

# CITY OF MESA

## Minutes

### Self-Insurance Trust Fund Board

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Thursday, February 15, 2024

3:30PM – 5:00PM

MCP – Room 170

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#### **Roll Call - Board Members Present:**

Councilmember Scott Somers, Chairperson  
Michael Kennington  
Courtney Guinn  
Michael Schaiberger  
Peggy Lynch  
Tracy Hurt, Board Secretary

#### **Others in attendance:**

Jason Reed, Deputy City Attorney  
Lisa Lorts, RM Claims Analyst  
Nitra Hawkins, Safety Administrator  
Janice Ashley, Employee Benefits Administrator  
Brian Ritschel, OMB Director  
Samuel Schultz, OMB Deputy Director  
Kristi Griffin, OMB Budget Coordinator  
Teri Overbey, HR Director  
Duncan Stoutner, Assistant City Attorney III  
Alicia Martinez, Council District Coordinator

The meeting was called to order at 3:30pm by Chairperson Councilmember Somers who asked if there were any Items from citizens present. There were none.

Jason Reed gave a presentation on the Public Property and Liability Trust Fund highlighting the costs associated to the fund which include staffing, claims defense costs and payouts, and insurance premiums (*see attachment: PPL Trust Fund Board Report*). Mr. Reed noted that there was more than \$1M reduction in the amount spent on outside counsel as the City's litigation unit continues to handle cases internally when possible.

Insurance costs continue to be challenging with multiple factors contributing to increased premiums. Several carriers have withdrawn from the market for public entities resulting in fewer competitors and remaining carriers raising premiums. As the City grows and acquires more properties they are subject to more claims and lawsuits. In addition, insurance coverage for law enforcement has increased as claims are increasing nationwide in frequency and severity. Cyber insurance is also a significant expense as public entities are regular targets of cybercrime.

Mr. Reed stated that while the above-listed pressures affect the City's premiums, the City is also working to minimize the premium increases with better practices, increased training, and increased liability sensitivity. The City's efforts have been successful on various fronts. For example, for FY 2023/24, the City was able to obtain property insurance for a rate of .065 (rate is per hundred dollars insured). The City's insurance broker compared this rate with the rate of three other large municipalities. The City had the lowest rate among the four municipalities listed in the survey.

Mr. Guinn asked if the comparison cities were local or nationwide and Mr. Reed indicated that we weren't privy to that information but the comparative metric was cities of the same population size (500,000).

In conclusion, Mr. Reed noted that the City has had a successful year in managing the claims and lawsuits filed against the City and its employees. That said, pressure continues to exist on the PPL Trust Fund based on, among other things, high-exposure claims and the rising cost of litigation, outside counsel fees, and insurance. Last year, the Board recommended that the City adopt a resolution raising

the minimum balance of the PPL Trust Fund and the City anticipates moving forward with that recommendation.

Kristi Giffin, Office of Management and Budget Deputy Coordinator presented the *PPL Trust Fund Financial Update and FY 24/25 Funding Recommendations* report for reference. She noted for FY 2023/24, PPL Trust Fund contributions are estimated at \$9.0 million to achieve an ending reserve balance of \$11.9 million. While claims costs are projected to end lower than budget this fiscal year, the cost of insurance premiums and claims costs continue to rise. The City is forecasting the City contribution at \$10.3 million for FY 2024/25 to bring the ending reserve balance to \$12.0 million. The City is on a multi-year plan to increase the fund balance to minimize the City's financial impact with mediation on multiple large claims.

Nitra Hawkins, Safety Administrator, provided an overview of the City's self-insured and self-administered Workers' Compensation program operations, expenses, and staffing referencing the *Workers' Compensation Financial Update and FY 24/25 Funding Recommendations* (attached). Nitra noted that there are currently 478 open claims which is a significant caseload increase. She indicated that some contributing factors to claims increases are tactical training injuries (53 in 2023 vs. 29 in 2022); physical altercations in public safety (59 in 2023 vs. 36 in 2022); and bloodborne pathogen exposures in public safety and park rangers (41 in 2023 vs. 34 in 2022). The Safety Services team continues to work with departments where high claims are occurring to assist with evaluation and safety training.

Mike Kennington asked Nitra to speak to the fact that the claims increased yet the costs were down in the current fiscal year. Nitra stated the cost reduction is based on third party billing company, Corvel, who reviews costs and negotiates for us, as well as individual claims being less costly if injuries are less significant. There was also a reduction in the presumptive cancer claims from the prior year.

Kristi Griffin provided the *Workers' Compensation Trust Fund Financial Update and FY 24/25 Funding Recommendations* (attached) and stated that FY 2023/24 are projected to be \$5.4 million. This is lower than the previous three years due to claim costs, which are projected at \$3.2 million, and an increase in fire cancer reimbursements related to claims in the previous fiscal year. Additionally, FY 2023/24 costs related to the Fire Cancer contribution to the state risk pool have been removed from the WC Trust Fund and are now being recorded in the General Fund. The reserve balance at the end of FY 2023/24 is projected to be \$10.8 million. Based on the FY 2023/24 projected reserve balance and the expenses forecasted for FY 2024/25, a decrease in the WC rates from the previous year is forecasted for the FY 2024/25 budget. This will bring the year end targeted reserve balance equal to FY 2025/26 estimated total WC Trust Fund expenses. For FY 2024/25, the City forecasts a decrease in the rates to achieve a City contribution of \$3.7 million. The final budgeted contribution may vary slightly from the forecast as the adjusted rates are applied to budgeted salaries and the budget process has not yet been completed.

Janice Ashley, Employee Benefits Administrator, reviewed the *EBT- OMB Financial Update and FY 24/25 Funding Recommendations* (attached) and addressed the contributing factors affecting the EBT fund. She noted the following:

- National trend increases including healthcare inflation effect (4% to 8%)
- Year-over-year membership increases (15,532 members February 2024 vs 15,027 February 2023) a 3% increase, and 4% increase from February 2022 to February 2023. Additionally, administrative fees are based on a per employee or per member per month fee structure.
- Medical – up 7% (\$4.4 million)
- Medical claims counts – up 0.7% (1,296 more claims)
- Prescription Drugs overall – up 27% (\$5.8 million)
- Specialty Drugs – up 40% (\$3.2 million)

Some expense offsets/decreases Jan reviewed were:

- Zero high-cost claimants above \$500,000 in active population in CY 2023
- Lower number of high-cost claimants in retiree population in CY 2023
- Active employee members moving to Basic Plan which provides two valuable features – no premium deductions for members and benefit levels reduce to 50% co-insurance so the City has lower claims liability
- Retirees aging into Medicare eligibility - the City becomes secondary on claims liability
- High utilization of COM Employee Health and Wellness Center for “free of charge” primary and preventive care services and wellness screenings by both active and retired members
- Engaged participation in Mesa 360 Wellness programs:
  - ✓ 2,505 (54%) of eligible employees - up 4%
  - ✓ 422 Spouses (20%) of eligible spouses – up 0.8%

Michael Kennington asked if our claims expenses are reduced when retirees become Medicare eligible and Jan said yes, since City retiree medical plans become a secondary payor. At the same time however, we also discount retiree premium responsibility each month by \$100 per Medicare eligible individual in recognition of the reduced claims liability and that the retiree is also paying a monthly Medicare premium direct to Medicare. When the City becomes the secondary payor, if Medicare pays 80% then the City would only pay 20% (after standard plan deductibles etc.).

Kristi Griffin provided the EBT-OMB Financial Update and FY 24/25 Funding Recommendations (attached) noting that current reserve balance policy sets the reserve minimum at 30% of year-end EBT Fund balance to following year total EBT Fund expenses. The 30% reserve balance has been determined to be the lowest threshold that the fund can tolerate two consecutive years of significant expenditures, while keeping contributions at no more than 8% growth.

For CY 2024, staff implemented a 2% increase in premium contributions for both active and retired employees. The EBT Fund is projected to end FY 2023/24 with a balance of \$45.1 million (36.9% reserve balance). Office of Management & Budget and Employee Benefits staff will continue to monitor the claims experience of the fund. As medical and prescription claim trends emerge, the City will consider annual adjustments to premium contributions to maintain the fund balance.

The FY 2024/25 forecast currently includes the same increase to premium contributions, a 2% increase for active employees and 2% for retired employees in CY 2025. This equates to a FY 2024/25 City contribution of \$90.6 million to the EBT Fund, resulting in an estimated year-end fund balance of \$42.5 million (33.1% reserve balance). The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

Following the presentations, Michael Kennington made a motion to approve the recommendations presented for the Public Property and Liability Trust Fund, Worker's Compensation Trust Fund, and the Employee Benefits Trust Fund. The motion was seconded by Michael Schaiberger and voted on as follows:

Courtney Guinn – approve  
 Michael Schaiberger – approve  
 Peggy Lynch – approve  
 Michael Kennington – approve  
 Councilmember Somers – approve  
 None opposed

A motion to verify insurance provider licenses for the PPL Trust Fund, WC Trust Fund and EBT Fund as presented (attached) by Courtney Guinn was seconded by Michael Kennington and voted on as follows:

Courtney Guinn – approve  
Michael Schaiberger – approve  
Peggy Lynch – approve  
Michael Kennington – approve  
Councilmember Somers – approve  
None opposed

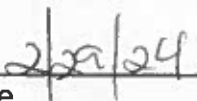
A motion to authorize the Chairperson of the Board to approve Board minutes after draft minutes have been circulated to all members by Michael Kennington and seconded by Courtney Guinn was voted on as follows:

Courtney Guinn – approve  
Michael Schaiberger – approve  
Peggy Lynch – approve  
Michael Kennington – approve  
Councilmember Somers – approve  
None opposed

The final order of business was to discuss the scheduling of future meetings. Board Secretary Tracy Hurt noted the next meeting would be February 2025.

