

**Self Insurance Fund
Long-Term Financial Plan
Update 2008**

Finance Department

March 11, 2008

**City of Minneapolis
Self Insurance Fund
Long-Term Financial Plan**

Update 2008

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Self Insurance Fund Long-Term Financial Plan Update 2008

DESCRIPTION OF THE FUND:

The Self Insurance Fund is used to account for employee medical, dental, and life insurance benefit programs and the programs' administrative costs. The City purchases medical, dental, and life insurance, as well as other employee related benefits such as disability insurance. The fund also accounts for occupational health services, severance payments to employees who have retired or resigned and who meet minimum eligibility requirements, and the City's tort liability and workers' compensation programs.

The Self Insurance Fund was in an overall negative financial condition for over a decade, evident by the deficit in net assets and consistently negative cash flows. However, in 2005, the fund achieved a positive cash balance of \$1.8 million due to fewer claims payments than expected. The appendix to this report includes 1995 to 2006 actual year-end performance (see section "Long-Term Fund Performance").

BACKGROUND ON CURRENT FINANCIAL CONDITION:

In 1995, the Self Insurance Fund first posted significant negative retained earnings. The City hired an actuary to determine the City's incurred but not realized (IBNR) liability for the fund, as required by GASB (Government Accounting Standards Board) Statement No. 10. In addition, the actuary was hired to recommend funding rates for the various areas of exposure. As a result of GASB 10, the City recorded unpaid workers compensation, tort liability, and dental claims (including IBNR claims) of \$16.4 million, which contributed significantly to the ending deficit of \$22.3 million. Prior to 1995, on a pay as you go basis, rates paid by City departments were closer to being sufficient to offset expenses. In 1995, the City stated it would adjust rates annually to cover the additional expense for the fund related to GASB 10 requirements to recognize expense if it was likely that a loss (from an actuarial perspective) had been incurred. In large part, this did not happen as originally planned.

Also, in 1995 and 1997 when the City issued bonds (totaling just over \$5.0 million) to meet settlement obligations for the Self Insurance Fund, there was no immediate action taken to how increase revenue to cover debt service on these bonds. The resulting impact was a decline in the cash position of the fund. The tables on the following page show the funds' annual liability settlements of both workers' compensation and general liability since 1996, including budgeted amounts for 2007 and 2008.

The 2002 budget, as originally adopted by the Mayor and City Council, did include sufficient revenue to cover all projected expenses within the fund, including workers compensation and general liability. Rates paid by City departments for workers compensation and general liability were adjusted based on forecasted annual expenditures for these areas. The impact was reflected in the adopted budgets of the departments.

Liability Settlements			
Workers' Compensation (145)			
(in millions)			
Year	Total Revenue	Total Expenditure	Difference
1996 Actual	\$7.1	\$5.7	\$1.4
1997 Actual	\$9.9	\$5.9	\$4.0
1998 Actual	\$7.5	\$6.1	\$1.4
1999 Actual	\$7.0	\$6.2	\$0.9
2000 Actual	\$8.6	\$6.5	\$2.0
2001 Actual	\$8.6	\$6.7	\$1.9
2002 Actual	\$9.1	\$8.1	\$1.0
2003 Actual	\$8.2	\$6.0	\$2.2
2004 Actual	\$8.3	\$6.5	\$1.8
2005 Actual	\$8.5	\$6.5	\$2.0
2006 Actual	\$8.8	\$6.0	\$2.7
2007 Adopted	\$7.6	\$7.6	\$0.0
2008 Adopted	\$8.1	\$7.7	\$0.4

Liability Settlements			
General Liability (150)			
(in millions)			
Year	Total Revenue	Total Expenditure	Difference ²
1996 Actual	\$0.6	\$3.1	-\$2.5
1997 Actual	\$5.4	\$2.9	\$2.5
1998 Actual	\$5.3	\$3.0	\$2.3
1999 Actual	\$5.4	\$5.4	\$0.0
2000 Actual	\$5.4	\$11.6	-\$6.2
2001 Actual	\$5.4	\$3.3	\$2.1
2002 Actual	\$7.3	\$2.4	\$4.9
2003 Actual	\$11.7	\$11.8	-\$0.1
2004 Actual	\$7.9	\$4.9	\$2.9
2005 Actual	\$8.3	\$4.7	\$3.6
2006 Actual	\$8.6	\$7.1	\$1.5
2007 Adopted	\$9.4	\$4.0	\$5.4
2008 Adopted	\$9.5	\$4.0	\$5.5

Note: Change in Accounting Principle

In accordance with GASB 34, implemented in 2002, fund equity was replaced with net assets. In general, this was a terminology change.

PROGRESS ON THE LONG-TERM FINANCIAL PLAN:

At the end of 2007¹, the Self Insurance Fund had a balance of negative \$26.4 million in net assets and \$11.0 million in cash, which is better than anticipated in the original workout plan. Overall, the fund has performed better than the original workout plan predicted, achieving a positive cash balance in 2005.

In July 2002, the City Council adopted and the Mayor approved a property tax revenue policy, which included an annual commitment to provide \$500,000 in additional annual revenue increases for the Self Insurance Fund. After the adoption of the workout plan in 2003, it was decided to aim for a goal of achieving a positive cash balance in the fund by the end of 2006. This goal was achieved a year early in 2005, ending the fiscal year with a cash balance of \$1.8 million.

¹ The 2007 year-end figures are based on preliminary CAFR numbers.

² The difference of \$5.4 million for 2007 is primarily due to a settlement of \$4.5 million.

