

2006 ANNUAL REPORT

**THE INDUSTRIAL COMMISSION
OF ARIZONA**



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<i>Larry Etchechury, Director</i>	

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INTRODUCTION

The Industrial Commission of Arizona (ICA) is a regulatory agency that was created in 1925 as a result of legislation implementing the constitutional provisions establishing a workers' compensation system.

From 1925 to 1969, the workers' compensation system consisted of the State Compensation Fund, which was then a part of the Industrial Commission, and self-insured employers which generally were the mining and the railroad companies. In 1969 the workers' compensation system was reorganized and expanded to include private insurance companies. The State Compensation Fund was split off from the Industrial Commission and established as a separate agency responsible for providing workers' compensation insurance coverage. The Industrial Commission retained its responsibility as the file of record and its regulatory authority over the processing of workers'

compensation claims. Since that time, the role of the Industrial Commission has been expanded to cover other labor related issues such as occupational safety and health, youth employment laws, resolution of wage related disputes, vocational rehabilitation, workers' compensation coverage for claimants of uninsured employers, insolvent insurance carriers and self-insured employers.

The policy setting body for the ICA is a five member Commission whose members are appointed by the Governor and confirmed by the Senate to staggered five year terms. The Commission oversees an Agency with approximately 313 employees and an operational budget of approximately \$18.0 million. As a non-general fund agency, the Industrial Commission is funded by an annual tax on workers' compensation premiums that cannot exceed 3%. The tax rate for 2005 was 3% and remained the same for 2006.

The mission statement of the Industrial Commission is to efficiently administer and effectively enforce all applicable laws and regulations not specifically delegated to others, relative to the protection of life, health, safety and welfare of employees within the State.

Its purpose and objectives are accomplished through seven major divisions which are set out separately in this document.

LABOR DEPARTMENT
Orlando Macias, Director

The Labor Department is a Department that has had a dramatic change in responsibilities over the years. For example, in the 1930's, it was responsible for establishing minimum wages, hours of operations for the railroads, and later enforced the payment of appropriate wages on public works projects within the state. Today, the Labor Department essentially conducts 99% of its activities in three specific areas: youth employment law enforcement, resolutions of disputes involving wages, and regulating private employment agencies that charge fees to applicants (these include placement agencies, career counseling firms, modeling and talent firms and sitting services).

YOUTH EMPLOYMENT LAW ENFORCEMENT

Arizona's youth employment laws, which establish the hours a youth can work and prohibit occupations in which they can be employed, are very similar to those on the federal level. The Labor Department utilizes information gathered from the ICA's Claims Division to review and investigate workers' compensation claims involving minors, receives and investigates information from other governmental organizations and complaints filed by the public.

	FY04	FY05	FY06
NUMBER OF INJURY REPORTS INVOLVING MINORS AND COMPLAINTS RECEIVED.	1054	1060	1200
NUMBER OF YOUTH EMPLOYEES VIOLATIONS CONFIRMED	58	58	60

RESOLUTION OF WAGE DISPUTES

When a wage owed to an employee is no more than \$2,500 and the accrual of those unpaid wages do not exceed one year, then an employee may file a wage claim with the State Labor Department or with the Small Claims Court. Upon receipt of a claim, the Labor Department will notify the employer of the claim and investigate the allegations. The Labor Department will provide a written determination which can be appealed to Superior Court. An employer who does not comply with a Final Order within ten days after the Order becomes final is liable to pay the employee treble the amount of the unpaid wages found to be owed. While every effort is made to resolve the dispute, in some cases there is insufficient information to make a determination. In those cases, a claimant has the right to file a civil action in Justice or Small Claims Court.

	FY04	FY05	FY06
NUMBER OF WAGE CLAIMS FILE/INVESTIGATED	3104	2904	2864

Under Arizona law, private employment agencies that charge a fee to an applicant are licensed and regulated by the Labor Department. The Industrial Commission's Employment Advisory Council and the Labor Department investigate the background of each firm applying for a license. Based on their investigation, they recommend approval or denial of a license to the Commission. The Industrial Commission administratively approves or denies the license. An appeal of that administrative decision is made before the five member Commission through an administrative hearing. The Commission's decision is appealable to the Superior Court.

Number of Liscensed Agencies

	FY04	FY05	FY06
Career Counseling Firms	28	25	24
Model & Talent Agencies	24	27	23
General Agencies	3	3	2
Sitter Agencies	3	2	1
Domestic Help Agencies	1	1	1
Nurses Agencies	1	1	1
Total	60	59	52

CLAIMS DIVISION

Noreen Thorsen, Manager

Unlike the other Divisions, the historical role of the Claims Division has remained unchanged. Since 1925, the Claims Division has been the file of record for approximately 6 million workers' compensation claims files. Claims are received by the Claims Division from attending physicians and injured workers. The Claims Division, in turn, notifies the appropriate insurance carrier/third party processing agent or self-insured employer so that they can appropriately process the claim. The historical number of claims processed in the last three years are as follows:

	FY04	FY05	FY06
Number of Claims Processed	135645	139121	132904

In addition to being a file of record, we now have 40 million stored documents on our optical disc system. The Claims Division is responsible for ensuring that the 550 insurance carriers/third party processors and 125 self-insured employers process workers' compensation claims in accordance with existing statutes and rules.

The Claims Division, in addition to answering approximately 150,000 telephone inquiries per year, is responsible for processing approximately 6,000 documents per day and making in excess of 31,000 determinations annually that are subject to judicial review. Some of those determinations involve a variety of issues such as allegations of bad faith, awards for facial scaring and loss of teeth, approvals or denials of requests to leave the state, approvals or denials of requests to change physicians, etc. A historical perspective for some of those determinations are as follows:

AVERAGE MONTHLY WAGE AWARDS

The Claims Division establishes the average monthly wage for claimants who have been injured in excess of seven days. The number of wage awards for the last three fiscal years are as follows:

	FY04	FY05	FY06
Number of Wage Awards	16560	16749	14184

LOSS OF EARNING CAPACITY AWARDS

The Claims Division is responsible for determining the "loss of earning capacity" (LEC) for claimants who have incurred a permanent impairment that results in an unscheduled injury. The number of "LEC" awards for the past three fiscal years are as follows:

	FY04	FY05	FY06
Number of LEC Awards	3048	3763	2385

The Commission's ability to effectively monitor claims activity and process the large volume of data has been due in large part to the Commission's computer system. In 1991 the Claims Division became the first state workers' compensation program to utilize optical disk technology and go to a paperless system. This technology, which is used in conjunction with new computer software, allows for greater productivity and instant access to claims information. With this system, more than one person can access a file at the same time, and telephone inquiries can be answered immediately. Based upon the ICA's Claims Division's success, a number of other states have adopted this technology.

**ADMINISTRATIVE LAW JUDGE
DIVISION (ALJ)**

Harriet Turney, Chief Judge

The ALJ Division conducts administrative hearings as authorized under the Arizona Workers' Compensation Act and the Occupational Health and Safety Act (OSHA). It also has jurisdiction to hear disputes arising in youth employment cases. The mission of the division is to resolve all disputes coming before it efficiently and equitably.

Most of the cases referred to the division are in the area of workers' compensation. In the most recent year for which statistics are available (FY 2006), 6842 workers' compensation claims were referred to the ALJ Division for hearing. It received 70 OSHA cases.

Workers compensation cases are referred to the ALJ Division from the Claims Division when an interested party (claimant, employer, insurance carrier

or Special Fund) requests a hearing on a disputed issue arising in the administration of a claim. Issues include the compensability of the claim, entitlement to continuing or additional benefits, and loss of earning capacity.

Since issues can arise throughout the lifetime of an injured worker, some claims are referred to the ALJ Division more than once. For example, a claim that is initially litigated on compensability may return to the ALJ Division on a dispute over continuing benefits. A claimant may seek to reopen a claim, years after it has been closed for benefits based on a new, additional or previously undiscovered condition related to the industrial injury.

OSHA cases are referred to the ALJ Division from the Arizona Department of Occupational Safety and Health (ADOSH). Disputes arise when a citation has been issued and the employer protests the action taken by ADOSH.

The ALJ division employs 17 ALJs in Phoenix and four in Tucson. All the ALJs have are active members of the State Bar of Arizona, with a minimum of five years' experience in workers' compensation, labor and employment, or a related field. Each ALJ is supported by a legal secretary, who serves as a judicial assistant with responsibility for the administration of the judge's docket. The legal secretaries and division clerks also provide information and assistance to parties, attorneys and members of the public.

Once a case is referred to the division, it is assigned to an ALJ who schedules it for hearing, usually within 60-90 days. Most of the hearings are set in Phoenix or Tucson. The others (approximately 7%) are scheduled elsewhere around the state in such locales as Flagstaff, Prescott, Lake Havasu, Kingman, Yuma, Lakeside-Pinetop, Show Low, Payson, Globe, Casa Grande, Bisbee, Sierra Vista, and Nogales.

