

FISCAL YEAR 2011 ANNUAL REPORT

RMTD



RISK MANAGEMENT AND TORT DEFENSE DIVISION

*STATE OF MONTANA
DEPARTMENT OF
ADMINISTRATION*



ORO -Y- PLATA

Administrator's Message

Our families, lives, work, and well being are often affected by choices that involve risk.

As state government's internal insurance provider and tort litigation resource, the Risk Management & Tort Defense Division (RMTD) strives to protect its customers from the consequences of unexpected, unintended losses that may arise from state and university operations.

Claims

Record winter snowfall and late spring rain resulted in extensive flooding throughout Montana.

However, fewer than 10 state properties were affected and total flood losses are projected to be less than \$300,000. Our expert and dedicated claims staff worked tirelessly throughout the flood season to assure that state properties were repaired in an expeditious manner.

Legal staff provided excellent representation for state and university clients consistent with the division's philosophy of investigating, evaluating, and resolving claims that have merit and preparing the remaining cases for summary judgment or resolution at trial.

Commercial Insurance

The division secured increased limits for state and university properties in flood zones and for state operations with business income.

In addition, the division negotiated an annual aggregate limit which caps losses for state properties at \$3 million per year and protects state funds from multiple, catastrophic events.

The state's property insurance rate declined 1% at the July 1, 2010, renewal.

Loss Control

Ninety four classes were offered to approximately 2,200 state and university employees.

Loss control plays a vital role in preventing claims and lowering the costs of the state's commercial and self-insured programs.

The average auto liability premium for a state passenger car during FY 2011 was \$97 as compared to \$645 for a private passenger vehicle.

Looking to the Future

The true value of risk management is its ability to mitigate future loss.

The Risk Management & Tort Defense Division will continue to work closely with state and university clients throughout Montana to identify and manage risk.

Together, we can effectively protect and preserve the state's vital assets and resources.

THANK YOU FOR YOUR SUPPORT!

Brett E. Dahl

Administrator



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Mission Statement

To serve, satisfy, and support our customers.

Goals

- *To provide effective and efficient legal defense for claims and lawsuits filed against the state under the Montana Tort Claims Act.*
- *To maintain financial stability of the state property/casualty insurance fund.*
- *To provide comprehensive, cost-effective property/casualty insurance solutions for Montana state government.*
- *To assist state agencies in establishing effective risk management programs.*

FY 2011 Achievements

- Total expenditures for claims reached a five year low.
- A record number of state properties (200) were inspected by division loss prevention staff. Numerous recommendations were generated and submitted to state and university clients.
- The state property/casualty insurance fund realized a net operating gain of almost \$5.8 million.
- The state property/casualty insurance fund's reserve position increased from \$8.5 million to \$12.9 million.
- The division offered \$546,644 in insurance premium discounts to state agencies and universities that participated in loss prevention programs.
- The division awarded approximately \$234,228 in loss mitigation grants for projects, equipment, and training that prevent or mitigate potential risks.
- Approximately 2,200 state and university employees attended risk management training sponsored by division loss prevention consultants.
- Increased limits were secured for state and university properties in flood zones and for state and university operations that generate business income.
- An annual aggregate limit was negotiated for state properties to cap annual losses at \$3 million thus protecting the state property/casualty insurance fund from multiple, catastrophic events.



Property/Casualty Insurance

The Risk Management and Tort Defense Division administers a comprehensive and cost-effective plan of insurance protection for state agencies (§2-9-201, MCA).

Purpose & History

During the early 1970's, Montana State Government lost its sovereign immunity. Consequently, the state purchased commercial liability insurance to protect itself from third party litigation.

The risky nature of state services coupled with the high cost of commercial insurance and poor insurance market capacity, forced the state and most other public entities to self-insure their liability risks in the mid-1970's.

State law (§2-9-101, MCA through §2-9-305, MCA) authorizes the Department of Administration to assess state agencies for the costs associated with claims investigation, claims evaluation, claims resolution, and administration of commercial and self-insured programs.

The Risk Management & Tort Defense Division may elect to insure auto, aviation, boilers & machinery, fidelity bond, fine art, liability, and any other risks that are deemed necessary and cost-effective.

The cost of the state's commercial insurance was very stable in FY 2011. The division experienced no insurance premium rate increases at policy inception.



Common Insurance Terms

Claim - means a demand for monetary damages due to personal injury or property damage caused by a negligent act or omission of the State.

Deductible - is the amount paid by a state agency or the amount paid by the Risk Management & Tort Defense Division before a commercial insurance payment is applied to a loss.

Exclusion - means an activity, event, or asset that is not covered by insurance.

Insurance Recoveries - means reimbursements from insurance carriers for covered losses.

Liability - means a claim for personal injury or property damage that may arise from a negligent act or omission of the state.

Losses Paid - means payments made for settlements or judgments each fiscal year.

Loss Expenses - means expenses for legal fees, adjuster fees, and court costs.

Net Premiums Earned - means budgeted premiums less insurance premium discounts.

Operations Expenses - means expenses associated with personal services, operating expenses (i.e. rent, supplies, travel, contract services, etc.), and equipment.

Auto Insurance Program Results

State agencies own or lease 6,300 vehicles. State vehicles were used for diverse and ‘high risk’ activities such as highway maintenance, law enforcement, construction, and ‘off-road’ travel.

Insurance Administration

The division administers two self-insured programs in behalf of state government.

- Auto Comprehensive/Collision Insurance - physical damage coverage is provided for approximately 2,169 state owned/leased/loaned vehicles.
- Auto Liability Insurance - liability coverage is provided for approximately 6,300 vehicles to protect state agencies against claims arising from personal injury or property damage.

Claims Activity

(Figure 1)

The objective of our claims unit and legal unit is the effective disposition of auto claims at the lowest possible cost consistent with ethical obligations and the need to establish acceptable precedent.

The division employs qualified adjusters and attorneys who have extensive training and experience.

The time it takes to process an auto liability claim varies greatly from one claim to another and may be affected by workload and case complexity.

A summary of auto claim activity for FY 2010 and FY 2011 is provided above in Figure 1.

