

SALT LAKE CITY COUNCIL STAFF REPORT

BUDGET ANALYSIS – FISCAL YEAR 2003-04

DATE: May 23, 2003

SUBJECT: **INSURANCE AND RISK MANAGEMENT FUND**

STAFF REPORT BY: Gary Mumford

CC: Rocky Fluhart, David Nimkin, Ed Rutan, Lynn Pace, Brenda Hancock, Jodi Langford, Steve Fawcett, Kay Christensen, DJ Baxter

The budget for the Insurance and Risk Management Fund for fiscal year 2003-04 is proposed to increase by \$888,295 or 3.5%. This fund accounts for costs associated with employee health insurance, dental insurance, disability insurance, life insurance, unemployment compensation, property insurance, and workers compensation. (Note: The City's general liability claims are budgeted and paid from the Governmental Immunity Fund.)

INSURANCE AND RISK MANAGEMENT FUND PROPOSED BUDGETS					
	Adopted 2002-2003	Amended 2002-2003	Proposed 2003-2004	Difference	Percent Change
Revenue & other sources					
Premiums	\$20,623,780	\$23,347,560	\$24,194,357	\$846,797	3.6%
Interest	39,600	39,600	-	(39,600)	(100.0%)
Subrogation	50,000	50,000	50,000	-	
Transfer from Nondepartmental	1,614,902	1,614,902	1,696,000	81,098	5.0%
Total revenue & other sources	\$22,328,282	\$25,052,062	\$25,940,357	\$888,295	3.5%
Expenses					
Health insurance costs	\$15,914,642	\$18,338,942	\$18,600,000	\$261,058	1.4%
Dental insurance costs	1,729,304	1,763,004	1,850,004	87,000	4.9%
Life/accidental death costs	785,112	996,812	1,148,544	151,732	15.2%
Long-term disability	406,500	406,500	501,000	94,500	23.2%
Workers compensation	1,466,107	1,432,559	1,665,063	232,504	16.2%
Unemployment compensation	141,780	141,780	141,780	-	
Property insurance/surety bonds	730,800	798,400	1,031,652	233,252	29.2%
Bus passes	89,991	89,991	90,000	9	
Loss Control/Safety Program	50,000	50,000	50,000	-	
Administration – Mgt Services	384,847	384,847	364,691	(20,156)	(5.2%)
Administration – Attorney	243,500	243,500	220,095	(23,405)	(9.6%)
General Fund services	227,810	227,810	231,228	3,418	1.5%
Increase reserves	207,937	177,917	46,300	(131,617)	(74.0%)
Total Expenses	\$22,328,282	\$25,052,062	\$25,940,357	\$888,295	3.5%

The Administration is proposing an amendment to the current-year budget (fiscal year 2002-03) because premium increases were included in each department's budget but inadvertently not incorporated in the Insurance & Risk Management Fund. The proposed amendment also includes an additional amount to cover an increase to the workers' compensation tax imposed by the State. Council staff has integrated the proposed budget amendment as part of the amounts shown on the "amended budget 2002-03" in the table on the previous page.

POTENTIAL MATTERS AT ISSUE

- Health insurance – The City is self-insured for employee health insurance. The actuary is recommending a 2% increase to premiums to cover estimated insurance costs. The proposed budget represents a 2% increase from actual costs, but the table on page one compares the proposed budget to the budget for 2002-03 budget, which indicates only a 1.4% increase between budgets.
- Dental insurance – Dental premium costs are increasing 8%. The cost of this optional insurance is entirely the responsibility of employees desiring dental coverage. Again, the percent change shown on the table on page one shows only 4.9% because it compares budget to budget whereas the proposed budget represents a 8% increase over actual costs.
- Life & accidental death insurance – There is no change to the cost of life insurance. The City provides employees with basic life insurance (\$50,000) at no cost to employees. Additional optional life insurance (self, spouse or family coverage) is available to an employee with the entire premium being paid by the employee.
- Long-term disability premiums – By state law the City must provide long-term disability coverage for police officers. Other city employees have the option of obtaining long-term disability insurance by paying the full amount of the premium. The City is self insured for this coverage, which is administered by a third party. Police officers are in a separate self-insured pool. The third party administrator's analysis indicates that there needs to be a major increase relating to the police officer pool because of increased utilization over the past several years. There is no increase relating to the pool of other City employees.
- Workers compensation – The cost of excess workers compensation insurance has increased. This policy kicks in when a single claim exceeds \$1 million. Another reason for the proposed increase to the workers compensation budget is that a tax that is paid to the state has increased. The state requires the City, as a self-insured employer, to pay a tax that is equivalent to the tax assessed to entities that purchase workers' compensation insurance. The formula is partially based on administration costs of the state and other factors out of the City's control. One of the factors used in determining the amount of the tax is the frequency and severity of the City's claims. The history for fiscal year 2000 is now included in the formula. That year was a particular a bad year for the City.
- Property Insurance – The Administration is anticipating another increase in the cost for property insurance, although the increases are starting to stabilize. A

major portion of property insurance relates to the Airport and is reimbursed by the Department of Airports.