There being no other items for discussion, the meeting was adjourned by Chairperson Councilmember Scott Somers at 4:30pm.

  
Councilmember Scott Somers, Board Chair

  
Date

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**Date:** February 15, 2024  
**To:** Self-Insurance Trust Fund Board  
**From:** Jim Smith, City Attorney  
Jason Reed, Deputy City Attorney  
Lisa Lorts, Risk Management Claims Analyst  
**Subject:** The City of Mesa's Property and Public Liability Trust Fund

**I. Purpose.**

This report addresses the financial status of the City's Property and Public Liability Trust Fund (the "PPL Trust Fund") and a budgetary recommendation for the PPL Trust Fund.

**II. PPL Trust Fund Finances.**

In accordance with state law, the PPL Trust Fund covers the following costs and expenses:

1. Costs associated with staffing the litigation unit in the City Attorney's Office;
2. Payouts and defense costs of third-party claims and lawsuits filed against the City and its employees; and
3. The City's insurance premiums.

In FY 22/23, the PPL Trust Fund incurred \$8.71 million in costs: \$4.52 million for claims and lawsuits; \$2.85 million for insurance; and \$1.35 million for the staffing costs of the litigation unit. For FY 23/24, the City estimates that it will have \$8.82 million in costs: \$4.00 million estimated for claims and lawsuits; \$3.34 million for insurance; and \$1.49 for the staffing costs of the litigation unit.

### **III. Litigation Expenses.**

#### **A. The City's Litigation Unit.**

The City's litigation unit defends the City and its employees in nearly all third-party liability claims and lawsuits. In the past calendar year, the litigation unit has handled approximately 298 claims and 30 lawsuits.

In contrast, many cities hire outside counsel to handle their claims and lawsuits. By handling most of the City's litigation matters internally, the City recognizes significant cost savings for the PPL Trust Fund. For example, in FY 20/21, the staffing cost for the litigation unit was \$1.20 million to handle 221 claims and 29 lawsuits. In contrast, the City retained outside counsel to defend the lawsuits associated with seven different incidents. In that same year, the cost of outside counsel for those seven incidents was approximately \$890,000.

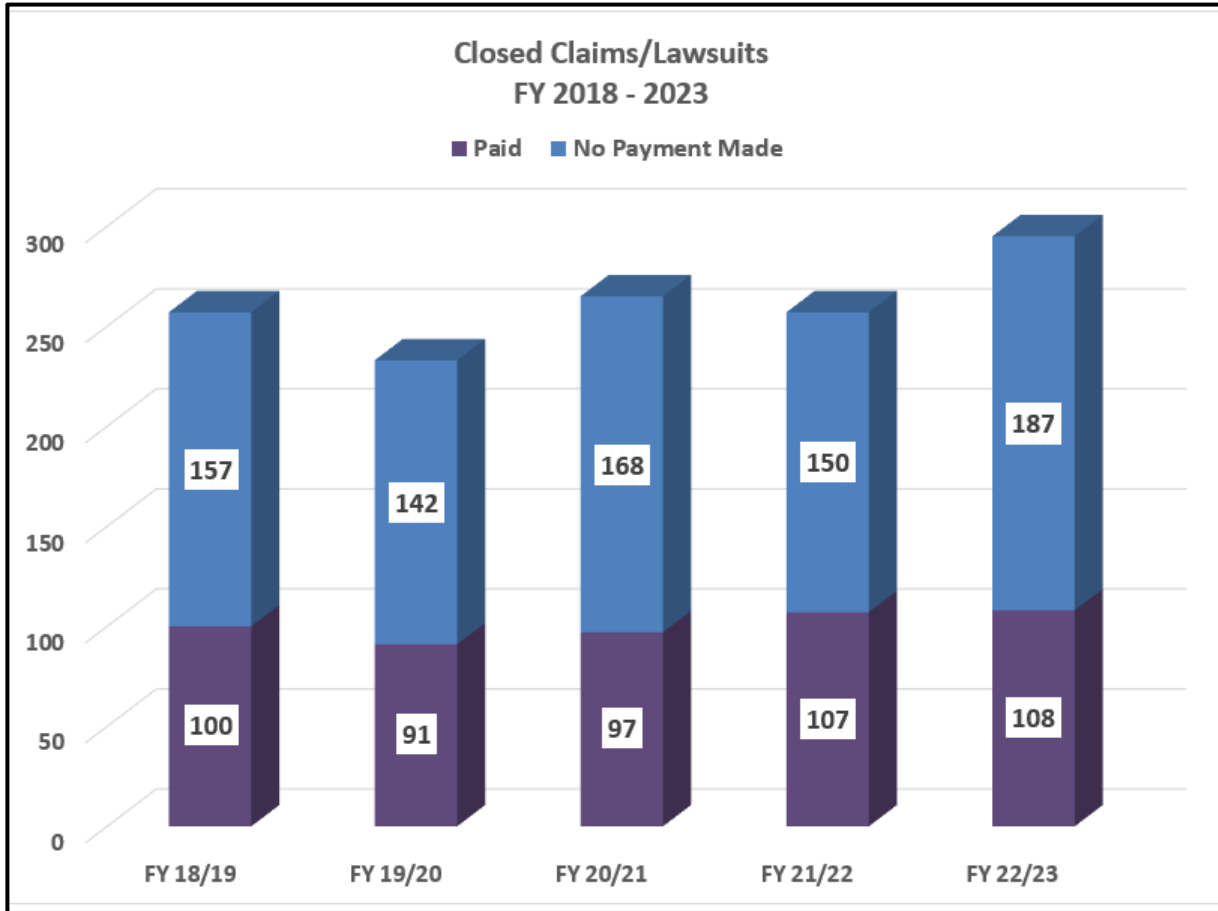
By handling litigation matters internally, the City's litigation unit also develops a strong working knowledge of the City's operations and reinforces strong working relationships with City employees. This also helps the City recognize significant cost savings because, in contrast with outside counsel, the litigation unit does not spend time and money on getting up to speed regarding the City's operations and witnesses whenever a new claim or lawsuit is filed.

The City Attorney's Office also works with City departments to help reduce the City's financial exposure and explore areas of improvement. This collaborative effort helps to identify better practices, implement additional training, and increase liability sensitivity.

In the past calendar year, the litigation unit has achieved some significant successes, including obtaining summary judgment/dismissal in multiple lawsuits against the City and its employees. In total, the litigation unit settled and resolved approximately 314 claims and lawsuits in 2023.

#### **B. Claims Against The City.**

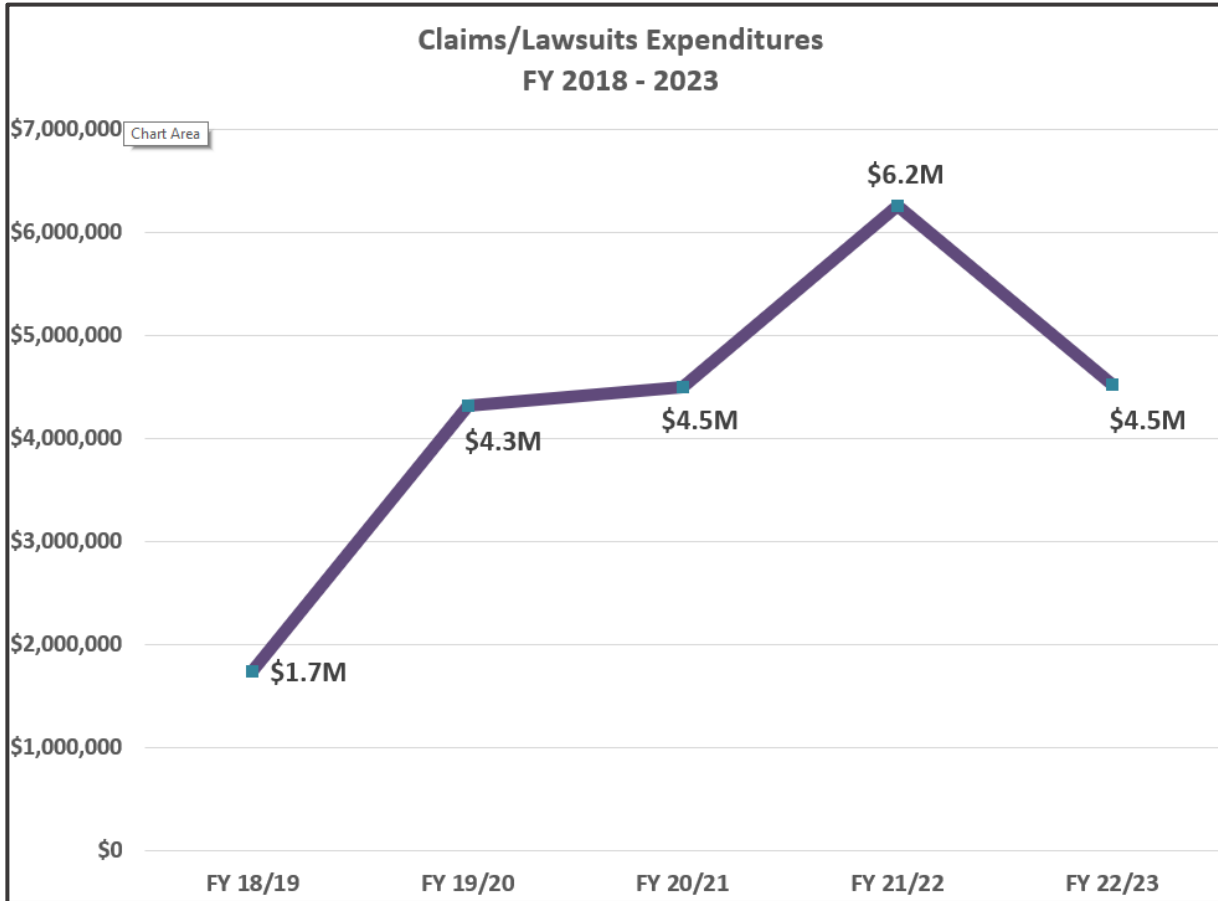
The City receives around 265 claims and 30 lawsuits each fiscal year. As shown in the following chart, the City is able to resolve a majority of these claims and lawsuits without making a payment to the claimant.



