

# Annual Risk Management Financial Report

For Fiscal Year Ended June 30, 2024

Virginia Beach, Virginia



CITY OF  
**VIRGINIA  
BEACH**

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# City of Virginia Beach

[VBgov.com](http://VBgov.com)

DEPARTMENT OF FINANCE  
(757)-385-4681  
FAX (757) 385-4302  
TTY: 711

MUNICIPAL CENTER  
BUILDING 1  
2401 COURTHOUSE DRIVE  
VIRGINIA BEACH, VA 23456-9001

January 31, 2025

Mr. Patrick Duhaney, City Manager  
Municipal Center  
Virginia Beach, Virginia 23456

Dear Mr. Duhaney

The City of Virginia Beach, Risk Management Division, is pleased to present the FY 2023-24 Risk Management Annual Report. This report provides an overview of the following sections:

- Risk Management Services
- Insurance Coverage
- Workers' Compensation Claims
- General Liability Claims
- Recoveries/Subrogation

Throughout the year, the Risk Management Division staff provided professional and knowledgeable services to the City of Virginia Beach with respect to managing risk. The City maintains an internal service fund to account for revenue and expenditures associated with this function. The Risk Management Internal Service Fund accounts for the self-insured portion of workers' compensation and general liability claims as well as the premiums associated with purchased insurance.



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This annual report will cover total expenditures in the Risk Management Internal Service Fund for FY 2023-24 totaling \$18.1 million and broken down into four broad categories of cost:

**FY 2023-24 Risk Management Expenditures**

| Categories                   | FY 2022-23           | FY 2023-24          | YoY%           |
|------------------------------|----------------------|---------------------|----------------|
| Worker's Compensation Claims | 11,095,444           | 9,007,578           | -18.82%        |
| Insurance Premiums           | 4,042,787            | 4,553,169           | 12.62%         |
| General Liability Claims     | 4,989,468            | 3,645,651           | -26.93%        |
| Administrative Costs         | 937,694              | 939,618             | 0.21%          |
| <b>Total</b>                 | <b>\$ 21,065,393</b> | <b>\$18,146,016</b> | <b>-13.86%</b> |

Total expenditures include the costs associated with paying and processing claims, defending those claims, and providing excess insurance coverage.

Even with a 18.82% decrease from the prior year, workers' compensation claims continue to be the leading expense for the division's activities totaling \$9 million. There are two main cost drivers for workers' compensation. The first driver is the cost of lost wages and medical expenses paid to retirees that were approved for job related disability retirement. The Virginia Retirement System (VRS) requires that all 9.6 years of workers' compensation lost wage payments be paid before VRS payments will begin. In FY 2023-24 indemnity expenses totaled \$1.9 million. The second driver is an overall increase in medical costs, as well as an increase in serious medical issues, 35.39% of Workers' Compensation Claims were for medical expenses totaling \$5.8 million.

To estimate the obligation for future payments resulting from claims due to past events, the City of Virginia Beach contracts with an independent actuarial firm to perform an annual actuarial study. All valid outstanding claims must be paid by the City and failure to maintain cash balances to cover those liabilities, may impact the City's bond ratings and future interest costs. The total estimated unpaid loss for our existing claims as of June 30, 2024, is approximately \$43.6 million with the Risk Management Fund having \$50.4 million to cover these existing expenses.

As we go into FY 2024-25, our staff is looking forward to the continued effective administration and protection of the city, its' staff and resources, and potential future liabilities and claims.

Respectfully,



Director of Finance

*Leah M. Hunger*

Risk Management Administrator

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## FY 2023-24 HIGHLIGHTS

### FY 2023-24 Highlights

Risk Management Division migrated from Risk Master to ClearRisk. This new risk management solution offers cloud-based data collection, easy data accessibility, reduced data errors, streamlined workflows, insights and analytics to assist with better decisions. ClearRisk will be utilized for all general liability reporting.

