

CITY OF MESA

Agenda Action Items and Results

Self-Insurance Trust Fund Board

Monday, February 24, 2025 2:30PM – 4:00PM Mesa City Hall, 20 E Main St, Mesa AZ –Ste 170

Roll Call - Board Members:

Councilmember Francisco Heredia, Chairperson
Michael Kennington
Christopher Scott
Michael Schaiberger
Katherine Callaway
Tracy Hurt, Board Secretary

Others in attendance:

Jason Reed, Deputy City Attorney
Duncan Stoutner, Asst. City Attorney III
Lisa Lorts, Risk Management 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
Jag Mundi, Sr. Budget Analyst
Teri Overbey, HR Director

1. Items from citizens present – none.
2. Heard a presentation and discussed the following Trust Funds and the related Trust Agreement
 - a. Public Property and Liability Trust Fund
Presenter: Jason Reed, Deputy City Attorney
 - b. Worker's Compensation Trust Fund
Presenter: Nitra Hawkins, Safety Administrator
 - c. Employee Benefits Trust Fund
Presenter: Janice Ashley, Employee Benefits Administrator
3. Discussed and voted on recommendations to City Council regarding the financial viability and staff recommendations for budgeting of the following Trust Funds for FY 25/26:
 - a. Public Property and Liability Trust Fund
 - b. Worker's Compensation Trust Fund
 - c. Employee Benefits Trust Fund

A motion was made by Mr. Kennington to approve the recommendations for funding the PPL, Worker's Compensation, and Employee Benefits trust funds as presented by the Office of Management and Budget in the attached reports. The motion was seconded by Mr. Schaiberger as voted on as follows:

Ms. Callaway – Approve
Mr. Scott – Approve
Mr. Shaiberger – Approve
Mr. Kennington – Approve
Councilmember Heredia - Approve

4. The board members reviewed and verified the current risk management/insurance provider licenses.

CITY OF MESA

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Self-Insurance Trust Fund Board

5. Discussed and voted on authorizing the Chairperson of the Board to approve Board minutes after draft minutes have been circulated to all members. Ms. Callaway made a motion to approve the circulation and approval of minutes via email. Mr. Scott seconded the motion and the board voted as follows:

 Ms. Callaway – Approve
 Mr. Scott – Approve
 Mr. Shaiberger – Approve
 Mr. Kennington – Approve
 Councilmember Heredia - Approve
6. Discussed the scheduling of future meetings and Board Secretary Tracy Hurt stated the next meeting would be scheduled for February, 2026.
7. There being no further items of business, Board Chair Heredia adjourned the meeting at 4:10pm.

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Date: February 15, 2025
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.
3. The City's insurance premiums.

In FY 23/24, the PPL Trust Fund incurred \$8.26 million in costs: \$3.48 million for claims and lawsuits; \$3.37 million for insurance; and \$1.41 million for the staffing costs of the Litigation Unit. For FY 24/25, the City estimates that it will have \$10.41 million in costs: \$5.00 million for claims and lawsuits; \$3.83 million for insurance; and \$1.58 million for the staffing costs of the Litigation Unit.

III. Litigation Expenses.

A. The City's Litigation Unit.

The City's Litigation Unit typically defends the City and its employees in nearly all third-party liability claims and lawsuits. By handling most of the City's litigation matters internally, the City has historically recognized 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. The effective hourly rate of the Litigation Unit (i.e., salary on an hourly basis) is dramatically less than outside counsel.

Additionally, by handling litigation matters internally, the City's Litigation Unit 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.

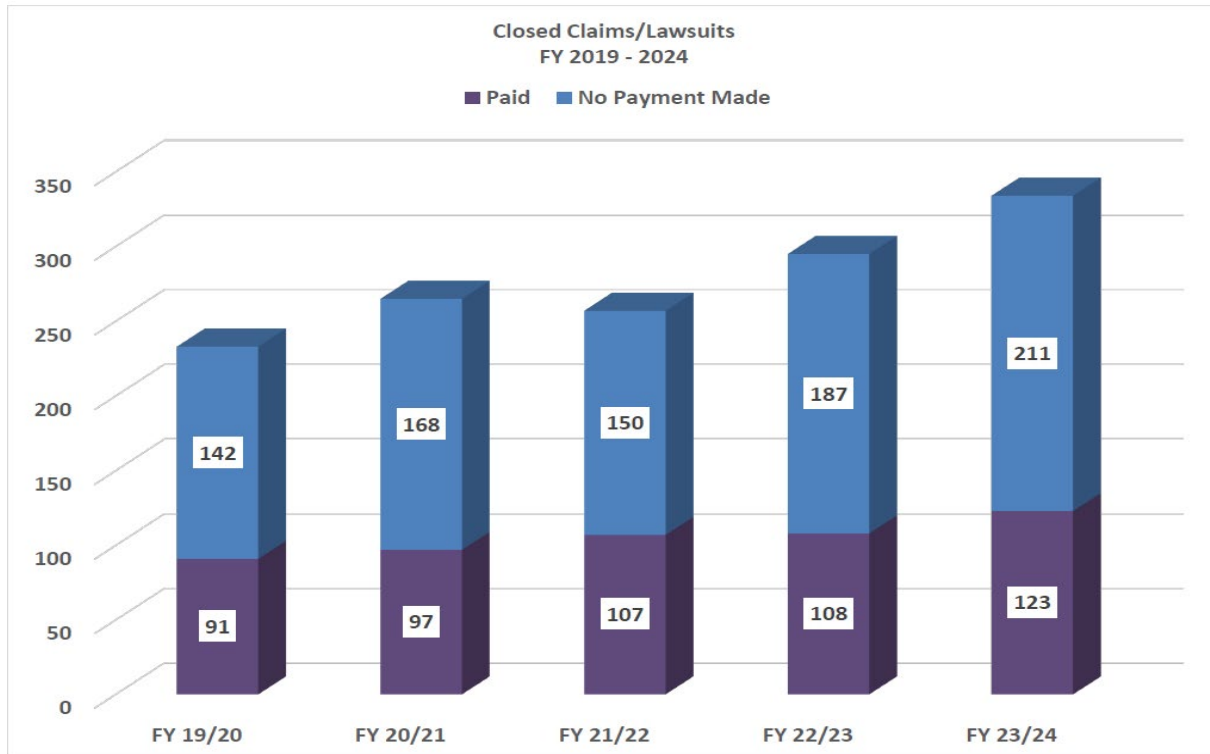
As will be discussed further in this memo, the Litigation Unit lost two attorneys over the last couple of years: one switched to the Administrative Unit and the other moved out-of-state for family reasons. For nearly two years, the City has not been able to fill these positions because the job market for attorneys, and especially litigation attorneys, has fundamentally altered since COVID. On top of that, salaries have surged past what governmental entities can pay. This has resulted in higher outside counsel expenses. The City and City Attorney's Office is working on addressing these issues so the Litigation Unit can be competitive in the job market.

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 344 claims and lawsuits in 2024.

