



Council Agenda Report

From: Meg Williamson, Assistant City Manager

Subject: General Liability and Workers' Compensation Insurance Budget Adjustment FY 2017-18

Date: April 18, 2017

Facts

1. The City's General Liability and Workers' Compensation Insurance coverage is provided through a self-insurance program administered by the California Joint Powers Insurance Authority (CJPIA). Belonging to this Joint Powers risk pool is strategically beneficial for the City since risk costs are shared among many, and therefore costs are generally less volatile from year to year.
2. Members of the CJPIA risk pool provide its funding through a) annual contributions, and b) retrospective deposits or refunds (adjustments). These funding mechanisms are described as follows:
 - a. Annual Contribution: Annual contributions provide the pool with necessary resources for the defense and payment of claims. The funding estimate for the annual contribution is calculated based on an actuarial study of the Authority's claims experience. In addition to funding the direct cost of claims, annual contributions provide funding for excess and reinsurance premiums, claims administrations fees, broker fees, operating expenses, and all other costs associated with the coverage programs. The total funding requirement is allocated to individual members using loss experience and payroll.
 - b. Retrospective Adjustments: Some claims take many years to resolve and over time their estimated values change as new information becomes available. Retrospective adjustments are based on the ongoing claim development of past coverage periods and can result in either an additional deposit or a refund. Retrospective adjustments are calculated once a year.
3. The City's Annual Contributions have generally increased over the years in a fairly predictable fashion. However, the Retrospective Adjustments are difficult to budget for because of volatility.
4. In Fiscal Year 16/17, the City received an unpredicted Retrospective Refund Adjustment of approximately \$250,000. This anomaly meant the City did not have to budget as much in FY 16/17 for the insurance program as in previous years. The FY 17/18 budget was adopted with the same baseline funding for the insurance program as FY 16/17, with no upward adjustment.
5. CJPIA sent its annual invoice in March of this year, which reflects a total annual contribution that exceeds the FY17/18 budget by approximately \$400,000. These annual payments are a mandatory expense to membership in the CJPIA and to providing insurance coverage for City operations.
6. Insurance costs are proportionally distributed among each Department as part of their maintenance and operation expenses. Therefore, approximately 27% of the annual payment is allocated to City Enterprise funds and the remainder to General Fund.
7. The City should know our FY18/19 retrospective payment amount by the end of this calendar year, in time to include it in our financial forecasting for the next 2-year budget (FY 18/19- FY 19/20) and we will be sure to project realistically for the Insurance Fund program needs in both budget years.
8. The City continues to work on programs and best practices that will help to reduce risk (and therefore claims and program costs) over time.

Options

1. Do nothing.
2. Authorize the allocation of \$400,000 from both General Fund and Enterprise Fund Reserves for the FY17/18 CJPIA annual risk program.
3. Amend or modify Option 2 above.

Analysis and Conclusions

Option 1 represents the current condition, and would result in the FY17/18 Risk Program being overspent by approximately \$400,000. The payment to CJPIA is due regardless of whether it was budgeted for or not.

Option 2 would supplement the Risk Program budget to accommodate the annual contribution to CJPIA, allocating those costs to both General Fund and Enterprise funds as a cost of business. The City will continue to work on best practices to adjust risk and claims cost wherever possible, and future budgets are to be carefully reviewed to best reflect projected costs, to avoid budget shortfalls. This will occur through all City departments working together collectively, but the City Manager's Office and Administrative Services Department will take the lead in future budget projections.

Fiscal Impact

Of the \$400,000 appropriation for FY 2017-18, \$290,472 would be appropriated from General Fund and \$109,528 from Enterprise Funds. There are adequate funds in the reserves of all funds to cover these costs.

Recommendation

Approved Resolution 17-XXX authorizing the appropriation of \$290,472 from General Fund, \$54,764 from the Water Fund, and \$54,764 from the Waste Water Fund, as needed to cover the California Joint Powers Insurance Authority (CJPIA) annual contribution for FY 2017-18.

Attachments

None.

