



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
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Meeting Date: 6/12/2012

Report Type: Consent

Title: Risk Management 2011 Annual Report

Report ID: 2012-00527

Location: Citywide

Recommendation: Receive and File

Contact: Geri Hamby, Director of Human Resources, (916) 808-7173, Patrick Flaherty, Risk Manager, (916) 808-8587, Human Resources Department

Presenter:

Department: Human Resources

Division: Risk Management Admin

Dept ID: 08001311

Attachments:

1-Description/Analysis

2-FY2011 Risk Management Annual Report

City Attorney Review

Approved as to Form
Brett Witter
6/7/2012 9:56:08 AM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
5/29/2012 9:17:16 AM

Approvals/Acknowledgements

Department Director or Designee: Geri Hamby - 6/5/2012 4:25:41 PM



Description/Analysis

Issue: Present the 2011 Human Resources Department, Division of 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 to the City Council.

Financial Considerations: None

Emerging Small Business Development (ESBD):

Human Resources Department Division of Risk Management Annual Report

Fiscal Year Ending June 30, 2011



City of Sacramento

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On the Cover: View of City Hall from Cesar Chavez Park

EXECUTIVE SUMMARY

The Risk Management Division of the Human Resources Department is pleased to present this Risk Management Annual Report for Fiscal Year 2011.

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 by \$644,528 or two percent in FY 2011, from \$28,017,912 in FY 2010 to \$27,373,384 in FY 2011.

There were no changes in insurance coverage or limits from the prior year. Total insurance premium costs decreased one percent in FY 2011, from \$2,217,968 in FY 2010 to \$2,199,521 in FY 2011. Excess liability insurance premiums decreased point six percent or \$5,553, from \$837,001 in FY 2010 to \$831,448 in FY 2011. Property insurance rates decreased slightly in FY 2011 but the increase in property values resulted in a slight premium increase of just over one percent, from \$835,300 to \$847,601. Excess workers' compensation insurance premiums increased three percent or \$13,951, from \$407,521 in FY 2010 to \$421,472 in FY 2011.

There were sixty one fewer workers' compensation claims in FY 2011, a decrease of nine percent. The average cost per claim also decreased by \$525, a decrease of five percent. These decreases are encouraging considering the California Workers' Compensation Institute recently reported that public entity claim frequency and severity rates rose in FY 2011. 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, sprains and strains prevention training and field ergonomics classes were presented to City staff in FY 2011. 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 with a decrease in FY 2011. The general liability severity rate (cost of claims) increased in FY 2011 due to prior years' losses developing greater than anticipated in the prior actuarial report. Risk Management and the City's third party claim's administrator, York Insurance Services Group – California (York), 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 2011. The automobile liability severity rate (cost of claims) was lower in FY 2011 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 that the City is 30 percent lower than the average workers' compensation claim costs and 41 percent 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. In a comparison of ten similar sized cities the City of Sacramento has the second lowest severity rate and the lowest loss rate.

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 2012 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 workers' compensation, general liability, and auto liability claims and purchases excess

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. Cyber liability coverage was recently added to our property insurance program.

LIABILITY

Excess liability insurance includes coverage for the following risks: general liability, automobile liability, public officials' errors and omissions liability, unfair employment practices liability, and employee benefits liability. All coverage is on an occurrence basis. Excess liability limits remain at \$30,000,000 with a self-insured retention of \$2,000,000. Excess liability insurance premiums decreased point six percent or \$5,553, from \$837,001 in FY 2010 to \$831,448 in FY 2011. 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 2011 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 increased three percent or \$13,951 from \$407,521 in FY 2010 to \$421,472 in FY 2011. 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 99 percent of the counties and 60 percent 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 \$1,624,447,243, an increase of two percent or \$31,812,923 over last year's values of \$1,592,634,320. Insurable values increased primarily due to minor trend increases in the property market for replacement values. Property insurance rates decreased slightly in FY 2011 but the minor increase in property values resulted in a slight premium increase of just over one percent from \$835,300 to \$847,601. The property policy contains a \$100,000 deductible

with coverage limits of \$1,000,000,000. Coverage limits are shared with other PEPiP 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 previously referenced, in FY 2011 the City purchased the following insurance:

- Fine arts insurance with limits of \$100,000,000. The insurance limits were raised from \$50,000,000 in FY 2010 to \$100,000,000 in FY 2011 due to the increased exposure from the Crocker Museum expansion. Coverage is provided for the Crocker Art Museum, Discovery Museum, and Sacramento Archives & Museum Collection Center. Any other City owned art or 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 three years and provides a total cost of insurance by year at the bottom of the table. Total insurance premiums decreased \$18,447 in FY 2011. Information for FY 2012 is also included as these insurance policies have already been purchased.