B. Claims Against The City.

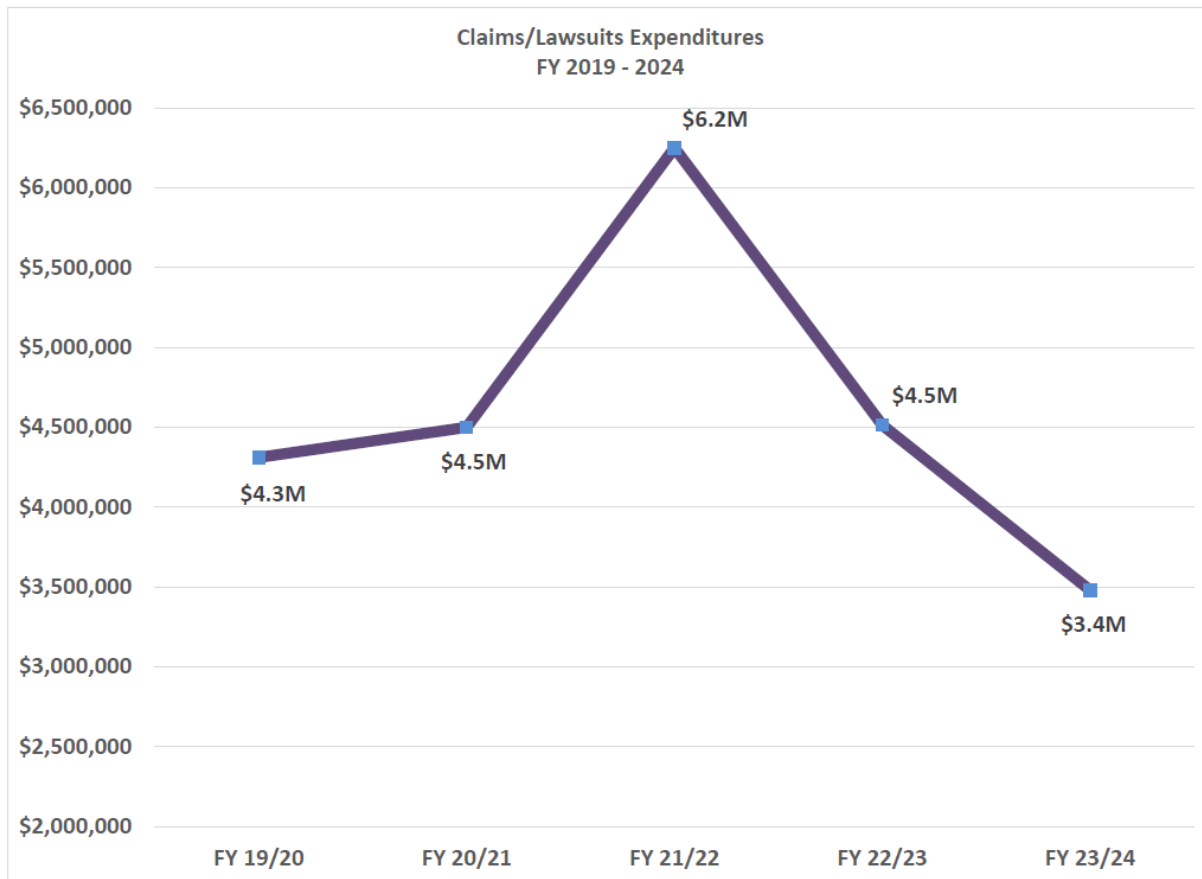
The City receives around 304 claims and 42 lawsuits each fiscal year, and the City currently is handling more than 50 active lawsuits. As shown in the following chart, the City is able to resolve a majority of these claims and lawsuits without making a payment to the claimant.



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 and lawsuits 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.

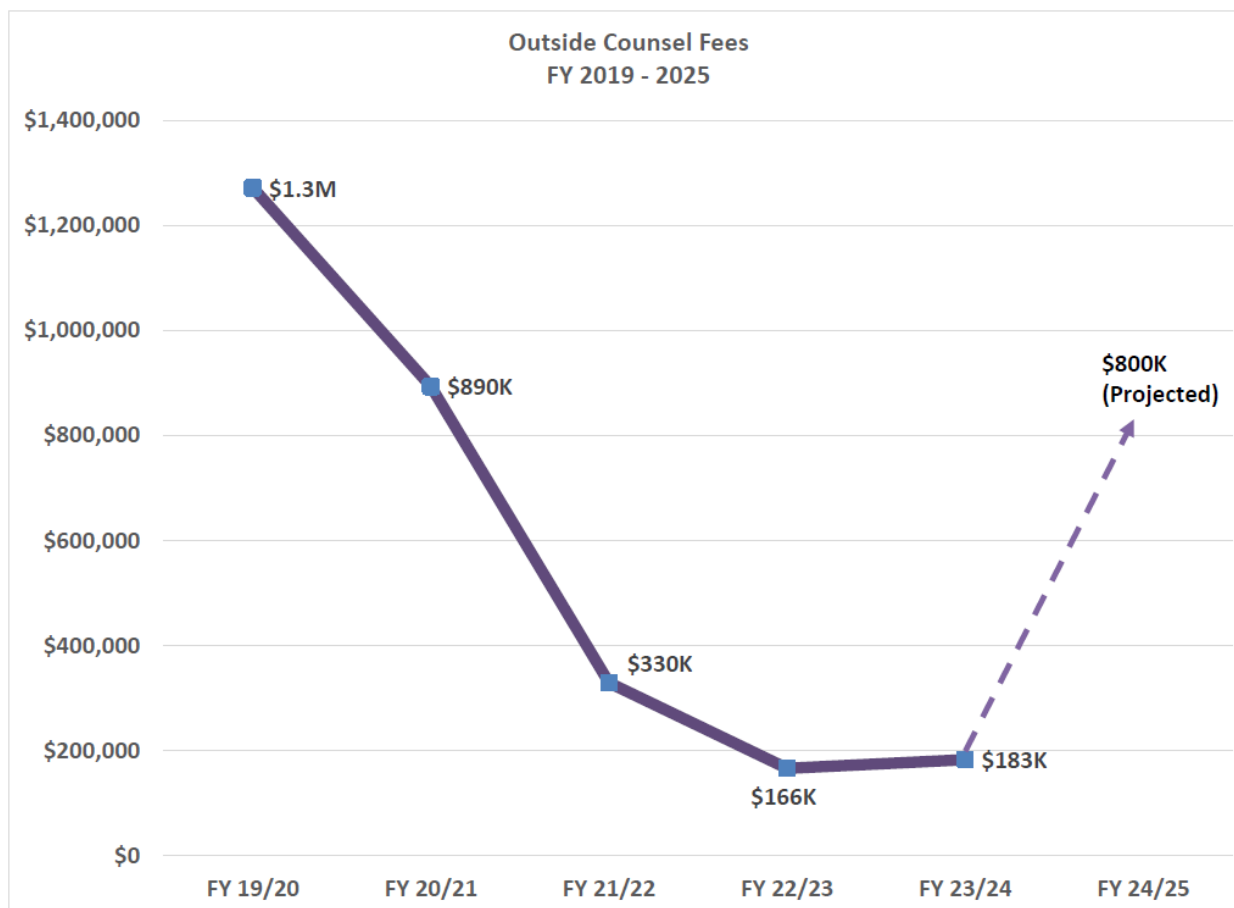
The City generally retains outside counsel when a conflict of interest prevents the City's Litigation Unit from defending the lawsuit, when a particular expertise is needed, and/or for certain high-exposure claims that may erode the City's Self-Insured Retention ("SIR").

This past year, the City has had to increase its reliance on outside counsel due to staffing shortages. The City typically has four attorneys devoted to litigation matters. For almost two years, two of those positions have been vacant.

Various factors are making it difficult for the City to hire replacements for these two positions. First, there are fewer people going to law school (approximately 20% less). Second, a professional recruiter told us that, since COVID, more Arizona attorneys are working for out-of-state firms (teleworking). As a result, there are fewer experienced attorneys for the positions that are available in Arizona. We have also discussed this issue with a private firm that does municipal work, and it also is struggling to hire attorneys. Third, salaries and compensation structures for litigation attorneys have increased significantly for Arizona litigators. The professional recruiter told us that the

