

**THE INDUSTRIAL COMMISSION OF
ARIZONA**



2005 ANNUAL REPORT

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THE INDUSTRIAL COMMISSION OF ARIZONA



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Commissioner
Commissioner

Jean Pierre Angelchik, M.D.
Joe Gosiger
Brian C. Delfs
Louis W. Lujano, Sr.
Marcia Weeks

Larry Etchechury, Director

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 \$17.7million. 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 2004 was 3% and remained the same for 2005.

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.

	FY03	FY04	FY05
NUMBER OF INJURY REPORTS INVOLVING MINORS AND COMPLAINTS RECEIVED	1162	1054	1060
NUMBER OF YOUTH EMPLOYMENT VIOLATIONS CONFIRMED	42	58	58

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.

	FY03	FY04	FY05
NUMBER OF WAGE CLAIMS FILE/INVESTIGATED	3153	3104	2904

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

	FY03	FY04	FY05
Career Counseling Firms	25	28	25
Model & Talent Agencies	21	24	27
General Agencies	3	3	3
Sitter Agencies	3	3	2
Domestic Help Agencies	1	1	1
Nurses Agencies	1	1	1
Total	54	60	59

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:

	FY03	FY04	FY05
Number of Claims Processed	131702	135645	139121

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 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:

	FY03	FY04	FY05
Number of Wage Awards	15641	16560	16749

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:

	FY03	FY04	FY05
Number of LEC Awards	2976	3048	3201

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.

Currently, the division employs 17 ALJs in Phoenix and four 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 also maintains a reduced caseload. The Vice Chief ALJ, posted in Phoenix, maintains a full caseload and works on special projects, such as chairing the Commission Task Force on Compromise and Settlement Agreements. In Tucson, the ALJ-in-Charge is responsible for day-to-day operations of the office, supervision of all personnel, and a slightly reduced caseload.

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 60-90 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. Approximately 7% are conducted elsewhere around the state in 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.

The injured worker and lay witnesses usually testify at an initial hearing. Further hearings are held for the parties' medical experts. It can take several weeks to several months to schedule further hearings, based on the availability of the medical expert.

There are no jury trials at the Industrial Commission. The ALJs perform the function of a jury in that they make factual findings and credibility determinations. Written decisions containing the ALJs findings, legal analysis, and conclusions are prepared in all cases. A party disagreeing with the decision in a workers' compensation case may file a request for review that is considered by the 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 three 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 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.

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. Mediation is generally offered to employers in all OSHA disputes, but many settle even before mediation can be scheduled.

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 timesaving measures are being explored, for example, waiving live medical testimony and relying on written reports.

In the past year, digital recording equipment has been installed in three hearing rooms in Phoenix to evaluate its quality and cost effectiveness as contrasted to stenographic court reporting services. Digital recording allows an ALJ to review the hearing immediately, instead of having to wait ten days for a transcript.

It also reduces court reporter appearance fees. Digital recording equipment is gaining acceptance in courts around the state, including Phoenix City Court and the U.S. Bankruptcy Court. The ALJ Division is considering expanding its use of digital recording equipment, but only if it is satisfied that adequate quality control measures can be implemented.

	FY03	FY04	FY05
Cases Referred to the Division	8685	8025	8080
Hearings Conducted	7382	7297	6593
Average Length of Time to resolve a Case (Days)	133.5	130.5	118.5

**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.

	FY03	FY04	FY05
Serious Willful and Repeat Violations	866	1182	1028
Total Penalties Assessed*	\$1.5	\$2.46	\$1.82
*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.

	FY03	FY04	FY05
Nonserious Violations	2267	2889	2356
In compliance % Rate	59.7%	42.4%	41.1%

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.

	FY03	FY04	FY05
# of Hazards Found During Consultations	1723	2411	2492
# of Training Programs	357*	398	390
# of Employees Trained	4226	5145	6034
# of Employers Trained	3414	3627	2844

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.

	FY03	FY04	FY05
Boilers Inspected	3381	3037	2762
Deficiencies Noted	602	710	484

	FY03	FY04	FY05
Elevators Inspected	5398	4802	4580
Deficiencies Noted	1890	1466	1494

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 \$321 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. Because of the Special Fund’s conservative investment strategy, its portfolio consists of 66% bonds, 31% stocks and 3% cash. The Special Fund’s rate of return over the past four years has ranged from 4.4% for FY02, 7.5% for FY03, 10.4% for FY04 and 7.4% for FY05. The annual rate of return for the last ten years of this investment program has been 8.1%.

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 2005. 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 \$193 million deficit at the end of FY05.

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:

	FY03	FY04	FY05
No-Insurance Awards Issued	2954	3300	3281

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. Two insurance carriers became insolvent in FY04.

The estimated reserves for those claims are as follows:

The ten largest carriers:

Fremont Companies	156.1 million
Paula Insurance Co.	21.9 million
Reliance Insurance	18.8 million
Great States Ins.	16.8 million
Legion Insurance Co.	14.6 million
Western Employers Ins Co.	10.5 million
Mission National Ins. Co.	9.9 million
Superior National	8.8 million
Mission Insurance	5.3 million
Home Insurance	4.2 million

All other ins.carriers
and self insured companies 17.9 million

State Compensation Fund Servicing Fee 35.6 million

Total of all claims 320.4 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:

	FY03	FY04	FY05
# of Rehabilitation Awards Issued	150	139	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: 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 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.

- ◆ 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:

	FY03	FY04	FY05
Hearings/Legal Proceedings Involving Special Fund and ICA Div of Occupational Safety and Health	401	455	452

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.

	FY03	FY04	FY05
Insurance referrals	2509	1930	1708

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:

	FY03	FY04	FY05
Number of Claimants Assisted	3785	3444	3080

DATA PROCESSING

Paul VanGundy, 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

The focus of the Industrial Commission's efforts continues to be looking at issues that significantly impact the operations of the Commission and the Special Fund as well as issues that could have a significant impact on the health of the workers compensation system generally.

