The University of Texas System
Office of Risk Management

Risk Management Annual Report

Fiscal Year 2003

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AND
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Introduction

The University of Texas System and its 15 component institutions apply the risk management process to eliminate or reduce exposures to accidental and financial loss. This process includes systematic and continuous identification of loss exposures, analysis of these exposures in terms of frequency and severity, and the application of sound risk control and risk financing procedures that are consistent with the U.T. System's financial goals and objectives.

The risk management process is used to:

1. Contain rising insurance costs through comprehensive, in-house property, workers' compensation and other casualty insurance and loss control programs.
2. Control escalating costs associated with workers' compensation insurance by implementing medical cost control initiatives, effective claims management, and reducing occupational injuries and illnesses.
3. Comply with mandated environmental, health and safety measures enacted by the State and Federal governments.

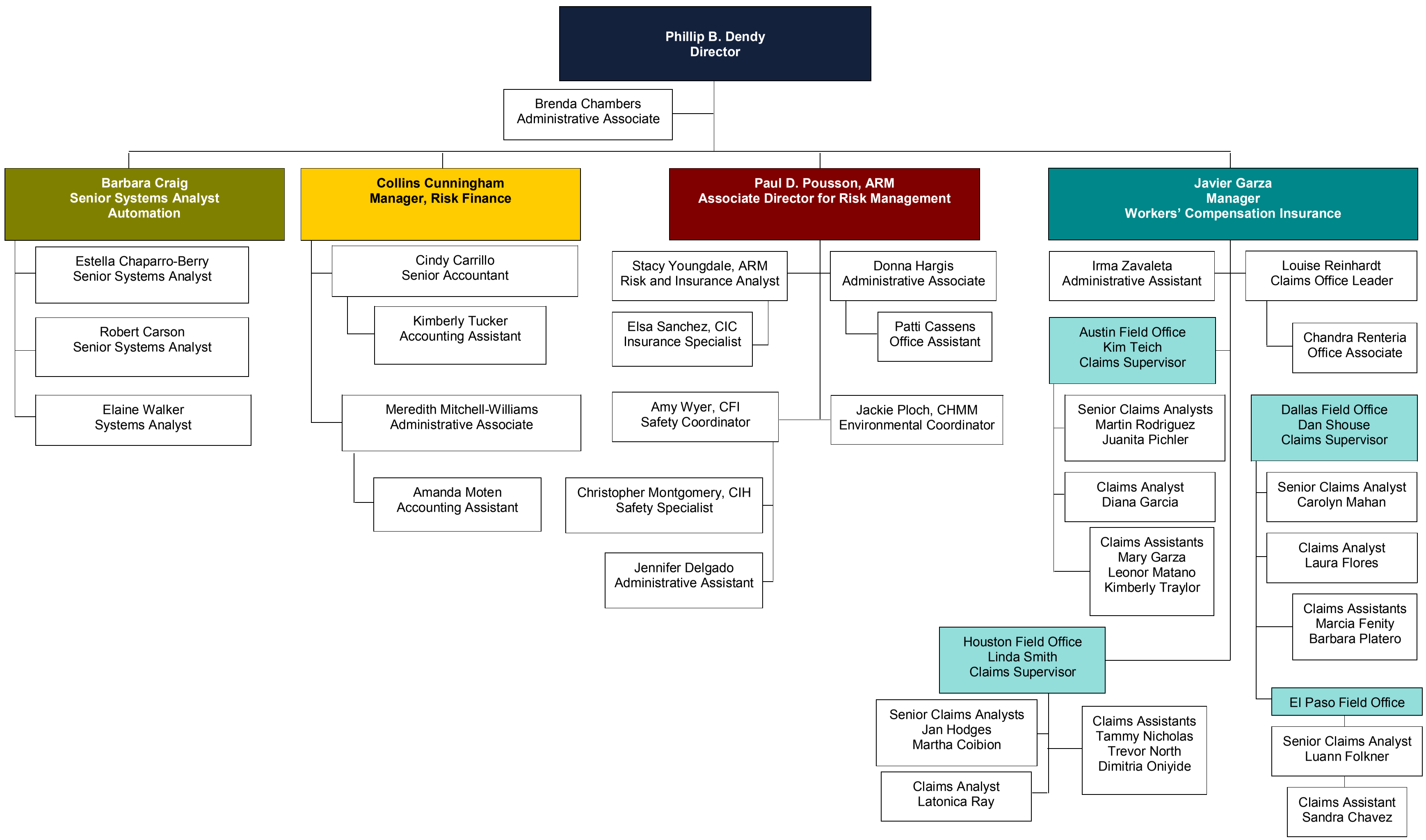
The risk management program is administered by the Office of Risk Management (ORM), which reports to Phillip B. Dendy, Director of Risk Management. The sections within ORM provide comprehensive services to the U.T. System including risk analysis, risk control, risk financing, claim management, fund accounting, and automation development and support.

It is the mission of the Office of Risk Management:

> To protect people, property, the community and the environment and to enhance the well being of students, faculty, and staff through the development and implementation of cost effective, efficient business operations and compliant risk control and risk financing techniques for U.T. System and the fifteen component institutions.

The following report provides an organizational chart and a summary of the results associated with the workers' compensation insurance, property and casualty insurance, environmental health and safety, unemployment compensation insurance, and insurance fund activities undertaken by the department during fiscal year 2003.

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
OFFICE OF RISK MANAGEMENT
ORGANIZATIONAL CHART
NOVEMBER 2003



Workers' Compensation Insurance

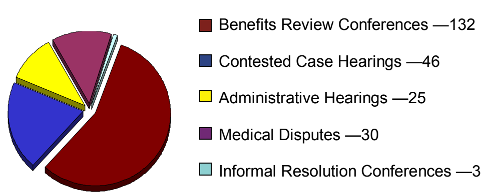
Background

The Workers' Compensation Insurance (WCI) section enhances the well being and physical recovery of employees with work related compensable injuries, through the timely delivery of indemnity payments and the highest quality of health care that is reasonably available under existing statutes and governmental guidelines.

U.T. System self-insures and administers the program from offices located in Austin, Dallas, El Paso, and Houston. The department consists of twenty-five (25) staff members and reports to Javier Garza, WCI Manager.

The primary objective of the WCI staff is to process claims efficiently and in a manner that equitably considers the rights and needs of the employees, encourages the prevention of accidents and protects the interests of the U.T. System. This includes monitoring claims activities, from receiving, investigating, and making liability determinations on claims, to determining whether or not medical treatment and services are reasonable and necessary. The section also generates income benefit payments to injured employees and medical payments to health care providers, represents U.T. System in administrative hearings before the Texas Workers' Compensation Commission (TWCC), and ensures that claims are adjusted in accordance with Texas law. Additionally, the WCI staff recommends premium rates to ensure an appropriate reserve level is maintained to fund the WCI program.

Graph 1.1
FY 2003 WCI Hearings and Conferences



In FY 2003 2,173 claims were filed. U.T. System claims adjusters attended a total of 236 administrative and settlement conferences. Issues addressed before the TWCC included claims compensability, entitlement to a specific type of benefit, length of disability, and average weekly wage. A breakdown of the types of hearings and conferences is provided, to the left, in Graph 1.1.

FY 2003 Developments

Strategic initiatives for FY 2003 focused on data warehousing, claims auditing, and attorney fees.

WCI staff developed and implemented a claims audit procedure that created clear, written guidelines requiring Claims Supervisors to audit claims on a regular basis, ensuring compliance with the Texas Workers' Compensation Act and U.T. System policies and procedures.

WCI also successfully implemented the creation of an automated attorney fee log. It has improved the efficiency of our payment process, reduced the possibility of errors, and ensured timely compliance with TWCC attorney fee orders.

Table 1.1 Unaudited WCI Fund Balance		
Beginning Balance September 1, 2002		$ 46,129,505.99
Adjustment for Close Out		34,005.71
UT System Components	Gross Payroll*	Receipts
UT System Administration	$34,045,964.16	57,026.99
UT Arlington	128,735,908.95	454,946.32
UT Austin	740,471,350.58	2,319,156.27
UT Brownsville	43,462,455.69	100,528.66
UT Dallas	92,000,952.58	250,150.59
UT El Paso	103,208,491.24	450,763.30
UT Pan American	69,303,444.09	298,559.31
UT Permian Basin	12,755,702.68	54,058.73
UT San Antonio	104,691,009.64	304,650.85
UT Tyler	22,035,958.51	35,116.13
UT Southwestern	374,336,074.42	987,885.80
UT MB Galveston	663,634,790.55	2,904,730.68
UT HSC Houston	320,960,329.59	944,586.25
UT HSC San Antonio	239,431,113.33	567,768.64
UT MD Anderson	747,463,025.39	1,595,048.39
UT HC Tyler	57,982,785.09	303,307.97
TOTAL Payroll/Receipts	$3,754,519,356.49	11,628,284.88
Investment and Interest Income		709,305.12
Expenditures from September 1, 2002 to August 31, 2003		(8,836,309.92)
Funds transferred to the Resource Allocation Program (RAP)		(2,000,000.00)
Funds transferred to the Office of Finance		(2,907.00)
Funds transferred to BAS Health & Safety		(411,923.71)
BALANCE August 31, 2003		$ 47,249,961.07

* Unaudited gross payroll as reported by each component on Form WC-3 for FY 2003.

Funding

The WCI program funding is accomplished through a variable rating process which factors component loss history, payroll, and claim frequency into the rate calculation. In FY 2003, the U.T. System WCI program insured 88,735[1] employees. U.T. System component institutions paid an average of $0.32 per $100 of payroll for coverage in FY 2003. In comparison, the average rate of all Texas classification codes per $100 of payroll was $2.71 in 2002[2].

