Fiscal Year 2010 Annual Report

RMTD

RISK MANAGEMENT AND TORT DEFENSE DIVISION

State of Montana
Department of Administration

Administrator's Message

As state government's internal insurance and tort litigation resource, the Risk Management & Tort Defense Division strives to deliver comprehensive insurance solutions at competitive rates.

After weathering "a storm of catastrophic losses" during the 2009 biennium, the Risk Management & Tort Defense Division wasn't certain what surprises lay ahead for FY 2010.

Claims Activity

FY 2010 began with an expensive auto accident on July 1, 2009 and ended with a $5 million hail loss in Bozeman on June 30, 2010.

In between these two events, our dedicated and expert claims and legal units received another 600 claims/lawsuits, including a catastrophic tornado loss in Billings.

Legal staff continue to build an impressive resume of evaluating and resolving lawsuits in a cost-effective manner consistent with ethical and legal obligations and the need to establish favorable precedent.

Safety and Loss Control

During FY 2010, division and agency loss control staff conducted training, inspected state properties, and consulted with clients on many important issues.

The results are impressive. State auto liability claims reached an all time low. Defensive driving, safe driver training, and other loss prevention programs have increased driver awareness of the hazards they face while traveling to conduct state business.

Commercial Insurance

The Risk Management & Tort Defense Division expected a significant increase in the state's commercial property insurance premium for FY 2010. Fortunately, it never happened!

Division insurance staff and the state's insurance brokerage team agreed to reduce the number of insurance carriers in the state's primary insurance layers and replace them with a single insurance carrier; Lexington Insurance Company.

This approach allowed the state to eliminate redundant layers of insurance and provide Lexington with a broader premium base to cover catastrophic losses.

Better yet, the state's insurance underwriters agreed to a 5% reduction in the state's commercial property insurance premium while, at the same time, providing higher insurance limits.

Looking to the Future

The true value of Risk Management is to protect against future losses. The Risk Management program will continue to work closely with our customers across the state.

By working together, we can all help protect and preserve state government's vital assets and resources.

THANK YOU FOR YOUR SUPPORT!

Brett E. Dahl,

Administrator

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Mission Statement

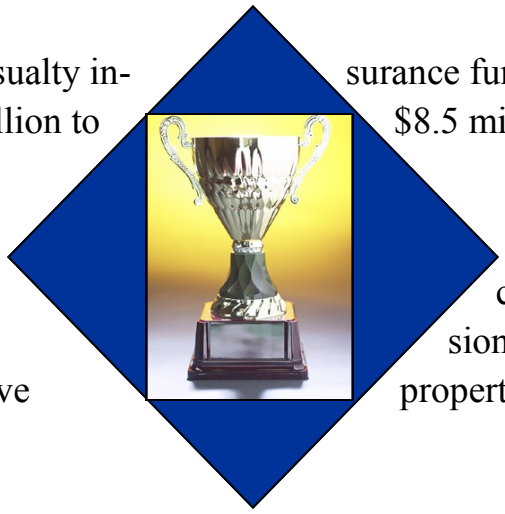
To serve, satisfy, and support our customers.

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 2010 Achievements

- The number of auto liability claims received by the division reached an all time low.
- Expenditures for general liability claims reached a four year low.
- The division realized a net operating gain of almost $2 million.
- The state property/casualty insurance fund's reserve position increased from $8.2 million to $8.5 million.



- The division awarded $531,921 in insurance premium discounts to state agencies who qualified for the division's safe driver, high deductible, and comprehensive property loss management programs.
- The division awarded approximately $232,000 in loss mitigation grants for projects, equipment, and training that prevent or mitigate potential risk.
- Approximately 2,100 state employees attended risk management training sponsored by division loss prevention consultants.
- A 're-structuring' of the state excess property insurance program resulted in the elimination of unnecessary layers of insurance, broader coverage, higher loss limits, efficiencies in claims administration, and lower costs.

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.

The division defends state agencies against tort claims (i.e. claims for personal injury or property damage) that arise from the course and scope of employment (§2-9-305, MCA). The division also investigates, evaluates, and resolves claims that are self-insured beneath high commercial insurance deductibles (§2-9-303, MCA).

Enabling legislation (§2-9-101, MCA through §2-9-305, MCA) authorizes the Department of Administration to assess state agencies for the costs associated with administering 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.

Fortunately, markets for the state's commercial insurance were very stable in FY 2010. The division experienced no commercial insurance 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 owned or leased over 6,300 vehicles during FY 2010. State vehicles were used for diverse and 'high risk' activities such as highway maintenance, law enforcement, construction, and 'off-road' travel.

Insurance Administration

The Risk Management & Tort Defense Division did not purchase any commercial auto insurance during FY 2010.

However, the division administered two self-insured programs in behalf of state government.

- Auto Comprehensive/Collision Insurance - physical damage coverage was provided for approximately 2,000 state owned/ leased/loaned vehicles.

- Auto Liability Insurance - liability coverage was provided for approximately 6,300 vehicles to protect state agencies against claims arising from personal injury or property damage.

Claims Activity

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 2009 and FY 2010 is provided above in Figure 1.

Figure 1

Auto Liability Claims Activity
as of 06/30

	# Claims Received	# Claims Resolved	# Claims Open
FY 2009	203	182	65
FY 2010	155	186	34

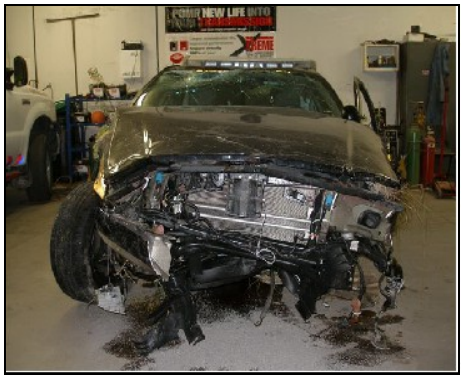
Key Claims

Several Montana Highway Patrol vehicle incidents resulted in significant payouts to third parties for vehicle damage and minor personal injuries.

