



King County

**OFFICE OF RISK MANAGEMENT
2014 ANNUAL REPORT**



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INTRODUCTION

The King County Office of Risk Management's mission is to protect King County's financial assets and mitigate losses by providing effective risk management services and responsive and fair claims management with an overarching goal to be proactive and prevent losses before they occur. We work closely with all County agencies to control and minimize losses and protect assets, which supports each agency in reaching their overall business objectives.

The Annual Risk Management Report is intended to provide an overview of our program details for the past year, highlight opportunities and challenges, provide information about the risks facing the County, and communicate the measures used to mitigate those risks.

2014 SUCCESSES

Equity & Social Justice Initiative – In alignment with King County's ESJ Initiative, the Office of Risk Management worked with the Prosecuting Attorney's Office to develop an ESJ component to be added to the case evaluation process used in evaluating claims. We now take ESJ factors into consideration in this process to ensure that ESJ determinants are not influencing the value of claims.

Internal Service Fund Rate Methodology – The King County Office of Risk Management operates as an Internal Service Fund agency. The cost of managing the County’s risk is allocated to all County agencies. Prior to 2014, costs were allocated solely based on each agency’s extended loss history. In 2014, the methodology was updated with the intent to incentivize agencies to reduce losses, and add an exposure element. This has resulted in a more equitable distribution of the cost of risk, a way for agencies to see a more immediate benefit to reducing their losses through a reduction in their internal service rate, as well as more transparency in rates.

King County Council Performance Audit – In 2013 the County Auditor’s Office conducted a performance audit of the Office of Risk Management. The resulting recommendations gave Risk Management the opportunity to partner with other County agencies to address these recommendations. In 2014 ORM made significant strides in addressing the following outstanding audit recommendations:

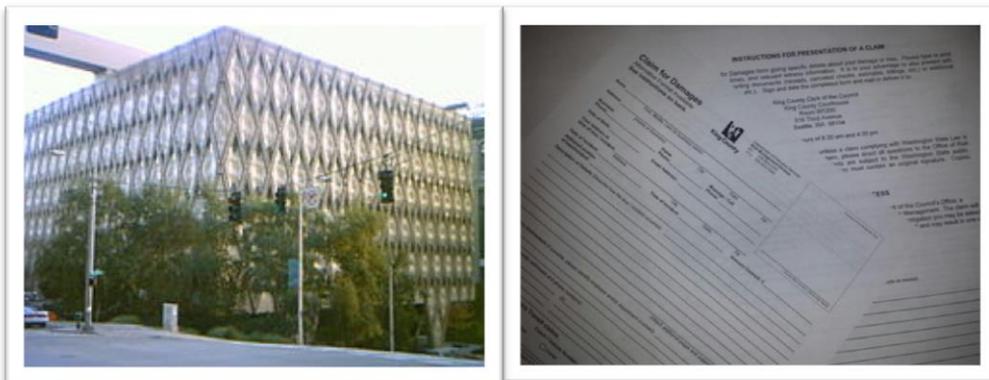
- *Enterprise Risk Management (ERM)* – The recommendation was to develop a framework and an implementation plan for Enterprise Risk Management. During 2014, ORM developed the framework and a plan that includes full implementation within the County’s largest agencies by the end of 2015. Additionally, ORM has developed an *Enterprise Risk Management Maturity Scorecard*, which sets performance targets for partner agencies in adopting and practicing the principles, framework, and process of ERM. Details on the ERM program are included under the Enterprise Risk Management section of this report.
- *Annual bus driver safety training* – The recommendation was to work with the Transit division of the Department of Transportation to set a requirement for annual bus driver safety retraining consistent with transit agency best practices. In 2014, all Transit drivers were retrained in the area of pedestrian safety and awareness. ORM continues to work with Transit on a safety training program. Transit is also contracting with a safety consultant to evaluate their overall safety management practices. ORM will continue to monitor data from Transit on their progress specific to operator safety training.
- *Performance targets for reducing County vehicle accidents (non-Transit)* - The recommendation was to gather accident data for non-Transit vehicles per total miles driven and establish annual performance targets for reducing accidents. Risk Management has partnered with Fleet Administration and Safety and Claims to collect accident data and compile figures on the total cost of non-Transit County vehicle accidents. This includes workers compensation and liability claims costs, vehicle repair costs, and miles driven. Reporting starts in 2015 with annual reporting to partner agencies.