Internally one of our continuing problems is the financial impact insolvent carriers are having on the Special Fund. 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 who work for employers who violate the law by not providing workers compensation insurance coverage; (2) vocational rehabilitation training for those injured workers who are unable to return to their date of injury occupation; (3) provides for 50% indemnity benefits for these injured workers who have previously had a pre-existing permanent injury and sustains a second industrially related permanent impairment) listed in ARS 23-1065 (C) that provides an impediment to employment; (5) providing supportive care benefits to those injured before August 1973; and (6) provides workers compensation benefits to those claimants who are insured by insolvent insurance carriers or insolvent self-insured employers.

Because of these insurance carrier insolvencies the Special Fund in a matter of four short years has gone from a surplus of \$80 million to an actuarial deficit that is estimated to be \$190 million. While we have taken steps to address the most immediate cash flow concerns, we are reviewing a number of other actions operationally and legislatively to deal with future insolvencies.

Last year with the help of the legislature we were able to provide an additional funding source for the Special Fund by allowing the Industrial Commission to transfer unappropriated and unspent appropriated funds collected through the Industrial Commission's administrative fund to the Special Fund.

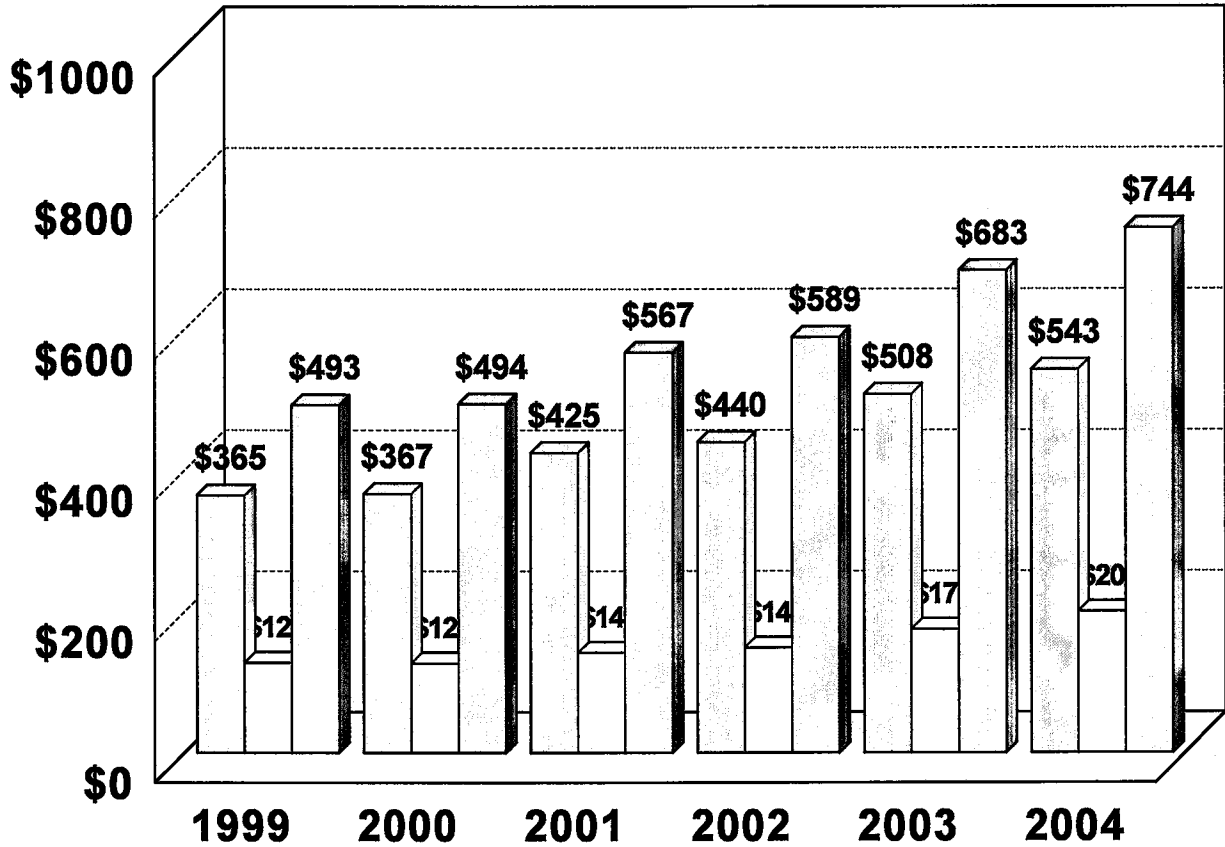
We are continuing to work on and improve our internal processes to allow the Industrial Commission to eventually assume total control for the processing of insolvent workers compensation claims. Historically, we have by statute utilized the State Compensation Fund (SCF) to process insolvent workers compensation claims. The Industrial Commission's Special Fund pays the benefits and a processing fee to the SCF for the administrative costs they incur to process those claims. This is a cost that we can no longer afford to pay. Accordingly, we have been working very diligently in developing and rebuilding our accounts payable systems as well as our claims processing systems so that we can eventually bring all of those claims processing services within the Industrial Commission.

We are as well looking at other areas to ensure that in the future the Special Fund is in a much better position to address any future insolvencies.

Another area that the Commission is continuing to work on is increasing the statutory wage (ARS 23-1041(D)). The wage has not been statutorily addressed since 1999 and as a result a significant portion of injured workers have wages that considerably exceed that statutory maximum wage. Given that workers compensation benefits are calculated using this wage this could have a serious impact on the workers compensation system. The Commission is continuing to work with the employer and labor community in hopes that they can come together to address this issue.

