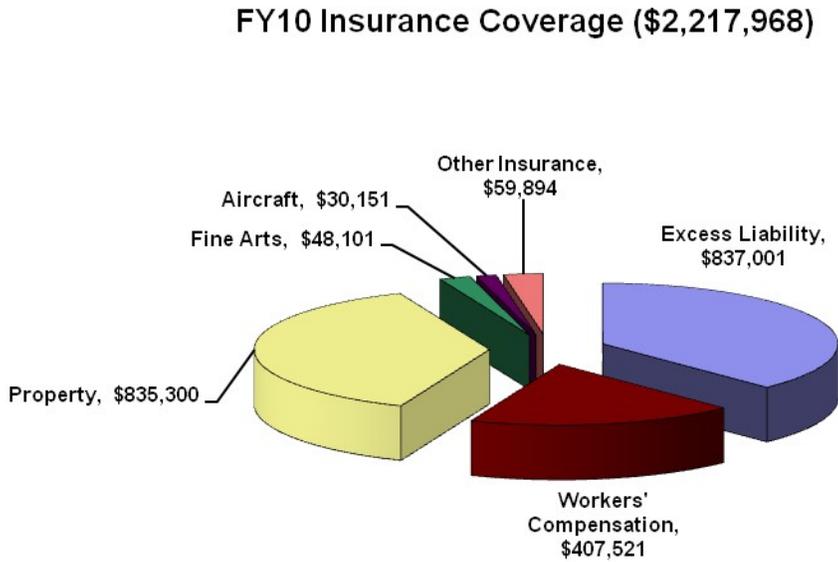
Table 1 on the following page is the Schedule of Insurance which summarizes coverage, self-insured retentions, limits, premiums and carriers for the last five years and provides a total cost of insurance by year at the bottom of the table. Information for FY 2011 is also included as these insurance policies have already been purchased.

Table 1: Schedule of Insurance

| SCHEDULE OF INSURANCE | | | | | |
|---|------------------------|---------------|-------------------|--|--|
| Fiscal Year | Self Insured Retention | Policy Limits | Premium | Carrier | |
| Excess Liability | | | | | |
| FY11 | 2,000,000 | 30,000,000 | 831,448 | Everest, American Merchants | |
| 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 | |
| FY07 | 2,000,000 | 20,000,000 | 687,771 | Everest, Traders and Pacific | |
| Total | | | 3,510,317 | | |
| Workers' Compensation | | | | | |
| FY11 | 2,000,000 | Statutory | 421,472 | CSAC EIA | |
| 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 | |
| FY07 | 2,000,000 | 200,000,000 | 467,991 | CSAC EIA | |
| Total | | | 2,191,516 | | |
| Property | | | | | |
| FY11 | 100,000 | 1,000,000,000 | 847,601 | PEPIP | |
| 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 | |
| FY07 | 100,000 | 1,000,000,000 | 736,648 | PEPIP | |
| Total | | | 3,648,032 | | |
| Fine Arts | | | | | |
| FY11 | 10,000 | 100,000,000* | 66,843 | Ace American * Limits increased due to Crocker expansion. | |
| 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 | |
| FY07 | 1,000 | 35,000,000 | 58,001 | Commerce and Industry | |
| Total | | | 264,136 | | |
| Aircraft | | | | | |
| FY11 | Varies | 20,000,000 | 27,137 | Old Republic | |
| 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 | |
| FY07 | Varies | 20,000,000 | 55,272 | Old Republic | |
| Total | | | 229,930 | | |
| Other Insurance <i>Includes pollution, crime, airport and bounce house insurance</i> | | | | | |
| FY11 | | | 5,020 * | * Lower premiums in 2011 due to prepaid insurance policies in prior years. | |
| FY10 | | | 59,894 | | |
| FY09 | | | 35,849 | | |
| FY08 | | | 66,426 | | |
| FY07 | | | 17,803 | | |
| Total | | | 207,301 | | |
| Total Insurance | | | | | |
| FY11 | | | 2,199,521 | | |
| FY10 | | | 2,217,968 | | |
| FY09 | | | 2,037,792 | | |
| FY08 | | | 2,104,460 | (Includes pollution insurance) | |
| FY07 | | | 2,023,486 | | |
| Total | | | 10,583,227 | | |

Figure 2 shows the cost breakdown by the various types of insurance purchased in FY 2010 with a total cost of \$2,217,968.

Figure 2: FY10 Insurance Coverage



Sacramento Police Department helicopter

ACTUARIAL REPORT

An actuarial report is prepared each fiscal year for the City of Sacramento’s self-insured workers’ compensation and general and 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 that will 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 budgeted amount will be sufficient to pay loss costs). The actuarial results for the last four years 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 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. FY 2010 results showed a decrease in outstanding liabilities for workers’ compensation claims of \$659,000. General and auto liability claims showed a decrease of \$2,515,000, primarily driven by claims closing at amounts less than reserved. The total decrease in outstanding liabilities for both the workers’ compensation and general and automobile liabilities is \$3,174,000.

