



*Legislative Appropriations Request
for Fiscal Years 2008 and 2009*

Submitted to the
Governor's Office of Budget, Planning and Policy
and the Legislative Budget Board

by

STATE OFFICE of RISK MANAGEMENT

August 18, 2006

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Administrator's Statement

The State Office of Risk Management (Office) was established in 1997 by the 75th Legislature. The Office is mandated by Texas Labor Code §412.011 to administer insurance services obtained by state agencies, including the government employees workers' compensation insurance program and the state risk management programs. The Office's mission is to provide active leadership to enable State of Texas agencies to protect their employees, the general public, and the state's physical and financial assets by reducing and controlling risk in the most efficient and cost-effective manner.

The Office provides coverage and risk management services for all state agencies subject to Chapters 412 and 501 of the Texas Labor Code with the exception of the Texas A&M System (A&M), the University of Texas System (UT), and the Texas Department of Transportation (TxDOT). These entities operate separate workers' compensation and risk management programs pursuant to Texas Labor Code Chapters 502, 503, and 505, respectively. (Texas Tech University is partially exempted and operates its own risk management program, while workers' compensation claims services are statutorily provided by the Office pursuant to Texas Labor Code 501.022.) The Employees Retirement System (ERS) and Teacher Retirement System (TRS) have authority pursuant to HB 2425, 78th Legislature, and SB 1691, 79th Legislature, to obtain the services provided by the Office through other means. Both entities are currently participating in the Office's programs with different cost reimbursement methodologies than other participating agencies.

The Office's statutory objectives and key functions are to:

- administer the workers' compensation insurance program for state employees established under Chapter 501, Texas Labor Code;
- operate as a full-service risk manager and insurance manager for state agencies;
- maintain and review records of property, casualty, or liability insurance coverages purchased by or for state agencies;
- administer the program for the purchase of surety bonds for state officers and employees;
- administer guidelines adopted by the Board for a comprehensive risk management program applicable to all state agencies to reduce property and liability losses, including workers' compensation losses;
- review, verify, monitor, and approve risk management programs adopted by state agencies;
- assist state agencies that have not implemented an effective risk management program to implement a comprehensive program that meets the guidelines established by the Board; and
- provide risk management services for employees of community supervision and corrections departments established under Chapter 76, Government Code, as if the employees were employees of a state agency.

The Office is funded with a combination of General Revenue and Interagency Contracts (IAC). The Risk Management program and Workers' Compensation Claim Payments are funded by IAC through annual assessments to state agencies pursuant to Chapter 412, Texas

Labor Code. The assessments, similar to annual premiums, are determined by formula based on historic FTE, payroll, claims, and claims cost data. Beginning in FY 2005, a portion of the Pay Workers' Compensation strategy is also funded by IAC through the assessments. This funding is used for medical cost containment services and other costs related to reducing claim payments. The remaining administrative expenditures for the Pay Workers' Compensation strategy, other than the limited IAC funding, are funded by a direct General Revenue appropriation.

The Office is governed by a five-member Board appointed by the Governor. Members of the Board serve staggered terms of six years.

Ernest C. Garcia, J.D., Chairman

Austin, Texas

Term to expire February 1, 2009

Ronald J. Walenta, Vice Chairman

Dallas, Texas

Term to expire February 1, 2011

Ronald D. Beals, M.D.

Tyler, Texas

Term to expire February 1, 2007

Kenneth N. Mitchell

El Paso, Texas

Term to expire February 1, 2009

Martha A. Rider

Houston, Texas

Term to expire February 1, 2007

Rulemaking authority to implement Chapters 412 and 501 of the Texas Labor Code is vested with the Board, including adopting rules relating to reporting requirements for a state agency. The Board reports to each Legislature on the methods to reduce the exposure of state agencies to the risks of property and liability losses, including workers' compensation losses; the operation, financing, and management of those risks; and the handling of claims brought against the State. The Board is also responsible oversight of the agency and for hiring the Executive Director of the Office.

The Office has made significant strides in meeting the goals of its enabling legislation in the last two biennia as it continues to work to clarify its role and processes through recommendations for changes to the Legislature and through changes to its internal philosophy and organization.

