

**THE INDUSTRIAL COMMISSION OF
ARIZONA**



2003 ANNUAL REPORT

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Vice Chairman
Commissioner
Commissioner
Commissioner

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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 308 employees and an operational budget of approximately \$16.1million. 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 2002 was 2.75% and for 2003 is 3%.

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.

	FY01	FY02	FY03
NUMBER OF INJURY REPORTS INVOLVING MINORS AND COMPLAINTS RECEIVED	1488	1500	1162
NUMBER OF YOUTH EMPLOYMENT VIOLATIONS CONFIRMED	112	86	42

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.

	FY01	FY02	FY03
NUMBER OF WAGE CLAIMS FILE/INVESTIGATED	2918	3196	3153

LICENSED & REGULATED AGENCIES

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 Licensed Agencies

	FY01	FY02	FY03
Career Counseling Firms	24	25	25
Model & Talent Agencies	22	21	21
General Agencies	6	4	3
Sitter Agencies	3	3	3
Domestic Help Agencies	2	1	1
Nurses Agencies	1	1	1
Total	58	55	54

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:

	FY01	FY02	FY03
Number of Claims Processed	152145	138839	131702

In addition to being a file of record, we now have 24 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 scarring 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:

	FY01	FY02	FY03
Number of Wage Awards	18341	16585	15641

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:

	FY01	FY02	FY03
Number of LEC Awards	2864	3720	2976

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 is authorized to conduct hearings and resolve legal disputes in the areas of workers' compensation, occupational health and safety (OSHA), and youth employment. The ALJ Division's mission is to resolve all disputes coming before it in an efficient and equitable manner. The vast majority of cases referred to the division are in the area of workers' compensation.

Fully staffed, the division employs 17 ALJs in Phoenix and five in Tucson. All ALJs are appointed by members of the Industrial Commission. They must be active members of the State Bar of Arizona and have a minimum of five years experience in workers' compensation, labor and employment law, or a related field. Each ALJ is supported by a legal secretary, who assists in the administration of the judge's docket and provides information and assistance to parties, attorneys and the public. The division is also supported by clerks in both offices.

The Chief ALJ is responsible for assignment of cases, the administration of the division and supervision of all personnel. The Chief ALJ maintains a reduced case load. A Vice Chief ALJ, who works on special projects and has a full case load, is posted in Phoenix. In Tucson, the ALJ-in-Charge is responsible for day-to-day operations, in addition to handling a full case load.

Workers' Compensation cases are referred to the ALJ Division when an interested party (claimant, employer, insurance carrier or Special Fund) requests a hearing. OSHA cases are referred to the division when an employer protests an action taken by the Arizona Division of Occupational Safety and Health (ADOSH).

Once a case is referred to the division, it is assigned to an ALJ who sets it for hearing, usually within 60 days. This allows the parties to conduct discovery in preparation for the hearing and to explore settlement possibilities. Most hearings are held in either Phoenix or Tucson. However, parties may request that a hearing be held elsewhere around the state and the ALJs travel to such locales as Flagstaff, Prescott, Lake Havasu, Kingman, Yuma, Lakeside-Pinetop, Payson, Globe, Casa Grande, Bisbee, Sierra Vista and Nogales.

Workers' compensation cases often require numerous hearings to obtain all necessary evidence. There are no juries in cases in the ALJ Division. The ALJs perform the function of a jury in that they make factual findings and credibility determinations. Written decisions containing the ALJs findings, conclusions and analysis are issued in all cases. A party disagreeing with the decision in a workers' compensation case may file a request for review which goes to the same ALJ who heard the case. Upon receipt of legal memoranda setting forth the parties' arguments, the ALJ issues a Decision Upon Review which may affirm, reverse, modify and/or supplement the original decision.

If a party disagrees with the Decision Upon Review, the party may file a Petition for Special Action in the Arizona Court of Appeals. The Court of Appeals must either affirm the ALJ's decision or set it aside; it has no authority to modify the decision.

OSHA cases are generally concluded in a single session. Review of OSHA cases is slightly different than for workers' compensation cases. An OSHA decision is not reviewed by the ALJ who issues it; rather the case is referred to a Review Board. Then, as in a workers' compensation case, further review is to the Court of Appeals.

The ALJ Division's mediation program has been in operation for approximately two years. Offered on a voluntary basis as an alternative to the formal hearing process, mediation offers the parties a means, through a third party neutral, to work toward a mutually acceptable resolution of their issues. Mediation has been shown to be effective in crafting solutions that might not otherwise be available in the hearing process. While the majority of mediations have been in workers' compensation cases, mediation has also been used successfully to resolve OSHA disputes. Attorneys in the Legal Division advise all OSHA respondents about the availability of mediation as an alternative to the hearing process.

Mediation is a confidential procedure. When mediation is requested, the case is referred to one or two ALJs who serve as mediator or co-mediators. If the dispute is resolved, the parties prepare a compromise and settlement agreement or a stipulation that is referred to the ALJ who had been assigned to hear the case. If the dispute is not resolved, the case is returned to the hearing process. The ALJ assigned to mediate the case destroys all memoranda and notes from the mediation. The ALJ who presides over the hearing renders a decision based solely on record and evidence presented at the hearing.

The ALJ Division is committed to reducing turnaround time. With the cooperation of the legal community, certain types of cases are being set sooner than 60 days. Continuances are granted only for good cause.

Hearings for medical witnesses in workers' compensation cases are often held telephonically in order to reduce costs and expedite completion of the hearing process. The medical community has reacted favorably to this accommodation to their busy schedules as it reduces their travel time and lost productivity. The parties appreciate that telephonic hearings can cut weeks off the hearing process. Additionally, informal conferences are being utilized to explore settlement early in the hearing process, and to explain basic rights and responsibilities to unrepresented workers. Other time-saving measures are being explored.

	FY01	FY02	FY03
Cases Referred to the Division	8186	8405	8685
Hearings Conducted	7497	7704	7382
Average Length of Time to resolve a Case (Days)	118	125	134

**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 employess working in 114,000 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 23 states 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 who have what appears to be 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.

	FY01	FY02	FY03
Serious Willful and Repeat Violations	583	805	866
Total Penalties Assessed*	\$1.6	\$1.74	\$1.51
*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.

	FY01	FY02	FY03
Nonserious Violations	1045	1717	2267
In compliance % Rate	38.3%	43.6%	59.7%

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.

	FY01	FY02	FY03
Boilers Inspected	2565	3200	3381
Deficiencies Noted	716	648	602

	FY01	FY02	FY03
Elevators Inspected	4794	5300	5398
Deficiencies Noted	1861	2053	1890

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:

	FY01	FY02	FY03
#of Hazards Found During Consultations	1943	2089	1723
# of Training Programs	620	1496	357*
# of Employees Trained	2915	5488	4226
# of Employers Trained	3170	4007	3414

*In FY03 ADOSH began recording the # of training programs differently. This year, began counting only each separate course taught. Prior to FY03, we counted each separate employer in attendance as a separate class. For example, if ten employe were presented in a class, it was counted as ten programs taught.

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.

- ◆ 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 is a \$245 million fund which is comprised of investment property, the Industrial Commission offices at 800 W. Washington, Phoenix and 2675 E. Broadway, Tucson, and a mix of bonds, stocks and cash. Because of the Special Fund's conservative investment strategy, its portfolio consists of 67% bonds, 31% stocks and 2% cash. The Special Fund's rate of return, over the past four years has ranged from 5.0% for FY00, 1.5% for FY01, 4.4% for FY02 and 7.5% for FY03. The rate of return since the inception of this investment program has been 9.2%.

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% tax on workers' compensation premiums and an additional discretionary workers' compensation 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 discretionary tax of 1.5% which has been 0% since 1992.

The Special Fund's retained earnings are presently at \$31.0 million at the end of FY03.

The Investment Committee reviews the tax rate each year and has set the tax rate at 0% again for 2003.

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 claims and the annualized cost for those claims are as follows:

	FY01	FY02	FY03
No-Insurance Awards Issued	3184	3986	2954

INSOLVENT INSURANCE CARRIERS

The Special Fund is responsible for continuing workers' compensation benefits for those claimants insured by insolvent insurance carriers. Four insurance carriers became insolvent in FY03.