Table 2: Comparison of Estimated Outstanding Losses

| COMPARISON OF ESTIMATED OUTSTANDING LOSSES | | | | | | | | | | |
|--|--------------|--|--------------|-------------------------------------|--|--------------|-------------------------------------|--|--------------|-------------------------------------|
| As of June 30, 2007 | | As of June 30, 2008 | | Difference Between FY 2007-08 | As of June 30, 2009 | | Difference Between FY 2008-09 | As of June 30, 2010 | | Difference Between FY 2009-10 |
| WORKERS' COMPENSATION | | | | | | | | | | |
| 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 Liability for Outstanding Claims | \$34,984,000 | (\$659,000) |
| 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 | \$8,372,000 | \$749,000 | Estimated Ultimate Cost of Claims for FY 2010-11 | \$8,170,000 | (\$202,000) |
| GENERAL AND AUTO LIABILITY | | | | | | | | | | |
| 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 Outstanding Liability for Outstanding Claims | \$12,080,000 | (\$2,515,000) |
| 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 | \$5,747,000 | (\$482,000) | Estimated Ultimate Cost of Claims for FY 2010-11 | \$5,100,000 | (\$647,000) |
| TOTALS | | | | | | | | | | |
| 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 Liability for Outstanding Claims | \$47,064,000 | (\$3,174,000) |
| 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 | \$14,119,000 | \$267,000 | Total Estimated Ultimate Cost of Claims for FY 2010-11 | \$13,270,000 | (\$849,000) |

FISCAL YEAR 2010 RESULTS

Workers' Compensation

The City of Sacramento has been self insured for workers' compensation claims since 1981 and has self administered our claims for this entire period. Utilizing City of Sacramento employees to handle our injured workers claims results in superior customer service and timely claim handling, which benefits injured workers and reduces the costs of claims. In FY 2010, the number of workers' compensation claims trended upward for the first time in three years at approximately 6%. However, new claims were similar to those reported in FY 2006, 2007, and 2008. FY 2009 had the lowest number of reported claims in over twenty years. The average cost per claim increased 3% in FY 2010 due primarily to increases in medical costs. These increases are similar to other public entities according to the California Workers' Compensation Institute (CWCI). The CWCI reported recently that workers' compensation medical costs for self-insured public entities have increased over 25% the past four years.

Accomplishments

- A total of 691 new workers' compensation claims were opened during FY10. Fifty nine (59%) per cent of the claims were medical only while 41% of the claims were lost time or indemnity claims.
- We continue to have success with the Pharmacy Benefit Management (PBM) program which was introduced to achieve savings on pharmacy costs and to provide oversight on the nature and extent of the drug prescribing patterns of physicians. The use of a PBM resulted in savings of \$10,764 and generic drug usage accounted for 72% of total prescriptions.
- The Utilization Review (UR) program has been upgraded to facilitate reviews of certain medical procedures by workers' compensation adjusters instead of by the UR vendor. This speeds up the medical authorization process and reduces UR vendor fees.
- We continue to aggressively utilize nurse case managers to assist in the coordination of return to work and treatment programs, especially for cases involving serious injuries.
- 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 supervisors 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.

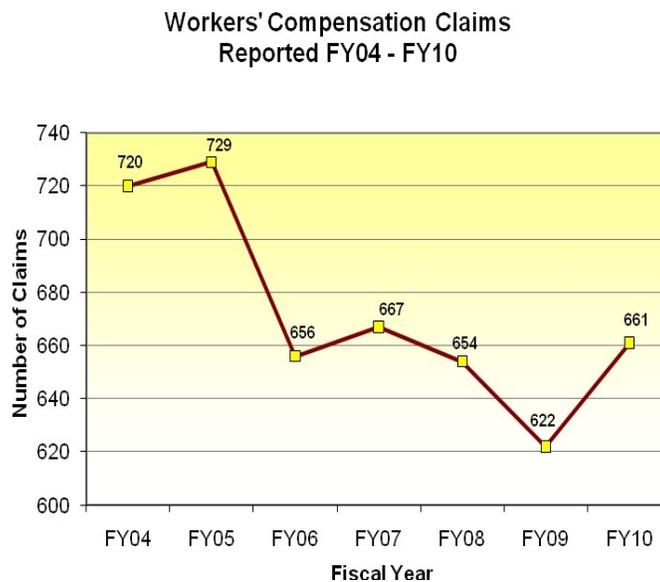
- A total of 63 Interactive Process meetings with departments were conducted to facilitate injured workers' return to work and identify reasonable accommodation opportunities.
- The litigation rate remained constant at 7%. We know from experience that litigation increases costs and delays resolution of claims.
- Workers' compensation forms were placed on-line reducing paper usage and the need to carry an inventory of forms.
- Computer enhancements were added and tested in the workers' compensation claims system to ensure compliance with the Medicare Secondary Payer Mandatory Reporting requirement that goes into effect January 1, 2011.

Worker' Compensation Results

The following data is presented from our most recent actuarial report which was completed in September of 2010.

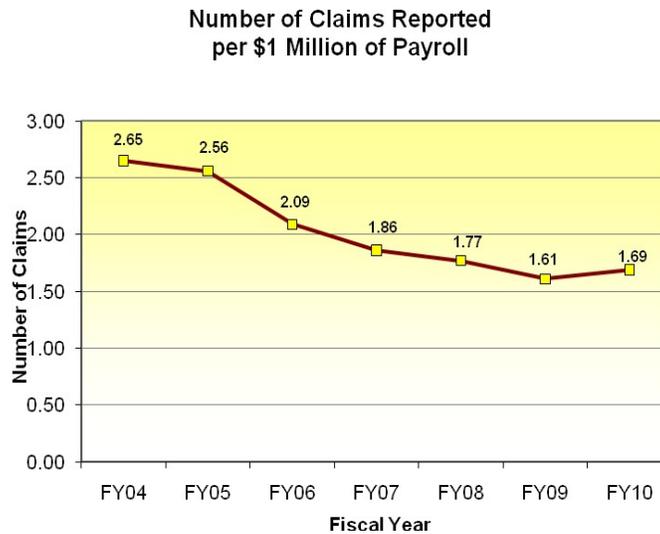
Figure 3 shows the number of workers' compensation claims reported for the last seven years. In FY 2006, 2007, and 2008 the number of claims was relatively constant but dropped in FY 2009 to the lowest level in over 20 years. The number increased in FY 2010 to levels similar to FY 2006 to 2009 period.

