MINUTES 3/6/14

SELF-INSURANCE PROGRAM BOARD MEETING

A meeting of the Self-Insurance Program Board of Trustees was called to order at 2:00 p.m., Thursday, March 6, 2014, in Personnel Conference Room #2 at 20 E. Main Street, Suite 130, Mesa.

MEMBERS PRESENT	MEMBERS ABSENT	OTHERS PRESENT
Donna Feeney		Mary Dellai, Board Secretary
Fenton Moran		Jan Ashley, Emp. Benefits Administrator
Art Schenkel		Nitra Hawkins, Safety Svcs Administrator
Board Chair Scott Somers		Debbie Spinner, City Attorney
Michael Kennington, CFO		Marc Steadman, Deputy City Attorney
		Gary Manning, Human Resources Director
		Candace Cannistraro, Ofc Mgmt & Bdgt Dir
		Matt Clark – City Council Assistant

Chairman Somers asked to review/approve the minutes from the January 9, 2014 meeting. He asked if there were any comments, questions, or concerns or changes to the minutes or if they could be approved as drafted. No changes were proposed. Donna Feeney proposed the minutes be approved. Mike Kennington seconded the motion. Chairman Somers called for a vote. The vote was unanimous.

Chairman Somers acknowledged members of the public, Candace Cannistraro, Office of Management & Budget Director and Matt Clark – City Council Assistant. He asked if there were any items from citizens present. Candace Cannistraro will present the information for today's meeting.

The third agenda item was to hear a presentation, discuss and make a recommendation to the City Council regarding the financial viability for the Property and Liability Trust Fund for FY 14/15.

- Candace Cannistraro introduced herself and gave an overview of the responsibility of the Office of Management and Budget related to the Trust funds. She said that the OMB has a responsibility to review and track the expenses and revenues for the Trust Funds and look at forecasting in relation to the General Fund (City operating budget for the City) with an 8 year forecast. She explained the General and Enterprise Funds make contributions to the Trust Funds. As expenses for the Trust Funds go up, contributions to the funds go up, and that is included in the 8 year forecast.

  She gave a financial view of the three Trust Funds, explained historically where the revenues and expenditures for each fund have been, where the contributions/revenues come from, characteristics of each fund, and projections for the funds/reserves for the next year. Candace would review each fund's financial history – how it is set up, current reserve policy for the City, and effect on future stability/risk for each fund and staff recommendation for each fund going forward. She explained the graphs for each fund would show expenses and cash flow. The expense graphs for each fund show expense totals for claims payment, administration, insurance premiums, and revenues. She explained that once funds are placed in a trust fund that it can't be taken out of that fund. Funds placed in a trust fund become restricted revenue and can only be used to pay that specific trust fund's expenses. The City can only reduce contributions going forward to reduce the reserve balance; funds can't be transferred out and used for other purposes once contributed.

  - Candace discussed the Property and Liability Trust fund is varied each year based on claims paid out. A trend/estimate can be made based on cases filed and when each case is expected to be concluded to forecast fund contributions needed to sustain an acceptable reserve balance.

- Chairman Somers asked if this was based on case history. Candace said it is based on what was paid out in a given year for a rough estimate of what will be paid out in any given year. For example in 09/10 substantial claims were paid out. Marc Steadman said there was a $3 million payout in 09/10 on a case that occurred in 03.
- Candace stated that this is funded from direct contributions from the operating funds: approximately 66% General Fund, 20% Enterprise funds (Water, Wastewater and Gas), and the rest from various other funds such as Transportation Department (local street sales tax). The contributions are based on claims history of which departments claims were made against.
- The reserve balance (bottom graph purple line) is set at $12 million based on historical highs to ensure enough reserve is held to cover potential claims. In setting the reserve balance, we look at past expenditures that vary from year to year, peaks and valleys, and how stable the revenues are. Since this fund has unstable expenses but uses a dollar for dollar direct transfer, we balance that with how quickly we can respond to cover expenses with an unexpected high expenses year. Based on this, we don't have as high a reserve balance as it can be quickly funded from other operating funds on a daily basis if need be. It is a balance between what the City can contribute and the balance we want sitting in the fund.
- Candace said that in some years the reserve balance was lowered as in the 08/09 – 11/12 recession time period where the City chose to allow the reserve to go lower but contribute more in the following years to bring the balance back up to the $12 million level.
- She recommended staff would continue to manage the fund as currently and set the $12 million **goal** going forward. It is where we are most comfortable knowing where we can contribute more if necessary and needed. The recommendation is the City would contribute $5.6 million to the fund for FY 14/15 to keep the fund at approximately $12 million.
- Mike Kennington wanted the recommendation to include the ability to adjust the contributions if needed during the year in relation to unexpected expenses. Debbie Spinner responded that the Board doesn't need to include that in their recommendation as the Board's role is to recommend the financial viability. However the recommendation could include that wording for flexibility so the Council could see that.
  - Fenton Moran asked if the fund balance has always been set at $12 million. Candace responded that it has been at $12 million since 03/04 when she took over review of the funds.
  - Art Schenkel asked if expenses over a 10 year period were $5 million average. Is there a percentage above where we want to carry a 100% more than average payout would be for the reserve balance. Candace responded that the City does not need to have a $12 million balance, but we use this amount based on what a peak claim could be. The peak has been $6.6 in the last 10 years. We can reduce the reserve as long as we have capacity in the operating funds to cover the expenses. There was discussion as to where the amount should be set. Debbie Spinner added that we are insured for $3 million per case; the excess insurance carrier would pay any amount over $3 million per case.