The estimated reserve for those claims are as follows:

15% fee to State Compensation Fund	13.0 million
Mission Insurance	4.9 million
Mission National Insurance	9.1 million
Enterprise Insurance Company	.2 million
Employers Casualty Insurance Company	.6 million
Western Employers Insurance Company	2.4 million
Carriers Insurance Company	.2 million
Montgomery Wards	.2 million
Idea Mutual	.2 million
American Mutual	.07 million

Rockwood Insurance	.11 million
Credit General Insurance Compan	.3 million
Southwest Supermarkets	.6 million
Relience Insurance	14.1 million
HIH America	1.4 million
Great States	12.1 million
Superior Pacific	.9 million
Superior National	5.0 million
Paula Insurance	10.4 million
Western Growers Insurance	.5 million
Villanova Insurance	.5 million
Legion Insurance	6.3 million
S & H Insurance	.2 million
	83.3 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 statistics related to this issue are as follows:

	FY01	FY02	FY03
# of Rehabilitation Awards Issued	94	121	150

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: graphic artist, meat cutting, respiratory therapy, nursing, computer aided drafting, medical assistants, and pharmacy technicians. For those that are eligible for vocational rehabilitation but are lacking skills to enter a program, the Special Fund offer 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.
- ◆ Represents the agency in personnel matters.
- ◆ Provides legal advice to the five member Commission and Division Managers.
- ◆ Represents the agency in personnel matters.
- ◆ Provides legal advice to the five member Commission and Division Managers.
- ◆ 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:

	FY01	FY02	FY03
Hearings/Legal Proceedings Involving Special Fund and Az Div of Occupational Safety and Health Cases	396	386	401

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.

	FY01	FY02	FY03
Insurance referrals	1428	1780	2509

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.

	FY01	FY02	FY03
Collection Referrals	415	433	584

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

Glenn Hurd, Manager

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

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

ACCOUNTING SERVICES

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 three days and medical service providers are paid within fourteen days from receipt of billing. A historical perspective of the number of warrants is provided:

	FY01	FY02	FY03
Checks Issued	14130	16355	20580

OMBUDSMAN

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:

	FY01	FY02	FY03
Number of Claimants Assisted	5119	5602	3785

DATA PROCESSING

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

The focus of the Industrial Commission's efforts this year continues to be in looking at our internal operations to ensure that we are efficiently meeting our statutory mandates and at the same time to deal with other issues through the regulatory and legislative process.

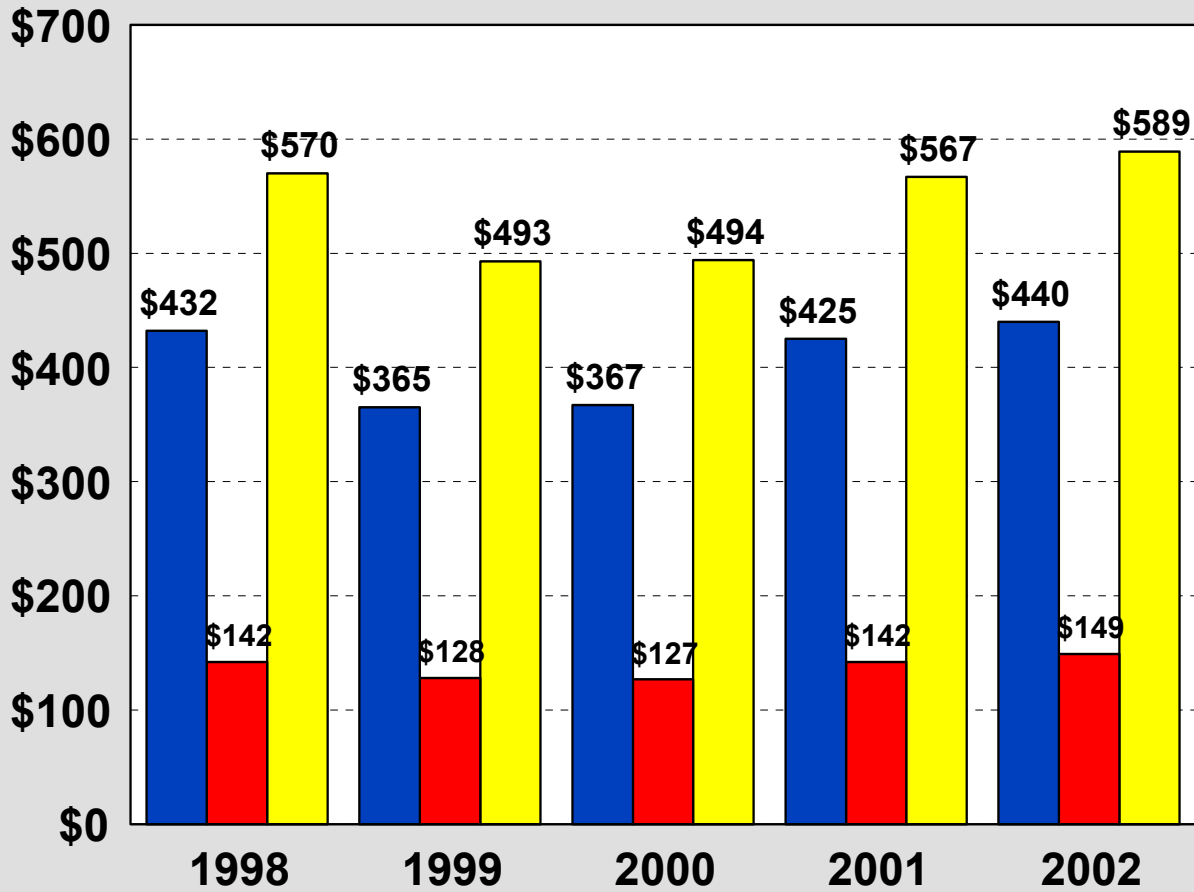
Internally one of the continuing problems associated with workers compensation claims processing is the amount of time it takes to resolve an issue in dispute. On the one hand are the constitutional "due process" requirements that are required and on the other is the necessity to resolve issues in dispute so that employees, legitimately injured on the job, can receive the medical and indemnity benefits that they are statutorily entitled to in a timely fashion. This constant tug and pull has allowed some cases to be resolved in a rather timely fashion and others to take what seems to be an inordinate amount of time. The Commission is committed to addressing this issue and has been interviewing doctors and attorneys and surveying other states in the hopes that an equitable solution can be found.

Last year, with the passage of the Commission's legislative package, problems associated with timely processing of claims in which the employer was not insured were addressed. This significant piece of legislation will hopefully address what has been a significant problem to those non-insured claimants. I want to take this opportunity to thank all those that had a part in the passage of this legislation.

From a regulatory standpoint we are looking at resolving regulatory packages that have been in development for several years. By Commission policy regulatory issues particularly those issues in conflict are to be resolved if possible before the regulatory process is initiated. This mandate requires the Commission staff to work with the community to define the issues and to work diligently in attempting to resolve those issues in conflict. Many meetings with the parties have occurred and many drafts of these proposed regulations have been submitted to the community for comment. I expect that this year we will see the rule packages