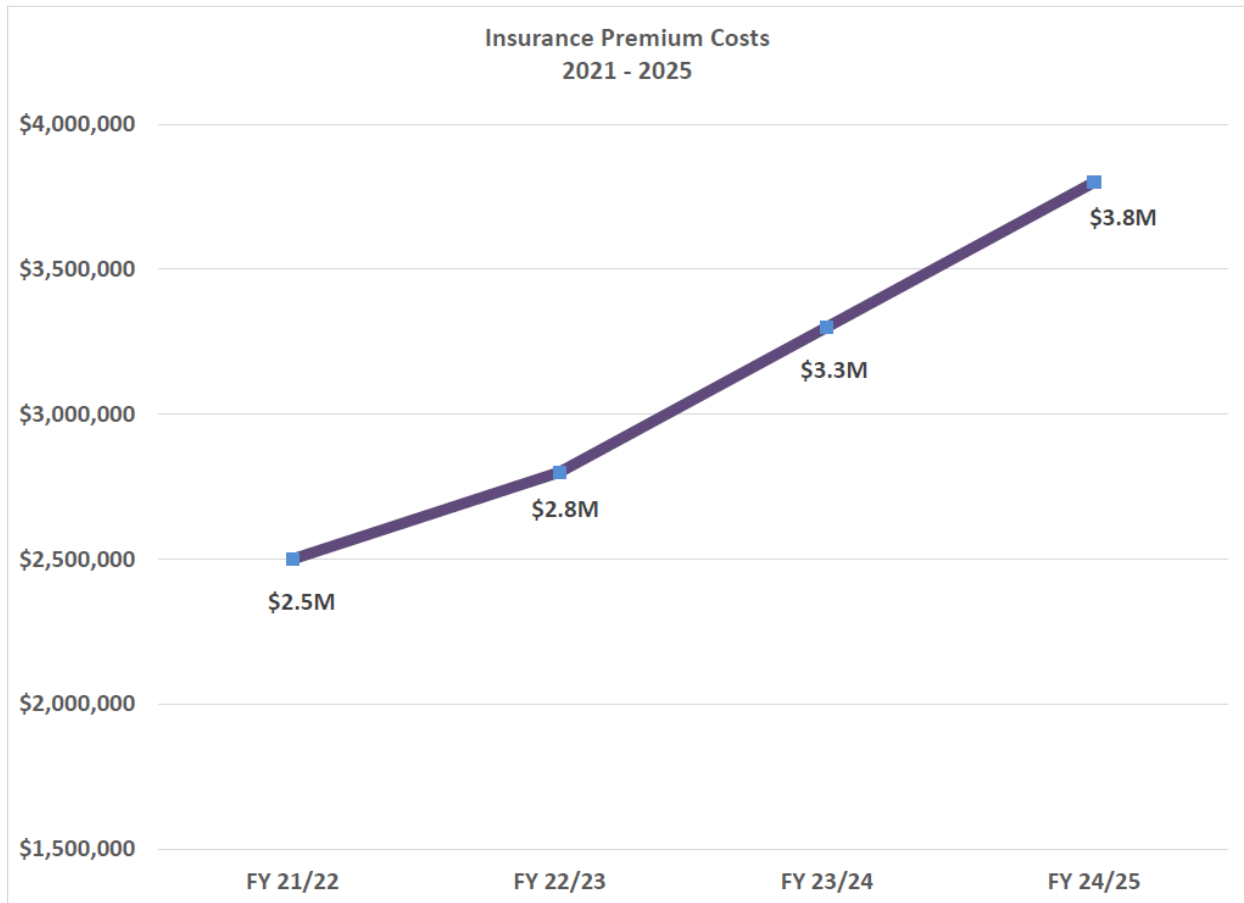
City's current compensation structure is not competitive, and it will be extremely difficult to find an experienced litigator. To that point, the recruiter indicated that the City should not retain her for recruiting services because she would not be able to recruit attorneys that would meet the City's requirements within the constraints of the City's compensation structure. The City Attorney's Office is working on addressing this issue.

In the meantime, as shown in the chart below, the City anticipates that its reliance on outside counsel will increase until it is able to fully staff the Litigation Unit.



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.

First, carriers continue to withdraw 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. Those factors all contribute to an increased number of claims and lawsuits. The costs associated with those claims and lawsuits contribute to higher premiums for municipal insurance. In fact, Traveler's (the City's liability insurance carrier) stated that the City of Mesa is the largest municipality that Traveler's insures with liability coverage (e.g., Police) . Traveler's also stated that that the population threshold

of 500,000 is considered a negative in the insurance market. We were pleased that Traveler's agreed to continue to insure Mesa after Mesa's population exceeded this population threshold.

Third, insurance coverage for law enforcement has increased. Law enforcement claims are increasing nation-wide in frequency and severity. For the City, 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 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 (property insurance replacement costs), natural disasters where carriers have made a significant payout (floods, winter storms, fires), 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 updated practices, increased training, and increased liability sensitivity.

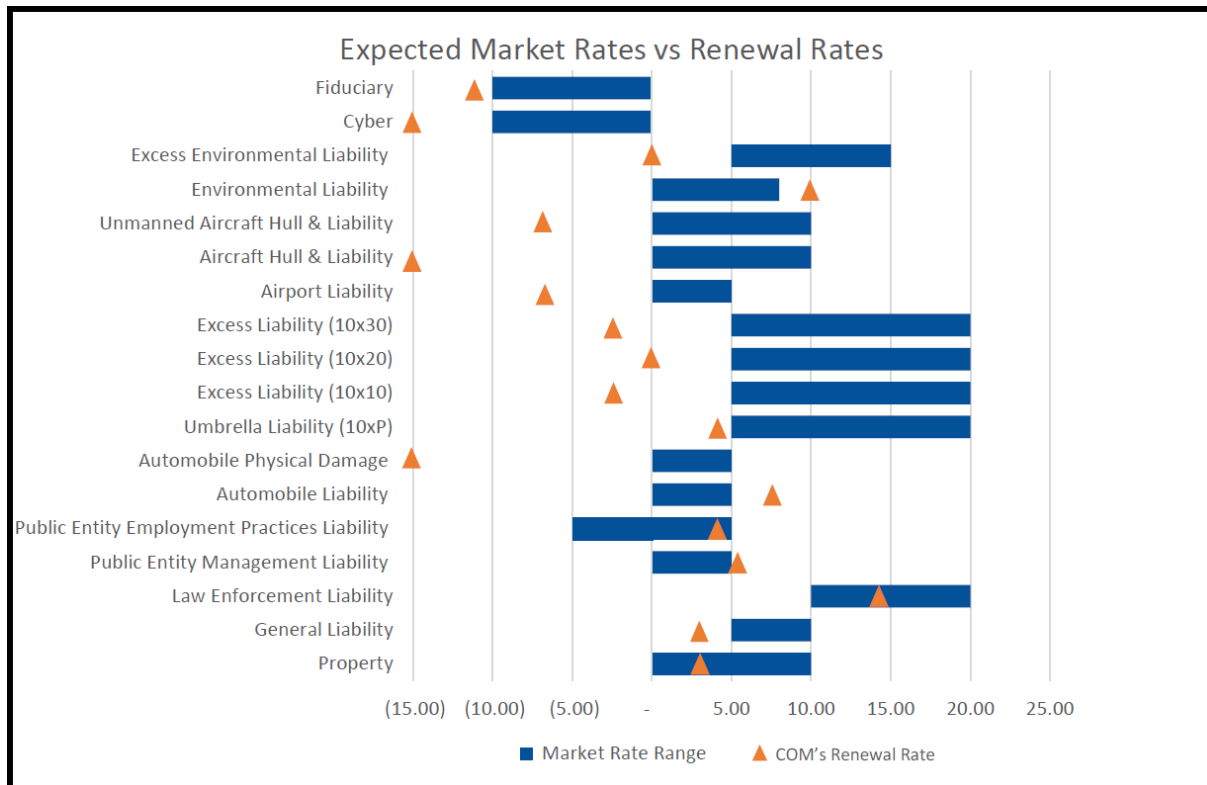
That effort pays off with favorable insurance rates. For example, for FY 2024/25, the City was able to obtain property insurance for a rate of .067 (rate is per hundred dollars insured). The City's insurance broker compared this rate with the rate of six other large municipalities. The City had the lowest rate among the six municipalities listed in the survey.

Client	Population	Total Insured Value	Rate	AOP Deductible
Client #1	495,000	\$3,250,000,000	0.073	\$150,000
Client #2	200,000	\$1,000,000,000	0.090	\$100,000
Client #3	650,000	\$2,600,000,000	0.092	\$250,000
Client #4	320,000	\$1,000,000,000	0.301	\$250,000
Client #5	1,500,000	\$5,000,000,000	0.183	\$250,000
Client #6	480,000	\$1,500,000,000	0.280	\$250,000
City of Mesa	513,567	\$1,736,328,159	0.067	\$100,000

The City also negotiated a favorable provision related to the City's property insurance. In previous years, the coverage for the City's property (a building for example) was limited to the City's listed value (of that building). Due to rising replacement costs and inflationary pressures, the values associated with the City's property (and its buildings) has increased, oftentimes significantly. The listed value of the property has lagged behind, and we were concerned that the City's property was undervalued for insurance purposes. For example, if the City suffered a significant loss (a building burned down), insurance would not cover the amount needed to replace the lost property. This past year, we

successfully negotiated a new provision where the City's property is deemed to be valued at its replacement cost without having to increase the listed value of the property. As such, the City's insurance coverage would now cover the full value of the lost property.