Based on national and local trends, the City anticipates that the number of claims and lawsuits filed against the City will increase. One reason for this is the City's growth. Cities that have an increasing population (like the City of Mesa) experience an increased number of claims and lawsuits. This increase can be attributed, at least in part, to the additional services that large cities provide and the number of employees that the City has working with the public. Larger cities simply receive more claims than smaller cities.

In addition to an increased number of claims and lawsuits, the City also anticipates that litigation costs will increase. Some of those increasing costs include larger damage awards, increased outside counsel fees, higher expert witness fees, increased technology costs, and attorney fee shifting provisions.

The following chart shows the annual claim-related payouts from the PPL Trust Fund. The variation in the annual payout depends primarily on whether high-exposure cases were resolved during a particular fiscal year.



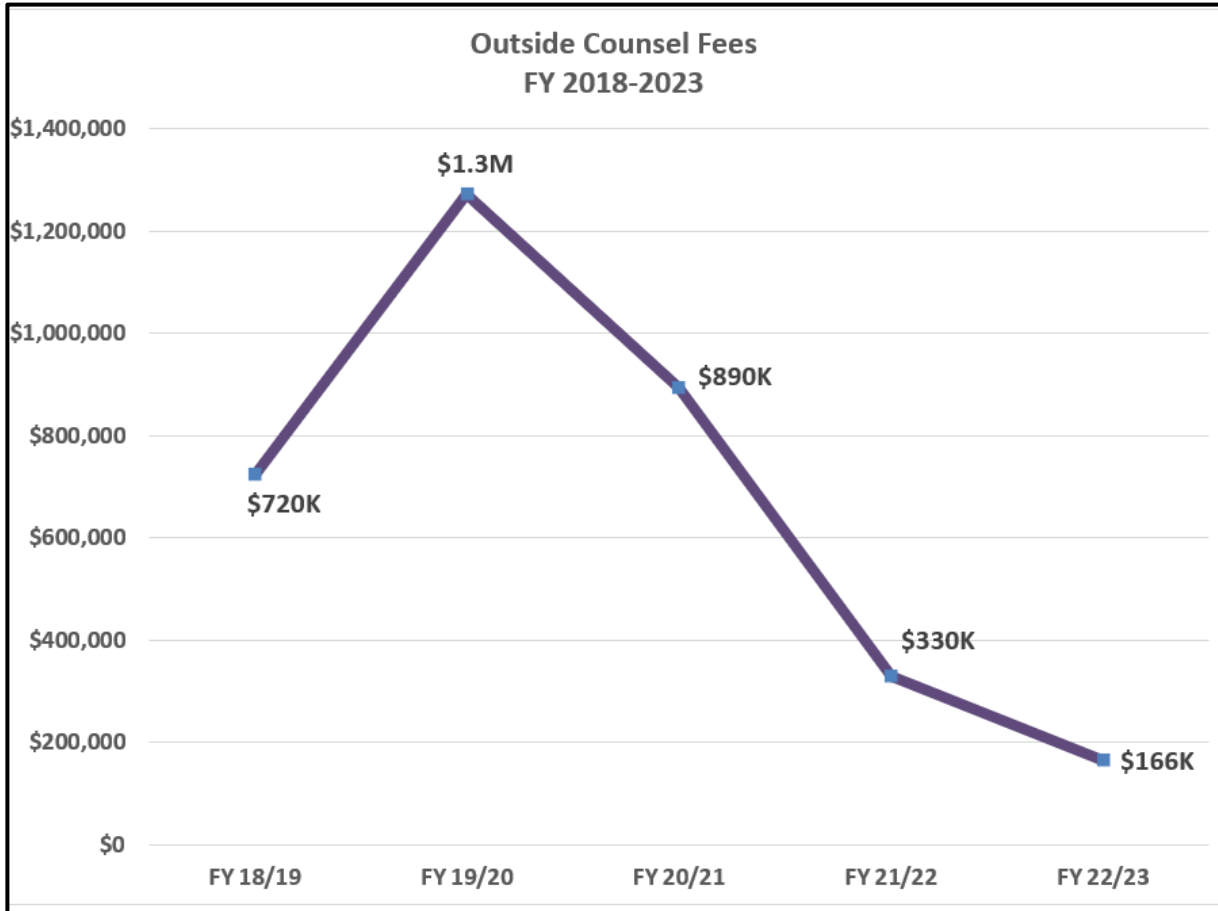
Considering the factors listed above and the number of high-exposure cases that the City is currently defending, pressure may be placed on the PPL Trust Fund if a jury awarded significant damages in one or more of the City's high-exposure cases.

### **C. Outside Counsel.**

The City generally retains outside counsel when a conflict of interest prevents the City's litigation unit from defending the lawsuit, when a particular expertise is needed, and/or for certain high-exposure claims that may erode the City's Self-Insured Retention ("SIR").

Because high-exposure cases can last for several years, the City can continue to incur costs for outside counsel until these matters are resolved. The following chart shows the amounts spent on outside counsel for the last five years.