CHARTS

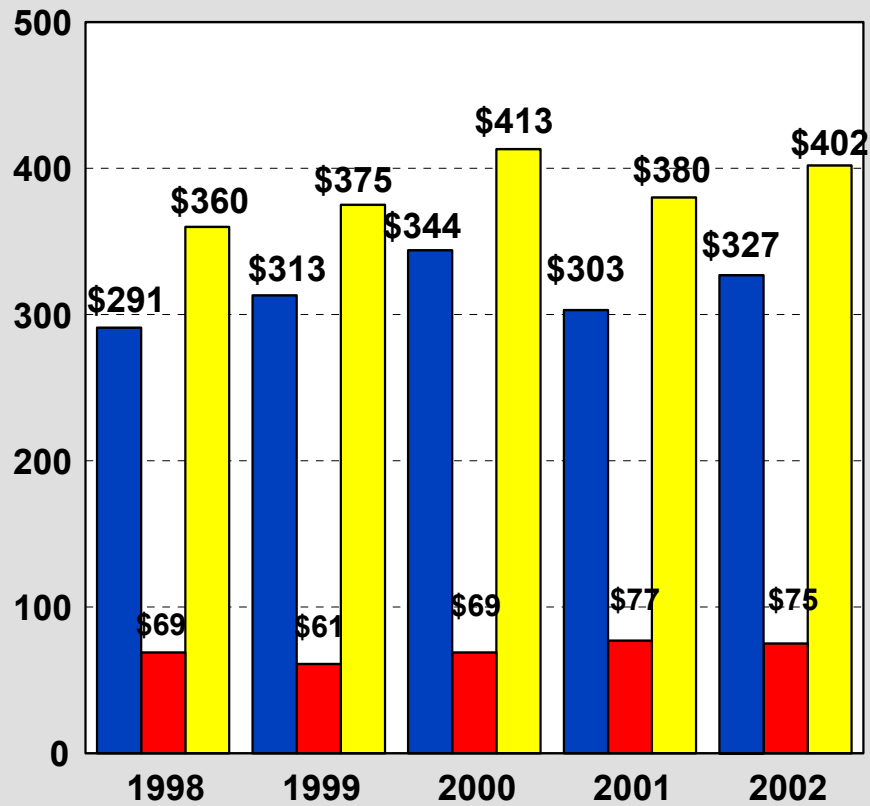
CHART 1. TAXABLE WORKERS COMPENSATION PREMIUMS REPORTED (IN MILLIONS) ON A CALENDAR YEAR BASIS* (1998 - 2002)



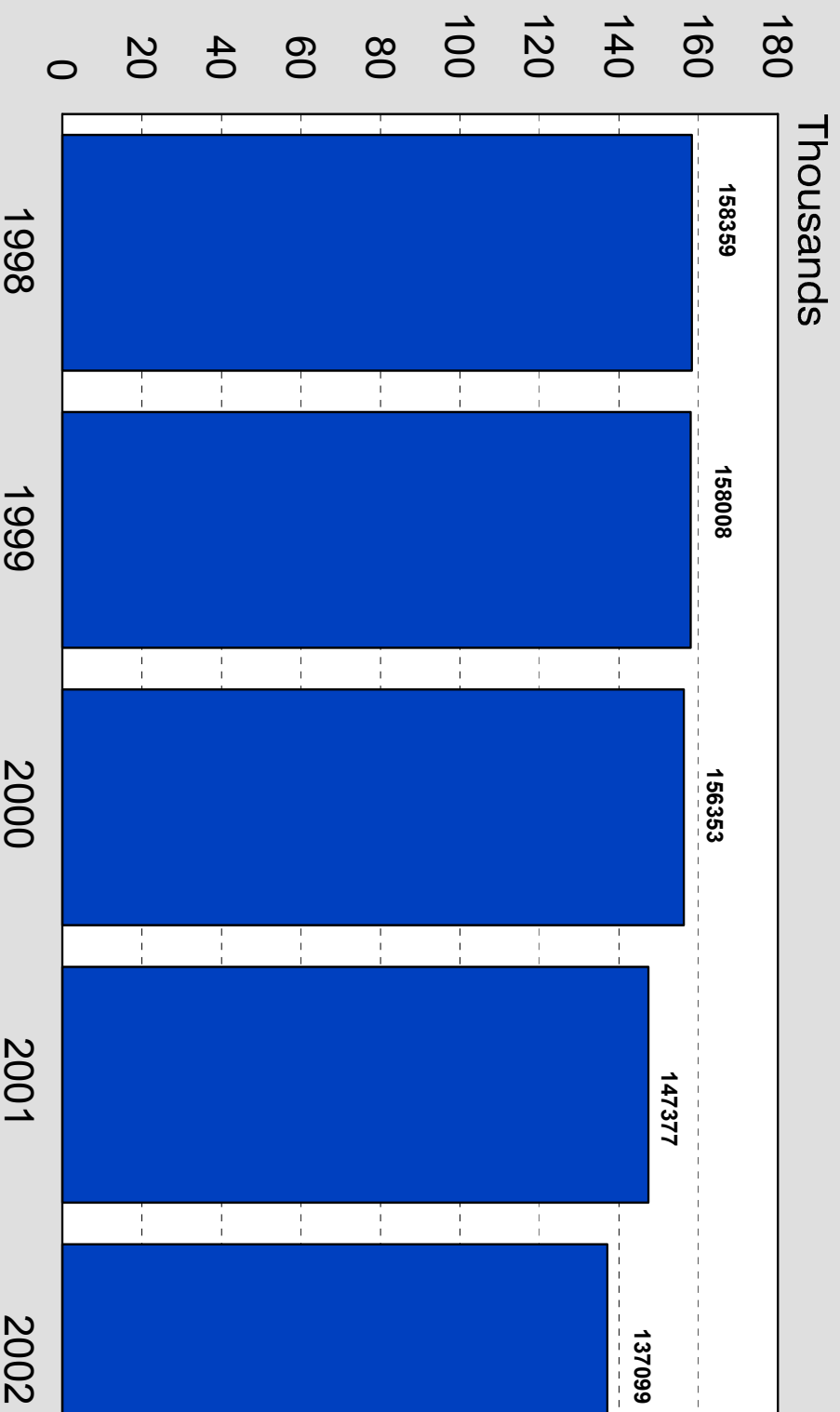
■ INSURANCE CARRIERS
■ SELF-INSURED EMPLOYERS
■ TOTAL

*PREMIUMS WRITTEN LESS RETURNED PREMIUMS, DIVIDENDS, CANCELLED PREMIUMS

CHART 2. DIRECT LOSSES PAID (IN MILLIONS) ON A CALENDAR YEAR BASIS. (1998 - 2002)