Department of Transportation snowplow and vehicle accidents accounted for almost a third of all auto liability claims payments during FY 2010.

A few large vehicle accidents involving the University of Montana and Montana State University Bozeman also developed into fairly significant claims with expenses for vehicle damage.

Overall, claims activity in FY 2010 was down significantly from prior years.



Auto Insurance Program Results (cont'd)

Claims Trends

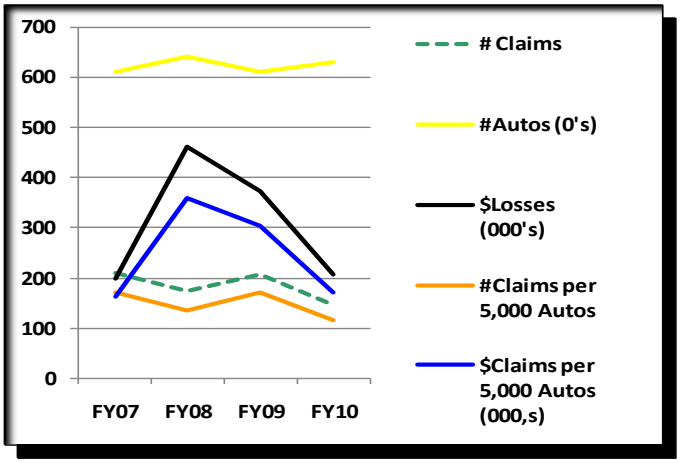
As shown in Figure 2 (below), both the number of claims per 5,000 autos and $ incurred losses per 5,000 autos each fiscal year appear to be trending downward.

Losses for recent years (i.e. FY 2009 and FY 2010) have not fully matured and may vary significantly from losses incurred at the end of FY 2010.

Figure 2

Auto Liability Claims Trends

Fiscal Year	# Claims	#Autos (0's)	$Losses (000's)	#Claims per 5,000	$Claims per 5,000 Autos (000's)
FY07	209	610	198	171	162
FY08	174	640	462	136	360
FY09	207	610	372	170	305
FY10	147	630	208	117	170



Financial Discussion

(Figure 3)

Net premiums earned (i.e. budgeted premiums less safe driver discounts) were lower in FY 2010 due to biennial premium reductions.

Losses paid in FY 2010 were significantly lower than FY 2008 and FY 2009. Loss expenses were also lower in FY 2010.

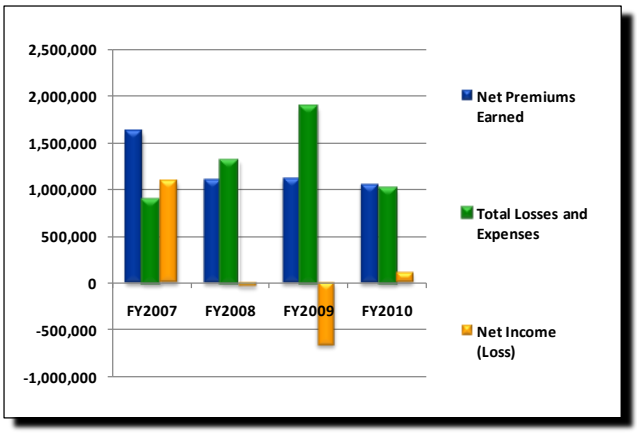
Operating expenses were relatively stable. Net investment income declined due to a poor investment climate.

Insurance recoveries from 'at-fault' parties who damaged state vehicles were also lower in FY 2010.

Auto Insurance Program

	FY2007	FY2008	FY2009	FY2010
Net Premiums Earned	**1,613,363**	**1,097,185**	**1,104,048**	**1,043,151**
Losses Paid	667,883	1,025,668	1,552,325	732,102
Loss Expenses Paid	41,709	102,609	101,772	34,671
Operations	174,878	179,088	219,911	239,086
Commercial Insurance Premiums	0	0	0	0
Total Losses and Expenses	**884,469**	**1,307,364**	**1,874,008**	**1,005,859**
Net Income (Loss) Before Investments	**728,894**	**-210,179**	**-769,960**	**37,292**
Net Investment Income Earned	146,268	99,092	35,849	7,425
Insurance Recoveries	206,122	74,182	68,714	66,152
Net Income (Loss)	**1,081,284**	**-36,905**	**-665,397**	**110,868**

The division realized net income of $110,868 for auto lines.