He asked if having more than twice the average was typical or best practice for this type of funds. Debbie Spinner responded that we could check with other self-funded entities (Phoenix, state of Arizona, Scottsdale), to see where their reserve amounts are set and provide to Council for their review. Candace will do that and prepare a report.

Art Schenkel moved to recommend the City contribute $5.6 million to the Property and Public Liability Trust Fund. The Board asked Candace to provide comparisons of reserve balances of other valley self-insured entities (industry standard) with respect to percentage over their average losses for inclusion to Council for their review and recommendation on this matter. Mike Kennington seconded the motion. The vote was unanimous for the recommendation.

The Board would like to see the City continue the existing policy of a $12 million goal for the fund with flexibility to adjust the goal/balance as needed.

The next agenda item was to hear a presentation, discuss and make a recommendation to the City Council regarding the financial viability for the Employee Benefit Trust Fund for FY14/15. Candace suggested to discuss Item 5 first as it would be a shorter discussion the Workers Compensation and it is similar in nature to the PPL. There was no opposition.

The item was to hear a presentation, discuss and make a recommendation to the City Council regarding the financial viability for the Workers Compensation Trust Fund for FY14/15.

- Candace explained the Workers Compensation Trust Fund reserve balance is similar to the PPL Fund in that we balance future claims with risk and what type of control we have over it, and revenues and how they fluctuate. In the PPL and Workers Compensation Trust Funds we have control over the resources/contributions but not the expenses. Using the state of Arizona risk factors and our experience of injuries by job class/department we set an industrial rate by job class/department to charge departments at each payroll. Since we are self-insured we control the revenue side and we pay ourselves these industrial rates at each payroll. We don't have control over expenses, however, we have some ability to reduce potential claims and keep employees safe by utilizing Safety Services. Safety Services proactively works on safety issues/concerns, ensures OSHA requirements are met, and promotes working safety.

  The revenues/industrial rates can be changed as necessary. If we find the claims/expenses are going up, we can recalculate the industrial rates at what we need them to be, put them into the payroll system and the next payroll rates will be higher. This does increase the employees' expense to the department operating budget. The funds are then transferred into the Workers Compensation Trust Fund. At the beginning of each year the rates are calculated based on estimated expenses for the fund, rates are set and monies included in each department's operating budget to cover the costs. If rates would be changed mid-year it would affect the department's budget. We don't typically change the rate but at fiscal year so as not to affect department's operating budgets.

  - Fenton Moran asked if this was an average rate or pro-rated based on risk. Candace responded it is based on each job classification rate which is set by the state industrial insurance codes - same as private sector.

  In the past we had some different fund balance philosophies over time (blue line is reserve balance on graph) of what needed to be covered. We currently have a 100% funding philosophy of annual expenses. Whatever we anticipate annual expenses for the fund to be is the amount we want to fund. The fund is very small compared to payouts. We can react to claims changes very quickly. We do not look at future liabilities, only the current year's estimated expenses in setting the reserve since we can always add monies to the fund. The recommended contribution to the Worker's Compensation Trust Fund is $7.1 million for FY 14/15. We have seen a higher claims expense in the past few years.

- Chairman Somers asked what sector are the heaviest users and why. Nitra Hawkins responded that public safety employees (Police/Fire) have a higher number and more severe claims. She noted that back injuries can have a very high cost. Chairman Somers asked if there is any particular reason for the increasing claims, or is it jumping over fences or falling off roofs. Nitra responded that chasing suspects or jumping over a wall and don't know what is on the other side resulting in multiple body parts impacted. There are too many variables in dealing with the police department in doing their jobs to try and pinpoint how they might do their jobs more safely. The Fire department is very proactive, however there can still be times where they can be lifting a 300 lb. patient in a stairwell resulting in a back injury.

  Mike Kennington pointed out that the Industrial Commission's state average monthly wage went up as well. Nitra concurred that the Industrial Commission has set the average monthly wage maximum for 2014 at $4,263 and it goes up each year. About 5 years ago it was only $2,400.