Figure 1

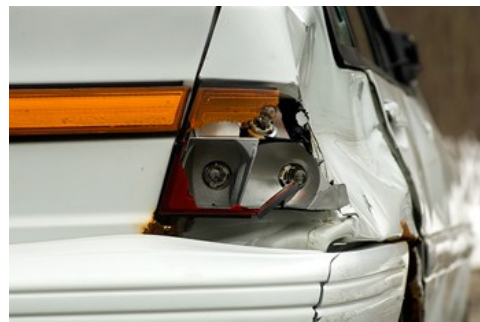
Auto Liability Claims Activity			
as of 06/30			
	# Claims Received	# Claims Resolved	# Claims Open
FY 2010	154	186	33
FY 2011	186	165	54

Key Claims

Several Montana University System vehicle accidents resulted in significant payouts to third parties for vehicle damage and minor injuries.

University system claims accounted for more than a third of all auto liability claims paid in FY 2011. A few large accidents involving the Department of Labor & Industry and Fish, Wildlife, & Parks developed into fairly expensive claims.

Department of Transportation snowplow and vehicle claims accounted for almost 25% of all claims paid. Large payouts involving the Montana Highway Patrol and the Montana Heritage Commission were also made in satisfaction of claims involving their drivers.



Auto Insurance Program Results (cont'd)

Auto Liability Claims Trends

(Figure 2)

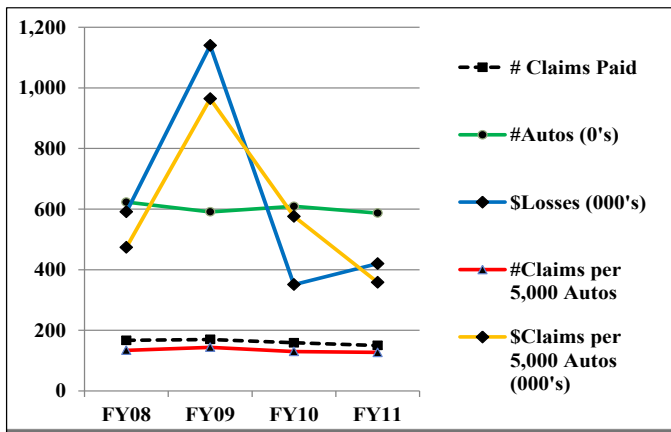
Both the number of auto liability claims paid per 5,000 autos and the dollars paid per 5,000 autos each fiscal year are trending downward.

State agency and university participation in safe driver training and other loss prevention programs are, in part, responsible for favorable loss development.

Figure 2

Auto Liability Claims Trends

Fiscal Year	# Claims	#Autos (0's)	\$Losses (000's)	#Claims per 5,000 Autos	\$Claims per 5,000 Autos (000's)
FY08	167	623	591	134	474
FY09	170	591	1,140	144	964
FY10	159	609	351	130	576
FY11	150	587	420	127	358



Financial Discussion

(Figure 3)

Net auto insurance premiums earned from auto liability and auto physical damage insurance were lower in FY 2011 due to biennial premium reductions.

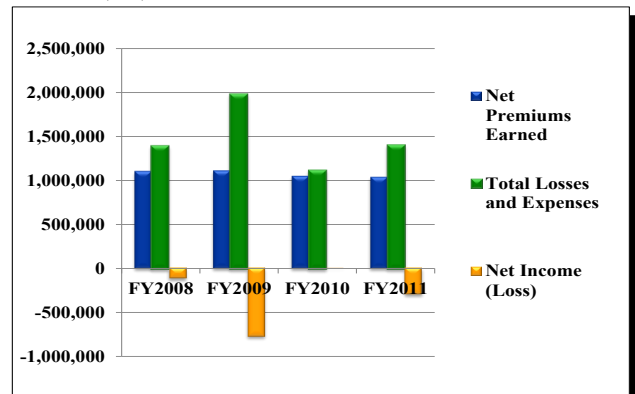
Insurance recoveries from 'at fault' parties who damaged state vehicles were also lower in FY 2011. Operating expenses were relatively stable.

Net investment income declined due to a poor investment climate. The division realized a net loss of \$296,912 for auto lines.

Figure 3

Auto Insurance Program

	FY2008	FY2009	FY2010	FY2011
Net Premiums Earned	1,097,185	1,104,048	1,043,153	1,031,344
Losses Paid	1,025,668	1,552,325	732,102	995,437
Loss Expenses Paid	102,609	101,772	34,671	62,907
Operations	262,012	321,739	349,791	342,140
Commercial Insurance Premiums	0	0	0	0
Total Losses and Expenses	1,390,289	1,975,836	1,116,565	1,400,484
Net Income (Loss) Before Investments	-293,104	-871,788	-73,412	-369,140
Net Investment Income Earned	99,092	35,849	7,425	8,753
Insurance Recoveries	74,182	68,714	66,152	63,475
Net Income (Loss)	-119,829	-767,224	164	-296,912