The average WCI premium rate for FY 2003 increased by one cent ($.01) as compared to FY 2002. However, the success of claims management, a focus on accident prevention, and an enhancement to the variable rating system have kept premiums low as compared to the industry average.

Based on a gross payroll of $3,754,519,356.49[3] in FY 2003, the WCI fund balance of $47,249,961.07 is well within the statutory maximum. Refer to Table 1.1, to the left, and 1.2, below, for a detailed analysis.

Table 1.2 Reconciliation of the WCI Account to the Preliminary Unaudited AFR (FY2003)	
Beginning WCI Account Balance September 1, 2002	$ 46,129,505.99
Incurred But Not Reported (IBNR) FY 2002	(21,732,000.00)
Reversal of FY 2002 adjustment	(527.99)
Adjustment for Close Out	34,005.71
AFR Adjusted Beginning Balance September 1, 2002	24,430,983.71
Additions	
Premiums	11,626,209.61
Interest Income	1,376,673.51
Difference between IBNR FY 2001 and IBNR FY 2002	1,578,000.00
Deductions	
Benefit Expenditures	(6,745,105.82)
Administrative Expenditures	(2,091,204.10)
Other Transfers and Adjustments	
Transferred to Environmental Health & Safety	(411,923.71)
Transferred to Office of Finance	(2,907.00)
Transferred to Resource Allocation Program (RAP)	(2,000,000.00)
Market Value Adjustment	(667,368.39)
AFR Ending Balance August 31, 2003	27,093,357.81
IBNR 2003	20,154,000.00
Difference between actual premium receipt and estimated premium used by AFR for August 2003	2,603.26
WCI Ending Account Balance August 31, 2003	$ 47,249,961.07

[1] Source: U.T. System Office of Human Resources personnel inventory for April 2003. Total headcount as reported by component institutions totaled 88,735.
[2] Texas Department of Insurance
[3] Unaudited gross payroll as reported by all U.T. System components, FY 2003.

Resource Allocation Program

The goal of the Resource Allocation Program (RAP), which has been in place since FY 1998, is to maintain a safe physical work environment and to encourage reduction in employee accidents and injuries and the overall frequency and severity of WCI claims. The program provides component institutions with funding that allows them to implement occupational safety and health and WCI initiatives that, while complimenting existing efforts, are outside the scope of their existing safety and WCI program budgets. Under the program, each component institution is eligible to receive financial resources from the WCI fund. The amount of available funds is determined by an annual actuarial study. The program is administered by Environmental Health and Safety (EH&S).

Table 1.3 Resource Allocation Program Distribution for All Components

UT System Components	FY 2003
UT System Administration	$ 53,588.00
UT Arlington	61,405.00
UT Austin	329,441.00
UT Brownsville	53,242.00
UT Dallas	50,938.00
UT El Paso	42,688.00
UT Pan American	44,900.00
UT Permian Basin	28,036.00
UT San Antonio	60,093.00
UT Tyler	28,108.00
UT Southwestern	170,566.00
UT MB Galveston	214,175.00
UT HSC Houston	130,041.00
UT HSC San Antonio	164,394.00
UT MD Anderson	325,669.00
UT HC Tyler	42,716.00
System-wide use	200,000.00
TOTAL	$ 2,000,000.00

Each year, seventy percent (70%) of available funds are allocated to component institutions based on their 3-year loss ratio of premiums-to-expenditures. Twenty percent (20%) of available funds are distributed equally among the component institutions, and the remaining ten percent (10%) of available funds is used for System-wide enhancements. The FY 2003 funding distribution is outlined in Table 1.3, above.

In general, program initiatives focus on reducing on-the-job injury and illness incident rates, correcting unsafe behaviors, enhancing existing employer WCI responsibilities, and improving the physical work environment and other influential organizational issues affecting occupational safety and health. Examples of innovative initiatives implemented by component institutions during FY 2003 include:

- WCI Case Management Initiatives
  U.T. Austin hired a physician and funded pre-employment physicals.
- Material handling improvements
  U.T. Austin, U.T. El Paso, U.T. Pan American, U.T. Tyler, and U.T. H.S.C. Houston.
- Office ergonomics
  U.T. Pan American, U.T. San Antonio, and U.T. H.C. Tyler.
- Patient handling injury related prevention
  U.T. H.C. Tyler and U.T. M.B. Galveston.
- Prevention of slips, trips, and falls
  U.T. Dallas, U.T. Permian Basin, and U.T. Pan American.

Expenditures

In FY 2003, medical and income benefit payments totaled $6,119,575.84 or $68.96 per covered employee. This is a decrease of $15.60 per covered employee.

Table 1.4, to the right, provides detailed information on medical and income payments in FY 2003. Medical expenditures decreased by $564,746.18 (15.5%) from FY 2002.

Expenditures for weekly disability income benefits decreased by $567,015.74 (15.72%), and settlements decreased by $24,448.27 (99%) during the same period. Graphs 1.2, below, and 1.3 on page 5, show the major WCI expenditure categories. WCI benefit payments are illustrated in Graphs 1.4 and 1.5 on page 6. Total benefit expenditures decreased $967,969.75 over FY 2002.

The Unaudited WCI administrative expenditures for FY 2003 are illustrated in Table 1.5, to the right. Costs include claim management, accounting and automation activities.

Medical Cost Control

Cost management services are provided for the WCI program by Medical Business Management Services, Inc. (MBMS). Their services include a complete review and audit of each health care provider bill to ensure that the charges are in compliance with reimbursement schedules as established by TWCC or usual and customary fees. MBMS also provides medical case management services, utilization review services and pre-authorization services.

Table 1.4: Detail of Benefit Expenditures (FY 2003)

UT System Components	Settlements*	Weekly Income Benefits**	Medical Benefits***	Total Benefits
UT System Administration	$ -	$ 0.00	$ 1,137.20	$ 1,137.20
UT Arlington	-	67,594.80	123,619.74	191,214.54
UT Austin	-	306,155.96	430,364.11	736,520.07
UT Brownsville	-	6,132.36	14,357.30	20,489.66
UT Dallas	-	54,553.33	75,691.56	130,244.89
UT El Paso	-	149,490.18	255,145.51	404,635.69
UT Pan American	-	106,396.38	197,873.08	304,269.46
UT Permian Basin	-	11,985.98	11,241.37	23,227.35
UT San Antonio	-	39,636.51	84,334.56	123,971.07
UT Tyler	-	22,329.16	14,340.35	36,669.51
UT Southwestern	-	377,996.41	205,555.49	583,551.90
UT MB Galveston	241.00	1,398,680.66	1,000,284.37	2,399,206.03
UT HSC Houston		104,083.04	112,568.92	216,651.96
UT HSC San Antonio		127,506.16	231,729.95	359,236.11
UT MD Anderson		205,626.93	240,125.01	445,751.94
UT HC Tyler		62,569.38	80,229.08	142,798.46
TOTALS	$ 241.00	$3,040,737.24	$3,078,597.60	$6,119,575.84

* Judgment/Compromise Settlement Agreement.
** Includes temporary total disability benefits, partial permanent disability benefits, temporary income benefits, impairment income benefits, supplemental income benefits, death benefits, and attorney fees.
*** Does not include medical audit or cost management fees.

Table 1.5: Unaudited Administrative Expenditures for WCI (FY 2003)

Types of Expenditures	Dollars ($)
Classified Salaries	$ 1,227,186.54
Administrative Salaries	75,261.00
Wages	385.53
Fringe Benefits	378,981.86
Maintenance, Operation, & Equipment	344,002.49
Travel	65,386.68
TOTAL	$ 2,091,204.10

Graph 1.2
FY 2003 Major WCI Expenditures Categories

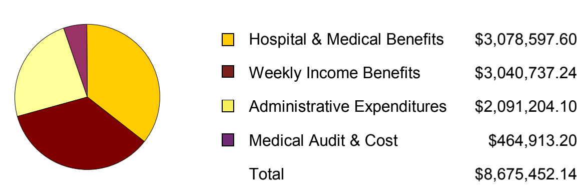


Table 1.6: Analysis of WCI Claims Filed in FY 2003			
UT System Components	*Open Claims	New Claims	**Lost Time Claims
UT System Administration	13	8	1
UT Arlington	99	79	23
UT Austin	934	437	164
UT Brownsville	47	20	4
UT Dallas	57	39	15
UT El Paso	107	107	48
UT Pan American	104	57	27
UT Permian Basin	7	4	3
UT San Antonio	179	120	36
UT Tyler	19	14	2
UT Southwestern	326	174	81
UT MB Galveston	1,287	551	283
UT HSC Houston	367	162	75
UT HSC San Antonio	340	194	65
UT MD Anderson	560	146	77
UT HC Tyler	106	61	11
TOTAL	4,552	2,173	915

