



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND STRATEGIC SUPPORT COMMITTEE

FROM: Mark Danaj

SUBJECT: RISK MANAGEMENT STATUS REPORT

DATE: November 1, 2007

Approved	<i>Ray Wines</i>	Date	<i>11/2/07</i>
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This memorandum provides an update on the Administration’s efforts to create an enterprise-wide risk management program that provides a more strategic, effective, and accountable approach to risk identification, reduction and control for the entire organization.

BACKGROUND

In March 2007, the consulting firm, ArmTech, completed a study to assess risk management practices of the City. The study focused on the following efforts:

- Reviewing current risk assessment practices in the City, including property, casualty, liability and personnel exposures faced by the City in its operations.
- Measuring cost effectiveness of the current risk financing methods to finance current exposures as well as future liabilities.
- Identifying gaps in the City’s current risk assessment, risk control and risk financing as compared to best practices and/or industry standards, and make recommendations to close the gaps.
- Assessing organizational structure, risk management polices, objectives, and processes including service demand from customers and staffing/resources necessary to meet the demand.

Major findings and recommendations from the study included:

Findings

- The City’s total cost of risk (workers’ compensation and liability expenditures, insurance premiums, and administrative costs) is approximately \$42 M, or 2.3% of the City’s \$1.8 billion operating expenditure. This is considered by the consultant to be at the upper end the range of large local governments. The largest portion of this cost is worker’s compensation, which accounts for 83% of the total cost of risk.

- The City's current structure for managing risk does not identify a central department in charge of mitigating and tracking risks, and reporting on progress. Accountability is decentralized among Finance, HR, and City Attorney's Office. Exchange of information among these groups should be enhanced, and restructuring would take advantage of certain efficiencies afforded by a more centralized approach.
- The staffing level in workers' compensation and safety is not adequate to handle the City's high workers' compensation caseload and prevents staff from being more proactive in loss control activities.

Recommendations

- The City should consolidate major risk management functions into a unified program.
- The City should add a risk manager, eight workers' compensation claim adjusters, and two risk control positions to effectively address the high cost of risk. The return on investment (ROI) analysis indicates that adding workers' compensation adjusters would generate approximately \$10.7 M in net savings over five years.
- The City should reexamine its risk financing posture. This reexamination should include a structured analysis of the City's existing assets, debt capacity and risk appetite.

Administration's Plan to Create a Centralized Risk Management Program

In April 2007, the City Manager's Office sent an information memorandum to City Council, describing the Administration's plan to create a centralized risk management program with a single point of accountability. The plan includes the following key tasks:

- **Creating a Centralized Risk Management Organizational Structure**

Risk management functions in Finance and Human Resources will be consolidated into a unified risk management program under the Department of Human Resources. Three positions from Finance responsible for risk financing of City properties and addressing liabilities of City contracts will be transferred to Human Resources. All Safety Officers will be placed in a matrix reporting relationship to HR. This new risk management structure will include the following functions:

- Workers' Compensation
- Safety and Loss Control
- Risk Financing
- Employee Health Services
- Return-to-Work

This new risk management program will coordinate its activities with the Liability Claims staff, currently in the City Attorney's Office, to ensure effective management of risks and liabilities.

• **Increasing Staffing to Risk Management**

Five Workers' Compensation Adjusters and one Safety Officer are proposed to be added in the FY 07-08 budget and will be funded by the Workers' Compensation Fund. These additions will allow the City to be more proactive in loss control to reduce injuries and liabilities. A Deputy Director of Human Resources will be assigned as the interim Risk Manager to oversee the development of a centralized approach to risk management functions and structure.

• **Ensuring Long-term Success of Risk Management**

A Risk Management Planning Board will be created to provide guidance and leadership on risk management policies and issues. The Board will be comprised of the Finance Director, HR Director, a City Attorney's representative, a Deputy City Manager, and other appropriate staff as required. The Board will oversee the development of a Citywide Risk Management Policy to provide a framework for managing risks and for assigning appropriate responsibilities and accountabilities. The Board will also establish goals, objectives and performance standards to measure the success of the centralized risk management program.

