



MINUTES

**LOSS TRUST FUND BOARD MEETING
3939 N. Drinkwater Blvd.
City Attorney Conference Room
Scottsdale, Arizona 85251**

**November 13, 2019
5:00 p.m.**

PRESENT: Suzanne Welch, Chair
Richard O'Connor, Vice Chair
Dominic Bilotti
Russell Mosser
Brandon Perlow

STAFF: Katie Callaway, Risk Management Director
Lauran Beebe, Human Resources Manager
Lori Davis, Senior City Attorney

STAFF: Charlie Broucek, Hayes Companies

1) CALL TO ORDER

Chair Welch called the meeting of the Loss Trust Fund Board to order at 5:00 p.m.

2) ROLL CALL

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

OLD BUSINESS

- 1) Approval of the February 13, 2019 meeting minutes

Chair Welch called for a motion to approve the minutes.

BOARD MEMBER PERLOW MOVED TO APPROVE THE MINUTES OF THE FEBRUARY 13, 2019 MEETING AS PRESENTED. BOARD MEMBER MOSSER SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF FIVE (5) TO ZERO (0) WITH CHAIR WELCH, VICE CHAIR O'CONNOR AND BOARD MEMBERS BILOTTI, MOSSER AND PERLOW VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES.

NEW BUSINESS

- 1) Farewell and thank you to Trustee Russ Mosser

Chair Welch thanked Board Member Mosser for his service to the City. Board Member Mosser thanked Ms. Callaway for her knowledge and helpfulness during his tenure.

- 2) Introduction of Trustee Dominic Bilotti

Chair Welch introduced new Board Member Dominic Bilotti. Mr. Bilotti gave a brief overview of his background.

- 3) Review, discuss and take action on the submission of Annual Report to Council for Fiscal Year 2018/19

Katie Callaway, Risk Management Director, reviewed the report. The cost of risk section outlines how the Risk Management Department spent its annual budget for FY 2018/19. Categories include amounts of claim payments, operating budget, amounts spent in excess insurance and special event reimbursement. The cost of risk was \$\$9.2 million. The goal is to keep to 2 percent or lower of the City operating budget and they hit the goal of exactly 2 percent.

Board Member Mosser asked about the jump in claims for the year. Ms. Callaway explained that the section reflects cash inflow and outflow. In May of 2018, there was a catastrophic workers compensation injury, with the patient in ICU for months, followed by rehab hospital and specialty rehab hospital stays. Some recovery was received from the excess carrier.

Ms. Callaway provided an overview of workers compensation expenditures year over year, predominantly consisting of medical expenses. Costs are trending up, which is expected to continue. For the general liability payment breakdown, she noted that the City Attorney's Office provides primary defense for all lawsuits. The City must also always defend against frivolous claims. A good portion of the general liability expenses go towards legal fees, however it serves to keep the City fully prepared for trial or settlement.

In terms of excess insurance, the Trust covers the first \$2 million in any liability claim and the first \$1 million of any workers compensation claim. In addition, the City purchases

excess insurance. Property insurance rates increased by 15 percent, having been renewed on July 1st, 2019. The Difference in Conditions (DIC), which is flood and earthquake coverage premiums, increased by 10 percent. The primary liability package is purchased through Travelers. A significant increase in premiums is not expected.

Ms. Callaway explained that adjustors handling workers compensation claims are City employees. The actual bills are sent to CorVel, a contracted medical bill review service. CorVel takes the bills and reduces them to the Blue Cross/Blue Shield networking pricing codes. The state statute for workers compensation states that the City is only liable for reasonable medical costs. In terms of savings, for FY 2018/19, the City was billed a net of \$9.1 million and saved \$5.7 million, inclusive of the fees paid to CorVel. The medical bill review service comes up for bid at the latter part of the year.

In response to a question from Board Member Perlow, Ms. Callaway confirmed that CorVel has a number of competitors. The contract will be put out for a request for proposal (RFP). Implementation of the City's claim system is expected to result in a more competitive product.

For recoveries, after current FY 18/19 amount have been paid (\$1 million), the excess carrier is billed for any amounts above this total. The recovery total for the period is \$615,654 for workers compensation, \$327,972 for property damage and \$127,484 in other recoveries.

Ms. Callaway reviewed loss totals, noting the focus on frequency of claims. The City's levels have remained steady. In 15/16, \$4 million was paid for claims occurring in the year. It was a notable year in terms of the number of reopened claims. In 17/18, the \$5 million is attributable to the catastrophic loss noted earlier. In terms of loss performance, Community Services has a fairly steady workers compensation experience in terms of frequency and severity, however they are slightly higher on workers compensation this year. For 18/19, there was \$77,000 in property damage, due to wind. There is beginning to be a noticeable increase in storm and wind damage. There is a recommended safety action plan. Ms. Callaway stated that she and the Safety Manager met with the department head and discussed ways to reduce claims.