Additionally, the City's rate increases generally were better than and/or consistent with the renewal rates of other municipalities. For many coverages (as demonstrated below), the City's rates actually decreased.



This year, the City also considered reducing its excess liability coverage to \$35 million. The City decided to remain at \$40 million because the anticipated reduction in premium did not provide significant savings. Additionally, we have previously considered increasing the City's self-insured retention, but the savings were nominal, and our broker strongly encouraged us not to make that change (the broker also indicated that, in the future, the market may force us to make that change with little savings to show for it). The City will continue to evaluate the City's excess liability insurance to manage its cost and the City's exposure.

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, the rising cost of litigation, outside counsel fees, difficulty in hiring attorneys, 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 \$10.56 million for FY 24/25 so that the PPL Trust Fund will have an ending balance of \$12.62 million.



Self-Insurance Trust Fund Board Report

Date: February 24, 2025
To: Self-Insurance Trust Fund Board
From: Kristi Griffin, Office of Management and Budget Operations Coordinator
Brian Ritschel, Office of Management and Budget Director
Subject: Property and Public Liability Trust Fund: Financial Update and FY 2025/26 Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2023/24 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 2023/24, year-end projections for FY 2024/25, and recommended City contributions for the FY 2025/26 budget.

Financial Update

Expense 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. 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	Cost of Premiums	Cost of Claims	Total Expenses
FY 19/20 Actual	\$1.6M	\$4.3M	\$7.0M
FY 20/21 Actual	\$2.0M	\$4.5M	\$7.7M
FY 21/22 Actual	\$2.5M	\$6.2M	\$9.9M
FY 22/23 Actual	\$2.8M	\$4.5M	\$8.7M
FY 23/24 Actual	\$3.4M	\$3.5M	\$8.3M
FY 24/25 Projected	\$4.0M	\$4.1M	\$9.6M
FY 25/26 Forecast	\$4.4M	\$5.0M	\$11.0M

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 contribution needed 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 2024/25, the budget was adopted with PPL Trust Fund contributions estimated at \$10.4 million to achieve an ending reserve balance of \$12.6 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 recommending increasing the City contribution to \$11.0 million in FY 2025/26 to bring the ending reserve balance to \$12.7 million. The City continues a multi-year plan to increase the fund balance up to \$12.0-\$15.0 million to minimize the City's financial impact with mediation on multiple large claims.

Future Stability of the Fund

The City's management practices and work 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 constraints, the City is recommending a change in policy to increase the minimum reserve balance.

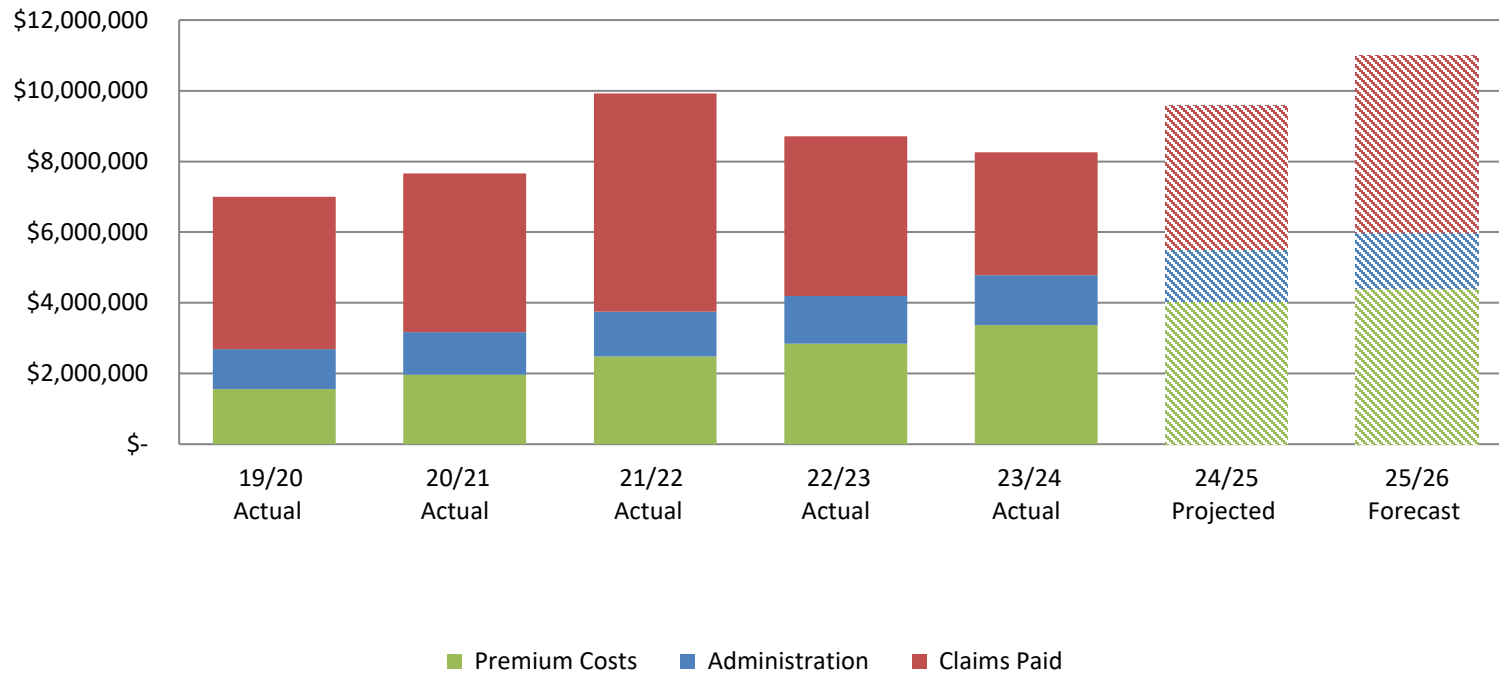
Recommendation

Staff project a City contribution of \$10.4 million for FY 2024/25 so that the PPL Trust Fund will have an ending balance of \$12.6 million. Staff recommend an \$11.0 million City contribution in the FY 2025/26 budget to achieve an ending reserve balance anticipated to be at \$12.7 million.