CHARTS

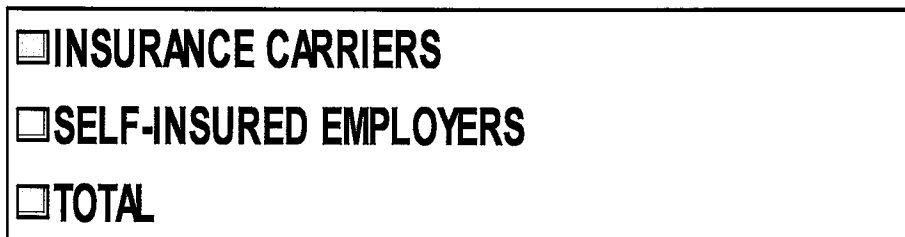
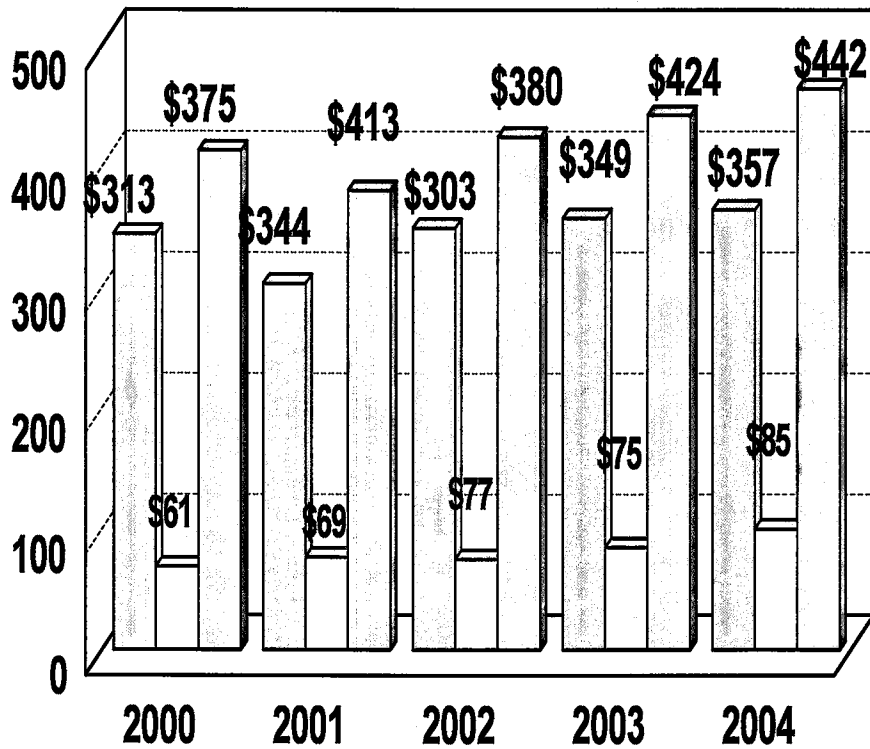
CHART 1. TAXABLE WORKERS COMPENSATION PREMIUMS REPORTED (IN MILLIONS) ON A CALENDAR YEAR BASIS* (1999 - 2004)



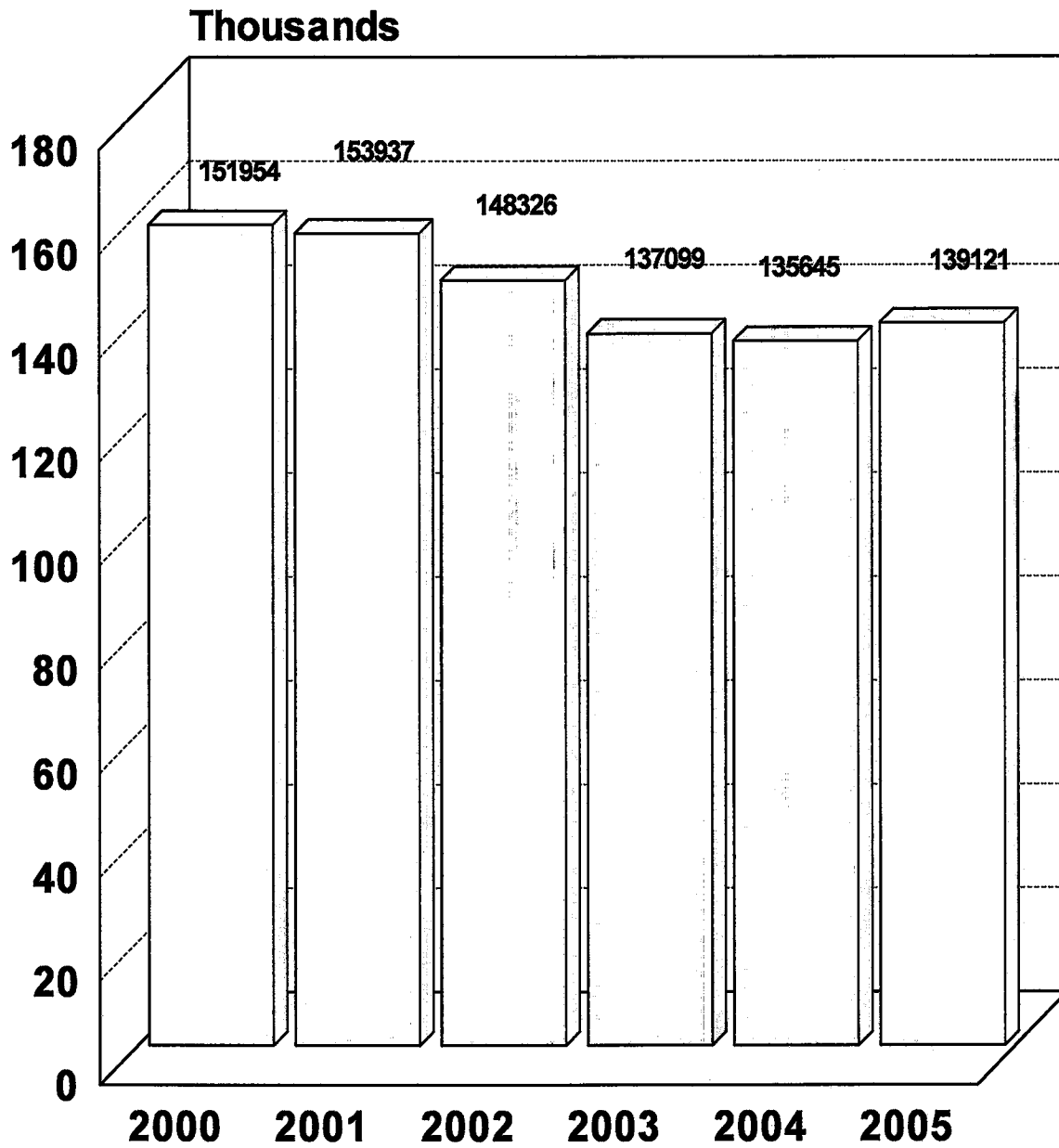
INSURANCE CARRIERS
 SELF-INSURED EMPLOYERS
 TOTAL