OPPORTUNITIES AND CHALLENGES IN 2015 AND BEYOND

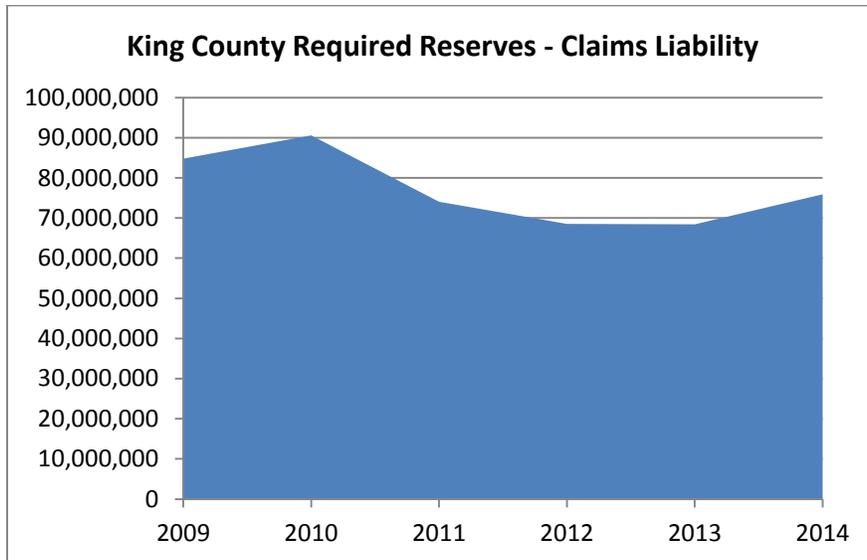
Agency Rate Rebate – Portion to be used for risk reduction – During the 2015-2016 biennium, Risk Management is refunding \$5 million back to County agencies due to the positive undesignated fund balance in the Insurance Fund. This will allow agencies to put those funds back in to their operations and direct services to the community. Additionally, there are eight agencies with a refund of more than \$75,000. For those agencies, 20% of their rebate will be used on risk reduction efforts selected in partnership with ORM. This is a great opportunity for agencies to invest in initiatives that focus on reducing the County's exposure. Sustained reductions in agency losses will drive down the cost of insurance in the future.

Recovery Partnership - King County has a very successful program to recover expenses for damages caused to King County by negligent third parties. Other governments have expressed an interest in partnering with the King County Office of Risk Management to perform recovery services on their behalf. In 2015 ORM is piloting a model to provide these services. If the pilot program is successful, there could be potential for King County to provide regional recovery services to other municipalities. Further details on the recovery program are included under the Recovery section of this report.



Self-Insured Retention Level - In April of 2011, King County's self-insured retention for liability claims increased from \$3.5 million to \$7.5 million per occurrence. This increase was the result of several significant losses paid in 2010 and 2011 that occurred in prior years. This substantial increase challenges our current funding model and will have a significant impact on agencies with large losses. Our goal is to minimize losses which in time will lead to a reduction in the self-insured retention level. In 2013, we established a reserve equal to two losses at our current self-insured retention. The goal of this reserve is to lessen the immediate impact on agencies should a catastrophic loss occur.

Claims liability - The liability for all incurred claims is calculated annually by an actuary. The total outstanding liability as of December 31, 2014 for County auto and general liability is \$75.9 million. Our goal is to drive down this figure through a reduction in losses. As noted above, we now have four full years under the \$7.5 million self-insured retention. Because King County is retaining a higher amount of risk per occurrence, the corresponding outstanding liability has increased, thus reinforcing the importance of risk reduction. The Enterprise Risk Management Program is comprehensively addressing the integration of risk reduction into county strategic and business planning processes.



ENTERPRISE RISK MANAGEMENT

ERM Overview - Enterprise Risk Management (ERM) is an integrated approach to managing risk in order to reduce the County's exposure to large claims. ERM integrates risk management systems into the County's business processes. ORM first presented the business need for ERM in the Line of Business Plan for 2013 (the Line of Business Plan is a long term, product-centered approach to planning and budgeting). In 2013, the Council Auditor's Office conducted a performance audit of ORM which resulted in a recommendation for development and implementation of ERM. This integrated approach to managing the County's risks is expected to result in improved proactive risk identification, assessment, and treatment.