Auto Liability
Total Losses Paid by Agency₁
07/01/2007 - 06/30/2011₂

Agency₃	# of Claims₄	Indemnity₅	ALAE₆	Total Paid₇	% of Total Paid
Department of Administration	8	55,163.18	11,250.58	66,413.76	2.4%
Department of Administration, Office of the Public Defender	2	9,733.62	226.33	9,959.95	0.4%
Department of Administration, State Fund	3	58,843.08	1,800.04	60,643.12	2.2%
Department of Agriculture	4	11,252.56	992.06	12,244.62	0.4%
Department of Commerce, Montana Heritage Commission	2	22,850.30	10,588.12	33,438.42	1.2%
Department of Corrections	3	37,174.21	14,921.08	52,095.29	1.9%
Department of Corrections, State Prison	4	8,351.32	-	8,351.32	0.3%
Department of Corrections, Prison Industries	1	3,346.43	-	3,346.43	0.1%
Department of Corrections, Probation & Parole	9	31,861.26	1,982.22	33,843.48	1.2%
Department of Environmental Quality	2	24,525.85	7,788.28	32,314.13	1.2%
Department of Fish, Wildlife & Parks	23	79,043.97	5,988.75	85,032.72	3.0%
Department of Justice, Gambling Control	1	1,609.69	-	1,609.69	0.1%
Department of Justice, Highway Patrol	18	118,384.38	5,032.75	123,417.13	4.4%
Department of Labor & Industry	13	92,862.13	24,102.07	116,964.20	4.2%
Department of Livestock	7	129,855.52	2,325.10	132,180.62	4.7%
Department of Military Affairs	1	947.60	-	947.60	0.0%
Department of Natural Resources	5	7,441.95	841.70	8,283.65	0.3%
Department of Revenue	3	2,634.32	526.83	3,161.15	0.1%
Department of Transportation, Billings	46	85,797.82	29,941.64	115,739.46	4.1%
Department of Transportation, Butte	52	75,486.16	3,175.69	78,661.85	2.8%
Department of Transportation, Bozeman	42	117,918.91	29,258.83	147,177.74	5.3%
Department of Transportation, Great Falls	32	32,523.03	3,066.53	35,589.56	1.3%
Department of Transportation, Glendive	6	5,609.07	-	5,609.07	0.2%
Department of Transportation, Havre	18	38,096.36	3,229.52	41,325.88	1.5%
Department of Transportation, Kalispell	35	47,899.12	21,189.01	69,088.13	2.5%
Department of Transportation, Lewistown	27	78,280.12	2,440.07	80,720.19	2.9%
Department of Transportation, Miles City	26	19,830.74	1,996.05	21,826.79	0.8%
Department of Transportation, Missoula	39	27,753.64	3,888.89	31,642.53	1.1%
Department of Transportation, Wolf Point	23	29,083.09	2,944.89	32,027.98	1.1%
Montana Historical Society	2	18,571.79	1,266.78	19,838.57	0.7%
Montana State Library	1	-	243.57	243.57	0.0%
Office of Public Instruction	1	369.92	-	369.92	0.0%
Public Health & Human Services	17	54,583.61	11,739.68	66,323.29	2.4%
Public Health & Human Services, Montana Developmental Center	4	4,710.83	95.00	4,805.83	0.2%
Public Health & Human Services, Mental Health Nursing Care Center	1	286.38	-	286.38	0.0%
Public Health & Human Services, Eastern Montana Veteran's Home	1	906.44	-	906.44	0.0%
Public Service Commission	1	1,338.90	185.56	1,524.46	0.1%
State Board of Education, Montana School for the Deaf & Blind	1	97.00	-	97.00	0.0%
Supreme Court - Judiciary	4	4,573.61	372.60	4,946.21	0.2%
University System, Montana State University - Billings	5	6,839.20	189.20	7,028.40	0.3%
University System, Helena College of Technology of the UM	1	5,571.54	-	5,571.54	0.2%
University System, Montana State University - Bozeman, Ag Exp. St.	9	9,177.05	1,745.64	10,922.69	0.4%
University System, Montana State University - Bozeman, FSTS	3	161,983.36	428.00	162,411.36	5.8%
University System, Montana State University - Bozeman	24	86,846.71	1,799.75	88,646.46	3.2%
University System, Montana Tech of the University of Montana	2	1,652.80	-	1,652.80	0.1%
University System, Montana State University - Northern	9	663,794.83	23,480.29	687,275.12	24.6%
University System, University of Montana - Missoula	39	216,137.42	60,078.69	276,216.11	9.9%
University System, University of Montana - Missoula, Forestry	1	2,118.40	-	2,118.40	0.1%
University System, University of Montana - Western	2	7,681.17	100.00	7,781.17	0.3%
Total	583	2,501,400.39	291,221.79	2,792,622.18	100.0%

Footnotes:

- 1-Agency includes only those agencies which had paid losses.
- 2-Time period when loss was paid.
- 3-Agency group includes all boards, council, and attach-to agencies.
- 4-Number of claims paid between 07/01/2007 and 06/30/2011.
- 5-Indemnity equals expenditures for judgments and settlements.
- 6-Allocated loss adjustments expenses equal legal fees, court costs, adjustor fees, and other miscellaneous expenses.
- 7-Total paid loss adjustment expenses and indemnity.

Aviation Insurance Program Results

State agencies own and operate 26 aircraft (including helicopters) that are used for various functions such as law enforcement, game management, fire fighting, transportation of state employees, and aerial topography. The state also owns and operates 15 state airports that connect Montana citizens and visitors.

Insurance Administration

The Risk Management & Tort Defense Division self-insures state aviation risks up to \$750,000 per claim, \$1,500,000 per occurrence.

In addition, the division administers two commercial aviation insurance programs for state agencies. Airport liability insurance is purchased on an excess basis with limits of \$5,000,000 per occurrence above a deductible of \$750,000 per claim, \$1,500,000 per occurrence.

Aircraft liability insurance is also purchased on an excess basis with limits of \$10,000,000 per occurrence above a deductible of \$750,000 per claim, \$1,500,000 per occurrence.

Insurance market conditions for aviation insurance were favorable during FY 2011 and aviation rates were stable at renewal.

Financial Discussion

(Figure 4)

Net aviation insurance premiums earned during FY 2011 increased slightly due to changes in number and type of aircraft insured and changes in values.

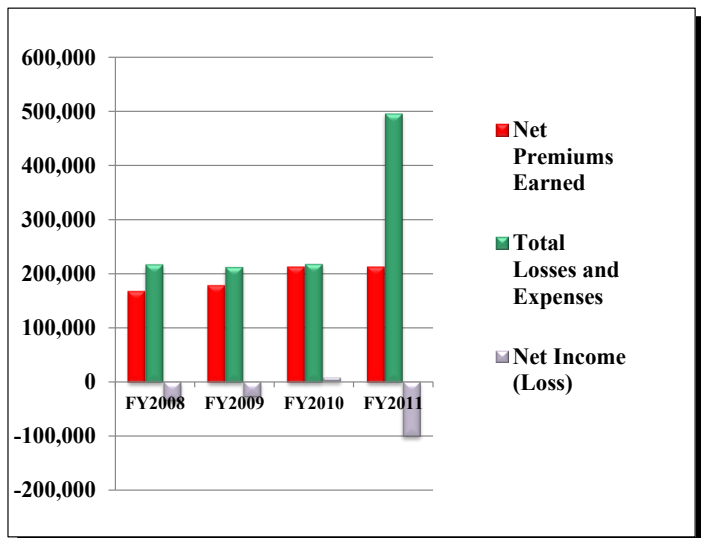
The state experienced a large aviation loss of \$190,00 during FY 2011.

Aviation commercial insurance expenses increased during FY 2011 primarily due to increases in aircraft insured values as well as changes in the type of aircraft insured.

Aviation insurance lines experienced a net loss of \$100,239 for FY 2011.