In the Office’s workers’ compensation program, for the first time in seven years the cost of providing workers’ compensation benefits for injured state employees went down in FY 2004 and was the first significant reduction in over a decade. The total required to provide indemnity and medical benefits was \$14 million dollars less than in FY 2003, and \$22 million less than the liability projected by the Office’s actuarial consultant. The rapid decrease in expenditures is the result of a number of factors, including greater accountability on the part of agencies for losses, improved claims processing by the Office, and improved safety practices on the part of client agencies. These improvements have directly translated into savings for state agencies and the State as a whole. The total assessments to state agencies for payment of claims costs for FY 2005 was \$19.4 million less than FY 2003, and \$21.7 million less than FY 2004. Claim costs continued to decrease in FY 2005 by an additional \$2 million and the Office is currently on target to see a potential \$8 million further reduction in FY 2006. In addition, the Office returned to client agencies approximately \$7.5 million from the original FY 2006 assessment in June, 2006.

Finally, the Insurance Purchasing Program has continued to expand, and the Office has implemented five lines of sponsored insurance to date, available to all covered state agencies: Directors’ and Officers’ with Employment Practices Liability, Special Events General Liability, Automobile, Volunteer and Property policies. Savings as a result of centralizing these state insurance purchases have exceeded half a million dollars thus far, and savings are expected to continue to grow as new lines are implemented.

Pursuant to the requirements of Section 501.048, Texas Labor Code, the following summary information is provided relating to the injury reports and workers’ compensation claims from the State Office of Risk Management.

Fiscal Year	Number of First Reports of Injury	Medical Benefits Paid	Indemnity Benefits Paid	Number of Injuries per 100 FTEs
2005	3	\$2,989	\$0	2.60
2006	0	\$0	\$0	0.00
Biennium Total	3	\$2,989	\$0	

SORM has prepared it funding request consistent with instructions for the mandatory reduction. This reduction will result in the loss of

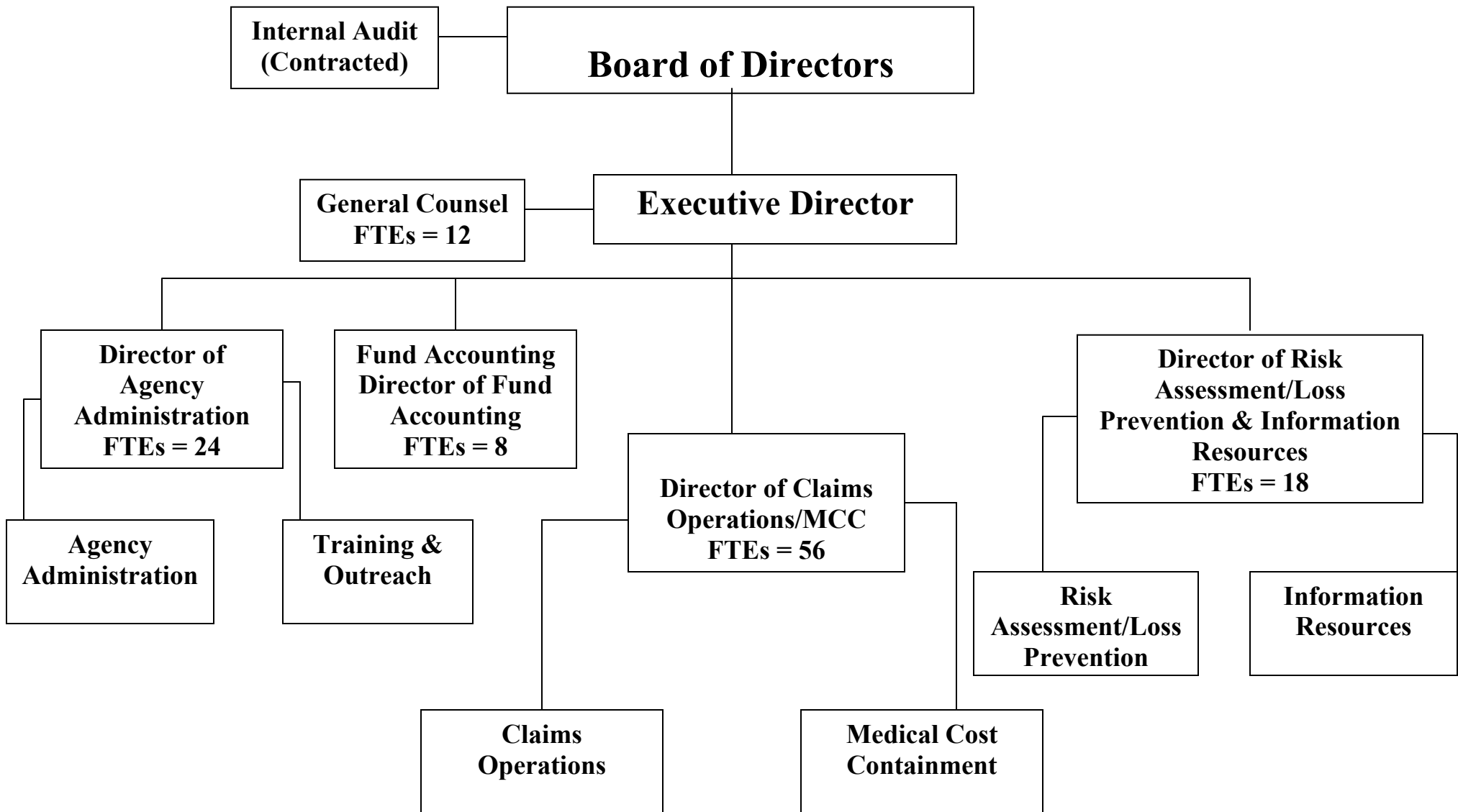
nine workers' compensation administration FTEs. If adequate resources for adjusting claims and cost containment for medical bills is not available, the anticipated additional savings noted above may not be realized and the historical savings achieved in the program are at risk of escalating. At the direction of the Board of Directors, the Office has included an exceptional item request that will enable it to fulfill its statutory mandates during the next fiscal biennium. We appreciate your favorable consideration of this request.