Risk Management Division supported the Fire Department Safety Division with the Firefighter initiative for Cancer Screening. The screening was provided to the Fire Department due to their heightened risk of developing occupational cancer and the existence of a presumption that many cancers are work related and can be a compensable claim under Virginia Workers' Compensation Act. The test presented an efficient way of detecting 50 types of cancer during the early stages that are not currently tested for during the firefighter annual physical.

Due to the upward trend in the number of cyber-attacks nationwide, the City purchased additional cyber security insurance to cover data breach response, media liability, cyber extortion, ransomware attacks and legal liabilities arising from privacy violations or regulatory non-compliance.

## RISK MANAGEMENT SERVICES

The Risk Management Division serves as the internal insurance company for the City of Virginia Beach. Our mission is to actively protect the present and future assets of the city government while providing the services to maintain a high quality of life for its citizens. We accomplish this by:

### Insurance Procurement

The City of Virginia Beach self-insures most of its losses; however, excess coverage is purchased to cover potential losses that exceed the City's self-insurance retention levels. Coverages include workers' compensation, property liability (auto, general, law enforcement, public officials), as well as special coverages including crime, canine, equine, drone, helicopters, etc.

Coverage placement with insurance providers is coordinated by Risk Management, with assistance from a contracted insurance broker. The City's broker for FY 2023-24 was Alliant Insurance Services, Inc., one of the top five largest commercial retail insurance brokerage firms in the United States.

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### **Workers' Compensation**

The highest priority for Risk Management due to its financial impact is workers' compensation. We engage CorVel Corporation, a third-party administrator to assist with the administration of the program. Services include claims investigation, establishing loss reserves, claims adjusting, bill review, and claims payment processing.

### **General Liability**

Protects the city from most liability exposures. All claims are thoroughly investigated with a prompt response and are adjusted within Risk Management other than third party appraisal services. Expenses include settlements, legal fees, transcripts and files, court reporting, evaluation fees, etc.

### **Recovery Services/Subrogation**

Recovery/subrogation is the process of seeking reimbursement from the responsible party and/or an insurance company when damages are caused by the negligence of others. Risk Management works with the Office of the City Attorney when legal action becomes necessary with recovering monies owed to them for the repair or replacement of damaged City infrastructure.

### **Contract Review**

Risk Management works with the Finance Department – Purchasing Division, City Attorney's Office, and other City departments to review contract language to protect the City's assets.

### **Certificates of Insurance**

Risk Management coordinates issuing proof of the City's insurance coverage to outside companies and entities and the review of certificates of insurance from vendors.

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## INSURANCE COVERAGE

While the City of Virginia Beach does self-insure most of its losses, excess coverage is purchased to cover potential losses that exceed the City's self-insurance retention levels. The City procures these lines of coverage to supplement its self-insurance program. The self-insurance Risk Management Internal Service Fund finances the City's liability losses up to \$2 million and purchases excess coverage up to \$20 million. Once the self-insurance retention has been exceeded, the additional loss expenses are reimbursed to the City by the excess insurer. Below is a list of the City's carriers and costs for FY 2024-25.

The City uses the services of an insurance broker to identify the best insurance coverages at the most affordable costs. The broker is selected using a bid process conducted through the City's Finance Department - Purchasing Division. The bid process takes place at least every five years to select a broker familiar with the needs of a public entity, our size, with our exposures.

The broker goes to the insurance market annually and obtains bids from carriers for the City's insurance coverages. All the bids and information are provided to the Risk Management Administrator for analysis and selection.

- **Property**, VACORP, \$2,431,939  
Insurance for City-owned buildings, vehicles, and equipment
- **Excess Property**, AIG Specialty Insurance Company, \$680,000  
Insurance for City-owned vehicles and equipment
- **Excess Liability**, VACORP, \$1,200,000  
Insurance for Drone, Law Enforcement Liability, Host Liquor Liability, Sexual Abuse & Molestation, Auto Liability, Medical Professional Liability
- **Excess Work Comp**, Safety National Casualty Corporation, \$670,017  
Insurance for employees with work-related injuries or illnesses
- **Cyber Liability**, VACORP, \$150,000  
Network Security, Privacy and Data Breach Liability, Regulatory Liability, PCI Fines & Assessments, Data Restoration, Cyber Extortion, Media Liability, Network Recovery
- **Marine Operators Legal Liability and P&I**, Intact Insurance, \$7,600
- **Marine Operators Hull and P&I**, Intact Insurance, \$83,044  
Vessels, Skids, Dredge, Tenders, Boats, Outboards, Motors