Prior to the hearing, the parties engage in discovery, such as depositions (oral examination of individuals who have information relevant to the issues),

and the exchange of interrogatories (written questions). The claimant may be sent for one or more independent medical examinations scheduled by the employer and/or carrier and the parties file and exchange medical documents.

Workers' compensation cases usually require more than one hearing to obtain all necessary evidence. The claimant and non-expert witnesses, if any, testify at the first or "initial" hearing. Subsequent hearings, known as "further hearings," are scheduled for medical experts and, where the issue is loss of earning capacity, labor market consultants. The limited availability of medical experts can cause delay in scheduling further hearings. It can take several weeks to several months for further hearings to be completed.

The ALJ sits as the trier of fact in workers' compensation cases, similar to a jury in a civil case. Once the hearings have been completed and any post-hearing memoranda filed, the presiding ALJ issues a written decision upon hearing that contains findings, legal analysis, and conclusions. A party disagreeing with the ALJ's decision may file a request for review that is considered by the ALJ who issues the decision upon hearing. Upon receipt of legal memoranda from the parties, the ALJ issues a written decision upon review that may affirm, reverse, modify and/or supplement the decision upon hearing. If a party disagrees with the decision upon hearing, the party may file a petition for special action with the Arizona Court of Appeals within thirty days. The parties are given an opportunity to file briefs, and occasionally are allowed to participate in oral argument. The Court of Appeals issues either a memorandum decision or an opinion affirming or setting aside the decision of the ALJ. Further review is discretionary with the Arizona Supreme Court.

OSHA hearings follow their own procedural rules. They are usually completed in one session. The ALJ issues a written decision at the conclusion of the hearing process. A dissatisfied party may request review of the ALJ's decision, but instead of being reviewed by the ALJ who heard the case, the review is

conducted by a Review Board. Further review is with the Arizona Court of Appeals, as with workers' compensation cases.

The ALJ Division continues to offer mediation in both workers' compensation and OSHA cases. Mediation affords an alternative to the formal hearing process. The parties must agree to mediation and it is generally available only when all parties are represented by counsel. An ALJ, who is not assigned to hear the case, acts as a neutral third party. The role of the mediator is to facilitate communication between the parties and help them work toward a negotiated resolution of their dispute.

Mediation is a confidential process. If a dispute is resolved through mediation, the parties execute a settlement agreement that is reviewed and approved by the presiding ALJ. If the dispute is not resolved, the case is returned to the hearing process and nothing revealed in the mediation process is disclosed, without permission, to the presiding ALJ. Any notes or memoranda presented to the mediating ALJ are destroyed and the presiding ALJ renders a decision based solely on the record and evidence presented at the hearing.

Mediation has been shown to be effective in crafting solutions that might not otherwise be possible in the formal hearing process. The parties who have utilized mediation have expressed a high level of satisfaction with the process. Mediation is offered to all employers in OSHA cases, but OSHA cases often settle even before mediation can be scheduled. Workers' compensation cases with multiple issues, such as home health care, transportation, and housing, have been successfully and creatively resolved through mediation.

Timely resolution of all cases continues to be a top priority for the ALJ Division. Early prehearing conferences are convened to advise unrepresented parties of their rights and responsibilities or at the request of the parties. These conferences often have the salutary effect of encouraging communication between the parties, which can result in the narrowing of

issues and earlier settlement.

The division is focused on prompt scheduling of initial and further hearings, and closer scrutiny of requests for continuances to avoid undue delay. The ALJs have reduced their backlog and are issuing their decisions within 30-60 days of submission date. Most further hearings for experts are conducted telephonically to expedite scheduling, often cutting weeks off the process. Waiver of live medical testimony and greater reliance on written reports in some cases has eliminated or reduced the need for further hearings.

The ALJ Division monitors the satisfaction level of its customers through a survey process. The anonymous process measures the public's general satisfaction with the administrative hearing process. The division has consistently exceeded 7 on a 10-point scale.

	FY04	FY05	FY06
Cases Referred to the Division	8025	8080	6842
Hearings Conducted	7297	6598	5542
Average Length of time to Resolve a Case (Days)	130.5	118.5	118

**ARIZONA DIVISION OF
 OCCUPATIONAL SAFETY AND
 HEALTH**
Darin Perkins, Director

In 1974 Governor Jack Williams asserted Arizona's right, under the Federal Occupational Safety and Health Act, to retain jurisdiction over occupational safety and health issues within our state, excluding mining operations, Indian reservations and federal employees.

This jurisdiction encompasses approximately 2.2 million employees working in 120,000 public and private establishments. In accordance with the Federal Occupational Safety and Health Act,

the Arizona Division of Occupational Safety and Health (ADOSH) operates under an approved plan with the U. S. Department of Labor. In 1985 the U. S. Department of Labor designated (ADOSH) as being one of only 26 states and territories that have programs that are "as effective" as Federal OSHA. Given the large scope of responsibility, ADOSH focuses its efforts in four specific areas: compliance, consultation, elevators and boilers.

COMPLIANCE

ADOSH's compliance activities consist of conducting unannounced inspections of workplaces throughout Arizona to determine whether employers are complying with the Occupational Safety and Health Act and standards.

Inspections may be the result of (1) a work related accident, (2) a complaint, (3) a referral, (4) planned inspection, or (5) a follow-up to ensure that previously cited serious, repeat or willful violations have been corrected. Inspections involving work related accidents are generally serious in nature involving multiple injuries or a fatality. A complaint inspection generally is the result of a serious safety/health allegation or a nonresponse to a written inquiry sent to an employer by ADOSH. A referral generally comes from another government source such as Department of Economic Security's Farmworker Outreach Program, Department of Health Services, Police and Fire Departments. Planned or scheduled inspections are those directed at those employers in high-hazard industries or who have a large number of workers' compensation claims, or higher than average injury and illness rates.

ADOSH is the only state or Federal OSHA program in the country that has an independent body, (the Commission) that is separate from the OSHA program, that reviews the appropriateness of ADOSH's penalty proposals and either approves, modifies or disapproves the issuance of penalties for violations of Arizona's Occupational Safety and Health Act.

Every Thursday at a public meeting before the Commissioners, a representative from ADOSH presents a *prima facie* case to the Commissioners as to why a penalty should be assessed. The Commission, as a body, reviews the proposal and either approves, modifies or disapproves the proposed penalties based upon the facts presented. All penalties assessed and collected go directly to the State General Fund.

	FY04	FY05	FY06
Serious Willful and Repeat Violations	1182	1028	989
Total Penalties Assessed*	\$2.46	\$1.82	\$1.3
*in millions			

It is important to note that not all violations or inspections result in penalties. In fact, the majority of violations are other than serious and carry no penalty. In addition, for a significant number of inspections we find no violations and determine that the employer is “in compliance” with the Arizona Occupational Safety and Health Act.

	FY04	FY05	FY06
Nonserious Violations	2889	2356	2792
In compliance % Rate	42.4%	41.1%	37.1%

CONSULTATION AND TRAINING

ADOSH’s consultation activities consist of providing free consultative assistance to employers who are requesting assistance in coming into compliance with existing occupational safety and health standards.

At the request of an employer, a consultation evaluation may involve an individual operation or an entire workplace. No citations or penalties are issued to employers utilizing consultation services as long as the employer corrects the apparent hazards which are noted as written recommendations in a letter to the employer.

Free training programs are also provided by ADOSH to business organizations, labor organizations and individual employers upon request. A film library is also available to individual employers who may wish to check-out films to supplement their own safety and health programs.

	FY04	FY05	FY06
#of Hazards Found During Consultations	2411	2492	2036
#of Training Programs	398	390	377
#of Employees Trained	5145	6034	6619
#of Employers Trained	3627	2844	1696

BOILERS AND ELEVATORS

Unlike the Arizona Occupational Safety and Health Act, the Boiler and Elevator program is equipment oriented, and not based upon employee exposure. As a result, cease and desist orders are utilized without monetary penalties. Once violations are corrected, certificates of operation are issued allowing the employer to utilize the boiler, elevator or escalator.

In the Boiler and Elevator statutes, political subdivisions are allowed to retain jurisdiction if they provide a comparable program. The City of Phoenix has retained jurisdiction over elevators within its boundaries. No other political subdivision has retained jurisdiction for boilers or elevators.

