



MINUTES

LOSS TRUST FUND BOARD MEETING

TELEPHONIC

Tuesday, June 2, 2020
5:00 p.m.

- PRESENT:** Richard O'Connor, Chair
Suzanne Welch, Vice Chair
Dominic Bilotti
Brandon Perlow
Allan Smith
- STAFF:** Katie Callaway, Risk Management Director
Lauran Beebe, Human Resources Manager
Lori Davis, Senior City Attorney
- GUESTS:** Charlie Broucek, Hays Companies
Emily Clauss, Nyhart
Suraj Datta, Nyhart
Megan Shoemaker, Nyhart

1. CALL TO ORDER

Chair O'Connor 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.

OLD BUSINESS

1. Approval of the February 4, 2020 meeting minutes

Grammatical corrections were identified.

VICE-CHAIR WELCH MOVED TO APPROVE THE FEBRUARY 4, 2020 LOSS TRUST FUND BOARD MEETING MINUTES AS AMENDED. DIRECTOR PERLOW SECONDED THE MOTION, WHICH CARRIED FIVE (5) TO ZERO (0). CHAIR O'CONNOR, VICE-CHAIR WELCH, BOARD MEMBERS BILOTTI, SMITH, AND PERLOW VOTED IN THE AFFIRMATIVE BY ROLL CALL VOTE. THERE WERE NO DISSENTING VOTES.

NEW BUSINESS

1. Presentation of actuary study by Nyhart.

Suraj Datta, Emily Clauss, and Megan Shoemaker from Nyhart reviewed the reserve analysis report, prepared by Nyhart for the City of Scottsdale.

The report outlines three uses of reserves. The most important reserve is the IBNR, which represents an asset amount that is held for liabilities that are incurred, but have not yet been paid. Uses for an IBNR include claims that will not be paid until after the claim year; when transitioning from a fully insured to self-insured program; and if the City were to shut down its self-insured program. Level 2, the claims fluctuation reserve, is intended to address years of high claims. Level 3, the premium stabilization reserve, is a discretionary account that continues to accrue reserve funds.

Nygart's conservative recommendation is that the City set the medical IBNR at 7.7 percent of expected claims; dental IBNR at 7 percent of expected dental claims; and the premium stabilization reserve at 8.7 percent.

2. Review, discuss and take action on recommended reserve strategy for the Health Care Self-Insurance Fund.

Katie Callaway, Risk Management Director, noted that per the FY2018/19 annual report, the healthcare self-insurance fund has built up a reserve in excess of the recommended 25.1 percent. The FY 2018/19 fund balance is \$11,464,000 with a projected ending fund balance for FY 2019/2020 of \$11,752,000.

Charlie Broucek, Hays Companies, noted that through April of 2020, the fund had an additional approximately \$1.254 million surplus on the medical side and approximately \$117,000 on the dental plan, totaling approximately \$1.371 million in surplus through April.

Ms. Callaway said that the COVID crisis has affected the City's budget and the budget and finance department is looking for areas with surplus funds that can be drawn upon. The budget department has indicated an interest in beginning in July 2020 with an initial \$1.6 million drawdown. The Loss Trust Fund Board is being asked to make a reserve strategy recommendation in order to maintain a reasonable reserve level.

Mr. Broucek noted that the intent would be to draw down funds to a reserve level in the form of a premium holiday.

Chair O'Connor clarified that a motion would be to establish a prudent reserve policy at the recommended 25.1 percent, which would then leave Council and the finance department with the final decision of how much excess funds would be used.

Director Smith mentioned that the most recent report from Hays Companies projects a six-percent increase in rates.

Ms. Callaway explained that in looking at the FY 2018/19 year-end medical self-insured fund balance, the estimated expenses for the medical plan was total uses of \$34,139,000. She estimated that after a 25.1 percent reserve, approximately \$3 million would be left in the reserve fund. The proposal is to make a calculation at the end of each fiscal year once an exact fund balance has been determined and track that amount throughout the year.