Board Member Mosser inquired about the definition of "days restricted." Ms. Callaway said this is a directive from a doctor that the individual is able to work, however, they have restrictions as to what duties they are able to perform.

Ms. Callaway stated that the Community & Economic Development Department is relatively without significant losses, with the exception of WestWorld and Transportation.

For the Fire Department in 17/18, there was a \$2 general liability payment. There was also a large liability loss resulting from the death of a toddler at one of the fire stations. Fire departments' general areas of loss are in workers compensation claims. This year, they did drop in frequency. Severity is down for 18/19, totaling \$583,000. The Fire Department action plan will include functional movement screenings.

In the Police Department, between 17/18 and 18/19, approximately 28 new injuries were added. Injuries are up. They are identified as primarily nonpreventable and primarily due to a change in the public's respect for the police department. Less respect means more resistance in apprehensions and more injuries to officers. In terms of general liability

losses, 18/19 was a very good year. The action plan includes a review of ground fight training to minimize injuries.

Board Member Perlow referenced a comparison of Fire to Police in terms of the root cause analysis. Fire was unable to meet the goal for the prior year, yet the police were able to. He asked about the discrepancy. Ms. Callaway said that the Fire Department had a substantial staffing change and the person promoted into the position, which would include taking over the safety committee, needed substantial training in other areas and as a result, did not have safety meetings for three to four months. Board Member Perlow asked whether the situation has improved since July 1st. Ms. Callaway confirmed that it is improving and acknowledged that there are other issues with the Fire Department as well. This includes changes in workers compensation law and introduction of the Craig Tiger Act. The Act includes a requirement for counseling services.

Ms. Callaway addressed Public Works. In 17/18, the Department experienced a catastrophic workers compensation injury. In 18/19, there were 24 property damage claims. This includes damage to fire suppression systems at a police station, rodents chewing through wires, the WestWorld show tent being wind damaged and other claims. The Department also has a safety action plan. Public Works currently has a number of open positions, due to the construction boom. Specific issues are also being addressed, such as fires to solid waste vehicles. Recycling issues will also be addressed with the public, as certain chemicals, such as lithium ion batteries, thrown into the trash are likely to cause fires.

Board Member Bilotti noted the increase in wind damage issues and asked about effects on premium increases going forward. Ms. Callaway stated that the market is hard. This policy has a \$100,000 deductible. The rodent damages and easy-up popups at the swimming pools that were destroyed did not go through Zurich as claims. She anticipates a possible increase of 5 to 10 percent. When moving to Zurich as a carrier, Zurich provided \$30 million high hazard flood coverage and \$60 million medium hazard flood coverage, which is worth the \$100,000 in premium from the DIC carrier.

Ms. Callaway discussed that the Water Resources Department has two dedicated safety personnel. The workers compensation claims are very low for such a huge department. Their general liability claims typically involve flood main breaks and sewer overflow. The Department's action plan sets the bar high in comparison to other departments. Every employee's goals and objectives for performance reviews include safety as a goal. They provide computer-based safety trainings for night shift employees and facilitate employee work groups to improve safety initiatives.

Lauran Beebe, Human Resources Manager, addressed the medical and dental plans. The City has four medical plans and two dental plans with 70 percent of employees participating in the co-pay plan. There is a deductible plan and a high deductible plan attached with a health savings account. The population is predominantly risk-averse, choosing to pay more in premiums with a modest co-pay. Approximately 33 percent of the population has a chronic disease. Wellness programs are focused on these conditions. For the fiscal year ending in June, revenues were \$30 million and expenses \$28.3 million for a positive variance of \$1.7 million, an improvement over 17/18. The overall loss ratio in 17/18 was 104 percent, which improved to 95 percent for 18/19. There is stop-loss coverage protection. Once a member reaches \$325,000, a second insurance is activated.

In response to a question from Board Member Bilotti, Ms. Beebe stated that Symetra is the provider.

Last year, the City incurred 31 catastrophic claims (over \$100,000) that resulted in payment of approximately \$5.5 million, or 24 percent of total medical payments. This year, the plan experienced a 6 percent overall rate increase. This included restoring the contribution percentage split requested by Council in FY 2012/13 of 80 percent plan premiums paid by the City and 20 percent paid by the employee for employee only and 75 percent plan premiums paid by the city and 25 percent paid by employees and their dependents. There is a focus on wellness programs to keep rate as low as possible. Cigna provides \$150,000 towards these programs. There is a Total Benefits Advisory Committee, which consists of representatives from each department.