*PREMIUMS WRITTEN LESS RETURNED PREMIUMS, DIVIDENDS, CANCELLED PREMIUMS

CHART 2. DIRECT LOSSES PAID (IN MILLIONS) ON A CALENDAR YEAR BASIS. (1999 - 2004)



**CHART 3. TOTAL COMPENSATION CLAIMS FILED WITH
THE INDUSTRIAL COMMISSION (2000-2005)**



**CHART 4. TOTAL TIME LOST CLAIMS FILED WITH THE INDUSTRIAL COMMISSION (1998 - 2003)
(calendar year)**

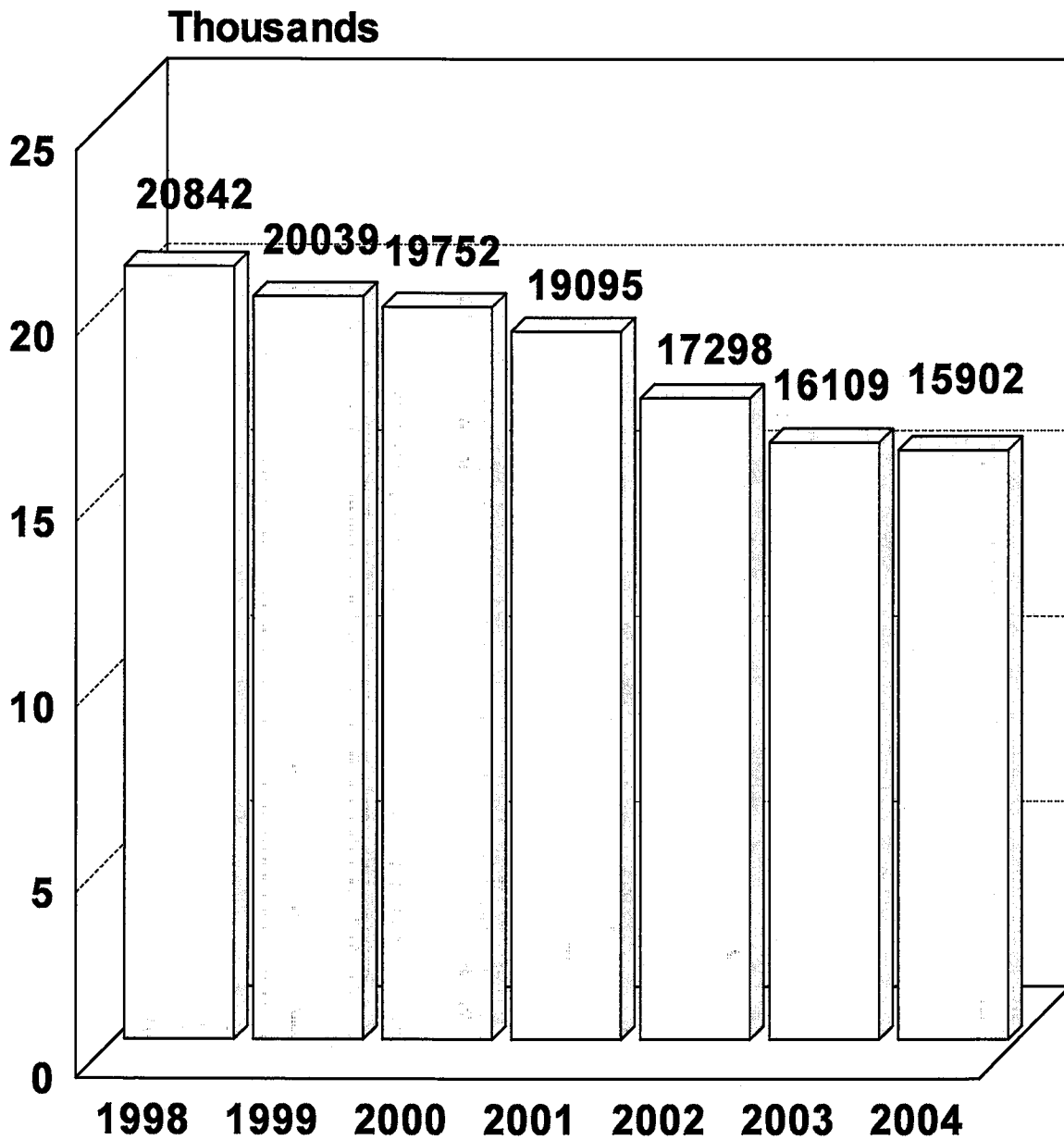
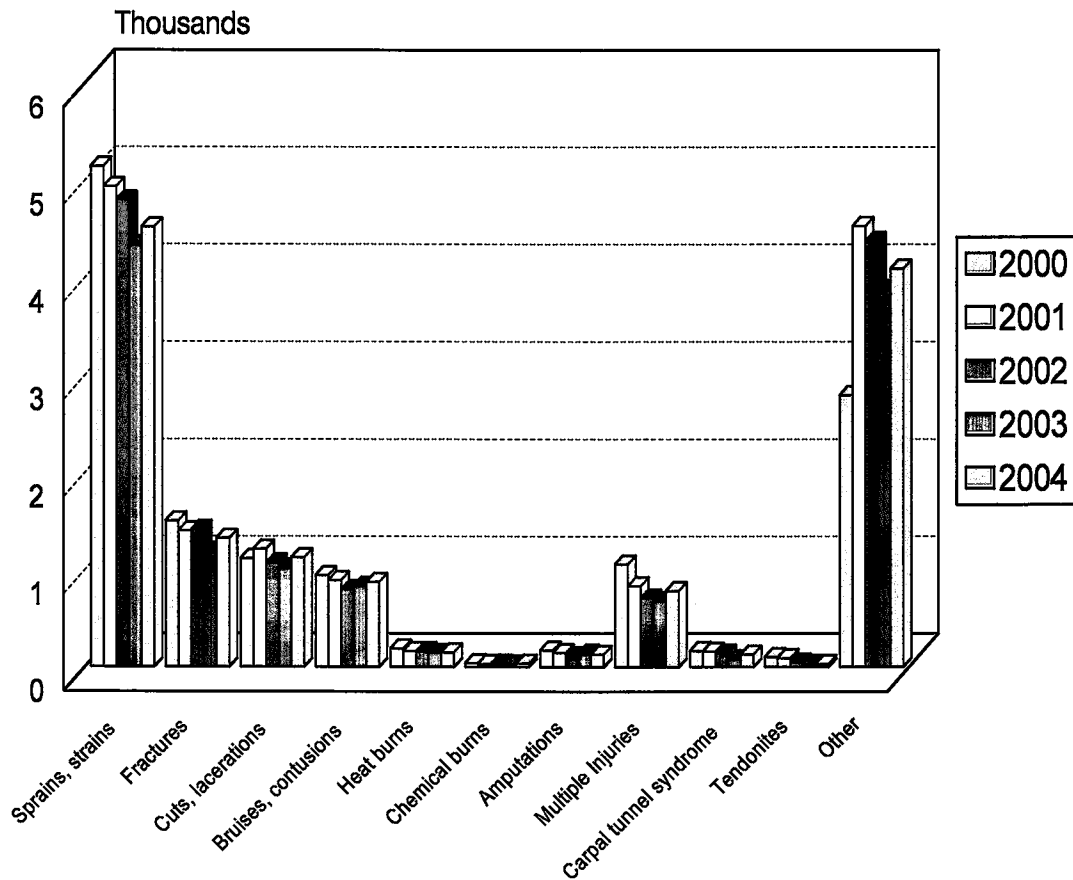


