

# SALT LAKE CITY COUNCIL STAFF REPORT

## BUDGET ANALYSIS – FISCAL YEAR 2009-10

**DATE:** May 19, 2009

**SUBJECT:** **INSURANCE AND RISK MANAGEMENT FUND**

**STAFF REPORT BY:** Russell Weeks

**CC:** Cindy Gust-Jenson, David Everett, Ed Rutan, Debra Alexander, Gordon Hoskins, Gina Chamness, Tim Rodriguez, Jodi Langford, Jennifer Bruno, Karen Halladay

The budget for the Insurance and Risk Management Fund accounts for costs associated with employee health insurance, dental insurance, disability insurance, life insurance, unemployment compensation, risk management insurance, and workers compensation. 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. It also places and monitors property insurance; performs risk assessments; handles third-party subrogation claims, and coordinates citywide safety activities.

INSURANCE AND RISK MANAGEMENT FUND PROPOSED BUDGET				
	Adopted 2008-2009	Proposed 2009-2010	Difference	Percent Change
<b>Revenue &amp; other sources</b>				
Premiums	\$35,168,333	\$36,957,204	\$1,788,871	5 %
Interest	69,181	22,392	(46,789)	(68%)
Bus Pass Reimbursement	57,267	302,926	245,659	429%
Transfer from General Fund	48,926	48,926	0	0%
<b>Total revenue &amp; other sources</b>	<b>\$35,343,707</b>	<b>\$37,331,448</b>	<b>\$1,987,741</b>	<b>5.6%</b>
<b>Expenses</b>				
Health insurance premium costs	\$26,920,236	\$28,393,956	\$1,473,720	5 %
Dental insurance costs	1,917,822	2,050,248	132,426	7%
Life/accidental death policies	1,099,860	1,181,784	81,924	7%
Risk Management premium	1,763,820	1,763,820	0	0%
Workers compensation	981,348	1,064,613	83,265	8%
Claims and Damages	627,528	643,140	15,612	2%
Unemployment compensation	237,900	320,508	82,608	35%
Bus passes	106,193	351,852	245,659	231%
Employee Wages & Benefits	612,035	584,870	(27,165)	(4%)
Loss Control/Safety Program	20,000	20,000	0	0%
One-time Transfer to General Fund	120,000	500,000	380,000	317%
Administrative costs/fees	835,001	734,693	(100,312)	(12%)
Other costs	221,964	221,964	0	0%
<b>Total Expenses</b>	<b>\$35,463,707</b>	<b>\$37,831,448</b>	<b>\$2,367,741</b>	<b>6.6%</b>

## **POTENTIAL MATTERS AT ISSUE**

Three things make up the bulk of the \$2.37 million increase projected for the 2009-2010 fiscal year – health insurance premium costs, a transfer to the General Fund, and increased costs for employee bus passes. According to City Council staff calculations a projected \$1.47 million increase in health insurance premiums makes up about 62 percent of the total increase; a \$380,000 increase in the one-time transfer to the General fund makes up 16 percent of the total increase; and a projected \$245, 659 increase in the cost of employee bus passes makes up about 10 percent of the total increase. The remaining 12 percent of the total increase appears to be taken up by increases in dental insurance (5 percent) and workers compensation and unemployment compensation (3.5 percent each).

**Health Insurance** – The City is self-insured for employee health coverage. As the chart indicates, premiums make up the bulk of revenue for the Insurance and Risk Management Fund, and health care costs make up the bulk of the fund's expenses.

To recap, "The Administration is proposing to adjust employee's contribution to health care premiums. In FY 2009, employee contributions were increased from 0% to 5%. The Administration (with the Employee benefits committee's recommendation) is proposing to increase employee-paid portion to 10%," according to an overview by City Council Deputy Director Jennifer Bruno.<sup>i</sup> The projected increase in the cost of medical premiums includes the employees' and City's share, according to the Administration.

Two years ago, 81 percent of all City employees participated in the Summit Care program. One year ago, 84 percent participated. According to the Administration, 86 percent of City employees now participate in the Summit Care program, and it appears that more will change to the program during the current open enrollment period. Council Members may wish to ask whether it is realistic to expect 100 percent enrollment at some point.

It might be noted that dental insurance premium costs also are projected to rise by \$132,426, according to City Council staff calculations. Dental insurance is optional and is entirely the responsibility of employees desiring dental coverage. According to the Administration, the main reason for the increase is more employees participate in the plan than previously.

**Transfer to the General Fund** – According to the Mayor's Recommended Budget, "The General Fund makes contribution to the internal services funds of Risk Management and Governmental Immunity for services provided to the General Fund. These funds have each developed fund balances over the past several years. The Administration recommends a transfer back to the General Fund of a portion of these balances in the (total) amount of \$1,000,000."<sup>ii</sup> It should be noted that general liability claims are not paid from the Insurance & Risk Management Fund. The City's general liability claims are budgeted and paid from a separate Governmental Immunity Fund.

The Risk Management portion of the fund is projected to transfer \$500,000 to the General Fund, and will come from within a fund balance in the Risk Management Fund. The Risk Management Fund will have a fund balance of \$1,658,650 after the \$500,000 transfer.

In previous years, \$120,000 in revenue the City received from third parties and their insurance companies was transferred to the General Fund. The \$120,000 allocations were considered in excess of funds necessary to operate the City's loss prevention program.

**Bus pass program** – The bus pass program traditionally is funded by the General Fund through a transfer from the Non-departmental budget and by transfers from each enterprise and internal service fund. The budget is included in the Insurance and Risk Management Fund because bus passes are a

benefit for employees. In March 2007 the City Council adopted a motion authorizing Mayor Ross C. Anderson to sign a franchise agreement with the Utah Transit Authority that allowed UTA to build tracks for its commuter rail line on and through City streets and property between 1800 North and 1700 South streets. One of the ways UTA agreed to compensate the City for the franchise was to provide free “Eco-passes” to Salt Lake City employees retroactive to January 1, 2007. The Administration estimated the total value of the passes over the three years at about \$520,000.

During research on the agreement in 2007, the Administration learned that UTA planned to increase the cost of Eco-passes, and that the City could pay roughly \$270,000 by 2009 for the program. Given that, the Insurance and Risk Management Fund in 2007 included allocations for the bus pass program based on the idea that if the City set aside an allocation over the next three fiscal years, it would have money available to pay for Eco-passes when UTA’s obligation expired.<sup>iii</sup> The projected allocation for bus passes appears to reflect the current UTA charge for the service.

**Unemployment Compensation** – The Recommended Budget projects an \$82,608 increase in unemployment compensation. According to the Administration, the increase is intended to avoid a budget adjustment in the next fiscal year instead of seeking a budget adjustment such as occurred in the current fiscal year.

## **LEGISLATIVE INTENT STATEMENT**

No legislative intent statements are outstanding relating to the Insurance & Risk Management Fund.

*During the briefing on the proposed budget, the Council may wish to identify legislative intents relating to the Insurance & Risk Management Fund.*

*During the briefing, the Council may wish to identify potential programs or functions to be added to the Council’s list for future audits.*

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<sup>i</sup> Overview of Major Budget Issues Mayor’s Recommended Budget, Jennifer Bruno, May 12, 2009, Page 3.

<sup>ii</sup> Mayor’s Recommended Budget Fiscal Year 2009-2010, Page B-12

<sup>iii</sup> City Council staff report, Insurance and Risk Management Fund, Russell Weeks, May 23, 2007, Page 4.