

**City of Minneapolis
FY 2010 Budget
Financial Plan**

Self-Insurance Fund

Background

The Self-Insurance Fund is used to account for employee dental benefits, occupational health services, severance payments to employees who have retired or resigned and who meet minimum eligibility requirements, tort liability claims, workers' compensation claims and related administrative costs. The 2010 budget for expenditures for this fund is \$36.6 million, a 63.1% decrease from 2009 due to expenditures for employee medical and life insurance programs recorded directly to department funds rather than through the self insurance fund.

Historical Financial Performance

The net assets of the Self-Insurance Fund reflected a negative position of \$15.5 million at year-end 2008, improving \$27.7 million from the 2002 ending balance of a negative \$43.2 million. The majority of this negative balance is due to the required accounting recognition of liability for unpaid claims.

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 fund performed better than projected and reached a positive cash balance of \$1.8 million at year-end 2005 increasing cash by \$10.0 million from a negative \$8.2 million at year-end 2001. The fund has continued performing above expectations ending with a positive cash balance of \$18.8 million at year end 2008, an increase of \$7.8 million from the 2007 ending balance of \$11.0 million. The long-term financial plan projected a 2008 ending cash balance of \$16.7 million. The net asset balance at year end 2008 is a deficit of \$15.5 million representing an increase of \$10.9 million from the deficit balance of \$26.4 at year end 2007. The long-term financial plan projected a 2008 net asset balance of a deficit of \$20.3 million. The fund's 2008 net asset balance is \$4.9 million ahead of the plan's projection. The anticipated net income for 2009 is \$10.2 million. At year end 2008, the total bond debt of \$1.06 million was paid in full.

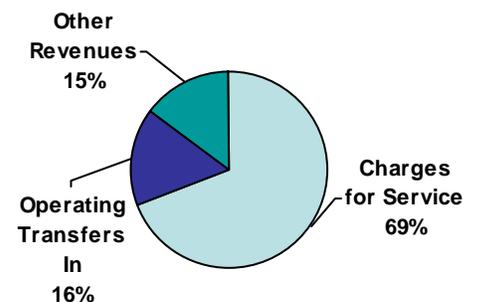
2010 Budget

Revenues/Expenditures

Beginning in August 2008, payments for medical and life insurance are processed directly from payroll to the vendors and do not flow through this fund as was previous practice. The City selected Medica as its health insurance provider for a three-year period beginning January 1, 2007. The Dental and Minneflex Program premiums are estimated and actual costs are expensed.

The Unused Sick Leave program provides a payout of unused sick leave to qualified employees at 50% pay. Payments are funded by 0.7% gross

**Self Insurance Fund
Source of Funds
(\$48.1 million)**

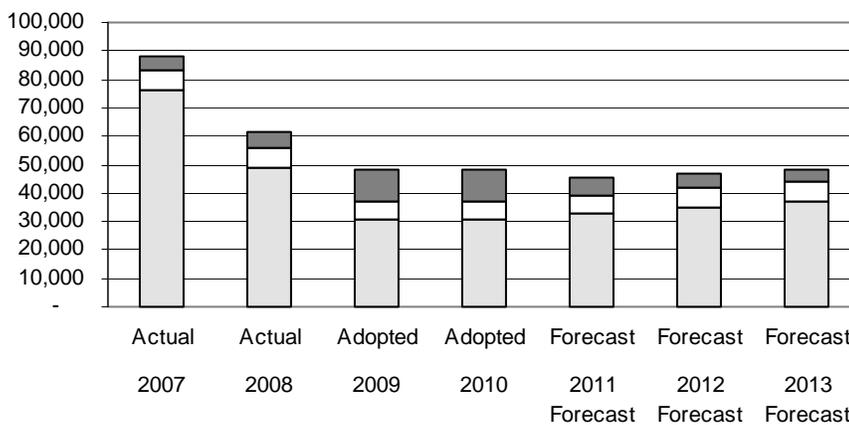


pay contributions from the City and Park Board into a severance pool. The rate for City police officers and firefighters is 1.1% of gross pay.