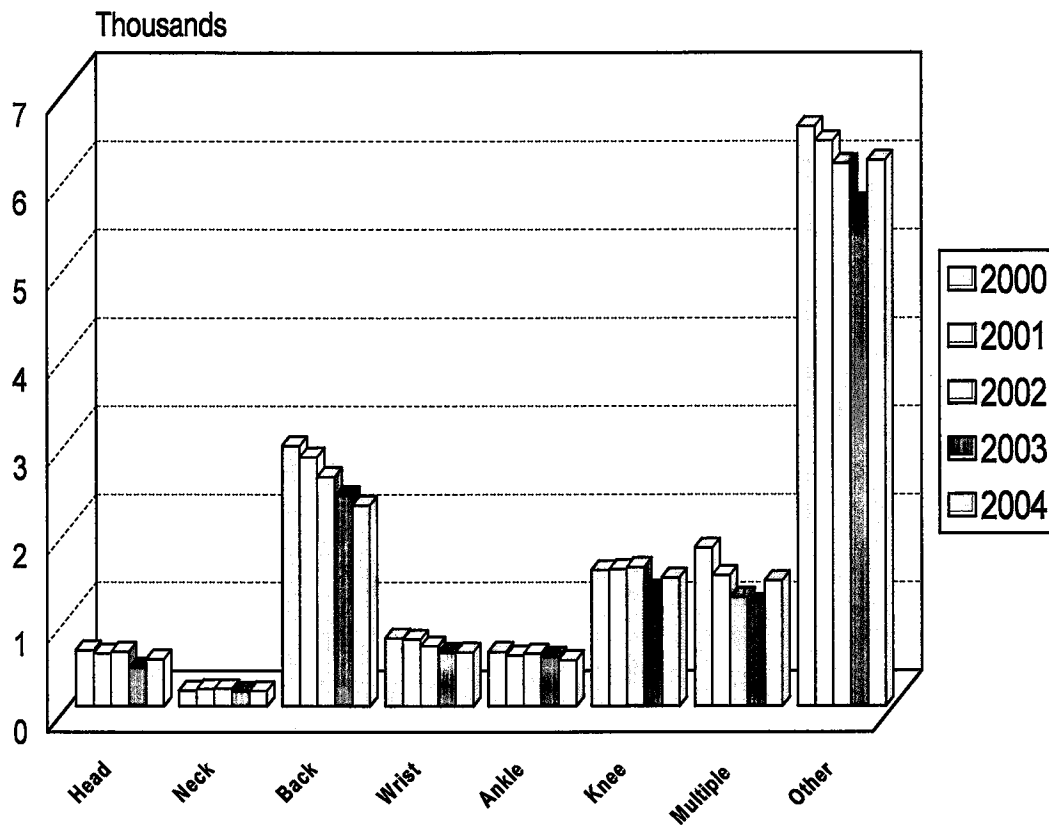
CHART 6. LOST WORKDAY CLAIMS 2000-2004
by NATURE