STATUS ON ACTION PLAN TO CREATE AN ENTERPRISE-WIDE RISK MANAGEMENT PROGRAM

<u>Key Task</u>	<u>Status</u>
Creating a Centralized Risk Management Organizational Structure	<p>A centralized risk management program has been established and placed in the Human Resources Department. A Deputy Director of HR has been assigned as the Risk Manager to provide day-to-day management of the program. The risk management program now includes the following functions:</p> <ul style="list-style-type: none"> ▪ Workers' Compensation ▪ Safety and Loss Control ▪ Risk Financing ▪ Employee Health Services ▪ Return to Work <p>All Safety Officers are now working jointly with Risk Management and to their respective departments.</p>
Increasing Staffing to Risk Management	Five Workers' Compensation Adjusters and one Safety Officer have been added to Risk Management. The additional staff has been hired.

<u>Key Task</u>	<u>Status</u>
Ensuring Long-term Success of Risk Management	<p>A Risk Management Planning Board (RMPB) has been established, chaired by the Assistant City Manager. Permanent members include Director of Human Resources, Director of Finance, and Chief Trial City Attorney. Rotating members include representatives from Police, Fire, ESD, Airport, and DOT. The RMPB has developed a risk management policy to provide direction to the risk management program (please see attachment). (Initially, all of the departments with safety officials will actively participate in the RMPB.)</p> <p>In addition, the Administration is issuing an RFP to select a risk management consulting firm to assist with analyzing the City's risk financing structure. The consultant is also expected to assist with loss control services.</p>

NEXT STEPS

Human Resources is implementing the risk management policy as adopted by the Risk Management Planning Board. In addition, the City Manager's Office will continue to work with the City Attorney's Office to find an effective way to collaborate on the managing of liability claims with the overall risk management program.


MARK DANA
Director of Human Resources

For questions please contact John Dam, Deputy Director of Human Resources, at 975-1475.

Attachment: Risk Management Policy



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Director of Human Resources

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Risk Management**6.1.4****PURPOSE**

To provide policy direction to the Risk Management Program in order to protect and maximize the City's human and capital assets.

POLICY

The City of San Jose has established this policy for risk management. The objectives of risk management are as follows:

- A. Prevent or minimize injuries to employees and the public
- B. Protect the City's capital assets to ensure public service capability
- C. Minimize the total cost of risk to the City
- D. Protect the City against the financial consequences of catastrophic accidental loss

Risk Management Planning Board

The Risk Management Planning Board (RMPB) oversees the risk management activities and provides advice to the Risk Manager. Specific responsibilities include:

- ◆ Review the City's risk map, the document which outlines the severity and frequency of losses (real and potential)
- ◆ Review the Risk Management Workplan to mitigate risks
- ◆ Review the Risk Financing Plan to address the financial impact of risks
- ◆ Make recommendations to the City Council regarding Citywide risk management activities

Membership

- ◆ Chair: City Manager's Office Representative
- ◆ Members: Core members include representatives from the Finance and Human Resources departments, Budget Office, and City Attorney's Office. Members from line departments include Police, Fire, DOT, ESD, GSA, PRNS, and Airport departments.
- ◆ Staff: Risk Manager

Risk Management**6.1.4****Meeting Schedule**

- ◆ Quarterly meeting and as needed.

Risk Management Responsibilities

- ◆ Ensure the achievement of the City's risk management objectives
- ◆ Develop and implement the Annual Risk Management Workplan
- ◆ Develop and implement the Risk Financing Plan
- ◆ Staff the RMPB
- ◆ Assist Departments, employees, and managers to implement loss control programs
- ◆ Provide reports to RMPB to assess the progress of meeting risk management objectives
- ◆ Meet with departments to keep them informed of the cost of risk, trends and root causes of losses

Department's Responsibilities

The most important factor in mitigating risks is to identify and work with risk owners to reduce risks. There are generally three levels of risk owners: first, the employees who may suffer injuries while working, second, the supervisors who ensure that their employees follow safety procedures, and third, Department Directors who create a culture of safety and instill accountability. As risk owners, departments play an integral role in mitigating risks as illustrated by the following responsibilities:

- ◆ Implement the Injury and Illness Prevention Plan
- ◆ Implement specific loss control programs as recommended by Risk Management
- ◆ Reduce workers' compensation claims as specified by the annual Actuarial Study
- ◆ Provide insurance certification to Risk Management in a timely manner
- ◆ Work with Risk Management to develop and implement a plan to mitigate liabilities and exposures.
- ◆ Develop and implement ideas to reduce liabilities and exposures.

