



MINUTES

**LOSS TRUST FUND BOARD MEETING
7447 E. Indian School Rd., Suite 210
Finance Conference Room
Scottsdale, AZ**

**December 1, 2015
8:00 a.m.**

- PRESENT:** Jim Stabilito, Chairman
Pauline Hecker, Vice Chair
Matthew Kleifield (telephonic)
Paul McKee
Jim Tomlinson (telephonic)
- STAFF:** Katie Callaway, Risk Management Director
Jeff Nichols, City Treasurer
Lauran Beebe, Human Resources Manager
Ryan Fielder, Senior Budget Analyst
Lori Davis, Assistant City Attorney
- GUESTS:** Charlie Broucek, Hayes Management Consulting

1) CALL TO ORDER

Chair Stabilito called the meeting of the Loss Trust Fund Board to order at 8:31 a.m.

2) ROLL CALL

A formal roll call confirmed the presence of Board Members as stated above.

OLD BUSINESS

- 1) Approval of the January 28, 2015 meeting minutes

VICE CHAIR HECKER MOVED TO APPROVE THE MINUTES OF THE JANUARY 28, 2015 MEETING. BOARD MEMBER TOMLINSON SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF FIVE (5) TO ZERO (0).

NEW BUSINESS

- 1) Introduction of New Board Member, Paul McKee

Board Member McKee introduced himself, speaking of his background, having worked for the City as Risk Services Manager for nearly 22 years. He hopes to contribute his background in safety and loss control.

Risk Management Director Ms. Katie Callaway commented that Board Member McKee is a CPA and a certified safety professional, so he brings both safety and financial expertise. The Board now has a full complement of members. She noted that Board Member Tomlinson's second term ends in October 2016. They may be able to find a replacement for him in the spring.

- 2) Review Risk Management Annual Report for Fiscal 2014/2015

Ms. Callaway stated that for many years the Risk Management Department had the goal of keeping the cost of risk below two percent of the City's operating budget. This year it was 2.37 percent. This is partly because of the premium increase of \$1.1 million for excess insurance for law enforcement. This premium will not be reduced.

Chairman Stabilito inquired how much of the 0.37 percent the \$1.1 million increase represents. Ms. Callaway said they would review this later in the presentation.

Ms. Callaway said another unusual situation during the past fiscal year was that the City paid out a \$1.6 million lump sum general liability settlement. Typically when the City has a large claim it is in the claims system for a couple of years while the City Attorney's Office coordinates the defense. In this case, the claim was presented and settled rather more quickly. This was the failure to regulate claim, also referred to as the pedicab claim.

Board Member McKee asked whether the City is self-insured to \$2 million. Ms. Callaway confirmed that it is. The Board considered changing to a higher retention when the renewal premium was increasing. However it would entail a \$5 million level. The Board did not feel they were ready to do that. Board Member McKee agreed. Mr. Jeff Nichols, City Treasurer, added that a further consideration was that this was a step that once taken could never be reversed.

Vice Chair Hecker asked whether the settlement of \$1.6 million was for both parties, and Ms. Callaway confirmed that it was.

Ms. Callaway stated that although the department was unable to meet the two percent goal, there were some highlights. They dedicated two staff members to finding and recovering damage done to City property. They researched old police reports of such things as sign and curb damage and recovered approximately \$547,000 compared to \$361,000 in other years.

Vice Chair Hecker inquired about recovery of workers' compensation overpayments and Ms. Callaway confirmed this is part of the overall recovery amount. In future reports staff hopes to provide a breakdown of recovery amounts.

They experienced a spike in the frequency of workers' compensation claims. The Safety Manager has decided to focus on a root cause analysis with department managers to identify on what happened and how it could be prevented.

Board Member McKee commented that the report focuses on financial questions and looking at the past rather than being proactive. Even a root cause analysis is looking at the past. Although this is helpful, he opined that it is more productive to be proactive. He encouraged developing written action plans with departments.

Ms. Callaway discussed the cost of risk section of the report. Claim payments increased by approximately \$1 million. Operating budget was not as low as the prior year but was acceptable.

The excess coverage premium rose by \$1.1 million, as discussed. Mr. Nichols pointed out that this accounts for 0.28 percent of the total cost of risk. Had this premium not increased, the cost of risk for the fiscal year would have been approximately 2.1 percent.

Special event reimbursements were a little lower than anticipated. Ms. Callaway said the Super Bowl was a factor. She is waiting to be able to check with the Police Department about that.

Board Member McKee said he is more concerned about the five-year trend. Five years ago the cost of risk was 1.3 percent, so this represents a significant increase. He reiterated that being more proactive is key to reducing the cost of risk.

