

**November 29, 2023**

## **Finance Commission Insurance Fund Committee Report**

**Committee Members:** Fred Findley, Sheila Rossi

### **Executive Summary**

**Recommendation:** Establish and maintain a cash reserve, in accordance with policy, of a *minimum of 70% of* the present value of the actuarial reported total Self-Insured Workers Compensation and General Insurance Liabilities through a transfer of funds from the General Fund to the Insurance Fund. Establish internal controls and policies for the ongoing management of the Insurance Fund, claims liability reserve balance, and risk management activities.

**Fiscal Impact:** The fiscal impact is isolated to the accounting for the General Fund Unreserved Balance. The General Fund Projected Unassigned Balance for June 2024 was reported as \$18,478,145 on September 28, 2023. The expected present value of liabilities as forecast by actuarial reports is \$2,723,000. A 70% minimum reserve balance equates to \$1,906,100. Assuming no current cash reserves (worst case scenario), this would equal a transfer or commitment from the General Fund, resulting in a General Fund unassigned balance of \$16,648,777 and a 42% Reserve of the \$39.6 million of projected General Fund Revenues for Fiscal Year 2022-23. Any existing cash assets in the fund would result in a reduction of the recommended transfer amount.

**Background:** The 2020 audit reported an actuarial self-insured liability of \$1,736,000 and a cash reserve balance of \$172,076 (10% of liabilities). The City recognized it was in non-compliance with its Risk Management Policy goal to maintain a minimum of 70% reserve by the fiscal year 2023-24 and it pledged to achieve its funding goal within the next three years. Due to increases in insurance claims over the past three years the Insurance Fund had deficit balances of (\$1,724,921) in 2021, (\$1,952,519) in 2022 and (\$1,928,000) in 2023. In accordance with GASB Statement No. 10, the City is required to accrue a liability in its financial statements for a reasonable estimate of the cost of claims and expenses associated with all reported and unreported claims. The amount of the accrued liability would be determined by the annual actuarial report.

**Process:** To develop a recommendation, the Ad-hoc Insurance Fund Committee reviewed the following:

- Legal, Contractual, and Fiduciary Obligations
- Current Actuarial Data
- Current Funding Proposals
- Internal Service Fund Structure and Timeline
- Historical financial information reported in the 2011-2022 ACFRs.
- Historical information reported in the 2011-2024 adopted budgets.
- Self-insured reserve policies for other California municipalities.
- Historical information related to the decision to switch insurance carriers.