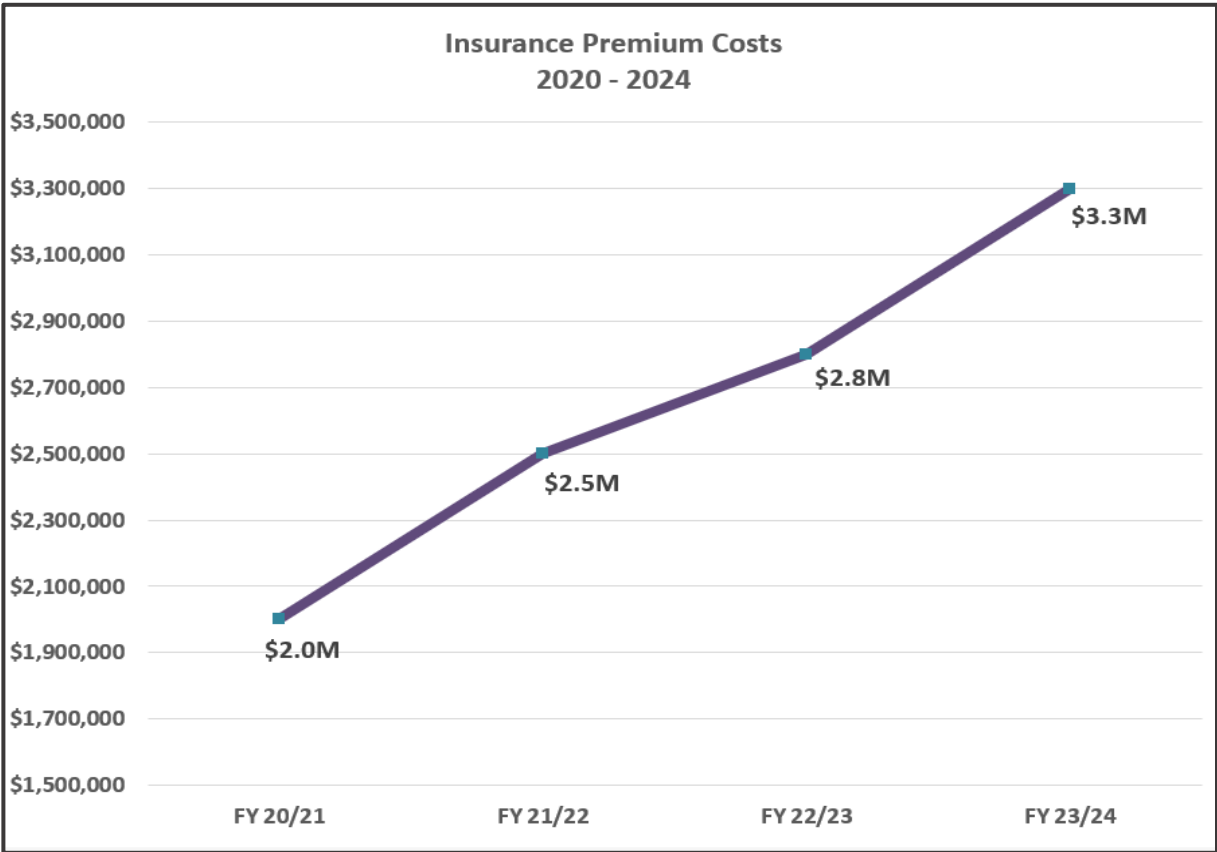


To help limit the PPL Trust Funds' exposure to the costs associated with outside counsel, the City works to expand the City's capacity to handle claims and lawsuits internally. For example, from FY 19/20 to FY 22/23, the City reduced the amount spent on outside counsel by more than a million dollars by, among other things, continuing to have the City's litigation unit handle cases internally.

The City also works with outside counsel to efficiently manage those cases by, among other things, retaining outside counsel with specific expertise, exploring areas for dispositive motions, using offers of judgment to limit plaintiffs' ability to shift their attorney fees to the City, and exploring reasonable settlement proposals.

**IV. Insurance.**

In recent years, the insurance market has been very challenging for municipalities. Shown below, the City has seen a significant increase in its insurance premiums for the last four years.



Multiple factors and conditions contribute to the increased premiums. Because the City anticipates that these conditions will continue for the foreseeable future, the City anticipates that insurance premiums will continue to rise.

For example, several carriers have withdrawn from the insurance market for public entities. With fewer competitors in the market, the remaining carriers have raised premiums for the available insurance capacity.

Second, it is more difficult for large municipalities to get insurance. Larger cities provide more services to the community, they have more interactions with the public, and they generally have larger assets. As a result, those cities are subject to more claims and lawsuits. The increased number of claims and lawsuits (and the costs associated with those claims and lawsuits) contribute to higher premiums for municipal insurance.

Third, insurance coverage for law enforcement has increased. Law enforcement claims are increasing nation-wide in frequency and severity. This translates into an increased number of lawsuits, increased costs to litigate, and increased costs associated with settlement of those claims. Municipal insurance premiums reflect those increased pressures.

Cyber insurance is also a significant expense. Public entities are regular targets of cybercrime. Strict IT underwriting requires in-depth applications focusing on IT upgrades, multifactor authentication, and endpoint encryption. Coverage that the City obtained two and three years ago simply is not available (considering the coverage and the cost).

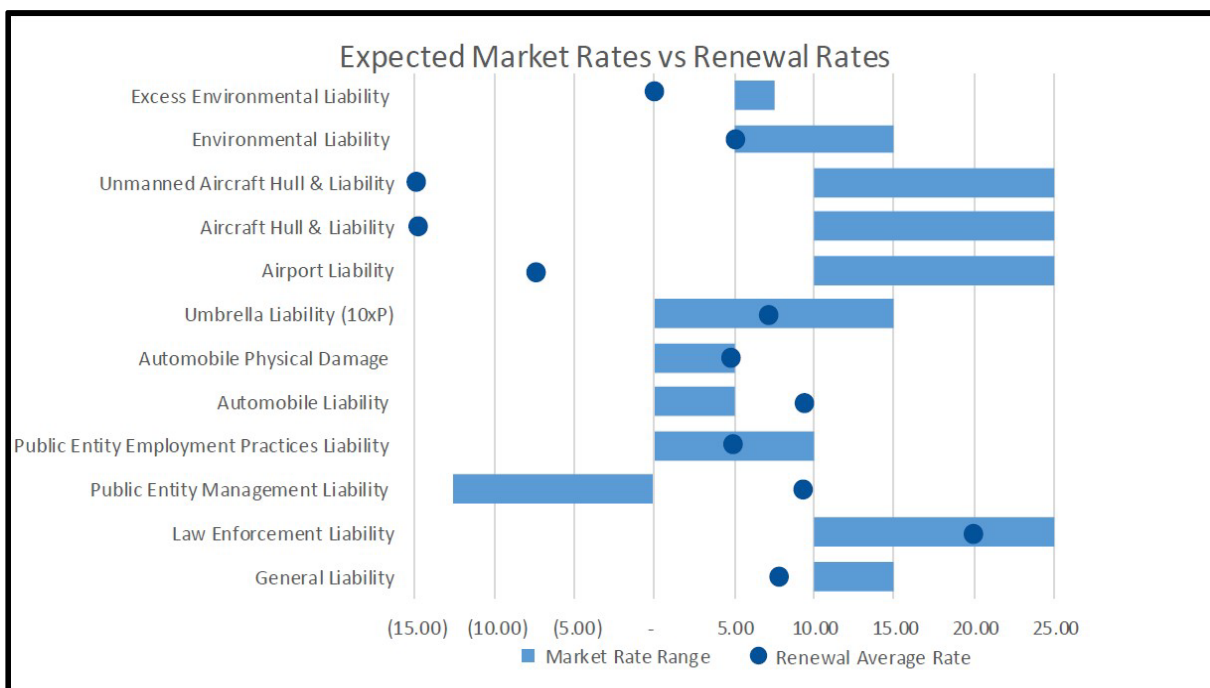
Other factors affecting insurance carriers and contributing to the lack of capacity include general market conditions, i.e., inflationary pressures (that affect the carriers' investment profitability), natural disasters (floods, winter storms, fires) where carriers have made a significant payout, and challenges within the reinsurance market.

While the above-listed pressures affect the City's premiums, the City is also working to minimize the premium increases with better practices, increased training, and increased liability sensitivity.

The City's efforts have been successful on various fronts. For example, for FY 2023/24, the City able to obtain property insurance for a rate of .065 (rate is per hundred dollars insured). The City's insurance broker compared this rate with the rate of three other large municipalities. The City had the lowest rate among the four municipalities listed in the survey.

<b>Client</b>	<b>Population</b>	<b>Insured Value</b>	<b>Insurance Rate</b>	<b>Deductible</b>
City No. 1	495,000	\$3,250,000,000	0.073	\$150,000
City No. 2	200,000	\$1,000,000,000	0.107	\$100,000
City No. 3	650,000	\$2,300,000,000	0.092	\$250,000
<b>City of Mesa</b>	<b>509,475</b>	<b>\$1,422,819,411</b>	<b>0.065</b>	<b>\$100,000</b>

As to liability coverage, the City's rate increases generally were better than and/or consistent with the renewal rates of other municipalities. For three coverages (Aircraft Hull & Liability, Unmanned Aircraft Hull & Liability, and Airport Liability), the City's premiums decreased.



Last year, the City also reduced its excess liability coverage to \$40 million (from \$50 million) and maintained a \$3 million self-insured retention. This year, the City considered reducing the excess coverage to \$35 million. The City decided to remain at \$40 million because the anticipated reduction in premium did not provide significant savings. The City, however, will continue to evaluate the City's excess liability insurance to manage its cost. Areas of adjustment may include adjusting the total amount of liability insurance and/or the amount of the City's self-insured retention.

## V. Summary And Recommendation.

The City has had a successful year in managing the claims and lawsuits filed against the City and its employees. That said, pressure continues to exist on the PPL Trust Fund based on, among other things, high-exposure claims and the rising cost of litigation, outside counsel fees, and insurance.

Last year, the Board recommended that the City adopt a resolution raising the minimum balance of the PPL Trust Fund. The City anticipates moving forward with that recommendation. In the meantime, the City is making budgeting recommendations to maintain an adequate balance in the PPL Trust Fund and that will exceed the \$10 million floor.

To ensure that the PPL Trust Fund maintains the ability to cover the costs and expenses necessary to protect the City, the City recommends a City contribution of \$9.0 million for FY 23/24 so that the PPL Trust Fund will have an ending balance of \$11.9 million.



## Self-Insurance Trust Fund Board Report

Date: February 15, 2024

To: Self-Insurance Trust Fund Board

From: Samuel Schultz, Office of Management and Budget Deputy Director  
Brian Ritschel, Office of Management and Budget Director

Subject: Property and Public Liability Trust Fund: Financial Update and FY 2024/25 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2022/23 regarding the financial history and reserve policy of the Property and Public Liability (PPL) Trust Fund. This report will provide an update on the financial status of the fund through FY 2022/23, year-end projections for FY 2023/24, and recommended City contributions for the FY 2024/25 budget.