Respectfully,

A handwritten signature in black ink, appearing to read 'Jonathan D. Bow', written in a cursive style.

Jonathan D. Bow, J.D.
Executive Director

State Office of Risk Management



Descriptions of Functional Units

Board of Directors:

Rulemaking authority to implement Chapters 412 and 501 of the Texas Labor Code is vested with the Board, including adopting rules relating to reporting requirements for a state agency. The Board reports to each Legislature on the methods to reduce the exposure of state agencies to the risks of property and liability losses, including workers' compensation losses; the operation, financing, and management of those risks; and the handling of claims brought against the State. The Board is also responsible oversight of the agency and for hiring the Executive Director of the Office.

Executive Director:

The Executive Director's duties are described at Texas Labor Code, §412.041. The Director serves as the State Risk Manager and administrator of the state's workers' compensation insurance program, and is responsible for the oversight of all the agency's functions.

General Counsel:

General Counsel provides legal and policy assistance for agency-wide issues, as well as decisions that affect covered state agencies. The division consists of Legal Support, Governmental Relations, Dispute Resolution, Subrogation, and Investigations.

Claims Operations:

The Claims Operations division is divided into units focusing on claims administration, medical cost containment and customer service. Assignments are made on volume of clients from different agencies and context of the claim. Claims Operations makes compensability determinations, and follows all claims until their conclusion to ensure that each injured state worker receives the health care and income benefits reasonably due according to the nature of the injury and periods of disability as appropriate. A specific unit identifies problematic claims where all indemnity benefits have been paid but there is extensive ongoing medical and reviews the claims to determine the appropriateness of ongoing treatment. The customer service call center is staffed by adjuster trainees proficient in SORM's claims management system who provide claims information assistance to SORM customers and process claims information.

The Medical Cost Containment Unit provides the operations necessary for the Claims Operations division to process workers' compensation medical claims administrative oversight of the agency's medical cost containment services vendor. The unit consists Of Medical Provider Assistance, which reviews and monitors the payments of all medical bills received by the agency; Case Management Review, which researches, reviews, and examines claims information and medical reports for corrective action and/or proper medical treatment plans; and Medical Bill Audit, which monitors the medical cost containment vendor's performance and identifies potential medical provider fraud and abuse.

Agency Administration:

Agency Administration consists of Office Administration, Customer Service, and Document Processing. The Office Administration section processes all procurement requests, agency travel arrangements and subsequent reimbursement for travel expenses, oversees the agency's fixed assets, and coordinates all telecommunications and building maintenance requests. All human resource functions reside with Office Administration, including personnel actions and leave accounting. The Document Management section is responsible for the initial setup and data entry of injury claims received, as well as the maintenance of all inactive claim files. The Director of Agency Administration serves as the agency's Customer Service Liaison and Records Retention Officer.