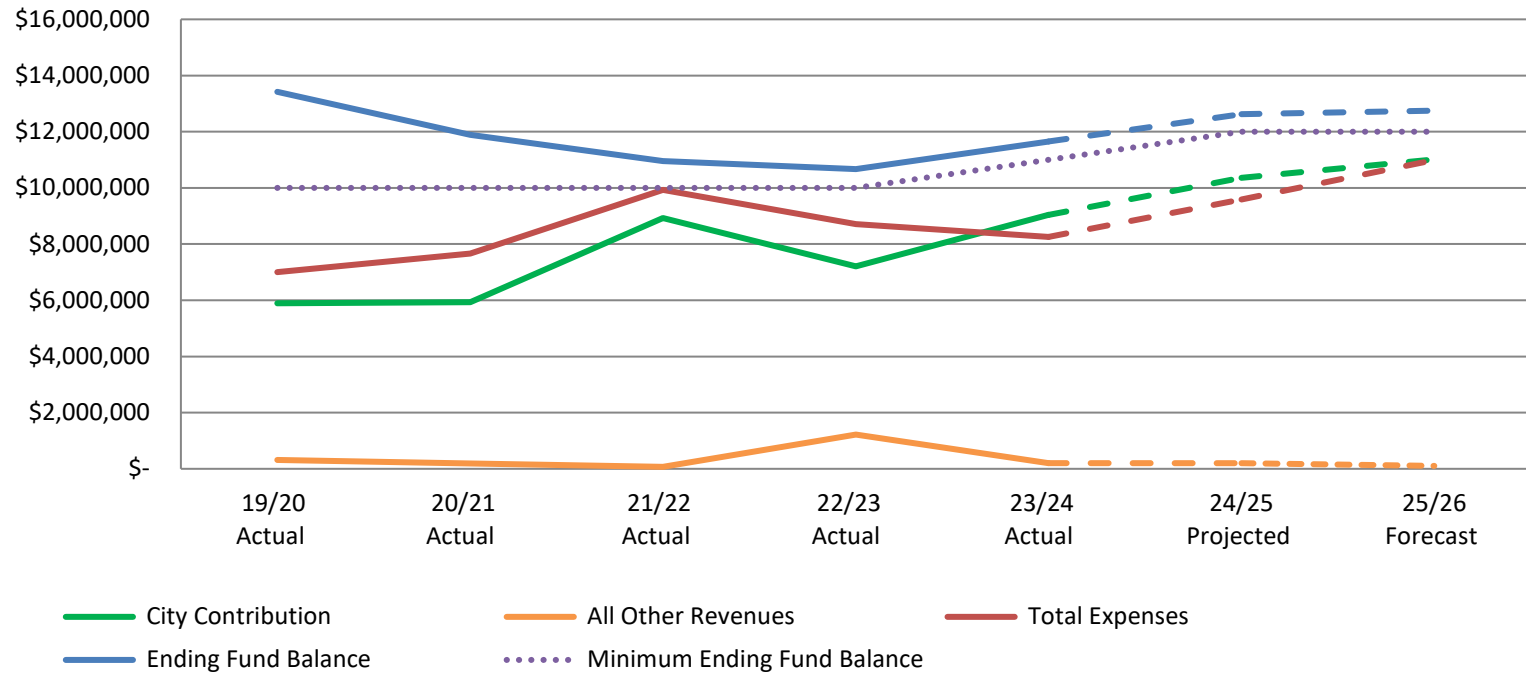
Attachments

- 1) Property & Public Liability Trust Fund Expenses
- 2) Property & Public Liability Trust Fund Cashflow

Property & Public Liability Trust Fund Expenses



Property & Public Liability Trust Fund Cashflow



CITY OF MESA WORKERS' COMPENSATION TRUST FUND



*Self-Insurance Trust Fund Board Presentation
February 24, 2025*

WORKERS' COMPENSATION PROGRAM OVERVIEW

- ❖ The City's Workers' Compensation Program provides medical and loss wage benefits to City employees and official volunteers who have a work-related injury or illness.
 - Self-Insured since **July 1, 1982**
 - Self-Administered since **October 1990**
- **Workers' Compensation Program Operations**
 - **Pharmacy (Rx) Benefits Manager – RxBridge – Effective September 01, 2023**
 - **CorVel Corporation (3rd Party Vendor) – Effective January 01, 2023**
 - **Blue Cross/Blue Shield Workers' Compensation Network Access**
 - **Specialty bill review services – non-Participating Medical Providers**
 - **Legal – WC Attorneys fees and administrative court fees**
 - **Self-insurance Surety Bond premiums**
 - **Special and Administrative taxes (AZ Industrial Commission of AZ)**
 - **Excess Workers' Compensation Insurance (Stop-Loss) premiums**
 - "Split" Self-Insurance Retention (SIR) as 12/01/2020
 - *\$2.00 Million Presumptive (Cancer) Injury/Illness*
 - *\$1.25 Million Non-presumptive Injury/Illness (All Others)*
 - *\$1.00 Million Wildland Firefighters*
 - **Personnel (Staff) – Program Administration**
 - **Workers' Compensation Representatives (2)**
 - **Safety and Workers' Compensation Specialists (3)**
 - **PTB - Program Assistant (1)**

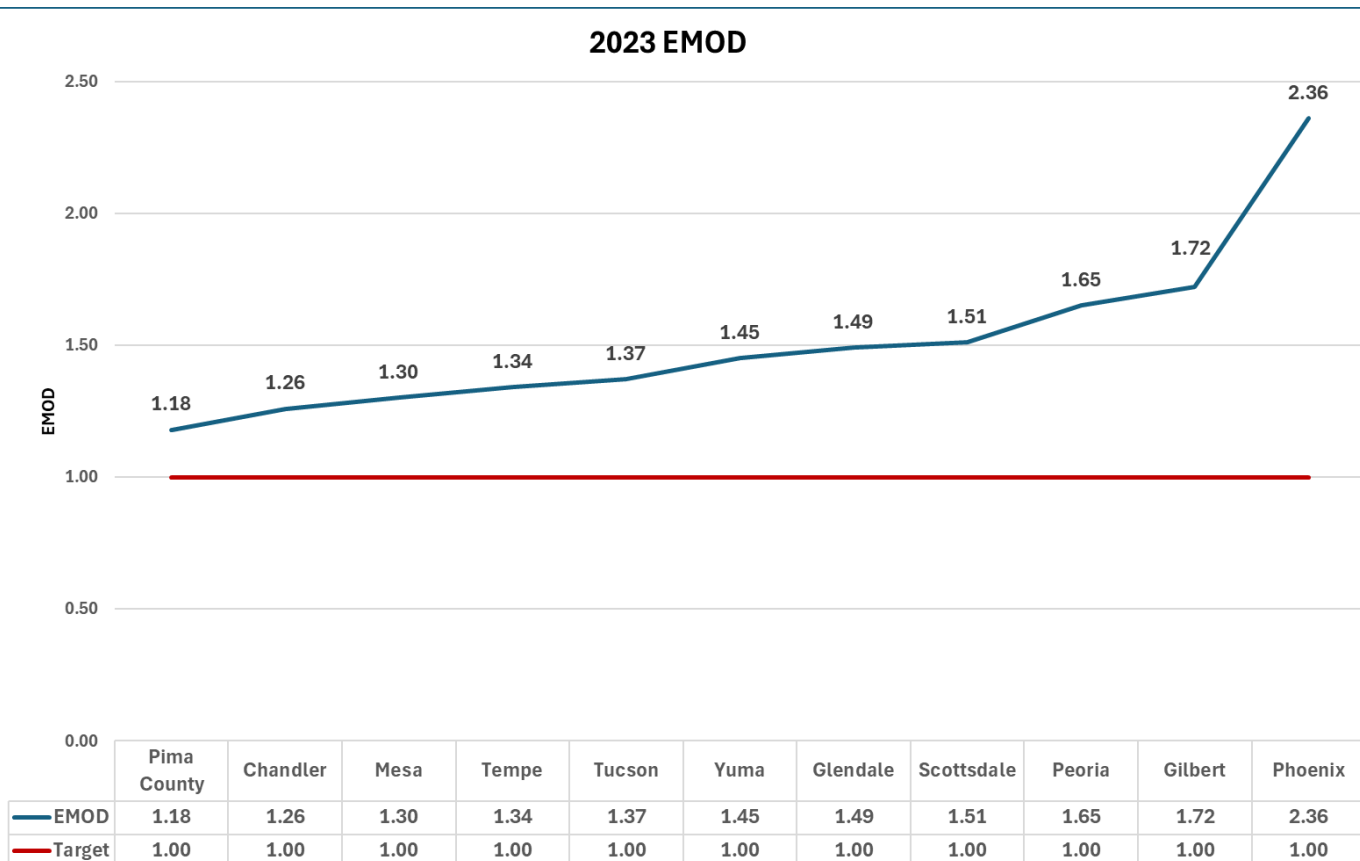


WORKERS' COMPENSATION PROGRAM OVERVIEW

- **5-year average for the number of new claims filed is up 1%**

Calendar Year	# Workers' Compensation Claims
2020	349
2021	431
2022	440
2023	523
2024	462
Average	441

- **403** Open workers' compensation claims – **Valuation date 02/20/2025**
- WC Claims Representative claim load – Average **201 claims**



WORKERS' COMPENSATION TRUST FUND IMPACTS

❖ Pre - September 29, 2021 Presumptive Cancer Claims

- **Not** eligible for reimbursement from the Arizona's Municipal Firefighter Cancer Reimbursement Fund

Fiscal Year	Reimbursements
FY22	\$76,381.39
FY23	\$551,063.14
FY24	\$837,158.83
Grand Total	\$1,464,603.36

❖ Excess Workers' Compensation Insurance (Stop-Loss) premiums

"Split" Self-Insurance Retention (SIR) as 12/01/2020

- \$2.00 Million Presumptive (Cancer) Injury/Illness
- \$1.25 Million Non-presumptive Injury/Illness (All Others)

20/21	21/22	22/23	23/24	24/25
\$ 388,981.00	\$ 439,650.00	\$ 528,017.00	\$ 543,644.00	\$ 624,633.00