	FY04	FY05	FY06
Boilers Inspected	3037	2762	1982
Deficiencies Noted	710	484	148

	FY04	FY05	FY06
Elevators Inspected	4802	4580	4289
Deficiencies Noted	1466	1494	1593

SPECIAL FUND
David Sosa, Special Fund Monitor

The Special Fund is a “trust fund” that was legislatively created in 1969 for the express purpose of providing workers’ compensation benefits in the following areas:

- ◆ providing benefits for uninsured claimants,
- ◆ continuing workers’ compensation benefits for claimants of insolvent carriers and bankrupt self-insured employers,
- ◆ partial coverage of workers’ compensation benefits for second injury claims,
- ◆ vocational rehabilitation benefits,
- ◆ continuing medical benefits for pre 1973 workers’ compensation claimants.

Functionally, the responsibilities of the Special Fund have historically been relatively stable. The only significant changes that have occurred dealt with the financing of the Special Fund and the creation of an oversight Investment Committee in 1984.

The financial integrity of the Special Fund is overseen by a legislatively created Investment Committee. This Investment Committee consists of a representative from the insurance industry, a representative of the investment industry, a representative of the self insured employers, the Chairman and Director of the Industrial Commission.

The Special Fund has \$364 million in assets which is comprised of the Industrial Commission offices at 800 W. Washington, Phoenix and 2675 E. Broadway, Tucson, and a mix of bonds, stocks and cash. The Special Fund’s investment portfolio consists of 49% bonds, 35% stocks, 16% cash and short-term investments. The Special Fund’s rate of return over the past four years has ranged from 7.5% for FY03, 10.4% for FY04, 7.4% for FY05 and 3.5% for FY06. The annual rate of return for the last ten years of this investment program has been 7.61%.

The funding source of the Special Fund has changed dramatically over the years. Originally there were two funding sources: the amount unexpended from a fixed 3% Admin Fund tax on workers’ compensation premiums and an additional discretionary workers’ compensation Special Fund premium tax of 2%. After a legislative change in 1993, the source of funds is now based upon the Special Fund’s investment income and a Special Fund discretionary tax of 2.5% which was 0% from calendar year 1992 through calendar year 2003. The Commission reviews the tax rate each year and has set the tax rate at 2.5% for calendar year 2007. Effective August 12, 2005 any unexpended Admin Fund tax may be transferred to the Special Fund when the Special fund is not actuarially sound.

The Special Fund’s retained earnings are presently at \$109 million which is a deficit at the end of FY06. This mean that total liabilities exceed total assets by \$109 million.

Some examples of operational statistics and their financial impact are as follows:

UNINSURED CLAIMS

The Special Fund is responsible for providing benefits to injured workers whose employers are violating the law and not providing workers' compensation insurance (no-insurance claims). The historical number of no-insurance awards issued are as follows:

	FY04	FY05	FY06
No Insurance Awards Issued	3300	3281	2744

INSOLVENT INSURANCE CARRIERS

The Special Fund is responsible for continuing workers' compensation benefits for those claimants insured by insolvent insurance carriers and bankrupt self-insured employers.

The estimated reserves for those claims excluding servicing fees are as follows:

The ten largest carriers

FREMONT COMPANIES	128.2 million
LEGION INS CO.	19.9 million
RELIANCE INSURANCE	18.9 million
GREAT STATES INS.	15.1 million
PAULA INS. CO.	14.5 million
WESTERN EMPLOYERS INS.	9.8 million
MISSION NATIONAL INS. CO.	9.6 million
SUPERIOR NATIONAL	4.7 million
MISSION INS. CO.	3.5 million
HOME INS. CO.	2.8 million
ALL OTHER INS. CARRIERS & SELF-INSURED CO.	<u>23.2 million</u>
TOTAL OF ALL CLAIMS	250.2 million

VOCATIONAL REHABILITATION

A workers' compensation claimant who as a result of the worker's injury has incurred a permanent impairment that prevents that worker from returning to the worker's date of injury employment and who also has a loss of earning capacity may be eligible for vocational rehabilitation benefits.

In 1988 the Commission enhanced its existing vocational rehabilitation efforts by establishing a specific program for injured workers with scheduled injuries. The historical numbers of vocational rehabilitation awards issued are as follows:

	FY04	FY05	FY06
# of Rehabilitation Awards Issued	139	150	151

Our rehabilitation program is focused on providing vocational retraining that will result in meaningful employment. This training includes a variety of college courses to supplement prior education, on the job training where the special fund will pay 50% of the salary during training as long as there is a commitment to hire the trainee, and a variety of vocational programs including: bilingual tractor-trailer operator, equine instructor, forensics, mortuary science, computer-aided drafting, and pharmacy technicians. For those that are eligible for vocational rehabilitation but are lacking skills to enter a program, the Special Fund offers foundational training in math, reading, and English (ESL).

LEGAL DIVISION

Laura McGrory, Chief Counsel

The Industrial Commission has always had its own legal representation, separate from the Attorney General’s Office. In its early years, the Legal Division functioned in a dual role as both hearing officers and legal counsel.

With the creation of the Administrative Law Judge Division in 1969, the responsibilities changed and remain the same today. The Legal Division represents the Industrial Commission in the majority of legal matters affecting the Agency.

The major responsibilities of the Division are as follows:

- ◆ Represents the Special Fund in actual/potential litigation involving most activities of the Special Fund, i.e. uninsured workers’ compensation claims, second injury claims, supportive care, and, on occasion, claims involving insolvent carriers/bankrupt self-insured employers.
- ◆ Represents the Arizona Division of Occupational Safety and Health in actual/potential litigation regarding the enforcement of the Arizona Occupational Safety and Health Act.
- ◆ Represents the Labor Division in the enforcement of youth employment matters and wage claim appeals and the regulation of employment agents under the Labor Department’s jurisdiction.

- ◆ Provides legal advice to the five member Commission and Division Managers.
- ◆ Represents the agency in personnel matters.
- ◆ Assists Division Managers in the promulgation of rules
- ◆ Ensures that Arizona’s employers are providing workers’ compensation insurance coverage for their employees.
- ◆ Initiates subrogation of third party no-insurance claims.
- ◆ Operates a program for processing and collection of delinquent accounts.

A historical perspective of some of the activities of the Legal Division are as follows:

	FY04	FY05	FY06
Hearings/Legal Proceedings Involving Special Fund and ADOSH	455	452	405

INSURANCE COVERAGE

The Legal Division is notified through a variety of sources of those employers who are violating Arizona law by not providing workers’ compensation coverage for their employees. The Legal Division investigates each referral and ensures that insurance is obtained.

	FY04	FY05	FY06
Insurance Referrals	1930	1708	1721

COLLECTIONS

The Legal Division is notified when monies owed as a result of Arizona Division of Occupational Safety and Health citations or uninsured workers' compensation claims are delinquent. The collection of delinquent accounts is either addressed in-house or with outside collection counsel.

	FY04	FY05	FY06
Collection Files Opened	477	413	347
Delinquent Collection Accounts to Outside Counsel	194	154	149

The Legal Division is also involved in a variety of miscellaneous legal matters, e.g. ADOSH discrimination cases, Superior Court injunctive activities, attorney fee petitions and certifications of records to the Court of Appeals.

DIVISION OF ADMINISTRATION

The Division of Administration was created to provide support services necessary to ensure the efficient and effective operation of the Industrial Commission. The Division provides the following services:

1. Budgeting
2. Accounting
3. Data Processing
4. Purchasing

5. Facilities Management
6. Workers' Compensation Statistical Reporting
7. Ombudsman's Office for Workers' Compensation
8. Printing and Mailing Services
9. Personnel Services
10. Processing & Evaluation of Applications for Self-Insured Employers
11. Federal Grant Administration
12. Special Fund Asset Administration
13. Administration of Assessment on Workforce Compensation Premiums Written.

A more detailed explanation of some of the services provided by the Division are as follows:

ACCOUNTING SERVICES
Gary Norem, Chief Financial Officer

In addition to payment of operational claims and purchase orders, the Division is responsible for prompt payment of monthly or semi-monthly payment of compensation and medical benefits provided to those injured workers receiving benefits under the Special Fund.

The Division pays compensation within two days and medical and other service providers are paid within thirty days from receipt of billing. A historical perspective of the number of warrants is provided:

	FY04	FY05	FY06
Checks Issued	17255	17500	19111

The other Division services provided by Accounting are budgeting; administration of the self insured employers program; administration of federal grants; Special Fund asset administration; and the administration of the assessments on workers' compensation premiums written. The self insurance program has over 100 companies and organizations participating in it annually. Accounting is responsible for filing and reviewing the annual premium assessment payment from all the self insured companies and organizations and another 720 insurance companies writing workers' compensation policies in Arizona.