Agency Outreach and Training:

Agency Outreach and Training provides health and safety, risk management, and workers' compensation claims coordinator training for state agencies. This division also assembles and maintains technical documents and manuals, such as the Claims Coordinator Handbook, and produces the quarterly SORM newsletter, Risk-Tex.

Fund Accounting:

Fund Accounting processes and issues workers' compensation medical and indemnity payments to claimants and medical providers, including the cancellation, re-issue, deposits, and correction of warrants. This division reports agency fund balances and maintains medical records of injured state workers, processes recoupment, provides customer service to claimants and providers, distributes client agency reports, and processes benefit corrections. The division assists in the preparation and submission of the Legislative Appropriations Request, Operating Budget and ABEST reconciliation, and provides assessment information to agencies and monitoring assessment payments from agencies.

Risk Assessment and Loss Prevention:

Risk Management Specialists conduct Safety Program Evaluations to assist state agencies in establishing employee health and safety programs designed to provide a safe and healthful environment for agency employees and the public served by the agencies. Reviews of Risk Management Programs are also performed to determine the status of state agency efforts to develop and implement comprehensive risk management programs. This division collects comprehensive information on agency exposures and risks; develops and distributes model risk management manuals, programs, and procedures for use by smaller agencies and also maintains the SORM reference library for internal and agency use; and operates the statewide Insurance Purchasing Program.

Information Resources:

Information Resources provides computer support to SORM in conjunction with the Office of the Attorney General; maintains and develops technological resources for internal and external use; and provides data reports to state agencies to help them determine the frequency and severity of claims and losses, and to begin establishing historical trend information to help determine projections of minimum and maximum probable losses.

2.A. SUMMARY OF BASE REQUEST BY STRATEGY
 80th Regular Session, Agency Submission, Version 1
 Automated Budget and Evaluation System of Texas (ABEST)

DATE: **8/22/2006**
 TIME: **9:20:24AM**

Agency code: **479** Agency name: **State Office of Risk Management**

Goal / Objective / STRATEGY	Exp 2005	Est 2006	Bud 2007	Req 2008	Req 2009
1 <u>Manage Workers' Compensation Costs</u>					
1 <u>Risk Management</u>					
1 RISK MANAGEMENT PROGRAM	1,883,815	1,922,099	2,030,228	2,003,228	2,003,228
2 <u>Claims Administration</u>					
1 PAY WORKERS' COMPENSATION	4,964,218	5,707,012	6,373,116	5,980,198	5,980,198
TOTAL, GOAL 1	\$6,848,033	\$7,629,111	\$8,403,344	\$7,983,426	\$7,983,426
TOTAL, AGENCY STRATEGY REQUEST	\$6,848,033	\$7,629,111	\$8,403,344	\$7,983,426	\$7,983,426
TOTAL, AGENCY RIDER APPROPRIATIONS REQUEST*				\$0	\$0
GRAND TOTAL, AGENCY REQUEST	\$6,848,033	\$7,629,111	\$8,403,344	\$7,983,426	\$7,983,426
<u>METHOD OF FINANCING:</u>					
General Revenue Funds:					
1 GENERAL REVENUE FUND	4,090,953	3,783,744	3,955,264	3,580,198	3,580,198
SUBTOTAL	\$4,090,953	\$3,783,744	\$3,955,264	\$3,580,198	\$3,580,198
Other Funds:					
666 APPROPRIATED RECEIPTS	2,147	317	150	0	0
777 INTERAGENCY CONTRACTS	2,754,933	3,845,050	4,447,930	4,403,228	4,403,228
SUBTOTAL	\$2,757,080	\$3,845,367	\$4,448,080	\$4,403,228	\$4,403,228
TOTAL, METHOD OF FINANCING	\$6,848,033	\$7,629,111	\$8,403,344	\$7,983,426	\$7,983,426

*Rider appropriations for the historical years are included in the strategy amounts.