**CHART 3. TOTAL COMPENSATION CLAIMS FILED WITH THE INDUSTRIAL
COMMISSION
(calendar year)**



**CHART 4. TOTAL TIME LOST CLAIMS FILED WITH THE INDUSTRIAL COMMISSION (1998 - 2002)
(calendar year)**

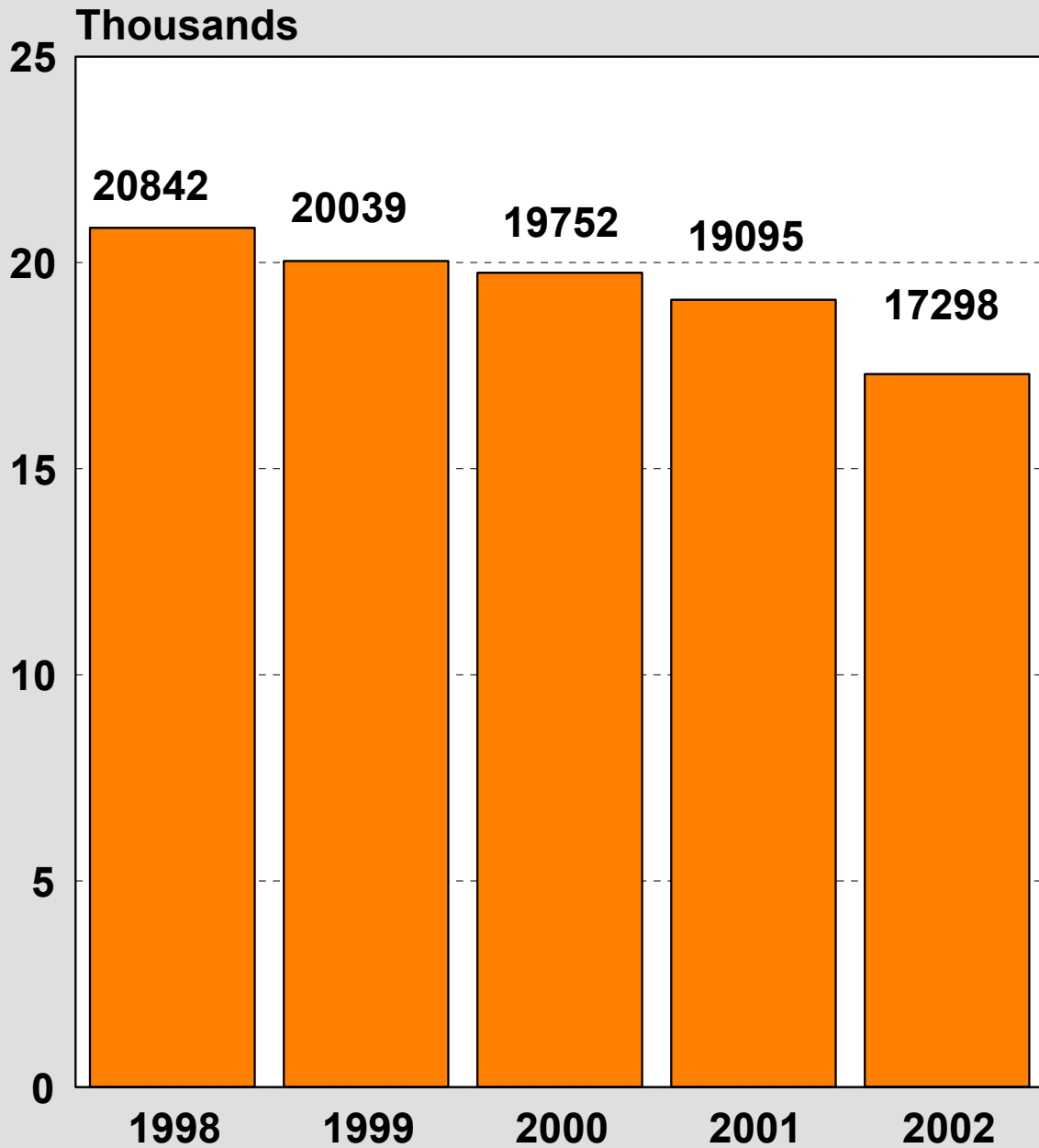
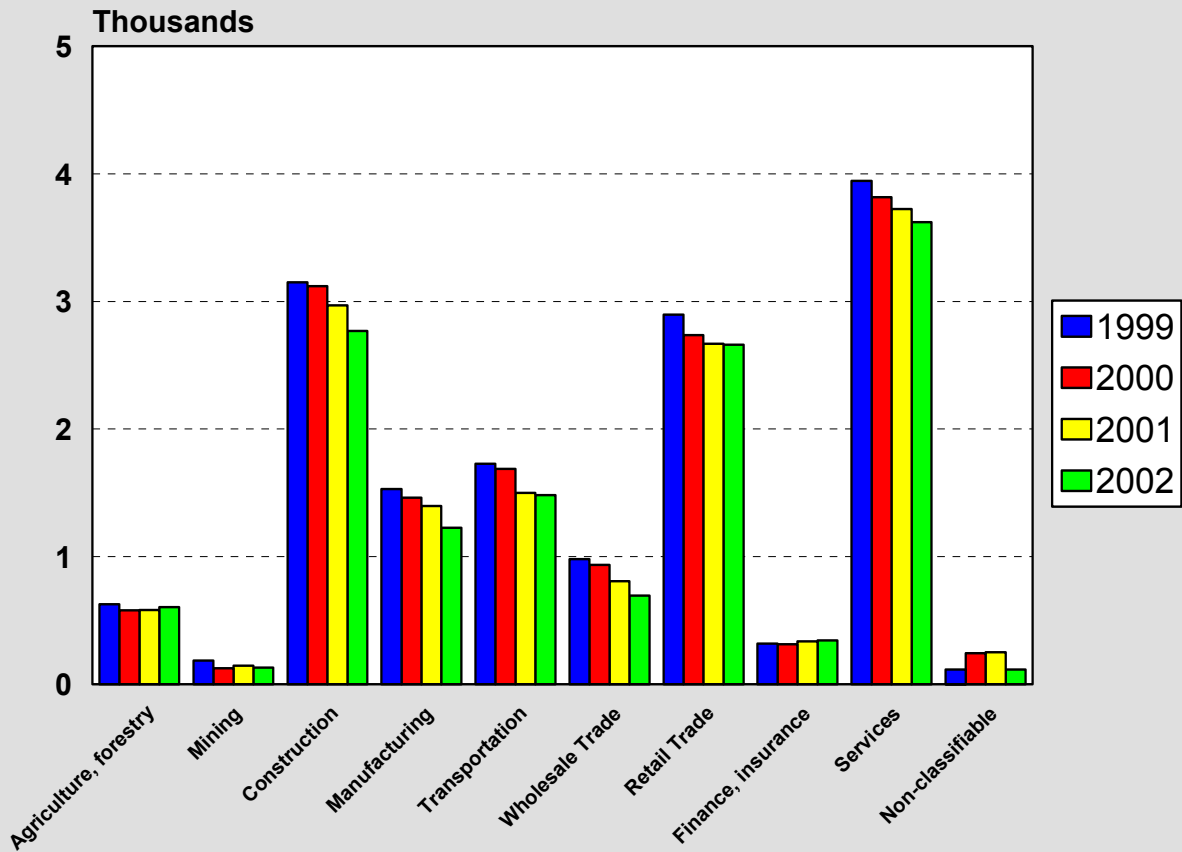


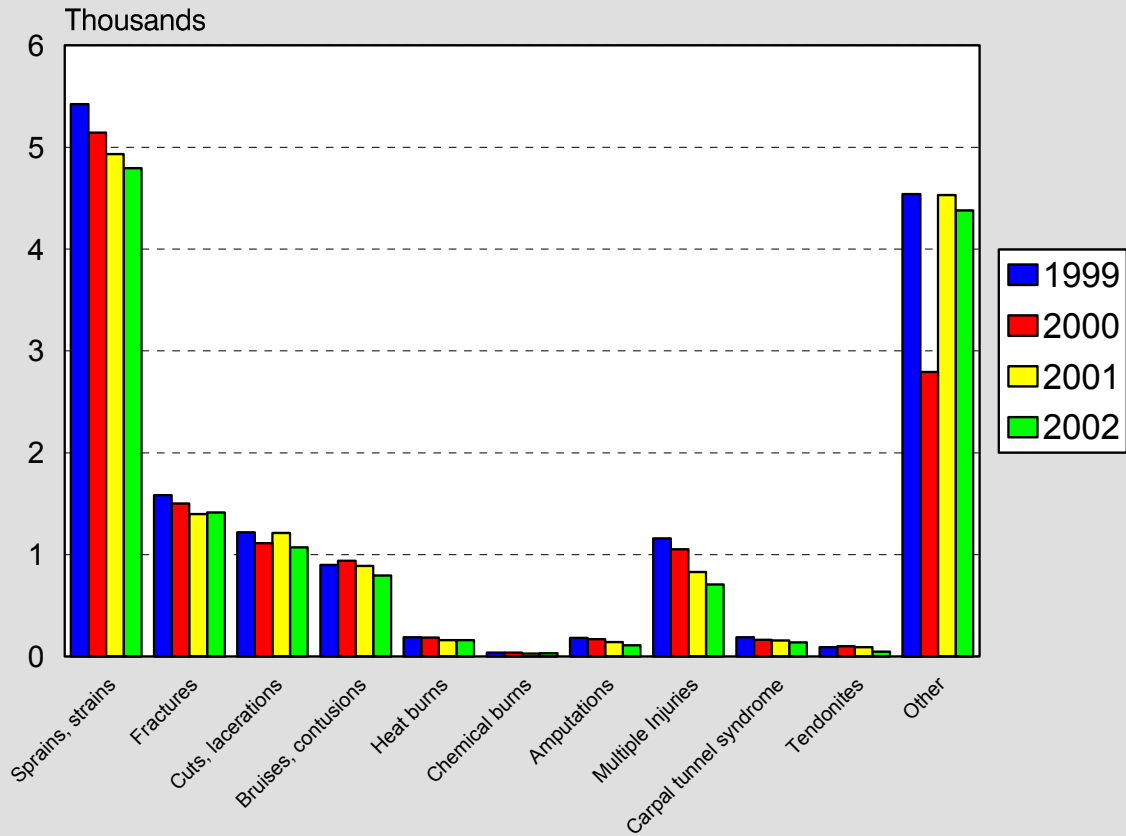
CHART 5. LOST WORKDAY CLAIMS 1999-2002 by MAJOR INDUSTRY DIVISION



Major Industry Division	1999	2000	2001	2002
Agriculture, forestry	629	581	583	606
Mining	187	126	146	132
Construction	3148	3118	2969	2767
Manufacturing	1530	1462	1396	1226
Transportation	1727	1689	1501	1483
Wholesale Trade	981	936	808	695
Retail Trade	2896	2736	2669	2660
Finance, insurance	320	314	338	345
Services	3944	3816	3722	3619
Non-classifiable	117	244	251	117

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 1999, 2000, 2001 and 2002.