ERM Goals and Priorities - The ERM Program's primary goal is to effectively address emerging opportunities and challenges in the areas of operational, reputational, strategic, compliance, and financial risk by integrating risk management systems into the County's culture and business processes.

The expected long-term outcome of ERM is a holistic view of priority risks facing King County, and detailed action plans for addressing these risks to protect the County's assets and meet business objectives. This improved risk treatment should result in insurance and claims savings for King County.

The ERM Program will achieve these goals through collaborative engagement with risk owners in King County to identify and assess risks across the enterprise. The ERM Program also provides agencies with the risk-related data and risk assessment tools needed to make informed, intentional decisions about the opportunities and risks they face.

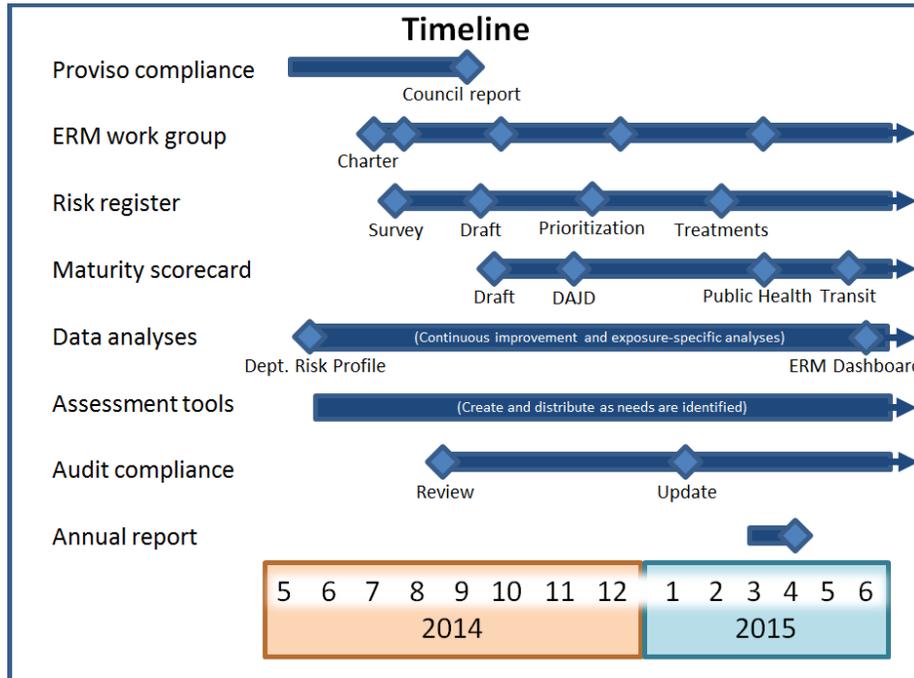
ERM Activities in the Past Year - In 2014, ORM began implementation of ERM and the results are as follows:

- ERM Work Group – The ERM Work Group was established to organize the ERM efforts. It is comprised of risk owners from County agencies and meets quarterly to identify, assess, prioritize and evaluate risks.
- Enterprise Risk Register – The Enterprise Risk Register is the working list of identified priority risks facing King County, the individual or agency that owns the risk, and their specific ongoing efforts to control those risks. The Risk Register was developed using a management survey and historic loss data. The ERM Work Group further refined and prioritized these identified risks to complete the County's first Risk Register.
- ERM Maturity Scorecard – The ERM Maturity Scorecard is a consistent way to measure progress on implementation of the principles, framework, and process of ERM in County agencies. The Department of Adult and Juvenile Detention piloted the ERM Maturity Scorecard process in 2014.
- Audit Compliance – The Council Auditor noted ORM made significant progress in complying with the recommendations of the 2013 Performance Audit.

Planned ERM Activities in the Current Year - In 2015, the ERM Program has the following actions planned and in progress:

- ERM Work Group – The Work Group is meeting quarterly to systematically work through the priority risks on the risk register to develop and share best practices for managing risks. This includes review of recent claims data for discussion of loss trends and lessons learned.
- Enterprise Risk Register – The Enterprise Risk Register is maturing from a list of priority risks to a management tool. Risk owners are now using the Risk Register to communicate, document, and manage action plans addressing the identified risks. This is an ongoing effort. The Enterprise Risk Register is a living document and will be continuously updated and improved.
- ERM Maturity Scorecard – The senior management team of Public Health has committed to participating in the ERM Maturity Scorecard process in the first quarter of 2015. Transit has made a similar commitment for the second quarter of 2015. ORM plans to assess all County agencies by the end of 2017 using the ERM Maturity Scorecard.
- Audit Compliance – All remaining findings noted as “in progress” as of the last Council Auditor update are planned to be completed by August 2015.