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- **Crime – Public Entity**, Traveler’s Casualty & Surety Company of America, \$18,226  
Employee Theft, forgery, on premise and in transit retention, money orders and counterfeit, computer fraud, claim expense, social engineering
  - **Crime – Economic Development Authority**, Traveler’s Casualty & Surety Company of America, \$2,255  
Employee Theft, forgery, on premise and in transit retention, money orders and counterfeit, computer fraud, claim expense, social engineering
  - **Accidental Death & Dismemberment – Volunteers**, Hartford Insurance Group, \$2,190
  - **Aviation**, AIG, \$128,453  
Covers liability for crew, passengers, bodily, property, medical
  - **Travel Accident – Task Force 2**, Starr Indemnity & Liability, \$13,905
  - **Equine Policy**, Market Insurance Company, \$14,016



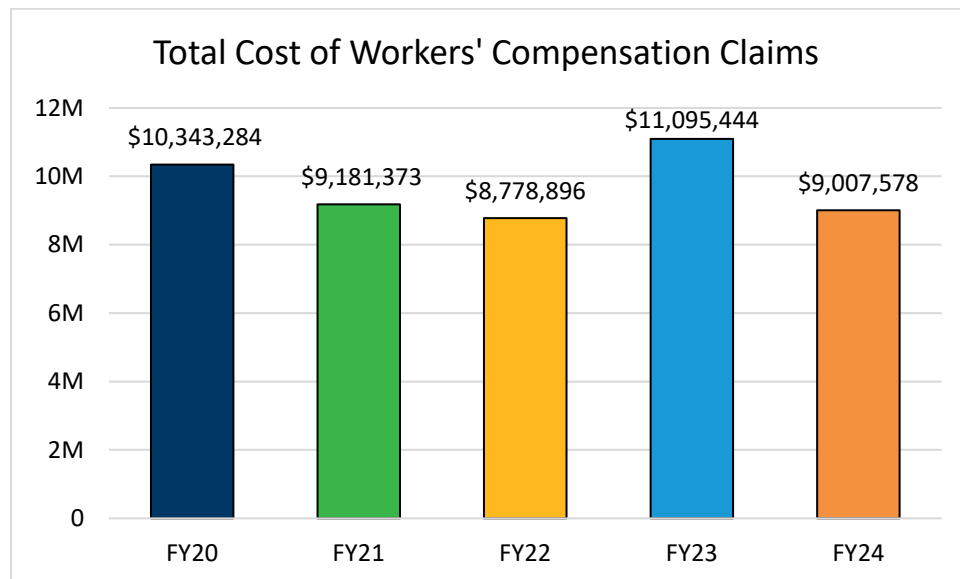
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## WORKERS' COMPENSATION CLAIMS

Workers' compensation is a no-fault insurance system that compensates employees for on-the-job injuries and occupational diseases. The basic objective of workers' compensation is to provide medical expense treatment, temporary income for wages lost and permanent injury compensation to employees injured in the course and scope of employment. When an employee is injured while performing job-related duties for the City, the employee will normally be entitled to workers' compensation.

Workers' compensation is the highest priority for Risk Management due to its financial impact. Claims management is a major component of the program. Risk Management engages CorVel Corporation, a third-party administrator, to assist with the administration of the program. Services include claims investigation, establishing loss reserves, claims adjusting, bill review and claims payment processing.

Worker's compensation claims make up a significant portion of the division's activities. Medical costs and lost wages are the major drivers.



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There are three types of claims under the Virginia Workers' Compensation Act.