### Financial Update

#### *Expenses Trends*

Expenses in the PPL Trust Fund are tracked in three categories: administration, claims paid, and premium costs. Administration costs include salary and benefits of City employees who work directly with the program, as well as other operating costs. Citywide overhead charges are not applied to the PPL Trust Fund. For FY 2023/24 the claims are projected to come in below budget. The length of time from the submission of a claim to final resolution, value of claims paid, and frequency of claims contribute to the variability of the annual costs to the PPL Trust Fund. The total expenses and cost of claims for the last several fiscal years are shown in the following chart.

	Fiscal Year	Total Expenses	Cost of Claims
Actual	FY18/19	\$4.1M	\$1.7M
Actual	FY19/20	\$7.0M	\$4.3M
Actual	FY20/21	\$7.7M	\$4.5M
Actual	FY21/22	\$9.9M	\$6.2M
Actual	FY22/23	\$8.7M	\$4.5M
Projected	FY23/24	\$8.8M	\$4.0M
Forecast	FY24/25	\$10.4M	\$5.0M

### *Revenues/Contributions and Reserve Balance*

PPL Trust Fund expenses can vary greatly from year to year, but the fund has a stable funding source from contributions directly from the City's operating funds. The needed contribution is estimated each year and included in the adopted budget. Expenses are reviewed during the year, and contributions are made to the fund on a quarterly basis.

For FY 2023/24, PPL Trust Fund contributions are estimated at \$9.0 million to achieve an ending reserve balance of \$11.9 million. While claims costs are projected to end lower than budget this fiscal year, the cost of insurance premiums and claims costs continue to rise. The City is forecasting the City contribution at \$10.3 million for FY 2024/25 to bring the ending reserve balance to \$12.0 million. The City is on a multi-year plan to increase the fund balance to minimize the City's financial impact with mediation on multiple large claims.

### *Future Stability of the Fund*

The City's management practices and efforts by the City's litigation team over the last several years have resulted in a stable reserve balance for the PPL Trust Fund. Insurance premium costs to the City for property and public liability insurance are negotiated on an annual basis and are forecasted to increase 15-20% over the next couple of years due to the volatility in the market. Total claim costs are projected to increase. Due to these increases the City is recommending maintaining a fund balance between \$12-\$15 million.

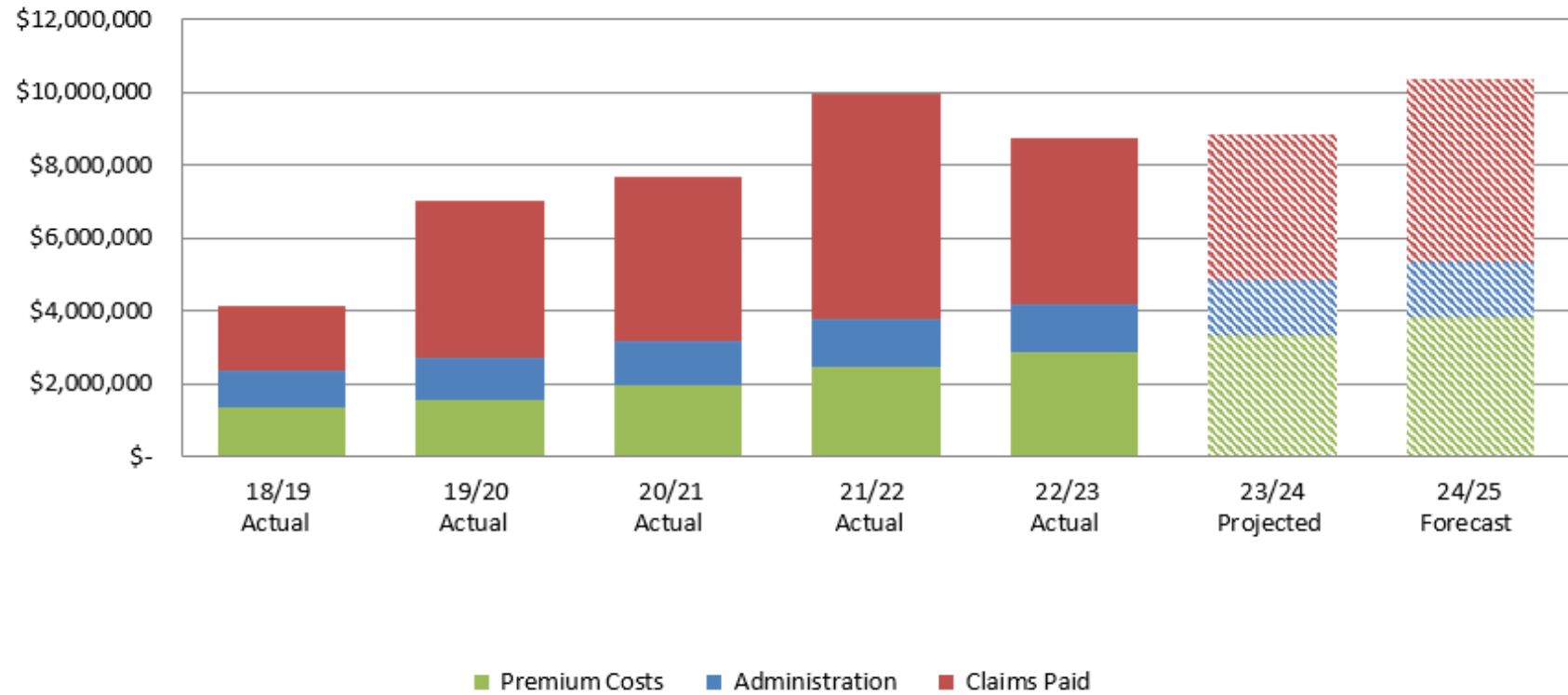
### **Recommendation**

Staff projects a City contribution of \$9.0 million for FY 2023/24 so that the PPL Trust Fund will have an ending balance of \$11.9 million. Staff recommends including \$10.3 million City contribution in the FY2024/25 budget to achieve an ending reserve balance anticipated to be at \$12.0 million.

### **Attachments**

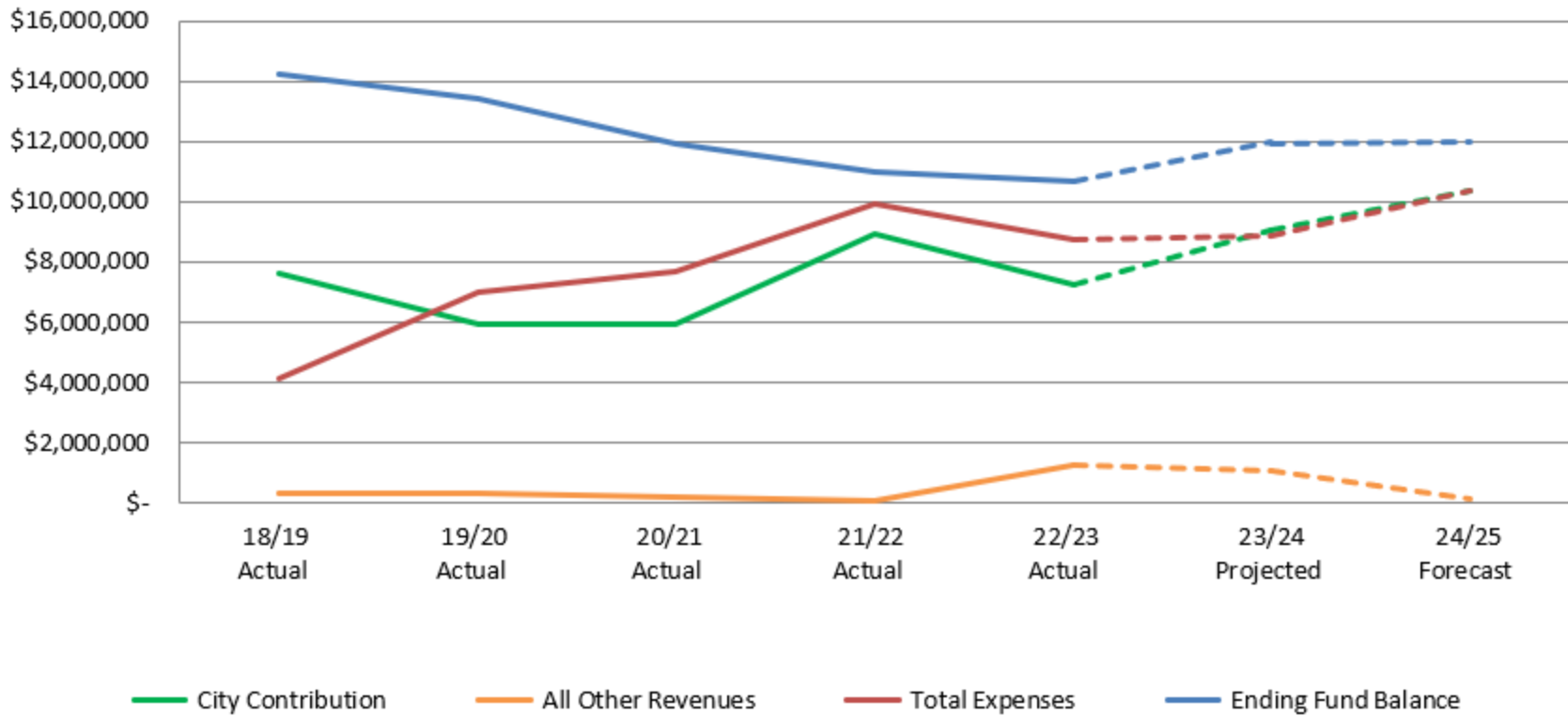
1. *Property & Public Liability Trust Fund Expenses and Property & Public Liability Trust Fund Cashflow Charts*

## Property & Public Liability Trust Fund Expenses





## Property & Public Liability Trust Fund Cashflow





## Self-Insurance Trust Fund Board Report

Date: February 15, 2024  
To: Self-Insurance Trust Fund Board  
From: Nitra Hawkins, Safety Administrator  
Teri Overbey, Human Resources Director  
Samuel Schultz, Office of Management and Budget Deputy Director  
Brian Ritschel, Office of Management and Budget Director  
Subject: Workers' Compensation Trust Fund: Financial Update and FY 2024/25 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2022/23 regarding the financial history and reserve policy of the Workers' Compensation (WC) Trust Fund. This report will provide an update on the financial status of the fund through FY 2022/23, year-end projections for FY 2023/24, and provide the recommended City contributions for the FY 2024/25 budget.