Auto Liability
Total Losses Incurred by Agency[1]
07/01/2006 - 06/30/2010[2]

Agency[3]	# of Claims[4]	Indemnity[5]	ALAE[6]	Indemnity Reserve[7]	Total Incurred[8]	% of Total Incurred
Department of Administration	7	52,603.18	11,250.58	-	63,853.76	4.8%
Department of Administration, Office of the Public Defender	2	9,733.62	226.33	1,839.40	11,799.35	0.9%
Department of Administration, State Fund	4	38,366.58	1,482.00	9,347.17	49,195.75	3.7%
Department of Agriculture	4	12,642.74	832.87	-	13,475.61	1.0%
Department of Corrections	2	34,209.31	14,509.30	3,500.00	52,218.61	3.9%
Department of Corrections, State Prison	4	8,351.32	-	-	8,351.32	0.6%
Department of Corrections, Prison Industries	1	3,346.43	-	-	3,346.43	0.3%
Department of Corrections, Probation & Parole	11	34,286.44	1,612.36	7,422.47	43,321.27	3.3%
Department of Environmental Quality	1	2,105.85	236.18	-	2,342.03	0.2%
Department of Fish, Wildlife & Parks	19	18,383.72	701.11	-	19,084.83	1.4%
Department of Justice, Fire Prevention/Investigation	1	4,018.01	196.03	-	4,214.04	0.3%
Department of Justice, Gambling Control	1	1,609.69	-	-	1,609.69	0.1%
Department of Justice, Highway Patrol	21	101,693.61	4,084.90	7,820.94	113,599.45	8.6%
Department of Justice, Information Technology Services Division	1	413.40	-	-	413.40	0.0%
Department of Labor & Industry	13	53,482.56	5,255.39	3,000.00	61,737.95	4.7%
Department of Livestock	5	15,813.63	438.10	-	16,251.73	1.2%
Department of Military Affairs	1	1,510.45	-	-	1,510.45	0.1%
Department of Natural Resources	9	11,657.04	1,456.93	-	13,113.97	1.0%
Department of Revenue	4	6,918.07	1,319.75	-	8,237.82	0.6%
Department of Transportation, Billings	63	57,842.42	4,692.56	1,965.00	64,499.98	4.9%
Department of Transportation, Butte	77	60,307.89	1,297.79	4,210.24	65,815.92	5.0%
Department of Transportation, Bozeman	63	42,835.66	21,578.17	-	64,413.83	4.9%
Department of Transportation, Great Falls	59	34,744.75	2,981.91	1.00	37,727.66	2.9%
Department of Transportation, Glendive	15	7,622.02	214.10	-	7,836.12	0.6%
Department of Transportation, Havre	27	29,234.67	2,326.00	2,691.13	34,251.80	2.6%
Department of Transportation, Kalispell	64	54,860.24	6,615.43	18,838.33	80,314.00	6.1%
Department of Transportation, Lewistown	29	64,996.05	1,786.21	750.00	67,532.26	5.1%
Department of Transportation, Miles City	27	21,526.56	1,986.35	-	23,512.91	1.8%
Department of Transportation, Missoula	56	28,941.44	3,919.32	-	32,860.76	2.5%
Department of Transportation, Wolf Point	32	19,663.23	2,000.58	342.10	22,005.91	1.7%
Montana Historical Society	2	18,571.79	1,266.78	2,605.62	22,444.19	1.7%
Montana State Library	1	1,517.85	243.57	-	1,761.42	0.1%
Office of Public Instruction	1	369.92	-	-	369.92	0.0%
Public Health & Human Services	11	20,236.92	1,054.27	-	21,291.19	1.6%
Public Health & Human Services, Montana Developmental Center	5	5,605.21	252.95	-	5,858.16	0.4%
Public Health & Human Services, Mental Health Nursing Care Center	1	286.38	-	-	286.38	0.0%
Public Service Commission	2	3,705.90	523.45	-	4,229.35	0.3%
State Board of Education, Montana School for the Deaf & Blind	1	97.00	-	-	97.00	0.0%
Supreme Court - Judiciary	4	5,189.16	198.38	-	5,387.54	0.4%
University System, Montana State University - Billings	6	11,634.29	1,030.72	-	12,665.01	1.0%
University System, Montana State University - Bozeman, Ag Exp. St.	4	5,108.86	-	-	5,108.86	0.4%
University System, Montana State University - Bozeman, FSTS	2	1,924.06	428.00	-	2,352.06	0.2%
University System, Montana State University - Bozeman	28	81,132.13	2,005.88	62,059.22	145,197.23	11.0%
University System, Montana Tech of the University of Montana	2	2,321.93	-	-	2,321.93	0.2%
University System, Montana State University - Northern	4	14,258.52	361.75	1,862.43	16,482.70	1.2%
University System, University of Montana - Missoula	36	68,828.12	6,041.83	3,000.00	77,869.95	5.9%
University System, University of Montana - Missoula, Forestry	1	2,118.40	-	-	2,118.40	0.2%
University System, University of Montana - Western	3	7,928.07	100.00	-	8,028.07	0.6%
Total	737	1,084,555.09	106,507.83	131,255.05	1,322,317.97	100.0%

Footnotes:
1-Agency includes only those agencies which had claims.
2-Time period when loss occurred.
3-Agency group includes all boards, council, and attach-to agencies.
4-Number of claims occurred between 07/01/2006 and 06/30/2010.
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-Estimated future loss payments.
8-Total allocated loss adjustment expenses, indemnity, and reserves.

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

During FY 2010, the Risk Management & Tort Defense Division self-insured state aviation risks up to $750,000 per claim, $1,500,000 per occurrence.

In addition, the division administered two commercial aviation insurance programs for state agencies. Airport liability insurance was 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 was 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 and aviation rates were stable at renewal.

Financial Discussion

(Figure 4)

Net premiums earned during FY 2010 increased slightly due to changes in number and type of aircraft insured and changes in values.

The state experienced one small aviation loss of $12,048 during FY 2010.

