

**City of Minneapolis
2013 Budget
Financial Plan**

Self-Insurance Fund

Background

The Self-Insurance Fund records tort liability settlements, workers' compensation claims, severance payments to employees who meet eligibility requirements and the related administrative costs of these and other services. An activity-based allocation model assigns charges to City departments to cover these expenses.

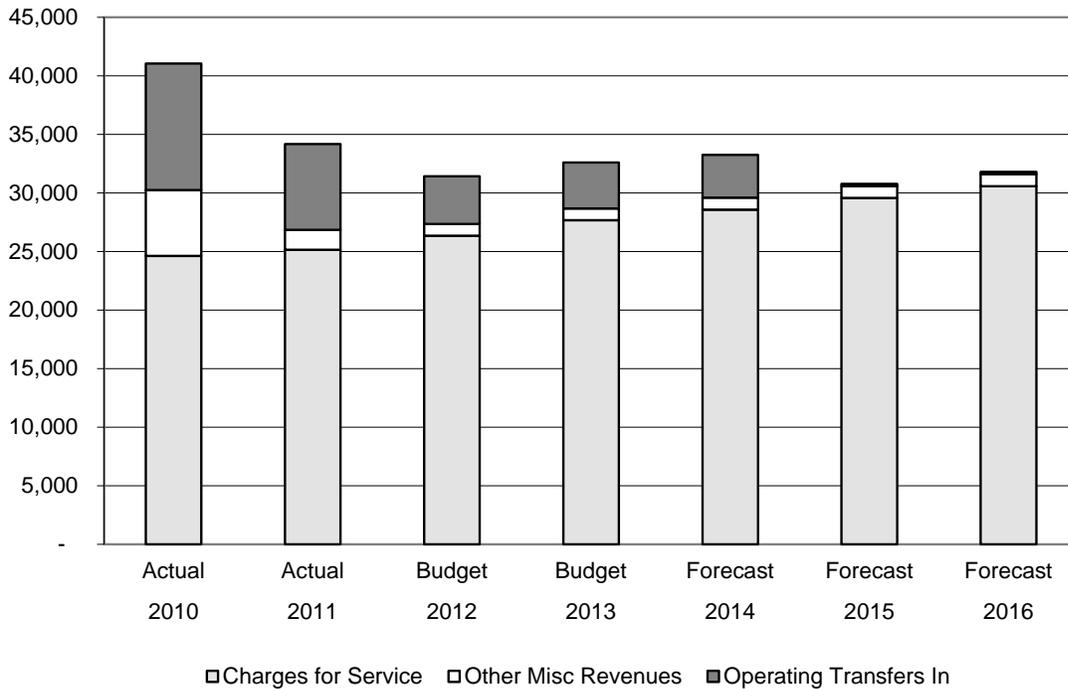
Historical Financial Performance

The net assets of the Self-Insurance Fund reflected a negative position of \$4.1 million at year-end 2011, improving \$39.2 million from the 2002 ending balance of a negative \$43.3 million. One reason for the negative balance is the required accounting recognition of liability for unpaid claims. The 2011 unpaid claims liability is \$50.1 million representing an increase of \$2.8 million from the 2010 liability of \$47.3 million. An actuarial study completed for year-end 2011 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 2011 with a cash balance of \$48.8 million, an increase of \$6.7 million from the 2010 ending balance of \$42.1 million. Financial policies related to the internal service funds determine that a reserve cash balance for the Self Insurance Fund should be maintained equal to the unpaid claims liability amount plus 10% of the annual department operating budgets. The target reserve cash balance for 2011 is \$51.0 million which equals the unpaid claims liability at year end of \$50.1 million plus 10%, or \$0.9 million, of the total 2011 operating budgets. The ending 2011 cash balance is \$2.5 million less than the amount determined by the financial policy.

For 2007, an allocation model was implemented to recover costs associated with all programs in the fund. The allocation 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)

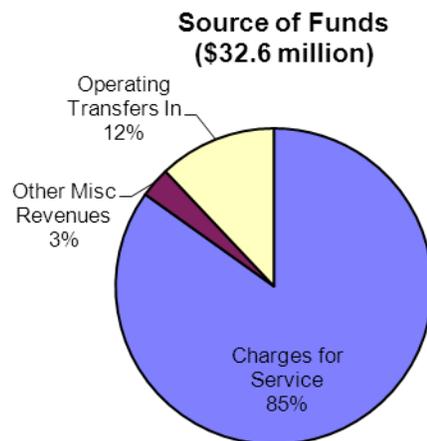


2013 Budget

Revenues

Revenue recorded in this fund primarily consists of funds received from City departments through an allocation model for litigation, risk management, and employee benefit services. In addition, the fund collects revenue to provide for payment of liability settlements and for workers compensation costs.

The 2013 budgeted revenue for the Self Insurance Fund is \$32.6 million, an increase of 3.8% from the 2012 projected revenue of \$31.5 million. The transfer in from the general fund is \$4.0 million, slightly decreased from the \$4.1 million transfer in 2012.