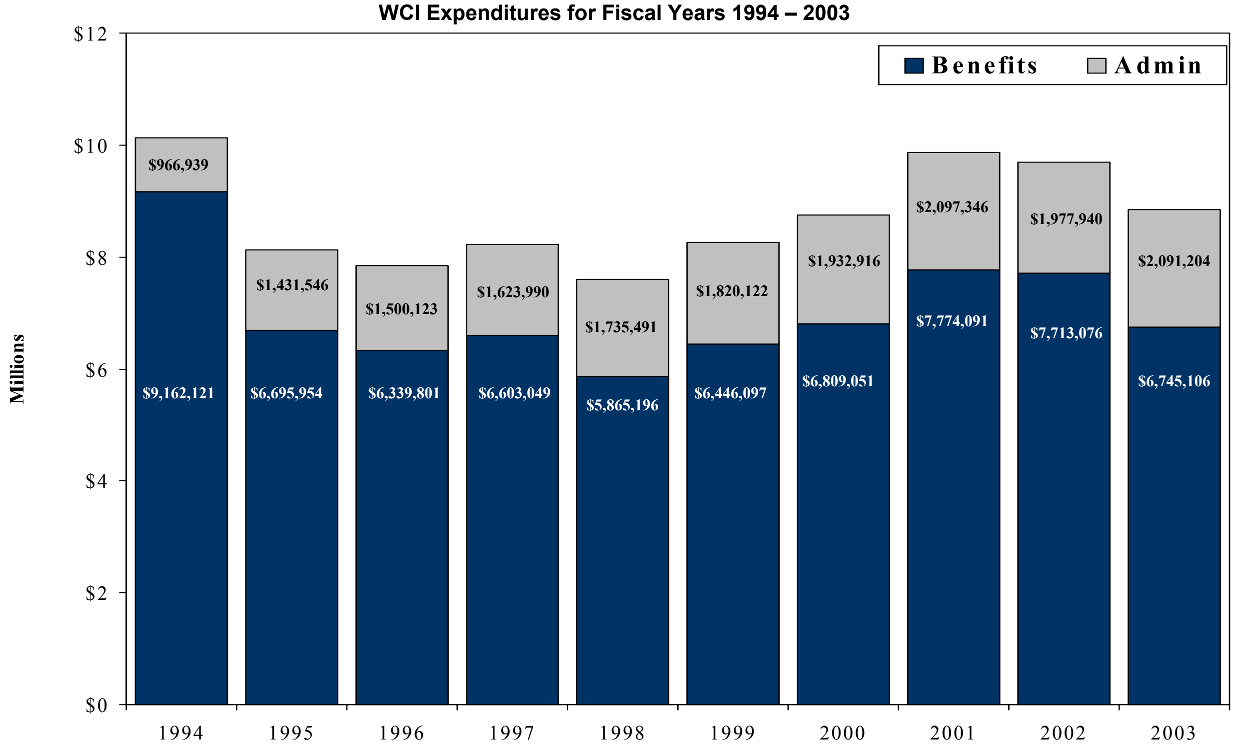
* Open claims from previous fiscal years.
**Claims reported as lost time on the Employer's First Report of Injury and/or with a severity code of 4.

A total of 31,649 invoices for physician services, hospital services, pharmaceuticals and durable equipment were received in FY 2003. A total of $9,792,053.06 in medical charges were billed to U.T. System for that period of time. After auditing those invoices to comply with TWCC rules, fee schedules and/or contracted rates, $3,064,625.90 of the billed charges were recommended for payment.

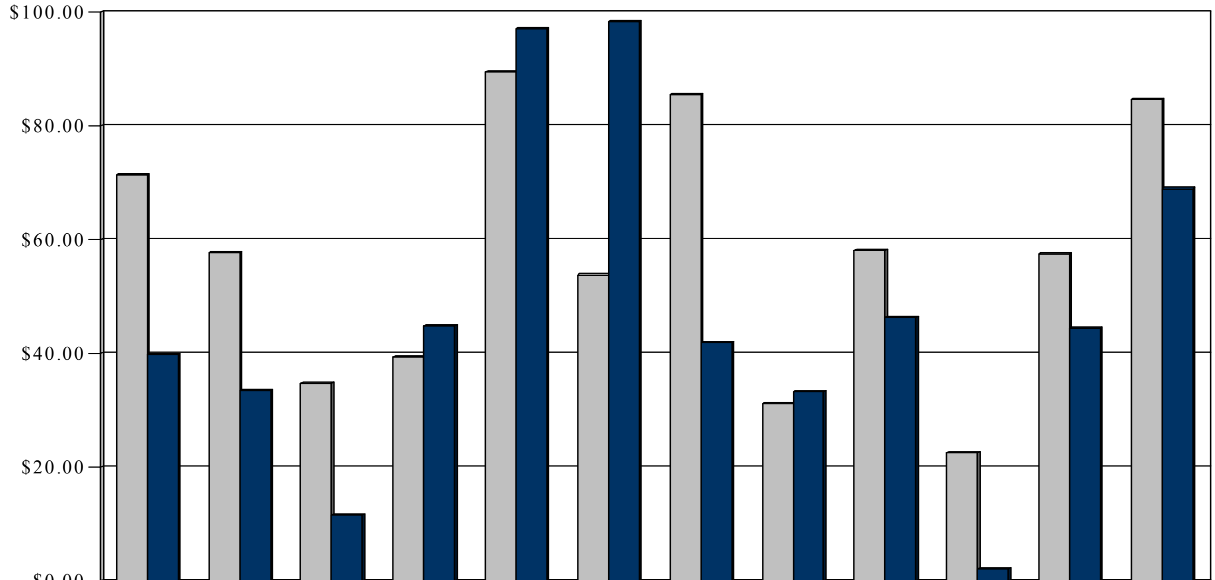
Claims

Total claims filed in FY 2003 decreased by 20 and lost time claims decreased by 52 from FY 2002. Analysis of new claims filed in FY 2003 is provided in Table 1.6, to the left. Graphs 1.6 and 1.7, shown on page 7, illustrate the FY 2003 claim filing rate for each component institution.

Graph 1.3
WCI Expenditures for Fiscal Years 1994 – 2003

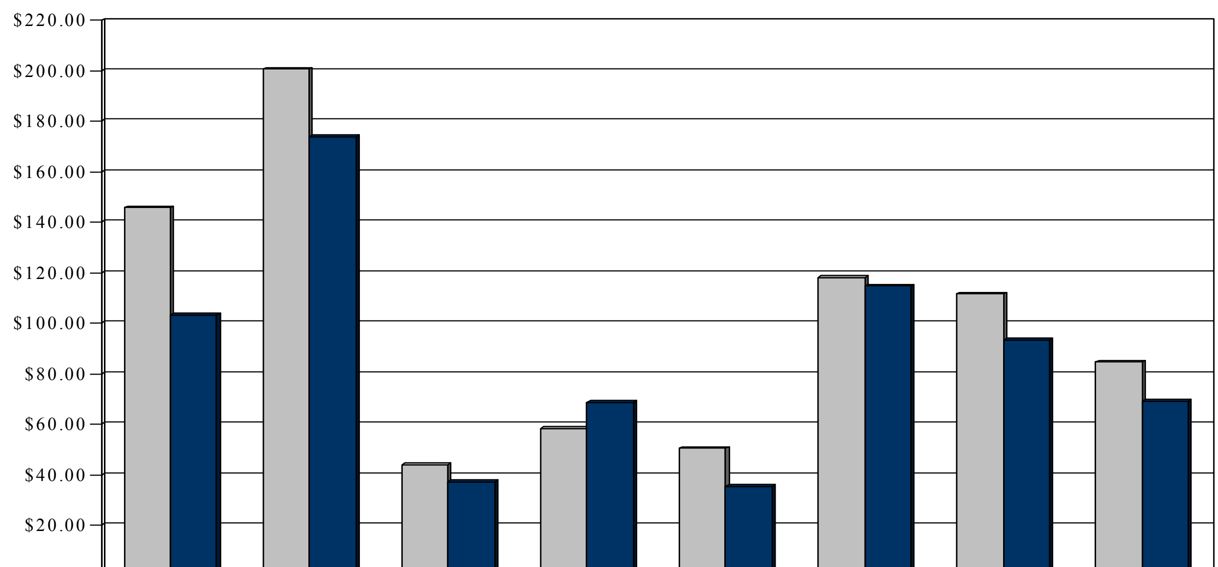


Graph 1.4
WCI Benefit Payments per Employed Person
Academic Components



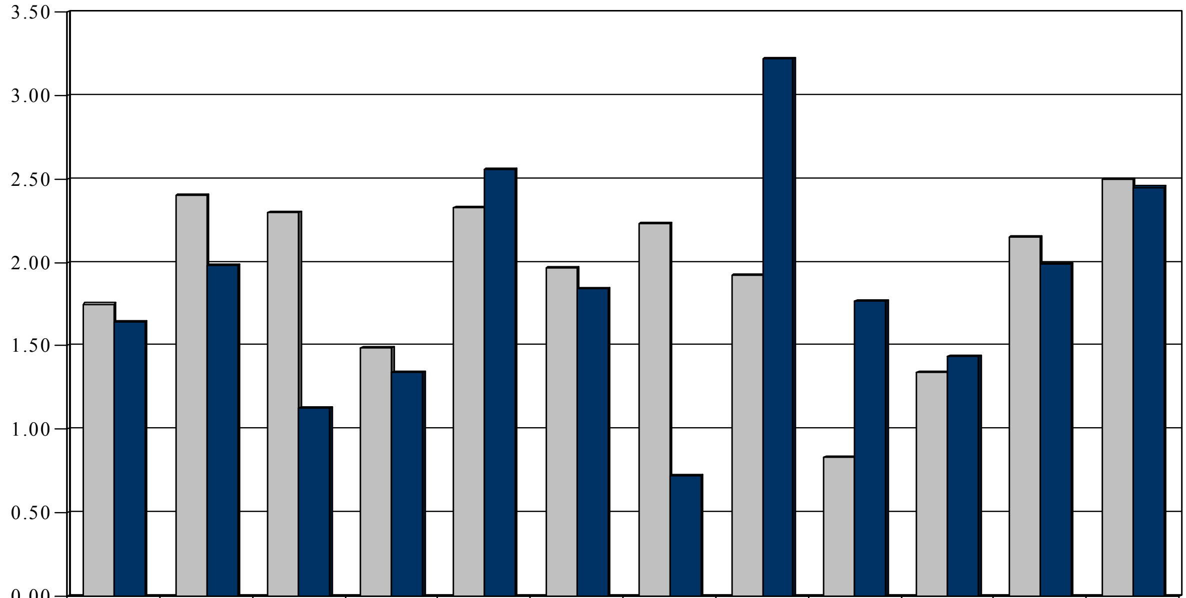
	UT Arlington	UT Austin	UT Brownsville	UT Dallas	UT El Paso	UT Pan American	UT Permian Basin	UT San Antonio	UT Tyler	UT System Admin.	UT Academic Average	UT System Average
FY 2002	$71.36	$57.62	$34.70	$39.43	$89.55	$53.79	$85.45	$31.17	$58.13	$22.43	$57.57	$84.56
FY 2003	$39.78	$33.43	$11.63	$44.85	$97.05	$98.40	$41.85	$33.27	$46.29	$2.04	$44.43	$68.96