Figure 4

Aviation Insurance Program				
	FY2008	FY2009	FY2010	FY2011
Net Premiums Earned	167,807	178,625	212,451	212,451
Losses Paid	5,750	-1,000	12,048	190,001
Loss Expenses Paid	0	0	0	0
Operations	0	0	0	0
Commercial Insurance Premiums	211,922	213,760	206,454	304,828
Total Losses and Expenses	217,672	212,760	218,502	494,829
Net Income (Loss) Before Investments	-49,865	-34,135	-6,051	-282,378
Net Investment Income Earned	14,510	5,816	1,390	1,638
Insurance Recoveries	0	0	12,048	180,500
Net Income (Loss)	-35,355	-28,319	7,387	-100,239



General Liability Insurance Program Results

State agencies operate prisons, hospitals, universities and other facilities. In addition, state agencies are responsible for highway maintenance and design, law enforcement, wildlife resource management, supervision of foster children, and many other vital, high-risk functions involving approximately 21,000 state and university employees.

Insurance Administration

The Risk Management & Tort Defense Division self-insures most general liability risks.

The Montana legislature approves fixed costs that are included in agency budgets. Insurance proceeds are used to pay for attorney's fees, court costs, and settlements/judgments.

The division also administers commercial insurance programs in behalf of state agencies including, but not limited to:

- Professional liability insurance for more than 5,000 student interns in the Montana University System.
- Accidental Death & Dismemberment insurance for more than 3,000 university volunteers.
- HIPAA insurance for pharmacy students at the University of Montana.
- Foreign liability insurance for all state agencies and universities.

Claims Activity

(Figure 5)

The objective of our claims unit and legal unit is the effective disposition of general liability claims at the lowest possible cost consistent with ethical obligations and the need to maintain acceptable precedent.

The time it takes to process a general liability claim varies greatly from one claim to another and may be affected by courts, workload, and case complexity.

A summary of general liability claim activity for FY 2010 and FY 2011 is provided below in Figure 5.

Figure 5

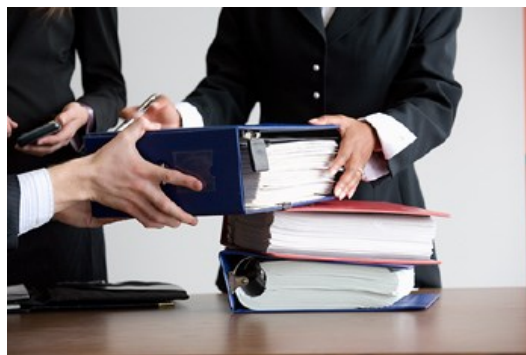
General Liability Claims Activity			
as of 06/30			
	# Claims Received	# Claims Resolved	# Claims Open
FY 2010	324	277	535
FY 2011	459	431	563

Key Claims

Several claims were filed against the Montana University System, the Department of Corrections, the Department of Transportation, and the Department of Justice.

Expenses involving the ongoing defense of the Libby asbestos claims were also incurred during FY 2011.

An unexpectedly harsh winter and late spring rains resulted in more claims arising from Montana's state highway system.



General Liability Insurance Program Results (cont'd)

General Liability Claims Trends

(Figure 6)

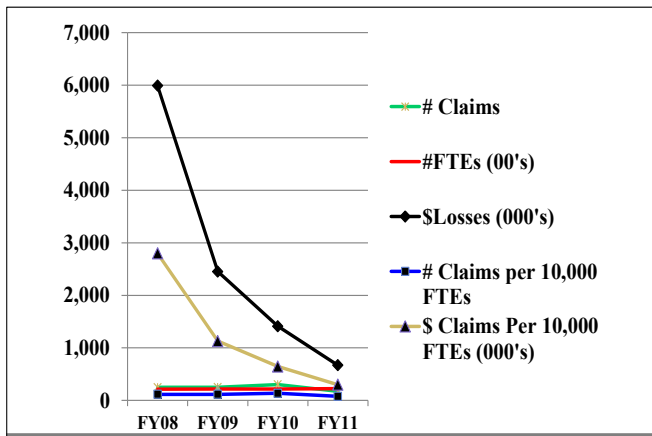
Both the number of general liability claims paid per 10,000 FTEs and the dollars paid per 10,000 FTEs are declining.

The frequency and severity of general liability claims is very unpredictable so it is difficult to say whether or not the numbers provided below for FY 2008 through FY 2011 constitute a trend.

Figure 6

General Liability Claims Trends

Fiscal Year	# Claims	#FTEs (00's)	\$Losses (000's)	# Claims per 10,000 FTEs	\$ Claims Per 10,000 FTEs (000's)
FY08	249	214	5,990	116	2,799
FY09	252	217	2,452	116	1,130
FY10	302	219	1,412	137	645
FY11	174	224	670	77	299



Financial Discussion

(Figure 7)

Net general liability premiums earned in FY 2011 were lower than in the prior three years due to biennial premium reductions. Losses paid were the lowest in five years at \$672,159.

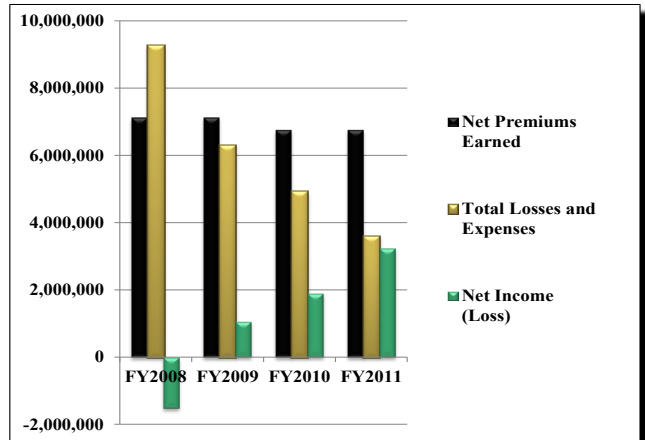
Loss expenses paid and operating expenses were fairly constant during FY 2011. Net investment income remained low due to a poor investment climate and lower interest rates.

Lower than expected paid losses were enough to offset declining investment income. Total net income at the end of FY 2011 was \$3,215,036.