- **Medical Only** – An employee reports an accident that does not result in lost time or permanent disability but does require medical treatment.
- **Indemnity** – An employee is injured to the extent that they are unable to work, incurs lost time (temporary or permanent disability), and generally will require medical treatment.
- **Report Only** – An employee reports a minor accident or close call that does not require medical attention, and generally does not have any associated costs.

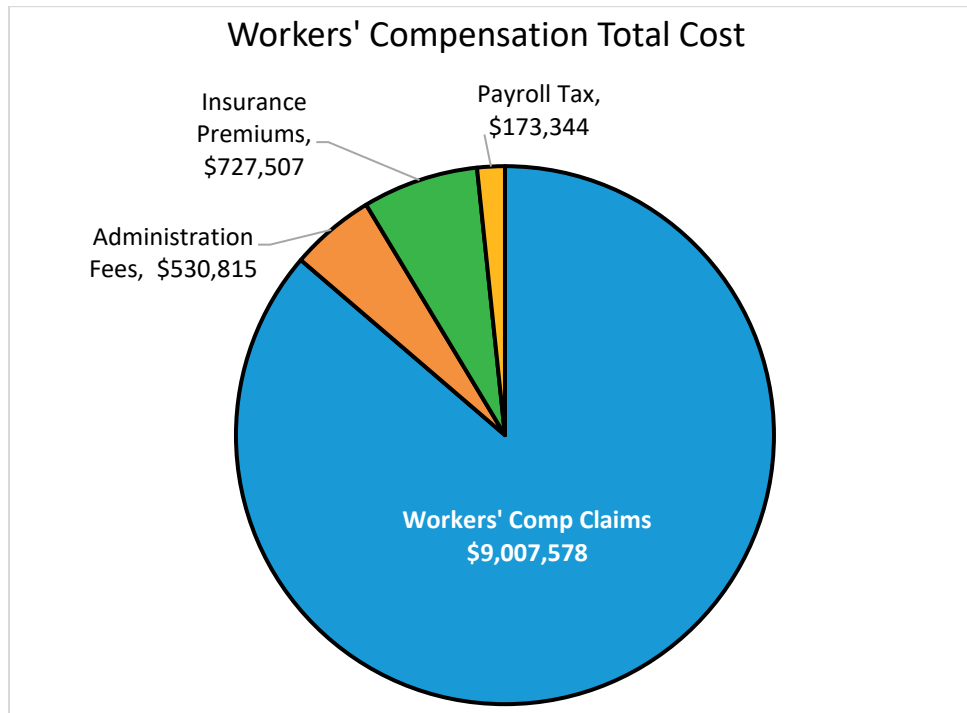
#### Total Workers' Compensation by Type

| Fiscal Year | Indemnity | Medical Only | Report Only | Total |
|-------------|-----------|--------------|-------------|-------|
| FY 2019-20  | 231       | 387          | 473         | 1,091 |
| FY 2020-21  | 264       | 388          | 414         | 1,066 |
| FY 2021-22  | 223       | 401          | 337         | 961   |
| FY 2022-23  | 143       | 454          | 424         | 1,021 |
| FY 2023-24  | 120       | 459          | 399         | 978   |

The cost distribution of claims filed in FY 2023-24 was reviewed by evaluating three cost elements:

- **Indemnity \$2.9 million** – Lost wage payments for disability as well as settlement contributions for partial and total disability.
- **Medical Only \$5.8 million** – Payments for medical care including prescriptions and nurse case management.
- **Expense \$259,475** – Payments associated with bill review, investigations, legal costs, and other administrative costs associated with management and resolution of the case.

The total cost of the workers' compensation program in FY 2023-24 was \$10.4 million. Included in these fees are third-party administrator costs and excess insurance premiums.