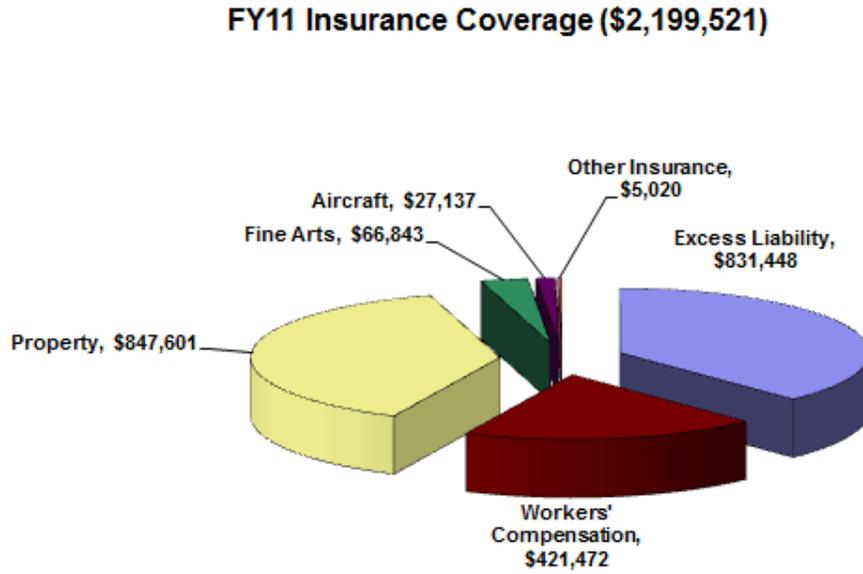
Crocker Art Museum

Table 1: Schedule of Insurance

SCHEDULE OF INSURANCE					
<i>Fiscal Year</i>	<i>Self Insured Retention</i>	<i>Policy Limits</i>	<i>Premium</i>	<i>Carrier</i>	
Excess Liability					
FY12	2,000,000	30,000,000	863,286	Security National, Starr Indemnity	
FY11	2,000,000	30,000,000	831,448	Everest, American Merchants	
FY10	2,000,000	30,000,000	837,001	Everest, American Merchants	
Total			2,531,735		
Workers' Compensation					
FY12	2,000,000	Statutory	381,043	CSAC EIA	
FY11	2,000,000	Statutory	421,472	CSAC EIA	
FY10	2,000,000	Statutory	407,521	CSAC EIA	
Total			1,210,036		
Property					
FY12	100,000	1,000,000,000	909,590	PEPIP	
FY11	100,000	1,000,000,000	847,601	PEPIP	
FY10	100,000	1,000,000,000	835,300	PEPIP	
Total			2,592,491		
Fine Arts					
FY12	10,000	100,000,000	54,522	Ace American Ace American	
FY11	10,000	100,000,000*	66,843	* Limits increased due to Crocker expansion.	
FY10	1,000	50,000,000	48,101	Ace American	
Total			169,466		
Aircraft					
FY12	Varies	20,000,000	24,437	Old Republic	
FY11	Varies	20,000,000	27,137	Old Republic	
FY10	Varies	20,000,000	30,151	Old Republic	
Total			81,725		
Other Insurance <i>Includes pollution, crime, airport and bounce house insurance</i>					
FY12			15,877		
FY11			5,020 *	* Lower premiums in 2011 due to prepaid insurance policies in prior years.	
FY10			59,894		
Total			80,791		
Total Insurance					
FY12			2,248,755		
FY11			2,199,521		
FY10			2,217,968		
Total			6,666,244		

Figure 2 shows the cost breakdown by the various types of insurance purchased in FY 2011 with a total cost of \$2,199,521.

Figure 2: FY11 Insurance Coverage



Top Row: DOT Parking Enforcement; Fire training burn
Bottom Row: Police cadet training; Animal Care Services

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 to budget 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 five 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 outstanding liabilities increased \$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 in FY 2010 was \$3,174,000. In FY 2011, outstanding liabilities for workers’ compensation claims increased \$4,648,000. This increase was driven primarily by adverse development in older years’ claims, primarily FYs 2002, 2004, and 2005. Outstanding liability for general and auto liability claims increased \$750,000. This was primarily a result of an adverse jury verdict in a FY 2008 dangerous condition of public property claim regarding a pedestrian who was struck by a vehicle in a city crosswalk.

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	As of June 30, 2011		Difference Between FY 2010-11
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 Liability for Outstanding Claims	\$39,632,000	\$4,648,000
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)	Estimated Ultimate Cost of Claims for FY 2011-12	\$8,654,000	\$484,000
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 Outstanding Liability for Outstanding Claims	\$12,830,000	\$750,000
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)	Estimated Ultimate Cost of Claims for FY 2011-12	\$6,892,000	\$1,792,000
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 Liability for Outstanding Claims	\$52,462,000	\$5,398,000
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)	Total Estimated Ultimate Cost of Claims for FY 2011-12	\$15,546,000	\$2,276,000

FISCAL YEAR 2011 RESULTS

Workers' Compensation

The City of Sacramento has self-insured workers' compensation claims since 1981 and has self-administered 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 nine percent. However, new claims decreased by 61 in FY 2011, or nine percent. The average cost per claim increased 15 percent in FY 2010 due primarily to increases in medical costs. These increases are similar to increases experienced by 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 percent during the past four years. However, the average cost per claim decreased \$526 in FY 2011, or five percent.

Accomplishments

The workers' compensation unit was audited in January 2011 by AON, a CSAC Excess Insurance Authority consultant. The AON audit showed that workers' compensation benefits are effectively provided to employees consistent with best industry practices. The audit score of 92% was a satisfying accomplishment.

Prior to the audit, the unit was reorganized to provide City departments with dedicated claims adjusters to handle their claims. Use of dedicated resources ensures consistency in customer service, claims handling practices, and early identification of injury trends and loss control opportunities.

Other accomplishments include the following:

- A total of 664 new workers' compensation claims were opened during FY 2011. Sixty per cent of the claims were medical only while 40 percent of the claims were lost time or indemnity claims.
- The City's workers' compensation program continues to enjoy success with the Pharmacy Benefit Management (PBM) program. This program manages drug formularies and achieves savings on pharmacy costs by providing oversight on the types of drugs and frequency of prescriptions to injured workers to assure that they are appropriate to the industrial injury. Doctors are notified when prescribing patterns meet criteria that indicate excessive use of prescription drugs. The use of a PBM resulted in savings of \$11,513 and conversion to generic drug use is 98 percent.
- Internal and external utilization review practices continue to be applied including case management by assigned nurse case managers. These nurses help coordinate medical care involving serious injuries and assist with the City's return to work program.

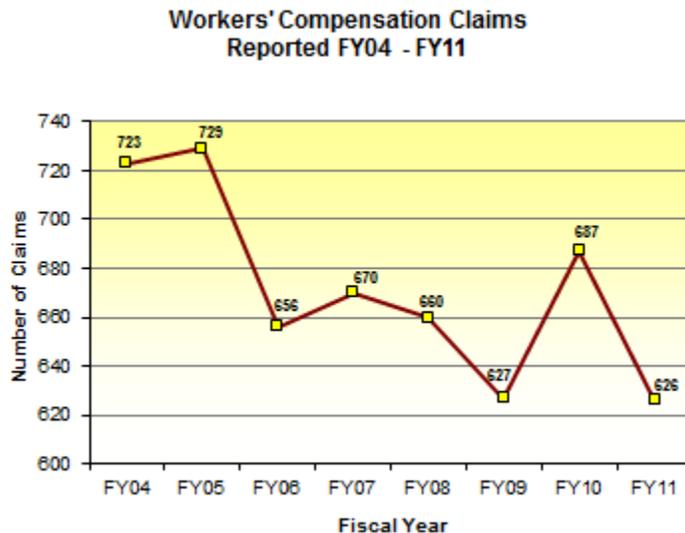
- Claim staff and department supervisors attend regularly scheduled meetings to review open and potential workers' compensation claims. The meeting frequencies were determined by the frequency and severity of the department's claims.
- A total of fifty four interactive process meetings with injured workers and their departments were conducted to facilitate the injured workers' return to work and identify reasonable accommodation opportunities.
- Job descriptions for departments with higher frequency of injuries were reviewed and updated. The updated job descriptions assist the doctors in making a determination regarding an injured worker's ability to physically perform the essential functions of his/her job.
- Recoveries from subrogation and excess insurance carrier programs totaled \$174,733.
- Bill review fees yielded 59 percent in savings with a return in investment of 41 percent. Total dollars saved were \$5,235,286.
- A total of 139 claims were finalized last fiscal year.