❖ Incurred But Not Reported (IBNR) Losses

- Future development on known claims
- Reopened claims



WORKERS' COMPENSATION TRUST FUND IMPACTS CONT'D

Fiscal Year Beginning	(8) Total Claim Count >0	(9) Excess Claim Count	(10) Open Claim Count
Prior	45	3	4
7/1/1990	232	3	1
7/1/1991	256	0	0
7/1/1992	311	2	2
7/1/1993	327	2	1
7/1/1994	336	2	2
7/1/1995	315	1	2
7/1/1996	285	1	4
7/1/1997	288	2	4
7/1/1998	293	3	6
7/1/1999	504	3	4
7/1/2000	594	2	5
7/1/2001	544	2	4
7/1/2002	590	0	5
7/1/2003	571	1	7
7/1/2004	520	0	4
7/1/2005	512	0	3
7/1/2006	537	0	3
7/1/2007	489	0	4
7/1/2008	414	0	5
7/1/2009	387	0	7
7/1/2010	402	0	5
7/1/2011	426	0	7
7/1/2012	405	0	1
7/1/2013	445	0	7
7/1/2014	424	0	3
7/1/2015	393	0	4
7/1/2016	443	1	7
7/1/2017	420	0	7
7/1/2018	427	1	9
7/1/2019	398	0	12
7/1/2020	371	0	17
7/1/2021	428	0	16
7/1/2022	500	0	49
7/1/2023	471	0	160
Total	14,303	29	381



SAFETY PROGRAM OPERATIONS

❖ **Injury Prevention Programs:** Safety Coordinators (2) and Safety Technician (1)

- Safety Inspections
- Safety Training
 - New Employee Orientation
 - Police and Fire Recruit Academies
- Commercial Motor Vehicle Training – Centralized Unit
 - CMV Safety Program Coordinator and CMV Safety Technicians (2)
- Safety Program Manuals/Procedures
- Indoor Air Quality Monitoring
- Ergonomic Evaluations
- Annual Summer Hydration Program (May/June thru September/October)

Items	Quantity
Beef Jerky	1,800 pieces
Trail Mix	1,440 bags
Liquid IV	1,290 packets
Water	1,240 bottles
Electrolyte replacement freezer pops	1,050 pops
Cooling Towels with Mesa logo	200 towels

❖ **Safety Committees:**

- Citywide Safety Committee – multi-department representation
- Citywide LOTO & Electrical Safety Committee
- Commercial Motor Vehicle Committee
- Department Safety Committees

❖ **Safety Awareness: Targeted Statistics**

- City Manager's Office – Claims costs by Mechanism of Injury
- Department Directors
- City-wide Training Initiatives





Self-Insurance Trust Fund Board Report

Date: February 24, 2025
To: Self-Insurance Trust Fund Board
From: Nitra Hawkins, Safety Administrator
Teri Overbey, Human Resources Director
Kristi Griffin, Office of Management and Budget Operations Coordinator
Brian Ritschel, Office of Management and Budget Director
Subject: Workers' Compensation Trust Fund: Financial Update and FY 2025/26
Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2023/24 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 2023/24, year-end projections for FY 2024/25, and the recommended City contributions for the FY 2025/26 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 2024/25 are projected to be \$6.3 million. This is lower than the previous three years due to claim costs, which are projected at \$3.8 million, and an increase in fire cancer reimbursements related to claims in the previous fiscal year. Additionally, starting in 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 FY 2024/25 contribution is \$1.3 million. 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
FY 19/20 Actual	\$4.8M	\$3.2M
FY 20/21 Actual	\$6.2M	\$4.3M
FY 21/22 Actual	\$8.0M	\$4.6M
FY 22/23 Actual	\$8.0M	\$4.5M
FY 23/24 Actual	\$6.5M	\$4.2M
FY 24/25 Projected	\$6.3M	\$3.8M
FY 25/26 Forecast	\$7.1M	\$4.5M

Revenues/Contributions and Reserve Target

The WC Trust Fund has a stable funding source as departments are charged each pay period based on employee salaries. The WC Trust Fund revenues are estimated based on projected expenses and current fund balance to identify potential contribution rate changes. The current reserve practice 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 2024/25 is projected to be \$8.6 million. Based on the FY 2024/25 projected reserve balance and the expenses forecasted for FY 2025/26, an increase in the WC rates from the previous year is forecasted for the FY 2025/26 budget. This will bring the year end targeted reserve balance equal to FY 2026/27 estimated total WC Trust Fund expenses.

Future Stability of the Fund

The major expenditures of the WC Trust Fund are related to the payment of claims (medical & indemnity) and the administration of the City's Workers' Compensation Programs. 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. The FY 2023/24 MFCR reimbursement amount was \$837,159. Presumptive cancer claims filed before September 29, 2021 are not eligible for MFCR reimbursement and may have a cumulative impact on the WC Trust Fund.

The WC Trust Fund is also impacted by both administrative and cost containment contracts as they represent an on-going expense tied to managing and controlling workers' compensation claims costs, especially those costs associated with presumptive cancer claims. These administrative costs include excess WC insurance premiums and third-party bill review costs. As the WC insurance market deteriorates there are fewer insurance carriers available to underwrite excess insurance packages. Excess insurance premiums are up an average of 11% annually from FY 2021/22 to FY 2024/25. Secondly, as costs rise year over year for medical treatment, the City pays 19% of cost savings achieved by our third-party vendor. The impact for medical bill cost containment for FY 2024/25 is estimated at \$520,000. From a national perspective, healthcare inflation is anticipated to increase between 8% and 20% in 2025.

Recommendation

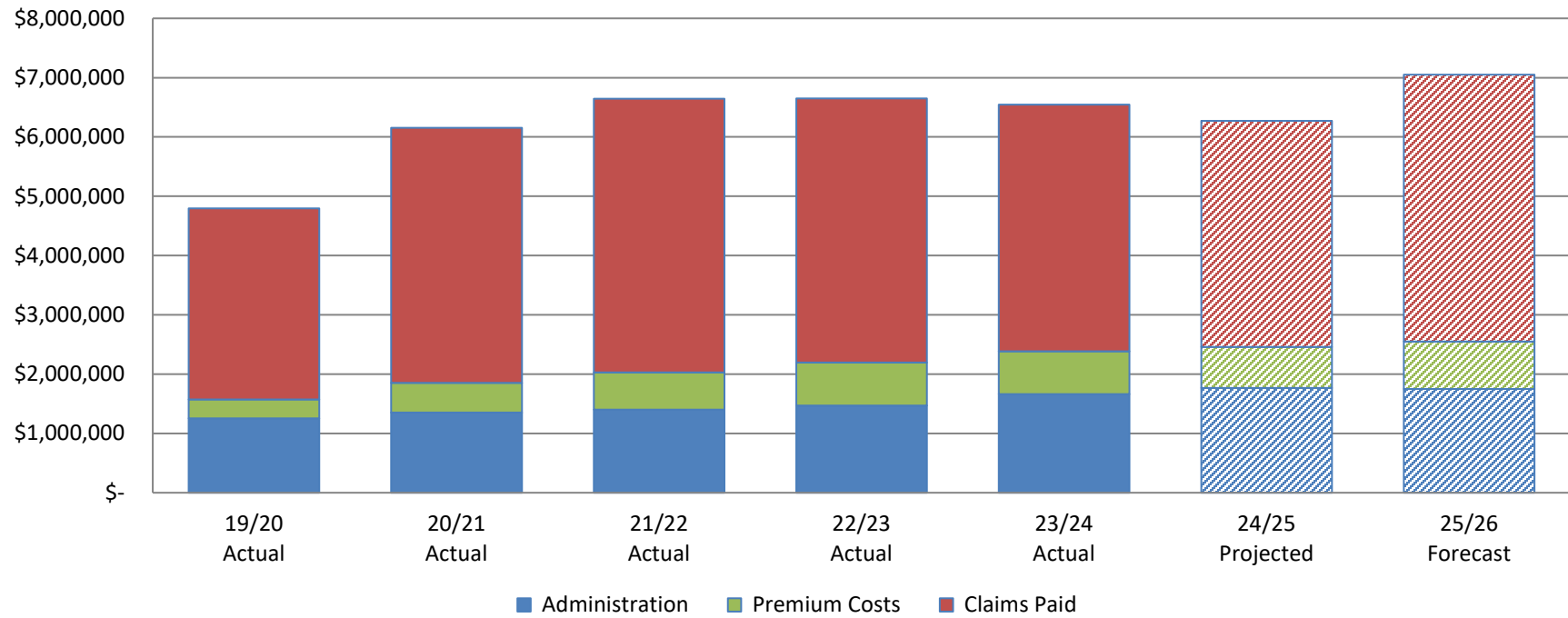
Staff recommends the continuation of the current practice of adjusting rates annually and setting the rates for FY 2025/26 at a level to achieve a targeted ending reserve balance sufficient to cover the following fiscal year's annual WC Trust Fund expenses. For FY 2025/26, the City forecasts an increase in the rates to achieve a City contribution of \$5.8 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

