



## Self-Insurance Trust Fund Board Report

Date: March 3, 2026  
To: Self-Insurance Trust Fund Board  
From: Nitra Hawkins, Safety Administrator  
Teri Overbey, Human Resources Director  
Samuel Schultz, Office of Management and Budget Assistant Director  
Brian Ritschel, Office of Management and Budget Director  
Subject: Workers' Compensation Trust Fund: Financial Update and FY 2026/27  
Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2024/25 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 2024/25, year-end projections for FY 2025/26, and the recommended City contributions for the FY 2026/27 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 2025/26 are projected to be \$7.6 million. This is higher than the previous three years due to claim costs, which are projected at \$5.0 million, although fire cancer reimbursements related to claims are similar to 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 2025/26 contribution is \$1.3 million. 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>
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 Actual	\$7.0M	\$4.4M
FY 25/26 Projected	\$7.6M	\$5.0M
FY 26/27 Forecast	\$7.4M	\$4.7M

*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 2025/26 is projected to be \$6.8 million. Based on the FY 2025/26 projected reserve balance and the expenses forecasted for FY 2026/27, an increase in the WC rates from the previous year is forecasted for the FY 2026/27 budget. This will bring the year end targeted reserve balance equal to FY 2027/28 estimated total WC Trust Fund expenses.

*Future Stability of the Fund*

The Workers' Compensation (WC) Trust Fund's primary expenditures fall into two categories: the payment of claims, which includes medical, indemnity, expense, and legal costs and the administration of the City's Workers' Compensation Programs.

The Municipal Firefighter Cancer Reimbursement (MFCR) Fund has played a significant role in shielding the WC Trust Fund from the financial burden of presumptive cancer claims. For claims established on or after September 29, 2021, the City receives dollar-for-dollar reimbursement from the MFCR Fund for all medical treatment and lost wage benefits paid.

<b>Fiscal Year</b>	<b>MFCR Fund Reimbursements</b>
FY 21/22	\$76,381.00
FY 22/23	\$551,063.00
FY 23/24	\$837,159.00
FY 24/25	\$837,905.00

## Contributing factors affecting the Workers' Compensation Trust Fund:

Healthcare cost inflation and the number of new workers' compensation claims filed drive the increase in workers' compensation claims expenses.

- National healthcare inflation effect (10% to 30%)
- New claims filed in Calendar Year (CY) 2025; 12% increase over CY 2024.

CY	2021	2022	2023	2024	2025
No. Claims	430	440	528	482	541

- One (1) High-Cost Presumptive Claim (fatality): FY 2025/26 claims cost above \$650,000.
- Presumptive cancer claims filed prior to September 29, 2021 are ineligible for MFCR reimbursement. Annual fiscal impact on the WC trust fund: \$275,000.
- **Prescription Drug Costs:** Cost trends forecast an increase of 31% to \$418,954 FY 2025/26.
- **Physical Therapy costs:** Cost trends forecast an increase of 40% to \$508,028 in FY 2025/26.
- **Durable Medical Equipment (DME):** Cost trends as of 12/31/2025 are up 3.6 times higher than FY 2024/25 (\$64,044) with a forecasted increase up to \$459,558 in FY 2025/26.
- **Centers of Medicare and Medicaid Secondary Payor Requirements:** The Centers for Medicare and Medicaid Services (CMS) enforces the Medicare Secondary Payer (MSP) provisions, which govern the order in which payers are responsible for covering medical costs when a claimant is eligible for both Medicare and workers' compensation benefits.
  - The CMS secondary payer requirements expose the City to significant financial liability, including the repayment of conditional payments made by Medicare and potential penalties.
  - FY 2025/26 Conditional Repayments YTD: \$108,306.
- **Proposed AZ Legislative Amendments:**
  - **HB 2204** - This house bill would amend state workers' compensation laws to allow first responders including peace officers, firefighters, paramedics, emergency medical care technicians, and public safety telecommunicators to seek benefits for PTSD as a presumptive occupational disease.
  - Expanding PTSD coverage as a presumptive occupational disease, without clear causation standard, to include more first responder categories and qualifying

events will increase the number of workers' compensation claims potentially filed for PTSD, creating a substantial fiscal burden on the WC Trust Fund.

- **HB 2679** – This senate bill would amend the state workers' compensation laws to make heart-related, perivascular or pulmonary conditions in firefighters' presumptive occupational diseases. The house bill explicitly states the following factors cannot be used alone to rebut the presumption including Age, Family history, Fitness level, Lifestyle factors, Speculation, Statistical risk factors, and Post-event medical findings.
- This presumptive statute, if passed, will potentially increase the number of workers' compensation claims potentially filed for heart-related conditions, creating a substantial fiscal burden on the WC Trust Fund.