The following top five departments accounted for 88.3% of injury claim payments and 76.5% of the total number of injury claims.

| Department         | Expenditure         | # of Claims |
|--------------------|---------------------|-------------|
| Police             | \$3,114,581         | 223         |
| Fire               | \$1,932,156         | 195         |
| Public Works       | \$1,549,352         | 79          |
| Sheriff            | \$793,945           | 130         |
| Parks & Recreation | \$559,692           | 123         |
| <b>Total</b>       | <b>\$ 7,949,726</b> | <b>750</b>  |

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Common workplace injuries include muscle sprains, strains and tears, bone fractures, cuts, lacerations, punctures, slips, trips, and falls. In FY 2023-24, the highest expensed claims were associated with the following top five body parts.

| Description     | Claim Count | Average Cost Per Claim | Total Incurred     |
|-----------------|-------------|------------------------|--------------------|
| Shoulder(s)     | 68          | \$11,188               | \$772,004          |
| Ankle           | 60          | \$10,992               | \$659,492          |
| Knee            | 104         | \$6,330                | \$658,354          |
| Upper Leg       | 22          | \$17,227               | \$378,983          |
| Lower Back Area | 79          | \$4,013                | \$316,990          |
| <b>Total</b>    | <b>333</b>  | <b>\$9,950 (avg)</b>   | <b>\$2,785,823</b> |

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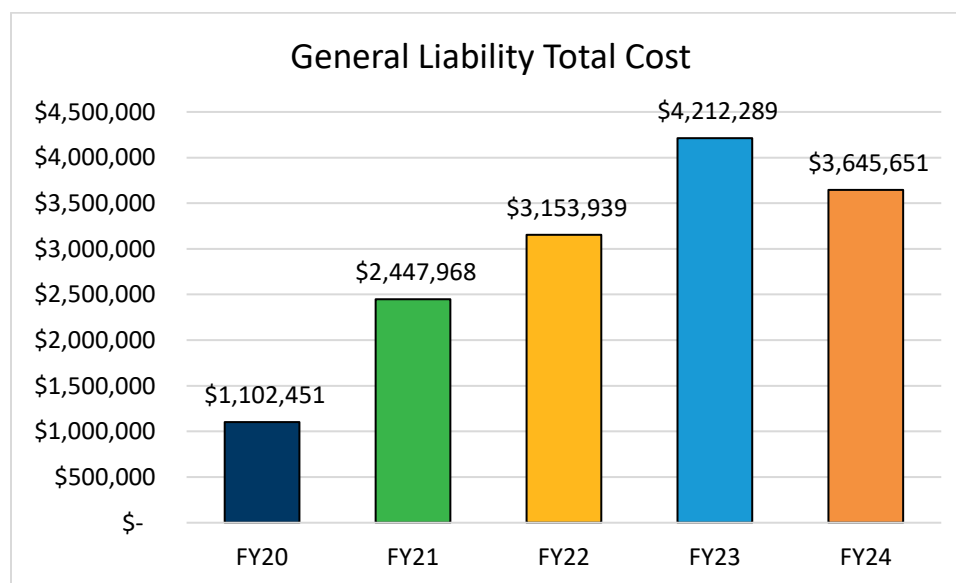
## General Liability CLAIMS

General liability insurance protects the City from most liability exposures. The City of Virginia Beach is self-insured against the loss of property for the first \$2 million or less. All claims are thoroughly investigated prior to payment or denial. Risk Management does not solicit claims, per Section 15.2-209 of the Code of Virginia, claimants must request via written notice to the City Attorney's Office of the intent to file.

All general liability claims are adjusted in-house other than the need for appraisal services. Expenses such as settlements, legal fees, transcripts, court reporting, etc. are paid through general liability.

General liability claim can have varying factors that could affect costs, such as negligence, sovereign immunity, and personal injuries. Claims can sometimes settle quickly when liability can be clearly established, although some claims can take years to litigate when there are multiple parties involved and issues that can only be resolved through the court system. A small number of claims can result in high payouts for severe injuries. When necessary, outside appraisers are used to inspect and provide written repair estimates assuring that we pay for only accident-related damages, use aftermarket parts when available, and pay prevailing labor rates.

The costs reflected in the graph does not include payments made directly by individual departments, or the costs to repair city vehicles, which are absorbed by the city garage and then charged back to individual departments.