Ms. Callaway noted a spike in reserves during the previous fiscal year. She attributed this mainly to having added two professional adjusters. Board Member McKee asked how this compares with the IBNR (incurred but not reported). Ms. Callaway undertook to distribute this information via email to the Board Members.

Vice Chair Hecker asked whether the actuarial report could be shared with the Board. Ms. Callaway said she could email the executive report.

Ms. Callaway said an outside company reviews medical bills related to workers' compensation and this is giving a reasonable amount of savings. They have issued an RFP and are also looking to add a pharmacy benefit plan for the workers' compensation claims. She clarified that both functions may be fulfilled by one company, or there may be two vendors.

Ms. Callaway discussed the general liability payment breakdown chart. She pointed out that large claims entail large legal expenses, discussing the pedicab case as an example. She confirmed that the \$1.6 million was the total cost of the claim.

A team meets weekly to review all claims. Members include the adjusters and staff from the City Attorney's Office. Assistant City Attorney Ms. Lisa Davis said most cases are handled in house although they have outside Counsel for risk cases also. Ms. Callaway said her office has begun tracking payments to outside Counsel versus expenses to the City Attorney's Office as of last year. Senior Budget Analyst Mr. Ryan Fielder said an analysis for previous fiscal years would be difficult as it was not tracked separately.

Ms. Davis said any further discussion about the details of handling cases should be agendaized for a future meeting.

Ms. Callaway presented the workers' compensation payment charts, pointing out that medical expenses are a huge driver. The City has a great return to work program. Nurse case management services were put out to bid last year.

Chairman Stabilito inquired about the bill review services between FY 2013/2014 and FY 2014/2015. Ms. Callaway said much of the bill review for costs that are not capitated by the Industrial Commission, they are paid a percentage of the savings. If the City had a huge hospitalization, the bill review service firm would receive a large fee. The savings achieved through the bill review service are shown in a separate chart.

Vice Chair Hecker asked whether the current contract gives the service provider a percentage of the savings or a charge for each item reviewed. Ms. Callaway said she believes it is a combination of both. The RFP allows bidders to specify how they wish to be remunerated. Staff will be analyzing the bids received.

Ms. Callaway reviewed the six-year overall loss performance. She is prepared to meet individually with the Board Members if they wished to discuss any individual cases. In general the frequency of losses was good for FY 2014/2015, with the exception of workers' compensation.

Board Member McKee noted that the City workforce is around 2,500 and there were 370 claims. Ms. Callaway pointed out that about 20 were claims for exposure to bloodborne pathogens by public safety personnel. These claims have to be opened for OSHA purposes, but they are then closed. However she acknowledged that the workers' compensation claims are trending upwards. The Safety Manager is concentrating on a root cause analysis on every single Public Works claim to make sure that employees are following safety protocols. The Police and Fire Departments have safety committees, and the Fire Department has a wellness and return to work specialist.

Board Member McKee inquired about the level of Risk Management staff engagement with the higher risk groups. Ms. Callaway said the Safety Manager and the property casualty adjuster attend all the police and fire safety meetings. Quarterly meetings are held where the entire Risk Management Department makes a presentation for the police command staff.

Mr. Nichols said he has reviewed job descriptions. Safety goes to the supervisory level. Tailgate meetings each morning to remind people to be aware of safety considerations

can keep people safer. The Director of Public Works has expressed concerned about preventable accidents.

Board Member McKee asked if they have ever considered doing the OSHA Voluntary Protection Program (VPP) again. Mr. Nichols said this has not been discussed since he became City Treasurer. Board Member McKee explained this is a voluntary accreditation program for municipalities. Scottsdale had it for 12 years and then withdrew. He encouraged staff to consider re-engaging in the program. A discussion ensued about the withdrawal from the program. Board Member McKee said one SRP plant is in the program and a second one is becoming accredited.

Benefits Manager Ms. Lauran Beebe presented the report on the self-insured medical and dental plans. She noted a number of unavoidable larger claims. However staff continues to make wellness presentations at departmental staff meetings to promote wellness initiatives. Participation in the HSA plan continues low. Mr. Nichols said this is a risk-averse population. Board Member McKee said SRP has just started an HSA plan with satisfactory participation. SRP makes a contribution towards each member's plan. Vice Chair Hecker said Maricopa County also contributes to the individual plans.

Mr. Charlie Broucek of Hayes Management Consulting said there are still questions about how federal health care plans will change in 2018.

Chairman Stabilito inquired as to any breakdown in cost trends with regard to pharmacy costs versus other costs. Mr. Broucek said they continually look at this. Some new specialty drugs are very expensive. Four people with the City are on Hep C drugs. Although the drugs are very expensive in the majority of cases it actually cures hepatitis C. A course of treatment can cost up to \$130,000 over 12 weeks. Mr. Nichols noted that the cost of untreated hepatitis C could in fact be even more costly to the City.