Table One					
Projected Financial Performance for Self Insurance Fund					
(in thousands of dollars)					
		Annual Revenue Provided in Excess of Expense (Change in Net Assets)	Year-End Cash Balance	Year-end Net Assets	Annual Percent Change in Net Assets Balance
actual*	2007	\$3,742	\$11,002	(\$26,360)	
adopted	2008	\$4,811	\$17,824	(\$23,267)	11.7%
projected	2009	\$5,889	\$24,558	(\$17,378)	25.3%
	2010	\$6,419	\$31,809	(\$10,959)	36.9%
	2011	\$5,453	\$38,463	(\$5,506)	49.8%
	2012	\$4,468	\$44,132	(\$1,039)	81.1%
	2013	\$3,483	\$48,816	\$2,444	335.2%
	2014	\$2,499	\$52,516	\$4,943	102.3%
	2015	\$1,515	\$55,232	\$6,457	30.6%
	2016	\$351	\$56,784	\$6,809	5.5%

*2007 year-end figures are based on preliminary CAFR numbers.

GOALS AND RECOMMENDATIONS

The goals set forth in the 2003 workout plan (to achieve a positive cash and positive retained earnings balance) aimed to begin the work of reducing the deficit facing the Self Insurance Fund.

The updated plan recommends the following goals:

1. Achieve a positive cash balance and a positive net assets balance (projected to be achieved in 2011)
2. Reduce the General Fund subsidy*
 - a. Recommendation: Begin phasing out the subsidy starting in 2011 by \$1 million per year (eliminate completely in 2017); transfer that \$1 million reduction in the subsidy to the Intergovernmental Services Fund for the purpose of paying back the Convention Center loan
 - b. The recommendation allows for a phase-out of the subsidy in order to allow for adequate reserves should any large settlements come due prior to the point at which the fund has sufficient cash to cover all unpaid claims.
3. Avoid issuing debt for expenditures

COMPARISON TO ORIGINAL WORKOUT PLAN:

The updated long-term financial plan allows for historical comparison, and with annual updates planned, it also updates the assumptions which serve as the plan's anchor to adapt to changing situations.

The presentation of the long-term financial plan has been modified to allow users to more clearly identify major categories of revenues and expenses by using a combination of the format of the quarterly financial statements and the format of the original workout plan. The resulting spreadsheet shows revenues and expenditures by department as well as transfers and debt service.

The updated long-term financial plan is based on 2008 adopted budget figures, and will be reconciled to the CAFR annually. The goals for the plan are incorporated into the plan. It has been assumed that revenues and expenditures will increase by 3% per year, consistent with assumptions in the 2008 adopted budget. Debt service is based on the debt service schedule. Currently, the assumption is \$5 million per year in general liability claims.

RISKS

The assumptions underlying these estimates are based on the most recent information available. However, there are certain risks that cannot be predicted that may impact the financial results of the fund.

The Self Insurance Fund faces certain risks, primarily associated with ongoing general liability and workers' compensation claims. Short-term risks often arise when large one-time events occur that put increased pressure on the City's public safety resources.

Other long-term risks are broader, such as inflation and growing labor costs. The impacts of these risks may be potentially felt by departments through increased charges via the cost allocation model.

ANNUAL REPORTING TO THE CITY COUNCIL ON PROGRESS:

The Finance Department will report annually to the City Council, with a status update and any needed changes to this long-term financial plan for the Self Insurance Fund. Any significant changes to the unpaid claims liability amount will be reported to the City Council immediately.

Goals for the Long-Term Financial Plans

Self Insurance Fund and Intergovernmental Services Fund

Definition of Financial Health:

- **Self Insurance Fund**
SIF would be considered in good financial health if it had a cash balance that would be approximately equal to its unpaid claims liability, and positive net assets no greater than \$5 million.
- **Intergovernmental Services Fund**
The ITS Fund would be considered in good financial health if it had revenues sufficient to cover the fund's operating and capital (whether pay-as-you-go or debt service) commitments for the year and an overall cash balance consistent with previously adopted financial policies as well as a positive net asset balance.

Goals & Recommendations:

To reduce and ultimately eliminate the need for General Fund subsidies

Both funds have growing bottom-line balances, thereby creating an opportunity for the reduction of subsidies. However, a reduction in General Fund subsidies may need to be offset either by a phased-in increase in user fees to reflect the ongoing costs of the funds or another revenue source. It is also important to note that the elimination of subsidies could require a reinstatement of some level of subsidies at a future date depending on ultimate fund performance.

Self Insurance Fund: SIF could reduce its General Fund subsidy as early as budget year 2009. Even though the fund will still have negative net assets of approximately \$13.3 million, its net change in balance is projected to be approximately \$7 million for both 2009 and 2010 due primarily to increases to its General Fund transfer. According to the predicted revenues of this fund, it appears that the subsidy could be completely eliminated without the introduction of new revenues.

RECOMMENDATION:

Amend the ten-year projection to begin phasing out the subsidy in 2011 (reduce the subsidy by \$1 million each year; completely eliminate in 2017). The phase out would provide for sufficient reserves in case of significant unexpected liabilities.

Intergovernmental Services Fund: The ITS Fund would require additional revenues to completely eliminate a General Fund subsidy. The General Fund subsidy is needed due to the large debt service payments the fund has until 2013 when the debt requiring such payments retires. After that point in time, the debt service will likely be between \$1 million and \$2 million per year versus the approximately \$10 million that will be paid in debt service (including both principal and interest) in 2012.

It is not feasible to reduce the subsidy without the necessary revenue increase (via increased charges to departments through the cost allocation model) to offset such a reduction.

RECOMMENDATION:

Begin phasing out the General Fund subsidy starting in 2013 by \$2 million per year with complete elimination in 2018.

The elimination of the subsidy will require an increase in charges to departments through the cost allocation model.

Repayment of loan from the Convention Center (BIS Fund)

At this time, the ITS Fund still owes the Convention Center \$9.25 million of an advance of \$12.8 million it received in 2000. A payment of \$3.55 million was paid toward the outstanding balance in 2007 with no future payments scheduled in the original financial plan.