Figure 7

General Liability Insurance Program

	FY2008	FY2009	FY2010	FY2011
Net Premiums Earned	7,124,500	7,123,899	6,750,000	6,750,000
Losses Paid	6,043,207	2,452,540	1,410,041	672,159
Loss Expenses Paid	2,167,726	2,576,545	2,102,839	1,580,029
Operations	860,903	1,057,149	1,149,322	1,124,183
Commercial Insurance Premiums	181,647	208,005	250,033	210,647
Total Losses and Expenses	9,253,483	6,294,239	4,912,236	3,587,018
Net Income (Loss) Before Investments	-2,128,983	829,660	1,837,764	3,162,982
Net Investment Income Earned	616,042	222,871	44,155	52,054
Insurance Recoveries	0	0	0	0
Net Income (Loss)	-1,512,942	1,052,531	1,881,919	3,215,036



Property Insurance Program Results

State agencies and universities own or lease 4,487 properties with an estimated current replacement cost value in excess of \$4.7 billion.

Insurance Administration

The Risk Management & Tort Defense Division purchased catastrophic commercial property insurance above a high deductible of \$500,000 per occurrence during FY 2011. The program included coverage for the following:

- Fine art at various locations throughout the state valued in excess of \$380 million.
- Crime and fidelity insurance at more than 70 locations statewide.
- Approximately 650 boilers & machinery.
- Business income streams in excess of \$200 million at more than 120 locations statewide.

Agencies pay the first \$1,000 to \$5,000 of each property claim (depending on the deductible) and the division pays the remainder up to \$500,000. Commercial insurance pays losses that exceed \$500,000.

Claims Activity

(Figure 8)

The time it takes to process a property claim varies greatly from one claim to another and may be affected by the magnitude of the loss and complexity of the claim.

A summary of property claim activity for FY 2010 and FY 2011 is provided in Figure 8 below:

Figure 8

Property Claims Activity as of 06/30			
	# Claims Received	#Claims Resolved	# Claims Open
FY 2010	48	46	32
FY 2011	67	46	53

Key Claims

Bozeman Hail Losses

On June 30, 2010, a massive weather system in Bozeman produced 'golf ball sized' hail that damaged roofs, windows, and vehicles at state properties in the area.

During FY 2011, the Risk Management & Tort Defense Division incurred significant expenses involving the ongoing repairs of these properties and vehicles.



Helena Data Center

In April of 2011, a compressor unit within equipment housed at the Helena Data Center failed.

A lubricant dispersed into an adjacent electronics room from the damaged compressor resulted in contamination to vital electronic equipment.

During FY 2011, the division incurred significant expenses associated with mitigation efforts and cleanup.

Spring Floods

Heavy winter snows and late spring rains resulted in heavy flooding through Montana.

Five state properties were affected and total flood losses are estimated at \$300,000.

Montana Law Enforcement Academy Flood Damage -
Note: That isn't a lake



Property Insurance Program Results (cont'd)

Claims Trends

(Figure 9)

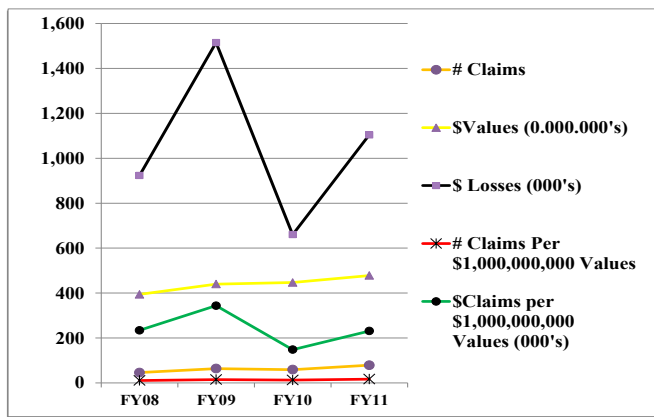
As shown in Figure 9 (below), both the number of property claims paid per \$1 billion of values and the dollars paid per \$1 billion values are trending upward slightly.

Adverse weather, (most notably spring flooding and hail damage claims) account for most of the increase in the frequency and severity of claims.

Figure 9

Property Claims Trends

Fiscal Year	# Claims	\$Values (0.000.000's)	\$ Losses (000's)	# Claims Per	\$Claims per
				\$1,000,000,000 Values	\$1,000,000,000 Values (000's)
FY08	46	394	923	11	234
FY09	64	440	1,515	15	344
FY10	59	447	660	13	148
FY11	79	478	1,104	17	231



Financial Discussion

(Figure 10)

Net property insurance premiums earned from property, fine arts, crime, and other insurance risks declined in FY 2011 due to biennial premium reductions.

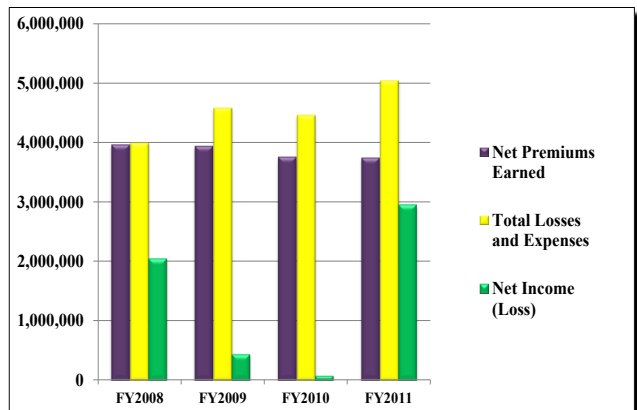
Loss expenses paid and operations costs (including rent, salaries, wages, overhead and other costs) were relatively stable from last biennium.

Commercial insurance premiums increased in FY 2011 due to changes in reported values at key properties and large property losses.

Net investment income and insurance recoveries declined. The division realized net income of \$2,946.182.

Figure 10

Property Insurance Program				
	FY2008	FY2009	FY2010	FY2011
Net Premiums Earned	3,953,568	3,929,251	3,747,416	3,733,023
Losses Paid	1,904,179	2,047,194	1,759,655	2,214,889
Loss Expenses Paid	45,292	122,504	26,146	61,956
Operations	275,468	338,262	367,755	359,711
Commercial Insurance Premiums	1,772,298	2,078,008	2,312,381	2,408,612
Total Losses and Expenses	3,997,237	4,585,968	4,465,937	5,045,168
Net Income (Loss) Before Investments	-43,669	-656,717	-718,521	-1,312,145
Net Investment Income Earned	384,229	139,006	27,474	32,389
Insurance Recoveries	1,703,866	961,729	774,962	4,225,938
Net Income (Loss)	2,044,425	444,018	83,915	2,946,182



