

# City Council Memorandum

*City of Arts & Innovation*

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**TO: HONORABLE MAYOR AND CITY COUNCIL** **DATE: JANUARY 27, 2026**  
**FROM: FINANCE DEPARTMENT** **WARDS: ALL**  
**SUBJECT: ANNUAL FINANCIAL REVIEW OF THE CITY'S SELF-INSURANCE TRUST FUNDS FOR FISCAL YEAR 2024/25**

**ISSUE:**

Receive and approve the annual financial review of the City's Self-Insurance Trust Funds for Fiscal Year 2024/25.

**RECOMMENDATION:**

That the City Council approve the annual financial review of the City's Self-Insurance Trust Funds for Fiscal Year 2024/25.

**FINANCE COMMITTEE RECOMMENDATION:**

This report is published on January 14, 2026, for the January 27, 2026, City Council meeting. On January 14, 2026, the Finance Committee will receive and provide input on this item.

**BACKGROUND:**

Beginning in Fiscal Year (FY) 2015/16, City staff began presenting to the City Council, through the Finance Committee, a financial and operational review of the City's Self-Insurance Trust Funds, including claim activity. This review includes the Workers' Compensation and General Liability Funds.

The Human Resources Department administers the City's Workers' Compensation program. The Risk Management Division of the Finance Department oversees the General Liability program, while the City Attorney's Office administers all third-party claims submitted to the City.

The City purchases commercial insurance to mitigate the costs of high-severity losses, catastrophes, and high-frequency losses that exceed the City's self-insured retention (SIR). An SIR is the dollar amount that the City must pay before an insurance policy responds to a loss. The City's General Liability program includes a Primary General Liability policy and two excess policies. The Primary General Liability policy provides an aggregate limit of \$5 million, while the Excess General Liability policies provide an additional \$20 million of coverage. Both the Primary and Excess General Liability policies cover general and auto liability claims, including, but not

limited to, Law Enforcement Liability and Public Officials' Errors and Omissions. The City also maintains an excess Workers' Compensation policy with an aggregate limit of \$25 million.

The General Liability and Workers' Compensation programs had self-insured retentions (SIR) of \$3 million through FY 2023/24. However, the General Liability SIR increased to \$4 million beginning July 1, 2024. This change will not affect any claims submitted to the City before that date. In practice, this means the City must pay the first \$3 million (\$4 million for claims submitted as of July 1, 2024) of each General Liability claim and the first \$3 million of each Workers' Compensation claim. The City's excess insurance policies will then cover the remaining claim obligations up to the aggregate limits specified in the policy declarations. The City is responsible for paying any additional claims costs incurred exceeding the aggregate limits and self-insured retention. The following examples illustrate how large claims against the City may be paid.

**SIR Example 1:**

A jury awards a claimant a \$4 million settlement for a general liability claim filed prior to July 1, 2024. The City will pay the first \$3 million of the claim according to its SIR, and the City's excess carrier will pay the remaining \$1 million. After this settlement, \$24 million of excess coverage remains available for claim obligations incurred within the same policy period.

**SIR Example 2:**

A jury awards two employee workers' compensation claims. Employee #1's claim is \$2.5 million, and Employee #2's claim is \$5 million. The City will pay 100% of Employee #1's claim because it does not exceed the City's \$3 million SIR. For Employee #2's claim, the City will pay the first \$3 million of the claim according to its SIR, and the excess carrier will cover the remaining \$2 million. Following these claims, \$23 million of excess workers' compensation coverage remains available for claim obligations incurred within the same policy period.

General Liability & Workers' Compensation Policy Structure	
General Liability	Workers' Compensation (WC)
Allied World National Assurance Excess Layer #2 \$10,000,000 per Occurrence \$10,000,000 Aggregate	
Homesite/Kinsale Excess Layer #1 \$10,000,000 per Occurrence \$10,000,000 Aggregate	Safety National Excess WC \$25,000,000 Aggregate
Safety National Lead Layer \$5,000,000 per Occurrence \$5,000,000 Aggregate	
Self-Insured Retention \$4,000,000	Self-Insured Retention \$3,000,000

Two claims settled in the last 10 years exceeded the City's self-insured retention.

During each insurance renewal cycle, the City's excess carriers evaluate the City's existing SIR structure to ensure it is appropriate and to determine if a more beneficial (less risk exposure) option exists.

All City departments contribute to the Self-Insurance Trust Funds based on their share of liability and actuarial estimates of the amounts needed to fund prior, current, and incurred but not yet reported (IBNR) claims.

