

**City of Minneapolis
2011 Budget
Financial Plan**

Self-Insurance Fund

Background

The Self-Insurance Fund records tort liability settlements, workers' compensation claims, COBRA medical and dental payments, severance payments to employees who meet eligibility requirements, and the related administrative costs of these services. An activity-based rate model assigns charges to City departments to cover these expenses. The fund records the revenues received related to the rate model charges and other revenues earned by self insurance departments. The 2011 budget for expenditures for this fund is \$25.8 million, a 29.5% decrease from 2010 expense budget due to recording transactions relating to employee flexible spending accounts, Metropass, and dental insurance in another City fund.

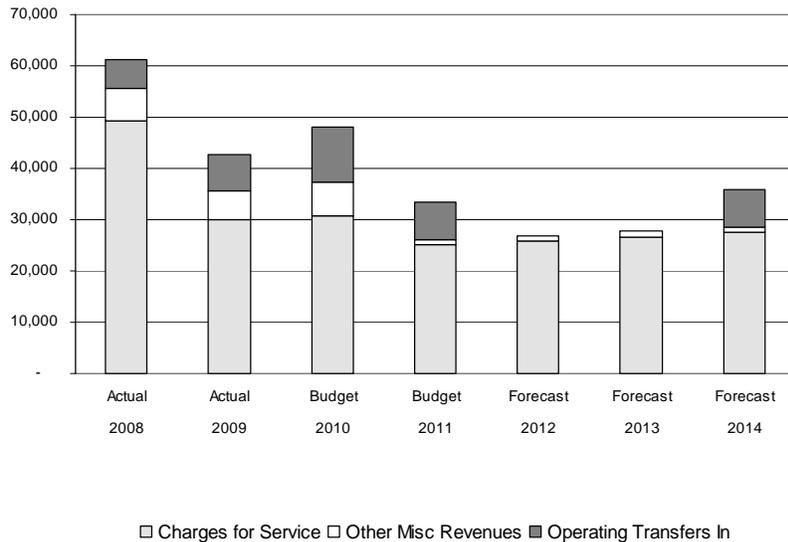
Historical Financial Performance

The net assets of the Self-Insurance Fund reflected a negative position of \$15.4 million at year-end 2009, improving \$27.9 million from the 2002 ending balance of a negative \$43.3 million. The primary reason for the negative balance is the required accounting recognition of liability for unpaid claims. The 2009 unpaid claims liability is \$42.5 million representing an increase of \$10.7 million from the 2008 liability of \$31.8 million. An actuarial study completed for year-end 2009 calculated the increase to the unpaid claims liability based on historical paid claims, incurred loss, and estimated reserves for claims unpaid.

In 2003, the City Council adopted a financial plan for the Self-Insurance Fund to increase net assets and attain a positive cash balance by year-end 2006. The financial plan was updated in 2008 and adopted by the City Council. The fund continues to perform above the financial plan cash projections and ended 2009 with a cash balance of \$29.0 million, an increase of \$10.2 million from the 2008 ending balance of \$18.8 million. The long-term financial plan projected a 2009 ending cash balance of \$23.4 million.

For 2007, a rate model was implemented to recover costs associated with all programs in the fund. The rate model assigns costs to City departments based on a minimum of 5-year claims history for workers compensation and liability. The model was put in place to raise departmental awareness of Self-Insurance costs and increase their ability to control the cost of premiums in the future through loss prevention programs.

Self-Insurance Revenues
(in thousands of dollars)



2011 Budget

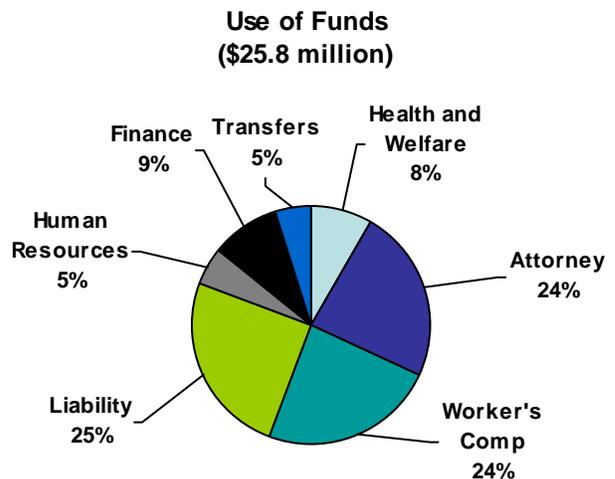
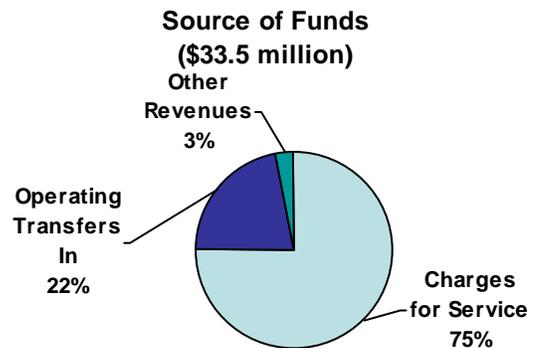
Revenues

Beginning in August 2008, revenues and expenses related to medical and life insurance are processed directly from payroll to the vendors and do not flow through this fund as was previous practice. As of March 2009, revenues and expenses related to dental insurance and flexible spending accounts are recorded in another City fund. The result of these changes is an ongoing decrease to the revenue and expense budgets for this fund.