Workers' Compensation Results

The following data is presented from the most recent actuarial report which was completed in September of 2011.

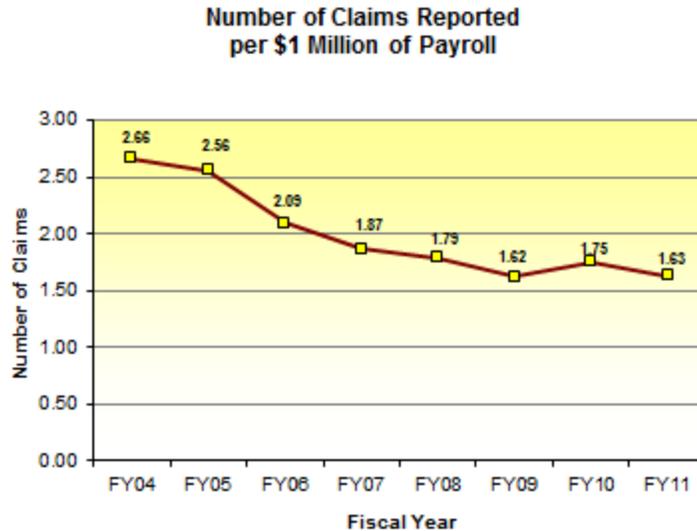
Figure 3 shows the number of workers' compensation claims reported for the last eight years. Claims decreased by 61 in FY 2011, or nine percent.

Figure 3: Workers' Compensation Claims Reported FY04 – FY11



The number of claims reported per \$1 million of payroll (# claims/ (payroll/\$1,000,000)) for the last eight years is illustrated in Figure 4. This number has decreased each of the previous six years but increased slightly in FY 2010. The number slightly decreased in FY 2011.

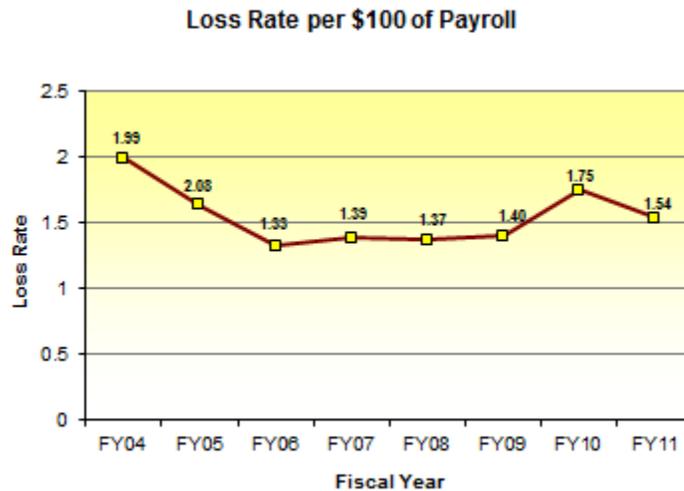
Figure 4: Number of Claims Reported per \$1 Million of Payroll FY04 – FY11



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 eight 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 with a decrease in FY 2011.

Figure 5: Loss Rate per \$100 of Payroll FY04 – FY11



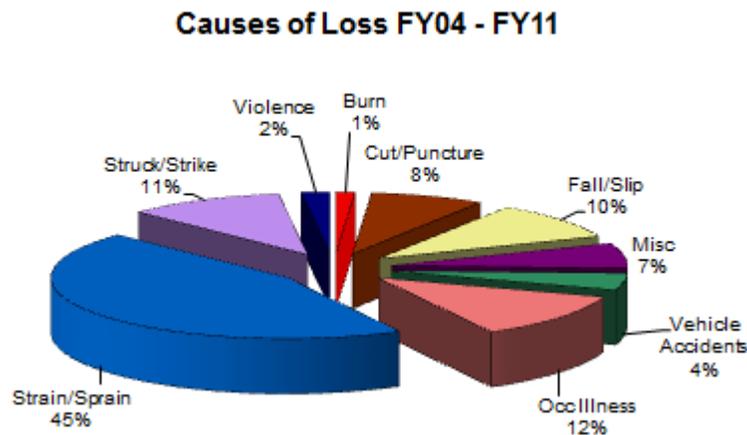
Workers' compensation reforms also contributed to the decrease in average cost per claim (estimated ultimate cost of claims/# of claims) from FY 2003 to FY 2006. The trend for average cost per claim has been increasing over the last four years, as illustrated in Figure 6. Claim costs began increasing 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. For example, the California Workers' Compensation Institute reported that workers' compensation medical costs have increased over 25 percent during the past four years. However, the average cost per claim decreased in FY 2011.

Figure 6: Average Cost per Claim FY04 – FY11



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 utilization 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 – FY11



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 in recent years which is consistent with the slight increase in claim severity. However, there was a decrease in injury on duty hours in FY 2011.

Figure 8: Injury on Duty Hours

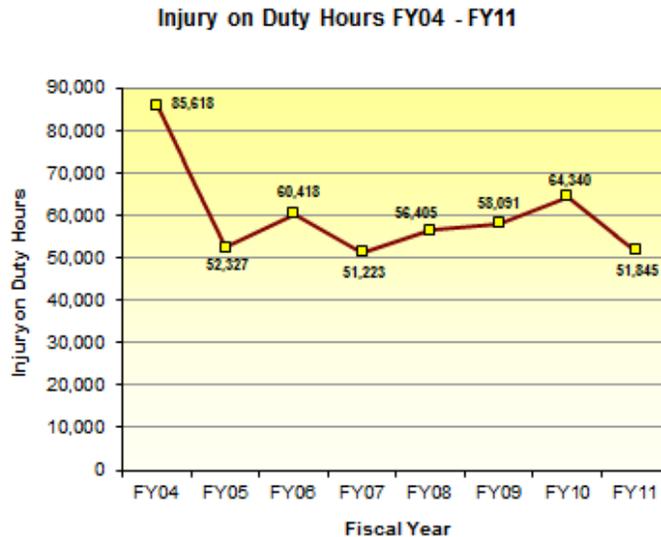


Figure 9 illustrates bill review savings from the City’s bill review vendor and reflects the amount workers’ compensation medical bills were reduced to comply with the workers’ compensation fee schedule as well as Preferred Provider Organization (PPO) savings. Bill review savings can increase dramatically 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 59 percent reduction in costs for all workers’ compensation bills processed.