### Financial Update

#### *Expense Trends*

Expenses in the WC Trust Fund are tracked in three categories; administration, claims paid, and premium costs. Administration costs include salary and benefits of City employees who work directly with the WC program, as well as other operating costs. Citywide overhead charges are not applied to the WC Trust Fund.

Total expenses for FY 2023/24 are projected to be \$5.4 million. This is lower than the previous three years due to claim costs, which are projected at \$3.2 million, and an increase in fire cancer reimbursements related to claims in the previous fiscal year. Additionally, FY 2023/24 costs related to the Fire Cancer contribution to the state risk pool have been removed from the WC Trust Fund and are now being recorded in the General Fund. The total expenses and cost of claims for the last several fiscal years are shown in the following chart.

	<b>Fiscal Year</b>	<b>Total Expenses</b>	<b>Cost of Claims</b>
Actual	FY 18/19	\$4.8M	\$3.0M
Actual	FY 19/20	\$4.8M	\$3.2M
Actual	FY 20/21	\$6.2M	\$4.3M
Actual	FY 21/22	\$8.0M	\$4.6M
Actual	FY 22/23	\$8.0M	\$4.5M
Projected	FY 23/24	\$5.4M	\$3.2M
Forecast	FY 24/25	\$7.3M	\$4.8M

### *Revenues/Contributions and Reserve Target*

The WC Trust Fund has a stable funding source as departments are charged each pay period based on the salary of the departments' employees. The Trust Fund revenues are estimated based on projected expenses and current fund balance to identify potential contribution rate changes. The current reserve policy sets the fund balance reserve target at the amount sufficient to cover the following year's total WC Trust Fund expenses. Rates are adjusted annually to coincide with budget adoption.

The reserve balance at the end of FY 2023/24 is projected to be \$10.8 million. Based on the FY 2023/24 projected reserve balance and the expenses forecasted for FY 2024/25, a decrease in the WC rates from the previous year is forecasted for the FY 2024/25 budget. This will bring the year end targeted reserve balance equal to FY 2025/26 estimated total WC Trust Fund expenses.

### *Future Stability of the Fund*

The Municipal Firefighter Cancer Reimbursement (MFCR) Fund has minimized the impact of presumptive cancer claims to the WC Trust Fund. For every dollar the City spends on providing medical treatment and lost wage benefits, the City is reimbursed, dollar for dollar, from the MFCR Fund on presumptive cancer claims established on or after September 29, 2021. Presumptive cancer claims filed before September 29, 2021 are not eligible for reimbursement and may continue to have a negative cumulative impact on the WC Trust Fund.

The rise in excess WC insurance premiums will continue to have an impact on the WC Trust Fund. As the WC insurance market deteriorates there are fewer insurance carriers available to underwrite excess insurance packages. Insurance premiums are up 23.6% from FY21/22 to FY23/24.

The total claims costs are forecasted to increase 5% due to healthcare inflation. Additionally, the City's 5-year average for the number of new claims filed is up 7%, which equates to an annual average of 437 new WC claims. In CY 2023, 516 new WC claims were filed by injured employees. There are currently 478 active and open WC claims as of January 29, 2024.

Calendar Year	# Workers' Compensation Claims
2019	451
2020	349
2021	430
2022	439
2023	516
<b>Average</b>	<b>437</b>

The Safety Services Division provides OSHA safety training and education to City employees as well as department-specific safety programs. The safety team members work in collaboration with departments to proactively address, correct, and mitigate safety challenges. Claims are reviewed for preventability, mechanism, and accident types for trending and candidacy for additional training to reduce accident occurrence with the goal of reducing the number of future injuries and illnesses which can result in additional WC claims.

### **Recommendation**

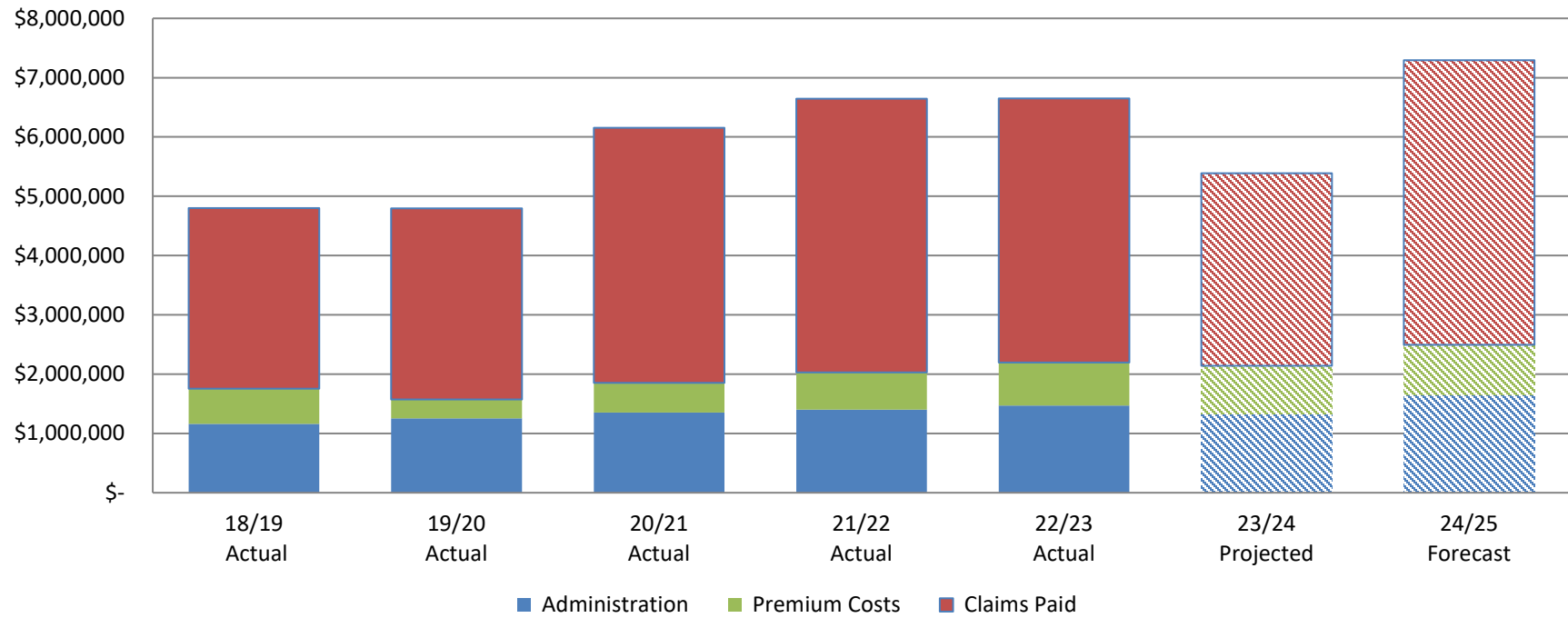
Staff recommends the continuation of the current practice of adjusting rates annually and setting the rates for FY 2024/25 at a level to achieve a targeted ending reserve balance sufficient to cover the following fiscal year's annual WC Trust Fund expenses. For FY 2024/25, the City forecasts a decrease in the rates to achieve a City contribution of \$3.7 million.

