

Meeting Date: 5/5/2015

Report Type: Consent

Report ID: 2015-00404

Title: Policy Adoption: Risk Management Funding and Reserve Policy

Location: Citywide

Recommendation: Pass a Motion adopting the Risk Management Funding and Reserve Policy.

Contact: Dennis Kauffman, Operations Manager, (916) 808-5843; Leyne Milstein, Director, (916) 808-8491, Department of Finance

Presenter: None

Department: Finance

Division: Finance

Dept ID: 06001011

Attachments:

1-Description/Analysis

2-Attachment 1-Risk Management Funding Policy Final

City Attorney Review

Approved as to Form

Brett Witter

4/29/2015 4:53:06 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 4/28/2015 12:59:34 PM

Description/Analysis

Issue Detail: The City does not currently have a Council adopted-Risk Management Funding and Reserve Policy. The Finance Department, in collaboration with the Human Resources Department's Risk Management Division and their actuary, have developed a funding and reserve policy for the risk management program. This policy will minimize City contribution volatility while maintaining an adequate reserve in the Risk Management Internal Service Fund.

The proposed Risk Management Funding and Reserve Policy:

- Requires annual actuarial valuations for the General and Auto Liability and Workers' Compensation programs.
- Bases risk management program funding on the actuarial valuations using an 80% confidence level. Confidence level is used by actuaries to determine the realistic possibilities that a given funding rate will be sufficient to cover all claims that might be incurred in any one program year. An 80% confidence level indicates that the funding rate should be adequate eight out of 10 years.
- Establishes a Risk Management Reserve equal to two allotments of each program's Self-insured Retention (SIR) to mitigate the risk of loss from potential claims and lawsuits against the City. The reserves, totaling \$8 million based on the current SIR amounts, provide a minimum funding level for the Risk Management Internal Service Fund. The proposed policy establishes procedures for adjusting annual contributions to the fund based on excess reserves or a shortfall in program funding.

Policy Considerations: The proposed policy outlined in this report (Attachment 1) is consistent the Mayor and Council's budget priority to adopt financially sound policies and procedures that are prudent and take into account long-term financial planning and stability. A sustainable budget must be evaluated in a long-term rather than a short-term context.

Economic Impacts: None.

Environmental Considerations: None.

Sustainability: None.

Commission/Committee Action: The Risk Management Funding and Reserve Policy was presented to the Budget and Audit Committee on April 7, 2015. The Committee approved a Motion to forward the policy to the City Council for adoption.

Rationale for Recommendation: The purpose of the Risk Management Funding and Reserve Policy is to adopt a best practice and guide prudent financial management of the Risk Management Internal Service Fund.

Financial Considerations: Adoption of the Risk Management Funding and Reserve Policy will have no direct effect on the annual budget because the City already follows this proposed policy. The policy will formalize mechanisms already in place to minimize volatility in contributions to the Risk Management Fund and establish a target reserve level in each program.

Local Business Enterprise (LBE): No goods or services are being purchased as a result of this report.

Risk Management Funding and Reserve Policy

I. PURPOSE

The City's Risk Management Funding Policy documents the City's approach to providing adequate financial resources to fund the City's General and Auto Liability and Workers Compensation Programs and establishing and maintaining adequate reserves in the Risk Management Internal Service Fund.

2. BACKGROUND

The City has been self-insured for workers' compensation and for general and auto liability since 1971 and 1976, respectively. The General and Auto Liability and Workers Compensation Programs charge City departments and funds for the costs of providing for claims, as well as for the cost of administering the claims.

3. POLICY

- (a) In order to methodically and consistently measure the City's projected claims, the City will contract with a professional outside actuary to prepare annual actuarial valuation reports for both categories of claims. Program funding will be based on the annual actuarial valuation reports.
- (b) The City's funding policy will provide program funding at the 80% confidence level, including recognition of anticipated investment income. Confidence level is used by actuaries to determine the realistic possibilities that a given funding rate will be sufficient to cover all claims that might be incurred in any one program year. An 80% confidence level indicates that the funding rate should be adequate eight out of 10 years.
- (c) The City shall maintain a Risk Management Reserve dedicated to mitigation of the risk of loss arising from potential claims and lawsuits against the City for general and auto liability as well as workers' compensation claims. The Risk Management Reserve shall be funded at the following levels:

General and Auto Liability – In addition to annual funding of projected claims at the 80% confidence level, the City shall maintain a reserve equal to two SIR allotments.

Workers' Compensation – In addition to annual funding of projected claims at the 80% confidence level, the City shall maintain a reserve equal to two SIR allotments.

If the SIR amount changes in future years, the two SIR allotments will continue to be the reserve requirement for both programs.

If either program maintains a balance above the minimum funding and reserve requirement, the excess reserves will be used to subsidize City contributions over a 1-5 year period depending upon the amount of the excess and the City's economic condition.

If either program has excess claims requiring additional contributions to the fund, the City will increase contributions over a 1-3 year period depending on the amount of the shortfall and the City's economic condition to get to the minimum funding and reserve requirement.

If one program has excess reserves and the other program has a shortfall, transfers between programs may be implemented to reduce or eliminate the program shortfall.