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

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

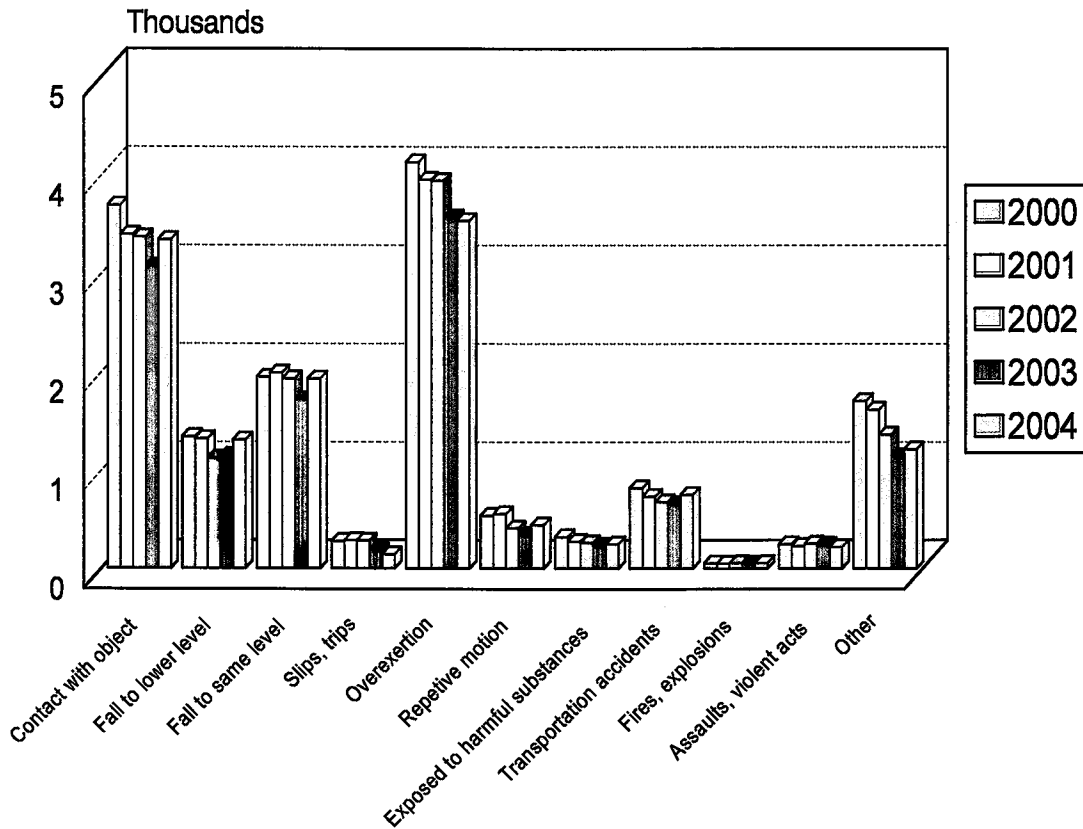
CHART 7. LOST WORKDAY CLAIMS 2000-2004 by PART OF BODY



PART OF BODY	2000	2001	2002	2003
HEAD	634	597	617	439
NECK	178	196	197	168
BACK	2950	2825	2603	2388
WRIST	770	756	681	607
ANKLE	617	574	598	560
KNEE	1540	1552	1575	1319
MULTIPLE	1794	1482	1232	1165
OTHER	6569	6405	6150	5705

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

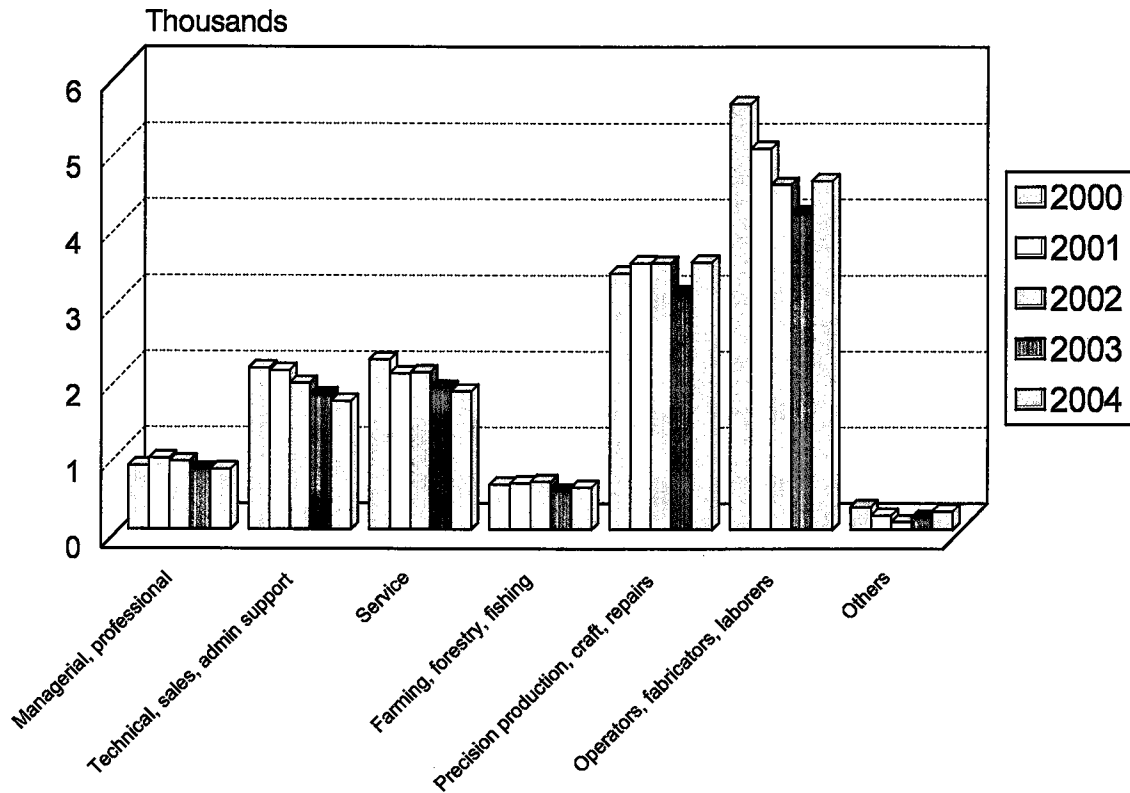
**CHART 8. LOST WORKDAY CLAIMS 2000-2004
by EVENT OR EXPOSURE**