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

### **Attachments**

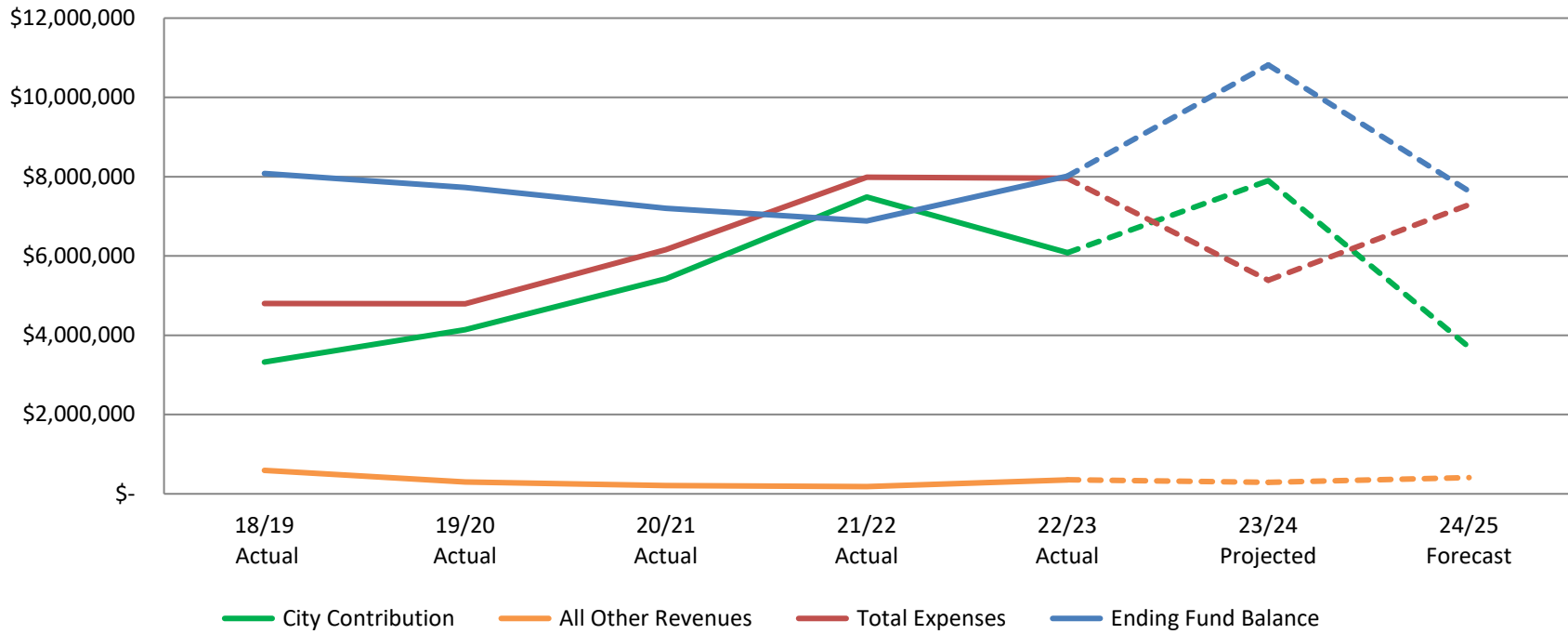
1. *FY23-24 Workers Compensation Report Trust Fund Board*

## Workers' Compensation Trust Fund Expenses



(Excludes Fire Cancer Payment)

## Workers' Compensation Trust Fund Cashflow



(Excludes Fire Cancer Payment)



## Self-Insurance Trust Fund Board Report

Date: February 15, 2024

To: Self-Insurance Trust Fund Board

From: Janice Ashley, Employee Benefits Administrator  
Teri Overbey, Human Resources Director  
Samuel Schultz, Office of Management and Budget Deputy Director  
Brian Ritschel, Office of Management and Budget Director

Subject: Employee Benefit Trust Fund: Financial Update and Fiscal Year 2024/25 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2022/23 regarding the financial history and reserve policy of the Employee Benefits Trust (EBT) Fund. This report will provide an update on the financial status of the EBT Fund through FY 2022/23, year-end projections for FY 2023/24 and recommended City contributions for inclusion in the FY 2024/25 budget.

### Financial Update

#### *Expense Trends*

Expenses in the EBT Fund are tracked in five major categories: administration, self-insured medical/dental/prescription drug claims paid, Employee Health and Wellness Center, Mesa Wellness 360 incentive programs/services, and Life Insurance/Other benefit programs. The cost of Citywide overhead is included in the administration expenses along with departmental overhead, third-party administration fees, and fully insured premium costs.

Staff reviews trends in expenditures, claim counts, and plan population for the various self-insured benefit plans for employees, retirees, and their respective family members to assess future risk to the fund. As seen in the table below, total expenses and the cost of self-insured claims saw a slight decrease in FY 2022/23 but are projected to increase through FY 2023/24 and FY 2024/25.

The cost of claims includes medical/behavioral health, prescription drugs, and dental claims. As seen in the table below, claim costs decreased in FY 2022/23 by 1.2% from FY 2021/22 due to an unexpected decrease in the number of claims of approximately 14,000. For FY 2023/24 the number of claims has increased in the first half. With costs trending above budget, claim costs are expected to finish the year at \$99 million. The total expenses for FY 2024/25 include the capital project for the Mesa Wellness Center.

	<b>Fiscal Year</b>	<b>Total Expenses</b>	<b>% Increase</b>	<b>Cost of Claims</b>	<b>% Increase</b>
Actual	FY 18/19	\$90.8M	13.4%	\$80.7M	15.1%
Actual	FY 19/20	\$96.6M	6.4%	\$86.6M	7.4%
Actual	FY 20/21	\$99.3M	2.9%	\$89.5M	3.4%
Actual	FY 21/22	\$102.2M	2.9%	\$91.4M	2.1%
Actual	FY 22/23	\$101.8M	(0.4%)	\$90.3M	(1.2%)
Projected	FY 23/24	\$110.7M	8.7%	\$99.0M	9.6%
Forecast	FY 24/25	\$122.2M *	10.5%	\$103.9M	5.0%

\*Includes \$5M for the Mesa Wellness Center Project

### *Contributing factors affecting the EBT Fund*

#### Increases

- National trend increases including healthcare inflation effect (4% to 8%).
- Year-over-year 3% membership increases - 15,532 members February 2024 vs 15,027 February 2023 (and 4% increase from February 2022 to February 2023).
- Membership increases, utilization increases, and healthcare cost inflation drive CY 2023 versus CY 2022 administration and claims cost increases:
  - ✓ Medical – up 7% (\$4.4 million)
  - ✓ Medical claims counts – up 0.7% (1,296 more claims)
  - ✓ Prescription Drugs overall – up 27% (\$5.8 million)
  - ✓ Specialty Drugs – up 40% (\$3.2 million)

#### Offsets/decreases:

- Zero high-cost claimants above \$500,000 in active population in CY 2023.
- Lower number of high-cost claimants in retiree population in CY 2023 (2) but higher severity/cost (complex cancers) as compared to CY 2022 – more than \$1 million in stop-loss reimbursements.
- Continuing reduced EBT claims liability with 61% of total active population enrolled in Basic Medical Plan (55% in February 2023 - 48% in February 2022) - no employee premiums, \$500 deductible, 50% coinsurance, OOP individual maximum \$4,000.
- Aging-in to Medicare eligibility for retirees – City liability reduction due to secondary to Medicare (59% of retirees Medicare primary; 43% of total retiree population Medicare primary).



- High utilization of COM Employee Health and Wellness Center for “free of charge” primary and preventive care services and wellness screenings by both active and retired members.
- Engaged participation in Mesa 360 Wellness programs:
  - ✓ 2,505 (54%) of eligible employees - up 4%
  - ✓ 422 Spouses (20%) of eligible spouses – up 0.8%

### *Revenues/Contributions and Reserve Balance*

The current reserve balance policy sets the reserve minimum at 30% of year-end EBT Fund balance to following year total EBT Fund expenses. The 30% reserve balance has been determined to be the lowest threshold that the fund can tolerate two consecutive years of significant expenditures, while keeping contributions at no more than 8% growth.

For CY 2024, staff implemented a 2% increase in premium contributions for active employees and 2% increase in premium contributions for retirees. The EBT Fund is projected to end FY 2023/24 with a balance of \$45.1 million (36.9% reserve balance).