The 2011 budgeted revenue for the Self Insurance Fund is \$33.5 million, a decrease of 30.4% from the 2010 revised budget of \$48.1 million. The transfer in from the general fund decreased from \$10.8 million in 2010 to \$7.3 million in 2011.

Expenditures

The expense budget for 2011 is \$25.8 million, a decrease of 29.5% from the 2010 revised budget of \$36.6 million. The primary reason for the decrease is the change from recording benefits payments in the



Self Insurance fund to an alternative City fund.

The Unused Sick Leave program provides a payout of unused sick leave to qualified employees at 50% of salary. Payments are funded by 0.7% gross salary contributions from the City and Park Board into a severance pool. The rate for City police officers and firefighters is 1.1% of gross pay.

The worker's compensation payments are estimated at \$6.1 million for 2011. This is a 3.6% decrease over the prior year's budgeted amount to bring the 2011 budget in line with an actuarial study completed in 2009. The same study predicted an increase in liability payments of 2.9%, from \$6.3 million in 2009 to \$6.5 million in the 2011.

Transfers

The 2011 expense budget includes a transfer of \$217,000 to a pension fund debt service to cover the cost of debt related to the Minneapolis Employees Retirement fund (MERF) unfunded liability. The budget also includes a \$1.0 million transfer to the Intergovernmental Services Fund to assist with payment of debt service as determined by the updated 2008 long-term financial plan.

Debt Service

A final debt payment of \$1.1 million processed in 2008 satisfied all debt service. The \$5.4 million in debt outstanding at year end of 2005 was reduced by a \$3.1 million payment in 2006 due to a Council action to apply excess general fund appropriations from 2005.

Net Assets

The net asset balance at year end 2009 is a deficit of \$15.4 million representing an increase of \$0.1 million from the deficit balance of \$15.5 at year end 2009. The long-term financial plan projected a 2009 net asset balance of a deficit of \$13.3 million. Although the fund experienced an increase in cash of \$10.2 million in 2009, a corresponding increase in net assets did not occur due to the \$10.7 million increase in the liability for unpaid claims. The projected increase to net assets in 2010 is \$10.0 million.

Mayor's Recommended Budget

The Mayor recommended a prepayment of General Fund obligations to the Self Insurance Fund of \$5.5 million which covers the 2012 and 2013 transfers. The Mayor recommended a wireless commitment charge of \$10,506 which is offset by healthcare savings.

Council Adopted Budget

The Council adopted the Mayor's recommendations. The Council adopted a \$1 million one-time reduction to the Self Insurance Fund transfer, reflecting positive experience in that fund, to help reduce the property tax levy increase from 6.5% to 4.7%.

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Self Insurance Fund - 6900

	2008 Actual	2009 Actual	2010 Current Budget	2010 Projected	2011 Budget	% Chg From 2010 Budget	2012 Forecast	2013 Forecast	2014 Forecast
Source of Funds:									
Charges for Service ¹	49,253	30,110	30,728	22,236	25,119	-18.3%	25,873	26,649	27,448
Interest	-	-	-	-	-	-	-	-	-
Other Misc Revenues	6,356	5,542	6,521	5,424	1,010	-84.5%	1,040	1,072	1,104
Operating Transfers In	5,643	6,915	10,810	10,810	7,330	-32.2%	-	-	7,410
Total	61,252	42,567	48,059	38,470	33,459	-30.4%	26,913	27,720	35,962
Use of Funds:									
Debt Service	1,082	-	-	-	-	-	-	-	-
Transfers	131	145	140	140	1,217	769.3%	1,146	1,126	1,126
Health and Welfare ¹	33,201	9,924	13,925	5,524	2,164	-84.5%	2,229	2,296	2,365
Attorney	5,046	5,569	6,101	6,135	6,101	-	6,190	6,376	6,567
Workers Compensation	7,424	10,820	6,290	6,290	6,065	-3.6%	6,503	6,689	6,881
Liability	1,630	12,067	6,270	6,270	6,450	2.9%	6,644	6,843	7,048
Human Resources	1,092	1,142	1,401	1,701	1,380	-1.5%	1,407	1,450	1,493
Finance Dept - Risk Mgmt	1,829	2,840	2,459	2,459	2,420	-1.6%	2,478	2,552	2,628
Total	51,435	42,507	36,586	28,519	25,797	-29.5%	26,596	27,331	28,109
Change in Net Assets	10,877	60	11,473	9,951	7,662		316	389	7,853
Net Assets	(15,493)	(15,433)	(3,960)	(5,482)	3,702		4,018	4,407	12,261
Cash Balance	18,767	28,995	40,468	38,946	48,130		48,446	48,835	56,689
Long Range Financial Plan Target Cash²	16,678	23,412	30,663	30,663	37,317		42,986	47,670	51,370
Variance Cash to Financial Plan	2,089	5,583	9,805	8,283	10,813		5,460	1,165	5,319

¹ Beginning in August 2008, medical and life insurance charges do not flow through the Self Insurance Fund. The 2008 actual Charges for Service revenue and Health and Welfare expense record medical transactions for part of the year.

² The cash projections for 2008 onward are based on the updated long-term financial plan for this fund, adopted by Council in 2008, which accelerated the target cash balance.