RECOMMENDATION:

Starting in 2011, the \$1 million that is reduced from the Self Insurance Fund subsidy is redirected to the Intergovernmental Services Fund for the specific purpose of repayment of the advance from the Convention Center. An additional \$500,000 from the ITS Fund should be paid toward the loan, making the total annual payment \$1.5 million, with a final payment of \$1.75 million in 2016. In 2017, the transfer in from the reduction in the Self Insurance Fund subsidy can cease and instead be retained in the General Fund.

Avoid taking on debt to cover major expenditures

In the past, debt was issued to finance the payout of major settlements in the Self Insurance Fund and to fund large investments in technology in the Intergovernmental Services Fund, a clearly undesirable practice that can be avoided provided there is a sufficient amount of revenues in each fund to cover its ongoing operating costs.

APPENDIX

Self Insurance Fund
Long-term Financial Plan - Cash

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
(in 000s)	Actual	Actual	Actual	Actual	Actual*	Adopted	Projection									
Revenues																
Attorney	298	89	17	44	12	30	31	32	33	34	35	36	37	38	39	40
Human Resources	40	99	918	858	1,117	1,219	1,256	1,293	1,332	1,372	1,413	1,456	1,499	1,544	1,591	1,638
Finance Department	270	278	271	559	339	2,172	2,237	2,304	2,373	2,445	2,518	2,593	2,671	2,751	2,834	2,919
Interfund Transfers In	6,911	3,771	3,870	8,745	4,750	5,642	6,810	7,310	6,310	5,310	4,310	3,310	2,310	1,310	-	-
Health and Welfare	43,813	44,258	48,255	54,720	59,993	69,568	71,679	73,829	76,044	78,325	80,675	83,095	85,588	88,156	90,800	93,524
Workers Compensation	8,235	8,306	8,521	8,786	8,252	8,131	8,375	8,626	8,885	9,152	9,426	9,709	10,000	10,300	10,609	10,927
General Liability	11,681	7,854	8,292	8,605	13,319	9,524	10,525	10,691	10,861	11,037	11,218	11,405	11,597	11,795	11,999	12,209
Total Revenues	71,248	64,655	70,144	82,317	87,782	96,286	100,912	104,085	105,839	107,674	109,595	111,604	113,703	115,894	117,872	121,258
Expenditures																
Attorney	4,269	4,249	4,986	4,846	5,404	5,364	5,525	5,691	5,861	6,037	6,218	6,405	6,597	6,795	6,999	7,209
Human Resources	445	567	961	1,090	1,116	1,216	1,252	1,290	1,329	1,369	1,410	1,452	1,496	1,540	1,587	1,634
Finance Department	1,270	1,257	1,476	1,963	2,464	2,162	2,227	2,294	2,362	2,433	2,506	2,582	2,659	2,739	2,821	2,906
Debt Service (principal & interest)	1,697	985	1,045	4,138	372	388	391	389	-	-	-	-	-	-	-	-
Interfund Transfers Out	5	6	125	45	97	131	150	150	150	150	150	150	150	150	150	150
Health and Welfare	43,898	43,508	47,309	53,987	58,700	69,591	71,679	73,829	76,044	78,325	80,675	83,095	85,588	88,156	90,800	93,524
Workers Compensation	6,047	6,470	6,506	6,042	6,340	7,722	7,954	8,192	8,438	8,691	8,952	9,220	9,497	9,782	10,075	10,378
Liability	11,763	4,930	4,729	7,138	9,867	4,036	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total Expenditures	69,394	61,972	67,137	79,249	84,360	90,610	94,178	96,834	99,185	102,006	104,911	107,904	110,987	114,162	117,432	120,801
Net Change in Cash	1,854	2,683	3,007	3,068	3,422	5,676	6,734	7,251	6,654	5,669	4,684	3,700	2,716	1,733	440	457
Cash - Beginning of Year	(6,620)	(4,598)	(2,271)	1,797	8,364	11,002	16,678	23,412	30,663	37,317	42,986	47,670	51,370	54,086	55,818	56,258
Adjustment to CAFR	168	(356)	1,061	3,499	(784)	-	-	-	-	-	-	-	-	-	-	-
Cash - End of Year	(4,598)	(2,271)	1,797	8,364	11,002	16,678	23,412	30,663	37,317	42,986	47,670	51,370	54,086	55,818	56,258	56,715
Reconciliation to CAFR																
Net Change in Cash	1,854	2,683	3,007	3,068	3,422	5,676	6,734	7,251	6,654	5,669	4,684	3,700	2,716	1,733	440	457
Adjustment to CAFR	168	(356)	1,061	3,499	(784)	-	-	-	-	-	-	-	-	-	-	-
Change (CAFR) from prior year	2,022	2,327	4,068	6,567	2,638	-	-	-	-	-	-	-	-	-	-	-
Cash balance - end of year (CAFR)**	(4,598)	(2,271)	1,797	8,364	11,002	-	-	-	-	-	-	-	-	-	-	-

* The 2007 Actual figures are preliminary CAFR numbers.