### **Recommendation**

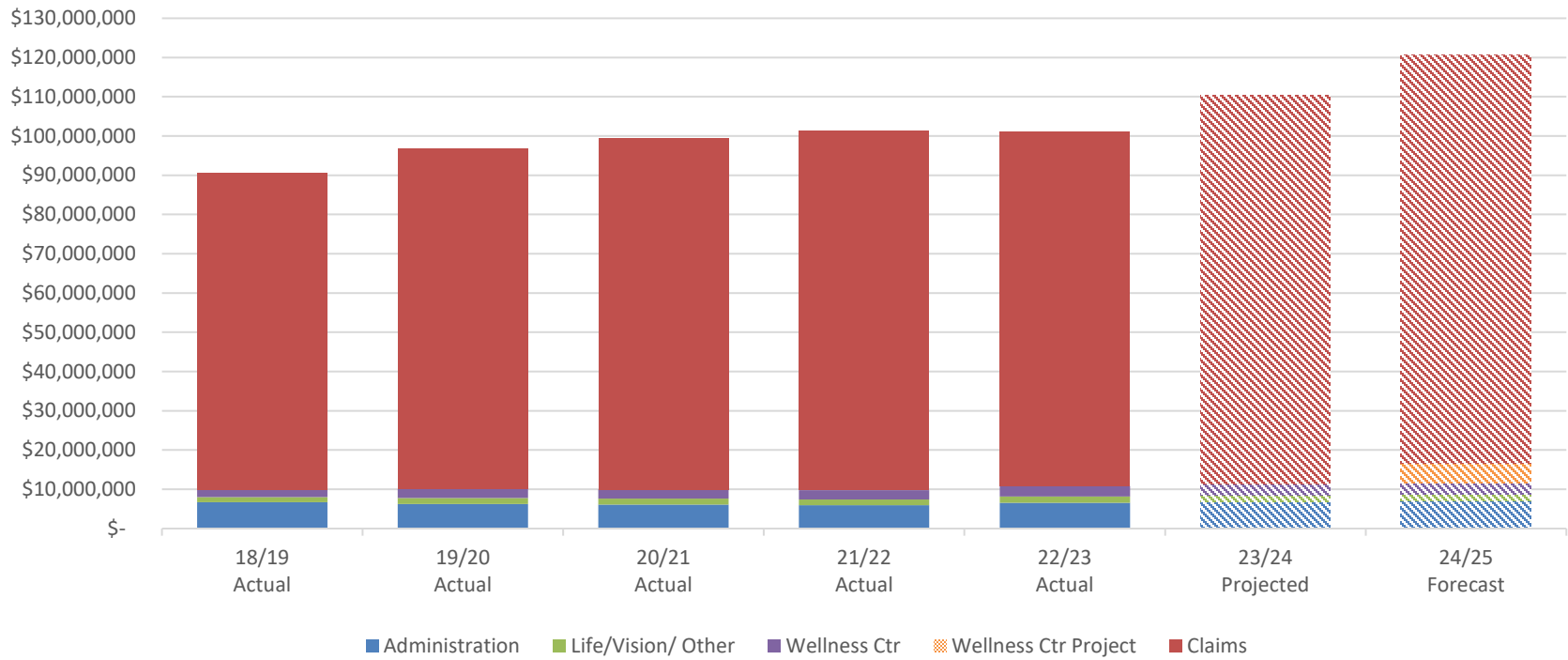
Office of Management & Budget and Employee Benefits staff will continue to monitor the claims experience of the fund. As medical and prescription claim trends emerge, the City will consider adjustments to premium contributions to maintain the fund balance.

The FY 2024/25 forecast includes the same increase to premium contributions, a 2% increase for active employees and 2% for retired employees in CY 2025. This equates to a FY 2024/25 City contribution of \$90.6 million to the EBT Fund, resulting in an estimated year-end fund balance of \$42.5 million (33.1% reserve balance). The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

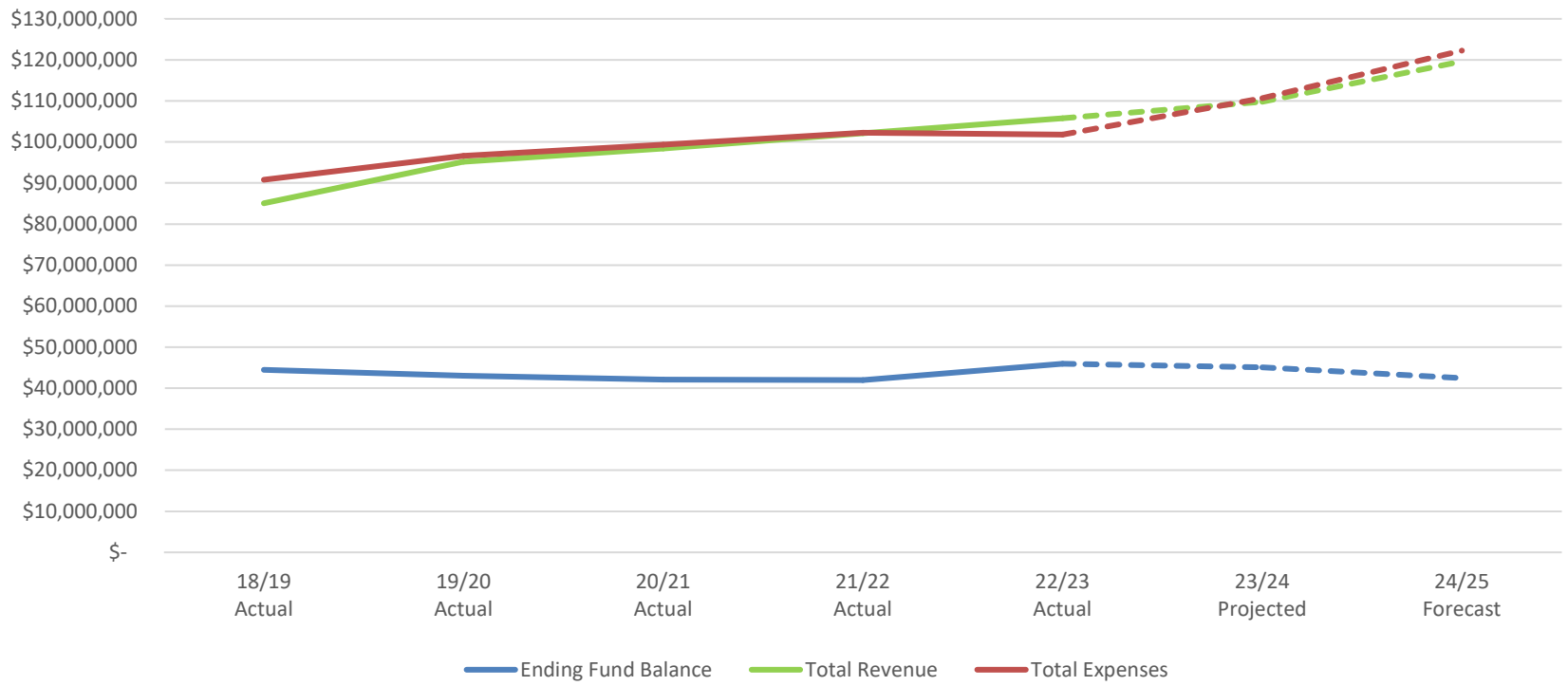
### **Attachment**

1. *EBT Fund Balance Report – FY23-24 Trust Fund Board* – Data through 12/31/2024

### Employee Benefits Trust Fund Expenses



### Employee Benefits Trust Fund Cashflow



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## ARIZONA INSURANCE LICENSE

License No: 1800003654

***Buck Global LLC***

420 LEXINGTON AVENUE  
SUITE 2220  
NEW YORK NY 10170  
NON-RESIDENT

**As of February 04, 2021**

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	03/17/2005	04/01/2021	03/31/2025	Accident and Health or Sickness Life Property Casualty	03/17/2005  03/17/2005 02/24/2006 02/24/2006

APPOINTMENT DATA IS NOT COLLECTED, TRACKED OR MAINTAINED IN ARIZONA.

Arizona Department of Insurance and Financial Institutions  
100 N 15th Ave, Suite 261  
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**JACQUELINE FARREN**

317 MEGHAN LN

WALNUT CREEK CA 94597-2746

## ARIZONA INSURANCE LICENSE

License No: 2579880

**JACQUELINE FARREN**

2 EMBARCADERO CTR FL 9  
SAN FRANCISCO CA 94111-3817

NON-RESIDENT

As of September 27, 2021

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	11/18/2013	11/01/2021	10/31/2025	Life	11/18/2013
				Accident and Health or Sickness	11/18/2013

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Arizona Department of Insurance and Financial Institutions  
100 N 15th Ave, Suite 261  
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**USI SOUTHWEST INC**

PO BOX 218060

HOUSTON TX 77218-8060

## ARIZONA INSURANCE LICENSE

License No: 1800004001

***USI SOUTHWEST INC***

9811 KATY FREEWAY STE 500

HOUSTON TX 77024

NON-RESIDENT

**As of August 31, 2021**

<b>LICENSE CLASS</b>	<b>FIRST ACTIVE DATE</b>	<b>LICENSE EFFECTIVE DATE</b>	<b>LICENSE EXPIRATION DATE</b>	<b>LINES OF AUTHORITY</b>	<b>LOA EFFECTIVE DATE</b>
Insurance Producer	09/20/2005	10/01/2021	09/30/2025	Casualty	09/20/2005
				Property	09/20/2005
				Accident and Health or Sickness	09/20/2005
				Life	09/20/2005
Surplus Lines Broker	02/19/2014	10/01/2021	09/30/2025	Surplus Lines Broker	02/19/2014

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Arizona Department of Insurance and Financial Institutions

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ARTHUR J GALLAGHER RISK MANAGEMENT SERVICES INC  
LICENSING DEPT  
2850 W GOLF ROAD  
ROLLING MEADOWS IL 60008

## ARIZONA INSURANCE LICENSE

License No: 1800001294

### **ARTHUR J GALLAGHER RISK MANAGEMENT SERVICES INC**

LICENSING DEPT  
2850 W GOLF ROAD  
ROLLING MEADOWS IL 60008  
NON-RESIDENT

As of January 10, 2022

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	08/16/2005	01/01/2022	12/31/2025	Casualty Variable Life and Variable Annuity Property Life Accident and Health or Sickness Personal Lines	08/16/2005 08/16/2005 08/16/2005 08/16/2005 08/16/2005 08/16/2005 08/16/2005
Surplus Lines Broker	08/16/2005	01/01/2022	12/31/2025	Surplus Lines Broker	08/16/2005

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