## **DISCUSSION:**

### **Financial Overview**

Attachment 1 provides an overview and analysis of all revenues and expenditures for the Self-Insurance Trust Funds. Historically, the two largest cash outlays from those funds are claim payments and legal fees. In FY 2024/25, claim payments totaled \$5,052,000 for the Workers' Compensation Fund and \$862,000 for the General Liability Fund, representing a combined decrease of 47% as compared to the prior year. The variance in claims paid between FY 2023/24 and FY 2024/25 is primarily due to the higher exposure and settlement amounts of FY 2023/24 claims. Notably, a single lawsuit in FY 2023/24 accounted for 71% of the total Bodily Injury payments. By comparison, while the City received a greater number of claims in FY 2024/25 than in FY 2023/24, their individual values were significantly lower than those settled in FY 2023/24.

General Liability claims are categorized as Bodily Injury or Property Damage claims. In FY 2024/25, \$583,500 (68%) of General Liability claim payments were for bodily injury claims, while \$277,875 (32%) were for property damage claims. One bodily injury claim exceeded \$100,000, with the largest settlement being \$105,000. Property damage settlements during the fiscal year ranged from \$118 to \$63,427.60.

Claim payments are influenced by many factors, while legal fees result from claims in process or initiated during the year. For FY 2024/25, legal fees for the Workers' Compensation and General Liability funds were approximately \$67,000 and \$1,545,000, respectively. Factors such as the number, type, and complexity of lawsuits contribute to higher outside legal expenses. The City continues to assess and prioritize the use of in-house legal resources before seeking outside counsel. However, retention of outside counsel is necessary when a conflict of interest arises.

### **Cash Position and Fund Balance**

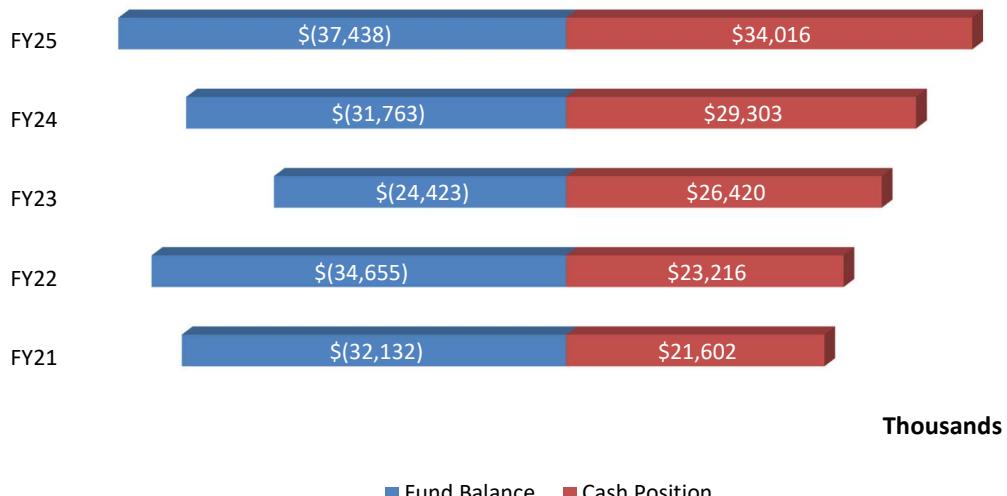
The total cash currently on hand across both funds is approximately \$34 million, reflecting an increase of \$4.7 million from the prior year. This increase is primarily a result of reduced claims and judgements payments for the General Liability fund of \$5 million, due to less bodily injury claims from prior year.

The fund balance remains negative, reflecting the long-term nature of the claims. In other words, the current cash on hand is insufficient to cover all potential claims as valued by claimants and liability payouts over future years. However, from a cash flow perspective, the trust fund can meet current obligations, as these liabilities are typically paid out over multiple years and do not take into account the strengths of the City's defenses. At present, the trust funds hold sufficient cash on hand to cover 48% of their long-term liabilities.

On November 28, 2017, the City Council approved the Self-Insurance Trust Funds Reserve Policy establishing a 40% minimum funding level of the total combined current claims liability outstanding

for the Self-Insurance Trust Funds effective June 30, 2018, increasing that minimum level to 50% effective June 30, 2020. If at any point the cash reserves fall below the required minimum balance, the policy requires staff to present a plan to the City Council as part of the subsequent budget process to bring the reserve back to balance within three fiscal years. Additionally, if at any future point of measurement, the cash balance in any of these funds is more than 25 percentage points above the required minimum balance (e.g. above 75%), then staff must present a plan to the City Council as part of the subsequent budget process to reduce charges to the contributing City funds in a manner proportionate to the way that the funds were originally contributed. As of June 30, 2025, the unaudited cash on hand is approximately 48%. Staff plan to present a plan to City Council to achieve compliance with the Self-Insurance Trust Funds Reserve Policy as part of the 2026-2028 biennial budget.