Discussion ensued regarding the recommendation and Directors expressed agreement with the recommended 95 percent reserve threshold.

VICE-CHAIR WELCH MOVED TO APPROVE THE RESERVE STRATEGY FOR THE HEALTH CARE SELF-INSURANCE FUND. DIRECTOR SMITH SECONDED THE MOTION, WHICH CARRIED FIVE (5) TO ZERO (0). CHAIR O'CONNOR, VICE-CHAIR WELCH, BOARD MEMBERS BILOTTI, SMITH, AND PERLOW VOTED IN THE AFFIRMATIVE BY ROLL CALL VOTE. THERE WERE NO DISSENTING VOTES.

3. Review information of other government entities and the reporting structure of Risk Management.

Ms. Callaway reviewed the comparative Risk Management reporting structure report. She noted that of the self-insured funding entities, several have trust funds similar to that of the City of Scottsdale, several have a municipal pool and Central Arizona Project has a captive insurer.

Vice-Chair Welch noted that City of Phoenix risk management reports to their finance department.

Vice-Chair Welch requested that a review of the ICMA survey findings be agendaized for a future meeting.

4. Review, discuss and take action on a response to the anonymous letter regarding management of the Risk Management Department.

Discussion ensued regarding the February 17, 2020 anonymous letter addressed to Mayor Lane and City Council Members and cc'd to the Risk Management Office. The author expressed concern about a conflict of interest, because the Risk Department and the City Attorney are jointly responsible for making decisions about the Risk Trust Fund and the Risk Department reports directly to the City Attorney's office.

Vice-Chair Welch noted that historically, the City of Scottsdale Risk Fund Department has primarily reported to the Treasurer's Office. In her professional experience, private sector businesses typically report to the treasurer.

Director Smith noted that he works with clients who report to a variety of departments, including their treasurer's office, legal department, and human resources department.

DIRECTOR SMITH MOVED TO SUPPORT THE CURRENT REPORTING STRUCTURE OF RISK MANAGEMENT AND THE CITY ATTORNEY'S OFFICE. VICE-CHAIR WELCH SECONDED THE MOTION, WHICH CARRIED FIVE (5) TO ZERO (0). CHAIR O'CONNOR, VICE-CHAIR WELCH, BOARD MEMBERS BILOTTI, SMITH, AND PERLOW VOTED IN THE AFFIRMATIVE BY ROLL CALL VOTE. THERE WERE NO DISSENTING VOTES.

5. Review, discuss and take action on 2019 Board and Commission Annual Report Summary.

Ms. Callaway reviewed the proposed 2019 Loss Trust Fund Board Annual Report Summary.

Directors requested that the Anticipated Issues section include "Reserve strategy for medical benefits plan."

DIRECTOR PERLOW MOVED TO APPROVE THE 2019 BOARD AND COMMISSION ANNUAL REPORT SUMMARY AS AMENDED. VICE-CHAIR WELCH SECONDED THE MOTION, WHICH CARRIED FIVE (5) TO ZERO (0). CHAIR O'CONNOR, VICE-CHAIR WELCH, BOARD MEMBERS BILOTTI, SMITH, AND PERLOW VOTED IN THE AFFIRMATIVE BY ROLL CALL VOTE. THERE WERE NO DISSENTING VOTES.

OPEN CALL TO THE PUBLIC

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

ADJOURNMENT

DIRECTOR SMITH MOVED TO ADJOURN THE MEETING. VICE-CHAIR WELCH SECONDED THE MOTION, WHICH CARRIED FIVE (5) TO ZERO (0). CHAIR O'CONNOR, VICE-CHAIR WELCH, BOARD MEMBERS BILOTTI, SMITH, AND PERLOW VOTED IN THE AFFIRMATIVE BY ROLL CALL VOTE. THERE WERE NO DISSENTING VOTES.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 6:15 p.m.

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