I. Executive Summary

A. Program Cost

One method to assess the effectiveness of the University’s risk management program is to compare the annual cost of the program against the University’s budget over time. A cost of risk at or below 2% is an industry standard for better than average performance. As indicated below, the University’s cost of risk is well below this standard. However, overall program costs increased by $228,395 or 5% from 2005-06 to 2006-07.

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<tbody>
<tr>
<td>Premiums and Expenses</td>
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<tr>
<td>Workers’ Compensation Premium</td>
<td>$1,526,151</td>
<td>$1,898,402</td>
<td>$2,415,536</td>
<td>$2,742,731</td>
<td>$2,670,522</td>
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<tr>
<td>Workers’ Compensation Expenses</td>
<td>$1,371,712</td>
<td>$1,488,841</td>
<td>$1,080,778</td>
<td>$571,340</td>
<td>$750,000</td>
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<td>Subtotal</td>
<td>$1,526,151</td>
<td>$1,898,402</td>
<td>$2,415,536</td>
<td>$2,742,731</td>
<td>$2,670,522</td>
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<td>General Liability Premium</td>
<td>$510,452</td>
<td>$566,132</td>
<td>$518,637</td>
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<td>General Liability Expenses</td>
<td>$551,007</td>
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<td>$175,000</td>
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<td>Subtotal</td>
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<td>IDL/NDI/UI Premium</td>
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<td>$224,980</td>
<td>$391,394</td>
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<td>IDL/NDI/UI Expenses</td>
<td>N/A</td>
<td>$560,595</td>
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<td>Subtotal</td>
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<td>$224,980</td>
<td>$391,394</td>
<td>$405,468</td>
<td>$609,215</td>
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<tr>
<td>Property</td>
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<td>$165,667</td>
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<td>AIME</td>
<td>$107,405</td>
<td>$124,000</td>
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<td>Auto Liability</td>
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<td>$29,400</td>
<td>$171,403</td>
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<td>International Travel</td>
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<td>N/A</td>
<td>$10,316</td>
<td>$12,354</td>
<td>$15,000</td>
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<td>Student Professional Liability Insurance</td>
<td>N/A</td>
<td>N/A</td>
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<td>Special Event</td>
<td>N/A</td>
<td>N/A</td>
<td>$7,258</td>
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<td>Inland Marine</td>
<td>$2,239</td>
<td>$2,062</td>
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<td>$2,448</td>
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<td>Student Travel</td>
<td>$955</td>
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<td>Subtotal</td>
<td>$126,732</td>
<td>$322,042</td>
<td>$563,191</td>
<td>$535,193</td>
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<td>Total Funding Costs and Expenses</td>
<td>$2,951,877</td>
<td>$3,128,314</td>
<td>$4,033,582</td>
<td>$4,359,770</td>
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Administrative Costs

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<tbody>
<tr>
<td>Administrative (Salaries)</td>
<td>$152,742</td>
<td>$142,730</td>
<td>$177,528</td>
<td>$189,393</td>
<td>$195,075</td>
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<tr>
<td>Administrative (Expenses)</td>
<td>$7,500</td>
<td>$10,058</td>
<td>$4,455</td>
<td>$7,351</td>
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<tr>
<td>Total Administrative Cost</td>
<td>$160,242</td>
<td>$152,788</td>
<td>$181,983</td>
<td>$196,744</td>
<td>$202,575</td>
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<td>University Budget</td>
<td>$246,051,875</td>
<td>$260,562,498</td>
<td>$268,793,016</td>
<td>$279,072,604</td>
<td>$290,550,778</td>
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<td>Total Cost as a Percentage of the University Budget</td>
<td>1.26%</td>
<td>1.26%</td>
<td>1.57%</td>
<td>1.63%</td>
<td>1.65%</td>
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</table>

Notes: Workers’ Compensation, General Liability, IDL/NDI/UI, International Travel and Special Event expenses are estimated for 2006-07. “University Budget” does not include construction costs and other miscellaneous expenses. Administrative expenses are budgeted amounts for each year except 2004-05 and 2005-06, where actual expenses are shown. Because they are only used in the calculation of their respective funding cost, Workers’ Compensation and IDL/NDI/UI expenses are not included in total risk management costs. Student Professional Liability Insurance was offered for the first time in 2006-07.
Another way to measure effectiveness is to compare the percentage decrease/increase of certain campus risk management costs against the Systemwide average. In 2006-07, the University’s funding costs for Workers’ Compensation, general liability, IDL/NDI/UI and property programs increased at a greater rate than the Systemwide average, 7% to 2%. The following factors contributed to this performance:

- The campus proportion of Systemwide payroll increased from 6.04% to 6.40%. The University’s Workers’ Compensation and general liability funding costs are directly impacted by the size of its annual payroll relative to the Systemwide payroll. Generally speaking, if an increase in the University’s payroll for any given year is greater than the Systemwide increase for that year, these funding costs will increase, all other things being equal. If a decrease in the University’s payroll is greater than the Systemwide average for that year, these funding costs will decrease, all other things being equal.
- An error in reporting 2003-04 IDL/NDI/UI expenses, which kept the 2005-06 funding cost artificially low and made the 2006-07 funding cost artificially high. The increase in the IDL/NDI/UI funding cost accounted for $203,747 or 89% of the increase in total risk management costs from 2005-06 to 2006-07.

B. Highlighted 2005-06 Program Accomplishments

Staff within the Office of University Risk Management accomplished the following during the 2005-06 fiscal year:

- Reduced Workers’ Compensation expenses by $509,438 or 53%.
- Worked collaboratively with the University Counsel to minimize claims and litigation costs. For the third consecutive year, these expenses were below $200,000.
- Saved the University $43,122 (twice as much as in 2004-05) through the (a) enforcement of an indemnification provision in a service contract that was the subject of litigation, (b) management of the University’s participation in several class action settlements, and (c) collection of funds from those who damaged University property.
- Worked with Human Resources and other campus departments to begin a review and revision of the University’s harassment policies.
- Worked with Environmental Health & Instructional Safety to identify the most prevalent types of injuries and illnesses suffered by University employees and measures that could be taken to reduce those types of injuries and illnesses in the future.
- Worked with the Dean of Students Office to develop risk management training for student leaders and faculty advisors.
- Worked with the Chancellor’s Office and other campus risk managers to develop a Systemwide liability release.
- Launched a website and created an international travel data base that provides the location and contact information for most faculty and students traveling internationally at any given time.
C. Program Objectives in 2006-07

Although progress has been made in developing a culture of risk identification and assessment, which will reduce the amount of future funding costs, the University’s expenditures to manage risks have increased five consecutive years. Section II of this Report outlines why the overall cost of the risk management program has continued to increase.

Staff efforts to reduce overall costs in 2006-07 will focus on the following.

1. Partner with Human Resources and the Academic Senate to develop and implement a new University harassment policy and a training program.
2. Oversee the development of training for all supervisors and managers on the Workers' Compensation fundamentals and procedures and University's travel policies.
3. Work with University Counsel to resolve claims prior to litigation when doing so is in the University’s best interest and aggressively defending and managing claims when it is not.
4. Develop and implement a return-to-work program that addresses both industrial and non-industrial injuries and illnesses.
5. Develop and implement a campus risk assessment that identifies areas in which additional training is necessary to protect the University’s human, financial and physical resources.
6. Increase trend analysis of alleged injuries and illnesses to better target specific safety and ergonomic training and to reduce injuries caused by poor equipment and furniture purchases.
II. Program Review

Because the University’s past performance directly affects most of its future funding costs, the following information is necessary to fully understand the impact of the costs outlined above.

A. Workers’ Compensation Funding Cost and Expenses

In 2006-07, Workers’ Compensation funding costs in the CSU decreased an average of 6.2%. However, the University’s funding cost only decreased 2.6%. This lower-than-average decrease was due to (a) an increase in the University’s payroll from 2004-05 to 2005-06\(^1\) and (b) poor management of the University’s claims prior to 2003.\(^2\) Expenses are primarily driven by the number and type of open claims. As the graph below shows, expenses in 2005-06 decreased by $509,438 or 53%. This favorable result is due to legislative reforms enacted two years ago and the University’s decision three years ago to hire an experienced manager to oversee this program.

\[^1\] Section III explains the impact of campus payroll on campus funding costs.
\[^2\] The University’s Workers’ Compensation funding cost is based in large part on the prior five years of campus expenses. For example, the 2006-07 funding cost was calculated using expenses for fiscal years 2000-01 through 2004-05.
The following graph shows that the number of open claims increased slightly in 2005-06, although not to an unacceptable level.

