Financial Overview of the City's Self-Insurance Trust Funds

Finance Department

Finance Committee
September 14, 2016

Overview

- **Worker's Compensation Fund** – Administered by Human Resources
- **General Liability Fund** – Administered by Risk Management (a division of Finance) in conjunction with Carl Warren a Third Party Administrator

Insurance Coverage and Exposure

- General Liability – Policy Limit of $20,000,000
  - Self-Insured at $3,500,000 per occurrence
- Worker's Compensation – Policy Limit of $25,000,000
  - Self-Insured remained steady at $3,000,000 per occurrence
- No Claims settled in last ten years that exceed coverage
- Recent changes to Self-Insured Retention

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Financial Overview

- Large Cash Outlays
  - Claim Payments
  - Outside Legal Costs and Litigation Expenses
- Worker's Compensation
  - Claim Payments average $3,500,000
  - Outside Legal and Litigation average $440,000
- General Liability
  - Claim Payments average $3,900,000
  - Outside Legal and Litigation average $2,200,000 – in FY 16, significant reduction (to $1 million) due to CAO's efforts to keep matters in house

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Financial Overview

Fund Activity (Thousands)	FY12	FY13	FY14	FY15	FY 16 Unaudited	2 Year Budget FY17	FY18	Remaining 3 Yrs of 5 year Plan FY19	FY20	FY21
Beginning Fund Balance	**$(12,964)**	**$(14,575)**	**$(21,856)**	**$(26,184)**	**$(27,029)**	**$(28,691)**	**$(29,949)**	**$ (31,242)**	**$(32,422)**	**$(33,675)**
Charges for Services-WC	4,300	4,376	4,228	6,000	6,126	6,100	6,100	6,200	6,200	6,200
Charges for Services-GL	7,047	7,420	7,424	7,400	7,494	7,700	7,700	7,800	7,800	7,800
Interest Income-WC	230	183	146	139	179	110	110	115	120	125
Other Income-GL	214	-	-	-	4	3	3	5	5	5
Total Revenue	11,791	11,979	11,799	13,539	13,803	13,913	13,913	14,120	14,125	14,130
Direct Personnel-WC	473	481	511	551	465	525	555	583	612	642
Direct Personnel-GL	-	-	-	-	565	-	-	-	-	-
Prof.Serv & Other Non-Personnel-WC	134	96	95	287	109	235	235	247	259	272
Prof.Serv & Other Non-Personnel-GL	202	178	199	180	199	200	204	214	225	236
Indirect Charges-WC	306	251	261	187	166	166	166	174	183	192
Indirect Charges-GL	457	521	529	315	439	439	439	461	484	508
Claims & Judgments-WC	3,329	3,423	4,027	3,477	4,003	3,800	3,800	3,800	3,800	3,800
Claims & Judgments-GL	4,602	5,766	3,030	2,363	4,310	3,400	3,400	3,500	3,500	3,600
Legal Fees-WC	409	428	518	404	435	594	594	564	536	509
Legal Fees-GL	1,784	3,073	2,280	1,859	1,105	2,000	2,000	2,000	2,000	2,000
Premiums-WC	272	372	390	424	487	436	436	458	481	505
Premiums-GL	374	400	409	439	445	498	498	523	523	550
Actuarial Adjustment-WC	1,191	4,545	1,674	1,109	1,000	1,000	1,000	1,000	1,000	1,000
Actuarial Adjustment-GL	(294)	(514)	1,932	2,554	1,500	1,500	1,500	1,500	1,500	1,500
Misc. Expense-WC	99	167	205	210	205	200	200	200	200	200
Misc. Expense-GL	63	75	67	27	31	178	179	75	75	75
Total Expense	13,402	19,260	16,127	14,384	15,464	15,171	15,206	15,299	15,378	15,590
Ending Fund Balance	**$(14,575)**	**$(21,856)**	**$(26,184)**	**$(27,029)**	**$(28,691)**	**$(29,949)**	**$(31,242)**	**$ (32,422)**	**$(33,675)**	**$(35,135)**
Cash Position	$13,079	$9,977	$9,023	$11,611	$12,419	$13,660	$14,902	$16,323	$17,865	$19,290
Estimated Claims & Judgments	$27,204	$31,235	$34,841	$38,505	$41,005	$43,505	$46,005	$48,505	$51,005	$53,505
Cash Balance as a % of Total Liability	**48%**	**32%**	**26%**	**30%**	**30%**	**31%**	**32%**	**34%**	**35%**	**36%**