Figure 3: Workers' Compensation Claims Reported FY04 – FY10



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 six years but increased slightly in FY 2010.

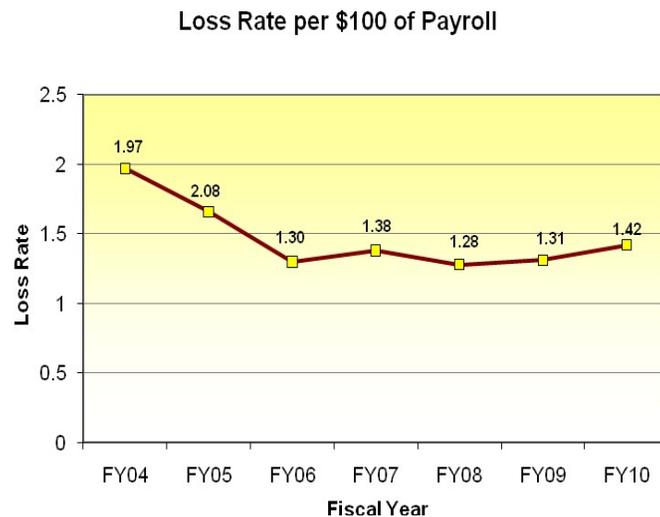
Figure 4: Number of Claims Reported per \$1 Million of Payroll FY04 – FY10



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.

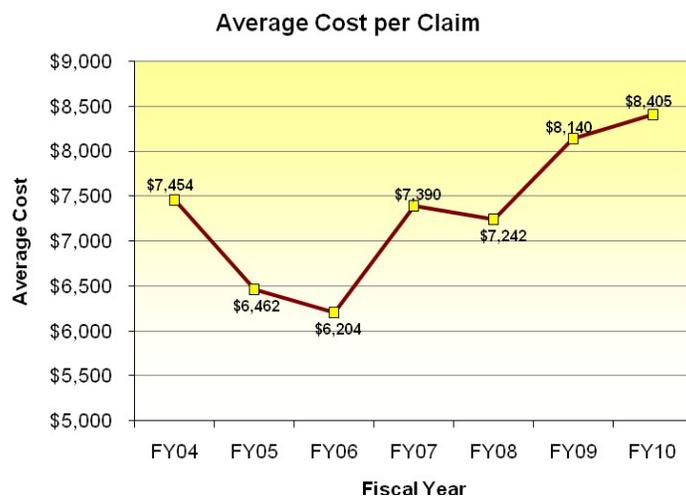
The loss rate per \$100 of payroll (losses/ (payroll/\$100)) for the last seven years is illustrated in Figure 5. Workers’ compensation reforms contributed to the decrease in the loss rate from FY 2003 to FY 2006. The loss rate has been steady the last three years as most of the cost savings from the reforms have been realized. There was a slight increase in FY 2010.

Figure 5: Loss Rate per \$100 of Payroll FY04 – FY10



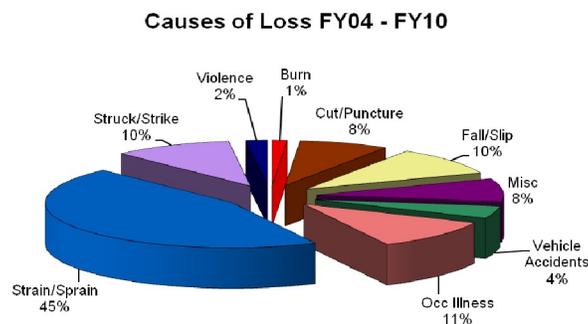
Workers' compensation reforms also contributed to the decrease in average cost per claim (estimated ultimate cost of claims/# of claims) from FY 2003 to FY 2006. The trend for average cost per claim has been increasing the last four years, as illustrated in Figure 6. Claim costs began increasing in FY 2007 as the cost savings from the workers' compensation reforms had been realized and medical (especially hospital costs) and pharmaceutical costs have been rising dramatically in recent years. For example, the California Workers' Compensation Institute reported that workers' compensation medical costs have increased over 25% the past four years.

Figure 6: Average Cost per Claim FY04 – FY10



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 24th Street Corporation Yard are designed to help reduce the number of strain and sprain injuries.

Figure 7: Causes of Loss FY04 – FY10



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 been increasing slightly the last three years which is consistent with the slight increase in claim severity.

Figure 8: Injury on Duty Hours

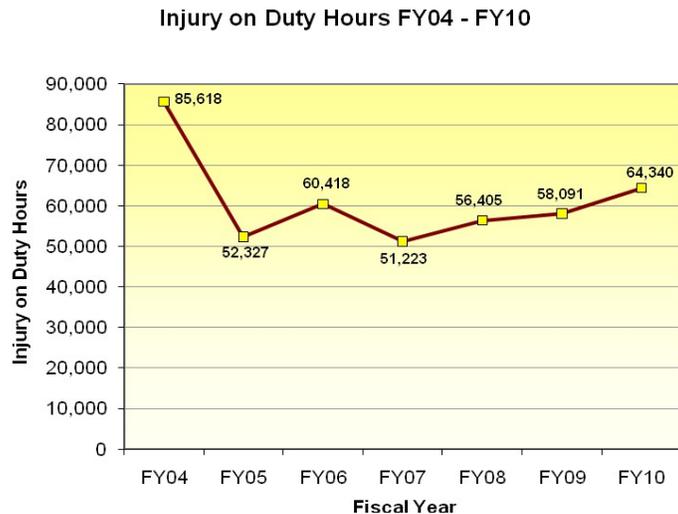


Figure 9 illustrates bill review savings from the City’s bill review vendor and reflects the amount workers’ compensation medical bills were reduced to comply with the workers’ compensation fee schedule as well as Preferred Provider Organization (PPO) savings. Bill review savings can increase dramatically with high medical costs for large or catastrophic injuries, which was the case in FY 2005 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 63% reduction in costs for all workers’ compensation bills processed.