Programs include:

- Biometric screenings
- Blood pressure incentive
- Tobacco surcharge
- Centers of Excellence incentive
- Preventive dental
- Wellness classes
- Mental Health
- Financial wellness
- Benefit newsletter
- Benefit bulletin

Board Member Bilotti asked about the percentage of HSA account holders who contribute to their HSAs. Ms. Beebe said that approximately 99 percent contribute.

In response to a question from Board Member Perlow, Ms. Beebe confirmed that the incentive remains for joining at \$500 for single and \$1,000 for spouse, family or child.

Board Member Perlow asked about consideration for reimbursement of fitness center memberships. Ms. Beebe said this has come up several times. There are several gyms in the City that employees can use for free. Cigna also offers a \$25 percent discount program.

Vice Chair O'Connor asked about feedback from employees on the rate increase. Charlie Broucek, Hayes Companies, stated that because of the 80/20 ratio referred to earlier, in many cases, despite the 6 percent increase, the amount was not noticeable to many employees. Some employees actually received a reduction in premiums based on the split.

Ms. Beebe stated that an actuary will be looking at the reserve balance and will be providing a formal statement on what a proper reserve balance would be for the group.

Ms. Callaway addressed the 2018/19 financial position of the trust. When funding health insurance, the broker's analysis of historical claims is used along with experiences of hundreds of other businesses in the country. Using sophisticated modeling, an estimation is developed in regards to claims for the next 12-month cycle. The ending fund balance

of \$11.4 million is carried over to the next year. The actual cost of the medical plan totaled \$26.9 million. There is an overall total use of \$29.9 million. Revenues are expected to be \$34 million (employer/employee contributions). Estimated expenses are \$34.1 million. The approved projected budget will leave a surplus of \$11.7 million. As claims are running lower than anticipated, there should be a larger balance in the fund next year.

An actuary is used to determine the ultimate expected losses for the five year financial forecast. For 18/19, there was a beginning fund balance of \$21 million. It was projected that \$9.5 million would be needed to run the program through that year. The \$9.5 million consists of monies collected throughout the year from the divisions to pay their internal insurance premiums for the self-funding. Expenses include \$4.9 million in workers compensation and \$1.9 million for liability and insurance premiums. Total uses are \$10.4 million with an ending fund balance of \$22.1 million. The actuary is estimating the total outstanding liability. In the past, this Board has elected to have a goal of being funding to the actuary's 85 percent confidence level. At the end of 18/19, the 85 percent confidence level was \$23 million. The ending fund balance of \$22.1 million reflects an 80 percent confidence level. For last year, the projection for insurance and bond payments was \$1.9 million; for this year the adopted forecast is \$2.5 million. For 19/20, the risk rate is set at \$10.5 million. For the approved 19/20 budget, if expenses run as expected, the total ending fund balance is \$22.4 million. Carried to the actuary assessment column, they are projected to meet the 85 percent confidence level.

Board Member Mosser asked if the \$1.5 million reduction in workers compensation is attainable. Ms. Callaway referenced the catastrophic payment of \$1 million, all primarily hitting in 18/19. As such, she is relatively comfortable with the new projection.

Vice Chair O'Connor inquired as to the distinction between adopted versus approved. Ms. Callaway said this relates to timing. The budget director takes the budget to City Council for initial adoption before a second bite at the apple some months later.

BOARD MEMBER BILOTTI MOVED TO APPROVE THE FY 2018/19 ANNUAL REPORT TO COUNCIL. BOARD MEMBER BILOTTI SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF FIVE (5) TO ZERO (0) WITH CHAIR WELCH, VICE CHAIR O'CONNOR AND BOARD MEMBERS BILOTTI, MOSSER AND PERLOW VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES.

- 4) Review, discuss and take action on the submission of the Trustee Fund Status Letter to Mayor and City Council

Minor grammatical corrections were made. Chair Welch called for a motion to approve.

CHAIR WELCH MOVED TO APPROVE THE FY 2018/19 ANNUAL REPORT TO COUNCIL. BOARD MEMBER BILOTTI SECONDED THE MOTION , WHICH CARRIED BY A VOTE OF FIVE (5) TO ZERO (0) WITH CHAIR WELCH, VICE CHAIR O'CONNOR AND BOARD MEMBERS BILOTTI, MOSSER AND PERLOW VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES.

OPEN CALL TO THE PUBLIC

There were no members of the public who wished to speak.

ADJOURNMENT

Adjournment

With no further business to discuss, being duly moved by Vice Chair O'Connor and seconded by Board Member Perlow, the meeting adjourned at 6:09 p.m.

AYES: Chair Welch, Vice Chair O'Connor, and Board Members Bilotti, Mosser and Perlow
NAYS: None

SUBMITTED BY:

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