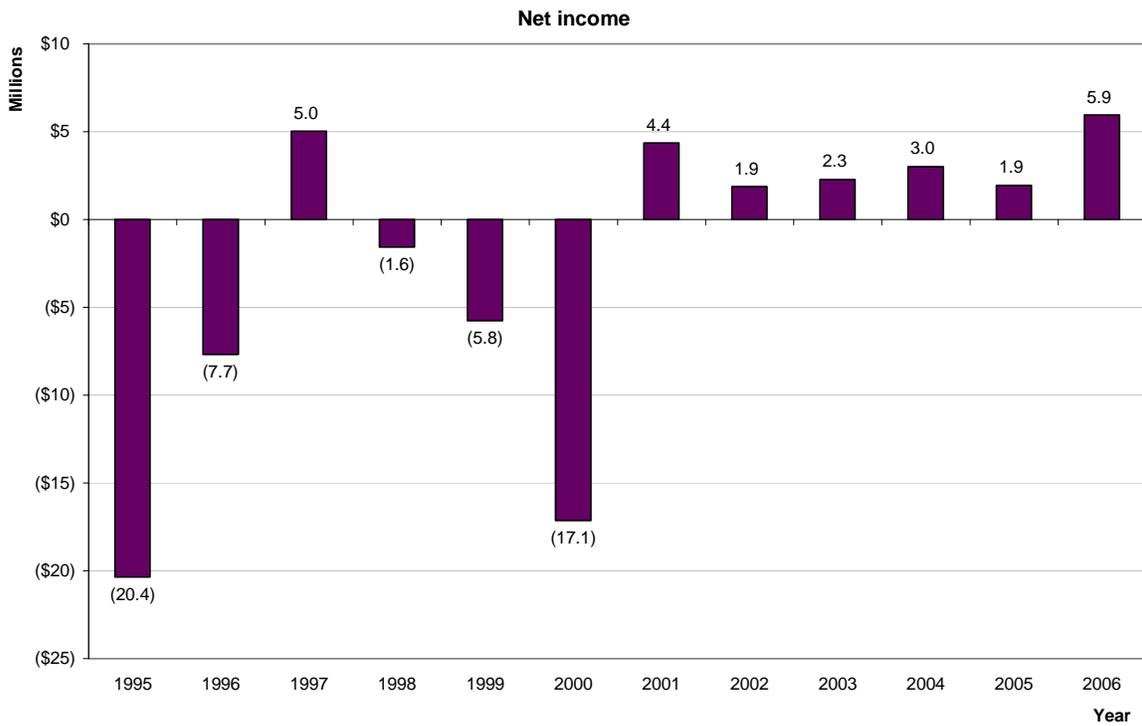
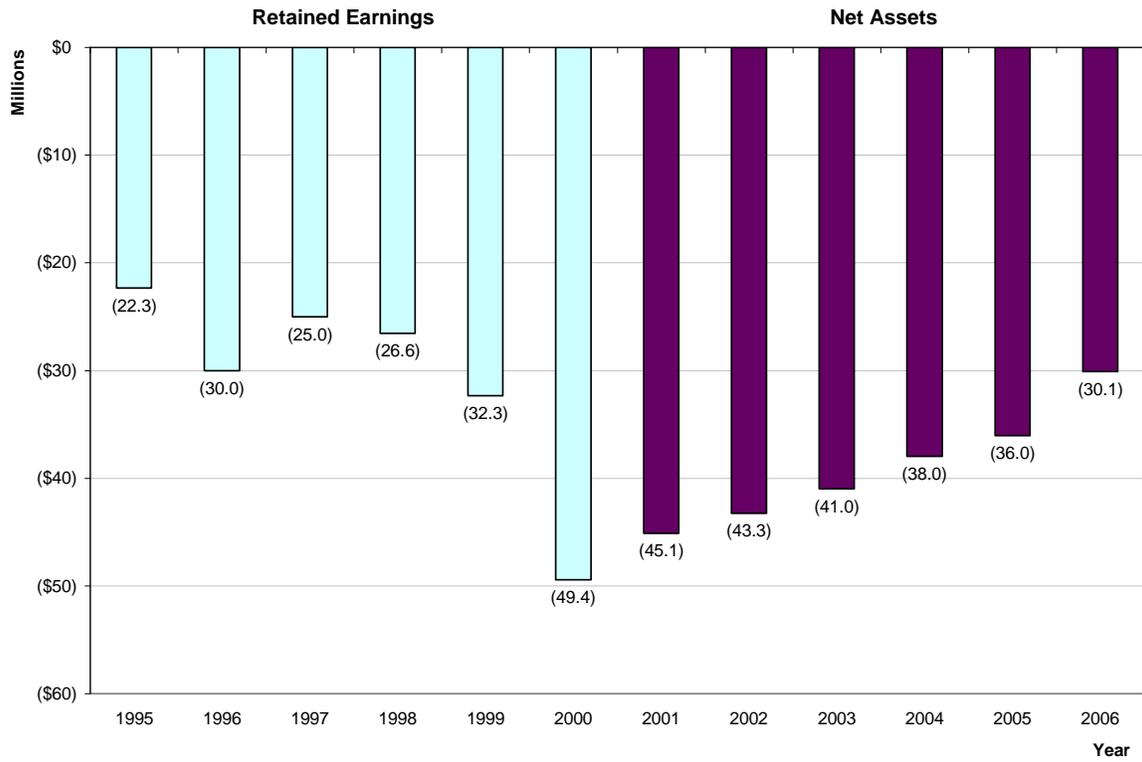
** The end of year cash balance is equal to the sum of the actual CAFR cash balance and CAFR Due to other funds.