RESOLUTION NO. 17-XXX

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
APPROVING A BUDGET ADJUSTMENT IN FISCAL YEAR 17/18 FOR THE CJPIA
GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE PROGRAM**

WHEREAS, the City 's General Liability and Workers' Compensation Insurance coverage is provided through a self-insurance program administered by the California Joint Powers Insurance Authority (CJPIA); and

WHEREAS, belonging to this Joint Powers risk pool is strategically beneficial for the City since risk costs are shared among many, and therefore costs are generally less volatile from year to year; and

WHEREAS, members of the CJPIA risk pool provide its funding through a) annual contributions, and b) retrospective deposits or refunds (adjustments); and

WHEREAS, the City's Annual Contributions have generally increased over the years in a fairly predictable fashion, but retrospective adjustments are difficult to budget for because of volatility; and

WHEREAS, in Fiscal Year 16/17, the City received an unpredicted Retrospective Refund Adjustment of approximately \$250,000 and this anomaly meant the City did not have to budget as much in FY 16/17 for the insurance program as in previous years; and

WHEREAS, the FY 17/18 budget was adopted with the same baseline funding for the insurance program as FY 16/17, with no upward adjustment; and

WHEREAS, the City received the CJPIA annual invoice for its FY17/18 contribution which exceeds the FY17/18 budget by approximately \$400,000; and

WHEREAS, these annual payments are a mandatory expense to membership in the CJPIA and to providing insurance coverage for City operations; and

WHEREAS, insurance costs are proportionally distributed among each Department as part of their maintenance and operation expenses and approximately 27% of the annual payment is allocated to City Enterprise funds and the remainder to General Fund; and

WHEREAS, the City should know its FY18/19 retrospective payment amount by the end of this calendar year, in time to include it in our financial forecasting for the next 2-year budget (FY 18/19- FY 19/20) so as to realistically project the Insurance Fund program' budgetary needs in both budget years; and

WHEREAS, the City continues to work on programs and best practices that will help to reduce risk (and therefore claims and program costs) over time.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. All of the above recitals are true and correct and incorporated herein by reference.

Section 2. The City Council hereby authorizes the appropriation of \$290,472 from General Fund, \$54,764 from the Water Fund, and \$54,764 from the Waste Water Fund, as needed to cover the California Joint Powers Insurance Authority (CJPIA) annual contribution for FY 2017-18.

APPROVED this 18th day of April 2017, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Steven W. Martin, Mayor

ATTEST:

Kristen L. Buxkemper, Deputy City Clerk

Department Expense Allocation
 City of Paso Robles
 2017-18

Liability Insurance Expense

Total Additional Amount (\$400K) to be Allocated

Department	Expense Allocation		FY 18		
	\$	%	Org %	Org	Object
Administrative Services	\$ 8,330	2.1%	50.0%	1001401	52810
					4,165
			25.0%	6001501	52810
City Manager's Office	\$ 12,561	3.1%	25.0%	6011502	52810
			100.0%	1001300	52810
			75.0%	1007101	52810
Community Development	\$ 11,606	2.9%	25.0%	2277104	52810
					2,901
			100.0%	1002250	52810
Fire	\$ 41,151	10.3%	100.0%	1002100	52810
Law Enforcement	\$ 106,594	26.6%	100.0%	1004203	52810
Parks/Recreation	\$ 9,033	2.3%	50.0%	1004105	52810
Public Works	\$ 210,727	52.7%	50.0%	1003115	52810
			25.0%	6003401	52810
			25.0%	6013501	52810
Total	\$ 400,000	100.0%		1001330	59810
					400,000

Note 1: The expense allocation is based on each departments weighted percentage of payroll and claims.
 Note 2: Payroll is weighted 40%, and claims 60%.
 Note 3: Payroll data is projected for 2014-15.
 Note 4: Claim data includes 5 years of historical incurred costs, 2008-09 through 2012-13, valued as of June 30, 2014.
 Note 5: Claims were limited to \$300,000 per occurrence, to prevent unusually large claims from skewing the calculation.