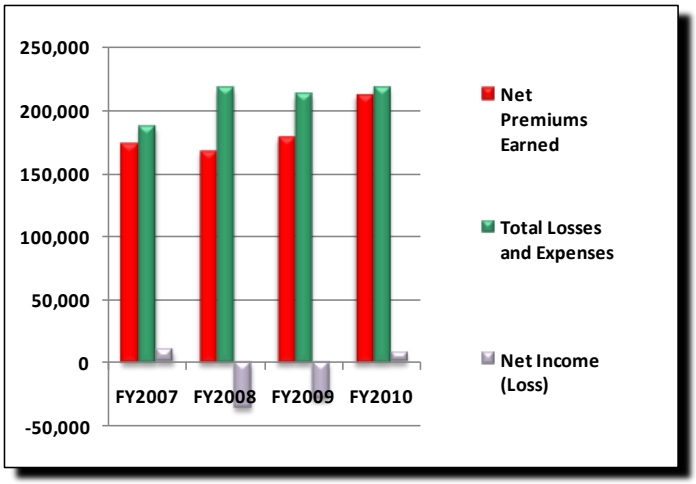
Aviation expenses increased during FY 2010 primarily because the cost of commercial insurance also increased due to changes in aircraft values and the number and type of aircraft insured.

Aviation insurance lines experienced a small net income of $7,387 for FY 2010.

Figure 4

Aviation Insurance Program

	FY2007	FY2008	FY2009	FY2010
Net Premiums Earned	**174,003**	**167,807**	**178,625**	**212,451**
Losses Paid	0	5,750	-1,000	12,048
Loss Expenses Paid	0	0	0	0
Operations	0	0	0	0
Commercial Insurance Premiums	187,315	211,922	213,760	206,454
Total Losses and Expenses	**187,315**	**217,672**	**212,760**	**218,502**
Net Income (Loss) Before Investments	**-13,312**	**-49,865**	**-34,135**	**-6,051**
Net Investment Income Earned	15,775	14,510	5,816	1,390
Insurance Recoveries	7,465	0	0	12,048
Net Income (Loss)	**9,928**	**-35,355**	**-28,319**	**7,387**



General Liability Insurance Program Results

State agencies operate prisons, hospitals, universities and institutions. 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 administered commercial insurance programs in behalf of state agencies during FY 2010 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

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 establish 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 2009 and FY 2010 is provided below in Figure 5.

Figure 5

General Liability Claims Activity
as of 06/30

	# Claims Received	# Claims Resolved	# Claims Open
FY 2009	241	238	493
FY 2010	312	268	537

Key Claims

Several claims were filed against the Montana State Prison, DPHHS, and the Department of Transportation. Payments in full or partial resolution thereof accounted for significant expenditures.

A number of Department of Justice claims involving regulatory and law enforcement activities were partially or fully resolved and required the expenditure of proceeds from the state property/casualty insurance fund.

Expenses involving the ongoing legal defense of the Libby asbestos claims were also incurred in FY 2010.

General Liability Insurance Program Results (cont'd)

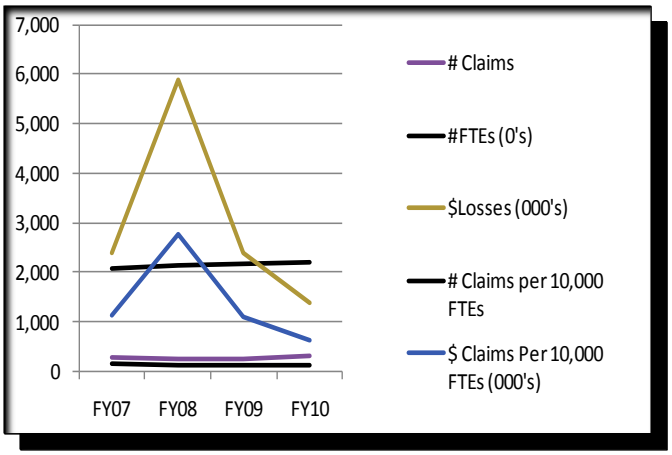
Claims Trends

Figure 6 (below) provides a summary of loss trends for losses paid for all years (i.e. FY 2007 through FY 2010). General liability claims are too volatile in frequency and severity so it is difficult to say whether or not the numbers provided below constitute a trend.

Figure 6

General Liability Claims Trends

Fiscal Year	# Claims	#FTEs (0's)	$Losses (000's)	# Claims per 10,000 FTEs	$ Claims Per 10,000 FTEs (000's)
FY07	298	2,090	2,400	143	1,148
FY08	249	2,140	5,900	116	2,757
FY09	252	2,170	2,400	116	1,106
FY10	302	2,190	1,400	138	639



Financial Discussion

(Figure 7)

Net premiums earned in FY 2010 were lower than in the prior three years due to biennium premium reductions. Losses paid were the lowest in 4 years at $1,410,041.

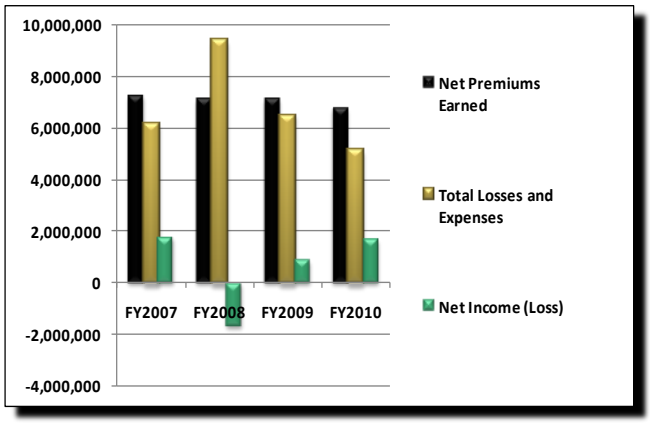
Loss expenses paid and operating expenses were fairly constant during FY 2010. Net investment income declined precipitously due to a poor investment climate and lower interest rates.