  Chairman Somers questioned Nitra about the fact we have not had step/COLA raises over the past five years so why is the amount continuing to go up. Art Schenkel asked why there was an 80% increase in the maximum amount over the past 5 years. Nitra responded that the legislature voted in changes each year and the governor signed it into law.

  Marc Steadman asked if medical costs were also part of that payout. Nitra replied that medical costs have been trending each year along with the national 8% increase for medical costs. In addition, we look at trend lines in costs each month and project costs for the rest of the year and factor in the 8% to project what the claims paid may be next year.

  Candace suggested the recommendation would be to continue the current practice to set the reserve balance to cover the annual expenses at $7.1 million for FY 14/15 and set the Worker's Compensation rates for FY 14/15 sufficient to maintain an appropriate reserve balance. Mike Kennington so moved. Donna Feeney seconded. The vote was unanimous for the recommendation.

The next agenda item was to hear a presentation, discuss and make a recommendation to the City Council regarding the financial viability for the Employee Benefit Trust Fund for FY14/15.

- Candace Cannistraro explained the Employee Benefit Trust Fund is similar to the PPL and Worker's Compensation Trust Funds in that we have some control over the revenues, as we set the rates for this fund to achieve the needed revenues. Because we have multiple plans (medical, dental, life, vision) and the Wellness Center costs in the Employee Benefit Trust rates are set separately for each plan, based on the experience of each plan and the projected future expenses of each plan.

  The difference in this Fund is that there are both City contributions and employee contributions to this Fund (premiums). These premium rates are set on a calendar year basis. If a higher premium is needed there would only be 6 months of premium increase reflected in a fiscal year budget. The rates can be changed more frequently than once per calendar year, however an open enrollment is required to allow employees to change plans based on new rates. This lengthens the time the City needs to react to expenditure changes, maintain a sufficient reserve balance and cover increased expenditures for the time period until the revenues can be adjusted.

The expenditure side is similar in claims from employees using the services. This is the one fund where we expect the claims to come in. The City has implemented the Wellness Center and Wellness programs to help employees proactively manage their health, avoid catastrophic illness, live a healthier lifestyle and potentially reduce long-term health plan cost increases. Most of the increase in FY 14/15 is due to the increased cost of medical and dental care – industrywide standard increase/trend.

Candace explained a graph showing the time frame for the City to react to expenditure changes. For example, in 09/10 expenditures started to rise mainly due to medical cost increases of 16% year over year. The reserve balance fell. The City reacted by changing the rates/premiums to cover the costs plan by plan. We implemented a three-year phase-in increase in premiums to cover the costs of the plan. The City also installed some cost containment measures in plan design features. We renegotiated the prescription drug contract for significant savings and out of network charges were capped (with a shift towards employee out-of-pocket expenses) to encourage employees to use less costly in-network services. The effect was that expenses went down the following year. We continued the rates and decreased the expenses to see if they were one-time or new norm. It takes a long time to respond to large expense changes (as illustrated in the 05/06 to 07/08 timeline on the graph) and determine where to set the reserve balance to allow the City time to react to expenditure changes.

Chairman Somers asked what the specific reserve number would be. Candace replied since we can't react as quickly to expenditure changes, we need a much longer lead time, and we need to maintain a sufficient reserve balance accordingly. We also need to be able to phase-in any premium increase so as to not adversely affect employees in one year.

Art Schenkel asked if there was a sharp increase in the number of employees with a 150% increase in costs. Candace replied there was actually a decrease in employees during that time frame but a 16% increase in medical costs. Gary Manning pointed out there were 4 rounds of layoffs during that time frame and the economy fell apart and gradual increases in employees over time. Mike Kennington asked if the number of retirees went up. Candace stated that about 1/3 of the covered members are retirees. Chairman Somers confirmed employees hired after 2009 would not be eligible for subsidized retiree coverage with the City program.

There was further discussion of the requirements for City subsidized retirement medical coverage. Candace discussed the premium resources graph. Art Schenkel asked what percent the City contributes in total $. Candace explained the employee gets the same $ value: City pays 80%, employee pays 20% of the base plan.

Mike Kennington moved to recommend total revenues of $67 million (City/employee) with a $49 million contribution of City revenues for FY 14/15. Donna Feeney seconded the motion. The vote was unanimous for the recommendation.

Schedule future meetings. The next meetings will be calendared for two meetings in January 2015.

Adjournment 3:02 p.m.

There being no further business, Chairman Somers moved that the meeting be adjourned. Donna Feeney seconded the motion. All concurred. The Board adjourned at 3:48 p.m.

Mary Dellai, Secretary to the Board Date Scott Somers, Board Chairman Date

c: Christopher J Brady, City Manager DeeAnn Mickelsen, City Clerk
Self-Insurance Trust Funds Board Members Mayor's Office

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