- Loss control/safety program – The proposed budget continues the loss prevention program that began in 1999. This program provides a loss control team with resources to make safety inspections and provide training. Funding for the loss prevention program is from money collected from third party insurance companies relating to a prior year General Fund claim. When employees are injured or City property is damaged due to third party negligence, the City departments pay for repairs, medical expenses and salaries while injured employees are recovering. The Attorney's Office collects from third parties and their insurance companies (subrogation reimbursements) and then reimburses the departments. Subrogation payments collected in the same fiscal year are reimbursed to the departments. Subrogation relating to enterprise funds is also reimbursed to the enterprise funds. However, subrogation relating to a prior-year General Fund claim is retained to support the program because budgets are closed out each year in the General Fund. This approach has been taken to fund the loss prevention program since 1999.
- Bus pass program – The bus pass program is funded by the general fund through a transfer out of Nondepartmental to the Insurance & Risk Management Fund. It is included in the Insurance & Risk Management Fund because bus passes are a benefit for employees. There are some discrepancies in the budget for the bus pass program that Council staff will continue to investigate. The proposed budget for the pass program in the Insurance & Risk Management Fund is \$90,000 whereas the proposed budget to be transferred out of the General Fund is \$96,000. Actual costs for fiscal year 2001-02 were \$82,350 and actual costs for fiscal year 2002-03 were \$83,937. The Nondepartmental budget shows a \$35,000 increase from \$61,000 to \$96,000. This was probably because the \$61,000 budget was two years old (biennial budget) and was inadvertently not updated to reflect actual costs. *The Council may wish to ask about the need to budget for this cost in both Nondepartmental and in the Insurance & Risk Management Fund rather than just charge the expense directly to Nondepartmental.*
- Administration – The administration budget relating to the Department of Management Services is proposed to decrease \$12,000 for consultant fees, \$7,800 for computer processing fees, and \$25,000 for services provided by the general fund. The administration budget relating to the City Attorney's Office is proposed to decrease \$15,000 for consultant fees and \$16,500 for computer maintenance.
- Interest income – The proposed budget doesn't include any revenue for interest income. In fiscal year 2001-02, interest of \$130,586 was received. For the first 10 months of fiscal year 2002-03, the Insurance & Risk Management Fund received \$85,930 of interest. In addition, the budget proposes more revenue than expenses by \$46,300. *The Council may wish to ask representatives of the Administration whether the interest revenue combined with the excess revenue over expenses could be used to slightly reduced transfers in from the general fund and perhaps premiums paid by enterprise fund.*

Additional Information

BACKGROUND

The Human Resource Division of the Department of Management Services oversees employee participation in health, dental, life, accidental death & dismemberment, and disability insurance programs. The City Attorney's Office coordinates with a contract third-party administrator on workers' compensation claims; handling tort claims; placing and monitoring property insurance policies; performing miscellaneous risk assessments; handling third-party subrogation claims, and coordinating the citywide safety activities. Property insurance is also administered out of the City Attorney's Office. Salt Lake City contracts for insurance brokerage and risk management consulting services.

LEGISLATIVE INTENT STATEMENT

The Council issued the following legislative intent statements in June 2002 that relate to the Insurance & Risk Management Fund.

Funding of Compensation Liability - It is the intent of the City Council that the Administration work with the Council to begin to accumulate a reserve in a separate fund or account to fund the City's accrued compensation liability for vacation and other payments that employees may receive upon retirement. Further, it is the Council's intent that the Administration provide estimates on the potential annual financial impact for the next ten or more years.

Results/Steps Taken: (Administration's response) "The total liability for the governmental activities is reported yearly on the financial statements. For fiscal year ending June 30, 2002 it is reported on page 15, line titled "Long Term Compensation Liability". It includes vacation, sick leave, comp time, personal leave and the severance accounts. The total amount reported is \$13,347,289. We have not provided a forecast for future years at this point. We have met with Council Staff and have a better understanding about how this fund may be accumulated. We will continue to examine this suggestion and as funds permit could begin to build a fund to accumulate reserves to accommodate future payouts."

The Council may wish to consider issuing some legislative intent statements relating to items discussed during the budget briefing.