OMBUDSMAN
Mary Green, Manager

In 1988 the Industrial Commission's Ombudsman's Office was created by statute to provide assistance to injured workers in resolving difficulties encountered during the processing of their workers' compensation claims. The Ombudsman's Office intercedes on behalf of an injured worker to ensure that the worker receives benefits to which the worker is entitled under the law. Personnel in the Ombudsman's Office do not provide legal advice nor do they participate in legal proceedings. A historical perspective of the number of claimants that have received assistance are listed as follows:

	FY04	FY05	FY06
Number of Claimants Assisted	3444	3080	2852

DATA PROCESSING
Star Heilman, Manager

In 1991 the Industrial Commission's Claims Division became the first state workers' compensation system in the country to utilize optical disk imaging. The system works in conjunction with a large sophisticated data software program that has provided the agency the mechanism for an agency wide claims system.

The Commission's Data Processing Section has converted all existing systems to an agency wide PC based UNIX system utilizing HP servers that will utilize the optical disk imaging technology, and will begin the process of integrating the ALJ, Special Fund and Legal systems into the optical disk imaging system.

We are continuing to develop an employer master file to be shared by all Divisions of the agency. This system will contain current information on Arizona employers including address, workers' compensation insurance coverage, number of employees and other data needed to assist the agency tracking Arizona employers. Also, we are in the process of rewriting the Claims Data Base System for processing of claims and the Hearing Data Base for processing of workers compensation hearings.

Current Events

This year has been an interesting year. We continued to focus on resolving issues that have impacted our Special Fund, dealt with issues that have the potential of impacting the workers compensation system, and dealt with new issues that always seem to arise.

As to the Special Fund, over the past couple of years we have reported the negative consequences caused by insurance company insolvencies. As a matter of background, the Special Fund is a trust fund and a guarantee fund that is responsible for providing a number of functions: (1) workers compensation coverage for employees whose employers are violating the law by not providing insurance coverage; (2) vocational rehabilitation training for those injured workers who are unable to return to their date of injury occupation; (3) off-setting costs to employers and insurance carriers by providing 50% indemnity benefits to those injured workers who have previously had a pre-existing permanent injury and sustained a second industrially related permanent impairment, listed in ARS §23-1065C that provides an impediment to employment; (4) providing supportive care benefits to those injured before August 1973; (5) providing workers compensation benefits to those claimants who are insured by insolvent insurance carriers or insolvent self-insured employers.

Because of these insurance carrier insolvencies we have been working diligently over the past several years not only in reducing the impacts caused by those insolvencies but also reducing potential future impacts on the Special Fund. This past year we have had two successful accomplishments that favorably impacted the Special Fund; first, the actuarial deficit of \$190 million that was reported last year (because of insolvencies) has been reduced to approximately \$100 million. If the deficit continues to go down, especially at the rate we experienced this year, we will consider reducing the statutory maximum assessments that are currently in place. Second, the mortgage associated with the Industrial Commission's land and buildings was paid off this year. The building, which is an asset of the Special Fund, was the first leased purchased state building that was financed through Certificates of Participation bonds. This allowed the Special Fund to purchase the land and build the structures without impacting the assets of the Special Fund.

In an effort to improve our operational efficiencies, we are continuing to work to improve our internal processes. Once this is accomplished we are hoping to assume the control for

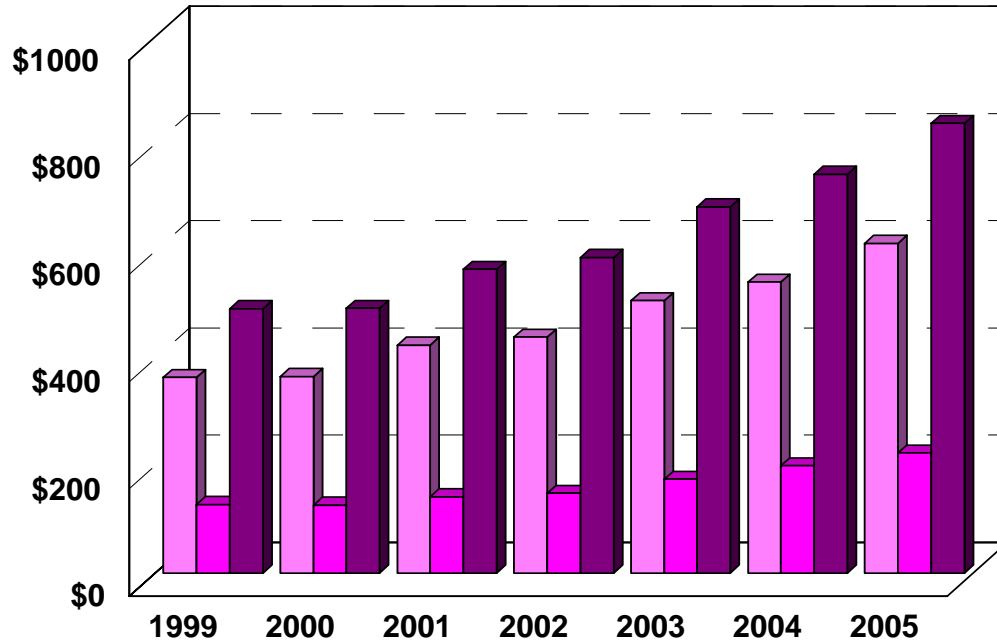
the processing of insolvent workers compensation claims. Currently those claims are processed and managed by the State Compensation Fund. The Industrial Commission's Special Fund pays the benefits and a processing fee to the State Fund. In an effort to reduce Special Fund costs we hope that in the near future we will be able to assume that responsibility.

Another area of continuing responsibility and concern is that the benefit levels within the Workers Compensation System have not been adjusted since 1999. We feel that because of the gridlock between the parties (employer and employees groups), the workers compensation system that has historically been successful is in jeopardy. Arizona's workers compensation system is a system that is balanced between the interests of the employers and the interests of the employees. Through this "no-fault system", Arizona and its employers have benefited significantly with reduced workers compensation costs. So much so that today Arizona's employers enjoy one of the lowest workers compensation premiums in the country. Unfortunately, the opposite is not true for Arizona's injured workers. During this same period benefit levels have not kept pace with increases in wages and benefits have remained relatively stagnant— so much so, that Arizona's workers compensation benefit level is one of the lowest in the country. Our concern is that if the legislature doesn't take action this year then the ballot initiative will become the only venue employee groups will have to address these shortcomings. If this occurs the historically measured outcomes and predictability of Arizona's workers compensation system will be lost. To avoid this the Industrial Commission will be initiating legislation to increase the statutory maximum wage to a realistic level.

Finally, the Industrial Commission has been chosen to implement the minimum wage initiative passed by the voters in November. In order to implement this new law, the Commission has proposed emergency rules, which as we speak are being reviewed by the Attorney General's Office. Additionally, for public access we have developed a minimum wage poster, the proposed emergency rules, and frequently asked questions and answers and put those on the Industrial Commission's website. Shortly after the first of the year we will be utilizing existing Commission employees and providing training to employers statewide. Concurrently we will be gathering public input to develop permanent rules. It is expected that a lot of the agency's existing resources and efforts will be taken up next year in implementing this program.

CHARTS

**CHART 1. TAXABLE WORKERS COMPENSATION PREMIUMS
REPORTED (IN MILLIONS)
ON A CALENDAR YEAR BASIS* (1999 - 2005)**

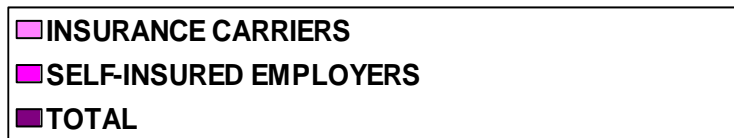
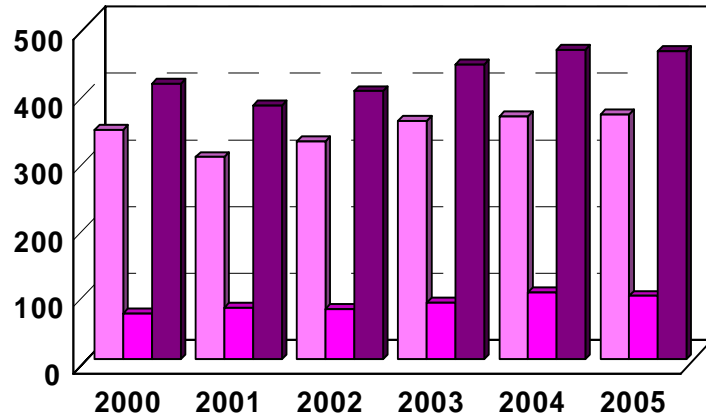


	INSURANCE CARRIERS	SELF-INSURED EMPLOYERS	TOTAL
1999	365	128	493
2000	367	127	494
2001	425	142	567
2002	440	149	589
2003	508	175	683
2004	543	200	744
2005	615	224	839

