

**City of Minneapolis
2014 Budget
Financial Plan**

Self-Insurance Fund

Background

The Self-Insurance Fund records tort liability settlements, workers' compensation claims, severance payments to employees who meet eligibility requirements and the related administrative costs of these and other services. An activity-based cost allocation model assigns charges to City departments to cover these expenses.

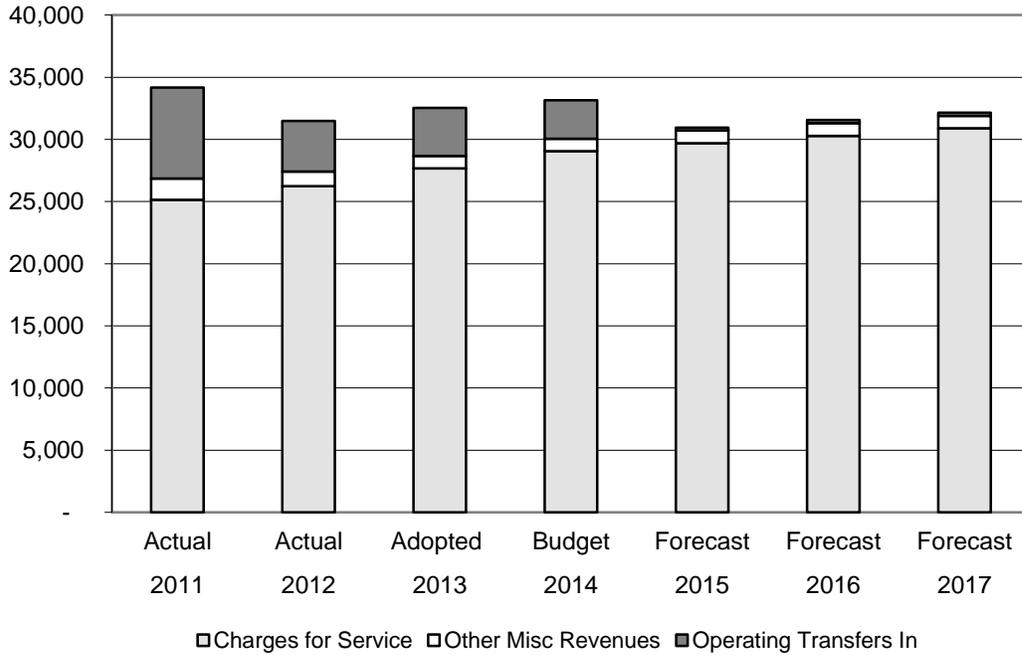
Historical Financial Performance

The net position of the Self-Insurance Fund reached a positive balance of \$1.7 million at year-end 2012, improving \$45.0 million from the 2002 ending balance of a negative \$43.3 million. The fund has historically recorded a negative position primarily because of the required accounting recognition of liability for unpaid claims. The 2012 unpaid claims liability was \$53.0 million representing an increase of \$2.9 million from the 2011 liability of \$50.1 million. An actuarial study completed for year-end 2012 calculated the increase to the unpaid claims liability based on historical paid claims, incurred loss, and estimated reserves for claims unpaid.

In 2003, the City Council adopted a financial plan for the Self-Insurance Fund to increase net position and attain a positive cash balance by year-end 2006. The financial plan was updated in 2008 and adopted by the City Council. The fund continues to perform above the financial plan cash projections and ended 2012 with a cash balance of \$56.6 million, an increase of \$8.0 million from the 2011 ending balance of \$48.6 million. Financial policies related to the internal service funds determine that a reserve cash balance for the Self Insurance Fund should be maintained equal to the unpaid claims liability amount plus 10% of the annual department operating budgets. The target reserve cash balance for 2012 is \$54.0 million which equals the unpaid claims liability at year-end of \$53.0 million plus 10%, or \$1.0 million, of the total 2012 operating department budgets. The ending 2012 cash balance is \$2.5 million greater than the amount determined by the financial policy.

For 2007, a cost allocation model was implemented to recover costs associated with all programs in the fund. The cost allocation model assigns charges to City departments based on a minimum of 5-year claims history for workers compensation and liability. The model was put in place to raise departmental awareness of Self-Insurance costs and increase their ability to control the cost of premiums in the future through loss prevention programs.

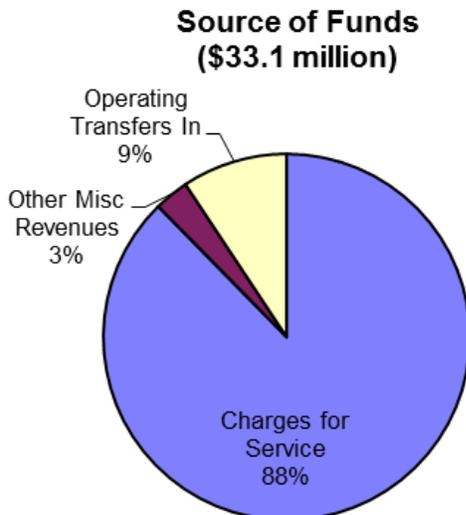
Self-Insurance Revenues (in thousands of dollars)



2014 Budget

Revenues

Revenue recorded in this fund primarily consists of funds received from City departments through a cost allocation model for litigation, risk management, and employee benefit services. In addition, the fund collects revenue to provide for payment of liability settlements and for workers compensation costs.