**Self Insurance Fund
Long-term Financial Plan - Net Assets**

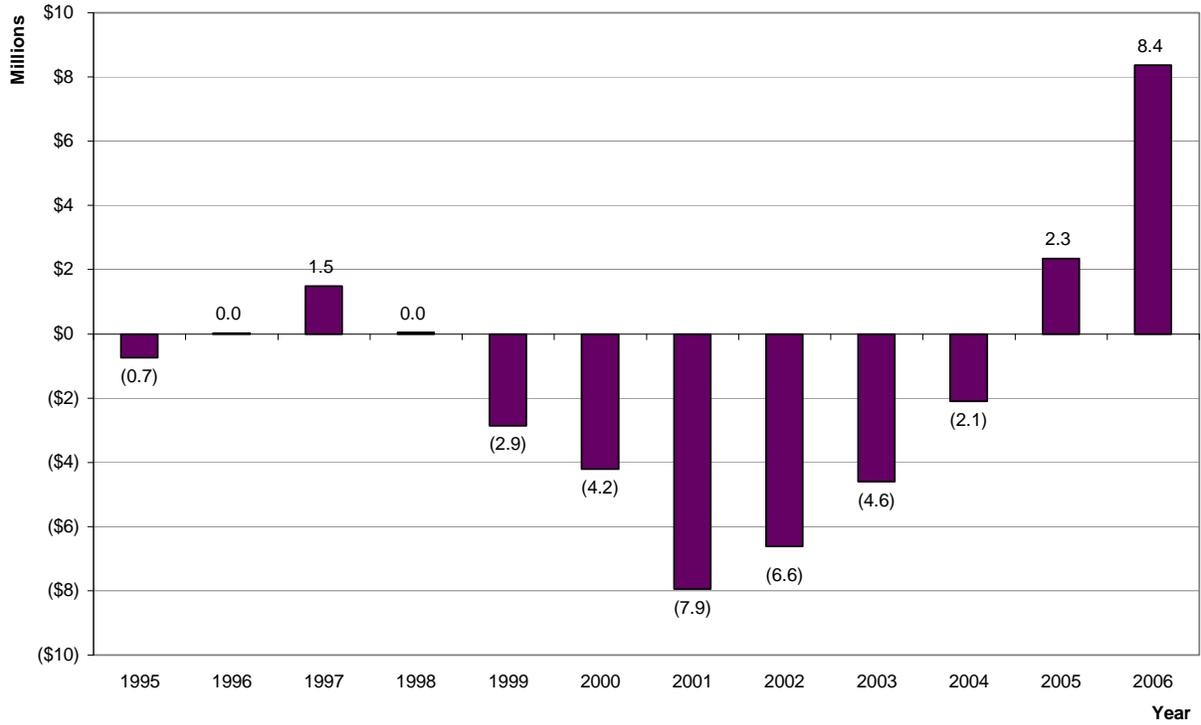
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
(in 000s)	Actual	Actual	Actual	Actual	Actual*	Adopted	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection
Operating Revenues																
Attorney	298	89	17	44	12	30	31	32	33	34	35	36	37	38	39	40
Human Resources	40	99	918	858	1,117	1,219	1,256	1,293	1,332	1,372	1,413	1,456	1,499	1,544	1,591	1,638
Finance Department	270	278	271	559	339	2,172	2,237	2,304	2,373	2,445	2,518	2,593	2,671	2,751	2,834	2,919
Health and Welfare	43,813	44,258	48,255	54,720	59,993	69,568	71,679	73,829	76,044	78,325	80,675	83,095	85,588	88,156	90,800	93,524
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General Liability	11,681	7,854	8,292	8,605	13,319	9,524	10,525	10,691	10,861	11,037	11,218	11,405	11,597	11,795	11,999	12,209
Total Operating Revenues	64,337	60,884	66,274	73,572	83,032	90,644	94,102	96,775	99,529	102,364	105,285	108,294	111,393	114,584	117,872	121,258
Operating Expenditures																
Attorney	4,269	4,249	4,986	4,846	5,404	5,364	5,525	5,691	5,861	6,037	6,218	6,405	6,597	6,795	6,999	7,209
Human Resources	445	567	961	1,090	1,116	1,216	1,252	1,290	1,329	1,369	1,410	1,452	1,496	1,540	1,587	1,634
Finance Department	1,270	1,257	1,476	1,963	2,464	2,163	2,228	2,295	2,364	2,434	2,508	2,583	2,660	2,740	2,822	2,907
Health and Welfare	43,898	43,508	47,309	53,987	58,700	69,591	71,679	73,829	76,044	78,325	80,675	83,095	85,588	88,156	90,800	93,524
Workers' Compensation	6,047	6,470	6,506	6,042	6,340	7,722	7,954	8,192	8,438	8,691	8,952	9,220	9,497	9,782	10,075	10,378
General Liability	11,763	4,931	4,729	7,138	9,867	4,036	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total Operating Expenditures	67,692	60,982	65,967	75,066	83,891	90,092	93,638	96,297	99,036	101,857	104,762	107,755	110,838	114,013	117,284	120,652
Operating Margin	(3,355)	(98)	307	(1,494)	(859)	552	465	478	493	508	523	539	555	571	588	606
Non-Operating Revenues/(Expenditures)																
Transfers In	6,911	3,771	3,870	8,745	4,750	5,643	6,810	7,310	6,310	5,310	4,310	3,310	2,310	1,310	-	-
Transfers Out	(5)	(6)	(125)	(45)	(97)	(131)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Interest on Bonded Debt	(97)	(95)	(155)	(123)	(52)	(53)	(36)	(19)	-	-	-	-	-	-	-	-
Total Non-Operating Revenues (Expenditures)	6,809	3,670	3,590	8,577	4,601	5,459	6,624	7,141	6,160	5,160	4,160	3,160	2,160	1,160	(150)	(150)
Net Change in Balance	3,454	3,572	3,897	7,083	3,742	6,011	7,089	7,619	6,653	5,668	4,683	3,699	2,715	1,731	438	456
Net Assets - Beginning of Year	(43,255)	(40,983)	(37,980)	(36,040)	(30,102)	(26,360)	(20,349)	(13,260)	(5,641)	1,012	6,679	11,362	15,061	17,775	19,507	19,945
Net Change in Balance	3,454	3,572	3,897	7,083	3,742	6,011	7,089	7,619	6,653	5,668	4,683	3,699	2,715	1,731	438	456
Total Adjustments to CAFR	(1,182)	(569)	(1,957)	(1,145)												
Net Assets - End of Year	(40,983)	(37,980)	(36,040)	(30,102)	(26,360)	(20,349)	(13,260)	(5,641)	1,012	6,679	11,362	15,061	17,775	19,507	19,945	20,401
Significant Items																
Bonds payable	7,145	6,285	5,395	1,380	1,060	335	355	370	-	-	-	-	-	-	-	-
Unpaid Claims	27,847	28,386	31,101	32,246	33,446	33,780	34,118	34,459	34,804	35,152	35,504	35,859	36,217	36,579	36,945	37,315
Due from other funds	-	172	546	2,823	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	4,610	2,570	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to Intergovernmental Services Fund	-	-	-	-	-	-	-	-	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	-	-
Reconciliation to CAFR (Net Income)																
Net Change in Balance	3,454	3,572	3,897	7,083												
Other - Force Balanced	-	41	2	1												
Personal Services	78	(173)	278	(10)												
Contractual Services	(1,263)	(434)	-	-												
Materials, supplies, services and other	-	-	(2,730)	(1,145)												
Rent	-	-	498	-												
Interest expense	3	(3)	(5)	9												
Other revenues	-	-	-	-												
Change in net assets - CAFR	2,272	3,003	1,940	5,938												
Total Adjustments	(1,182)	(569)	(1,957)	(1,145)												

* The 2007 Actual figures are preliminary CAFR numbers.