Graph 1.5
WCI Benefit Payments per Employed Person
Health Components



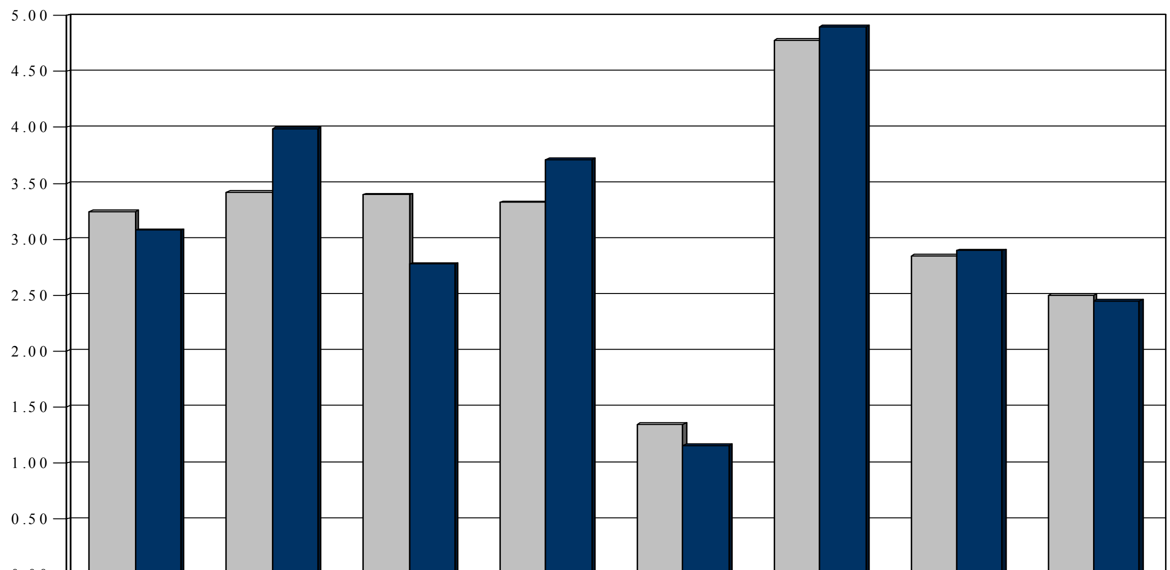
	UTSW Dallas	UTMB Galveston	UTHSC Houston	UTHSC San Antonio	UTMD Anderson	UTHC Tyler	UT Health Average	UT System Average
FY 2002	$145.73	$200.60	$44.06	$58.19	$50.39	$118.11	$111.64	$84.56
FY 2003	$103.21	$173.75	$37.21	$68.70	$35.40	$114.69	$93.51	$68.96

Graph 1.6
WCI Claim Filing Rate per 100 Employees
Academic Components



	UT Arlington	UT Austin	UT Brownsville	UT Dallas	UT El Paso	UT Pan American	UT Permian Basin	UT San Antonio	UT Tyler	UT System Admin.	UT Academic Average	UT System Average
FY 2002	1.75	2.40	2.30	1.49	2.33	1.97	2.23	1.92	0.83	1.34	2.15	2.50
FY 2003	1.64	1.98	1.13	1.34	2.56	1.84	0.72	3.22	1.77	1.44	1.99	2.45

Graph 1.7
WCI Claim Filing Rate per 100 Employees
Health Components



	UTSW Dallas	UTMB Galveston	UTHSC Houston	UT HSC San Antonio	UTMD Anderson	UTHC Tyler	UT Health Average	UT System Average
FY 2002	3.25	3.42	3.40	3.33	1.35	4.78	2.85	2.50
FY 2003	3.08	3.99	2.78	3.71	1.16	4.90	2.90	2.45

Property & Casualty Insurance

Background

The Property & Casualty Insurance program is managed by the Risk Control & Insurance section and incorporates the necessary functions and procedures utilized to protect the various assets of the U.T. System. It involves the:

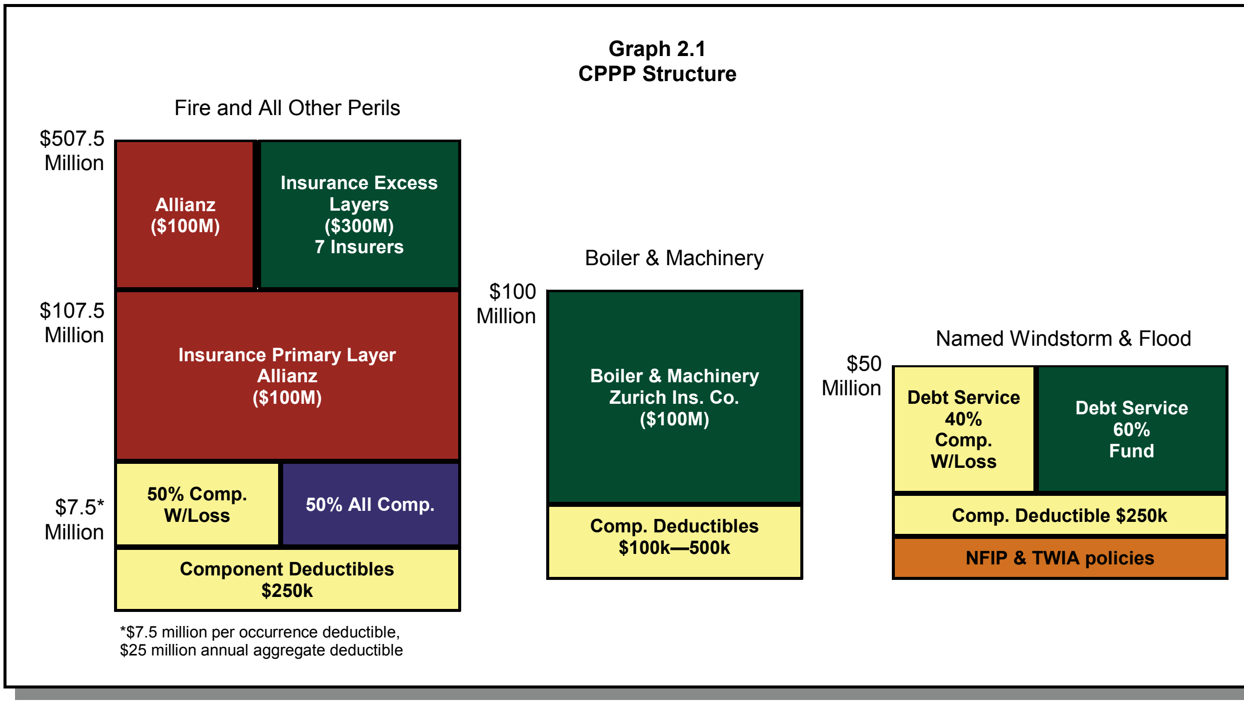
1. Use of insurance as a mechanism for transferring risks from certain property and casualty exposures. Insurance is purchased through pre-qualified brokers that have agreed to specific performance requirements, and that have been briefed regarding the University's risk management philosophy and insurance needs.
2. Use of self-insurance as an alternative to the purchase of insurance coverage when costs become prohibitive.
3. Evaluation of potential exposures created by daily operations, as well as those unique operations that could subject the U.T. System to increased liability exposures.
4. Creation of claims policies and procedures to promote efficient and effective operations in a self-insured or self-funded program.
5. Review of insurance contracts and certificates to ensure that contractors, vendors, and third parties utilizing U.T. System facilities have provided proper coverage and limits.
6. Management of claims to ensure maximum recovery from accidental and financial losses.
7. Delivery of consultative services to U.T. System departments and component institutions regarding risk management and insurance issues.

The Risk Analysis and Insurance staff reports to Paul D. Pousson, ARM, Associate Director for Risk Management, and consists of Stacy Youngdale—ARM, Risk and Insurance Analyst, Elsa Sanchez—CIC, Insurance Specialist, Donna Hargis, Administrative Associate, and Patti Cassens, Office Assistant.

Comprehensive Property Protection Plan

In some cases, it has been determined that the most cost effective means of managing certain financial exposures is through self-insurance or large deductible programs. The most prominent example of this is U.T. System's Comprehensive Property Protection Plan (CPPP), which covers U.T. System's $12.2 billion in property values and $3.3 billion in business income.

A major initiative of the Risk Control & Insurance section for FY 2003 was to stabilize the CPPP in light of recent fluctuations in the insurance market. Because the program's success depends upon a favorable loss history, another initiative for the Risk Control & Insurance section was to enhance the loss prevention services provided to the component institutions. In FY 2003, forty-seven (47) buildings with values in excess of $50 million were inspected, and the property conservation programs at each component were reviewed. These inspections and reviews resulted in several recommendations to prevent and/or minimize property loss. The implementation of these recommendations is currently under review or in process at each campus. In addition, 100 plan reviews were performed for construction projects managed by the Office of Facilities Planning and Construction or by component institutions for property conservation purposes.



The CPPP incorporates both self-insurance and traditional insurance with a high deductible. The plan self-insures property losses caused by named windstorms and catastrophic floods up to $50 million. Traditional insurance with a $7.5 million per occurrence deductible is purchased for losses caused by fire and other perils. The fire and other perils insurance policy also covers loss of income resulting from insured physical damage to U.T. System facilities. The plan also includes coverage for equipment breakdown losses, including loss of income, through a traditional insurance policy.