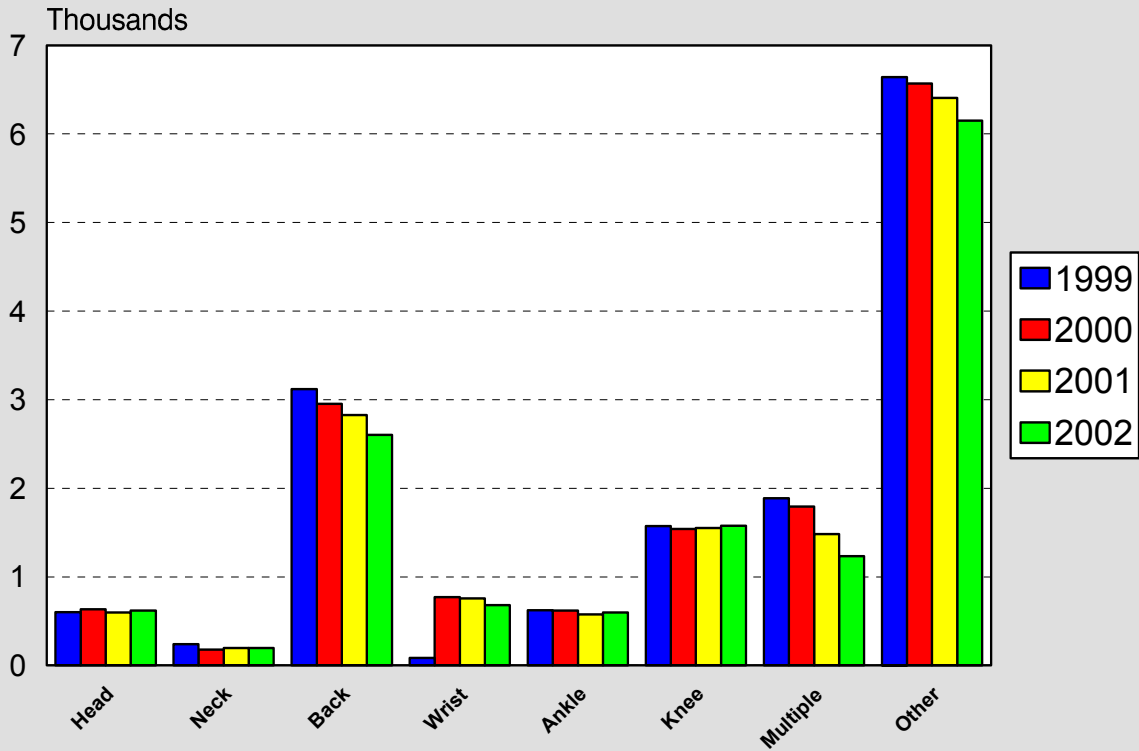
**CHART 6. LOST WORKDAY CLAIMS 1999-2002
by NATURE**



NATURE	1999	2000	2001	2002
Sprains, strains	5422	5142	4934	4795
Fractures	1585	1501	1398	1413
Cuts, lacerations	1220	1114	1212	1072
Bruises, contusions	898	941	889	795
Heat burns	189	187	161	162
Chemical burns	38	38	30	34
Amputations	182	169	143	110
Multiple Injuries	1160	1055	831	708
Carpal tunnel syndrome	189	165	157	139
Tendonites	92	101	91	46
Other	4541	2795	4531	4379

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 1999, 2000, 2001 and 2002.

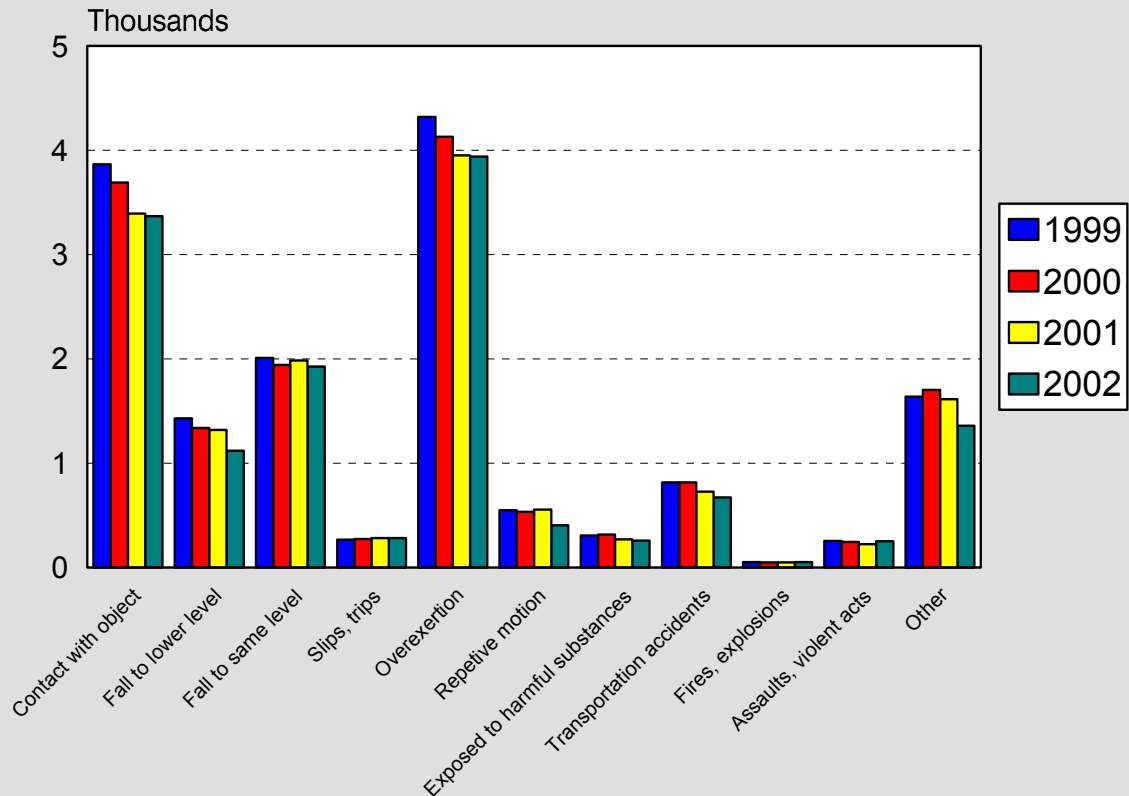
CHART 7. LOST WORKDAY CLAIMS 1999-2002 by PART OF BODY



PART OF BODY	1999	2000	2001	2002
HEAD	602	634	597	617
NECK	238	178	196	197
BACK	3119	2950	2825	2603
WRIST	84	770	756	681
ANKLE	622	617	574	598
KNEE	1574	1540	1552	1575
MULTIPLE	1886	1794	1482	1232
OTHER	6641	6569	6405	6150

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 1999, 2000, 2001 and 2002.