ERM Implementation Timeline:



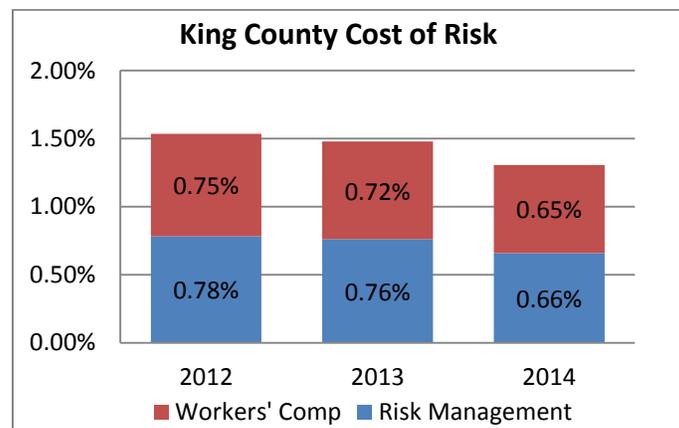
ERM Agency Actions and Measurable Results - The initiation of the ERM program, ERM Work Group, Enterprise Risk Register, and ERM Maturity Scorecard are measurable results of the County-wide effort in 2014. Additionally, in 2014 the ERM program led and partnered with County agencies in the following initiatives which provide examples of agency actions where risk was considered in the decision making process.

1. Advised Facilities Management and Transit divisions regarding use of force policy, training, and equipment for non-commissioned security personnel. Incidents and claims related to non-law enforcement use of force are expected to be less frequent and less severe in the long term.
2. Partnered with and supported Transit’s pedestrian awareness plan to explore technology, training, and operational equipment to reduce pedestrian incidents.
3. Partnered with the Human Resources Division to deliver organizational health workshops in key departments and divisions to better understand personnel-related enterprise risks and opportunities such as succession planning, hiring practices, and employee claims. Workplace best practices will be shared throughout the County to enhance positive workplace efforts and reduce employment liability.

COST OF RISK

The cost of risk is a widely used performance measure in the field of risk management. It measures the overall costs associated with managing risk as a percentage of the total operating budget. This tool measures the effectiveness of the program and shows how risk-related costs are changing relative to the growth rate of the County's operations.

The costs associated with managing risk include: claim and litigation expenses, insurance premiums, Prosecuting Attorney's Office expenses, and administration expenses. The measure also includes the cost of the Workers' Compensation program. The benchmark is set at 2% of the County's operating budget. King County's total cost of risk for 2014 was under this benchmark at 1.31% of the County's total operating budget.



LOSS CONTROL

The Loss Control Program provides financial assistance for agency initiatives intended to minimize liability exposures. This program presents significant opportunities for Risk Management to partner with County agencies in identifying and reducing loss exposures and minimizing the impact of future claims.

Council has approved a \$400,000 biennial appropriation from the Insurance Fund dedicated specifically to addressing emerging risks and preventing loss. These funds are awarded to agencies who apply with initiatives to minimize risk exposure to King County. In 2014, there were \$443,000 in requests to the loss control fund, \$200,000 of which were approved and funded.

In 2014, the Loss Control Program supported the following:

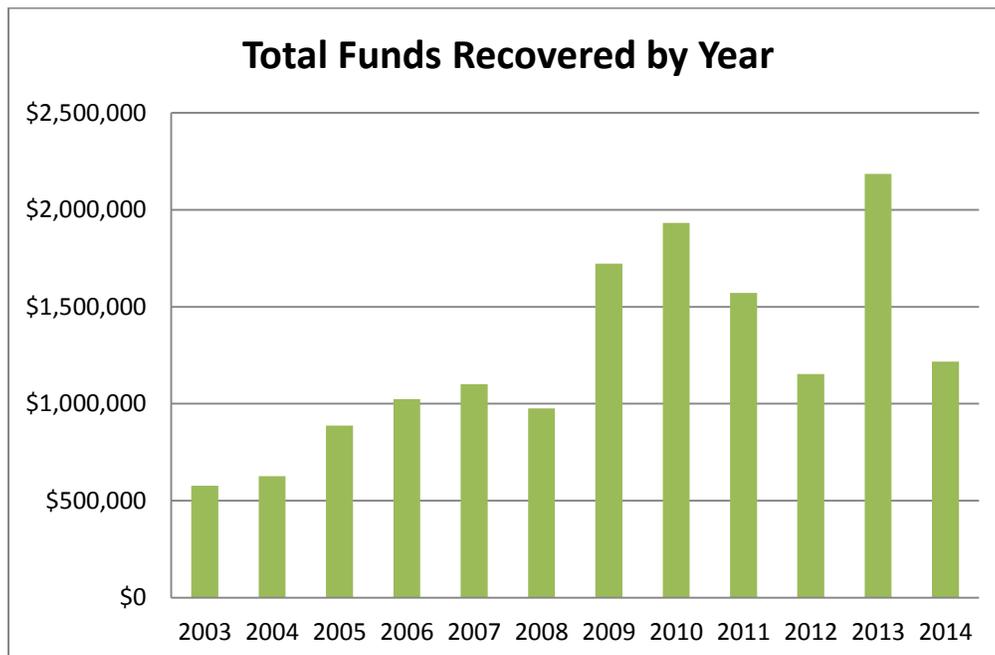
- FMD – Maleng Regional Justice Center Security
- FMD – Security Policy Review
- Public Health – Medical Examiner Autopsy Carts
- KCSO – RADAR Program community outreach
- KCSO – Driver Training
- DAJD – Self-contained breathing apparatuses for safety and evacuation

RECOVERY

The Office of Risk Management has a very successful recovery program tasked with identifying, investigating and recovering expenses for damages caused to King County property or injury to King County employees by negligent third parties.

2014 was another successful year for the recovery program as we recovered over \$1.2 Million in expenses for damages to King County property. The majority of recovery claims involve auto accident damage to County vehicles, structures such as toll booths, bus shelters, and guard rails, as well as workers compensation lien recoveries arising out of injuries to County employees. The graph below shows loss recovery over time for King County. The increase can be attributed to departments seeing the benefits and taking advantage of Risk Management's recovery services. The amount we recover is directly correlated to actual damage caused and can vary significantly from year to year based on frequency and severity of those events.

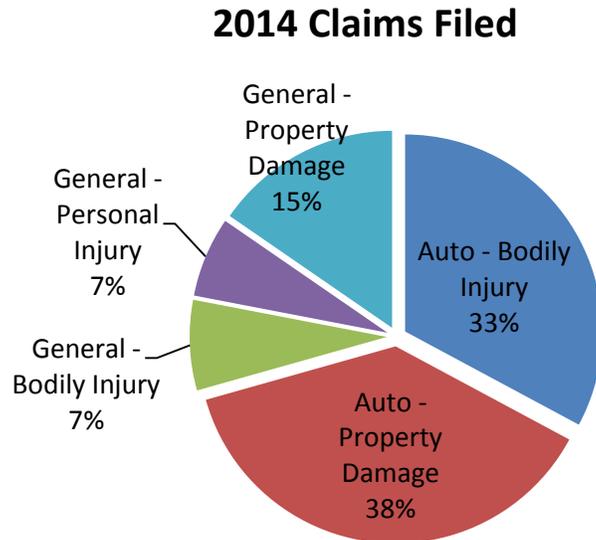
Year	# New Claims
2010	675
2011	781
2012	721
2013	718
2014	700