### **Recommendation**

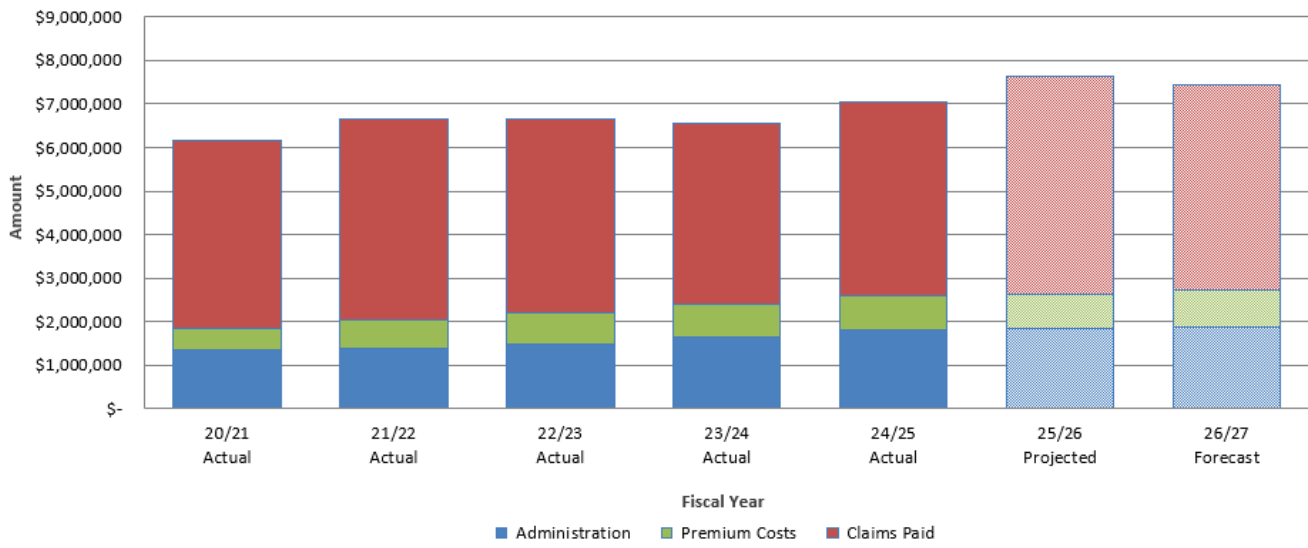
Staff recommends the continuation of the current practice of adjusting rates annually and setting the rates for FY 2026/27 at a level to achieve a targeted ending reserve balance sufficient to cover the following fiscal year's annual WC Trust Fund expenses. For FY 2026/27, the City forecasts an increase in the rates to achieve a City contribution of \$8.0 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**

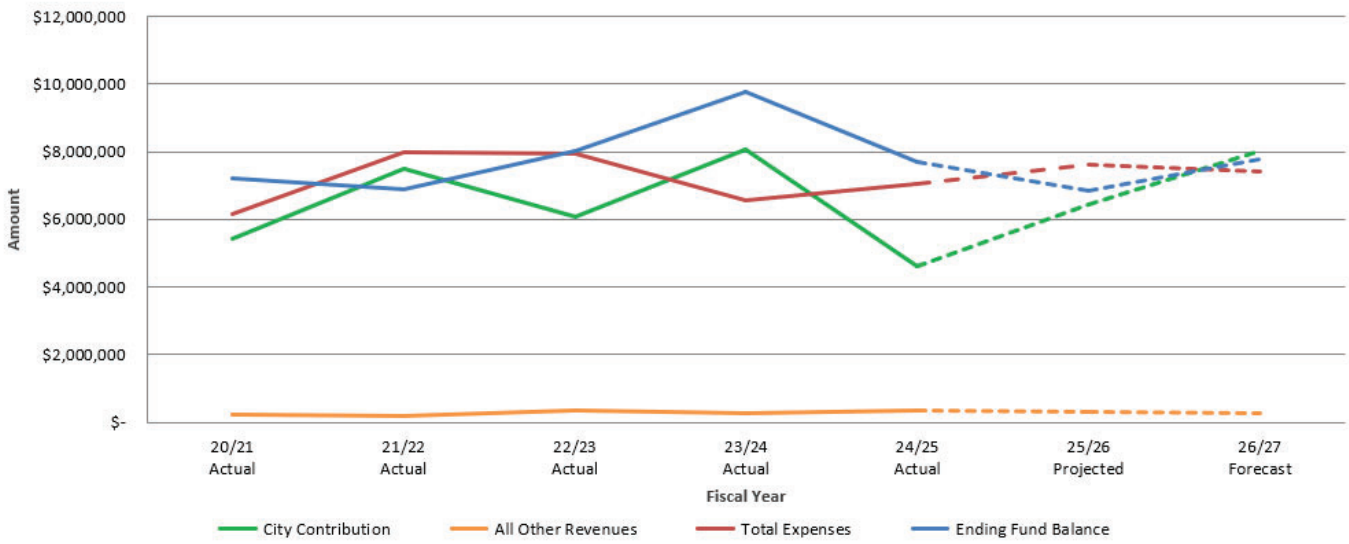
- 1) Workers' Compensation Trust Fund Expenses
- 2) Workers' Compensation Trust Fund Cashflow

### Workers' Compensation Trust Fund Expenses



*\*Excludes Fire Cancer Payment*

### Workers' Compensation Trust Fund Cashflow



*\*Excludes Fire Cancer Payment*