Figure 9: Bill Review Savings

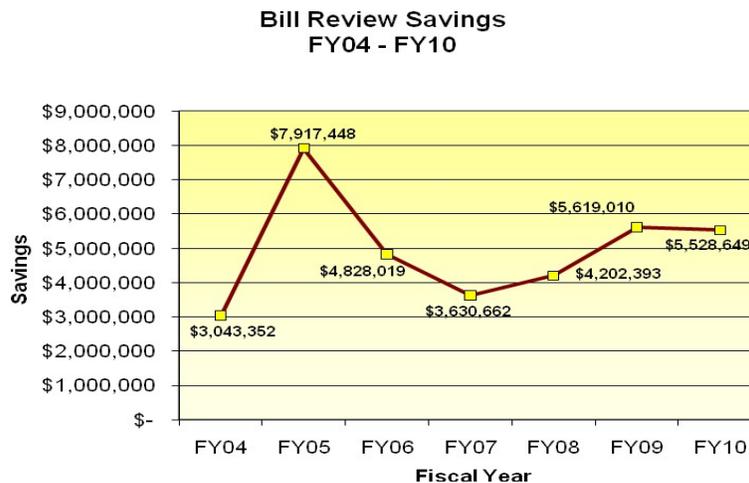


Figure 10 shows the percentage of workers' compensation claims filed in the last seven years broken down by Police, Fire and all other City Departments.

Figure 10: Percentage of Workers' Compensation Claims by Department

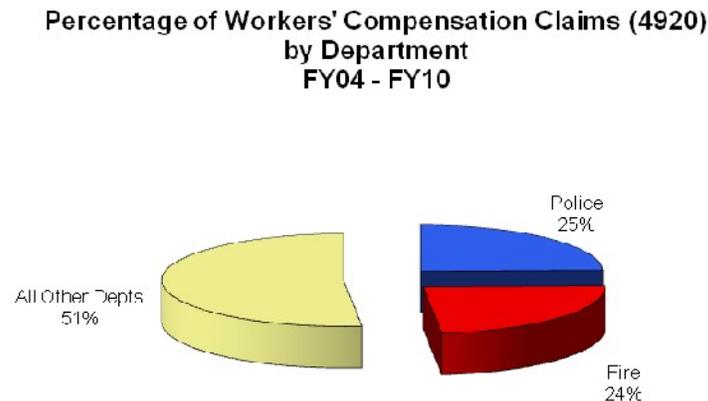
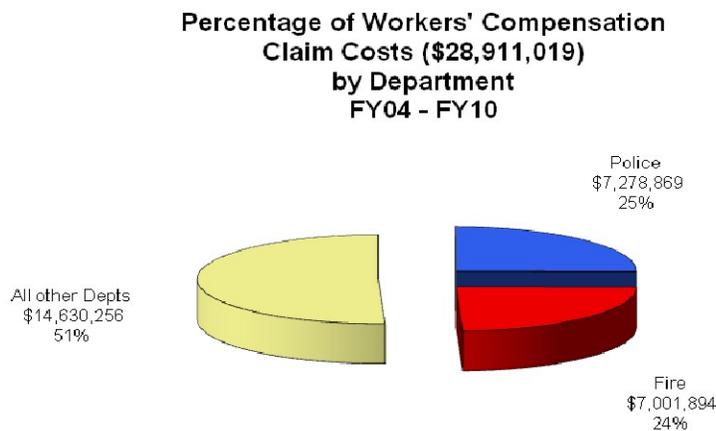


Figure 11 shows the percentage of costs paid for workers' compensation claims in the last seven years broken down by Police, Fire and all other City Departments. The number of claims filed per department and the costs per claim per department are the same, indicating that departments' claims costs are similar to their claim frequency.

Figure 11: Percentage of Workers' Compensation Cost by Department



Benchmarking

The data in Table 3 is taken from the annual reports that self-insured entities submit to the California 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, 2010 the City of Sacramento’s average cost per claim was 16% below the average. Additionally, the incident rate of claims for the City was 16% below the average. This shows the City of Sacramento has fewer claims than comparable cities and lower costs for the claims that do occur.

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

Workers' Compensation Benchmarking Data 3 Year Average

| | Average of 9 Medium to Large Cities * | City of Sacramento | Percentage Difference |
|---|---------------------------------------|--------------------|-----------------------|
| Average Cost Per Claim (Total paid losses '08 to '10)/(Total claims '08 to '10) | 8,278 | 6,964 | -16% |
| Incident Rate (Reported claims '08 to '10)/(Total employees '08 to '10) x 100 | 14.53 | 12.23 | -16% |

* Cites 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

- York represented the City of Sacramento at small claims court an average of one time per month and all decisions were decided in the favor of the City.
- A dedicated York adjuster was assigned to the Solid Waste Division due to their high claim frequency. Monthly meetings with the adjuster, loss prevention personnel and solid waste management were held to discuss open and pending claims.
- 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 in FY 2009 and open claims were further reduced to 234 in FY 2010.

