

**City of Minneapolis
2012 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.

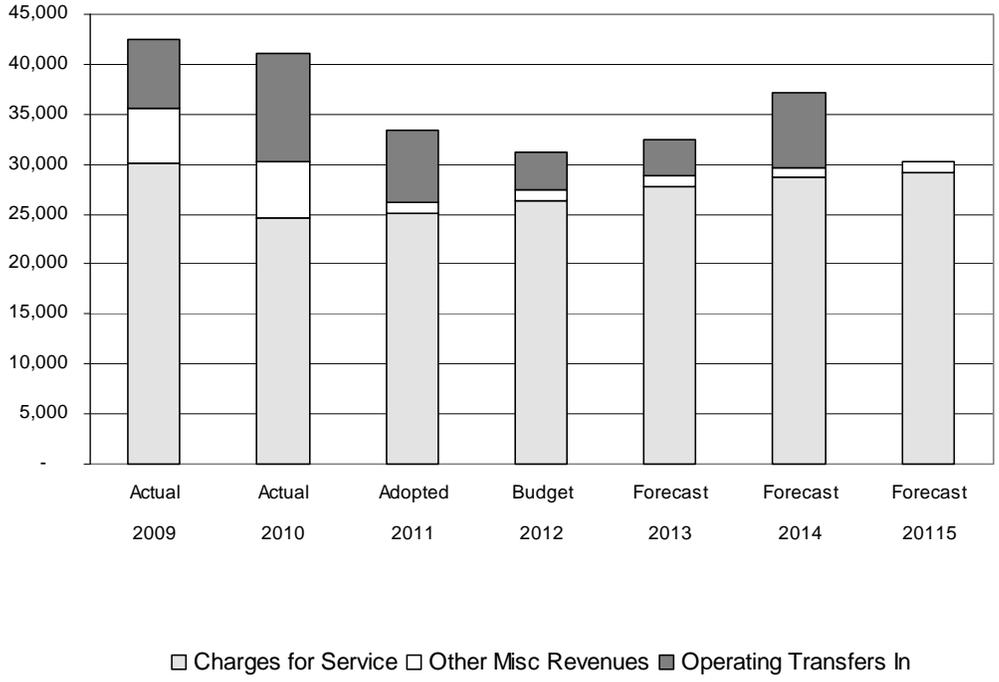
Historical Financial Performance

The net assets of the Self-Insurance Fund reflected a negative position of \$6.6 million at year-end 2010, improving \$36.7 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 2010 unpaid claims liability is \$47.3 million representing an increase of \$4.8 million from the 2009 liability of \$42.5 million. An actuarial study completed for year-end 2010 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 2010 with a cash balance of \$42.1 million, an increase of \$13.1 million from the 2009 ending balance of \$29.0 million. The long-term financial plan projected a 2010 ending cash balance of \$30.7 million. Financial policies related to the internal service funds determine that a 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 unpaid claims liability at year end 2010 was \$47.3 million and 10% of the total 2010 operating budgets equaled \$3.2 million. The ending 2010 cash balance is \$8.4 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)



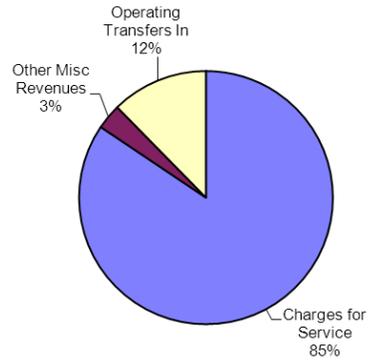
Charges for Service
 Other Misc Revenues
 Operating Transfers In

2012 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. In 2010 COBRA medical and dental revenue expense are also recorded in another fund. The result of these changes is an ongoing decrease to the revenue and expense budgets for this fund.