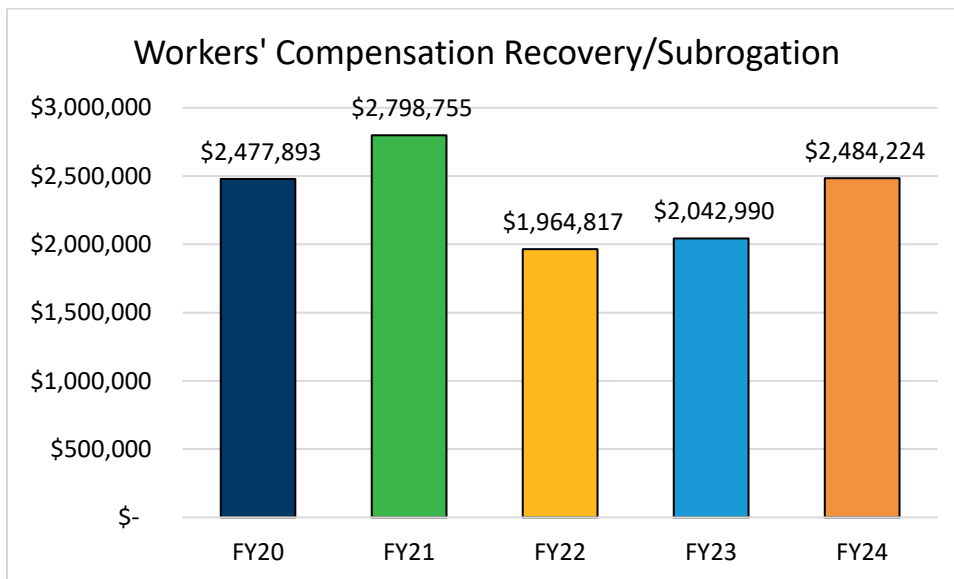




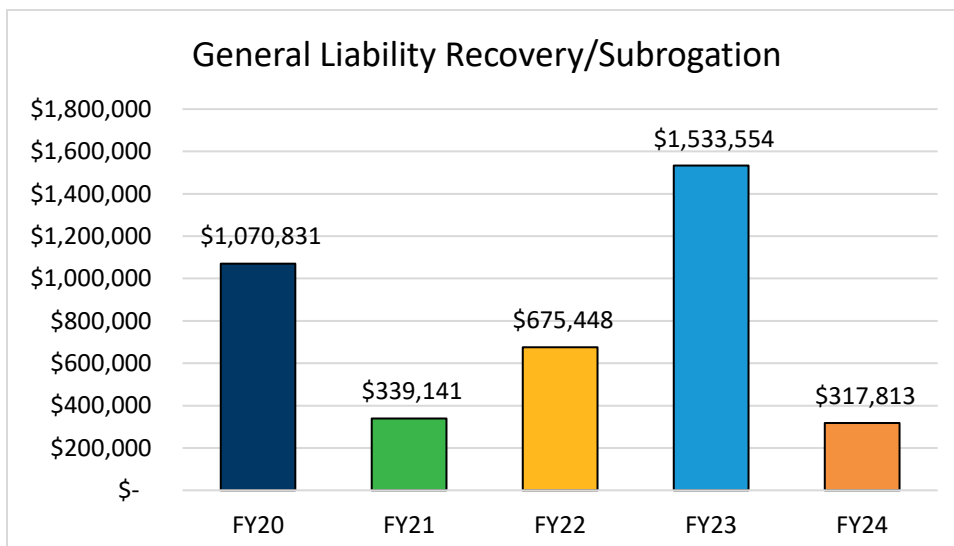
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## Recovery/ SUBROGATION

Recovery/subrogation is the process of seeking reimbursement from the responsible party and/or insurance company when damages are caused by the negligence of others. Risk Management seeks recovery against the responsible party or their insurance company for damages to city property. We work closely with the Office of the City Attorney when legal action becomes necessary.



On occasion, general liability claims may take several months to get payment for damages from either the insurance company or the responsible individual. Other times, payment plans may be arranged with the responsible party by signing a stipulation agreement.







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