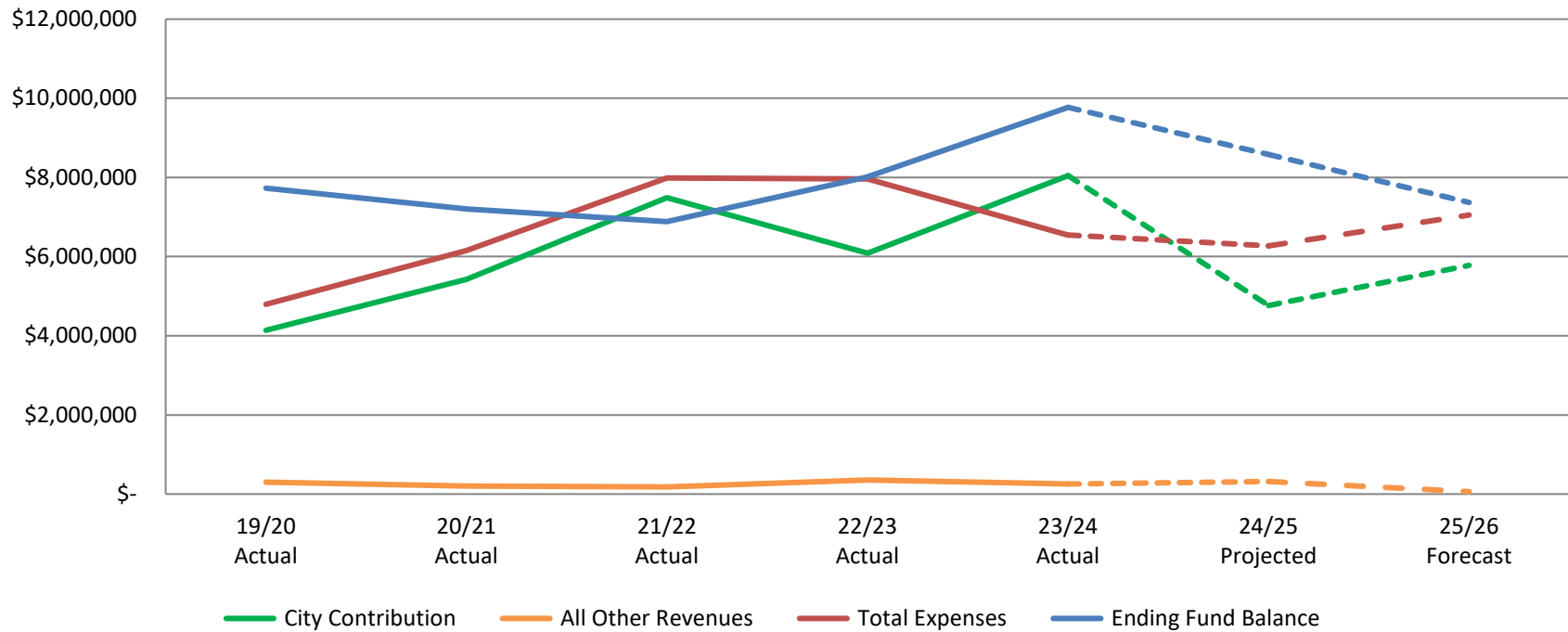
- 1) Workers' Compensation Trust Fund Expenses
- 2) Workers' Compensation Trust Fund Cashflow

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 24, 2025

To: Self-Insurance Trust Fund Board

From: Janice Ashley, Employee Benefits Administrator
Teri Overbey, Human Resources Director
Kristi Griffin, Office of Management and Budget Operations Coordinator
Brian Ritschel, Office of Management and Budget Director

Subject: Employee Benefit Trust Fund: Financial Update and Fiscal Year 2025/26
Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2023/24 regarding the financial history and fund balance of the Employee Benefits Trust (EBT) Fund. This report will provide an update on the financial status of the EBT Fund through FY 2023/24, year-end projections for FY 2024/25 and recommended City contributions for inclusion in the FY 2025/26 budget.

Financial Update

Expense Trends

Expenses in the EBT Fund are tracked in five major categories: administration (Citywide overhead, departmental overhead, contracted third-party administration fees, and regulatory compliance fees); self-insured paid claims for medical/behavioral health and prescription drugs and dental claims; Employee Health and Wellness Center expenses, Mesa Wellness 360 incentive programs/services, and premiums for Life Insurance/ Stop-Loss Medical/Other fully insured benefit programs.

Staff review trends in expenses, claim counts, and membership changes 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 an increase in FY 2023/24 and are projected to increase further through FY 2024/25 and FY 2025/26.

The cost of claims includes medical claims, high-tech radiology and behavioral health capitation fees, third-party cost containment management fees, prescription drug claims and management fees, specialty drug advocacy service cost avoidance fees, and dental claims.

Claim costs increased in FY 2023/24 by 15.4% compared to the prior year in large part due to prescription drug claims as well as healthcare cost inflation, number of claims, utilization increases, membership increases, and capitation and cost containment fee increases. For FY 2024/25, cost trends are increasing similarly to FY 2023/24. Claim costs are expected to finish at \$117.5 million.

The expenses for the Mesa Health and Wellness Center relocation and re-build are excluded from the table below which will be offset with a transfer in from the General Fund.

Fiscal Year	Total Expenses*	% Increase	Cost of Claims	% Increase
FY 18/19 Actual	\$90.8M	13.4%	\$80.7M	15.1%
FY 19/20 Actual	\$96.6M	6.4%	\$86.6M	7.4%
FY 20/21 Actual	\$99.3M	2.9%	\$89.5M	3.4%
FY 21/22 Actual	\$102.2M	2.9%	\$91.4M	2.1%
FY 22/23 Actual	\$101.8M	(0.4%)	\$90.3M	(1.2%)
FY 23/24 Actual	\$116.6M	14.6%	\$104.3M	15.4%
FY 24/25 Projected	\$131.6M	12.8%	\$117.5M	12.7%
FY 25/26 Forecast	\$138.0M	4.9%	\$123.2M	4.9%

**Excludes Wellness Center Project related costs which will be offset with a transfer in.*

Contributing factors affecting the EBT Fund:

Increases

Healthcare cost inflation, membership increases, claims utilization and counts increases, and wellness incentive and programming increases, drove calendar year (CY) 2024 total expense increases:

- National **healthcare inflation** effect (8% to 20%)
- **Membership grew** almost 2% year over year - 15,682 members by January 2025 (preceded by 3% and 4% growth for 2023 and 2022) – continues to impact all EBT expenses due to per employee per month (PEPM) or per member per month (PMPM) obligations plus increased claims utilization
- **Medical claims' counts** up 6.5% (increase by 11,539) to 187,546 in CY 2024
- **Medical claims and base administration spend** – up 6% (\$4.0 million)
- **Prescription Drug spend overall** – up 31% (\$8.4 million):
 - ✓ Non-Specialty Drug spend (including significant impact of GLP-1's) – **up** 29% (\$4.6 million) and,
 - ✓ Specialty Drugs – **up** 38% (\$3.8 million)