General Liability Results

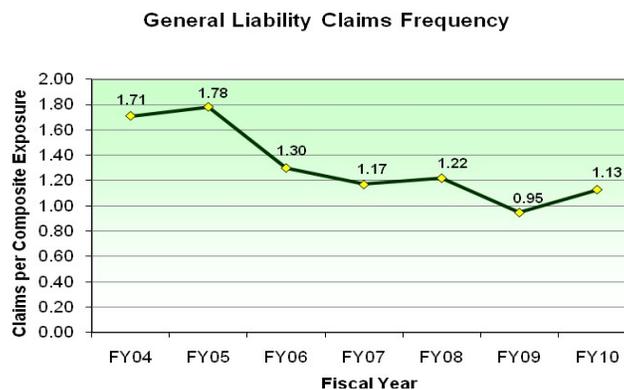
The following data is presented from the most recent actuarial report which was completed in September of 2010. Figure 12 shows the number of liability claims reported for the last seven years. The number of claims reported has been fairly steady over this time period, even as the City has grown.

Figure 12: Number of General Liability Claims Reported FY04 – FY10



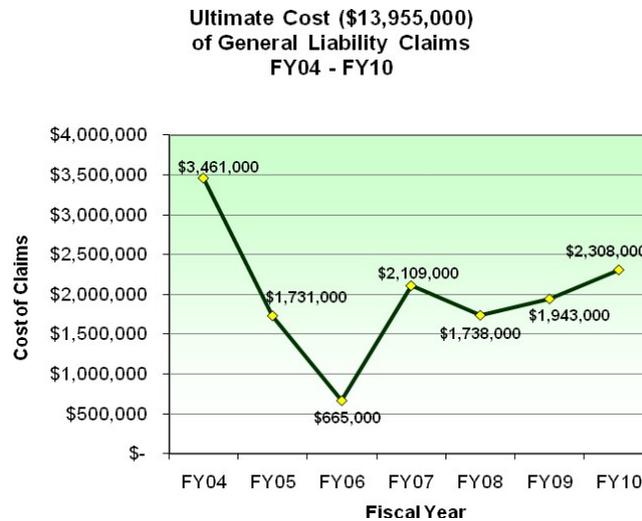
The claims frequency (# of claims/composite exposure which consists of population, budget, payroll, police payroll and FTEs/\$1,000,000) is illustrated in Figure 13. The rate has been steady the last four years.

Figure 13: General Liability Claims Frequency



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 in part by a wrongful death claim regarding allegations of a dangerous road condition and a claim against the Fire Department for medical care. 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.

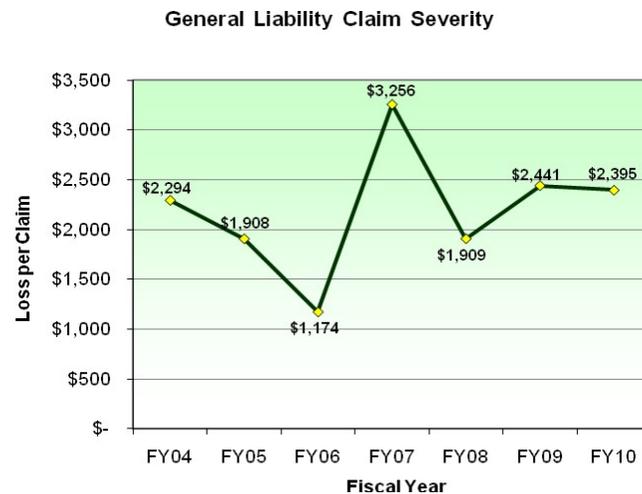
Figure 14: Estimation of Ultimate Cost of General Liability Claims FY04 – FY10



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. FY 2010 is slightly less than the prior years' number. FY 2007 showed a spike in severity primarily driven by 3 police claims with payments over \$100,000.

Figure 15: General Liability Claim Severity



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 remained stable the last three years and spiked in FY 2007 for the reasons discussed in Figure 15.

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

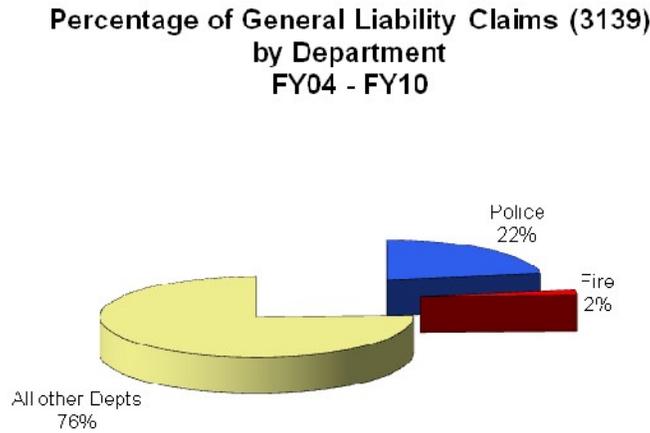
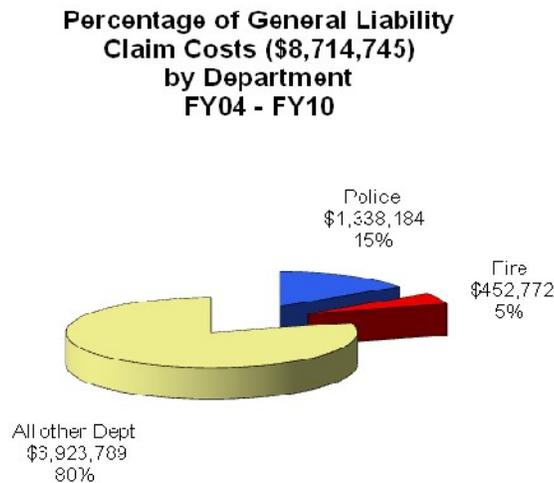


Figure 18 shows the percentage of costs paid for general liability claims in the last seven years broken down by Police, Fire and all other City Departments.