INSURANCE CARRIERS
 SELF-INSURED EMPLOYERS
 TOTAL

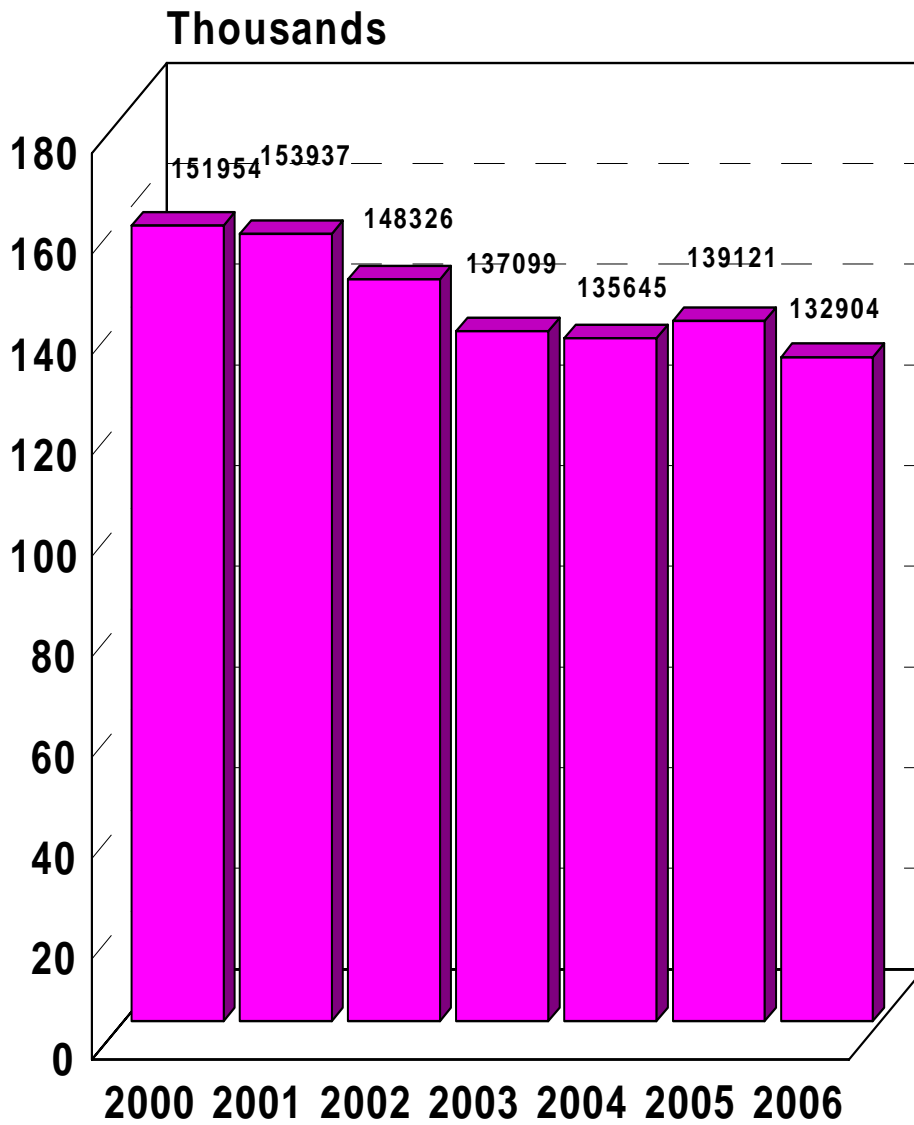
*PREMIUMS WRITTEN LESS RETURNED PREMIUMS, DIVIDENDS, CANCELLED PREMIUMS

CHART 2.DIRECT LOSSES PAID (IN MILLIONS) ON A CALENDAR YEAR BASIS. (1999 - 2005)

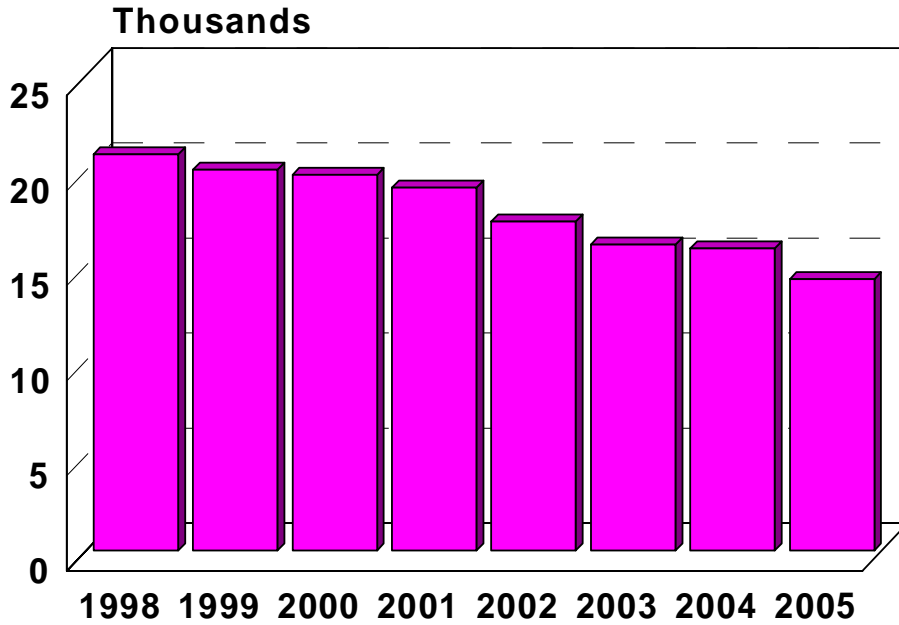


	INSURANCE CARRIERS	SELF-INSURED EMPLOYERS	TOTAL
2000	344	69	413
2001	303	77	380
2002	327	75	402
2003	357	85	442
2004	364	100	464
2005	367	95	462

