

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET ANALYSIS – FISCAL YEAR 2005-06

DATE: May 16, 2006
SUBJECT: **GOVERNMENTAL IMMUNITY FUND**
STAFF REPORT BY: Lehua Weaver
CC: Rocky Fluhart, Sam Guevara, Ed Rutan, Lynn Pace,
Tim Rodriguez, Steve Fawcett, Kay Christensen, DJ Baxter

The Risk Management Division of the City Attorney’s Office administers the Governmental Immunity Fund, which is the City’s self-insurance fund for liability claims. This fund is used to protect the City against invalid claims, and to appropriately compensate the public for City negligence.

The Mayor’s Recommended Budget includes a property tax increase, as allowed by law, to fund these liability claims and judgments. The budget for fiscal year 2006-07 is proposed to decrease by \$91,076 or a 7.2% decrease from the budget for fiscal year 2005-06.

GOVERNMENTAL IMMUNITY FUND PROPOSED BUDGET				
	Adopted 2005-06	Proposed 2006-07	Difference	Percent Change
Revenue & other sources				
General Fund transfer	\$1,150,000	\$0	(\$1,150,000)	-100.00%
Proposed Tax Increase*		\$1,150,000	\$1,150,000	
Interest income	54,000	0	(\$54,000)	-100.00%
Sundry revenue and reimbursements from enterprise funds for administrative costs	69,276	32,200	(\$37,076)	-53.52%
Total revenue & other sources	\$1,273,276	\$1,182,200	(\$91,076)	-7.15%
Expenses				
Personal services	\$214,376	\$0	(\$214,376)	-100.00%
Administrative Fees		317,000	\$317,000	
Other Operating Expenses	43,900	70,200	\$26,300	59.91%
Claims and court costs	1,015,000	795,000	(\$220,000)	-21.67%
Total Expenses	\$1,273,276	\$1,182,200	(\$91,076)	-7.15%

* Please note: Technically, as proposed, this would still be a transfer from the General Fund. Staff has presented the information in this way to emphasize the change in funding.

POTENTIAL MATTERS AT ISSUE

Property Tax Proposal – The Mayor’s Recommended Budget includes a property tax increase of \$1,150,000 to fund liability claims and judgments as allowed by law. A property tax to fund liability claims has not been levied since 1982, rather the

liability claims have been funded through the general fund. Levying a separate tax for liability claims will free up \$1,150,000 for reallocation with the proposed general fund budget.

Claims payments (\$220,000 decrease) – The Administration is proposing \$780,000 for claims liability payments for fiscal year 2006-07. Claims paid for the first ten months of the current fiscal year were \$337,580. Total claims paid in fiscal year 2004-05 were \$826,280, which may have included some extraordinary settlements. The proposed appropriation appears to be adequate based on average annual past payments and current year 10-month payments.

In the 2006 Legislative Session, the Legislature passed a bill that would increase the maximum on individual claims from the current \$1 million to \$2 million, effective July 1, 2007. **The Council may wish to ask whether the Administration anticipates that this would significantly affect claim payment amounts.**

Personal Services (\$214,376 decrease) - The Department is proposing a change from direct allocation of salaries to an indirect method of charging for time. The attorneys and staff of the City Attorney's Office keep time sheets for allocating time. The Department is proposing to reallocate the FTEs currently assigned to the Governmental Immunity Fund to the Attorney's Office in order to simplify the process for accounting for attorneys' time.

Administrative Fees Paid to General Fund (\$317,000 increase) - As part of the plan to reallocate the FTEs currently assigned to the Governmental Immunity Fund to the Attorney's Office, the Fund's budget would increase by \$317,000 to cover corresponding Administrative Fees. These fees would reimburse the general fund for services provided. **The Council may wish to ask whether the \$317,000 is an accurate amount since only \$214,400 of salaries are budget to be charged in the current year.**

For claims involving the City's various enterprise funds, the claims are charged directly to the funds. Enterprise funds also pay a portion of administrative costs for investigating and processing claims.

Administrative costs (\$26,300 increase) – The majority of this budget increase is \$27,800 for computer equipment maintenance. The Department is not aware of the need for this increase. **The Council may wish to reduce this portion of the budget. This would add to the Fund's reserves.**

Interest income (\$54,000 decrease) – The budget anticipates no interest revenue. Actual interest revenue for fiscal year 2005 was \$73,790 and for the first 10 months of the current year, interest revenue was \$111,742. The proposed budget, which eliminates interest income, appears to be especially conservative. **The Council may wish to ask why the Administration is not anticipating any interest revenue in fiscal year 2006-07.**

Reserves – The City's audited financial statements as of June 30, 2005 shows invested cash in the Governmental Immunity Fund of \$2,921,230 with estimated claims payable and other liabilities of \$2,078,180. The audited financial statements reported a surplus of \$843,050 as of June 30, 2005. The funding that the City keeps in reserves, approximately \$2.9 million, is much less than a private insurance company would deem necessary, given the level of exposure. In the event of a large claim that would exceed the cash in the reserve account, fund

balance is also considered a reserve account. This could ultimately result in a judgment levy to the taxpayers.

The Administration is not proposing an appropriation of reserves. Average claim payments over the past three years, of \$622,378, is less than the proposed claims budget of \$780,000.

Excess Liability Insurance – The City’s risk manager has received updated 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 quotes include proposed premium rates for coverage beginning at \$500,000, \$1,000,000, \$5,000,000 and \$10,000,000. **The Council may wish to discuss the benefits vs. costs of acquiring excess liability insurance.**

LEGISLATIVE INTENT STATEMENTS

There are no legislative intent statements outstanding for the Governmental Immunity Fund.