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 trended downward since FY 2003 with a slight increase in FY 2010.

Figure 19: Number of Auto Liability Claims Reported FY04 – FY10

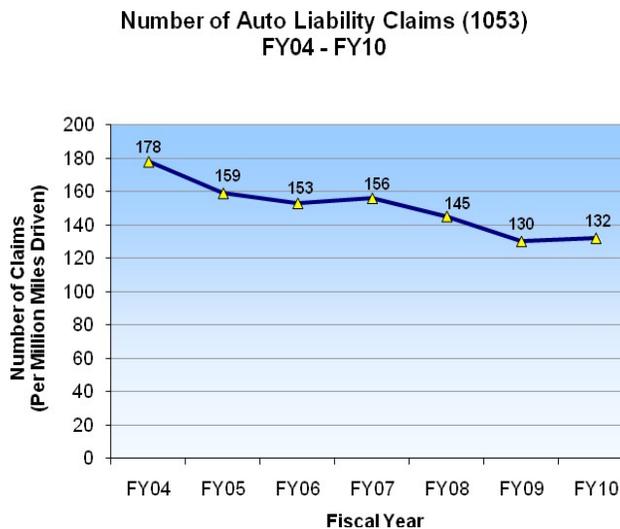
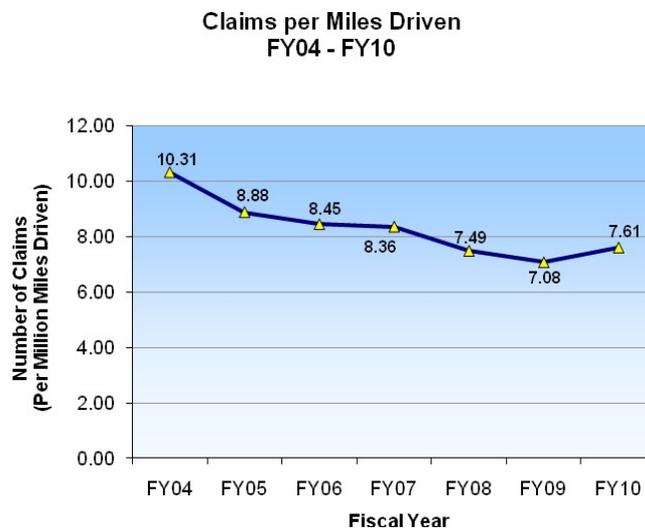


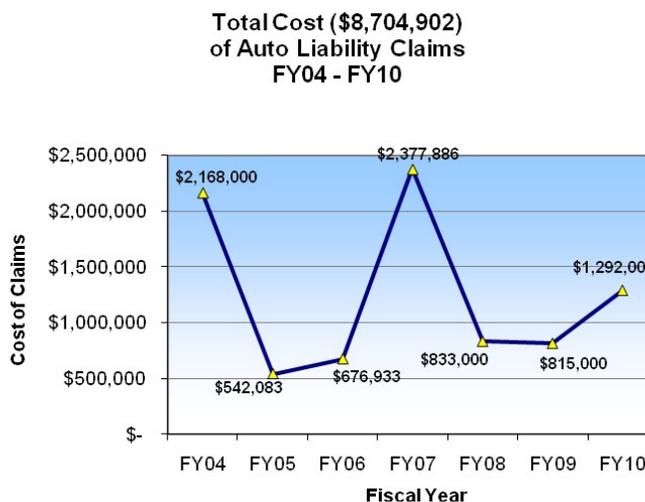
Figure 20 shows the number of auto liability claims per million miles driven (# of claims/ (miles driven/1,000,000). Claims have been trending lower since FY 2003. These favorable results are driven by the creation of the City Manager’s Vehicle Accident Accountability Review Board (discussed in greater detail in the Loss Prevention section of this report) and management’s commitment to reducing vehicle accidents. The number increased slightly in FY 2010.

Figure 20: Number of Auto Liability Claims per Million Miles Driven FY04 – FY10



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. Results in FY 2010 are higher than the prior year but our actual results have been less than the actuarial projections in recent years.

Figure 21: Total Cost of Auto Liability Claims FY04 – FY10



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 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 shows a similar trend to the auto liability claim severity rate.

Figure 23: Auto Liability Loss Rate



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

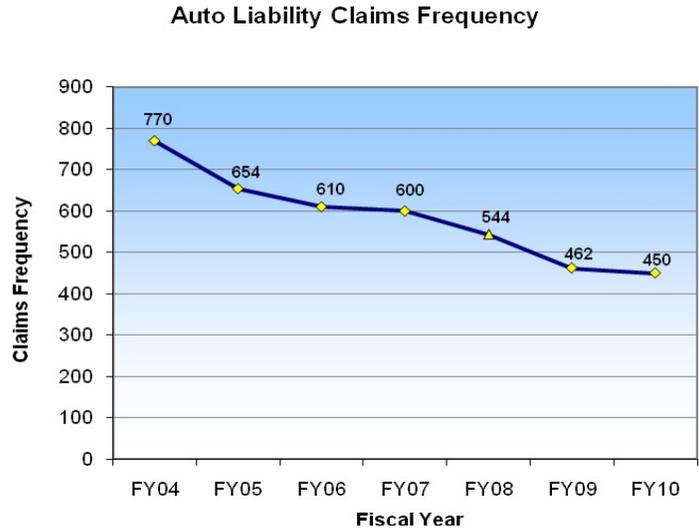


Figure 25 shows the percentage of auto liability claims filed against the City during the last seven years broken down by Police, Fire and all other City Departments.