LONG-TERM FUND PERFORMANCE:



Cash & cash equivalents, end of year



**Self-Insurance Fund
Deficit Reduction Plan
January 27, 2003**

Description of the Fund:

The Self-Insurance Fund is used to account for employee medical, dental, and life insurance benefit programs and the programs' administrative costs. The City purchases medical, dental, and life insurance, as well as other employee related benefits such as disability insurance. The fund also accounts for occupational health services, severance payments to employees who have retired or resigned and who meet minimum eligibility requirements, a tort liability program, and a workers' compensation program.

Background on Current Financial Condition:

The Self-Insurance Fund is in an overall negative financial condition. Revenue has not been adequate to cover expenditures since 1993, with the exception of 1997 and 2001. The Appendix to this report includes a financial snapshot of the Self-Insurance Fund from years' 1993 to 2001 actual year-end performance to years' 2002 to 2004 projected year-end performance.

As can be seen in the charts included in the Appendix, year 1995 was significant for the Self-Insurance Fund because it was the first year-end where the fund posted significant negative retained earnings. In 1995, the City hired an actuary to determine the City's incurred but not realized (IBNR) liability for the Self-Insurance Fund, as required by GASB (Government Accounting Standards Board) Statement No. 10. In addition, the actuary was hired to recommend funding rates for the various areas of exposure. As a result of GASB 10, the City, for 1995, recorded unpaid Workers Compensation, tort liability, and dental claims (including incurred but not reported claims) of \$16.4 million, which contributed significantly to the ending deficit of \$22.3 million. Prior to 1995, on a pay as you go basis, rates (paid by City departments) were closer to being sufficient to offset expenses. In 1995, the City stated it would adjust rates annually to cover the additional expense for the fund related to GASB 10 requirements to recognize expense if it was likely that a loss (from an actuarial perspective) had been incurred. In large part, this did not happen as originally planned.

Also, in years' 1995 and 1997, when the City issued bonds (totaling just over \$5.0 million) to meet settlement obligations for the Self-Insurance Fund there was no immediate action taken as to how corresponding revenue would be increased to cover debt service on these bonds. The resulting impact was a decline in the cash position of the fund.

The two areas of annual expense that historically have not had sufficient revenue are workers compensation (an approximate \$7.5 million annual expense budget) and general liability (an approximate \$8.2 million annual expense budget). With the

exception of these two major expenditure areas, all other expenditures (which are mostly related to employee benefits) have had sufficient revenue coverage.

The 2002 budget, as originally adopted by the Mayor and City Council, did include sufficient revenue to cover all projected expenses within the fund, including workers compensation and general liability. Rates paid by City departments for workers compensation and general liability were adjusted based on forecasted annual expenditures for these areas. The impact was reflected in the adopted budgets of the departments. It is projected that 2002 will end the year with a positive net income.

Deficit Reduction Plan:

In July 2002, the City Council adopted and the Mayor approved a property tax policy (for years 2003 to 2010), which included an annual commitment to provide \$500,000 in additional annual revenue increases for the Self-Insurance Fund. The annual revenue increase will be used to help eliminate the cash deficit by year-end 2006. Actual revenue will exceed expense (net income) by an increasing amount as interest paid on bonds decreases over time as the bonds are paid off. In addition, the retained earnings position of the fund will improve by nearly 30-percent from year-end 2001 to year-end 2006, although the negative balance will not be eliminated.

	Annual Revenue Provided In Excess of Expense (Net Income)	Cumulative Revenue Provided in Excess of Expense	Year-End Cash Balance	Year-End R/E Balance	Annual % Chg in R/E Balance
2003	\$1,934		\$0	(\$41,589)	
2004	\$2,611	\$4,545	\$0	(\$38,977)	-6.3%
2005	\$3,154	\$7,699	\$0	(\$35,823)	-8.1%
2006	\$3,699	\$11,398	\$0	(\$32,124)	-10.3%
2007	\$4,246	\$15,645	\$2,645	(\$27,878)	-13.2%
2008	\$4,794	\$20,439	\$6,425	(\$23,084)	-17.2%
2009	\$5,345	\$25,784	\$10,713	(\$17,739)	-23.2%
2010	\$5,900	\$31,684	\$15,175	(\$11,839)	-33.3%

Note: R/E refers to Retained Earnings.

Future Action Items:

During year 2003, the City Finance Department will work with the City Attorney's Office and the previously hired actuarial firm to gain a more thorough understanding of what is driving the liability estimates included in the 2000 actuarial report for the Self-Insurance

Fund. The liability estimates will continue to be used as the basis for calculating the annual unpaid claims liability until year 2005, when a new actuarial study will be completed.

Based on information from the City Attorney's Office it appears that the amount of the unpaid claims liability reflected in the balance sheet of the Self-Insurance Fund may possibly be overstated, based on recent years' actual liability payments. In addition, the Finance Department plans to conduct an internal review of its monthly and year-end accounting processes for handling liability payments. The Finance Department will also work with the City Attorney's Office to review their data collection process for tracking future liability costs. Based on this work that will occur during year 2003, the Finance Department will evaluate what action to take, if any, regarding the final year-end 2003 unpaid claims liability figure that will be reported.