Figure 9: Bill Review Savings

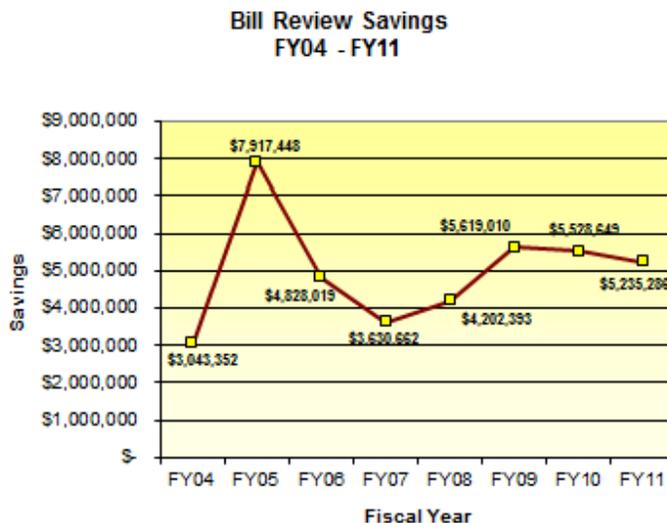


Figure 10 shows the percentage of workers' compensation claims filed in the last eight years broken down by Police, Fire and all other City Departments.

Figure 10: Percentage of Workers' Compensation Claims by Department

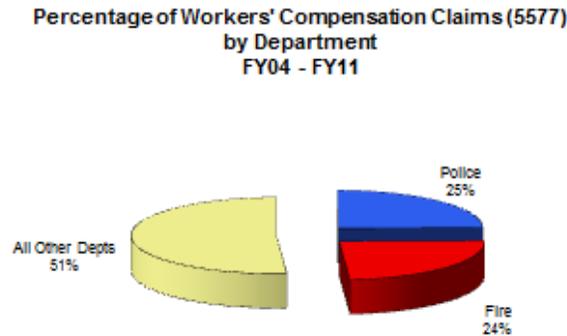
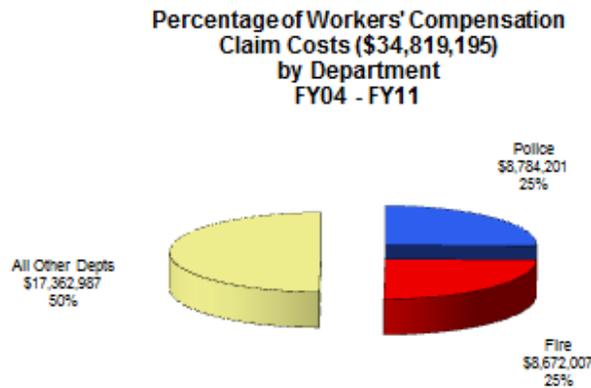


Figure 11 shows the percentage of costs paid for workers' compensation claims in the last eight years broken down by Police, Fire and all other City Departments. The number of claims filed per department and the costs per claim per department are similar, indicating that departments' claims costs are 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 30 percent below the average. Additionally, the incident rate of claims for the City was 41 percent below the average. This shows the City of Sacramento has far 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 for FY11

	Average of 9 Medium to Large Cities *	City of Sacramento	Percentage Difference
Average Cost Per Claim (Total paid losses)/(Total claims)	\$9,554	\$6,642	-30%
Incident Rate (Reported claims)/(Total employees) x 100	30.90	18.12	-41%

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

Additional benchmarking information was received from the firm that provides actuarial services for the City’s Risk Management Division. In a comparison of ten similar sized cities the City of Sacramento has the second lowest severity rate and the second lowest loss rate. The City’s severity rate for workers’ compensation claims was 37 percent below the average and the loss rate was 45 percent below the average.

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

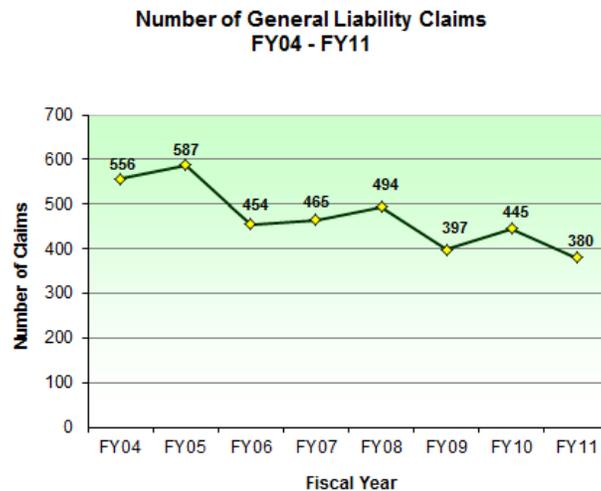
- A new liability claims adjusting system was introduced providing more information and enhanced access for claims and city personnel. This is the first step in moving to a paperless claims process.
- York represented the City of Sacramento at Small Claims Court 11 times and all decisions were decided 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. The number of open claims in FY 2011 was up slightly to 236.

General Liability Results

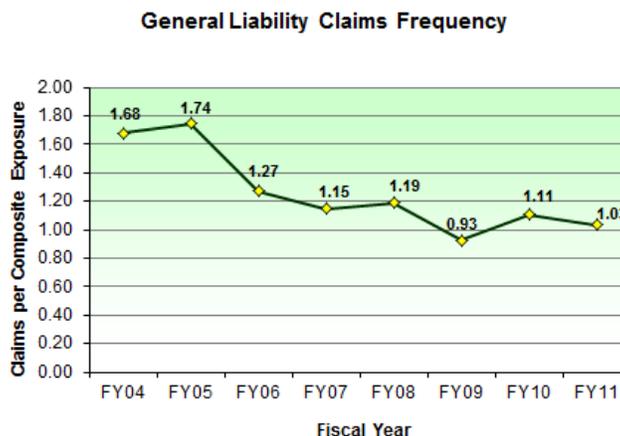
The following data is presented from the most recent actuarial report which was completed in September of 2011. Figure 12 shows the number of liability claims reported for the last eight years. The number of claims reported has been decreasing over this time period, even as the City has grown.