2.B. SUMMARY OF BASE REQUEST BY METHOD OF FINANCE
 80th Regular Session, Agency Submission, Version 1
 Automated Budget and Evaluation System of Texas (ABEST)

DATE: **8/22/2006**
 TIME: **9:23:25AM**

Agency code: **479** Agency name: **State Office of Risk Management**

METHOD OF FINANCING	Exp 2005	Est 2006	Bud 2007	Req 2008	Req 2009
<u>GENERAL REVENUE</u>					
<u>1</u> General Revenue Fund					
<i>REGULAR APPROPRIATIONS</i>					
Art I, Page I-73 (2006-2007 GAA)	\$0	\$3,619,466	\$3,620,665	\$0	\$0
Art I, Page I-76 (2004-2005 GAA)	\$3,461,603	\$0	\$0	\$0	\$0
Art. I, (2008-2009 GAA)	\$0	\$0	\$0	\$3,580,198	\$3,580,198
<i>RIDER APPROPRIATION</i>					
Art I, para 3, Page I-77 (UB) (2004-2005 GAA)	\$727,225	\$0	\$0	\$0	\$0
Art IX, Sec 13.17(a), Salary Increase (2006-07 GAA)	\$0	\$180,168	\$0	\$0	\$0
Art IX, Sec 13.17(a), Salary Increase (2006-07 GAA)	\$0	\$0	\$334,599	\$0	\$0
<i>TRANSFERS</i>					
Art IX, Sec 12.01, Reduction of Management Costs (2004-05 GAA)	\$(55,380)	\$0	\$0	\$0	\$0
Art IX, Sec 12.03, Retirement Incentives (2004-05 GAA)	\$6,720	\$0	\$0	\$0	\$0

2.B. SUMMARY OF BASE REQUEST BY METHOD OF FINANCE
 80th Regular Session, Agency Submission, Version 1
 Automated Budget and Evaluation System of Texas (ABEST)

DATE: **8/22/2006**
 TIME: **9:23:33AM**

Agency code: **479** Agency name: **State Office of Risk Management**

METHOD OF FINANCING	Exp 2005	Est 2006	Bud 2007	Req 2008	Req 2009
<u>GENERAL REVENUE</u>					
Art IX, Sec 12.03, Retirement Incentives (2004-05 GAA)	\$(49,215)	\$0	\$0	\$0	\$0
Art IX, Sec 5.09, Reductions for Commercial Air Travel (2006-07 GAA)	\$0	\$(15,890)	\$0	\$0	\$0
TOTAL, General Revenue Fund	\$4,090,953	\$3,783,744	\$3,955,264	\$3,580,198	\$3,580,198
TOTAL, ALL GENERAL REVENUE	\$4,090,953	\$3,783,744	\$3,955,264	\$3,580,198	\$3,580,198

OTHER FUNDS

666 Appropriated Receipts

RIDER APPROPRIATION

Art IX, Sec 8.03, Reimbursements and Payments (2004-05 GAA)	\$2,147	\$0	\$0	\$0	\$0
Art IX, Sec 8.03, Reimbursements and Payments (2006-07 GAA)	\$0	\$317	\$150	\$0	\$0
Art IX, Sec 8.03, Reimbursements and Payments (2008-09 GAA)	\$0	\$0	\$0	\$0	\$0
TOTAL, Appropriated Receipts	\$2,147	\$317	\$150	\$0	\$0

777 Interagency Contracts

2.B. SUMMARY OF BASE REQUEST BY METHOD OF FINANCE
 80th Regular Session, Agency Submission, Version 1
 Automated Budget and Evaluation System of Texas (ABEST)

DATE: **8/22/2006**
 TIME: **9:23:33AM**

Agency code: **479** Agency name: **State Office of Risk Management**

METHOD OF FINANCING	Exp 2005	Est 2006	Bud 2007	Req 2008	Req 2009
<u>OTHER FUNDS</u>					
<i>REGULAR APPROPRIATIONS</i>					
Art I, Page I-73 (2006-2007 GAA)	\$0	\$4,354,930	\$4,354,930	\$0	\$0
Art I, Page I-76 (2004-2005 GAA)	\$4,521,968	\$0	\$0	\$0	\$0
Art. I, (2008-2009 GAA)	\$0	\$0	\$0	\$4,403,228	\$4,403,228
<i>RIDER APPROPRIATION</i>					
Art IX, Sec 6.16(j), Capital Budget UB (2006-07 GAA)	\$0	\$(93,000)	\$93,000	\$0	\$0
Art IX, Sec 6.17(j), Capital Budget UB (2004-05 GAA)	\$98,642	\$0	\$0	\$0	\$0
<i>TRANSFERS</i>					
Art IX, Sec 12.03, Retirement Incentives (2004-05 GAA)	\$(64,225)	\$0	\$0	\$0	\$0
<i>LAPSED APPROPRIATIONS</i>					
Lapsed Appropriations-Authority Only	\$(1,790,614)	\$0	\$(416,880)	\$0	\$0