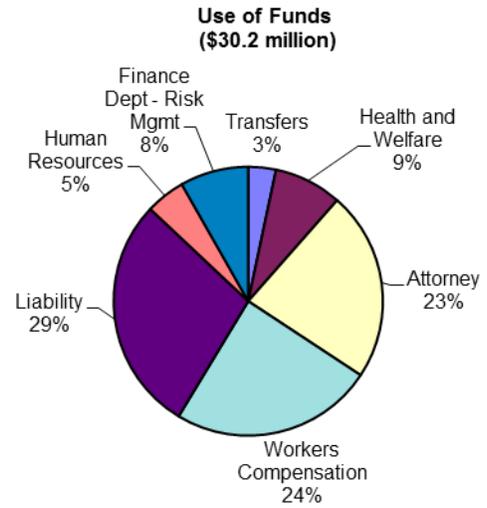
The 2014 budgeted revenue for the Self Insurance Fund is \$33.1 million, an increase of 2.3% from the 2013 projected revenue of \$32.4 million. The transfer in from the general fund is \$3.1 million, a 20.5% decrease from the \$3.9 million transfer in 2013.

Expense

The expense budget for 2014 is \$30.2 million, a decrease of 4.4% from the projected 2013 expenses of \$31.6 million. The 2013 projected expense budget reflects a 10.7% increase over the 2013 adopted budget due to an increase in tort settlement and worker compensation payments paid in 2013.

The Unused Sick Leave program provides a payout of unused sick leave to qualified employees upon separation from the City. Payments are funded by 0.7% gross salary contributions from the City and Park Board into a severance pool. The rate for City police officers and firefighters is 1.1% of gross pay.

The worker's compensation payments are estimated at \$7.4 million for 2014. This is a 25.6% decrease from the 2013 projected amount of \$9.9 million. The 2013 projected payments, based on actual payments processed through June, are significantly greater than the original 2013 actuarial prediction. The actuarial study predicted an increase in liability payments of 5.2% from 2013 to 2014. Actual liability payments for 2013 are projected to be greater than the amount predicted in the 2013 actuarial study resulting in a decrease in the 2014 amount budgeted when compared to the 2013 projection.



Transfers

The 2014 revenue budget includes a \$2.8 million transfer from the general fund per the fund's long-term financial plan and a transfer of \$0.2 million as an appropriation for the cost of City Hall rent. The expense budget includes a \$1.0 million transfer to the Intergovernmental Services Fund to assist with payment of debt service as determined by the long-term financial plan. This transfer will not occur after 2016.

Debt Service

This fund does not have long-term debt.

Net Position

The net position at year end 2012 is \$1.7 million representing an increase of \$6.0 million from the deficit balance of \$4.3 million at year end 2011. The net position has increased from the 2002 deficit of \$43.3 million since the implementation of the long term financial plan. The financial reserve policy relating to the internal service funds states that the net position for the Self Insurance Fund should not fall below zero.

The fund experienced an increase in cash of \$8.0 million in 2012, bringing the cash balance to \$56.6 million. The primary reason for the increase in cash balance was a decrease in the amount paid for tort settlements when compared to the cost allocated to departments in the 2012 cost allocation model. The financial reserve policy relating to the internal service funds states that the Self Insurance Fund should maintain a cash balance equal to the unpaid claims liability plus 10% of the annual operating budgets within the fund. For year ending 2012 the reserve cash balance is \$54.0 million.

Mayor's Recommended Budget

The Mayor does not recommend any changes to the 2014 base budget.

Council Adopted Budget

The Council Adopted Budget reflects a reduction in the transfer in from the general fund of \$625,000 to reflect a reallocation of general fund resources to fund body cameras in the Minneapolis Police Department for \$400,000 and the remaining \$225,000 for street cameras.

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Self Insurance Fund - 6900

	2011 Actual	2012 Actual	2013 Budget	2013 Projected	2014 Budget	% Chg From 2013 Projected	2015 Forecast	2016 Forecast	2017 Forecast
Source of Funds:									
Charges for Service	25,149	26,229	27,670	27,921	29,045	4.0%	29,695	30,289	30,894
Other Misc Revenues	1,703	1,178	1,010	610	1,010	65.6%	1,010	1,010	1,010
Operating Transfers In	7,330	4,071	3,855	3,855	3,086	-20.0%	250	250	250
Total	34,182	31,478	32,535	32,386	33,141	2.3%	30,955	31,549	32,154
Use of Funds:									
Transfers	1,217	1,485	1,000	1,000	1,000		1,000	1,000	-
Health and Welfare	794	784	2,420	1,300	2,468	89.8%	2,517	2,568	2,619
Attorney	6,580	6,042	6,263	6,200	6,889	11.1%	7,027	7,167	7,311
Workers Compensation Liability	8,489	9,528	6,876	9,900	7,364	-25.6%	7,699	7,853	8,010
Human Resources	10,770	3,908	8,031	9,000	8,574	-4.7%	8,791	8,967	9,146
Finance Dept - Risk Mgmt	1,598	1,421	1,406	1,700	1,435	-15.6%	1,464	1,493	1,523
	2,244	2,328	2,535	2,500	2,485	-0.6%	2,535	2,585	2,637
Total	31,692	25,496	28,532	31,600	30,215	-4.4%	31,033	31,634	31,246
Change in Net Position	2,489	5,982	4,003	786	2,926		(78)	(85)	908
Net Position	(4,281)	1,701	5,704	2,487	5,413		5,335	5,250	6,158
Cash Balance	48,571	56,564	60,567	57,350	60,276		60,198	60,113	61,021
Target Cash Reserve	51,040	54,019	55,688	55,688	57,938		59,665	61,444	63,276
Variance Cash to Target Reserve	(2,469)	2,545	4,879	1,662	2,338		532	(1,331)	(2,255)

The target cash reserve is in accordance with the financial reserve policy for internal service funds. The cash reserve for the Self Insurance Fund should not be less than the total of the unpaid claims liability balance plus 10% of the annual operating budgets within the fund.