**CHART 3. TOTAL COMPENSATION CLAIMS FILED WITH
THE INDUSTRIAL COMMISSION (FY2000-2006)**

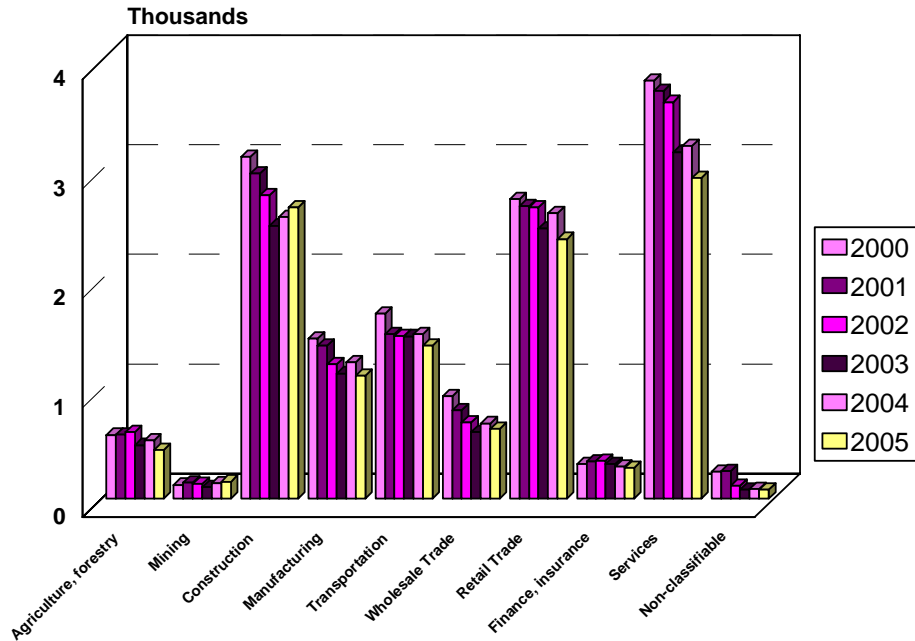


**CHART 4. TOTAL TIME LOST CLAIMS FILED WITH THE INDUSTRIAL COMMISSION (1998 - 2004)
(calendar year)**



YEAR	
1998	20842
1999	20039
2000	19752
2001	19095
2002	17298
2003	16109
2004	15902
2005	14294

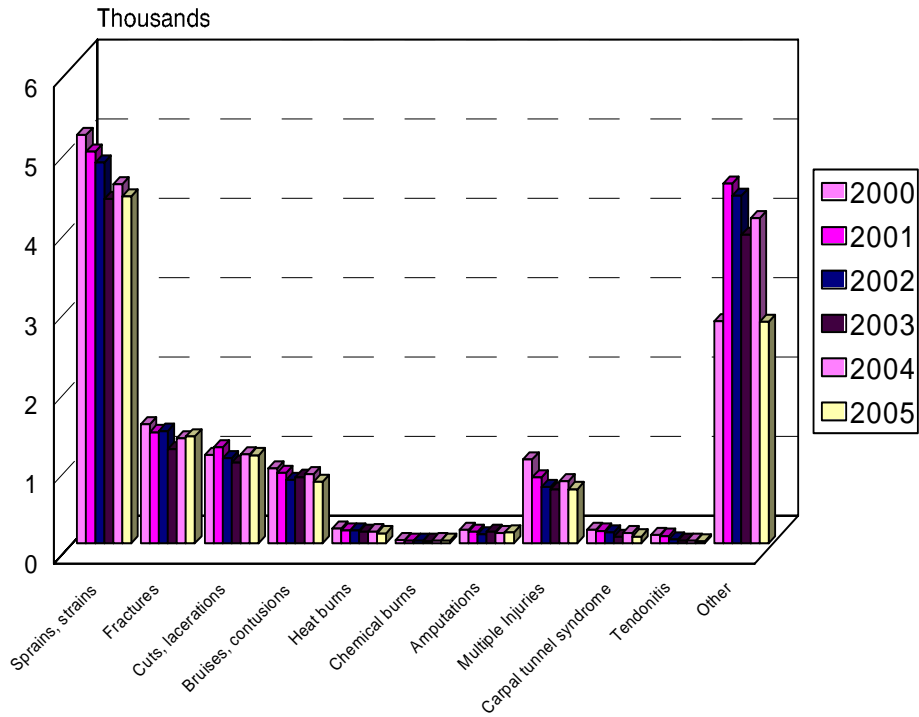
**CHART 5. LOST WORKDAY CLAIMS 2000-2005
by MAJOR INDUSTRY DIVISION**



Major Industry Division	2000	2001	2002	2003	2004	2005
Agriculture, forestry	581	583	606	488	533	443
Mining	126	146	132	107	141	154
Construction	3118	2969	2767	2491	2569	2657
Manufacturing	1462	1396	1226	1142	1243	1123
Transportation	1689	1501	1483	1481	1502	1395
Wholesale Trade	936	808	695	610	687	639
Retail Trade	2736	2669	2660	2467	2608	2370
Finance, insurance	314	338	345	318	291	279
Services	3816	3722	3619	3162	3218	2928
Non-classifiable	244	251	117	83	86	81

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 2000, 2001, 2002, 2003, 2004 and 2005.

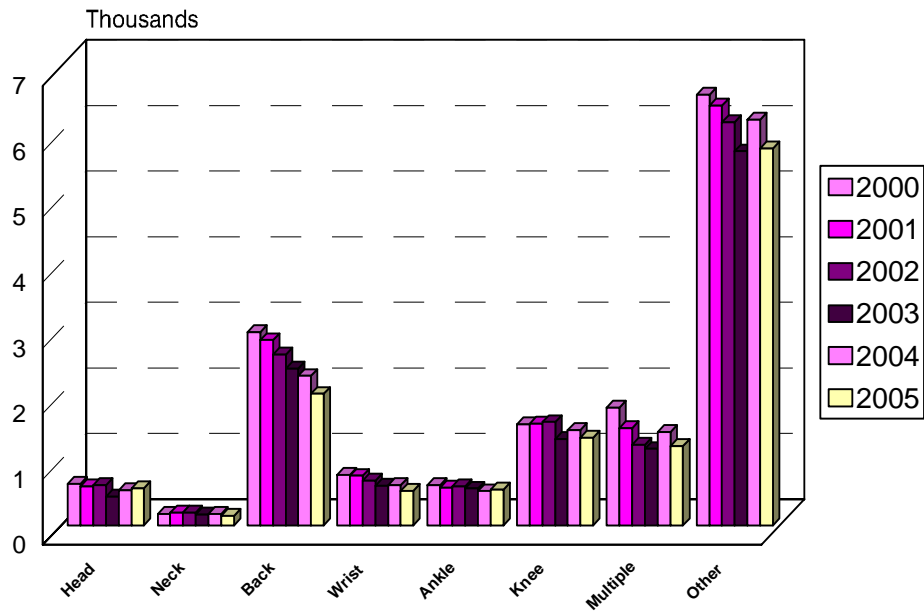
**CHART 6. LOST WORKDAY CLAIMS 2000-2005
by NATURE**



NATURE	2000	2001	2002	2003	2004	2005
Sprains, strains	5142	4934	4795	4335	4519	4366
Fractures	1501	1398	1413	1187	1324	1346
Cuts, lacerations	1114	1212	1072	1013	1123	1107
Bruises, contusions	941	889	795	833	871	775
Heat burns	187	161	162	143	149	123
Chemical burns	38	30	34	27	35	28
Amputations	169	143	110	141	128	138
Multiple injuries	1055	831	708	677	782	680
Carpal tunnel syndrome	165	157	139	80	128	83
Tendonitis	101	91	46	28	29	25
Other	2795	4531	4379	3887	4094	2786

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 2000, 2001, 2002, 2003, 2004 and 2005

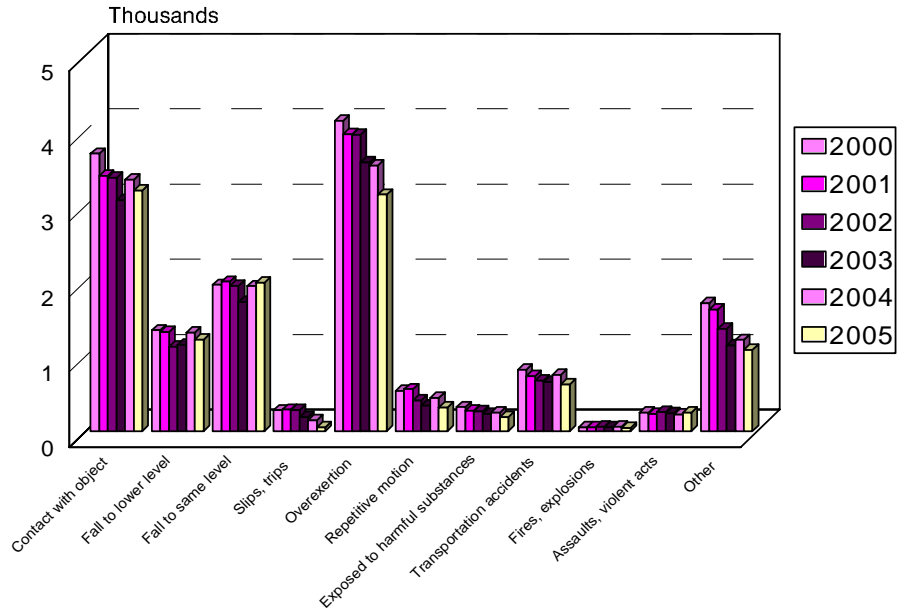
**CHART 7. LOST WORKDAY CLAIMS 2000-2005
by PART OF BODY**



PART OF BODY	2000	2001	2002	2003	2004	2005
HEAD	634	597	617	439	533	564
NECK	178	196	197	168	172	143
BACK	2950	2825	2603	2388	2280	2004
WRIST	770	756	681	607	611	530
ANKLE	617	574	598	560	523	547
KNEE	1540	1552	1575	1319	1453	1334
MULTIPLE	1794	1482	1232	1165	1423	1211
OTHER	6569	6405	6150	5705	6187	5752

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 2000, 2001, 2003, 2004 and 2005.

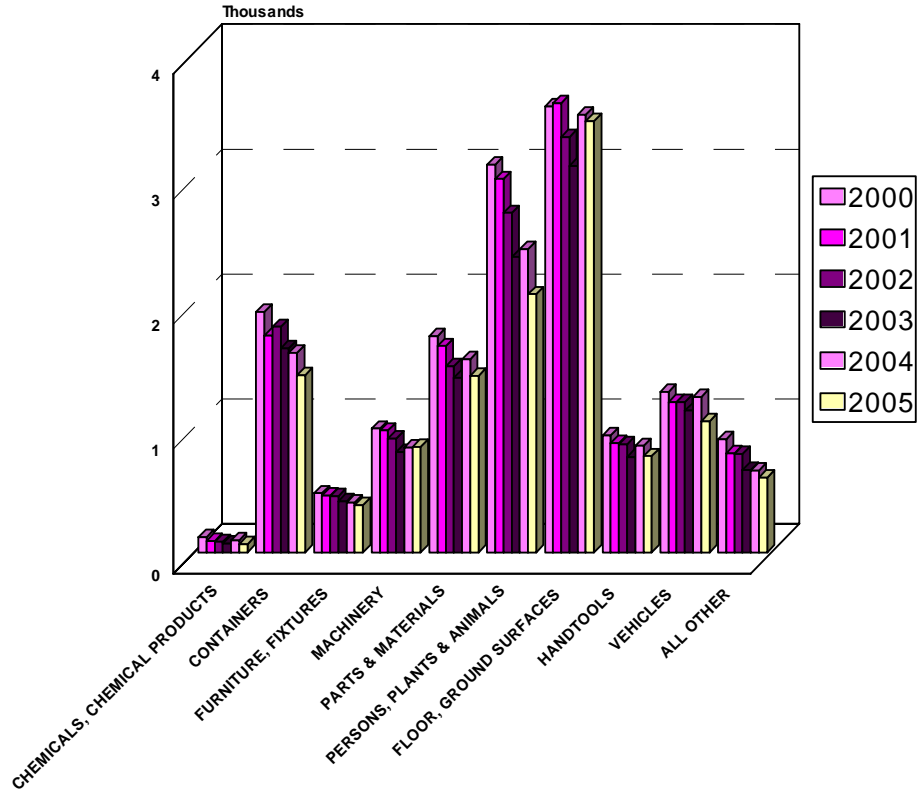
**CHART 8. LOST WORKDAY CLAIMS 2000-2005
by EVENT OR EXPOSURE**