Figure 25: Percentage of Auto Liability Claims by Department

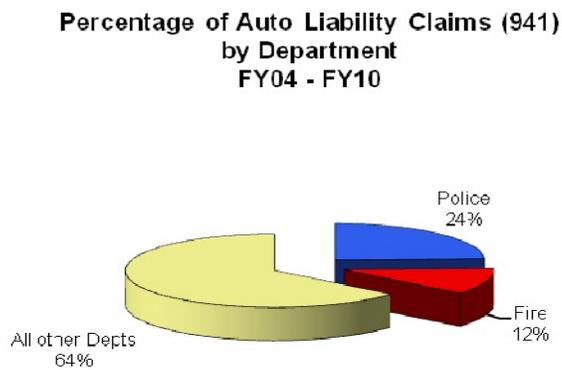
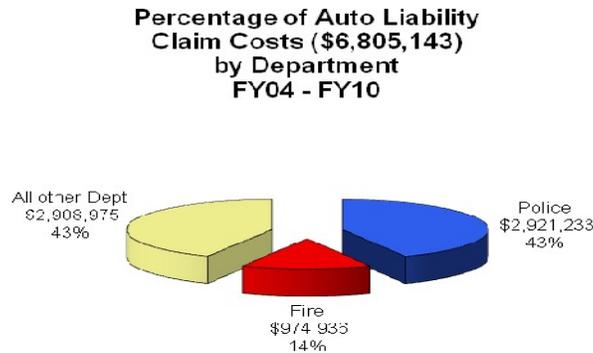


Figure 26 shows the percentage of costs paid for auto liability claims in the last seven years broken down by Police, Fire and all other City Departments. A large loss involving a police ride along injury in FY 2007 resulted in 43% of claim costs attributed to the Police Department.

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 FY 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 FY 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 Authority, which became operational in 2000, has contributed to the reduction in the number of auto accidents.

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 Similarly Sized California Cities | City of Sacramento | Percentage Difference |
|---|--|--------------------|-----------------------|
| Auto Liability Average Cost Per Claim (Total incurred losses '04 to '08)/(Total claims '04 to '08) | 6,315 | 6,687 | 6% |
| Auto Liability Average Cost Per Claim (Total incurred losses '04 to '08)/(Total claims '04 to '08) | 6,315 | 4,093* | -35%* |
| General Liability Average Cost Per Claim (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 both 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 2010 loss prevention activities include the following:

Training, Policies and Procedures

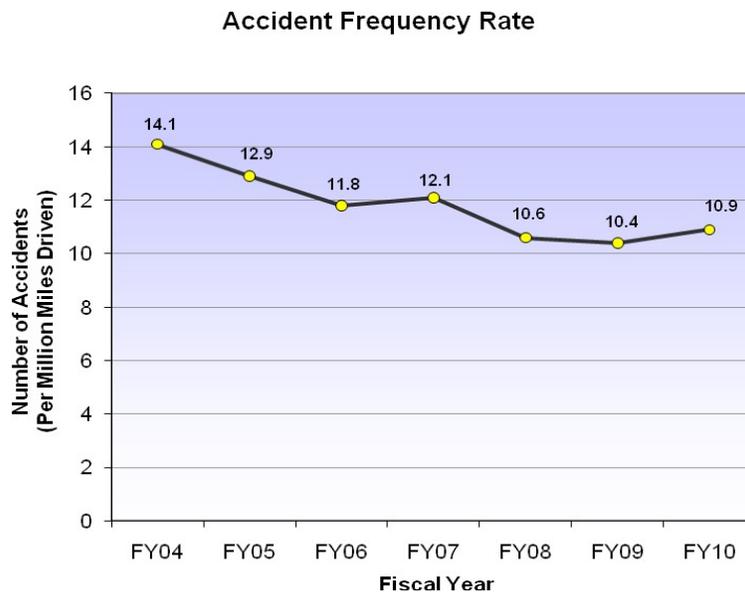
Effective training programs and written policies and procedures are important components in reducing losses. To this end, Environmental Health and Safety staff:

- Offered 23 safety, wellness and SMART classes through the now closed City University.
- Trained at the quarterly Supervisors' Academy sessions.
- Developed and implemented the Safety Certificate Program to encourage more employees to complete safety training.
- Facilitated compassion fatigue training for Animal Care staff.
- Trained approximately 150 Department of Utilities employees in field ergonomics classes tailored to their unique work activities to reduce sprain and strain injuries; field ergonomics was also taught for other smaller departments.
- Expanded the warm up program for employees at the Department of Utilities based on an analysis of injury claims.
- Introduced a voluntary program at the Golf Division to prevent sprain and strain injuries.
- Updated the City's Illness and Injury Prevention Program (IIPP) policy and procedures (AP-3601-PR-3601-01).
- Reviewed and updated written citywide regulatory compliance programs (RCPs) for industrial trucks (e.g., forklifts), fire prevention, bloodborne pathogens, hearing conservation, office safety and lead exposure control.
- Developed and implemented a new RCP for the City's Code of Safe Practices.
- Developed 16 tailgate training kits for supervisors to use to train their employees.
- Expanded polices, RCPs, forms and training materials available on the City's intranet website.
- Facilitated the upgrade and continuation of on-line training services for all City employees.
- Facilitated training for first responders using the Oil Spill Prevention and Recovery (OSPR) spill trailer secured by a Department of Fish and Game grant.
- Mentored two Sacramento State students as part of their internship program.