![Workers' Compensation Open Claims](image)

The graph below shows the types of injuries and illnesses suffered by University employees and volunteers in 2005-06. With this information, for the first time the University can target training or other practices to reduce a specific type or category of injury/illness.

![Workers' Compensation Claims by Nature of Injury or Illness](image)
B. General Liability Funding Cost and Expenses

In 2006-07, General Liability funding costs in the CSU increased an average of 12.8%. However, the University’s funding cost increased by 15.4%.

This higher-than-average increase was due solely to the increase in the University’s payroll as the University’s decrease in expenses was greater than the Systemwide average. General liability expenses are directly related to the number of lawsuits and non-litigated claims filed against the University. As of September 2006, the University was involved in only two litigated claims and only two non-litigated claims.

C. IDL/NDI/UI Funding Cost and Expenses

In 2006-07, IDL/NDI/UI funding costs in the CSU increased an average of 9.5%. However, the University’s funding cost increased by 50.3%. This higher-than-average increase was due to an error in reporting campus expenses in 2003-04, which caused the increase in the University’s 2005-06 funding cost to be too low. The reporting error has been corrected.

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3 The University’s General Liability funding cost is based in large part on the prior five years of expenses. For example, the 2006-07 funding cost was calculated using campus expenses for fiscal years 2000-01 through 2004-05.

4 “IDL” stands for “Industrial Disability Leave,” which is a benefit available to those who are injured or become ill at work. “NDI” stands for “Non-industrial Disability Leave,” which is a benefit available to those who are off-work due to a non-work related injury or illness. “UI” stands for “Unemployment Insurance.”

5 The University’s IDL/NDI/UI funding cost is based in large part on the prior five years of expenses.
D. Master Property Insurance

This funding cost is based on the System’s and not the University’s loss experience. The residual impact of Hurricanes Katrina, Rita and Wilma led to a 23% across the System.

E. Automobile Liability Insurance

This funding cost is based on the System’s and not the University’s loss experience. It is calculated based on the number of vehicles owned by a campus. Because the CSU did not have any significant losses in 2005-06, this funding cost decreased by 23% per vehicle.

F. Foreign Travel Liability Insurance

The decision to require foreign travel liability insurance on all University or auxiliary-sponsored travel and to treat this as a University expense for all University-sponsored travel marginally increased this cost in 2006-07. However, this program greatly reduces the University’s exposure when faculty, staff and/or students travel abroad and provides a mechanism for the University to contact faculty, staff and students in emergencies.

G. Special Events and Vendor Liability Insurance

Because the University has not made a claim against this insurance in the past three years, risk management staff re-assessed on an event-by-event basis whether this cost was necessary and made recommendations to the Vice President for Administration and Finance/CFO. For this reason, this cost was slightly lower in 2006-07.

III. University Payroll

The University’s Workers’ Compensation and general liability funding costs are also directly impacted by the size of its annual payroll relative to the Systemwide payroll. As the graph below shows, in four out of...
the last five years, the University’s payroll has increased at a faster rate than the Systemwide average, thus creating an upward pressure on its Workers’ Compensation and general liability funding costs.

IV. Threats Facing the University

A key risk management function is to anticipate and identify risks that could negatively impact the University’s strategic mission, reputation, day-to-day operations, compliance with applicable laws and regulations, and financial resources. Set forth below is a list of the threats risk management staff believe are most likely to have a negative impact on one or more of the five areas listed above. This list is based on a review of the University’s loss history, as well as current insurance and litigation trends.

- Compliance with federal and state laws and regulations prohibiting harassment, discrimination and retaliation, and promoting access for individuals with disabilities and women
- Information security
- Enrollment management: utilization of campus physical resources
- Recent declines in local K-12 enrollment
- Student privacy and Internet sites such as myspace.com and facebook.com
- Student mental health issues such as suicide prevention and drug/alcohol use
- Certification of student teachers, nurses and health professionals: background checks
- Domestic automobile travel
- Construction project management
- Off-campus, experience-based, learning activities
- International travel and program
- High housing prices