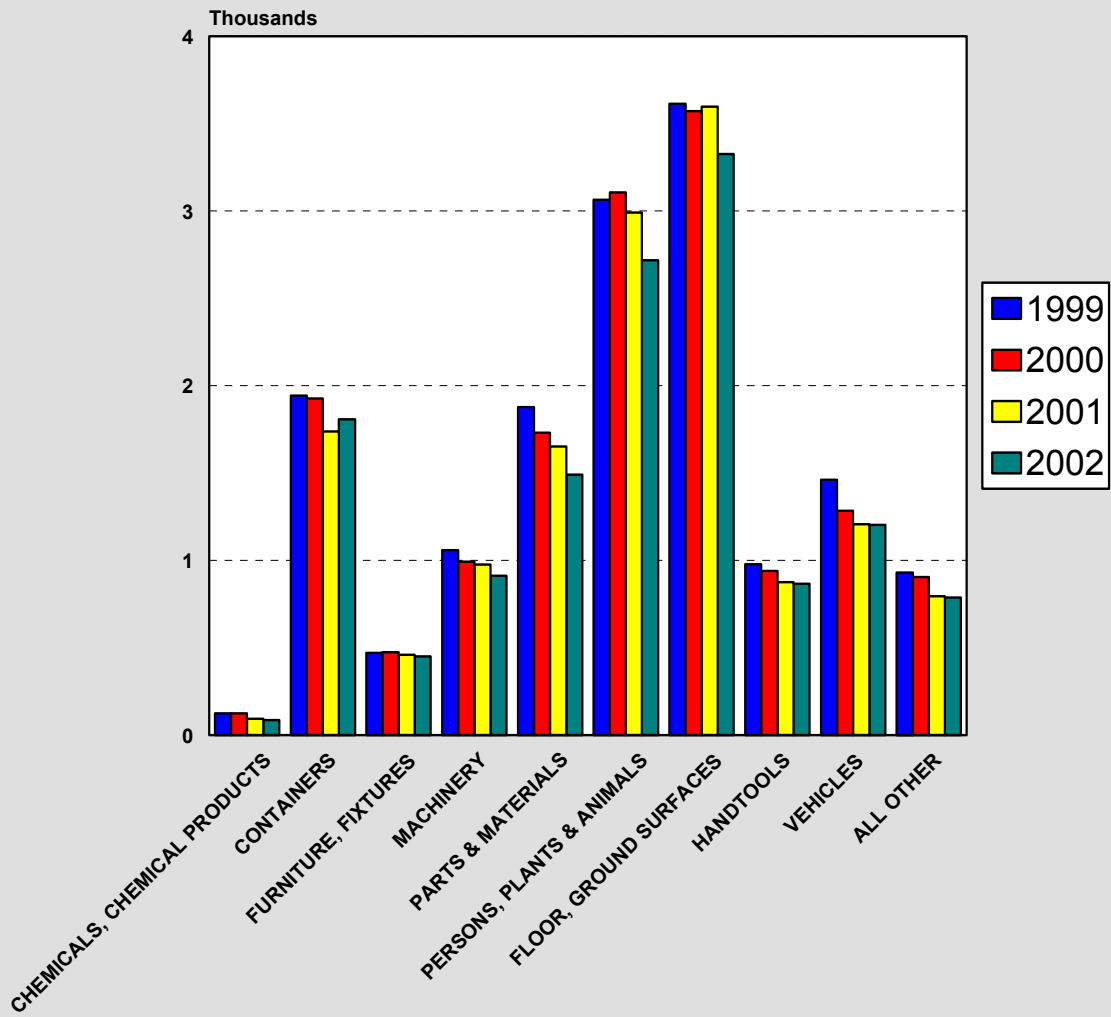
**CHART 8. LOST WORKDAY CLAIMS 1999-2002
by EVENT OR EXPOSURE**



EVENT OR EXPOSURE	1999	2000	2001	2002
Contact with object	3865	3691	3395	3368
Fall to lower level	1429	1340	1321	1123
Fall to same level	2012	1944	1987	1928
Slips, trips	268	275	285	283
Overexertion	4321	4129	3951	3939
Repetitive motion	550	536	556	407
Exposed to harmful substances	307	319	271	261
Transportation accidents	817	817	729	673
Fires, explosions	54	52	50	56
Assaults, violent acts	255	247	226	253
Other	1638	1702	1616	1362

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 1999, 2000, 2001 and 2002.

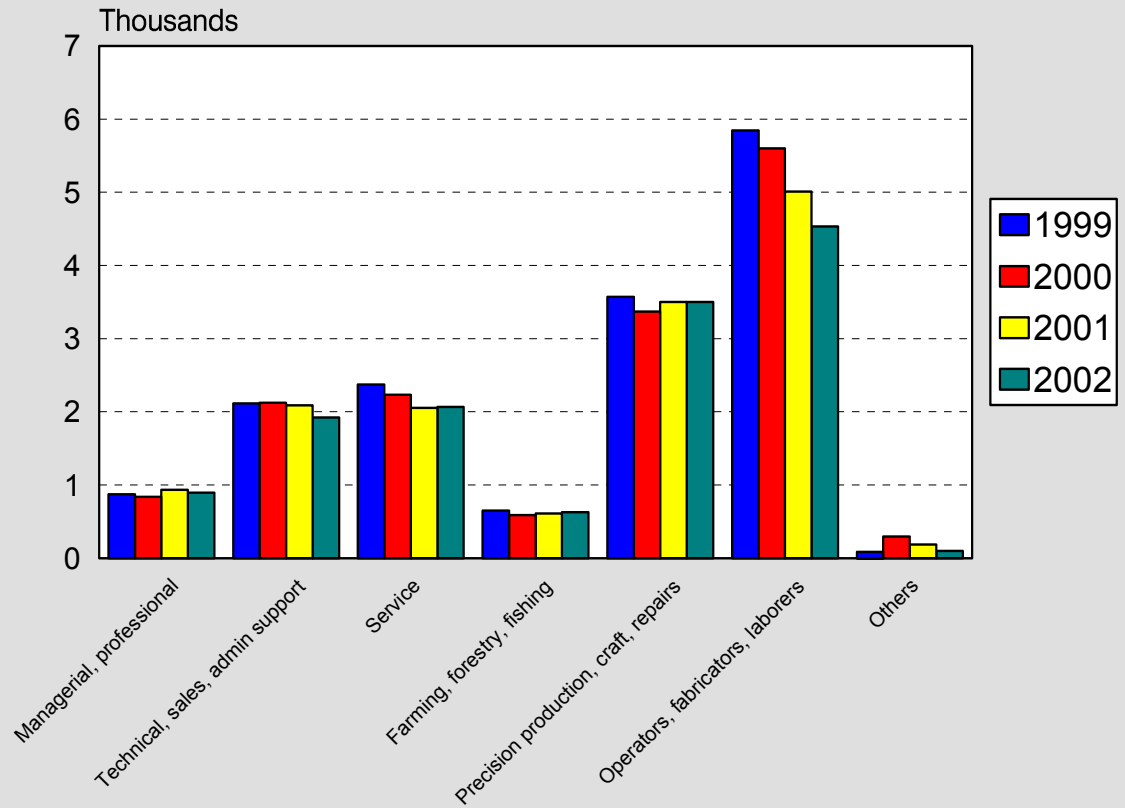
CHART 9. LOST WORKDAY CLAIMS 1999-2002 BY SOURCE



SOURCE	1999	2000	2001	2002
CHEMICALS, CHEMICAL PRODUCTS	124	125	94	86
CONTAINERS	1944	1927	1739	1807
FURNITURE, FIXTURES	472	475	459	452
MACHINERY	1060	992	977	912
PARTS & MATERIALS	1877	1731	1653	1491
PERSONS, PLANTS & ANIMALS	3064	3107	2991	2718
FLOOR, GROUND SURFACES	3613	3571	3597	3327
HANDTOOLS	979	939	876	867
VEHICLES	1462	1285	1207	1204
ALL OTHER	931	906	795	789

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 1999, 2000, 2001 and 2002.