## Cash Position and Fund Balance



### Claims Liability

It is important to recognize that the claims liability amount recorded in each fund is an estimate of the amount ultimately required to settle outstanding claims. Generally claimants have a tendency to over value what their claims are actually worth. The CAO has been successful in challenging lawsuits through dispositive motions in which the court ends up dismissing the claim without any financial contribution from the City. In addition, claims are often resolved for less than the total amount reflected in the claims liability figure, meaning that the full amount of cash is not required to cover the total claims liability. Additionally, in both funds, but particularly for Workers' Compensation, the actual outlay of cash is many years away (as many as 30 years or more) for much of the outstanding liability.

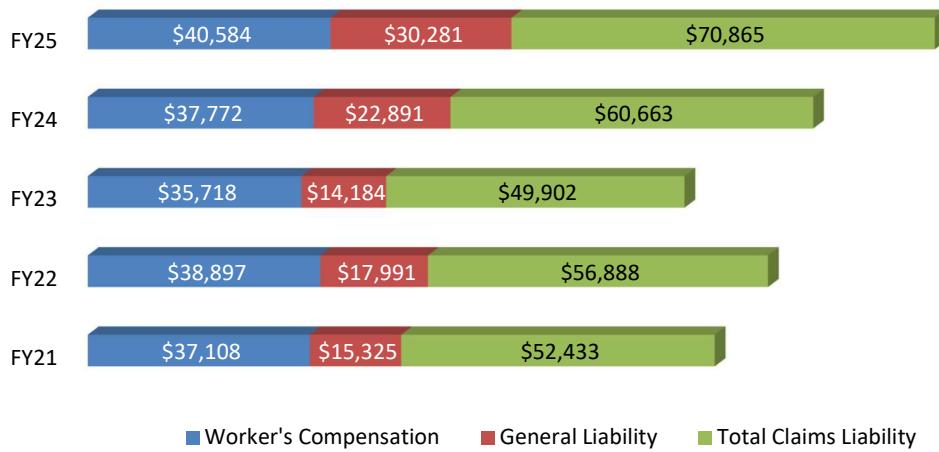
As a self-insured entity, the City must value its claims liability for incurred losses and maintain appropriate reserves to meet these future obligations. In accordance with accounting standards, the City engages an actuarial consultant to perform a complex analysis of claims for both the Workers' Compensation and General Liability funds, the result of which determines the total claims liability for each fund at the close of the fiscal year. The recorded estimate for total claims liability is based on the result of this study and includes an estimate for claims incurred but not yet reported and allocated loss adjustment expenses. The actuary's liability estimate incorporates several factors, including inflation, recent claim settlement trends, claim frequency, payout amounts, and broader economic and social considerations. The claims liability is adjusted

annually based on the actuarial study, with the adjustment recorded as an actuarial adjustment expense in the financial statements (see Attachment 1).

The total claims liability trend, as determined by the actuary, has been increasing for several years. In FY 2024/25, both Workers' Compensation and General Liability experienced increases in their claims and judgment liabilities due to several factors. General Liability increased primarily due to a large \$2.5 million claim which was settled after 6/30/2025 as well as new incurred claims to be paid in subsequent years. Workers' Compensation increased mainly due to new claims incurred and increased salaries.

The following is a historical overview of the claims and judgment liability trends for the General Liability and Workers' Compensation funds.

## Claims and Judgment Liability By Fund (In Thousands)



Due to the multiple assumptions used in internal estimates of claims liabilities and the actuarial study, accurately projecting and budgeting for liability adjustments and claims payouts on an annual basis is difficult. Settling claims depend on variables that are outside of the City's control, including waiting on the Court to issue ruling on motions and the levelheadedness of opposing counsel. Because of this, it is extremely challenging to try to predict the timing of when claims may resolve. The City adjusts departmental rates based on historical trends with the goal of achieving and maintaining the targeted 50% cash balance as a percentage of the total liability. However, calculated reserve amounts will fluctuate from year to year, often being above or below the target due to annual variations in claims payouts and actuarial adjustments.

Departmental contributions to the Self-Insurance Trust Funds are budgeted to achieve a projected policy reserve balance of 50%, while avoiding the accumulation of excess cash reserves, which could divert critical resources away from essential City services. In FY 2024/25 the cash reserve balance was 48% and projected to be 47% in FY 2025/26.

## FISCAL IMPACT:

There is no direct fiscal impact associated with this report. However, the Self-Insurance Trust Funds Reserve Policy stipulates that if the combined cash reserve falls below the required minimum balance, staff must present a plan to the City Council as part of the subsequent budget

process to restore the balance within three fiscal years. Staff plan to present a plan to City Council to achieve compliance with the Self-Insurance Trust Funds Reserve Policy as part of the 2026-2028 biennial budget.

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Approved as to form: Rebecca McKee-Reimbold, Interim City Attorney

Concurs with:



Steve Hemenway, Chair  
Finance Committee

Attachment:

1. Self-Insurance Trust Fund Analysis
2. Presentation