Graph 2.1, above, illustrates the structure of the plan. Table 2.1, to the right, details the financial activity for both of the CPPP Funds for FY 2003.

Table. 2.1 Unaudited CPPP Balance

Beginning Balance September 1, 2002		$ 6,018,217.77
CPPP –Fire and AOP Fund		
Income		
Premium and Loss Control Reimbursement (net of credits)	$ 2,724,613.96	
Loss Reimbursement—Welch 1996	245,213.40	
Loss Reimbursement—Rec. Center 2001	49,312.46	
Loss Reimbursement—Allison 2001	747,447.54	
Interest Income	175,619.13	
Return Premium	449,786.89	
Salvage Recovery	5,740.88	
		$ 4,397,734.26
Expenses		
Premium and Loss Control Expenses	$ 3,051,264.46	
Claim Expenses	63,961.35	
Wire Transfer Fees	56.50	
		3,115,282.31
Ending Balance August 31, 2003		$ 7,300,669.72
CPPP—Named Windstorm and Flood Fund		
Beginning Balance September 1, 2002		$ 3,000,000.00
Income		
Interest Income	60,447.84	
Expenses		
Claim and Other Expenses		
Ending Balance August 31, 2003		$ 3,060,447.84

Directors & Officers/Employment Practices Liability Self-Insurance Plan

In FY 2003, U.T. System implemented a permanent self-insurance plan for its Directors & Officers and Employment Practices (D&O/EPL) liability. The plan was established after changes in the commercial insurance marketplace yielded renewal terms that were unacceptable. The Risk Control & Insurance section and the Office of General Counsel hired PricewaterhouseCoopers to perform an assessment of U.T. System's risk in this area and to assist with the development of a formal self-insurance plan and reserve fund.

The project with PricewaterhouseCoopers resulted in a permanent D&O/EPL Self-Insurance Plan document and an actuarially determined self-insurance reserve fund of approximately $4.5 million. The component institutions contributed $810,000 to the fund and the Board of Regents allocated $3.7 million to the fund in FY 2003.

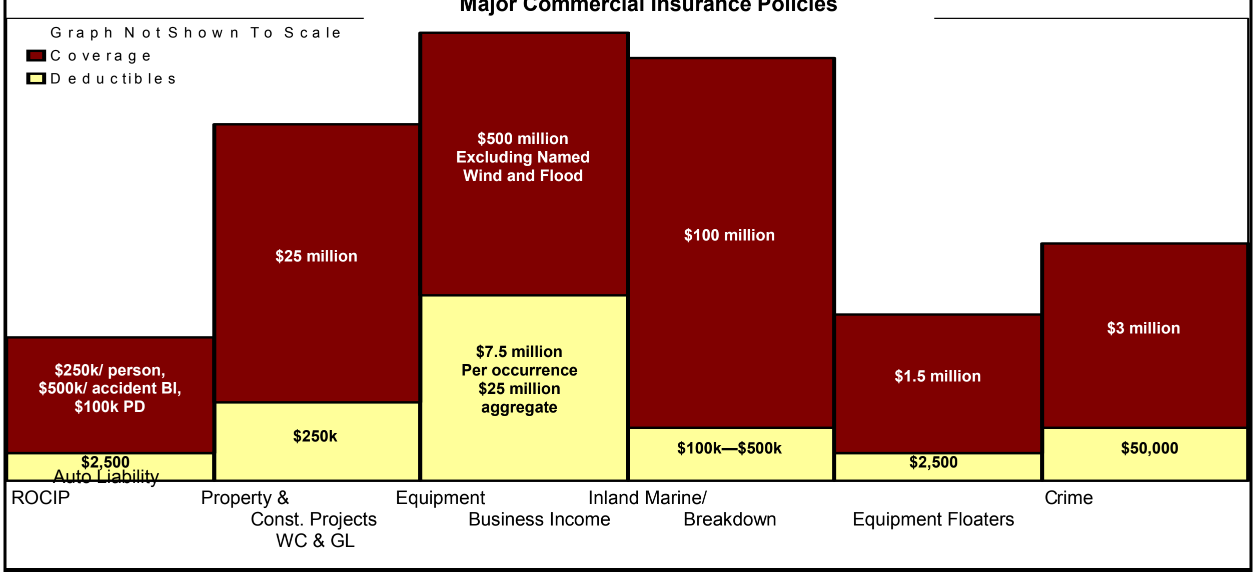
The plan and all reported claims are managed by the Office of General Counsel. The Risk Control & Insurance section provides support for the funding and accounting aspects of the plan.

Traditional Insurance Purchases

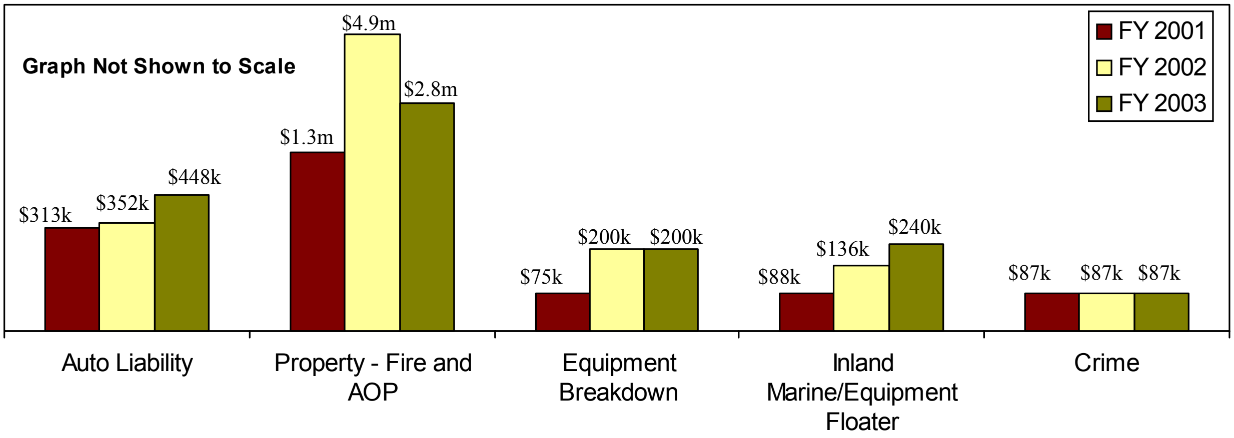
The Risk Control & Insurance section purchased 123 commercial insurance policies during FY 2003. 21 policies were purchased on behalf of multiple or all component institutions and 102 were purchased for the benefit of an individual institution. Graph 2.2, below, summarizes the major commercial insurance policies purchased on a System-wide basis. The majority of policies purchased for individual institutions were National Flood Insurance Program policies, which are written on a per building basis.

Approximately $5 million was spent by U.T. System and the component institutions on commercial insurance premiums for the 123 policies in FY 2003. Graph 2.3, on page 11, depicts the three-year premium for the major system-wide insurance policies. The largest policy in terms of limits, covered values and premium continues to be the CPPP Fire and Other Perils insurance policy, which cost approximately $2.8 million in FY 2003.

Graph 2.2
Major Commercial Insurance Policies

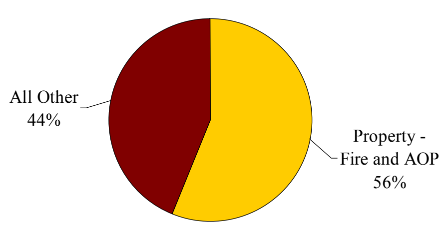


Graph 2.3 3-Year Commercial Insurance Premium History

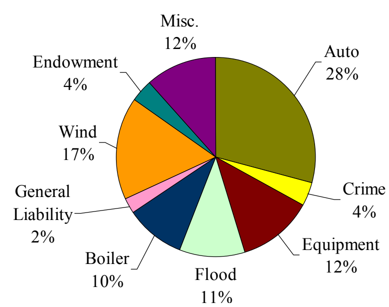


Graphs 2.4 and 2.5, below, show the distribution of premiums among the 123 commercial insurance policies.

Graph 2.4
Premium by Policy in FY 2003

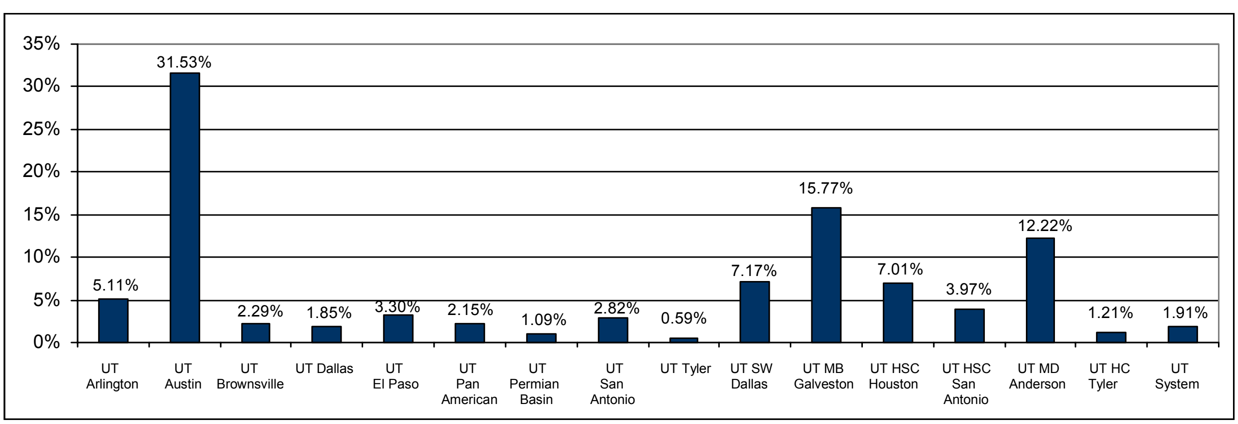


Graph 2.5
Premiums by Policy—All Other



A breakdown of premium payments by component institution for the 123 commercial insurance policies is provided in Graph 2.6, below. U.T. Austin has the highest property values, vehicle count and number of employees, which results in larger premium allocations. U.T. M.B. Galveston's figure is the second largest because it purchased Texas Windstorm Insurance Association policies in FY 2003 to provide windstorm coverage for several of its facilities.