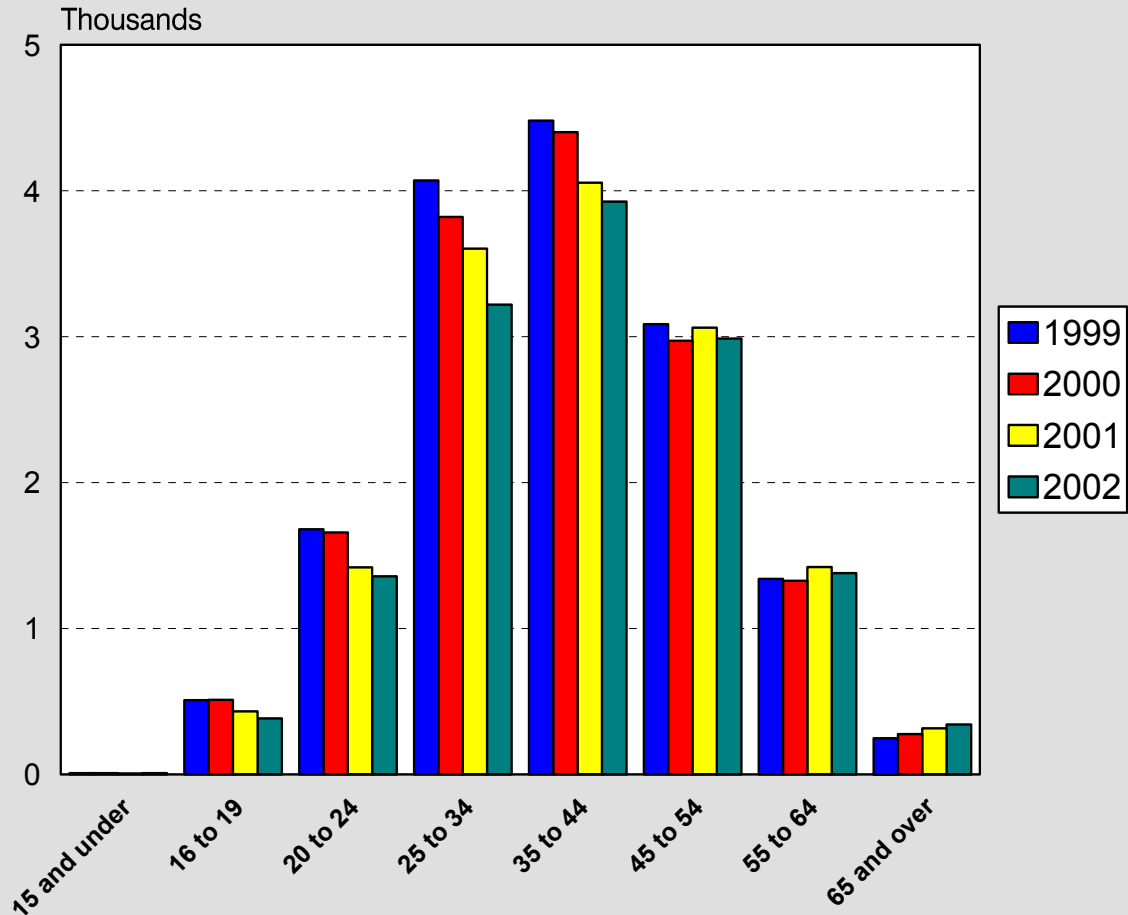
**CHART 10. LOST WORKDAY CLAIMS 1999-2002
by OCCUPATION**



OCCUPATION	1999	2000	2001	2002
Managerial, professional	873	838	935	896
Technical, sales, admin support	2115	2124	2090	1924
Service	2375	2234	2053	2066
Farming, forestry, fishing	650	591	609	629
Precision production, craft	3573	3371	3504	3503
Operators, fabricators	5844	5599	5011	4535
Others	86	295	185	100

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 1999, 2000, 2001 and 2002.

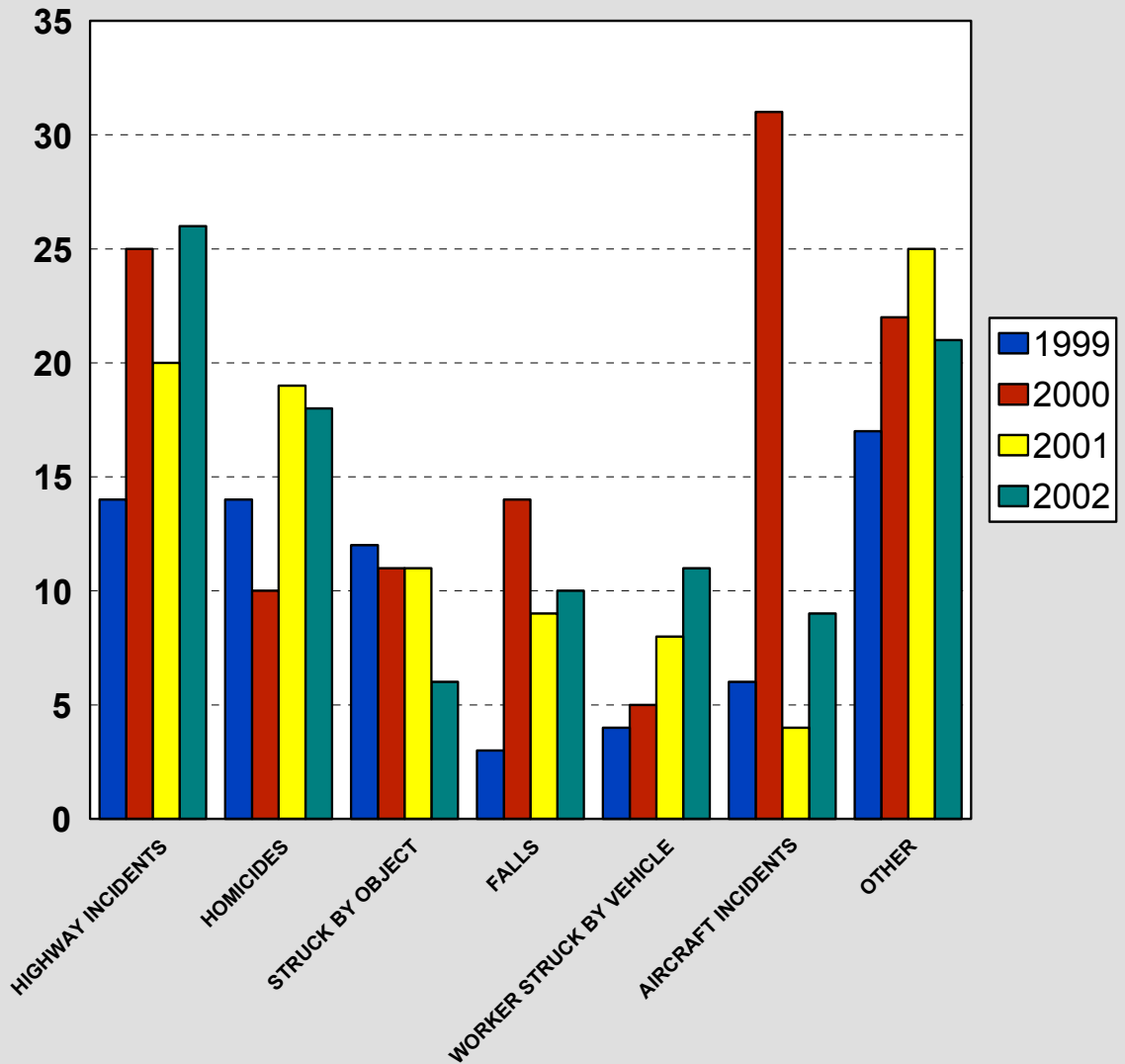
CHART 11. LOST WORKDAY CLAIMS 1999-2002 by AGE



AGE	1999	2000	2001	2002
15 and under	9	8	7	9
16 to 19	510	512	433	384
20 to 24	1679	1658	1419	1357
25 to 34	4071	3820	3603	3220
35 to 44	4481	4403	4056	3925
45 to 54	3085	2972	3062	2987
55 to 64	1340	1327	1421	1380
65 and over	248	277	317	341

INCLUDES ALL PRIVATE SECTOR LOST WORKDAY CLAIMS THAT WERE RECEIVED DURING CALENDAR YEARS 1999, 2000, 2001 and 2002.