Figure 12: Number of General Liability Claims Reported FY04 – FY11



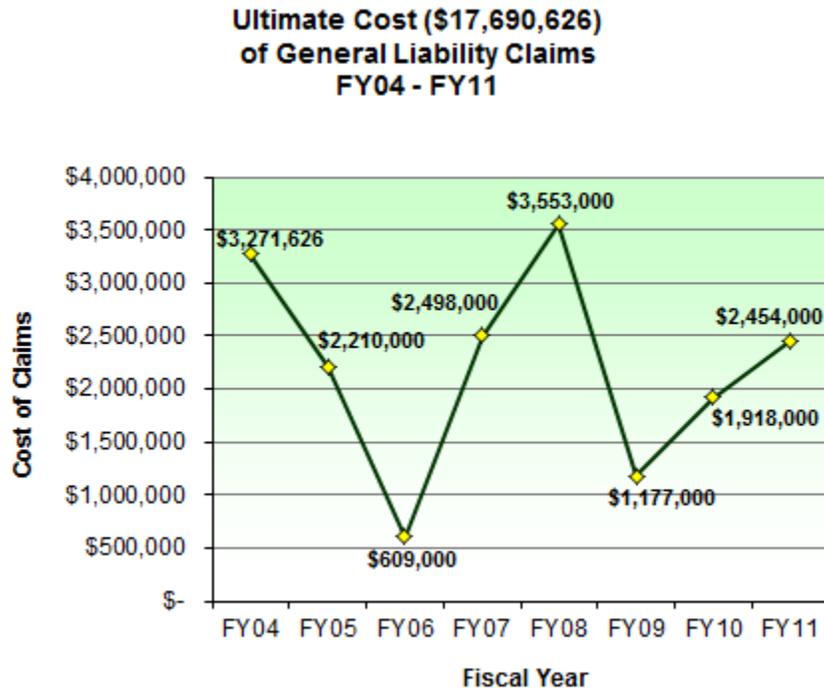
The claims frequency (# of claims/composite exposure which consists of population, budget, payroll, police payroll, and FTEs/\$1,000,000) is illustrated in Figure 13. The rate has been steady the last five years.

Figure 13: General Liability Claims Frequency



The ultimate cost of general liability claims for the last eight 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 four years include allegations of the following: falling trees or tree limbs, dangerous condition of public property, property damage from water main break, and police civil rights violations. Estimated costs are higher in FY 2011 due to prior years' losses developing greater than anticipated in the prior actuarial report.

Figure 14: Estimation of Ultimate Cost of General Liability Claims FY04 – FY11

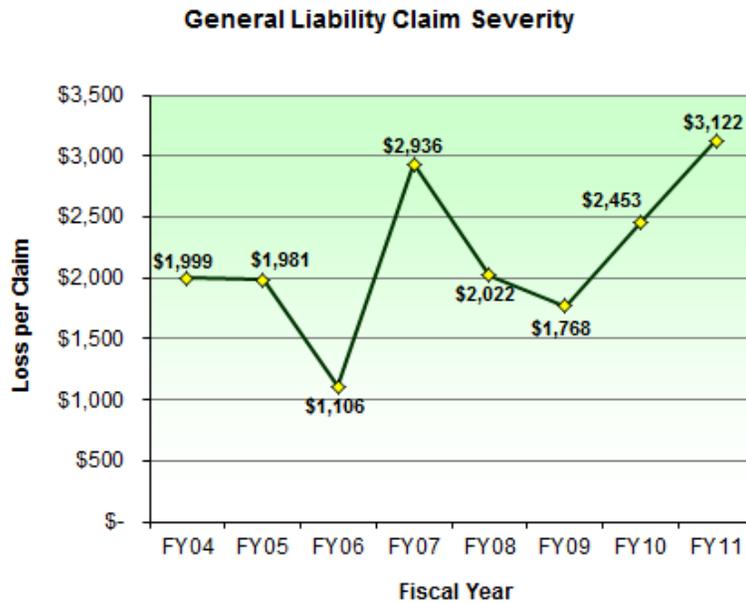


The data in the next three graphs limits claims to \$100,000 per occurrence to provide more stable trending information and avoid skewing of the data due to a large loss.

The claim severity (ultimate losses/# of claims) is depicted in Figure 15. The trend in costs is increasing due to prior years' losses developing more than anticipated in the prior actuarial report.

FY 2007 showed a spike in severity primarily driven by three 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 increased in recent years and spiked in FY 2007 for the reasons discussed in Figure 15.

Figure 16: General Liability Loss Rate

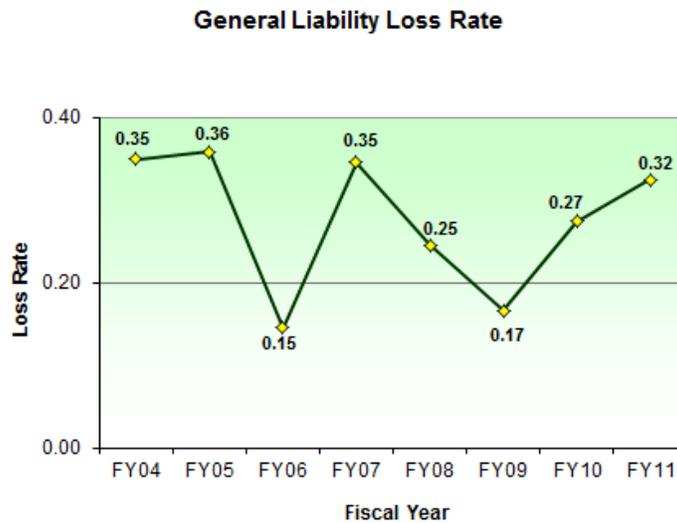


Figure 17 shows the percentage of general liability claims filed against the City during the last eight years broken down by Police, Fire, and all other City Departments.