Graph 2.6
Premium Percentages by Component



Rolling Owner Controlled Insurance Program (ROCIP)

The ROCIP program is managed jointly by the Risk Control & Insurance section, Risk Finance, and the Office of Facilities, Planning and Construction. The ROCIP program provides Workers' Compensation and General Liability insurance coverage for all contractors working at designated construction projects. The benefits include lower insurance premiums due to bulk purchasing, consistency of insurance provided on each project, enhanced safety and loss control, and cost savings.

Table 2.2 Schedule of ROCIP Construction Values and Projected Savings

ROCIP Phase	Number of Construction Projects	Total Construction Values (in the millions)	Projected Net Savings (includes Avoided Costs) (in the millions)
ROCIP I	19	$ 205	$ 1.64
ROCIP II	23	298	2.60
ROCIP III (to Date)	28	$ 1,193	To be determined

To date, U.T. System has implemented three separate ROCIP programs. ROCIP Phase I was in effect from June 1997 to June 2000, and ROCIP Phase II was in effect from April 1990 to June 2002. ROCIP Phase III began in July 2000 and will continue until July 2004. Because claims reported under the ROCIP program last for several years beyond the close of the construction projects, it takes several years to finalize the actual savings figures. A schedule of ROCIP construction values and projected savings figures is provided above in Table 2.2. Because ROCIP Phase III construction is still in progress, projecting a savings figure at this time would be premature.

Claims

U.T. System's single largest property loss occurred in June 2001 as a result of Tropical Storm Allison. The total value of the loss exceeded $90 million. The CPPP insurance policies in effect at the time provided coverage for property and equipment breakdown losses resulting from flood, flood movement and water damage. The claim under the all-risk property policy for physical damage losses sustained at UTHSC-Houston and M. D. Anderson is still pending. To date, U.T. System has recovered $50 million under the all-risk property insurance policy. The Risk Control & Insurance section settled the equipment breakdown claim for $25 million in FY 2003.

In FY 2002 U.T. M.B. Galveston's Department of Criminal Justice facility suffered a fire loss resulting from contractor negligence. The Risk Control & Insurance section recovered $460,000 from the contractor responsible for the loss.

U.T. M. D. Anderson reported a large loss in its Pharmacy operation in FY 2002. The loss was the result of employee dishonesty and collusion with a former pharmacy employee. A claim for this loss was settled under the Crime insurance policy for $1.7 million.

The largest loss that occurred in FY 2003 resulted from hail damage at U.T. Dallas in April 2003. Several facilities on campus sustained roof damage during the storm. The total cost of the loss is just under $800,000. U.T. Dallas' deductible for the loss is $250,000, and the CPPP self-insurance fund will pay the balance of $550,000 in FY 2004.

Table 2.3 Vehicle Accidents by Year				
Policy Period	Total # of Accidents	Deductible Paid by U. T. System	Amount Paid ($) by Carriers	Incurred ($) Amount
2000 — 2001	116	$ 100,185.00	$ 211,276.00	$ 226,722.00
2001 — 2002	114	91,646.00	179,982.00	196,405.00
2002 — 2003	94	79,360.00	132,550.00	703,665.00

Notes: **1. Incurred ($) amount— anticipated dollar amount set by insurance company for all costs associated with accidents.**
2. Data is valued as of 8-31-03.

U.T. System reported 94 automobile accidents to its auto liability insurance company in FY 2003. Table 2.3, above, provides a summary of the cost of vehicle accidents paid by year. The significant increase in the 2002-2003 year is largely due to a severe vehicle accident that occurred during a U.T. Austin field trip.

Consultative Services

The Risk Control & Insurance section consults with U.T. System component institutions and U.T. System Administration departments on a regular basis regarding risk management and insurance issues. In FY 2003, the Risk Analysis & Insurance staff reviewed insurance requirements in more than 100 contracts and leases and provided numerous coverage assessments for component institutions. The Associate Director for Risk Management made presentations at several national and regional conferences in FY 2003, including the University Risk Management and Insurance Association's national conference, the National Property Managers Association annual conference and the Risk and Insurance Management Society Central Texas Chapter's quarterly meeting. Risk Control & Insurance section staff also provided lectures as part of U.T. H.S.C. Houston's Comprehensive Environmental Health & Safety Program curriculum offered through its School of Public Health.

Risk Management Advisory Committee (RMAC)

The RMAC is a multi-disciplinary committee comprised of members from each of the 15 component institutions and System Administration. The purpose of the committee is to provide advice and make recommendations on the structure, policies and operation of U.T. System's risk management programs, and to serve as the mechanism for the open exchange of information and ideas among component institutions. The committee is supported by two sub-committees. One focuses on property risk issues and the other focuses on liability risk issues.

The RMAC met in December 2002 and July of 2003. The committee's primary focus in FY 2003 was monitoring the implementation of the D&O/EPL Self-Insurance Plan and instituting a new system-wide Camp Insurance program.

Environmental Health and Safety

Background

The environmental, health, and safety (EH&S) aspects of U.T. System's education, research, and patient care operations require constant review due to new and increasingly complex requirements and technological advances to best practices. The EH&S program is managed by the Risk Control and Insurance section. EH&S staff provide an array of value-added services that help U.T. System: eliminate or reduce its exposure to accidental and financial loss; comply with applicable environmental, health and safety laws and regulations; protect against accidents which could cause injury to faculty, staff, students, patients and visitors; or impede its ability to provide a safe and quality educational experience. The EH&S staff perform important services such as:

1. Conduct loss analyses to assess the U.T. System's EH&S effectiveness and to recommend appropriate action.
2. Research the latest technology to maintain a state-of-the-art EH&S Program.
3. Develop, update, and disseminate EH&S standards, specifications, procedures and guidelines to optimize risk control efforts.
4. Assist component institutions in providing EH&S training and in resolving crucial or unusual EH&S problems as needed or upon request.
5. Develop activities to promote safe work habits and to increase employee EH&S involvement.
6. Perform technical review of proposed EH&S legislation and regulations.

The EH&S staff reports to Paul D. Pousson, ARM, Associate Director for Risk Management, and consists of Amy Wyer, Safety Coordinator, Jackie Ploch, Environmental Coordinator, Christopher Montgomery, Safety Specialist, and Jennifer Delgado, Administrative Assistant. In FY 2003, EH&S staff partnered with the 15 component institutions to identify, develop and deliver initiatives that provide U.T. System employees with productive, safe, environmentally beneficial, and regulatory compliant workplaces. Examples of such initiatives follow.

U.T. System Related Activities

The Eighth Annual U.T. System Risk Management Conference — 163 U.T. System employees attended this annual conference from December 4 - 6, 2002, at the Saint Anthony hotel in downtown San Antonio. For the first time, ORM welcomed the Texas Campus Safety Association's (TCSA) membership to the conference as the Associate Director for Risk Management was president of TCSA. TCSA's attendance expanded networking opportunities for U.T. System employees to over 40 professionals from other colleges and universities across the state of Texas. The professional development opportunities featured during the conference examined critical matters such as bioterrorism preparedness, indoor air quality and mold, National Fire Protection Association compliance, environmental property assessment and clean-up, ergonomics, successful early return to work programs, using functional data for hiring fit-for-duty employees, business interruption insurance, and risk financing. Business officers, EH&S professionals, physical plant directors, purchasing directors, WCI representatives and other U.T. staff were in attendance. The conference was funded using RAP funds distributed in FY 2003 for System-wide use.

Environmental Training — EH&S staff coordinated ten (10) Hazardous Waste Operations and Emergency Response (HAZWOPER) and Department of Transportation (DOT) hazardous materials training classes for 141 U. T. System staff. Federal and state laws mandate refresher training. These classes were provided at no additional charge to U.T. System under the System-wide hazardous waste disposal contract, saving approximately $30,000 a year.

National Fire Protection Association (NFPA) Certified Fire Inspector Certification — EH&S staff worked to assist a total of 41 U.T. System fire safety professionals with obtaining this professional certification. During FY 2002, EH&S staff coordinated a contractual agreement with NFPA to facilitate the certification process. During FY 2003, applicants attended a one-week preparatory course, took and passed a four-hour written examination, and completed a practicum phase that included physical inspection of U.T. System facilities. U.T. System was the first institution of higher education in the United States to enter into such an agreement with NFPA. RAP funds distributed in FY 2003 for System-wide use were used to fund the certification process.

Administration of System-wide Contracts and Service Agreements—

- Disaster Recovery. Successfully negotiated a contract renewal for disaster restoration and recovery services such as document recovery services, telecommunications and electronic media recovery, fire and smoke damage recovery, water damage recovery, and microbial remediation with no increases in rate structure.
- Radioactive Materials Disposal. Successfully negotiated contract renewal with only a 2% increase in rate structure. The minor rate increase was due to increased insurance costs.
- National Fire Protection Association (NFPA) Online Regulations. EH&S staff renewed an annual online subscription to the NFPA's National Fire Codes for System-wide use. A 25-user license was renewed, which allowed for an approximate cost savings of $30,000 across U. T. System. Until FY 2002, individual campuses purchased their own subscription to the codes.
- MSDSPro On-line. EH&S staff renewed an annual service agreement to continue the use of MSDSPro, an online electronic system for Material Safety Data Sheets management. U.T. System and its component institutions are required by law to inform employees of the hazards associated with the chemicals they use in the workplace. MSDSPro assists with meeting this compliance requirement. Prior to the purchase of MSDSPro, individual campuses purchased their own individual licenses to MSDSPro. This System-wide initiative results in an annual cost savings of approximately $49,000.
- Hazardous Waste Disposal. Successfully negotiated a new System-wide non-exclusive contract adding more services and reducing rates by approximately 15% from the previous contract. All 15 component institutions are using this non-exclusive System-wide contract.
- Spill and Emergency Response Contract. Successfully negotiated and entered into a new, non-exclusive System-wide contract for hazardous material spill and emergency response services. Service prices are lower than the existing State-wide contract.