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

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

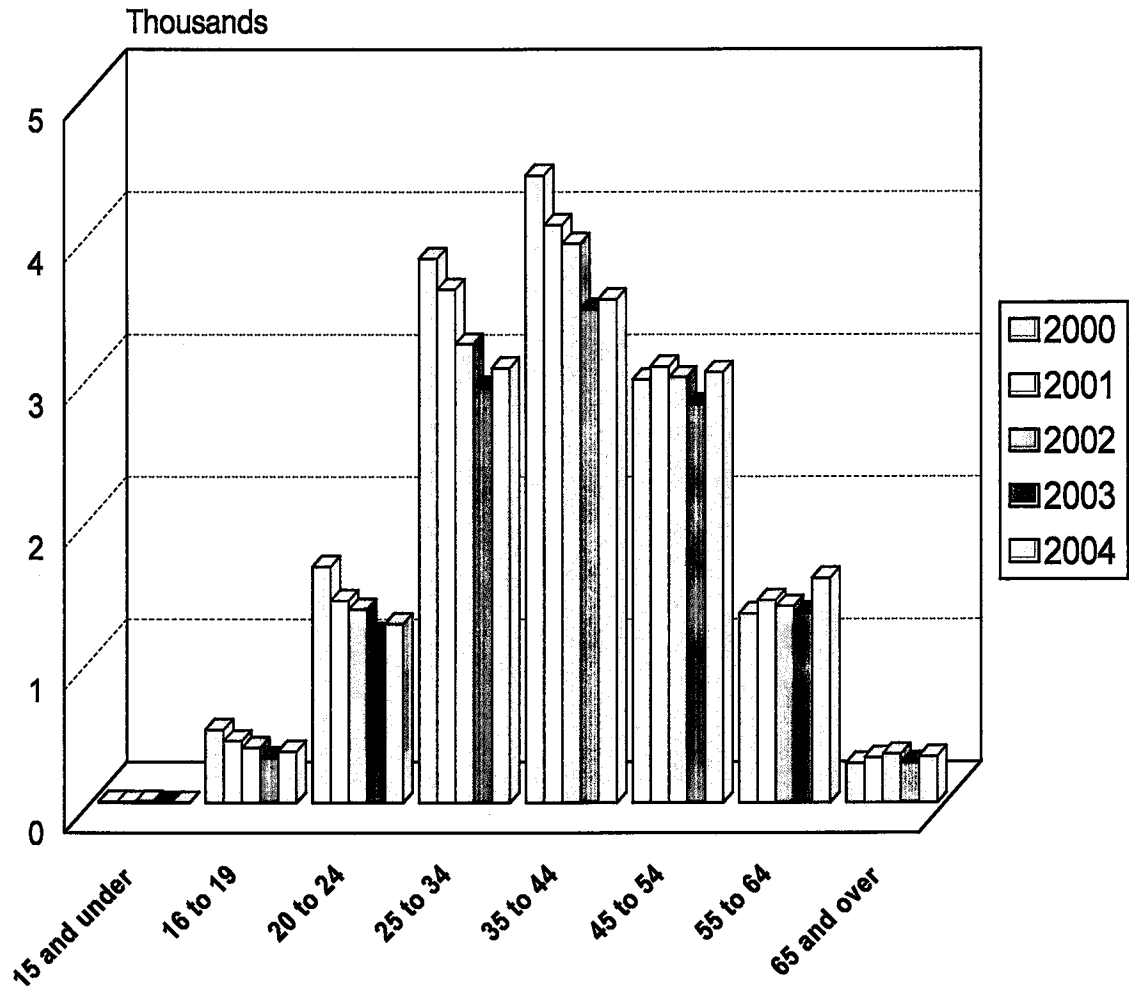
**CHART 10. LOST WORKDAY CLAIMS 2000-2004
by OCCUPATION**



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

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

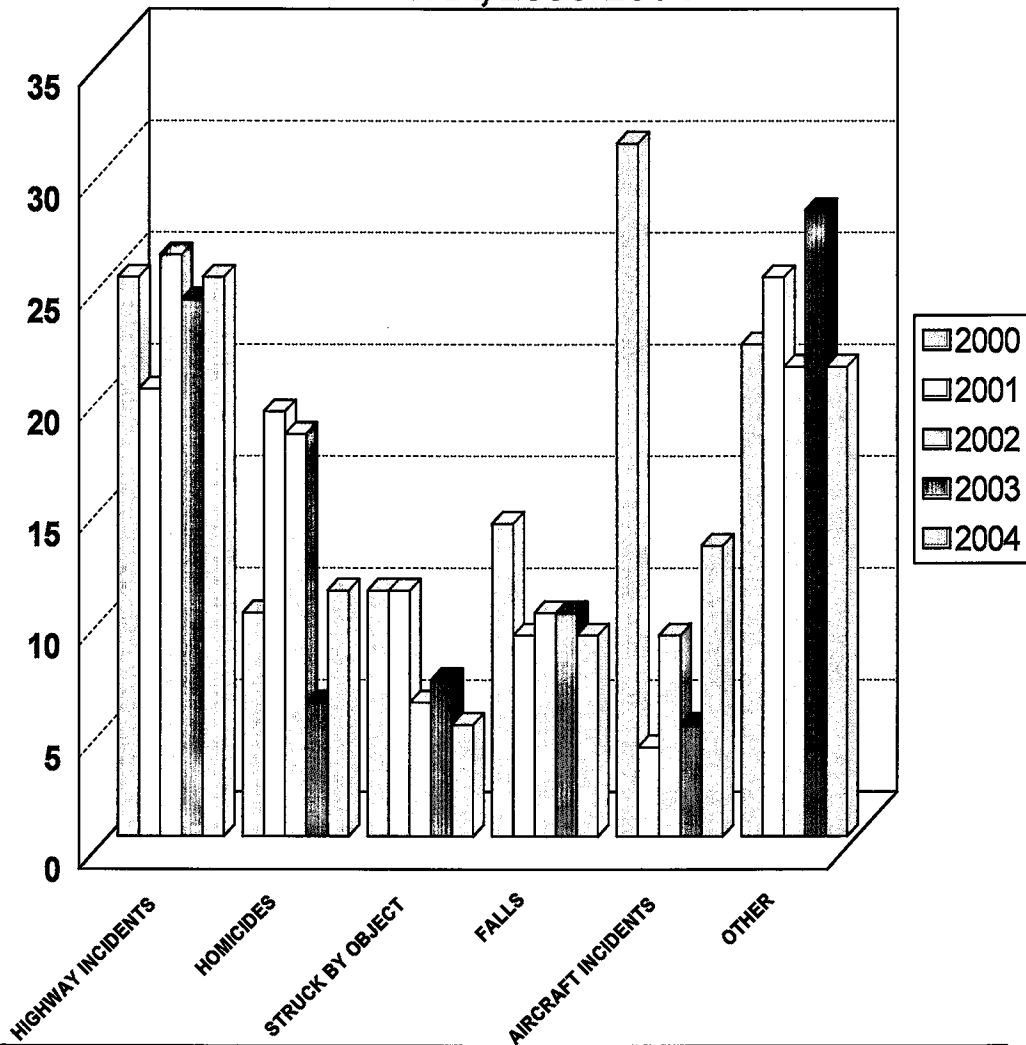
CHART 11. LOST WORKDAY CLAIMS 2000-2004 by AGE