EVENT OR EXPOSURE	2000	2001	2002	2003	2004	2005
Contact with object	3691	3395	3368	3071	3343	3197
Fall to lower level	1340	1321	1123	1151	1308	1214
Fall to same level	1944	1987	1928	1719	1927	1976
Slips, trips	275	285	283	184	143	52
Overexertion	4129	3951	3939	3573	3535	3146
Repetitive motion	536	556	407	342	442	315
Exposed to harmful substances	319	271	261	229	248	187
Transportation accidents	817	729	673	652	750	618
Fires, explosions	52	50	56	49	56	43
Assaults, violent acts	247	226	253	238	218	246
Other	1702	1616	1362	1143	1212	1081

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 2000, 2001, 2002, 2003, 2004 and 2005.

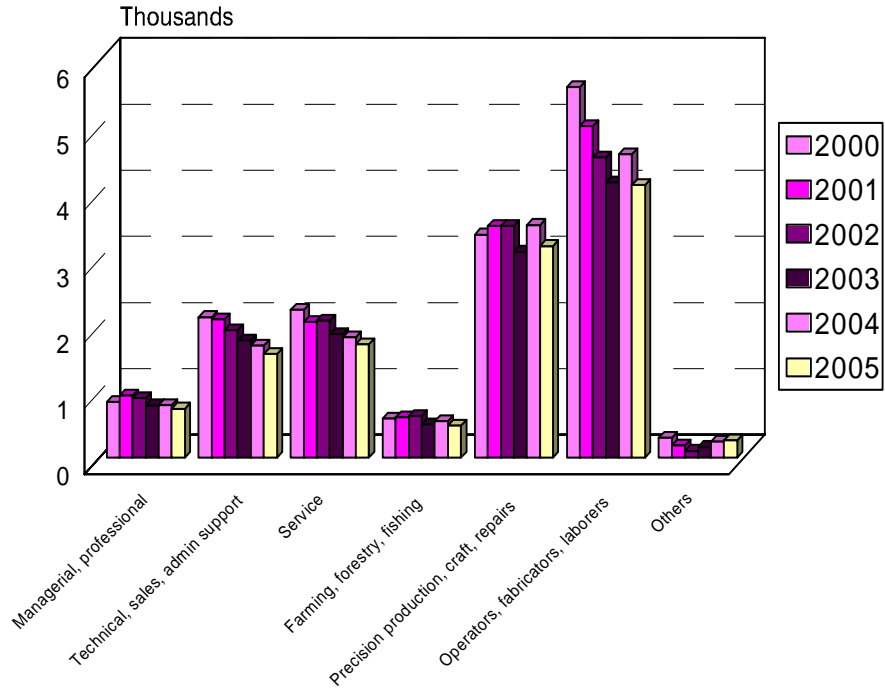
**CHART 9. LOST WORKDAY CLAIMS 2000-2005
BY SOURCE**



SOURCE	2000	2001	2002	2003	2004	2005
CHEMICALS, CHEMICAL PRODUCTS	125	94	86	72	100	69
CONTAINERS	1927	1739	1807	1635	1599	1419
FURNITURE, FIXTURES	475	459	452	412	400	380
MACHINERY	992	977	912	807	840	845
PARTS & MATERIALS	1731	1653	1491	1399	1549	1413
PERSONS, PLANTS & ANIMALS	3107	2991	2718	2366	2430	2068
FLOOR, GROUND SURFACES	3571	3597	3327	3097	3505	3454
HANDTOOLS	939	876	867	766	854	772
VEHICLES	1285	1207	1204	1135	1247	1053
ALL OTHER	906	795	789	662	658	602

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS, 2000, 2001, 2002, 2003, 2004 and 2005.

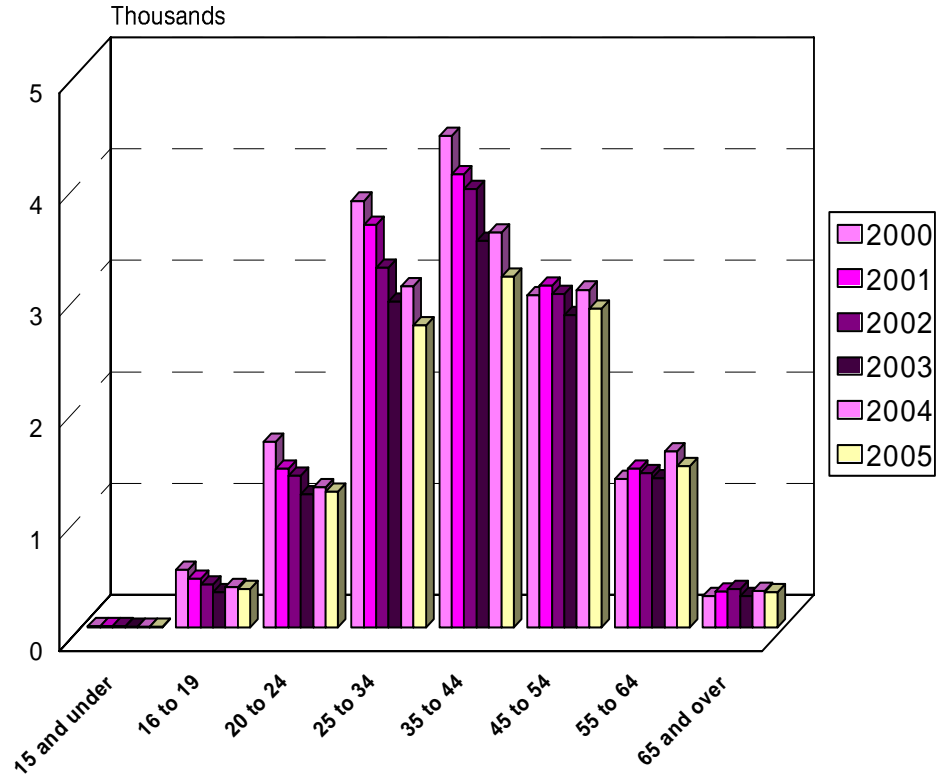
**CHART 10. LOST WORKDAY CLAIMS 2000-2005
by OCCUPATION**



OCCUPATION	2000	2001	2002	2003	2004	2005
Managerial, professional	838	935	896	786	792	739
Technical, sales, admin support	2124	2090	1924	1772	1688	1566
Service	2234	2053	2066	1863	1815	1713
Farming, forestry, fishing	591	609	629	504	552	482
Precision production, craft, repairs	3371	3504	3503	3110	3514	3196
Operators, fabricators, laborers	5599	5011	4535	4158	4583	4122
Others	295	185	100	158	238	257

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 2000, 2001, 2002, 2003, 2004 and 2005.

