



Self-Insurance Trust Fund Board Report

Date: March 06, 2014
To: Self-Insurance Trust Fund Board
From: Candace Cannistraro, Office of Management and Budget Director
Subject: Property and Public Liability (PPL) Fund: Financial Viability Review

Strategic Initiatives



Purpose and Recommendation

The Self-Insurance Trust Fund Board has received information during previous meetings regarding the purpose and use of the Property and Public Liability (PPL) Fund. This report will review the financial history, reserve policy and future stability of the fund.

Financial History

The PPL Fund receives revenue through annual contributions from the various operating funds of the City. The percentage of the contribution from each operating fund is based on the average claims incurred by departments in recent years. For example, if a department incurs 20% of the recent claims then 20% of the annual contribution is transferred from the source operating fund of that department. For example: the Police department would be the General Fund, Solid Waste would be the Enterprise Fund and Transportation would be the Local Streets Sales Tax Fund. The budgeted contribution for FY 13/14 is 66% General Fund, 20% Enterprise Fund and the rest from various funds. Other revenue sources include interest on the fund balance. For the eight years prior to FY 12/13, the annual City contribution was about \$4.3M. The estimated contribution was increased to \$6.3M for FY 12/13 and 13/14 and estimated at \$5.6M after that.

PPL Fund expenses are tracked and trended 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. The cost of Citywide overhead is not included in the administrative expenses. Administration and premium costs are fairly constant each year. The value of claims paid can vary. Over the last ten years, the variance in the annual claims expense ranged from a low of \$0.8M to a high of \$6.6M, with an average of \$2.7M per year. The low year occurred just recently in FY 12/13. Previous to that, the average annual claims cost was \$3M. FY 13/14 is projected to be \$3.4M and FY 14/15 is estimated to be \$3M. The length of time from the submission of a claim to final resolution varies and can take over a year. This contributes to the variability of the annual costs.

Reserve Policy

Maintaining an appropriate reserve is important for any fund. The reserve policy for each fund is catered to the fund's needs and characteristics. A fund with inconsistent or uncontrollable revenue sources may need a larger reserve to ensure ability to cover expenses during a downturn in revenues. In the same manner, a fund with inconsistent or uncontrollable expenditures may also need a larger reserve for the same reason. The magnitude of the expenses also plays a role. The same dollar change in expenditures will have a greater percentage change on a smaller fund than a larger fund.

The PPL Fund has expenditures that can vary greatly from year to year, but a stable funding source as it is a direct contribution from the City's operating funds. The needed contribution is estimated each year and included in the adopted budget. Expenditures are reviewed during the year and the contribution can be modified as needed. Staff's current reserve practices also considers the amount sufficient to cover pending claims. Staff has considered \$12M for a target reserve balance for the last ten years.

The all-time high claims in FY 09/10 (\$6.6M) resulted in the balance falling below the target for a few years as the City dealt with the effects of the recession on the City's operating funds. This illustrates the intended use of reserve balances, to allow for flexibility in the management of the fund. The adopted FY 12/13 budget called for a two year reserve balance recovery by temporarily increasing the budgeted contribution. Fortunately the City experienced a ten-year low claims amount in FY 12/13 (\$0.8M) and the reserve balance was restored in only one year. This will allow the City to decrease the actual contribution amount for the current year.

Future Stability of the Fund

The City's management practices over the last ten years have resulted in a stable reserve balance for the PPL Fund. There are no identified changes in policy or legislation that would affect the future revenues or expenditures of the fund.

Recommendation

Continuation of staff's current fund management practices through the adjustment of operating fund contributions based on analysis of the estimated expenses. Continuation of staff's current practices to set the reserve target at an amount sufficient to cover outstanding claims but manage the variance from the target based on the overall needs and abilities of the City.

The actual City contribution for FY 12/13 was \$6.3M. The budgeted City contribution for FY 13/14 is \$6.3M. Staff has estimated the contribution needed for FY 13/14 to be only \$5.0M in order to maintain an appropriate fund balance.

The estimated City contribution for FY 14/15 is \$5.6M and is the staff recommendation for inclusion in the annual budget.

Attachments:

1. Property & Public Liability Trust Fund: Expenses, Cashflow