Figure 17: Percentage of General Liability Claims by Department

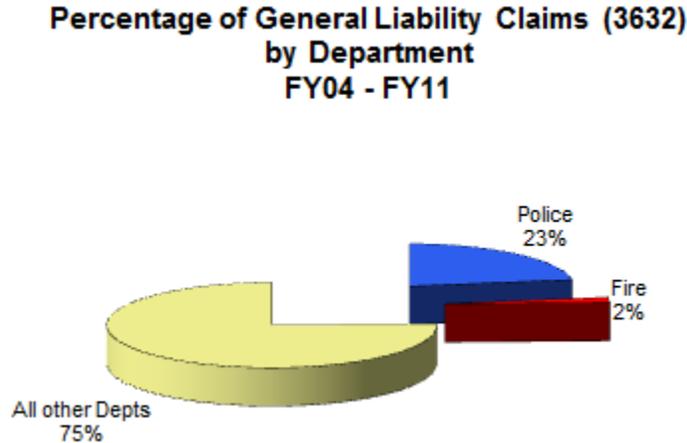
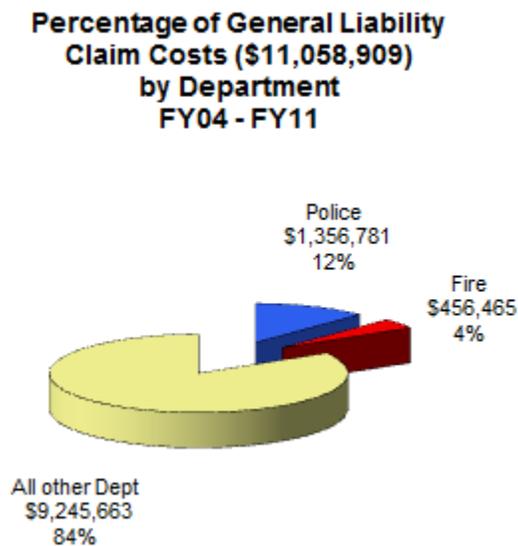


Figure 18 shows the percentage of costs paid for general liability claims in the last eight years broken down by Police, Fire, and all other City Departments.

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 eight years. The number of claims filed has trended downward since FY 2004 with a slight increase in FY 2011.

Figure 19: Number of Auto Liability Claims Reported FY04 – FY11

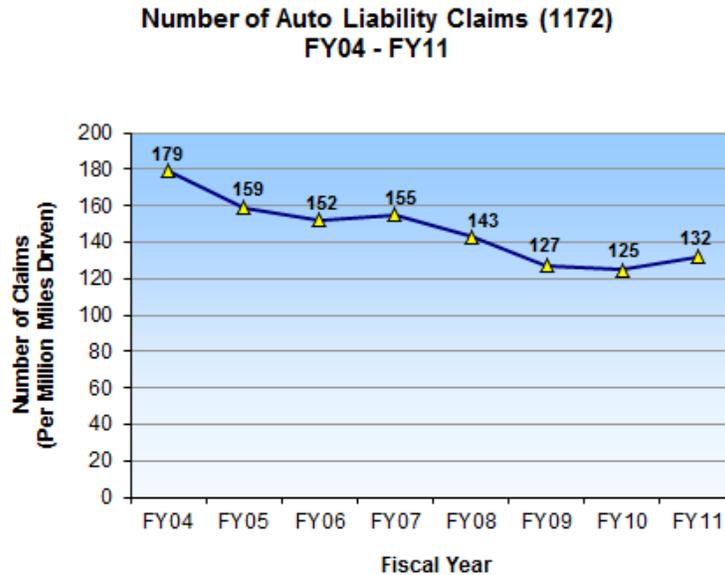
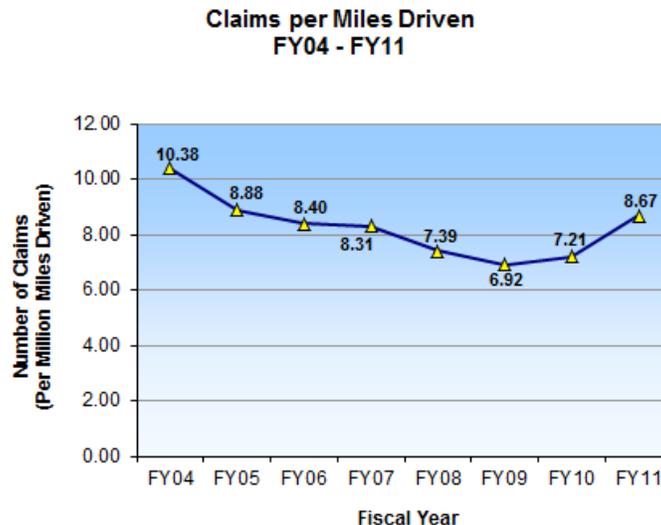


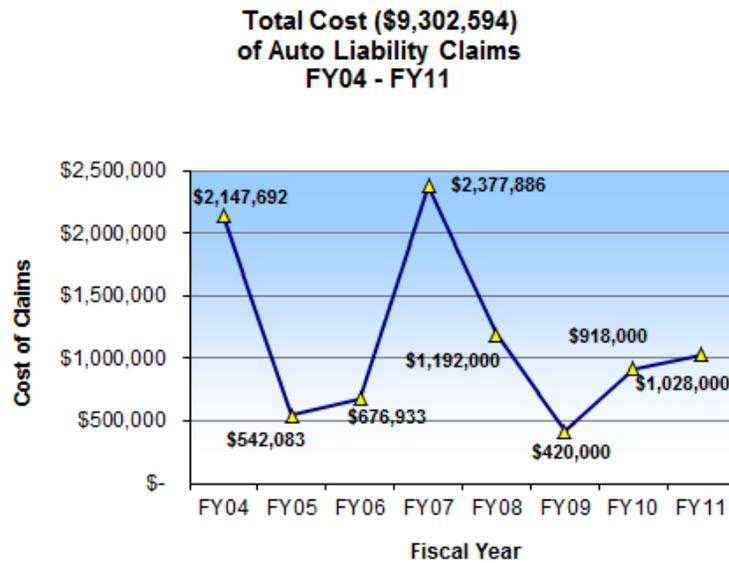
Figure 20 shows the number of auto liability claims per million miles driven (# of claims/(miles driven/1,000,000)). Claims have been trending lower since FY 2004. These favorable results are driven by the creation of the City Manager’s Vehicle Accident Accountability Review Board (discussed in greater detail in the Loss Prevention section of this report) and management’s commitment to reducing vehicle accidents. The number increased slightly in FY 2011.

Figure 20: Number of Auto Liability Claims per Million Miles Driven FY04 – FY11



The ultimate cost of auto liability claims for the last eight 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 and FY 2011 are higher than the prior year but actual results have been less than the actuarial projections in recent years.