- **CY 2024 High-Cost Claimants:** three above \$500,000 each
- **Cost containment medical plan fees** up 5% in CY 2024 (e.g. Out-of-Network bill negotiation and complex claim services, Physical Therapy/Chiropractic/Musculoskeletal/Sleep PMPM management fees)
- Behavioral Health and High-Tech Radiology **PMPM Capitation Fees** increased 10% in CY 2024 (up \$514,820 from CY 2023)
- **Wellness Incentive gift card redemptions** - up 101% in 2024 (\$453,400 for employees and \$120,850 for spouses):
 - ✓ Cash incentive improvements from \$200 to \$300 per person per year and,
 - ✓ Improvement of “points” allocation for preventive screenings (7,792 \$50 gift cards issued for preventive screenings)
- **2025 Wellness Credits** for active medical plan members (and spouses) with 1,500 “points” earned in 2024: \$262,200 for 1,311 employees (up from 447 employees and \$89,400 in 2024 earned in 2023 for Choice and Copay plan members only)

Offsets/decreases:

- Medical/prescription drug **stop-loss insurance reimbursements** – approximately \$280,000 projected in 2025.
- **Continued active employee enrollment shifts to Basic Medical Plan** (65% of eligible active employees) = reduction in City medical claims liability due to higher out-of-pocket (OOP) employee liability for deductibles/coinsurance/increased OOP maximums (cf. 60% enrollment in 2024, 54% in 2023, 48% in 2022)
- **Basic Medical Plan contribution revenue added** from active employees and retirees (almost \$500,000 annually) in CY 2025
- **Aging-in to Medicare eligibility for retirees (and retiree spouses)** – liability reduction with secondary payment status (135 aged-in 2024 and 180 projected age-in during 2025)
- **Utilization of Employee Health and Wellness Center** – from October 2024 to January 2025: 2,317 office visits for 1,590 unique patients:
 - ✓ Strong, qualified staffing model retained in transition to new third-party management vendor (late 2024), and,
 - ✓ Diversion of primary/preventive care/chronic condition claims costs from medical plans (high employee satisfaction with “free of charge” services and appointment durations)

Revenues/Contributions and Reserve Balance

The current reserve balance practice 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. FY 2023/24 and FY 2024/25, the City has seen 2 years of significant growth in claims. Staff recommend a draw-down of this balance to allow the opportunity for the revenues to catch up. Additionally, staff are reviewing different strategies to mitigate exposure of the large increases in prescription drug claims.

For CY 2025, staff implemented a 6% increase in overall medical plan premiums for active employees (including a modest introduction of employee contributions on the City's most popular Basic Medical Plan) and 8% increase in overall medical plan premiums for retirees. The EBT Fund is projected to end FY 2024/25 with a balance of \$32.4 million (23.5% 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 each calendar year to maintain the fund balance.

The FY 2025/26 forecast includes the same increase to premium contributions, a 6% increase for active employees and 8% for retired employees in CY 2026. This equates to a FY 2025/26 City contribution of \$100.5 million to the EBT Fund, resulting in an estimated year-end fund balance of \$24.9 million (17.3% reserve balance). The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

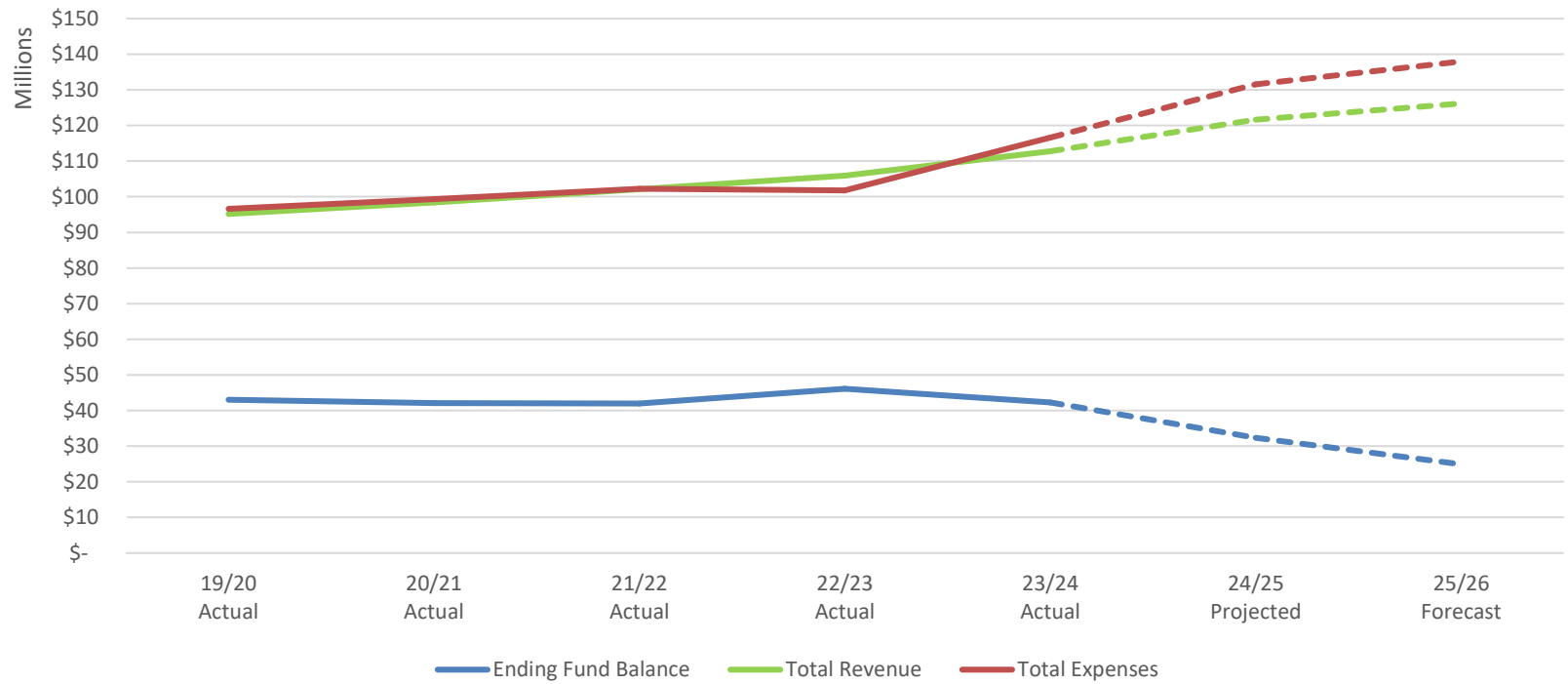
Attachment

- 1) Employee Benefits Trust Fund Expenses
- 2) Employee Benefits Trust Fund Cashflow

Employee Benefits Trust Fund Expenses



Employee Benefits Trust Fund Cashflow



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

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
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

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

Arizona Department of Insurance and Financial Institutions
100 N 15th Ave, Suite 261
Phoenix, AZ 85007-2630

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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Arizona Department of Insurance and Financial Institutions
100 N 15th Ave, Suite 261
Phoenix, AZ 85007-2630

ARTHUR J GALLAGHER RISK MANAGEMENT SERVICES, LLC

ARTHUR J GALLAGHER SERVICES COMPANY

2850 GOLF RD

ROLLING MEADOWS IL 60008-4050

ARIZONA INSURANCE LICENSE

License No: 1800001294

ARTHUR J GALLAGHER RISK MANAGEMENT SERVICES, LLC

ARTHUR J GALLAGHER SERVICES COMPANY

2850 GOLF RD

ROLLING MEADOWS IL 60008-4050

NON-RESIDENT

As of June 28, 2023

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	08/16/2005
				Variable Life and Variable	08/16/2005
				Annuity	
				Property	08/16/2005
				Life	08/16/2005
				Accident and Health or	08/16/2005
				Sickness	
				Personal Lines	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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Arizona Department of Insurance and Financial Institutions

100 N 15th Ave, Suite 261

Phoenix, AZ 85007-2630

MATTHEW SMITH
5575 N PICCADILLY
WEST BLOOMFIELD MI 48322-1443

ARIZONA INSURANCE LICENSE

License No: 10625718

MATTHEW SMITH

ARTHUR J GALLAGHER SERVICES COMPANY
2600 S TELEGRAPH RD STE 100
BLOOMFIELD HILLS MI 48302-0968
NON-RESIDENT

As of January 14, 2025

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	08/22/2024	08/22/2024	10/31/2027	Life Accident and Health or Sickness	08/22/2024 08/22/2024

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100 N 15th Ave, Suite 261
Phoenix, AZ 85007-2630