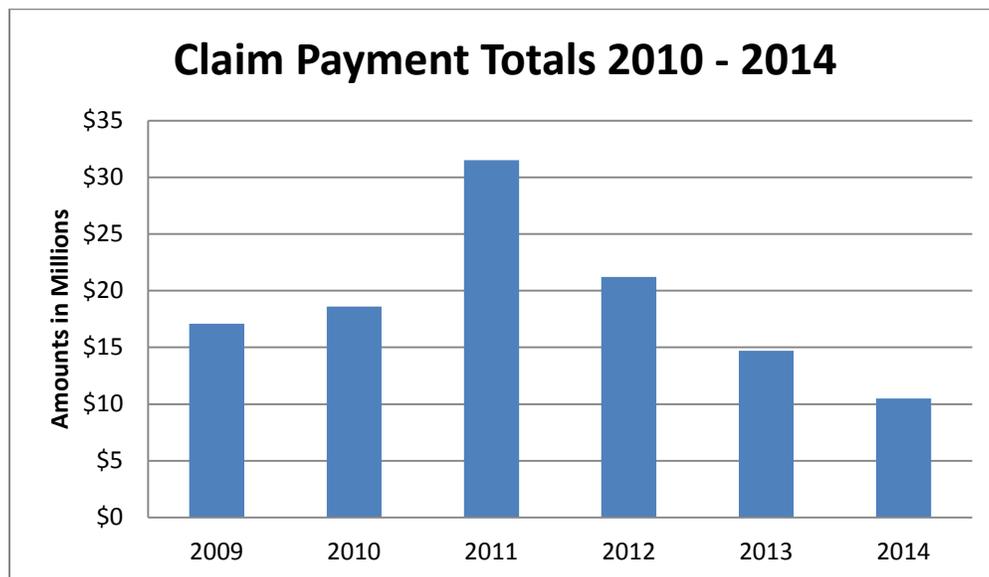
CLAIMS ADMINISTRATION

The Office of Risk Management processes all liability claims filed against County agencies. Claims and lawsuits are investigated, evaluated and resolved based on their merits. We work closely with the King County Prosecuting Attorney's Office on litigated matters.

In 2014, there were 1,662 claims filed against the County, a 4% decrease from 2013. The chart to the right shows the claims filed in 2014 by general claim type.



Claim payments in 2014 totaled \$10,509,774, a 30% decrease from 2013 and the lowest amount paid over the past six years. This amount includes claim settlements as well as expenses related to adjusting claims. The graph below shows a six-year history of claim payments. Several significant claims that occurred between 2002 and 2009 were resolved in 2011 as indicated in the graph below.



**King County Liability Claim Count and Cost Summary
Fiscal Years 2012-2014**

County Agency	2012		2013		2014	
	# New Claims	Amount Paid ^{1,2} (all claims)	# New Claims	Amount Paid ^{1,2} (all claims)	# New Claims	Amount Paid ^{1,2} (all claims)
Adult & Juvenile Detention	225	\$757,661	224	\$1,308,492	171	\$98,226
DOT Airport	2	\$31,420	1			
Assessor	5	\$1,752	9	\$6,595	4	\$2,360
Community and Human Services	5	\$3,344	4	\$463,109	4	\$111,359
County Council			1	\$192	2	\$99,500
District Court	2	\$3,500	4	\$1,500	1	
DNRP Parks & Recreation	17	\$460,005	16	\$11,961	17	\$16,560
DNRP Solid Waste	20	\$198,457	16	\$190,740	25	\$398,990
DNRP Wastewater Treatment	28	\$292,966	22	\$1,024,368	16	\$1,495,680
DNRP Water & Land Resources	7	\$29,029	6	\$12,361	6	\$25,726
DOT Fleet Administration			1		3	\$9,532
DOT Marine Division	1		4	\$96	1	
DOT Metro Transit	1113	\$13,956,301	1072	\$4,600,055	1027	\$6,160,517
DOT Roads Services	90	\$565,838	66	\$407,011	80	\$850,010
DOT Transportation Planning	1	\$1,000				
Elections			1	\$6,700	1	\$582
Executive Services Administration	1	\$35,000	3	\$25,633		
Facilities Management Division	17	\$28,779	12	\$97,055	12	\$221,403
Finance & Business Operations Division			1	\$22,647	2	
Human Resources Division	1	\$50,000				
Information Technology			1	\$523	1	\$18,261
Judicial Administration	3		1			
Non Departmental Units	42	\$625	58	\$5,744	52	\$949
Office of Emergency Management			1			
Office of Labor Relations	1	\$20,894				
Office of Risk Management					1	
Office of the Executive		\$1,314				
Permitting & Environmental Review	2	\$6,397	6	\$340,134	9	\$63,437
Prosecuting Attorney's Office	16	\$48,603	18	\$6,139	14	\$18,910
Public Defense			2	\$988	2	
Public Health	76	\$1,691,760	42	\$436,821	44	\$428,230
Records and Licensing Services	2	\$181,840	6	\$84,889	5	\$18,487
Sheriff's Office	127	\$2,839,369	130	\$5,401,191	149	\$409,033
Superior Court	10	\$3,430	6	\$287,890	13	\$62,022
Total³	1814	\$21,209,284	1734	\$14,742,831	1662	\$10,509,774

1. Amount Paid is the total of the transactions paid for claims and lawsuits in the fiscal year regardless of the date of occurrence.
2. Amount Paid does not include reinsurance reimbursements for claims paid in excess of our self-insured retention, or other organizations/funds.
3. Total amount paid does not equal insurance fund claim expenses since reimbursements are not factored into these totals.

