

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET ANALYSIS – FISCAL YEAR 2004-05

DATE: May 12, 2004
SUBJECT: **GOVERNMENTAL IMMUNITY FUND**
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The Risk Management Division of the City Attorney's Office administers the Governmental Immunity Fund, which is the City's self-insurance fund. This fund is used to protect the City against invalid claims, and to appropriately compensate the public for City negligence. The source of revenue is a transfer from the City's General Fund. The budget for fiscal year 2004-05 is proposed to increase by \$3,910 or a 0.3% increase from the budget for fiscal year 2003-04.

GOVERNMENTAL IMMUNITY FUND PROPOSED BUDGETS				
	Adopted 2002-03	Proposed 2003-04	Difference	Percent Change
Revenue & other sources				
General Fund transfer	\$1,300,000	\$1,300,000	\$ -	
Interest income	142,031	73,355	(68,676)	(48.4%)
Enterprise funds – reimbursement for administration	32,000	-	(32,000)	226.8%
Appropriation of reserves		104,586	104,586	
Total revenue & other sources	\$1,474,031	\$1,477,941	\$ 3,910	0.3%
Expenses				
Personal services	\$ 460,496	\$424,161	\$(36,335)	(7.9%)
Other administrative costs	91,480	41,780	(49,700)	(54.3%)
Claims and court costs	922,055	1,012,000	89,945	9.8%
Total Expenses	\$1,474,031	\$1,477,941	\$ 3,910	0.3%

POTENTIAL MATTERS AT ISSUE

Claims payments – The Administration is proposing \$1,012,000 for claims liability payments for fiscal year 2004-05, which is an increase of \$89,945. Claims paid for the first ten months of the current fiscal year were \$557,200. Total claims paid in fiscal year 2002-03 were \$725,893. The estimated liability for claims payable as of June 30, 2003 was increased by \$185,697 for a total claims expense

of \$911,590 per the City's audited financial statements. The proposed appropriation appears to be adequate based on past payments.

Interest revenue - The budget anticipates interest revenue of \$73,355. Actual interest revenue for the first ten months of the current fiscal year was \$51,284.

Administrative costs of enterprise funds - Claims paid relating to enterprise funds are charged directly to the enterprise funds. Enterprise funds probably should pay a portion of administrative cost for investigating and processing claims, but they currently do not. The budgets for both fiscal year 2003-04 and fiscal year 2002-04 included \$32,000 for payments from enterprise funds for administration. However, this revenue wasn't collected in fiscal year 2002-04 and hasn't yet been collected for fiscal year 2003-04. A budget for this revenue wasn't included in the proposed budget probably because nothing has been collected in prior years. *The Council may wish to encourage the Administration to determine whether it would be appropriate to bill the enterprise funds for the past fees and for fees in this fiscal year.*

Reserves - The City's audited financial statements as of June 30, 2003 shows invested cash in the Governmental Immunity Fund of \$2,337,756 with estimated claims payable and other liabilities of \$2,375,502. The audited financial statements reported a deficit of \$37,746 as of June 30, 2003. The statements also showed a reduction in the deficit of \$137,800 from the previous year. The liability for claims payable is an estimated amount so it is not correct to consider the fund to be 'over spent'. In addition to the \$2.3 million of cash on hand in the Governmental Immunity Fund, the general fund balance is also a reserve for liability claims.

The Administration is proposing an appropriation of \$104,586 of reserves. Average claim payments over the past three years of \$693,000 is much less than the propose claims budget of \$1,012,000. Therefore, the use of reserves is probably unlikely unless some potential large claim payments are pending. Past administrative fees from enterprise funds may also be collected, which would offset the appropriation of reserves.

Reinsurance - The City's risk manager recently submitted requests for quotes for reinsurance to insure the City against large third party liability claims. The reinsurance policy would pay any judgment or settlement in excess of an established deductible. The requested quotes will include proposed premium rates for coverage beginning at \$250,000, \$500,000 and \$1,000,000.

LEGISLATIVE INTENT STATEMENTS

In June 2002, the Council issued the following legislative intent statement:

It is the intent of the City Council to support the Administration's proposal to accumulate a reserve in the Governmental Immunity Fund equal to three times the rolling average claim payout.

Claims paid during the last three fiscal years were: \$725,893 for 2002-03; \$843,198 for 2001-02; and \$509,112 for 2000-01. Three times the average rolling claim payout is \$2,078,000. Invested cash in the Governmental Immunity Fund was \$2,337,000 at June 30, 2003, which is slightly greater than three times the rolling average claim payout.