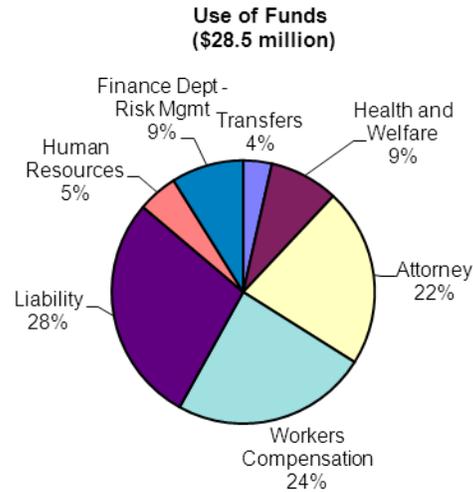


Expense

The expense budget for 2013 is \$28.5 million, an increase of 10.6% from the projected 2012 expenses of \$24.0 million.

The Unused Sick Leave program provides a payout of unused sick leave to qualified employees upon separation from the City. 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 \$6.9 million for 2013. This is a 12.9% decrease from the 2012 projected amount of \$7.9 million. The actuarial study predicted an increase in liability payments of 6.8% from 2012 to 2013. Actual liability payments for 2012 are projected to be less than the amount predicted in the actuarial study resulting in a significant increase in the amount budgeted for 2013 when compared to the projected 2012 payments.



Transfers

The 2013 revenue budget includes a \$3.7 million transfer from the general fund per the fund’s long-term financial plan and a transfer of \$0.2 million as an appropriation for the cost of City Hall rent. The expense budget includes a \$1.0 million transfer to the Intergovernmental Services Fund to assist with payment of debt service as determined by the long-term financial plan.

Debt Service

This fund does not have long-term debt.

Net Assets

The net asset balance at year end 2011 is a deficit of \$4.1 million representing a decrease in the deficit from \$6.6 million at year end 2010. The net asset balance has increased from the 2002 deficit of \$43.3 million since the implementation of the long term financial plan. The financial reserve policy relating to the internal service funds states that the net asset balance for the Self Insurance Fund should not fall below zero.

The fund experienced an increase in cash of \$6.3 million in 2011, bringing the cash balance to \$48.6 million. The financial reserve policy relating to the internal service funds states that the Self Insurance fund should maintain a cash balance equal to the unpaid claims liability plus 10% of the annual operating budgets within the fund. For year ending 2011 the reserve cash balance is \$51.0 million.

Mayor’s Recommended Budget

The Mayor does not recommend any changes to the 2013 budget.

Council Adopted Budget

Council approved the Mayor’s recommendations.

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Self Insurance Fund - 6900

	2010 Actual	2011 Actual	2012 Budget	2012 Projected	2013 Budget	% Chg From 2012 Projected	2014 Forecast	2015 Forecast	2016 Forecast
Source of Funds:									
Charges for Service	24,615	25,149	26,345	26,191	27,670	5.6%	28,576	29,563	30,583
Other Misc Revenues	5,629	1,703	1,010	1,191	1,011	-15.1%	1,010	1,010	1,010
Operating Transfers In	10,810	7,330	4,071	4,071	3,955	-2.8%	3,663	200	200
Total	41,054	34,182	31,426	31,453	32,636	3.8%	33,249	30,773	31,793
Use of Funds:									
Transfers	140	1,217	1,485	1,485	1,000	-32.7%	1,000	1,000	1,000
Health and Welfare ¹	5,316	794	2,361	800	2,420	202.5%	2,493	2,567	2,644
Attorney	5,488	6,580	6,052	6,080	6,263	3.0%	6,451	6,644	6,843
Workers Compensation	9,555	8,489	6,617	7,900	6,877	-12.9%	7,088	7,141	7,362
Liability	7,957	10,770	7,515	4,000	8,031	100.8%	8,330	8,694	9,073
Human Resources	1,294	1,598	1,369	1,500	1,406	-6.3%	1,448	1,492	1,536
Finance Dept - Risk Mgmt	2,459	2,244	2,466	2,100	2,535	20.7%	2,611	2,690	2,770
Total	32,209	31,692	27,865	23,865	28,532	19.6%	29,420	30,227	31,230
Change in Net Assets	8,845	2,489	3,561	7,588	4,104		3,829	545	563
Net Assets	(6,588)	(4,099)	(538)	3,489	7,593		11,422	11,968	12,531
Cash Balance	42,081	48,571	52,132	56,159	60,263		64,092	64,638	65,201
Target Cash Reserve	48,289	51,040	52,785	52,785	54,597		56,647	58,710	60,847
Variance Cash to Target Reserve	(6,208)	(2,469)	(653)	3,374	5,666		7,445	5,928	4,353

¹The target cash reserve is in accordance with the financial reserve policy for internal service funds. The cash reserve for the Self Insurance Fund should not be less than the total of the unpaid claims liability balance plus 10% of the annual operating budgets within the fund.