RISK FINANCING

The Office of Risk Management administers the County's Insurance Fund. We work with an actuary annually to determine projected loss expenditures and claims liabilities. The projected loss expenditures and claims liability amounts are combined with insurance premiums, Prosecuting Attorney's Office fees, and Risk Management administration costs and then allocated to agencies based on their loss history and exposures.

King County self-insures the first \$7.5 million of each loss. The total required reserves to cover County claims liabilities as of December 2014 are \$75.9 million.

2014 Insurance Fund

	2013 Actual	2014 Actual
Beginning Fund Balance	87,518,491	94,384,697
Revenues		
Interfund Charges	33,158,482	33,621,281
Interest Revenue	401,913	494,938
Judgments/Settlements	305,454	
Other Miscellaneous Revenues	8,527	467
Total Revenues	33,874,376	34,116,686
Expenditures		
Claim Expenses	(14,589,953)	(10,544,776)
Claim Reimbursements –Reinsurance ¹	-	-
Insurance Premiums	(7,014,009)	(7,738,949)
Prosecutors and ORM Overhead	(4,632,066)	(5,142,479)
Transfers to Other Funds (MARR)	(343,390)	(349,675)
Total Expenditures	(26,579,418)	(23,775,879)
Other Fund Transactions		
Prepaid Insurance Adjustment	(335,043)	
Total Other Fund Transactions	(335,043)	
Reserves		
Actuarial Reserve for Claim Liabilities	(68,430,000)	(75,900,000)
Rate Stabilization ²	(15,000,000)	(15,000,000)
Total Reserves	(83,430,000)	(90,900,000)
Ending Fund Balance	11,048,406	13,825,504

1. Claim reimbursements from reinsurance in excess of the self-insured retention.

2. Reserve is equal to 2 losses at our current self-insured retention level of \$7.5 million.

INSURANCE

In addition to self-insuring the first \$7.5 million in liability losses, the Office of Risk Management uses risk transfer as a means to protect County assets.



The Risk Management Committee reviews the County’s insurance portfolio annually and makes insurance coverage and purchase decisions to best protect the County. The following is a table detailing the insurance program in place as of December 31, 2014:

Insurance Type	Coverage Amount	Deductible	Policy Period
Excess General Liability	\$92.5 Million	\$7.5 Million per occurrence	4/1/2014 -4/1/2015
Property & Mobile Equipment	\$500 Million	Flood - \$250,000/\$500,000 Earthquake – 5% of location value All Others - \$250,000 per occurrence	7/1/2014 - 7/1/2015
Excess Workers Compensation	Statutory (unlimited)	\$2.5 Million per occurrence	4/1/2014 – 4/1/2015
Aircraft Liability & Physical Damage	\$50 Million (liability) Scheduled Value (property)	None-Liability \$1,000 – Not in motion \$85,000 – In Motion PD	10/1/2014 – 10/1/2015
Airport General Liability	\$300 Million	\$50,000 aggregate	10/1/2014 – 10/1/2015
Airport Property Damage	\$160 Million	\$100,000	7/1/2014 – 7/1/2015
Marine Liability and Property Damage	\$150 Million (liability) Scheduled Value (property)	Varies based on vessel and coverage type.	4/1/2014 – 4/1/2015
DYS Community Service AD&D	\$500,000	None	4/1/2014 – 4/1/2015
Foreign Liability	\$1 Million	None	10/31/2013– 4/1/2015
Fiduciary Liability	\$20 Million	None	4/1/2014 – 4/1/2015
General Liability- Swimming Pools	\$7.5 Million	None	4/1/2014 – 4/1/2015
Crime and Fidelity	\$2.5 Million	\$50,000	4/1/2014– 4/11/2015
Flood Insurance	Scheduled Value (property)	\$1,000	Varies – Multiple