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Cash Position and Fund Balance

- Combined cash on hand is approximately $12.4 million
- Fund Balance at a deficit
  - Reflects long-term nature of many claims
  - Sufficient cash on hand to cover 30% of long-term liabilities projected to increase to 36% by end of five-year plan if claim volume / cost is low.
  - Actuarial Adjustments have significant impact on fund balance.

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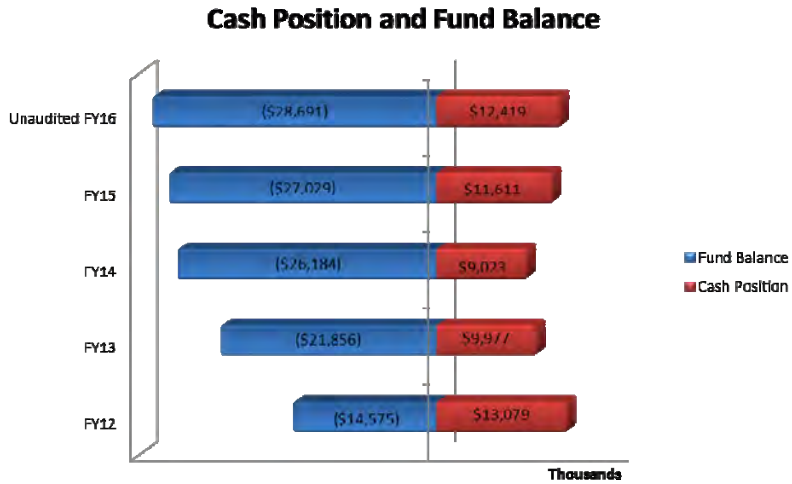
Cash Position and Fund Balance (Cont.,)



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Claims and Judgment Liability By Fund

- Claims liabilities are estimates of long-term liabilities
  - Basis for determining appropriate level of reserves
  - Actuarial valuation based on historical data
  - Claims often resolved for less than potential liability
  - Cash on hand not required to service total liability today

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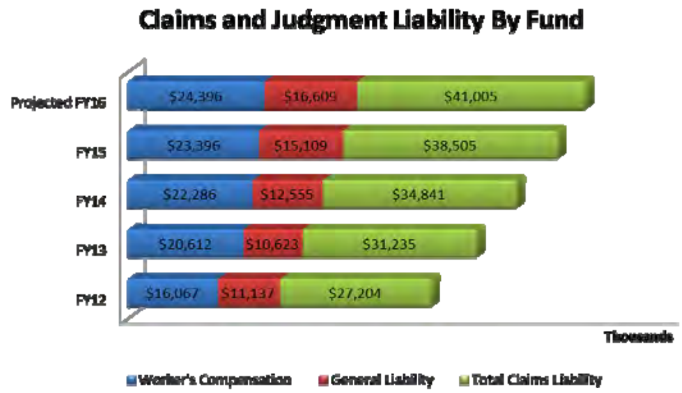
Claims and Judgment Liability By Fund (Cont.,)



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Next Steps

- Develop Insurance Trust Fund Policy
  - Provide for an appropriate level of Cash Reserve
  - Address anticipated needs
  - Recognize not all liabilities result in cash outlays
  - Impact to the General Fund

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Upcoming Reports

- A reserve policy for the Liability Insurance Trust Funds will be presented to the Finance Committee in the near future
- Policy will address best practices for Self-Insurance trust funds and lay the ground work for a healthy and sustainable fund balance

Questions…

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