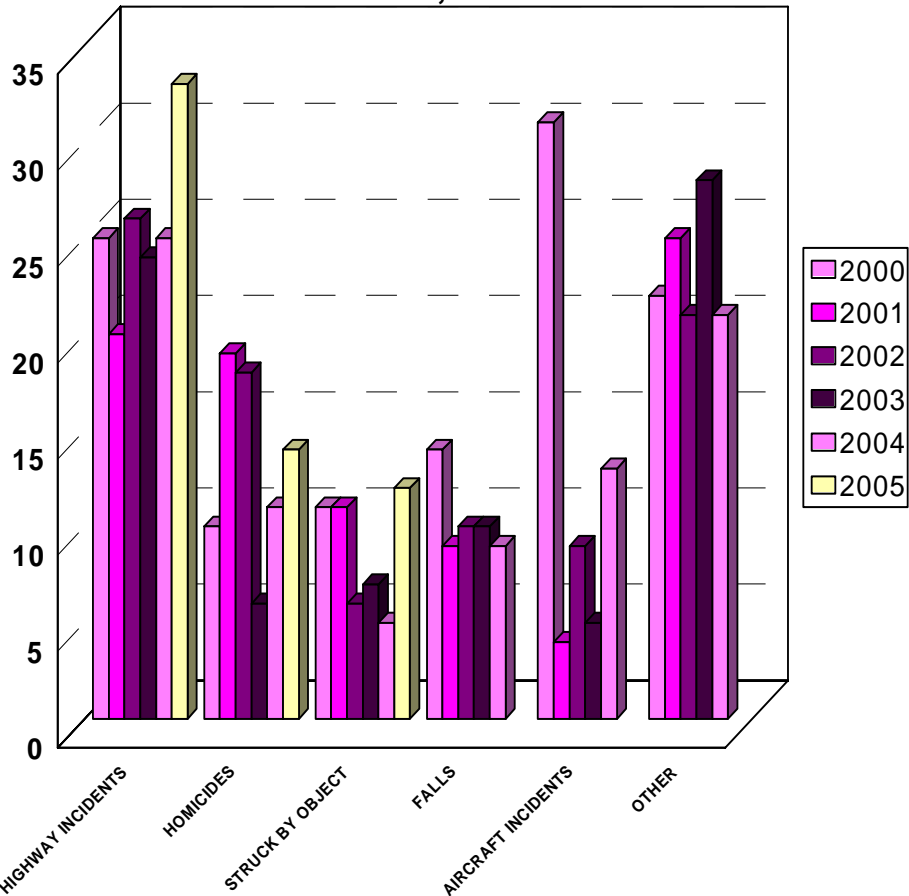
**CHART 11. LOST WORKDAY CLAIMS 2000-2005
by AGE**



AGE	2000	2001	2002	2003	2004	2005
15 and under	8	7	9	1	3	4
16 to 19	512	433	384	315	360	342
20 to 24	1658	1419	1357	1189	1255	1216
25 to 34	3820	3603	3220	2918	3053	2706
35 to 44	4403	4056	3925	3464	3534	3142
45 to 54	2972	3062	2987	2799	3023	2855
55 to 64	1327	1421	1380	1331	1577	1441
65 and over	277	317	341	281	323	313

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 2000, 2001, 2002, 2003, 2004 and 2005.

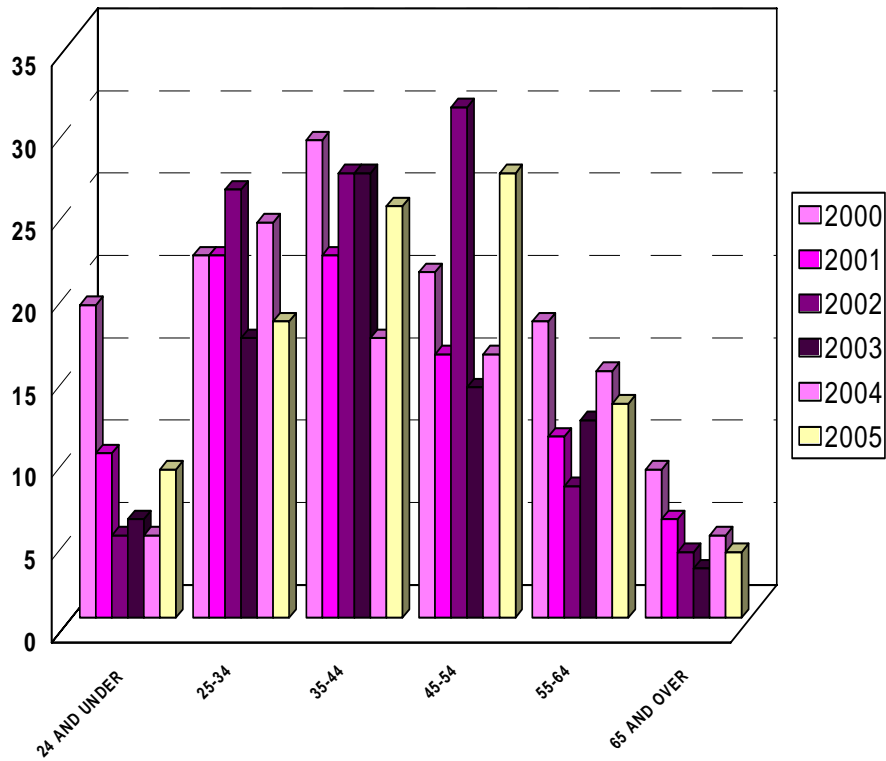
**CHART 12. DISTRIBUTION OF FATAL OCCUPATIONAL INJURIES BY EVENT OR EXPOSURE
ARIZONA, 2000-2005**



EVENT	2000	2001	2002	2003	2004
HIGHWAY INCIDENTS	25	20	26	24	25
HOMICIDES	10	19	18	6	11
STRUCK BY OBJECT	11	11	6	7	5
FALLS	14	9	10	10	9
AIRCRAFT INCIDENTS	31	4	9	5	13
OTHER	22	25	21	28	21

SOURCE: CENSUS OF FATAL OCCUPATIONAL INJURIES, INDUSTRIAL COMMISSION OF ARIZONA

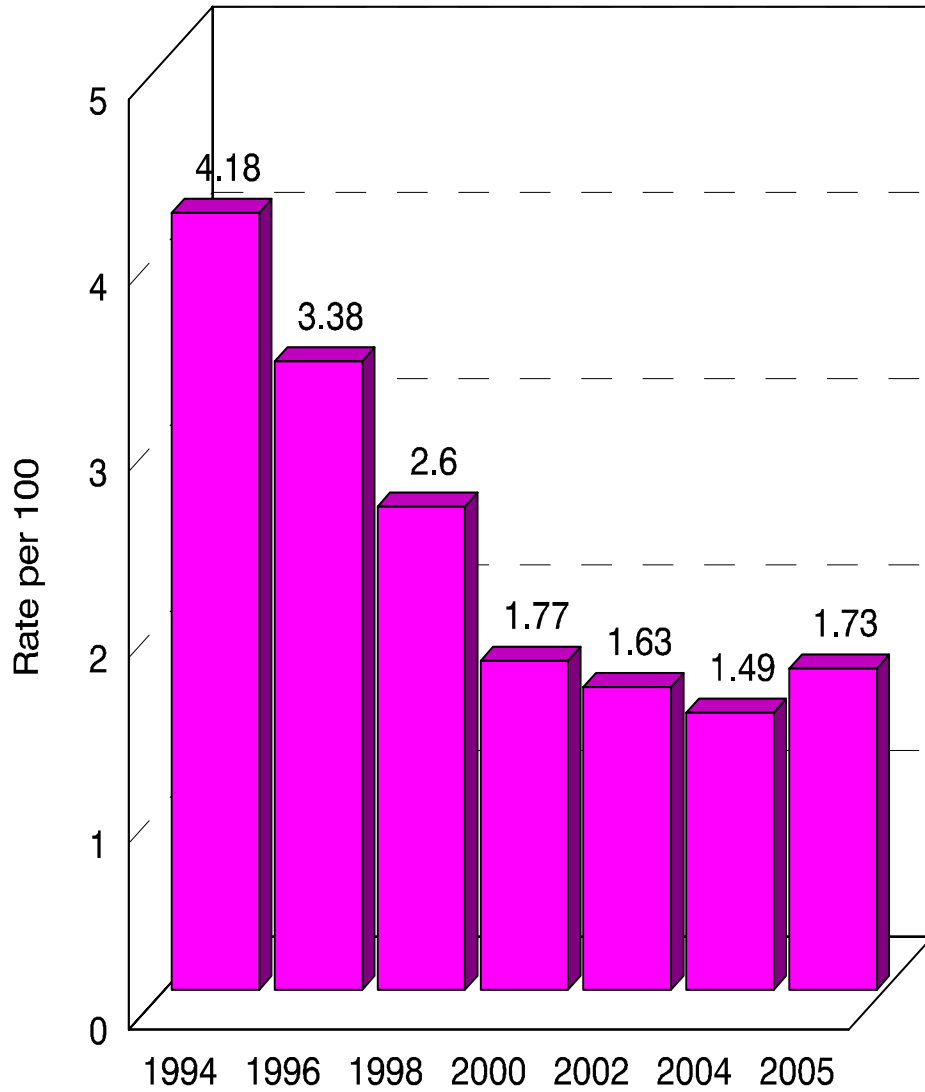
**CHART 13. DISTRIBUTION OF FATAL OCCUPATIONAL INJURIES BY AGE
ARIZONA, 2000-2005**



AGE	2000	2001	2002	2003	2004	2005
24 AND UNDER	19	10	5	6	5	9
25-34	22	22	26	17	24	18
35-44	29	22	27	27	17	25
45-54	21	16	31	14	16	27
55-64	18	11	8	12	15	13
65 AND OVER	9	6	4	3	5	4

SOURCE: CENSUS OF FATAL OCCUPATIONAL INJURIES, INDUSTRIAL COMMISSION OF ARIZONA

CHART 14. ARIZONA WC RATES



Source: Oregon Department of Consumer and Business Services