2.B. SUMMARY OF BASE REQUEST BY METHOD OF FINANCE
 80th Regular Session, Agency Submission, Version 1
 Automated Budget and Evaluation System of Texas (ABEST)

DATE: **8/22/2006**
 TIME: **9:23:33AM**

Agency code: 479	Agency name: State Office of Risk Management				
METHOD OF FINANCING	Exp 2005	Est 2006	Bud 2007	Req 2008	Req 2009
<u>OTHER FUNDS</u>					
Lapsed Appropriations-Cash	\$ (10,838)	\$ 0	\$ 0	\$ 0	\$ 0
<i>UNEXPENDED BALANCES AUTHORITY</i>					
Art I, para 4 Page I-78, Appn of UB for Cost Containment (2006-07) GAA	\$ 0	\$ (416,880)	\$ 416,880	\$ 0	\$ 0
TOTAL, Interagency Contracts	\$2,754,933	\$3,845,050	\$4,447,930	\$4,403,228	\$4,403,228
TOTAL, ALL OTHER FUNDS	\$2,757,080	\$3,845,367	\$4,448,080	\$4,403,228	\$4,403,228
GRAND TOTAL	\$6,848,033	\$7,629,111	\$8,403,344	\$7,983,426	\$7,983,426
<u>FULL-TIME-EQUIVALENT POSITIONS</u>					
REGULAR APPROPRIATIONS	124.0	124.0	124.0	115.0	115.0
LAPSED APPROPRIATIONS					
Lapsed due to vacancies related to turnover	(8.7)	(5.5)	0.0	0.0	0.0
TOTAL, ADJUSTED FTES	115.3	118.5	124.0	115.0	115.0

2.B. SUMMARY OF BASE REQUEST BY METHOD OF FINANCE
80th Regular Session, Agency Submission, Version 1
Automated Budget and Evaluation System of Texas (ABEST)

DATE: **8/22/2006**
TIME: **9:23:33AM**

Agency code: 479	Agency name: State Office of Risk Management				
METHOD OF FINANCING	Exp 2005	Est 2006	Bud 2007	Req 2008	Req 2009
NUMBER OF 100% FEDERALLY FUNDED FTEs	0.0	0.0	0.0	0.0	0.0

2.C. SUMMARY OF BASE REQUEST BY OBJECT OF EXPENSE
 80th Regular Session, Agency Submission, Version 1
 Automated Budget and Evaluation System of Texas (ABEST)

DATE: **8/22/2006**
 TIME: **9:24:28AM**

OBJECT OF EXPENSE	Exp 2005	Est 2006	Bud 2007	BL 2008	BL 2009
Agency code: 479	Agency name: State Office of Risk Management				
1001 SALARIES AND WAGES	\$4,202,289	\$4,649,466	\$4,880,770	\$4,585,443	\$4,585,443
1002 OTHER PERSONNEL COSTS	\$377,096	\$135,664	\$135,840	\$126,840	\$126,840
2001 PROFESSIONAL FEES AND SERVICES	\$1,420,393	\$2,012,585	\$2,459,239	\$2,459,239	\$2,459,239
2003 CONSUMABLE SUPPLIES	\$54,564	\$55,566	\$51,254	\$53,944	\$53,944
2004 UTILITIES	\$5,815	\$5,712	\$5,881	\$6,091	\$6,091
2005 TRAVEL	\$137,971	\$137,214	\$119,155	\$120,000	\$120,000
2006 RENT - BUILDING	\$5,864	\$5,864	\$6,010	\$6,036	\$6,036
2007 RENT - MACHINE AND OTHER	\$23,408	\$23,408	\$24,642	\$25,833	\$25,833
2009 OTHER OPERATING EXPENSE	\$578,482	\$603,632	\$534,553	\$600,000	\$600,000
5000 CAPITAL EXPENDITURES	\$42,151	\$0	\$186,000	\$0	\$0
OOE Total (Excluding Riders)	\$6,848,033	\$7,629,111	\$8,403,344	\$7,983,426	\$7,983,426
OOE Total (Riders)					
Grand Total	\$6,848,033	\$7,629,111	\$8,403,344	\$7,983,426	\$7,983,426