U.T. System Police Academy Hazardous Materials Awareness Training — State and Federal regulations require that U.T. System police cadets be trained to understand their responsibility should a hazardous materials incident occur on their campus. During FY 2003, EH&S staff conducted two (2) eight-hour training sessions to educate 39 cadets on these responsibilities.

Environmental Advisory Committee — EH&S staff provides consultative and technical assistance to the U.T. System Environmental Advisory Committee (EAC) and its workgroups which consist of a Radiation Safety Officer Advisory Group, Biological and Chemical Safety Advisory Group, and a Fire Life and General Safety Advisory Group. EH&S staff also participated in two (2) EAC meetings and two (2) of each of the workgroup meetings to facilitate the implementation of the committee and workgroups' objectives.

Risk Assessment — EH&S staff and component EH&S staff coordinated and/or conducted on-site assessments at the three (3) hazardous and radioactive materials disposal facilities to control long-term risks associated with lifetime liability for waste management.

EH&S Peer Reviews — At the direction of the U.T. System Compliance Officer, each component institution's EH&S Department has agreed to perform a peer review of high-risk areas at their institution every three years. EH&S staff participated in the peer review of the U.T. H.S.C.-Houston EH&S function.

System-wide Disaster Recovery Mutual Aid Agreements – Disasters tend to occur at the most inconvenient times and recovery can be a very timely, costly, and stressful process. For example, following a disaster, not all faculty and staff are available to report for duty due to environmental conditions and/or personal loss. Local vendors may also be affected by the disaster and unable to provide supplies, services and equipment to aid in the recovery effort. Disaster preparedness and recovery planning is critical to reduce the consequences of natural and man-made disasters. Recovery operations are the central focus during a disaster, but an integrated approach to mitigation planning will prevent or reduce the degree of risk and encourage development of planning activities to enhance emergency communications, as well as response and recovery capabilities. In FY 2003, ORM, the Office of Facilities Planning and Construction and a working group of component representatives established a comprehensive system for lending mutual aid within U.T. System and its fifteen component institutions in the event of a disaster.

Regental Fire and Life Safety Review Policy for Acquiring or Leasing Real Property with Structures – EH&S staff worked with the U.T. System Environmental Advisory Committee, the Real Estate Office and Office of Facilities Planning and Construction to adopt this policy. The purpose of the policy is to have component institutions make appropriate advance inquiry as to existing fire and life safety features of any building proposed to be used for campus purposes. The adoption of the policy further demonstrates U.T. System's commitment to fire and life safety protection and compliance with NFPA *Life Safety Code* requirements.

National Pollution Prevention Grant Award — EH&S staff continued to administer a $52,000 pollution prevention grant received from the Environmental Protection Agency (EPA), Region VI during fiscal year 2003. This grant supports a two-year project to reduce mercury-bearing devices in research and facilities management at four (4) participating component institutions: U.T. H.S.C. – San Antonio, U.T. H.S.C. – Houston, U.T. Pan American, and U.T. Medical Branch in Galveston.

Hazardous Materials Security Plan— EH&S staff developed a model Hazardous Materials Security Plan to meet new Homeland Security and Federal Department of Transport requirements. It has been used by all component institutions. EH&S staff worked with Radiation Safety Officers and West Texas Operations to develop a site-specific plan for the U.T. System Interim Storage Facility. Since security training is also required, EH&S staff negotiated with U.T. System's Waste Disposal Contractor to provide System-wide security training at no additional cost.

15 Passenger Van Training - EH&S staff facilitated System-wide training to assist component institutions with a Business Procedure Memorandum (BPM) Number 16 requirement to ensure that 15-passenger vans be operated only by experienced drivers who understand and are familiar with the handling characteristics of the vans. 31 component representatives attended the training and are charged with administering the program at their respective campuses.

U.T. System Administration Related Activities

Professional Development for U.T. System Administration Employees — EH&S staff coordinated and provided 12 employees with National Safety Council First Aid training; 31 employees with Healthcare Provider CPR and Automated External Defibrillator (AED); 14 employees with emergency evacuation chair training; 25 employees with fire extinguisher training; and 62 employees with general safety training as part of New Employee Orientation.

Department Safety Liaison (DSL) Program — EH&S staff continued to coordinate the DSL program. Activities and topics discussed during quarterly meetings include: orientating DSLs of their roles and responsibilities related to work area inspections and the U.T. System Administration Emergency Response and Evacuation Plan; training on the Service Order System (SOS); updating the DSL manual; reviewing lessons learned from the November 2002 Austin tornadoes; training on the location and content of disaster preparedness cabinets; and hands on fire extinguisher training.

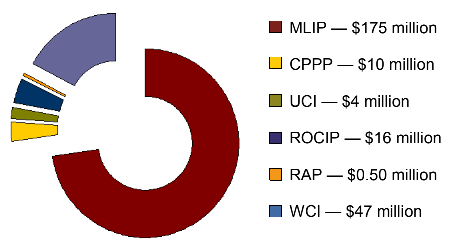
Frank I. Cornwall Firing Range — EH&S Staff worked with the Office of the Director of Police (ODOP) to develop guidelines for reducing lead (Pb) exposure risks associated with the use of handguns within the range. Administrative controls such as a pre-safety briefing for entrants, access control, signage, housekeeping, and safety work practices were developed for implementation by ODOP. Engineering controls, personal protective equipment standards, and hazardous material handling procedures were also developed and implemented.

Risk Finance

Background

The Risk Finance section is staffed by the Manager of Risk Finance, Collins Cunningham, a Senior Accountant, Cindy Carrillo, an Administrative Associate, Meredith Mitchell-Williams, and two Accounting Assistants, Amanda Moten and Kimberly Tucker.

Graph 3.1
Fund Balances for FY 2003



Risk Finance, in conjunction with WCI, the Office of Human Resources (OHR), Risk Control and Insurance, the Office of Facilities, Planning and Construction (OFPC) and the Office of General Counsel (OGC), manages a variety of self-insurance programs with fund balances which totaled over $252 million in FY 2003. Graph 3.1 provides a summary of fund balances for the self-insurance programs. In FY 2003, Risk Finance reconciled 115 U.T. System budget groups.

Below are brief descriptions of some of the duties performed in FY 2003 on the following self-insured programs:

Workers' Compensation Insurance (WCI)

WCI is a complex program that demands extensive accounting management functions. Risk Finance is responsible for receiving biweekly transmissions for medical payments and collecting the monthly WCI premiums from all components. In FY 2003, Risk Finance collected a total of $11,628,285 in premiums and created approximately 1,300 medical and indemnity vouchers totaling more than $6.7 million. Additionally, Risk Finance set up approximately 125 vendors monthly to facilitate the invoice process and reconciled over 27,224 transactions for this program.

Resource Allocation Program (RAP)

In FY 2003, Risk Finance tracked $5 million of RAP funds distributed in FY 2002 and FY 2003. Component institutions submit an annual progress report with details for each initiative. The reports are monitored and reconciled to verify proper distribution.

Unemployment Compensation Insurance (UCI)

In FY 2003, Risk Finance collected $2.2 million in premiums from the component institutions. In compliance with the Texas Workforce Commission's Fund Source Statements, the State Treasurer was reimbursed in excess of $2.7 million for UCI claims paid to former employees of the U.T. System.

Medical Liability Insurance Plan (MLIP)

The Medical Liability Insurance Plan (the Plan) currently insures approximately 6,622 faculty physicians, residents and fellows, and 4,154 medical students. The plan is administered by the Office of General Counsel.

In FY 2003, the ending fund balance totaled $175 million. Risk Finance printed and distributed over 10,000 medical liability certificates and handbooks to the appropriate institutional components. The department also monitored licensure compliance on a monthly and quarterly basis for each participant enrolled via the Texas State Board of Medical Examiners online database. Expired license reports are submitted on a monthly basis to each component.

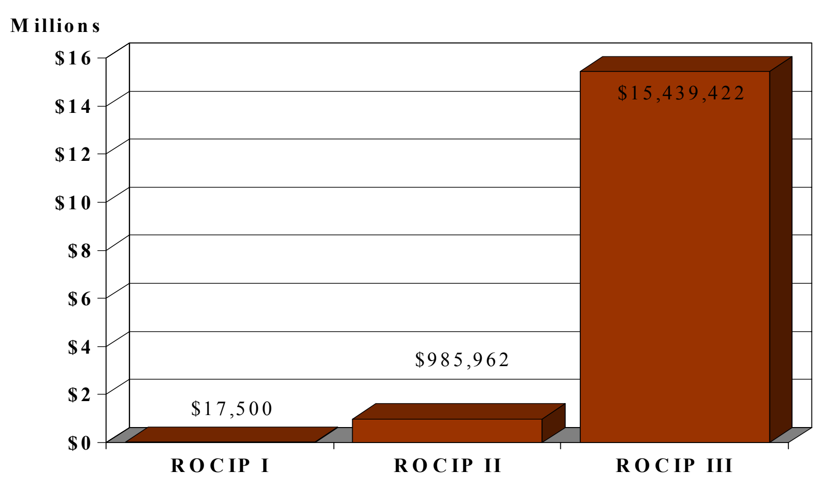
Risk Finance handles billing and collections for the Plan on a quarterly basis. The amount of receipts totaled $24 million in FY 2003. The MLIP rebate for FY 2003 was $50 million because of anticipated savings from tort reform. Approximately $5 million of the rebate was set aside for special Risk component projects.

