



Self-Insurance Trust Fund Board Report

Date: February 5, 2018
 To: Self-Insurance Trust Fund Board
 From: Candace Cannistraro, Office of Management and Budget Director
 Nitra Hawkins, Work Safety Administrator
 Subject: Workers' Compensation Fund: FY 18/19 Funding Recommendations

Purpose

This report will provide an update on the financial status of the Workers' Compensation Trust Fund through Fiscal Year 2016/17, projections for FY 2017/18 and recommended City contributions for inclusion in the FY 2018/19 budget.

Financial Update

Expenditure Trends

Workers' Compensation Fund expenses are tracked in three categories; administration, claims paid and premium costs. Only salary and benefits for City employees who work directly with the program are included in the administration costs. Total expenses have been relatively consistent in the previous five years ranging between \$4.3 million and \$5.2 million with a five-year average of \$4.7 million dollars annually.

FY 16/17 total Workers' Compensation Fund expenses were \$5.1 million – an increase of 7.3% over the previous year. The administration costs consist of the salaries and benefits paid to City employees who directly work on Workers' Compensation and Safety. The increases in expenditures are largely driven by the increased cost of providing medical care. The projected expenditures for FY 17/18 are expected to be \$1.4 million below the budgeted amount. The projected claims for FY 17/18 are anticipated to be \$3.7M, an increase of \$430k over the previous year but \$800k below budget.

	Fiscal Year	Total Expenses	Cost of Claims
Actual	FY 13/14	\$4.7M	\$3.3M
Actual	FY 14/15	\$4.5M	\$3.1M
Actual	FY 15/16	\$4.4M	\$3.0M
Actual	FY 16/17	\$4.7M	\$3.3M
Projected	FY 17/18	\$5.1M	\$3.7M
Forecast	FY 18/19	\$5.9M	\$4.0M

Revenues/Contributions and Reserve Target

The Workers' Compensation Fund has a stable funding source as departments are charged each pay period based on the salary of the departments' employees. The needed revenues are estimated each year and included in the estimated expenses of each department's adopted operating budgets. Expenditures are reviewed during the year and rates may be modified as needed. The outstanding workers' compensation claims are valued at the total estimated payments which may occur over many years based on the type of injury. The current reserve policy sets the reserve target at the amount sufficient to cover the following year's total Workers' Compensation Fund expenses. Staff tries to limit changing rates to coincide with each annual budget adoption to avoid affecting the departments' budgets midyear.

The reserve balance at the end of FY 17/18 will end higher than budgeted due expenses being far lower than budgeted. The budgeted fund balance utilization (where expenses are higher than revenues) was \$2.7 million, but the year-end utilization amount will be \$1.0 million with a projected year-end balance of \$8.8 million. Based on the FY 17/18 projected reserve balance and the expenditures forecasted for FY 18/19, a decrease to the workers' compensation rates from the previous year is recommended for the FY 18/19 budget to reach the targeted reserve.

Future Stability of the Fund

The Safety Services Division provides safety training and education to City employees as well as department-specific safety programs. Claims are reviewed for preventability, commonality and candidacy for additional training. At this time, there are no identified changes in policy or legislation that would affect the future revenues or expenditures of the fund.

Recommendation

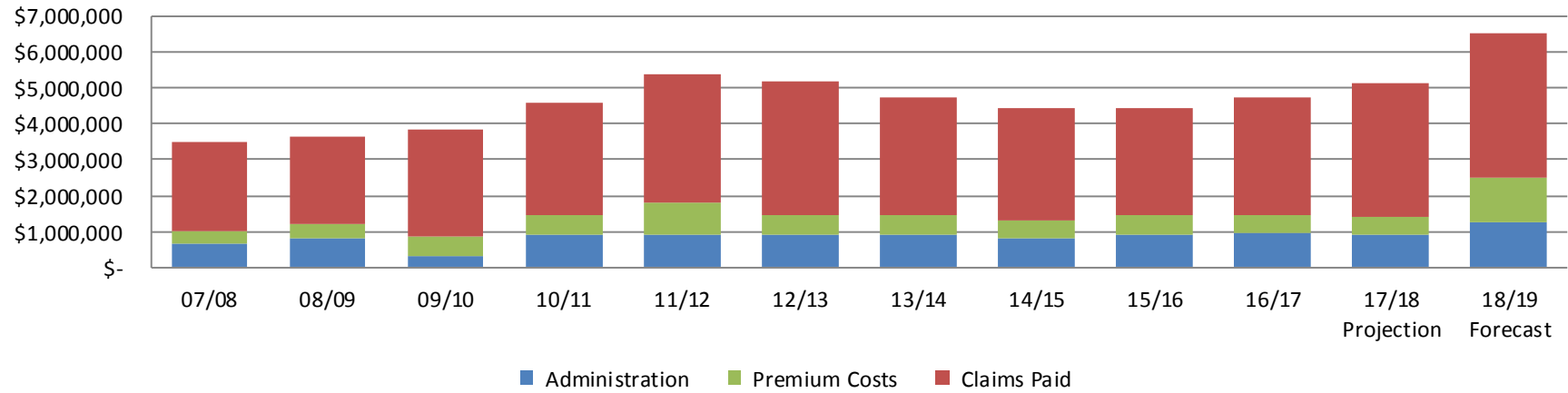
Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 18/19 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation expenses. For FY 18/19, the reserve target is \$6.3 million. The current estimate for the City contribution for FY 18/19 is \$3.1 million with a fund utilization of \$2.5 million.

The final budgeted contribution may vary slightly from the recommendation as the adjusted rates are applied to budgeted salaries and the budget process has not yet been completed.

Attachments:

1. Workers' Compensation Fund Charts – Data Through 12-31-17

Workers' Compensation Trust Fund Expenses



Workers' Compensation Trust Fund Cashflow