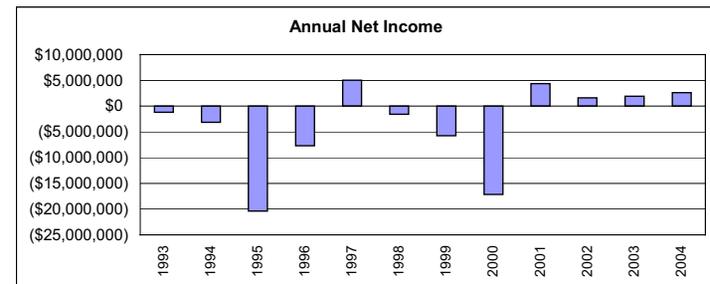
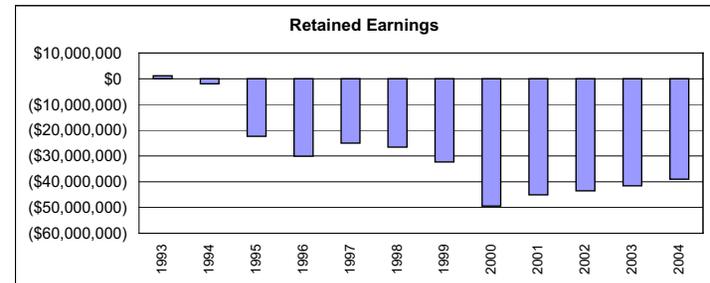
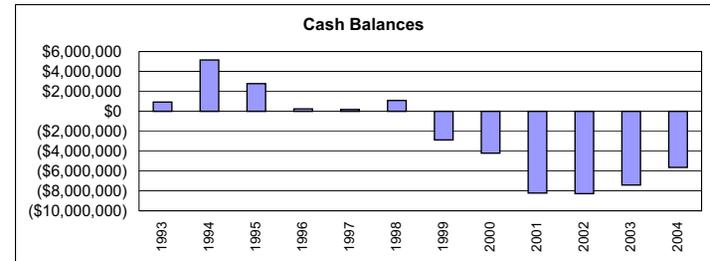
Annual Reporting to the City Council on Progress:

The Finance Department will report annually to the City Council, at year-end, with a status update and any needed changes to this deficit reduction plan for the Self-Insurance Fund. If there were to be any significant changes to the unpaid claims liability amount, the City Council would be notified of such a potential change at that time.

There is no action for the City Council to take at this time, as the year 2003 revenue for the Self-Insurance Fund, which is necessary to meet the projections shown in the attached schedules to this report, is already included in the adopted budget.

Appendix

Self Insurance Fund



Note: 2002 to 2004 represents a forecast.

**Self Insurance Fund
Internal Service Fund
Projected Balance Sheet for Future Years**

	Actual		Projected								
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
ASSETS											
Current assets:											
Cash and cash equivalents			161	-	-	-	-	2,645	6,425	10,712	15,175
Receivables:											
Accounts - net	7	21	30	30	30	30	30	30	30	30	30
Due from other funds	22	30	236	182	182	609	30	2,675	6,455	10,746	15,205
Intergovernmental receivable											
Total current assets	29	469	609	30	30	30	30	2,675	6,455	10,746	15,205
Fixed assets:											
Machinery and equipment	23	24	17	17	17	17	17	17	17	17	17
Less accumulated depreciation	(16)	(20)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
Computer equipment	51	53									
Less accumulated depreciation	(20)	(30)									
Software	3	3									
Less accumulated depreciation	(2)	(2)									
Other capital outlay	1	14									
Less accumulated depreciation	(1)	(1)									
Net fixed assets	40	41	-	-	-	-	-	-	-	-	-
Total assets	69	510	609	30	30	30	30	2,675	6,455	10,746	15,205
LIABILITIES AND FUND EQUITY											
Current Liabilities:											
Salaries payable	247	280	280	300	300	300	300	300	300	300	300
Accounts payable	434	758	758	700	700	700	700	700	700	700	700
Due to other funds	8,200	7,401	5,653	3,392	632						
Interfund loans payable	4,210	-									
Interest payable	46	43	36	30	26	23	19	15	11	6	
Bonds payable - current portion	745	1,530	1,600	860	890	935	965	1,010	1,050	1,435	
Total current liabilities	5,682	10,811	10,954	9,291	7,569	5,350	2,616	2,025	2,061	2,441	1,000
Long-term Liabilities:											
Bonds payable	10,275	8,745	7,145	6,285	5,395	4,460	3,495	2,485	1,435	-	-
Compensated absences balances	3,976	489	489	500	500	500	500	500	500	500	500
Unpaid claims liability	29,582	25,543	25,543	25,543	25,543	25,543	25,543	25,543	25,543	25,543	25,543
Total long-term liabilities	43,833	34,777	33,177	32,328	31,438	30,503	29,538	28,528	27,478	26,043	26,043
Total Liabilities	49,515	45,588	44,131	41,619	39,007	35,853	32,154	30,553	29,539	28,484	27,043
Fund equity:											
Reserved for severance payment	3,797										
Change in Capitalization Policy	(53,243)	(45,078)	(43,481)	(41,589)	(38,977)	(35,823)	(32,124)	(27,877)	(23,084)	(17,738)	(11,838)
Unreserved	(49,446)	(45,078)	(43,522)	(41,589)	(38,977)	(35,823)	(32,124)	(27,877)	(23,084)	(17,738)	(11,838)
Total fund equity	69	510	609	30	30	30	30	2,675	6,455	10,746	15,205
Total liabilities and fund equity											