Premium collections were sufficient to offset expenses and resulted in a net income of $1,679,467.

Figure 7

General Liability Insurance Program

	FY2007	FY2008	FY2009	FY2010
Net Premiums Earned	**7,242,383**	**7,124,500**	**7,123,899**	**6,750,000**
Losses Paid	2,463,534	6,043,207	2,452,540	1,410,041
Loss Expenses Paid	2,519,597	2,167,726	2,576,545	2,102,839
Operations	988,748	1,012,551	1,243,365	1,351,774
Commercial Insurance Premiums	173,668	181,647	208,005	250,033
Total Losses and Expenses	**6,145,547**	**9,405,131**	**6,480,455**	**5,114,688**
Net Income (Loss) Before Investments	**1,096,836**	**-2,280,631**	**643,444**	**1,635,312**
Net Investment Income Earned	656,598	616,042	222,871	44,155
Insurance Recoveries	0	0	0	0
Net Income (Loss)	**1,753,434**	**-1,664,589**	**866,315**	**1,679,467**



Property Insurance Program Results

State agencies and universities own or lease 4,516 properties with an estimated current replacement cost value in excess of $4.5 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 2010. The program included coverage for the following:

- Fine art at various locations throughout the state valued in excess of $265 million.
- Crime and fidelity insurance at more than 70 locations statewide.
- Approximately 600 boilers & machinery.
- Business income streams in excess of $200 million at more than 120 locations statewide.

Agencies pay the first $1,000 of any property claim and the division pays the remaining $499,000 until the deductible for each loss is satisfied. Commercial insurance pays losses that exceed $500,000.

Claims Activity

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 2009 and FY 2010 is provided in Figure 8 below:

Figure 8

Property Claims Activity
as of 06/30

	# Claims Received	# Claims Resolved	# Claims Open
FY 2009	52	49	30
FY 2010	48	46	32

Key Claims

MSU Bozeman Chiller

On April 4, 2009, a newly installed chiller in the Civil Engineering Department of MSU-Bozeman, Cobleigh Hall, malfunctioned after a planned power outage, resulting in a $180,000 loss.

Funds for this claim will likely be recovered from commercial insurance carriers, however, $134,828 was expended from the state property/ casualty insurance fund during FY 2010.

Womack Armory

A military tow truck accidently backed into the Womack Armory Building at Fort Harrison on 7/13/09. Structural damage affected the integrity of the building, therefore, repairs totaling $122,726 were made in FY 2010.

Spring Meadow Lake Fire

The Spring Meadow Lake State Park fire occurred in Helena in the summer of 2008. This fire was caused by a teenager who was experimenting with fireworks.

On September 9, 2009, the division received $271,500 in restitution from Travelers Insurance for previous expenses. A total of $95,172 was expended out of insurance proceeds during FY 2010.

Property Insurance Program Results (cont'd)

Two Hail Storms

On June 20, 2010, a tornado in the Billings area produced heavy rain and hail. Several state properties were affected. This claim is estimated to cost the state $360,000.

On June 30, 2010, a subsequent storm in Bozeman produced 'golf ball sized' hail which damaged an estimated 2,000 state windows, 100 state vehicles, and 100 state roofs in the area.

The state's commercial insurance carrier, Lexington, has set a reserve of $3 million to $5 million on the Bozeman claims. The state's portion of each loss is a $500,000 deductible.

Though no payments were made in FY 2010, the state has set large reserves on both of these claims.

IBM Parking Garage Fire

In March of 2010, a 1996 Ford F150 owned by a state employee in Helena caught on fire and caused extensive damage to the IBM building and an adjacent building.

The cause and origin of the truck fire could not be determined. The cost to cleanup smoke/fire damage was $50,551.

University of Montana West Auxiliary Gym

A vent line for the floor drain in the mechanical room below the West Auxiliary Gym at the University of Montana was not properly routed when the gym was built in 1999.

The vent was not capped and flooring was placed over the top. Over a period of time, steam and vapors from the mechanical room vented under the gym floor causing the floor to buckle. The cost to repair the damage during FY 2010 was $54,764.

Property Insurance Program Results (cont'd)

Claims Trends

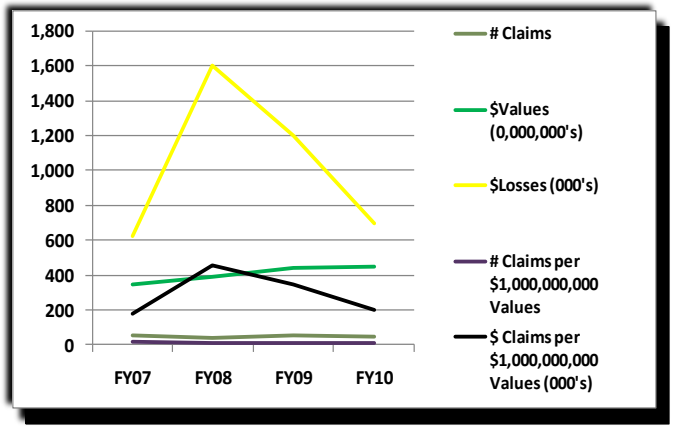
As shown in Figure 9 (below), losses are trending upward.

Losses for recent years (i.e. FY 2009 and FY 2010) have not fully matured and may vary significantly from losses incurred at the end of FY 2010.