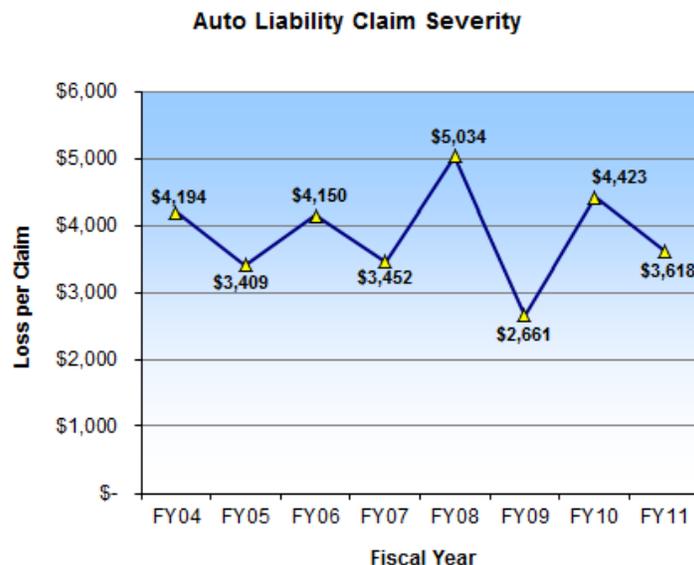
Figure 21: Total Cost of Auto Liability Claims FY04 – FY11



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.

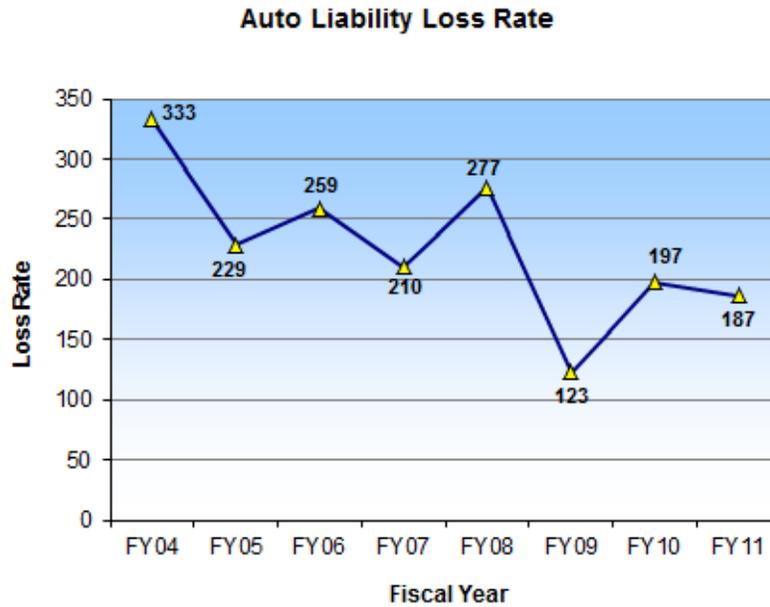
The claim severity (ultimate losses/# of claims) is depicted in Figure 22.

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 decrease 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 with a slight increase in FY 2011.

Figure 24: Auto Liability Claims Frequency

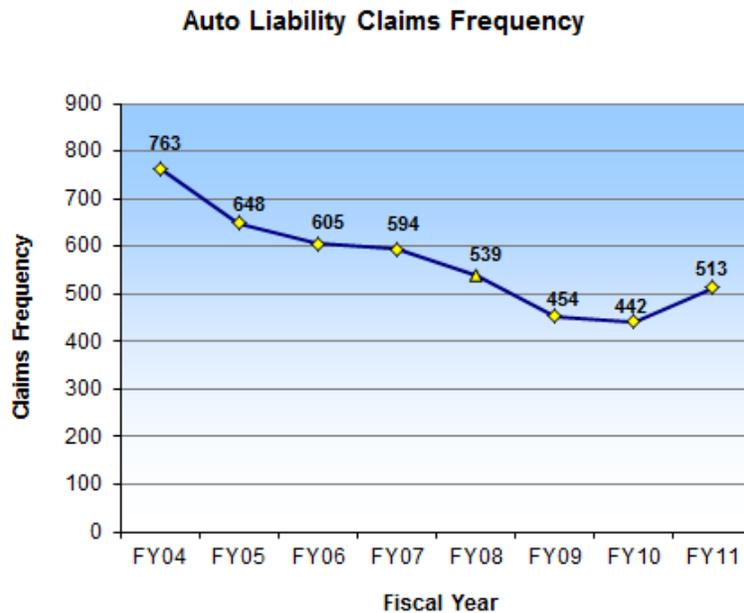


Figure 25 shows the percentage of auto liability claims filed against the City during the last eight years broken down by Police, Fire, and all other City Departments.

Figure 25: Percentage of Auto Liability Claims by Department

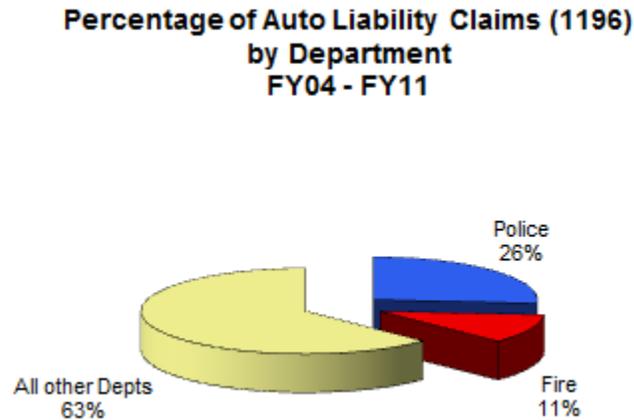
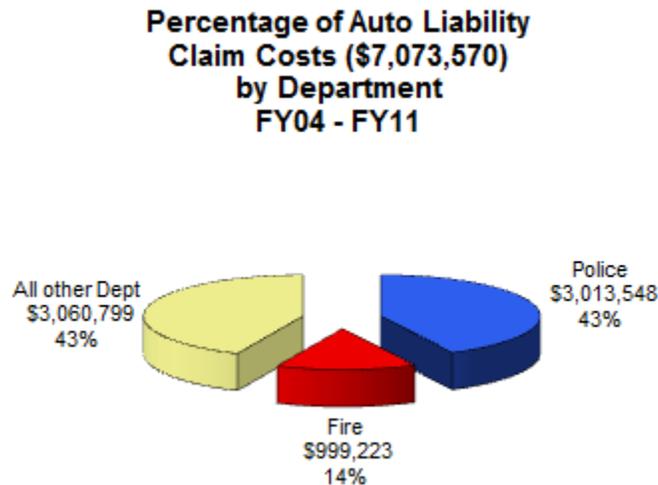


Figure 26 shows the percentage of costs paid for auto liability claims in the last eight years broken down by Police, Fire, and all other City Departments. A large loss involving a police ride along injury in FY 2007 resulted in 43 percent of claim costs attributed to the Police Department.

Figure 26: Percentage of Auto Liability Claim Costs by Department



Benchmarking

Benchmarking information was received from the firm that provides actuarial services for the City's Risk Management Division. In a comparison of ten similar sized cities the City of Sacramento has the second lowest severity rate and the lowest loss rate for general and automobile liability claims. The City's severity rate for general and auto liability claims was thirty three percent below the average and the loss rate was 57 percent below the average.