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

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

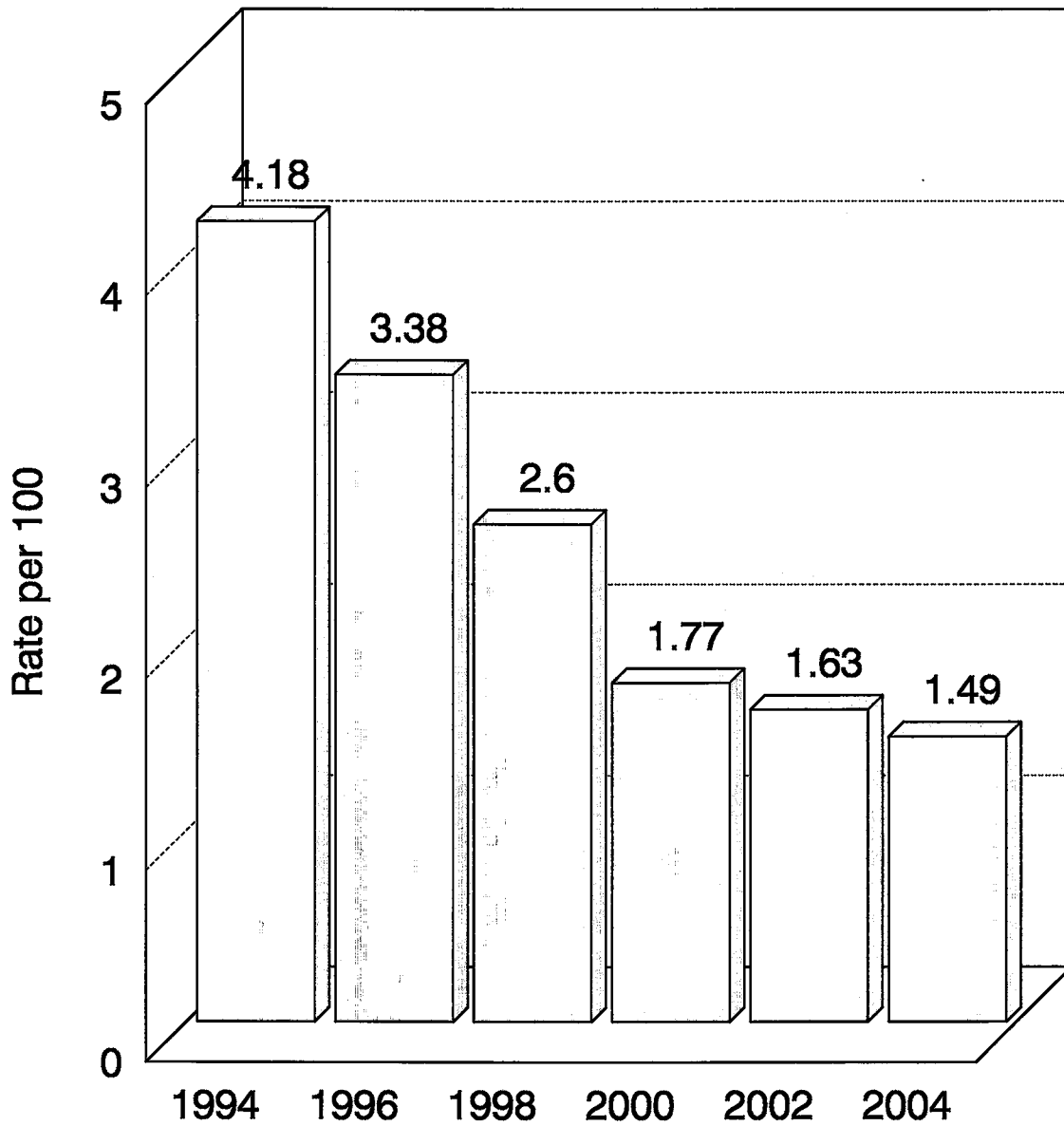
**CHART 12. DISTRIBUTION OF FATAL OCCUPATIONAL INJURIES BY EVENT OR EXPOSURE
ARIZONA, 2000-2004**



EVENT	2000	2001	2002	2003	2004
HIGHWAY INCIDENTS	25	20	26	24	25
HOMICIDES	10	19	18	6	11
STRUCKBYOBJECT	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 14. ARIZONA WC RATES



Source: Oregon Department of Consumer and Business Services