Property
Total Losses Paid by Agency¹
07/01/2007 - 06/30/2011²

Agency ³	# of Claims ⁴	Indemnity ⁵	ALAE ⁶	Total Paid ⁷	Total Paid
Department of Administration	3	333,385.10	2,733.01	336,118.11	7.7%
Department of Administration, Office of the Public Defender	1	416.33	-	416.33	0.0%
Department of Commerce	2	51,440.05	283.80	51,723.85	1.2%
Department of Commerce, Montana Heritage Commission	2	1,565.00	-	1,565.00	0.0%
Department of Corrections, State Prison	2	247,187.94	855.15	248,043.09	5.7%
Department of Corrections, Pine Hills Youth Correctional Facility	2	6,894.20	328.60	7,222.80	0.2%
Department of Corrections, Riverside Youth Correctional Facility	2	11,761.77	642.20	12,403.97	0.3%
Department of Corrections, Montana Women's Prison	2	539.17	246.50	785.67	0.0%
Department of Corrections, Watch East	1	378.88	753.46	1,132.34	0.0%
Department of Environmental Quality	1	342.00	-	342.00	0.0%
Department of Fish, Wildlife & Parks	13	61,442.40	12,403.48	73,845.88	1.7%
Department of Justice, Forensic Science	2	15,826.88	-	15,826.88	0.4%
Department of Justice, Highway Patrol	3	194.60	547.77	742.37	0.0%
Department of Justice, Law Enforcement Academy	1	1,167.50	-	1,167.50	0.0%
Department of Labor & Industry	2	10,377.32	741.31	11,118.63	0.3%
Department of Livestock	2	4,107.60	-	4,107.60	0.1%
Department of Military Affairs	7	479,471.11	3,789.15	483,260.26	11.0%
Department of Natural Resources	1	1,435.00	-	1,435.00	0.0%
Department of Revenue	1	3,946.97	-	3,946.97	0.1%
Department of Transportation	1	-	1,809.12	1,809.12	0.0%
Department of Transportation, Billings	1	35,784.55	400.53	36,185.08	0.8%
Department of Transportation, Butte	1	1,855.00	-	1,855.00	0.0%
Department of Transportation, Kalispell	1	26,028.41	703.73	26,732.14	0.6%
Department of Transportation, Missoula	2	190,202.38	580.20	190,782.58	4.3%
Legislative Branch	1	700.34	-	700.34	0.0%
Montana Arts Council	1	-	5.00	5.00	0.0%
Multiple Agencies	4	516,354.17	33,220.69	549,574.86	12.5%
Public Health & Human Services, Montana Developmental Center	2	21,610.37	832.45	22,442.82	0.5%
Public Health & Human Services, Mental Health Nursing Care Center	1	-	1,092.06	1,092.06	0.0%
Public Health & Human Services, Veterans' Home-Columbia Falls	1	432.97	-	432.97	0.0%
State Board of Education, Montana School for the Deaf & Blind	3	5,038.00	-	5,038.00	0.1%
University System, Montana Tech of UM College of Technology	1	-	1,502.16	1,502.16	0.0%
University System, Montana State University - Billings	7	190,009.14	4,560.53	194,569.67	4.4%
University System, Montana State University - Great Falls College of Technology	1	-	-	-	0.0%
University System, University of Montana - Helena College of Technology	2	987.48	539.90	1,527.38	0.0%
University System, Montana State University - Bozeman, Ag Experiment Station	2	236,869.91	(2,166.31)	234,703.60	5.3%
University System, Montana State University - Bozeman	56	976,349.32	103,479.88	1,079,829.20	24.6%
University System, Montana Tech of the University of Montana	11	144,996.03	2,186.40	147,182.43	3.4%
University System, University of Montana - Missoula College of Technology	2	54,050.79	440.70	54,491.49	1.2%
University System, Montana State University - Northern	6	30,652.74	3,009.34	33,662.08	0.8%
University System, University of Montana - Missoula	26	515,910.99	6,941.51	522,852.50	11.9%
University System, University of Montana - Western	7	24,464.94	2,106.85	26,571.79	0.6%
Total	190	4,204,177.35	184,569.17	4,388,746.52	100.0%

Footnotes:

1-Agency includes only those agencies which had paid losses.

2-Time period when loss was paid.

3-Agency group includes all boards, council, and attach-to agencies.

4-Number of claims paid between 07/01/2007 and 06/30/2011.

5-Indemnity equals expenditures for judgments and settlements.

6-Allocated loss adjustments expenses equal legal fees, court costs, adjustor fees, and other miscellaneous expenses.

7-Total paid loss adjustment expenses and indemnity.

Loss Control Programs

The Risk Management & Tort Defense Division offers a variety of loss control services that are designed to prevent/mitigate losses and to protect the state's vital assets.

Training

During FY 2011, the Risk Management & Tort Defense Division offered numerous training programs to state agencies including:

- Defensive driving
- Large vehicle safety training
- Preventing distracted driving
- Smart contracting
- Preventing workplace violence

Approximately 2,200 state employees attended these programs. Many state agencies and universities earned auto insurance discounts of approximately \$90,456 by sending their employees to safe driver training during FY 2011.



Consultations

Risk Management & Tort Defense Division staff frequently consult with managers, legal staff, and state employees in matters that involve, but are not limited to:

- Tort litigation
- Employment practices
- Premises liability
- Contract provisions
- Civil rights
- Operating practices

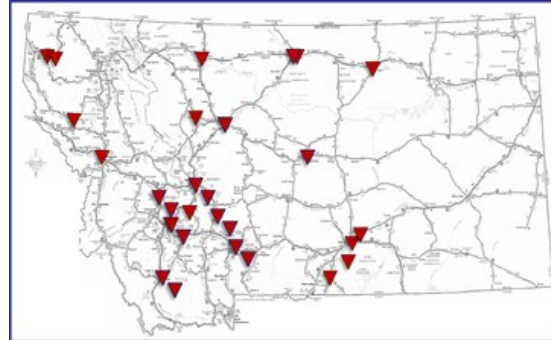
Property Inspections

The Risk Management & Tort Defense Division and its consultants conduct inspections of state owned buildings to identify hazards or perils that may give rise to losses and claims.

Priority is given to those buildings having high values, claim histories, unique occupancies, and/or questionable loss management practices.

During FY 2011, the division's loss control staff conducted a record 159 inspections of state buildings at 21 locations involving 12 different state agencies or university campuses. Loss prevention recommendations were issued to address concerns which otherwise may have led to claims/losses.