The Alternative Dispute Resolution (ADR) Program was established through funds collected through payroll deductions and direct payment as agreed in previous labor contracts. Occupational health actual expenses are billed to departments. The worker's compensation payments are estimated at \$6.3 million for 2010. This is a 6.0% increase over the prior year's budgeted amount to bring the 2010 budget in line with a recent actuarial study. The same study predicted an increase in liability payments resulting in an increase of 2.0% to \$6.3 million in the 2010 liability budget.

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)



□ Charges for Service □ Other Misc Revenues ■ Operating Transfers In

Debt Service

Given that all debt payments were satisfied in 2008, there is no debt service in 2010. 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.

Original Budget

The Mayor recommended a reduction in the departments operating within the Self Insurance Fund of 2% (\$204,000). This decision impacts the following departments: Finance, City Attorney and Human Resources.

The Mayor also recommended accelerating the long-term financial plan transfer by \$3.5 million in 2010 to create capacity in future years.

The Council approved the Mayor's recommendations.

The budget for this fund includes a reduction of BIS charges to the departments within this fund (Attorney, Human Resources and Finance) of \$35,900 due to the Council's actions to reduce the BIS budget by \$1.7 million. This reduction in BIS charges will subsequently reduce the fund's appropriation by the same amount. Additionally, the budget for this fund includes a \$2,347 increase to General Fund Overhead charges due to the Council's actions to fund two internal audit positions.

Mayor's Revised Budget

The Mayor recommended no changes to this fund.

Council Revised Budget

The Council approves the Mayor's recommendations.

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Self Insurance Fund - 6900

	2007 Actual	2008 Actual	2009 Current Budget	2009 Projected	2010 Budget	% Chg From 2009 Budget	2011 Forecast	2012 Forecast	2013 Forecast
Source of Funds:									
Charges for Service ³	75,878	49,253	93,947	31,624	30,727	N/A	32,637	34,706	36,948
Interest	-	-	-	-	-		-	-	-
Other Misc Revenues	7,155	6,356	8,516	8,516	6,521	-23.4%	6,782	7,054	7,336
Operating Transfers In	4,750	5,643	6,915	6,915	10,810	56.3%	6,310	5,310	4,310
Total	87,783	61,252	109,378	47,055	48,059	-56.1%	45,730	47,069	48,594
Use of Funds:									
Debt Service	53	1,082	-	-	-		-	-	-
Transfers	97	131	145	145	140	-3.4%	150	150	150
Health and Welfare ³	58,700	33,201	77,657	15,716	13,925	-82.1%	15,596	17,467	19,564
Attorney	5,404	5,046	5,623	5,635	6,101	8.5%	6,284	6,472	6,666
Workers Compensation	6,349	7,424	5,932	5,932	6,290	6.0%	6,479	6,673	6,873
Liability	10,277	1,630	6,147	6,147	6,271	2.0%	6,459	6,653	6,852
Human Resources	1,116	1,092	1,372	1,374	1,401	2.1%	1,443	1,486	1,531
Finance Dept - Risk Mgmt	2,054	1,829	2,284	2,286	2,459	7.7%	2,533	2,609	2,687
Total	84,050	51,435	99,160	37,235	36,586	-63.1%	38,943	41,510	44,323
Change in Net Assets	3,732	10,877	10,218	9,820	11,472	12.3%	6,787	5,559	4,271
Net Assets	(26,370)	(15,493)	(5,275)	(5,673)	6,197	217.5%	12,984	18,543	22,814
Cash Balance¹	11,002	18,767	28,985	28,587	40,457	39.6%	47,244	52,803	57,074
Workout Plan Target Cash Balance²	2,645	16,678	23,412	23,412	30,663		37,317	42,986	47,670
Variance	8,357	2,089	5,573	5,175	9,794		9,927	9,817	9,404

¹The 2007 and 2008 cash balances include the total of the CAFR cash balance and the year-end balance in due from other funds.

²The 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.

³ Beginning in August 2008, medical and life insurance charges do not flow through the Self Insurance Fund. The 2008 actuals and the 2009 Projection are adjusted for this decrease in revenue and expenditures related to medical insurance.