Figure 9

Property Claims Trends

Fiscal Year	# Claims	$Values (0,000,000's)	$Losses (000's)	# Claims per $1,000,000,000 Values	$ Claims per $1,000,000,000 Values (000's)
FY07	52	350	624	15	178
FY08	40	390	1,600	10	457
FY09	53	440	1,200	12	343
FY10	47	450	700	10	200



Financial Discussion

(Figure 10)

Net premiums earned declined in FY 2010 due to biennial premium reductions. Losses paid were also lower.

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

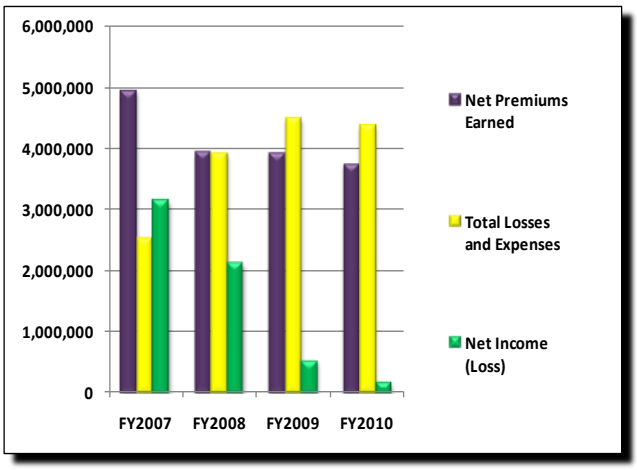
Commercial insurance premiums increased in FY 2010 due to changes in reported values at key properties.

Net investment income and insurance recoveries declined. The division realized a small net income of $175,662.

Figure 10

Property Insurance Program

	FY2007	FY2008	FY2009	FY2010
Net Premiums Earned	**4,943,944**	**3,953,568**	**3,929,251**	**3,747,417**
Losses Paid	664,401	1,904,179	2,047,194	1,759,655
Loss Expenses Paid	4,938	45,292	122,504	26,146
Operations	201,885	206,745	253,873	276,008
Commercial Insurance Premiums	1,659,718	1,772,298	2,078,008	2,312,381
Total Losses and Expenses	**2,530,942**	**3,928,514**	**4,501,579**	**4,374,191**
Net Income (Loss) Before Investments	**2,413,002**	**25,054**	**-572,328**	**-626,774**
Net Investment Income Earned	448,220	384,229	139,006	27,474
Insurance Recoveries	273,807	1,703,866	961,729	774,962
Net Income (Loss)	**3,135,029**	**2,113,148**	**528,406**	**175,662**



Property
Total Losses Incurred by Agency[1]
07/01/2006 - 06/30/2010[2]

Agency[3]	# of Claims[4]	Indemnity[5]	ALAE[6]	Indemnity Reserve[7]	Total Incurred[8]	% of Total Incurred
Department of Administration	2	146,832.82	2,303.50	-	149,136.32	3.0%
Department of Administration, Office of the Public Defender	1	416.33	-	-	416.33	0.0%
Department of Administration, State Fund	2	244.28	-	-	244.28	0.0%
Department of Commerce	2	51,440.05	283.80	9,731.30	61,455.15	1.3%
Department of Commerce, Montana Heritage Commission	2	1,565.00	-	-	1,565.00	0.0%
Department of Corrections, State Prison	3	256,117.78	1,673.18	-	257,790.96	5.3%
Department of Corrections, Pine Hills Youth Correctional Facility	2	6,710.20	328.60	585.80	7,624.60	0.2%
Department of Corrections, Riverside Youth Correctional Facility	2	8,932.77	642.20	3,900.00	13,474.97	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	11	(2,953.78)	6,906.10	585,355.98	589,308.30	12.0%
Department of Justice, Forensic Science	1	-	-	-	-	0.0%
Department of Justice, Law Enforcement Academy	1	1,167.50	174.00	-	1,341.50	0.0%
Department of Labor & Industry	2	1,819.71	-	-	1,819.71	0.0%
Department of Livestock	2	4,107.60	-	-	4,107.60	0.1%
Department of Military Affairs	7	475,195.98	5,997.95	44,129.34	525,323.27	10.7%
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, Billings	1	35,784.55	400.53	-	36,185.08	0.7%
Department of Transportation, Butte	2	16,718.21	645.72	1,145.00	18,508.93	0.4%
Department of Transportation, Kalispell	1	26,053.41	608.73	25.00	26,687.14	0.5%
Department of Transportation, Miles City	1	-	469.07	-	469.07	0.0%
Department of Transportation, Missoula	2	190,202.38	580.20	-	190,782.58	3.9%
Legislative Branch	1	700.34	-	-	700.34	0.0%
Montana Arts Council	1	-	5.00	-	5.00	0.0%
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	-	-	8,000.00	8,000.00	0.2%
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	2	535.00	-	8,000.00	8,535.00	0.2%
University System, Montana State University - Billings	14	152,029.16	3,723.10	125,383.71	281,135.97	5.7%
University System, University of Montana - Helena College of Technology	1	987.48	-	-	987.48	0.0%
University System, Montana State University - Bozeman, Ag Experiment Stati	4	250,876.94	2,425.31	3,702.06	257,004.31	5.2%
University System, Montana State University - Bozeman	47	843,984.41	90,137.19	179,770.77	1,113,892.37	22.7%
University System, Montana Tech of the University of Montana	13	52,898.22	12.00	39,251.00	92,161.22	1.9%
University System, University of Montana - Missoula College of Technology	1	52,275.79	440.70	-	52,716.49	1.1%
University System, Montana State University - Northern	6	29,505.74	1,608.36	-	31,114.10	0.6%
University System, University of Montana - Missoula	34	534,205.49	7,030.30	32,492.21	573,728.00	11.7%
University System, University of Montana - Western	9	23,673.94	894.30	1,500.00	26,068.24	0.5%
Total	193	3,214,545.16	147,931.90	1,534,941.41	4,897,418.47	100.0%

Footnotes:
1-Agency includes only those agencies which had claims.
2-Time period when loss occurred.
3-Agency group includes all boards, council, and attach-to agencies.
4-Number of claims occurred between 07/01/2006 and 06/30/2010.
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-Estimated future loss payments.
8-Total allocated loss adjustment expenses, indemnity, and reserves.