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 substantially since 2004, 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



In FY 2010, the City Manager’s Vehicle Accident Accountability Review Board approved revisions to API 42 which defines the Board’s role and responsibilities and implemented process improvements for reporting vehicle accident information. It was determined that employee recognition for safe driving is best accomplished at the department level and at the citywide Champions of Safety program.

Loss Prevention continues to provide staff support for business operations and program cost recovery at the Sacramento Regional Driver Training Authority (SRDTA). Classes include initial, refresher and remedial driver training. Driver training is important for compliance with Police Officers Standards and Training requirements, critical to safe emergency operations for the Fire Department and safe operation by commercial and frequent non-commercial drivers’ city wide. SRDTA also launched a new program called Drive Safe Sacramento which offers driver training to members of the public.



Driver training course

In FY 2010, SRDTA personnel trained: 387 City police officers, 376 City firefighters, 249 non-sworn City employees, 303 students from external agencies, 111 law enforcement academy candidates and 72 other miscellaneous participants. In addition, both rear and side-loaders were added to the SRDTA fleet to enhance job-specific training.

Consultation

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

- Completed 150 ergonomic evaluations.
- Conducted 259 random drug tests and 57 random alcohol tests for commercial drivers.
- Conducted 53 follow-up drug and 52 follow-up alcohol tests for employees on last-chance agreements.
- Assisted departments in implementing Manual of Uniform Traffic Control Devices (MUTCD) and Cal/OSHA requirements for working within the right-of-way.
- Organized a pilot program at Solid Waste for personal protective equipment vending machines.
- Completed an injury analysis for Solid Waste to compare injury statistics before and after they changed to a 4-10 work schedule.
- Worked with departments to streamline Safety Committee and Accident Review Committee processes.
- Continued to work with Workers' Compensation and departmental staff to increase availability of modified duty to reduce lost time for injured workers.
- Assisted the Fire Department in evaluation of risk of employee exposure related to a fire where friable asbestos was a concern.
- Supported the reclassification of confined space classifications at the two water treatment plants.
- Conducted two illumination studies.
- Completed three studies to assess employee exposure to welding fumes.
- Completed the biennial fall protection equipment inspections.

Environmental

Environmental regulatory compliance activities included the following:

- Continued support of 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.
- Arranged for the proper disposal of approximately 4,300 pounds of abandoned hazardous waste.
- Conducted asbestos and lead sampling as needed throughout the City as requested by Facilities prior to remodeling.
- Administered a grant from DTSC to cover the cost of abandoned tire disposal.



Environmental Health and Safety staff conducts HazMat sampling

Support Services

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

- Monitored contractor and vendor compliance with City contract insurance requirements.
- Provided support for the special events insurance program, insurance renewals and liability claims administration.
- Scheduled pre-employment, non-industrial return-to-work and specialty physical exams in accordance with City policy.

Special Projects

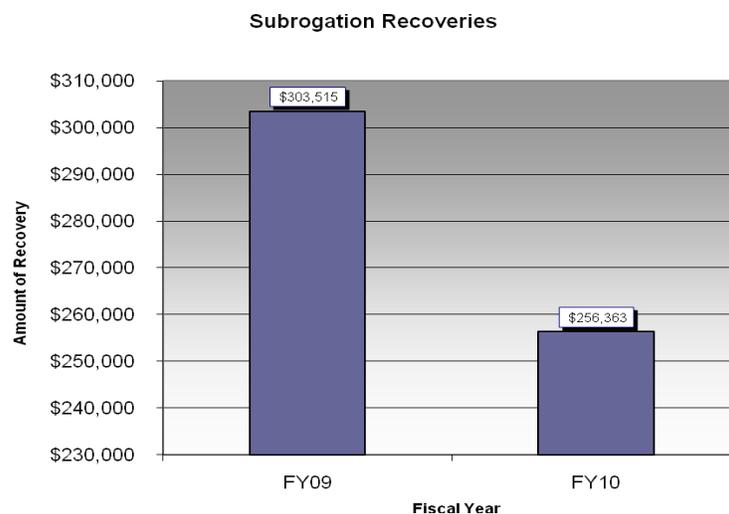
Risk management staff meets with leadership teams from the operating departments annually to identify priority initiatives. Many of these risk initiatives are accomplished through the collaborative efforts of Loss Prevention and departmental staff. Fifty three loss prevention initiatives were completed in FY 10.

| | |
|----------------------------------|----|
| Training | 24 |
| Equipment or Process Improvement | 11 |
| Policy or Procedure Development | 8 |
| Non-Industrial Medical | 3 |
| Loss Analysis | 3 |
| Wellness | 2 |
| Ergonomics | 2 |

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 cause damage 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. Subrogation recoveries were down in FY 2010 partially due to subrogation personnel shifting their efforts to other duties caused by staff reductions. Subrogation efforts will be increased in FY 2011.

Figure 28: Subrogation Recoveries



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

FISCAL YEAR 2011 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.
- Continue with the implementation of the three-year risk management strategic plan.
- Provide access to the certificate of insurance monitoring system to interested City personnel. 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 reviewable 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 Authority.
- 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.