FY 2011 Property Inspections



Infrared Thermographic/ Ultrasonic Surveys

Infrared thermographic/ultrasonic imaging services provided by the Risk Management & Tort Defense Division saw increased demand through FY 2011. Loss control staff and consultants conducted five times the number of surveys as the previous year.

This service uses advanced equipment to create thermographic images of electrical equipment, switches, controls, and mechanical equipment such as fans, blowers, pumps, turbines, and bearings.

Loss Control Programs (cont'd)

The images that are generated instantly provide visual reference to thermal anomalies caused by faulty or dirty connections, worn parts, imbalances, or other conditions which could lead to a fire, outage, or malfunction.

A survey can reveal significant issues which would otherwise not be detected. Ultrasonic surveys use specialized equipment to detect unusual noise, typically caused by misdirected (i.e. wasted) energy in electrical transformers. Ultrasonic surveys can identify measures to save energy.

Loss Mitigation Grants Program

Offered as a pilot program in FY 2008, the loss mitigation grants program was formally adopted in FY 2009. Through this program, monetary grants are given to state agencies and university campuses to reduce the likelihood or potential severity of insured auto, aviation, liability, and property claims.



During FY 2011, approximately 13 grants (whose monetary value exceeded \$234, 228) were awarded to state agencies and universities.

Two grant awards totaling \$175,000 helped campuses and agencies replace large vans with safer vehicles.

Four grant awards were given to state agencies to cover the costs of increased security patrols during cold weather to prevent/mitigated flood damage from broken water mains.

Two grants funded protection of state computer equipment and state library property from earthquake damage.

Property Loss Management

The Property Loss Management Insurance Premium Discount Program offers a discount of 10% to those state agencies and universities that establish and maintain a comprehensive and effective property loss management program through FY 2011.

This year the process of evaluating property loss management programs was re-engineered to utilize a panel of representatives from participating state agencies and universities. This newly adopted approach provided detailed evaluations and produced recommendations to assist participants to enhance their programs.

Twenty-four state agencies and universities participated in the property loss management program during FY 2011. State agencies earned approximately 89% of available premium discount.

Billings Armory Flood Claim 2008



Building Plan Reviews

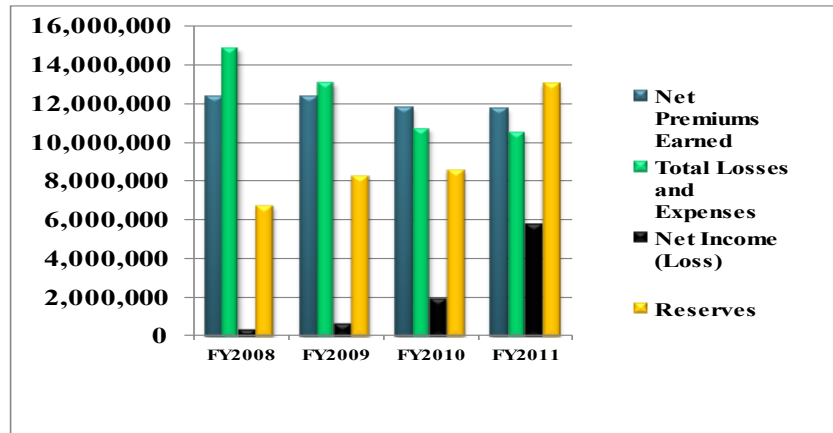
The Risk Management & Tort Defense Division's staff and consultants review building plans, blueprints, specifications, and materials related to the construction or renovation of state buildings.

Each review addresses areas where loss prevention engineering features/controls can be incorporated or modified to mitigate future losses/claims.

Summary of Financial Operations

The Risk Management & Tort Defense Division continues to provide reliable, low-cost insurance alternatives for state agencies and universities. Four key measures are used to benchmark the property/casualty insurance fund's performance: 1) net earned premium; 2) losses and expenses; 3) net income (loss); and 4) reserves. These measures are discussed in the narratives that follow and Figures 11 and 12 (pg. 19).

Figure 11



Net Premiums Earned

Figures 11 and 12 (pg. 19)

Net premiums earned (i.e. budgeted premiums less insurance discounts) have dropped from approximately \$14 million in FY 2007 to \$11.7 million in FY 2011. The drop in net premium earned is attributable to biennial premium reductions.

Total Losses and Expenses

Figures 11 and 12 (pg. 19)

Losses paid in FY 2011 were quite low when compared with prior years. Loss expenses paid also were also down by comparison to the past four fiscal years.

The increased cost of commercial insurance premiums was 'softened' by lower than expected losses in FY 2011.

Recoveries from insurance companies for property losses that occurred in FY 2010 and prior years increased significantly in FY 2011.

Net Income

Figures 11 and 12 (pg. 19)

Lower losses, stable operations expenses, and better than expected insurance recoveries offset declining investment income.

Therefore, the division realized a net income of \$5,764,066 in FY 2011 (Figures 11 and 12).

Liabilities and Reserves

Figures 11 and 12 (pg. 19)

Though total net income increased during FY 2011, liabilities for future claims also increased by \$1.6 million.

The state property/casualty insurance fund's reserve position increased by \$4,446,000 from FY 2010.

Financials

Figure 12

**State of Montana
Statement of Changes in Revenues, Expenses, and Reserves
Property/Casualty Insurance Fund
June 30, 2011**

(as reported by the Risk Management & Tort Defense Division)

	FY2008	FY2009	FY2010	FY2011
Net Premiums Earned	12,343,061	12,335,823	11,753,020	11,726,818
Losses Paid	8,978,804	6,051,058	3,913,847	4,072,486
Loss Expenses Paid	2,315,626	2,800,821	2,163,656	1,704,892
Operations	1,398,383	1,717,149	1,866,868	1,826,034
Commercial Insurance Premiums	2,165,868	2,499,773	2,768,869	2,924,087
Total Losses and Expenses	14,858,682	13,068,802	10,713,239	10,527,499
Net Income (Loss) Before Investments	-2,515,621	-732,979	1,039,781	1,199,319
Net Investment Income Earned	1,113,873	403,542	80,443	94,834
Insurance Recoveries	1,778,048	1,030,443	853,161	4,469,913
Net Income (Loss)	376,300	701,006	1,973,385	5,764,066
Prior Years Assets	24,524,884	24,901,184	25,602,190	26,670,977
Aggregate Write-Ins	(13,061)	246,961	(904,598)	(57,568)
Total Assets	24,888,123	25,849,151	26,670,977	32,377,475
Non-Claim Liabilities	1,691,000	2,661,000	1,448,000	1,074,000
Claims Liabilities	16,498,123	14,956,151	16,673,977	18,308,475
Total Liabilities	18,189,123	17,617,151	18,121,977	19,382,475
	-	-	-	-
Reserves	6,699,000	8,232,000	8,549,000	12,995,000