Loss Control Programs

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

Training

During FY 2010, the Risk Management & Tort Defense Division offered numerous training programs to state agencies including:

- Defensive driving
- Van safety training
- Preventing distracted driving
- Smart contracting
- Preventing workplace violence
- Fraud prevention

Approximately 2,100 state employees attended these programs. Many state agencies and universities qualified for auto insurance discounts of approximately $92,000 by sending their employees to safe driver training.

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:

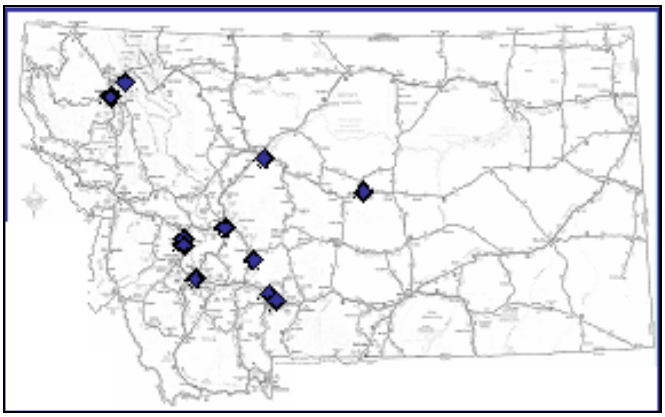
- Tort litigation
- Employment practices
- Premises liability
- Contract provisions
- Civil rights
- Operating practices

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 2010, 130 buildings were inspected at 34 separate complexes involving 19 agencies in Deer Lodge, Butte, Warm Springs, Great Falls, Lewistown, Helena, Toston, Belgrade, Bozeman, Kalispell and Columbia Falls.



Building Plan Reviews

Risk Management & Tort Defense Division 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.

Advisory recommendations are issued to state agencies based upon consultant's experience with similar environments, claims histories, and best practices.

Loss Control Programs (cont'd)

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 to reduce the likelihood or potential severity of insured auto, aviation, liability, and property claims.

During FY 2010, approximately 20 grants (whose monetary value totaled $232,034) were awarded to state agencies and universities. Four grant awards addressed fire protection and suppression systems at key properties.

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

Two grants funded security software for the Information Technology Services Division, Department of Administration, and security cameras at the Department of Revenue.

Through the assistance of a $59,000 grant award, the Department of Administration's Information Technology Services Division (ITSD) installed innovative technology to protect computer equipment at the new Helena State of Montana Data Center (SMDC) from earthquake damage.

The remaining grants addressed other mitigation measures.

Property Loss Management

The Risk Management & Tort Defense Division (RMTD) offers a property insurance premium discount of 10% to state agencies and universities that establish and maintain a comprehensive and effective property loss management program.

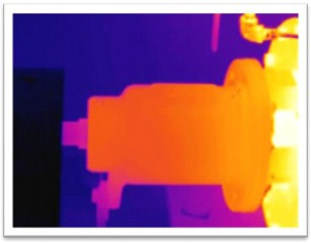
During FY 2010, 21 state agencies and university campuses earned 89% of the total available discount; approximately $353,190. The number of participating agencies increased by 9% over FY 2009 and an additional 4.8% of the total available premium discount was earned by agencies.

Infrared Thermographic Surveys

During FY 2010 a new infrared thermographic imaging service was introduced at state owned buildings by the Risk Management & Tort Defense Division.

This cutting edge service uses advanced electronics to detect and record heat differentials and other anomalies in electrical systems and mechanical equipment before costly losses occur.

The thermographic image (below) from a recent survey indicated that the bearings of a pump assembly were considerably hotter than the ambient temperature.



The difference in temperature was attributed to potential bearing failure in the pump. With this knowledge, correct replacement parts can be ordered and repairs made quickly and efficiently before the abnormal condition leads to a catastrophic failure or fire hazard.

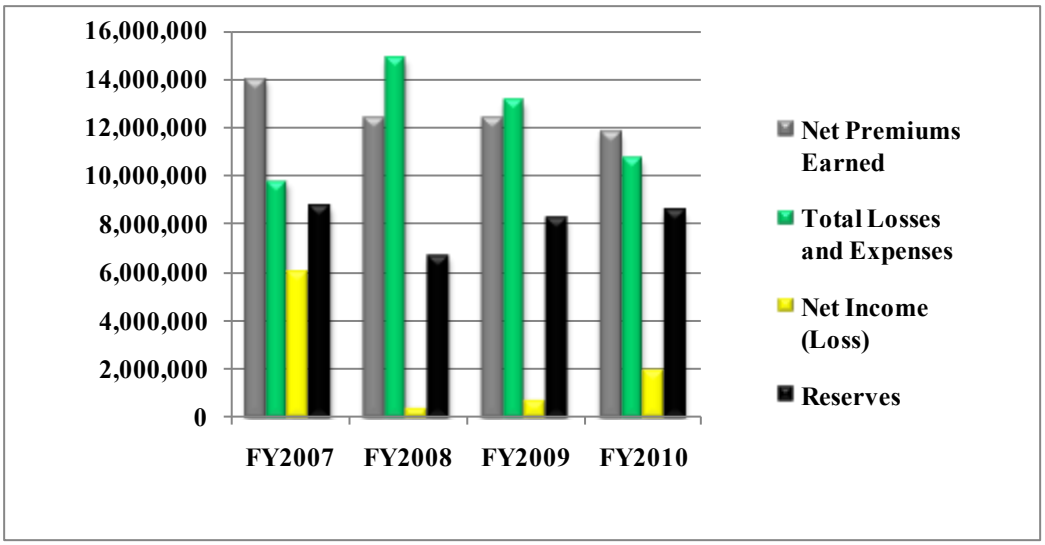
This program was initiated late in FY 2010 and nine state buildings at six locations in northwest Montana were surveyed. Significant abnormalities were identified and corrected before they led to potentially debilitating losses.

