



Administrative Report

J.3., File # BF20-1508

Meeting Date: 10/8/2020

To: BUDGET AND FINANCE COMMISSION
From: MARNI RUHLAND, FINANCE DIRECTOR

TITLE

DISCUSSION AND POSSIBLE ACTION REGARDING AN OVERVIEW OF THE SELF-INSURANCE PROGRAM FUND

EXECUTIVE SUMMARY

The Self-Insurance Program Fund is one of the City's internal service funds. It was established in FY 2000-01 and accounts for the cost of providing liability and property, workers' compensation and unemployment insurances and all legal, medical and professional service expenses associated with the processing of claims made against the City in these areas. Below is an overview of the revenues and expenditures reflected in the fund.

BACKGROUND

The revenue in the Self-Insurance Program Fund is almost exclusively from charges to operating departments for their share of insurance costs. As described in the attached Administrative Policy/Procedures (APP), there is a separate allocation basis for the premiums and claims of each insurance type. These are summarized below.

- Liability and property insurance premiums are charged to the operating departments based on the insurance costs for the structure occupied by the department/division. In the case of shared structures, the department's/division's occupied square footage is used to determine its percentage of the structure.
- The basis for charging departments for liability and property claims is a five-year average of claims outstanding (paid, as well as reserved for future payments) for the structure occupied or the activity performed as provided by the City's third-party administrator. The general liability claims (e.g., employment issues, tax issues, procedural items) are charged to the City Hall departments with square footage occupied determining the percentage of the claims.
- Workers' compensation premiums are charged based on employee earnings as reported annually to the City's risk pool administrator to be used in calculating premiums for the coming year.

- As with liability and property claims, the basis for charging workers' compensation claims is a five-year average of claims outstanding (paid, as well as reserved for future payments) for each department's/division's specific employees.
- Unemployment insurance costs are charged at a flat rate per full-time employee. This is done as a personnel cost, rather than an internal service fund allocation.

These allocation bases are not the charges themselves. They only determine the department's/division's percentages of the total costs.

The only other revenue source for the Self-Insurance Program Fund is claims settlements. These are recorded in the fund when received.

The expenditures of the fund include personnel costs of the Human Resources Department's Risk Management staff, contracts and professional services (almost exclusively for third-party claims administration), insurance premiums, costs for claims paid (including legal, medical and settlements) and the change year-over-year of actuarially calculated estimated outstanding losses (claims payable), and Risk Management internal service fund/overhead allocations. These are the costs charged to the user departments with the claims paid and claims payable averaged over the previous five fiscal years to help minimize large fluctuations. They are described in more detail below.

- Risk Management staff has historically been identified as 90% of the Risk Manager and 70% of the Human Resources Technician, although the FY 2020-21 adopted budget included the deauthorization of the Risk Manager position. The personnel costs for these positions include base salary, fringe benefits, FICA and Medicare taxes, and CalPERS payments.
- Liability and property and workers' compensation premiums are paid to the City's insurance carriers and risk pool.
- Claims paid represent the actual checks written by the City for claims settled during the fiscal year regardless of the date of loss/injury and all outside attorney fees used to fight/settle these cases and all associated workers' compensation medical costs.
- The estimates of the outstanding liability and workers' compensation losses are prepared by an actuary contracted by the City for this express purpose. The estimates are for both claims filed and those not yet filed. In accordance with GASB Statement No. 10, the change in these estimates year-over-year are recorded as expenditures in the Self-Insurance Program Fund. These expenditures can account for up to a 50% level of the total expenditures of the fund.
- Because the Risk Management Division is a user of internal services such as

information technology, building maintenance, payroll and accounts payable, the Self-Insurance Program Fund has internal service fund/overhead expenses.

COORDINATION

The Risk Management Division of the Human Resources Department is responsible for the Self-Insurance Program Fund.

FISCAL IMPACT

In the FY 2020-21 adopted budget, Self-Insurance Program Fund estimated revenues of \$7,937,950 exceed its appropriations of \$6,591,840.

ATTACHMENTS

Internal Service Fund/Overhead Allocations Administrative Policy/Procedures