**Self Insurance Fund
Internal Service Fund
Projected Statement of Revenues and Expenses for Future Years**

	Actual		Projected								
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating revenues:											
Charges for services and sales	43,701	47,723	50,630	57,646	65,940	75,764	87,418	101,263	117,731	137,342	160,718
Total operating revenue	43,701	47,723	50,630	57,646	65,940	75,764	87,418	101,263	117,731	137,342	160,718
Operating expenses:											
Personal services	10,981	11,170	11,617	12,081	12,565	13,067	13,590	14,134	14,699	15,287	15,898
Health insurance	24,545	25,992	31,190	37,428	44,914	53,897	64,676	77,611	93,133	111,760	134,112
Contractual services (not incl Health)	9,337	4,050	4,212	4,380	4,556	4,738	4,927	5,124	5,329	5,542	5,764
Materials, supplies, services and other	18,789	3,050	3,188	3,316	3,448	3,586	3,730	3,879	4,034	4,196	4,364
Rent	373	407	423	440	457	476	495	515	535	557	579
Depreciation	14	15	-	-	-	-	-	-	-	-	-
Total operating expenses	64,039	44,684	50,630	57,646	65,940	75,764	87,418	101,263	117,731	137,342	160,717
Operating income (loss)	(20,338)	3,039	(0)	(0)	0	(0)	-	0	(0)	0	1
Non-operating revenues (expense):											
Interest revenue	(498)	(638)	(507)	(430)	(354)	(311)	(266)	(219)	(171)	(120)	(66)
Interest expense	2,758	17	-	-	-	-	-	-	-	-	-
Damages/losses recovered	648	(621)	(507)	(430)	(354)	(311)	(266)	(219)	(171)	(120)	(66)
Other revenues	2,908	(17,430)	(507)	(431)	(353)	(311)	(266)	(219)	(171)	(120)	(66)
Total non-operating revenues (expenses)	(17,430)	2,418	(507)	(431)	(353)	(311)	(266)	(219)	(171)	(120)	(66)
Income (loss) before operating transfers											
Operating transfers in (out):											
Transfers from other funds	350	1,950	2,104	2,364	2,965	3,465	3,965	4,465	4,965	5,465	5,965
Transfers to other funds	(50)	-	-	-	-	-	-	-	-	-	-
Total operating transfers	300	1,950	2,104	2,364	2,965	3,465	3,965	4,465	4,965	5,465	5,965
Net income (loss)	(17,130)	4,368	1,597	1,934	2,611	3,154	3,699	4,246	4,794	5,345	5,900
Retained earnings - January 1	(32,316)	(49,446)	(45,078)	(43,522)	(41,589)	(38,977)	(35,823)	(32,124)	(27,878)	(23,084)	(17,739)
Change in Capitalization Policy		(41)									
Retained earnings - December 31	(49,446)	(45,078)	(43,522)	(41,589)	(38,977)	(35,823)	(32,124)	(27,878)	(23,084)	(17,739)	(11,839)

Self Insurance Fund
Internal Service Fund
Projected Statements of Cash Flows for Future Years

	Actual		Projected									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Cash flow from operating activities:												
Operating income (loss)	(20,338)	3,039	(0)	(0)	0	(0)	-	0	(0)	0	1	1
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:												
Depreciation	14	15	-	-	-	-	-	-	-	-	-	-
(Increase) decrease in accounts receivable	7	(8)	-	-	-	-	-	-	-	-	-	-
(Increase) decrease in due from other funds		(236)	-	-	-	-	-	-	-	-	-	-
(Increase) decrease in intergovernmental receivable		(182)	236	182	-	-	-	-	-	-	-	-
(Increase) decrease in salaries payable	29	33	-	20	-	-	-	-	-	-	-	-
(Increase) decrease in accounts payable	(358)	324	-	(58)	-	-	-	-	-	-	-	-
(Increase) decrease in due to other funds		8,200	80	(879)	(1,748)	(2,261)	(2,760)	(632)	-	-	-	(0)
(Increase) decrease in compensated absences payable	239	(3,487)	-	11	-	-	-	-	-	0	-	-
(Increase) decrease in unpaid claims payable	7,697	(4,039)	-	-	-	-	-	-	-	-	-	-
(Increase) decrease in current bonds payable												
Damages/losses recovered	2,758	17	-	-	-	-	-	-	-	-	-	-
Other non-operating revenues	648	-	-	-	-	-	-	-	-	-	-	-
Total adjustments	11,034	637	80	(488)	(1,748)	(2,261)	(2,760)	(632)	-	0	-	(0)
Net cash provided (used) by operating activities	(9,304)	3,676	80	(488)	(1,748)	(2,261)	(2,760)	(632)	(0)	1	1	1
Cash flow from non-capital financing activities:												
Proceeds from bonds	8,800	1,950	2,104	2,364	2,965	3,465	3,965	4,465	4,965	5,465	5,965	5,965
Interfund loans received	4,210	350	(1,530)	(1,600)	(860)	(890)	(935)	(965)	(1,010)	(1,050)	(1,435)	(1,435)
Operating transfers from other funds	(670)	(745)	(514)	(437)	(356)	(314)	(270)	(223)	(175)	(128)	(68)	(68)
Principal paid on bonds												
Interest paid on bonds												
Operating transfers to other funds	(50)	(50)	-	-	-	-	-	-	-	-	-	-
Interfund loans paid	(2,875)	(4,210)	-	-	-	-	-	-	-	-	-	-
Interest paid on interfund loans	(273)	(91)	60	327	1,749	2,261	2,760	3,277	3,780	4,287	4,462	4,462
Net cash provided (used) by non-capital financing activities	9,303	(3,646)	60	327	1,749	2,261	2,760	3,277	3,780	4,287	4,462	4,462
Cash flows from capital and related financing activities:												
Acquisition and construction of fixed assets	(4)	(16)	-	-	-	-	-	-	-	-	-	-
Net cash provided (used) by non-capital financing activities	(4)	(16)	-	-	-	-	-	-	-	-	-	-
Net (increase) decrease in cash and cash equivalents	(5)	14	140	(161)	1	(0)	-	2,645	3,780	4,288	4,463	4,463
Cash and cash equivalents, beginning of year	12	7	21	161	(0)	1	0	0	2,645	6,425	10,713	10,713
Cash and cash equivalents, ending of year	7	21	161	(0)	1	0	0	2,645	6,425	10,713	15,175	15,175