Risk Management

6.1.4

Risk Management Program Measurement

The measures of how successful Risk Management is meeting its objectives are presented on both a citywide basis and by department where applicable as follows:

Risk Management Objective	Performance Measure
A. Prevent or minimize injuries to employees and the public	<ul style="list-style-type: none"> ◆ Number of workers' compensation claims per 100 FTE's ◆ Number of liability claims per 1,000 population
B. Protect City's capital assets to ensure public service capabilities	<ul style="list-style-type: none"> ◆ Total and average dollar loss per \$1,000 of total insured value (TIV)
C. Minimize the total cost of risk to the City	<ul style="list-style-type: none"> ◆ Total cost of risk as a percentage of total City's budget ◆ Total workers' compensation cost ◆ Average incurred workers' compensation cost per \$100 of payroll ◆ Total liability cost ◆ Average general liability cost per 1,000 population ◆ Total and average insurance premium per \$1,000 of total insured value (TIV)
D. Protect the City against financial consequences of catastrophic accidental loss	<ul style="list-style-type: none"> ◆ Number of catastrophic accidental losses suffered by the City (losses that cost more than \$1M per loss) ◆ Total dollar amount of catastrophic losses

PROCEDURES

The Enterprise Risk Management Procedures are as follows:

1. Risk Identification

This process involves estimating which future events might prevent the achievement of risk management objectives – or enhance the prospects of success. This includes trying to determine where, when, why, and how such events might occur.

2. Risk Assessment/Evaluation

Risk Assessment/Evaluation is the process by which the City determines which risks are more critical than others, and therefore, need to be addressed first. A review of historical loss data and projection of future losses should be included in this step. This work should result in a creation of a Risk Map for the City. The Map identifies major risks, their frequency, and their severity (cumulative cost).

3. Risk Mitigation

Risk Mitigation is the development of a plan to reduce risks and uncertainties. A Risk Mitigation plan needs to identify risk owners to establish accountability for reducing risks. Risk owners include the employees who perform the work, supervisors who ensure employees followed safety procedures and safe practices, and Directors who are responsible for losses and expenditures.

Basic strategies for mitigating risks include:

- ◆ **Prevention:** Modify the activities of the task to lower the probability of loss occurring.
- ◆ **Reduction:** Modify the task to lower the severity of losses when they occur.
- ◆ **Contractual transfer:** Turn the risk activity and/or responsibility for losses over to another party such as vendor/contractor.
- ◆ **Avoidance:** Cease to provide services or conduct an activity considered too risky.

Risk Management

6.1.4

Risk Financing

Risk financing strategies should be a major part of the mitigation plan. These financing strategies could include:

- ◆ **Retention:** Fund losses internally through the City’s resources. An appropriate risk retention level for each fund should be established to ensure cost-effective financing of risks.
- ◆ **Insurance:** Transfer the financial risk of losses to an insurer in exchange for a premium.
- ◆ **Risk Sharing:** Pool risks with other entities so that a large loss is shared by all of the pool members.
- ◆ **Other Capital Products:** Explore other capital products to finance risk such as catastrophic bond and insurance captive.

4. Risk Monitoring

Regular status and performance reports should be submitted to the RMPB to monitor the progress of the Risk Mitigation plan and the achievement of risk management objectives. Regular meetings should also be held with departments (risk owners) to keep them informed of the progress of the Risk Mitigation plan and to make changes if necessary.

_____/s/ Mark Danaj_____

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Approved Date