Financials (cont'd)

Figure 13
State of Montana
Statement of Reserves
Property/Casualty Insurance Fund
June 30, 2011

	FY 2010	FY 2011
ASSETS		
Current assets		
Cash and equivalents	24,338,000	30,933,000
Receivables (net)	7,000	6,000
Due from other funds	0	0
Due from component units	0	0
Securities lending collateral	827,000	347,000
Other current assets		
Total current assets	25,172,000	31,286,000
Noncurrent assets		
Long term investments	1,295,000	442,000
Capital assets	204,000	303,000
Total noncurrent assets	1,499,000	745,000
Total assets	26,671,000	32,031,000
LIABILITIES		
Current liabilities		
Accounts payable	308,000	361,000
Due to other funds	0	0
Due to component units	0	0
Securities lending liability	827,000	347,000
Estimated insurance claims	5,501,000	3,623,000
Compensated absences payable	47,000	56,000
Total current liabilities	6,683,000	4,387,000
Noncurrent liabilities		
Estimated insurance claims	11,173,000	14,339,000
Compensated absences payable	129,000	128,000
OPEB Implicit Rate Subsidy	137,000	182,000
Total noncurrent liabilities	11,439,000	14,649,000
Total liabilities	18,122,000	19,036,000
RESERVES		
Invested in capital assets, net of related debt	204,000	0
Unrestricted	8,345,000	12,995,000
TOTAL RESERVES	8,549,000	12,995,000

Customer Agencies

Administration

Administration, Office of the Public Defender

Administration, Public Employees Retirement System

Administration, Teachers Retirement System

Agriculture

Auditor's Office

Board of Education

Commerce

Commissioner of Higher Education

Commissioner Of Political Practices

Consumer Counsel

Corrections

Corrections, Board of Pardons

Corrections, Pine Hills

Corrections, Prison Industries

Corrections, Riverside

Corrections, State Prison

Corrections, Treasure State

Corrections, Women's Correctional Center

Crime Control

Environmental Quality

Fish, Wildlife, and Parks

Governor's Office

Justice

Labor and Industry

Legislative Branch

Livestock

Military Affairs

Montana Arts Council

Montana Heritage Commission

Montana Historical Society

Montana School for Deaf & Blind

Montana State Library

Montana State University - Billings

Montana State University - Bozeman

Montana State University - Great Falls

Montana State University - Northern

Montana Tech of The University of Montana

MSU Ag Experiment Station

MSU Extension Service

MSU Forest Service Training School

Natural Resources

Office of Public Instruction

PHHS, Columbia Falls Veterans Home

PHHS, Glendive Veterans Home

PHHS, Mental Health Nursing Care Center

PHHS, MT Chemical Dependency Center

PHHS, MT Developmental Center

PHHS, State Hospital

Public Defenders Office

Public Health and Human Services

Public Service Commission

Revenue

Secretary of State

State Fund

Supreme Court

Transportation

Transportation, Equipment

Transportation, Motor Pool

University of Montana - Forestry

University of Montana - Helena

University of Montana - Missoula

University of Montana - Western

Risk Managers Network

The Risk Managers Network provides feedback and recommendations to the Risk Management & Tort Defense Division on the implementation and management of the state's loss prevention, insurance, and claims programs.

Sheryl Olson	Deputy Director, Department of Administration, State of Montana
Alan Hulse	Chief Executive Officer, Montana Municipal Insurance Authority
Greg Jackson	Marketing Specialist, Montana Association of Counties
Jeff Shada	Director Safety & Risk Management, Montana State University
Tana Wilcox	Risk Management, Northwestern Energy
William Price	Insurance Agent, First West Insurance
Jacque Duhamel	Risk Manager, Montana Rail Link
Brett Dahl	Administrator, Risk Management & Tort Defense Division



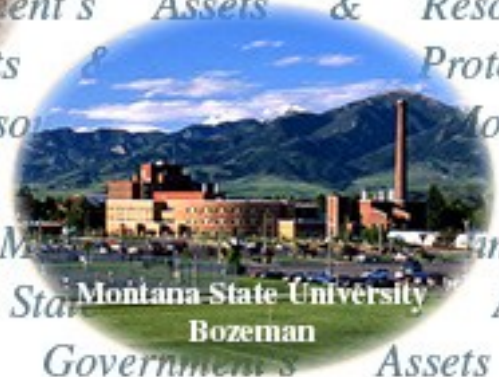
Risk Management & Tort Defense Staff

Main Number (406) 444-2421

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Chief Defense Counsel - Bill Gianoulis	2438
Accounting Technician - Cathy Meidinger	3600
Administrative Assistant - Deb Lopuch	9843
Legal Secretary - Vacant	4516
Legal Defense	
Associate Counsel - Rebekah French	2485
Associate Counsel - Mike King	2403
Associate Counsel - Lee McKenna	4507
Associate Counsel - Pamela Snyder-Varns	1816
Associate Counsel - Margaret Sampsel	3562
Legal Investigator - Lori Caplis	2512
Loss Prevention	
Property - Aric Curtiss	3486
Auto, Other - John Duezabou	0195
Insurance/Finance	
Division Administrator, State Risk Manager - Brett Dahl	3687
Risk Finance Specialist - Kristie Rhodes	4509
Auto/Aviation/General Liability/Property Claims	
Claims Specialist - Gordon Amsbaugh	2422
Claims Specialist - Kirk Barfuss	6498
Claims Specialist - Jennie Younkin	7996

The Risk Management & Tort Defense Division employs a competent, professional staff trained and capable of assisting you with your claims, legal, insurance, or risk management issues.

Visit us on the web at <http://rmtd.mt.gov>



Alternative accessible formats of this newsletter will be provided on request. Persons who need an alternative format should contact the Risk Management & Tort Defense Division, Department of Administration, 1625 11th Ave., Helena, Montana 59620-0124. Phone: (406) 444-2421. Those using a TTY may call through the Montana Relay Service at 711.