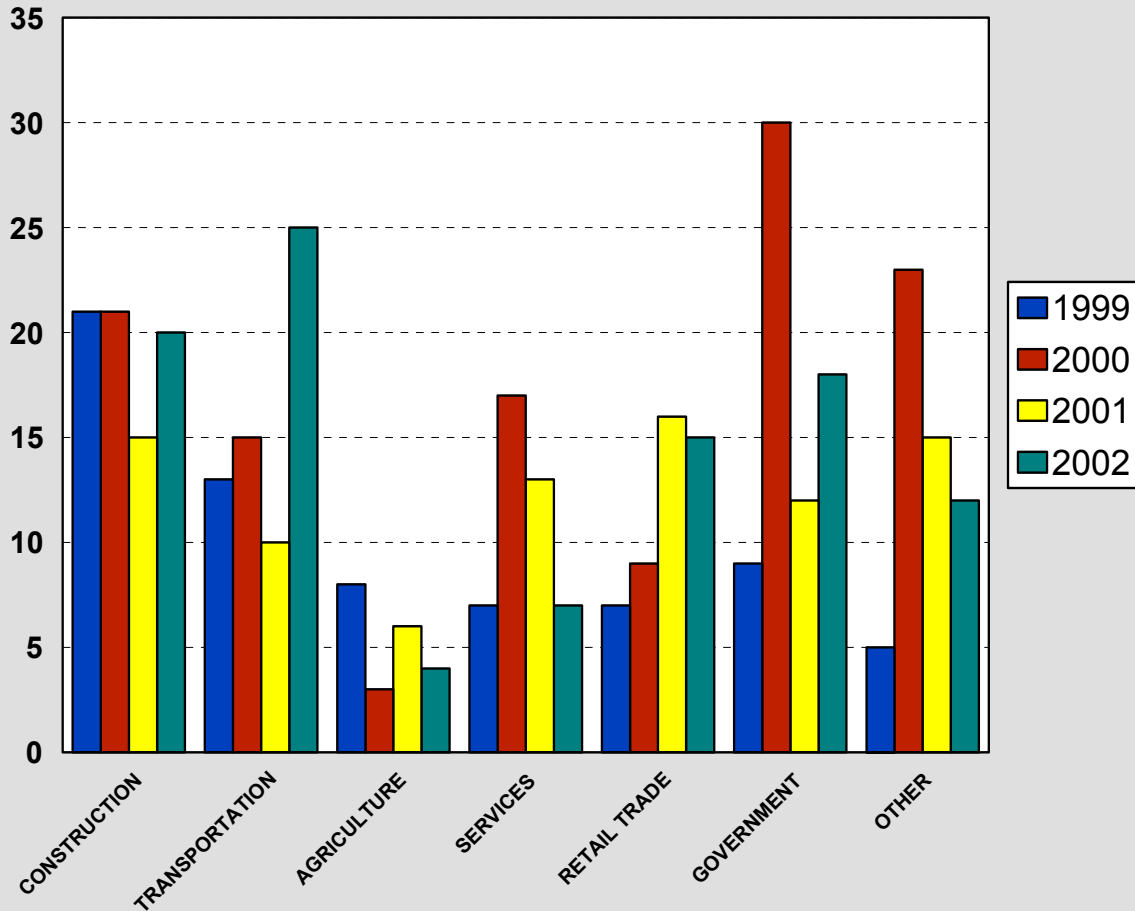
**CHART 12. DISTRIBUTION OF FATAL OCCUPATIONAL INJURIES BY EVENT OR EXPOSURE
ARIZONA, 1999-2002**



EVENT	1999	2000	2001	2002
HIGHWAY INCIDENTS	14	25	20	26
HOMICIDES	14	10	19	18
STRUCK BY OBJECT	12	11	11	6
FALLS	3	14	9	10
WORKER STRUCK BY VEHICLE	4	5	8	11
AIRCRAFT INCIDENTS	6	31	4	9
OTHER	17	22	25	21

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

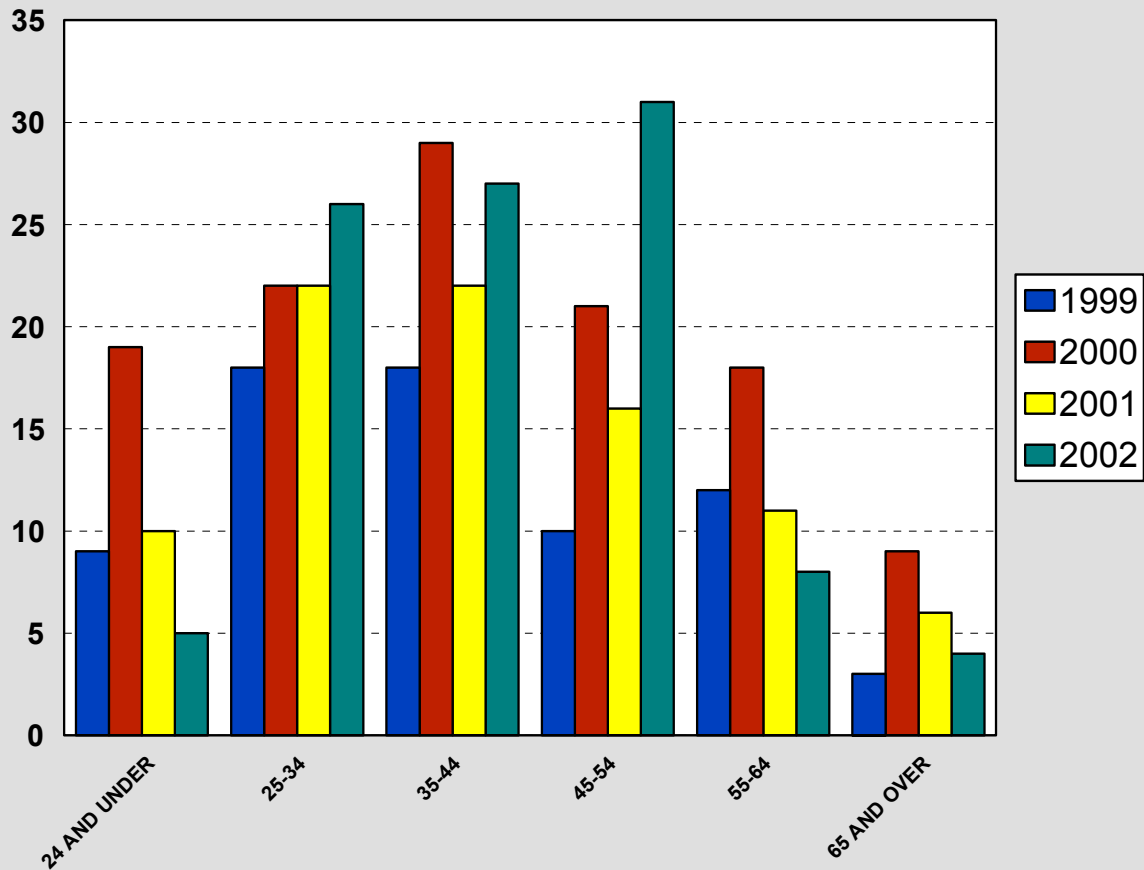
**CHART 13. DISTRIBUTION OF FATAL OCCUPATIONAL INJURIES BY INDUSTRY DIVISION
ARIZONA, 1999-2002**



INDUSTRY DIVISION	1999	2000	2001	2002
CONSTRUCTION	21	21	15	20
TRANSPORTATION	13	15	10	25
AGRICULTURE	8	3	6	4
SERVICES	7	17	13	7
RETAIL TRADE	7	9	16	15
GOVERNMENT	9	30	12	18
OTHER	5	23	15	12

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

CHART 14. DISTRIBUTION OF FATAL OCCUPATIONAL INJURIES BY AGE ARIZONA, 1999-2002



AGE	1999	2000	2001	2002
24 AND UNDER	9	19	10	5
25-34	18	22	22	26
35-44	18	29	22	27
45-54	10	21	16	31
55-64	12	18	11	8
65 AND OVER	3	9	6	4

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