



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** December 17, 2013  
**TO:** Mayor and Council members  
**FROM:** Risk Management Division, Finance Department  
**SUBJECT:** Self Insured Workers' Compensation Program Annual Report

### **RECOMMENDATION:**

That Council receive the Self Insured Workers' Compensation Program Annual Report for the year ended June 30, 2013.

### **DISCUSSION:**

California Labor Code Section 3702.6(b) requires staff to advise Council annually about two items relating to the City's self-insured workers' compensation program: (1) the value of the total accrued claim liabilities reported by the City on the State's Self Insurers Annual Report; and (2) whether current accounting and financial reporting of those liabilities is in compliance with the requirements of Government Accounting Standards Board (GASB) Statement 10.

The California Department of Industrial Relations requires all self-insured public agencies to submit an annual report before October 1<sup>st</sup> that identifies the workers' compensation liabilities as of the prior fiscal year-end. Risk Management staff submitted the Fiscal Year 2013 annual report on September 12, 2013. The City's report listed 181 open indemnity claims with total liabilities of \$6,097,108, consisting of \$1,746,998 for indemnity (disability payments) and \$4,350,110 for medical payments.

The City accounts for its risk management operations in a separate Internal Service Fund. Every two years, the City contracts with a risk management actuarial firm to prepare an actuarial valuation of the accrued liabilities in the City's self-insured workers' compensation program. The City uses the results of this actuarial valuation as well as claims information from our third party administrator (claims adjuster) to report the workers' compensation accrued liabilities in both the City's Comprehensive Annual Financial Report ("CAFR") and the State's required annual report.

GASB Statement 10 established accounting and financial reporting standards for all City claims, including workers' compensation claims. GASB Statement 10 requires governments to recognize a claim as an expense and liability if both of the following conditions are met:

1. Information available indicates that it is probable that a liability has been incurred; and,
2. The amount of the loss can be reasonably estimated.

In addition, it requires certain disclosures in the footnotes to the financial statements. All of the City's workers' compensation claims have been accounted for and reported in accordance with GASB Statement 10.

### **Funded Status of Reserves**

Until recently, the reserve requirements and related accrued liabilities for the Worker's Compensation Program have been fully funded. In fact, the program was overfunded by as much as \$4 million, which allowed for rebates to the General Fund and Enterprise Funds over the last several years.

However, the actuarial report issued in November 2012 recommends increasing the workers' compensation program reserves by \$3,026,705 to a total of \$7.1 million. This correspondingly increases the accrued liabilities recorded in the Self-Insurance Fund and reported in the City's CAFR. As a result, the workers' compensation program reserves are currently under funded by approximately \$3 million.

The actuary identified the reasons for the reserve change as a combination of a cumulative increase in the individual claim reserves for two separate fiscal years (2009 and 2011) plus an increase in claim reserves since the previous study was completed.

Funding the increase in the workers' compensation reserves would require the City to increase workers' compensation premiums charged to all operating funds and departments, including the General Fund. Staff chose not to increase workers' compensation premiums in the recently adopted Fiscal Year 2014 and 2015 Financial Plan since this increase in required reserves may resolve itself over the next few years as the two bad years (2009 and 2011) become less of a factor and the City's actual claims results return to historical levels. The next actuarial study will be completed next summer, which will give staff a chance to re-evaluate premiums currently being charged to departments and funds in the context of the updated required reserves.

## **Summary**

The City has met its obligation to file the State's annually required report for public agencies that self-insure for workers' compensation. With this report, the City has also met the State law requirement to report the program liabilities to the City Council. A more complete description of the City's self-insured workers' compensation program can be found in the City's CAFR for the fiscal year ended June 30, 2013.

Staff will present the information contained in this report to the Finance Committee on December 17, 2013 at 12:30 p.m. in the David Gephardt Room.

**PREPARED BY:** Mark W. Howard, Risk Manager

**SUBMITTED BY:** Robert Samario, Finance Director

**APPROVED BY:** City Administrator's Office