Risk Finance processed over 1,992 invoices for payment of legal fees and liability settlements in excess of $14 million for the fiscal year. This process involves the verification of documentation to ensure proper payment to outside legal counsel and miscellaneous vendors. This requires reconciling the MLIP fund balance to UTIMCO, Office of Finance and Office of Accounting at U.T. Austin on a monthly basis.

Rolling Owner Controlled Insurance Program (ROCIP)

Risk Finance maintains the individual billing records and reconciles the fund balance of the three ROCIP phases. Each construction project is billed a rate against construction value that are used to pay ROCIP premiums, administrative expenses, and claims. ROCIP Phases I and II are at the end of their cycle and have paid most of their premium billing and claims cost. ROCIP III is the current phase and still has substantial activity remaining. Graph 3.2. reflects ROCIP fund balances at the end of FY 2003.

Graph 3.2 ROCIP Fund Balance



Comprehensive Property Protection Plan (CPPP)

Risk Finance records and maintains expenses and premium income for the CPPP and wires claim payments from the fund to component institutions for losses exceeding their deductible.

Unemployment Compensation Insurance

Unemployment Compensation Insurance (UCI) is an employer-paid insurance program to assist workers who are unemployed through no fault of their own. It provides temporary financial assistance to qualified individuals while they search for other work. Table 4.1, below, provides the unaudited UCI fund balance.

Background

The U.S. Congress passed legislation in 1970 requiring states to cover employees of state hospitals and state institutions of higher education under their respective unemployment insurance acts. In 1971, the Texas Legislature passed legislation to provide unemployment compensation insurance coverage for all state employees. Following this legislation, the U.T. System UCI program was established.

In accordance with the *Regents Rules and Regulations*, it was the responsibility of U.T. System Administration's Office of Human Resources to administer an UCI program and fund to pay claims. This responsibility was transferred to the ORM in September 2003.

As a reimbursing employer, U.T. System reimburses the State Unemployment Trust Fund for any claims paid by the Texas Workforce Commission (TWC) to former employees of U.T. System in lieu of paying UCI taxes. ORM reimburses TWC on a quarterly basis and monitors the monthly receipt of UCI premiums from the component institutions. Reimbursements to TWC are for benefits paid to former employees whose salaries were paid from funds other than General Revenue. Each component institution reimburses the State Unemployment Trust Fund for one-half of the cost of benefits paid to former employees who were paid from General Revenue funds.

Table 4.1 Unaudited UCI Fund Balance

Beginning Balance September 1, 2002		$ 4,530,057.81
UT System Components	Gross Payroll*	Receipts
UT System Administration	$ 4,071,959.89	24,924.58
UT Arlington	15,179,588.62	70,626.27
UT Austin	97,523,042.33	557,366.80
UT Brownsville	3,662,115.35	26,848.63
UT Dallas	8,244,012.63	85,280.07
UT El Paso	12,188,835.80	68,543.53
UT Pan American	4,853,014.93	28,760.12
UT Permian Basin	593,222.82	3,401.88
UT San Antonio	10,884,751.88	52,915.71
UT Tyler	560,071.03	7,469.27
UT Southwestern	42,740,612.10	251,216.31
UT MB Galveston	31,258,609.35	169,941.89
UT HSC Houston	34,176,743.15	173,286.73
UT HSC San Antonio	28,985,213.31	146,510.11
UT MD Anderson	33,366,812.62	488,983.25
UT HC Tyler	13,520,443.83	60,264.83
TOTAL Payroll/Receipts	$ 341,809,049.64	2,216,339.98
Investment Income		66,638.07
Expenditures from September 1, 2002 to August 31, 2003		(3,101,211.50)
Adjustment (a)		(895.37)
Adjustment (b)		(692,697.00)
Adjustment (c)		3,745.35
Adjustment (d)		523,229.00
Adjustment (e)		(969.00)
Adjustment (f)		(10,164.00)
Adjustment (g)		(127.20)
Ending Balance August 31, 2003		$ 3,533,946.14

* Assessable wages as reported by component institutions.
** See Tables B and C for breakdown of expenditures.
(a) Difference between actual premium receipts and estimated premiums used by AFR for August 2003.
(b) Accrual for July and August 2003 TWC payment.
(c) Reversal of FY 2002 difference between actual and estimated premiums for August 2002.
(d) Reversal of FY 2002 accrual.
(e) Transfer for portion of wages for Office of Finance.
(f) Transfer for portion of wages for Business and Administrative Services.
(g) Transfer to 54-0223-0109.

Fund Balance, Premium Receipts, and Claims

In FY 2002, the assessment rate was $0.475 per $100 of assessable wages (assessable wages are the first $9,000 of compensation per employee) for each component institution. This assessment rate was applied to the payroll of employees paid from funds other than General Revenue funds.

In FY 2003, an actuarial review was conducted that indicated a need to increase the overall rate to $0.70. Because this was such a significant increase and there were sufficient funds in the balance, the increase was scaled back to $0.59, pending a further review of the program.

Table 4.2
Fund Balance, Premium Receipts, and Claims for FY 2003

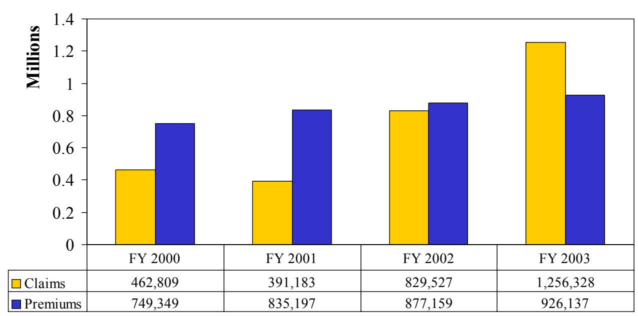
Fiscal Year	Year End Fund Balance	Investment Income	Premiums	Claims
2000	$ 4,342,943	$ 286,293	$ 1,623,639	$ 1,621,132
2001	4,692,531	272,828	1,723,922	1,451,413
2002	4,530,058	116,984	2,241,902	2,092,918
2003	3,533,946	66,638	2,216,340	2,770,789

Claim activity increased significantly in FY 2002 and 2003 due to the slow recovery from a sluggish economy and a reduction of force at many institutions.

Table 4.2, above, illustrates the total fund balance, premiums received, and claims paid for FY 2000 through FY 2003. Additional detail for academic and health component institutions are provided in Graphs 4.1 and 4.2, to the right. The fund balance has remained relatively stable prior to 2003. The reduction in the fund balance in 2003 can be attributed primarily to the increase in claim activity.

Table 4.3, on page 22, provides unaudited UCI receipts to benefits paid by the U.T. System Administration and component institutions.

Graph 4.1 Academic Institutions Claim and Premium Comparison



Graph 4.2 Health Institutions Claim and Premium Comparison

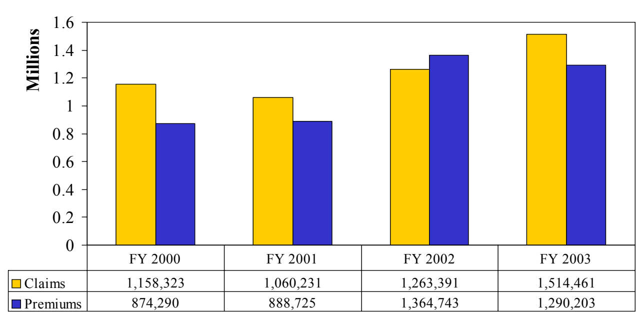


Table 4.3: Unaudited UCI Receipts to Benefits Paid					
UT System Components		Premiums	% of Premiums	Claims	% of Claims
UT System Administration	$	24,924.58	1.12	$ 32,631.38	1.18
UT Arlington		70,626.27	3.19	90,450.37	3.26
UT Austin		557,366.80	25.15	720,710.77	26.01
UT Brownsville		26,848.63	1.21	123,681.57	4.46
UT Dallas		85,280.07	3.85	56,561.02	2.04
UT El Paso		68,543.53	3.09	63,077.80	2.28
UT Pan American		28,760.12	1.30	70,825.52	2.56
UT Permian Basin		3,401.88	0.15	4,038.96	0.15
UT San Antonio		52,915.71	2.39	91,801.08	3.31
UT Tyler		7,469.27	0.34	2,549.59	0.09
UT Southwestern		251,216.31	11.34	353,079.10	12.74
UT MB Galveston		169,941.89	7.67	429,053.23	15.49
UT HSC Houston		173,286.73	7.82	293,906.71	10.61
UT HSC San Antonio		146,510.11	6.61	91,801.08	4.42
UT MD Anderson		488,983.25	22.06	290,890.45	10.50
UT HC Tyler		60,264.83	2.72	25,022.67	0.90
TOTALS	$	2,216,339.98	100.00	$ 2,770,788.86	100.00

Future Developments

With the transfer of the UCI program to ORM, and because the program has had a significant increase in activity in the last year, a comprehensive review of the system-wide program will be performed. The Director of Risk Management will lead a task force that will evaluate and make recommendations on:

- Overall administration of the System-wide program.
- Appropriate funding levels and allocation methodologies.
- Claim administration.

Each institution has appointed a member to the task force, which is comprised of a multi-disciplinary group consisting of members of the Risk Management Advisory Committee, Human Resources, Payroll, and business professionals. The task force will meet in FY 2004 and will complete the recommendation prior to the budget cycle for implementation in FY 2005.