Chair Stabilito asked whether pharmacy expenses are included in the stop loss coverage. Ms. Beebe confirmed that it is. She added that the City is now receiving one hundred percent of the pharmacy rebates. In the past they only received 20 percent. Thus far they have received one rebate payment, but starting in 2016 payments will be made on a quarterly basis.

Ms. Callaway said staff will schedule a meeting in late January or early February to discuss the renewal of the health plan. Ms. Beebe said she is scheduled to bring this to City Council on February 24. Once the December figures are available, these will be available for discussion.

Vice Chair Hecker inquired about the rate increase for employees for FY 2015/2016. Ms. Beebe said in FY 2014/2015 the rate increase was 3.3 percent. For 2015/2016 the increase was 6.8 percent. Although for employees this represents an increase of almost ten percent over two years, Mr. Broucek noted that this is a significantly smaller portion of the overall cost. The City has borne the brunt of the increases.

Mr. Fielder reviewed the Trust forecasts. There are separate trusts for health care and risk. He noted that risk costs are projected to increase by eight percent annually in future years. The operating contingency fund of \$2.5 million is held within the Trust.

Vice Chair Hecker asked if a rate increase for employees is anticipated for FY 2016/2017 and Ms Beebe confirmed that it is.

Mr. Fielder said the cost of risk management is trending in the right direction in FY 2014/2015 despite the large settlement they paid out. Expenses are forecast to increase by two percent annually going forward, with the exception of the excess insurance premium, which staff has forecast to increase by ten percent annually. He explained that revenues are the charges transferred from City departments, so once the expenses have been estimated staff then estimates the revenues. These are based on five years of payroll history (payroll dollars) and two years of workers' compensation claims liability adjustment.

Mr. Fielder said staff is working to develop the forecast for FY 2016/2017. At this point the figure look more flat. He feels that the adopted budget for FY 2015/2016 is fairly accurate. Staff believes that in this fiscal year they will achieve the 85 percent confidence level. Chairman Stabilito commented that given the ending of the last fiscal year this is a pretty big jump and Mr. Fielder agreed.

Vice Chair Hecker asked Ms. Callaway if they anticipate any large claims within the next two years. Ms. Callaway said not for the next fiscal year. Ms. Davis said one case is being appealed to the Ninth Circuit. One large claim is pending, but she does not anticipate settlements in that time frame. The City has a good defense reserve but no settlement funds reserved as another organization had coverage. She added that a lot of information as to the facts of this claim are still not available.

Mr. Fielder reviewed the fund balance analysis. This shows that although they are not quite at the 85 percent confidence level the fund balance continues to trend in a favorable direction.

Mr. Nichols recalled that a couple of years ago he had requested that they rebuild the fund balance to the 85 percent confidence level over a period of three years. They are in the second year and the three-year period ends in June 2017.

Mr. Fielder said they have just received the actuarial report for FY 2014/2015 and are already at work developing the FY 2016/2017 budget.

Chairman Stabilito asked the Board Members if they are confident with how the budget is shaking out and whether the goal to be at the 85 percent confidence level by the end of FY 2016/2017 is realistic. He noted that only Board Member Tomlinson and himself were Board Members when Mr. Nichols had suggested this goal.

Vice Chair Hecker said she believes the three-year goal is good. However she expressed concern that although they have yet to achieve this level, it seems they are reducing the rates for FY 2016/2017. She suggested holding rates steady until they have achieved the 85 percent confidence level. Mr. Nichols said the new forecasts will hold the rates steady but this is not reflected in the annual report. Vice Chair Hecker said if rates are dropped prematurely and have to be raised it creates unnecessary angst among other departments.

Mr. Fielder said the numbers for the current fiscal year to date look good so far.

- 3) Approve Risk Management Annual Report for Fiscal 2014/2015 for Submission to the City Council as an Annual Status of the Trust Fund

BOARD MEMBER TOMLINSON MADE A MOTION TO APPROVE THE RISK MANAGEMENT ANNUAL REPORT FOR FY 2014/2015 TO BE PRESENTED TO CITY COUNCIL. VICE CHAIR HECKER SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF FIVE (5) TO ZERO (0).

Chairman Stabilito asked Ms. Callaway to bring the annual Loss Trust Board report to the next Board meeting for their review and approval before it is presented to Council. Mr. Nichols invited Board Member McKee to mention any items he would like agendaized for future discussion.

OPEN CALL TO THE PUBLIC

No members of the public wished to address the Board.

ADJOURNMENT

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 9:31 a.m.

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