Additional benchmarking information was provided by the City's insurance broker. In a comparison of five similar sized cities the City of Sacramento's average cost per claim was the lowest and 46 percent lower than the average costs per claim of the other five cities. The City of Sacramento's average cost per claim was \$4,436 and the average cost per claim for the five cities was \$8,231.

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 2011 loss prevention activities include the following:

Training

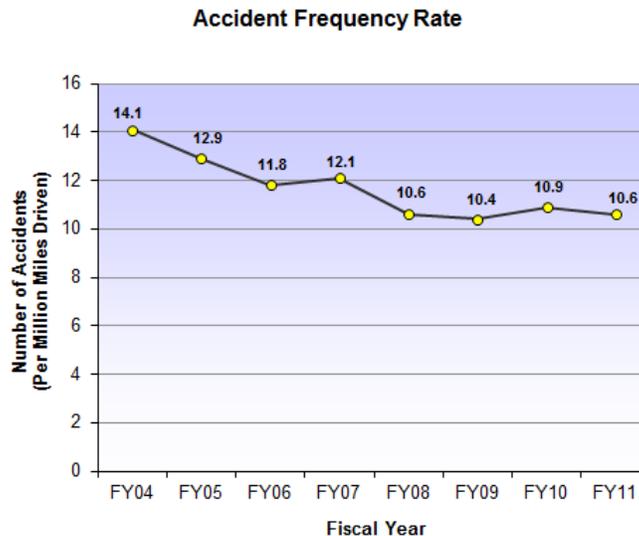
Effective training programs are an important component in reducing losses. To this end, Loss Prevention staff:

- Offered 23 safety, wellness, and SMART classes through the now closed City University;
- Conducted incident investigation training for supervisors and updated accident/injury investigation forms;
- Implemented a city-wide campaign to increase awareness of the hazards of distracted driving;
- Provided health and safety training at acting fire captain's academy and fire officers' classes;
- Coordinated Employee Assistance Program (EAP) orientation training city wide and coordinated stress management training by EAP providers;
- Provided training on contract insurance requirements;
- Provided transmissible disease training to all police officers;
- Delivered the content of the safety certificate program to Solid Waste employees in tailgate safety meetings; and
- Mentored four 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



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.

In FY 2011, SRDTA personnel trained 314 City police officers, 538 City firefighters, 247 non-sworn City employees, 441 students from external agencies, 141 law enforcement academy candidates, and 205 other miscellaneous participants.

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 283 random drug tests and 64 random alcohol tests for commercial drivers;
- Conducted 41 follow-up drug and 33 follow-up alcohol tests for employees on last-chance agreements;

- Completed an injury analysis and conducted a study of safe work practices for Urban Forestry;
- Completed an injury analysis for General Services and analysis of lost time injuries for Utilities;
- Utilized online safety training program for delivery of Transportation's Title Six training;
- Coordinated employee lead exposure monitoring at the firing ranges;
- Assisted in development of a flammable gas response operating guideline for emergency response personnel;
- Identified opportunities for modified duty to bring injured employees back to work;
- Worked with Police, CC&L, and Parks & Recreation to establish a procedure for handling abandoned boats.

Environmental

Environmental regulatory compliance activities included the following:

- Conducted hazardous waste emergency response training for Department of Transportation employees;
- Continued support of environmental remediation projects at the Memorial Auditorium, Amtrak Depot, Coloma Community Center, and North Area Corp Yard;
- Provided assistance to the Department of General Services for recycling 900 light fixtures associated with a relamping project at City Parking Garages;
- 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 10,010 pounds of abandoned hazardous waste;
- Conducted asbestos and lead sampling as needed throughout the City as requested by the Facilities Division prior to remodeling;
- Finalized a grant from DTSC to cover the cost of abandoned tire disposal.

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 compliance with City contract insurance requirements for over 1000 contractors and vendors;
- 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;
- Scheduled medical examinations and vaccination clinics to deliver services provided under the Assistance to Firefighters wellness grant.

- Converted non-industrial medical files to electronic format in the Citywide Content Management system.

Special Projects

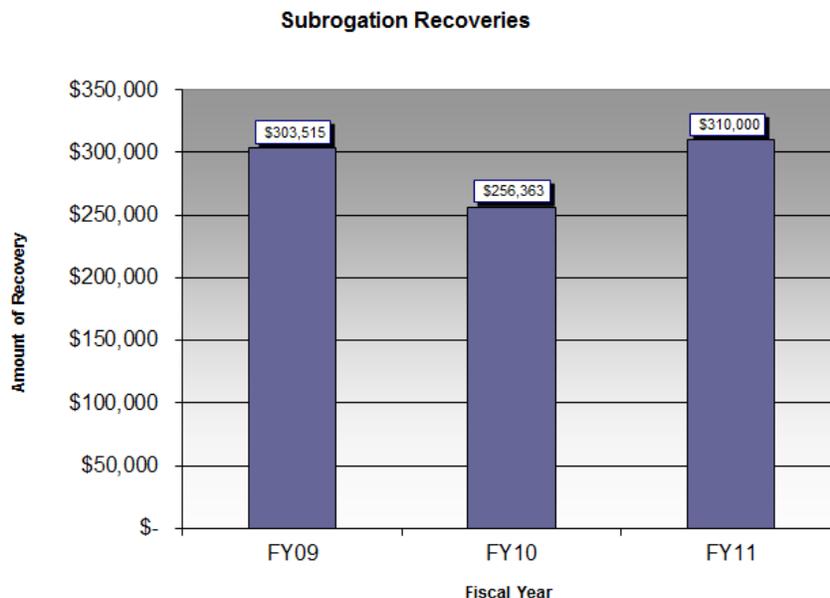
Risk Management staff meets with leadership teams from the operating departments annually to identify priority initiatives. Many of these risk initiatives are accomplished through the collaborative efforts of Loss Prevention and departmental staff. Forty seven loss prevention initiatives were completed in FY 2011.

Training	9
Equipment or Process Improvement	7
Policy or Procedure Development	19
Non-Industrial Medical	1
Loss Analysis	4
Wellness	4
Ergonomics	3

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 three years by the Risk Management Department.

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 2012 ACTION PLAN

- Assist with implementation of a new liability claims system to provide better claims access to City personnel and begin to convert to a paperless claims system.
- Review and begin conversion of risk management policies and procedures to new City format.
- 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.



Utilities Chlorine Leak Drill