As this new program is refined, additional locations will be surveyed.

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. 21).

Figure 11



Net Premiums Earned

Figures 11 and 12 (pg. 20)

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 2010. The drop in net premium earned is attributable to biennial premium reductions.

Total Losses and Expenses

Figures 11 and 12 (pg. 20)

Losses paid in FY 2010 were significantly lower than last biennium. Loss expenses paid and operations expenses were relatively constant between FY 2007 and FY 2010.

The increased cost of commercial insurance premiums was 'softened' by higher insurance recoveries in FY 2008, FY 2009, and FY 2010.

Recoveries from insurance companies for losses that occurred in FY 2007 and prior years have increased.

Net Income

Figures 11 and 12 (pg. 20)

Lower losses, stable loss and operations expenses, and better than expected insurance recoveries offset higher insurance premiums and declining investment income. Therefore, the division realized net income of $1,973,384 in FY 2010 (Figures 11 and 12).

Liabilities and Reserves

Figures 11 and 12 (pg. 20)

Though net income for all lines of insurance increased during FY 2010, liabilities for future claims also increased by $1.7 million for prior year events.

Therefore, the state property/casualty fund's reserve position increased by only $300,000 from FY 2009. The fund's reserve position, however, has been relatively stable since FY 2007.

Financials

Figure 12

State of Montana
Statement of Changes in Revenues, Expenses, and Reserves
Property/Casualty Insurance Fund
June 30, 2010
(as reported by the Risk Management & Tort Defense Division)

	FY2007	FY2008	FY2009	FY2010
Net Premiums Earned	**13,973,693**	**12,343,061**	**12,335,823**	**11,753,019**
Losses Paid	3,795,817	8,978,804	6,051,058	3,913,847
Loss Expenses Paid	2,566,244	2,315,626	2,800,821	2,163,656
Operations	1,365,510	1,398,383	1,717,149	1,866,868
Commercial Insurance Premiums	2,020,702	2,165,868	2,499,773	2,768,869
Total Losses and Expenses	**9,748,273**	**14,858,682**	**13,068,802**	**10,713,239**
Net Income (Loss) Before Investments	**4,225,420**	**-2,515,621**	**-732,979**	**1,039,780**
Net Investment Income Earned	1,266,862	1,113,873	403,542	80,443
Insurance Recoveries	487,394	1,778,048	1,030,443	853,161
Net Income (Loss)	**5,979,675**	**376,300**	**701,006**	**1,973,384**
Prior Years Assets	19,040,910	24,524,884	24,901,184	25,602,190
Aggregate Write-Ins		(13,061)	246,961	(904,994)
Total Assets	**24,524,884**	**24,888,123**	**25,849,151**	**26,670,580**
Non-Claim Liabilities	663,000	1,691,000	2,661,000	1,448,000
Claims Liabilities	15,120,936	16,498,123	14,956,151	16,673,977
Total Liabilities	**15,783,936**	**18,189,123**	**17,617,151**	**18,121,977**
	-	-	-	-
Reserves	**8,740,948**	**6,699,000**	**8,232,000**	**8,548,603**

Figure 13

State of Montana
Statement of Reserves
Property/Casualty Insurance Fund
June 30, 2010

	FY 2009	FY 2010
ASSETS		
Current assets		
Cash and equivalents	22,548,000	24,338,000
Receivables (net)	15,000	7,000
Due from other funds	79,000	0
Due from component units	6,000	0
Securities lending collateral	1,344,000	827,000
Other current assets		
Total current assets	23,992,000	25,172,000
Noncurrent assets		
Long term investments	1,704,000	1,295,000
Capital assets	153,000	204,000
Total noncurrent assets	1,857,000	1,499,000
Total assets	25,849,000	26,671,000
LIABILITIES		
Current liabilities		
Accounts payable	929,000	308,000
Due to other funds	111,000	0
Due to component units	8,000	0
Securities lending liability	1,344,000	827,000
Estimated insurance claims	5,651,000	5,501,000
Compensated absences payable	74,000	47,000
Total current liabilities	8,117,000	6,683,000
Noncurrent liabilities		
Estimated insurance claims	9,305,000	11,173,000
Compensated absences payable	98,000	129,000
OPEB Implicit Rate Subsidy	97,000	137,000
Total noncurrent liabilities	9,500,000	11,439,000
Total liabilities	17,617,000	18,122,000
RESERVES		
Invested in capital assets, net of related debt	153,000	204,000
Unrestricted	8,079,000	8,345,000
TOTAL RESERVES	8,232,000	8,549,000

Customer Agencies

Administration
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 Management Advisory Council

The Risk Management Advisory Council 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**
Jacquie Duhame	**Risk Manager, Montana Rail Link**
Brett Dahl	**Administrator, Risk Management & Tort Defense Division**

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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.

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