



*"...meeting community needs...enhancing quality of life."*

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**TO:** Finance Committee

**FROM:** Tony Saucerman, Finance Director

**DATE:** **July 12, 2021**

**RE:** **Risk Management Reserve Fund**

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### **Background**

The City accounts for its general, automobile, Police professional, public official's liability, and workers compensation costs in the Risk Management fund. Costs incurred in each of these areas, up to certain commercial insurance limits, are paid from this fund. Additionally, in accordance with Governmental Accounting Standards Board (GASB) Statement #10, the fund is also subject to carrying a reserve for expenses and losses expected to arise from outstanding claims, as well as amounts expected to arise from claims which have been incurred but not yet reported to the City. The amount of this reserve is determined by a bi-annual study performed by a third-party actuarial firm that looks at actual settled claims, workers comp payment reserves, frequency of claims, industry averages, and other economic and social factors.

The reserve balance historically maintained in the City's Risk Management fund, and confirmed most recently by the 2018 actuarial study was \$1.9 million. This balance was able to be maintained due to relatively stable claims experience over many years. Unfortunately, over the past two years, the City has experienced significantly increased costs, particularly in the workers compensation area for both new claims and claims filed in prior years. As a result of the increased claim experience, the actuarial study performed for the period ending December 31, 2020, reported a reserve requirement of approximately \$2.9 million, a \$1 million increase. As required by GASB #10, this increased reserve amount was reported in the December 31, 2020 audited financial statements which resulted in the Risk Management fund showing a substantial deficit at the end of the year.

Additionally, as mentioned previously, current year workers compensation claims are significantly higher than past years and have, after only 5 months, equaled the annual budget amount. Projections of expected claims cost show an additional \$300,000 necessary to fund claims to the end of the year.

As a result of these circumstances, in order to bring the Risk Management fund back into compliance and provide the necessary resources to pay current and future claims, I am requesting a transfer of \$1.3 million from the City's general fund wage reserve to the Risk Management fund. This will allow the Risk Management fund to pay current year

claims as well as meet the fund's responsibility for maintaining a sufficient reserve balance.

### **Wage Reserve Fund**

The wage reserve fund is a designation of a portion of the City's general fund balance reserved for pay plan increases, contract settlements, increased employee costs due to health insurance status changes, employee pay grade changes, and any other additional unexpected labor costs. The wage reserve fund is increased via the budget process when new funds are requested to pay for anticipated wage increases. The wage reserve is drawn down at the end of the budget year for any deficiencies sustained by general fund departments between budgeted and actual personnel costs.

However, over the past several years, due mainly to vacancies occurring throughout the year that provide surplus budget funds to the departments, the wage reserve has, for the most part, not been needed at the end of the year to make up for any deficiencies. As a result, the reserve has continued to grow year after year to a current balance of approximately \$2.3 million.

This requested transfer will reduce the balance to approximately \$1 million which is still a generous reserve to draw upon for any unanticipated general fund personnel costs that might arise.

Thank you for your consideration. As always, feel free to contact me should you have any questions or concerns.