Source of Funds
(**\$31.2 million**)

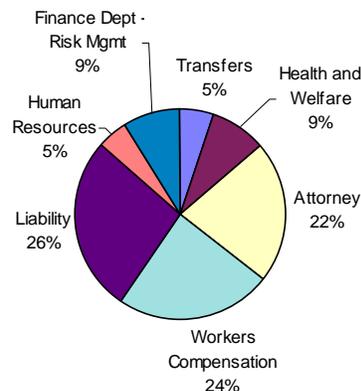


The 2012 budgeted revenue for the Self Insurance Fund is \$31.2 million, a decrease of 6.6% from projected 2011 of \$33.4 million. The transfer in from the general fund is \$3.85 million, a decrease of \$3.5 million from 2011.

Expense

The expense budget for 2012 is \$27.9 million, a decrease of 3.1% from projected 2011 of \$28.8 million.

**Use of Funds
(\$27.9 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 \$6.6 million for 2012. This is a 9.1% increase over the prior year's budgeted amount to bring the 2012 budget in line with an actuarial study completed in 2010. The same study predicted an increase in liability payments of 16.5%, from \$6.5 million in 2011 to \$7.5 million in 2012.

Transfers

The 2012 expense budget includes a transfer of \$485,000 to a pension fund debt service to cover the cost of debt related to the Minneapolis Employees Retirement fund (MERF) unfunded liability. The City will retire bonds related to this debt service in 2012 resulting in substantial savings to the City and creating a large increase to this debt payment for the proprietary funds. The Self Insurance Fund will use fund balance as a revenue source for this payment in 2012 and will recover the cost of the payment through the Self Insurance allocation model for years 2012 through 2014.

The budget includes a \$3.85 million transfer from the General Fund per the fund's long-term financial plan. 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

This fund does not have long-term debt.

Net Assets

The net asset balance at year end 2010 is a deficit of \$6.6 million representing a decrease in the deficit from \$15.4 at year end 2009. The long-term financial plan projected a 2010 net asset balance of a deficit of \$5.6 million. Although the fund experienced an increase in cash of \$13.1 million in 2010, a corresponding increase in net assets did not occur due to the \$4.8 million increase in the liability for unpaid claims. The projected increase to net assets in 2011 is \$4.6 million. The financial policy relating to the net asset balance for the Self Insurance Fund determines that the net assets should not fall below zero.

Mayor's Recommended Budget

The Mayor recommended an acceleration of the General Fund transfers to the Self Insurance Fund from the 2011 adopted plan. The proposed transfer schedule is \$3.85M in 2012; \$3.717M in 2013; and \$3.463M in 2014. By accelerating the transfer schedule, capacity is created in the near future to hold down property tax levy increases, while maintaining the financial integrity of the fund.

Council Adopted Budget

The Council adopted the Mayor's recommendations.

City of Minneapolis
2012 Budget
Financial Plan (in thousands of dollars)

Self Insurance Fund - 6900

	2009	2010	2011	2011	2012	% Chg	2013	2014	2015
	Actual	Actual	Budget	Projected	Budget	From 2011 Projected	Forecast	Forecast	Forecast
Source of Funds:									
Charges for Service ¹	30,110	24,615	25,119	24,627	26,345	7.0%	27,722	28,584	29,055
Other Misc Revenues	5,542	5,629	1,010	1,454	1,010	-30.5%	1,040	1,072	1,104
Operating Transfers In	6,915	10,810	7,330	7,330	3,850	-47.5%	3,717	3,463	
Total	42,567	41,054	33,459	33,411	31,205	-6.6%	32,479	33,119	30,159
Use of Funds:									
Transfers	145	140	1,217	1,217	1,485	22.0%	1,000	1,000	1,000
Health and Welfare ¹	9,924	5,316	2,164	788	2,361	199.6%	2,432	2,505	2,580
Attorney	5,569	5,488	6,101	6,511	6,052	-7.0%	6,234	6,421	6,613
Workers Compensation	10,820	9,555	6,065	7,310	6,617	-9.5%	6,963	7,165	6,955
Liability	12,067	7,957	6,450	8,700	7,515	-13.6%	7,770	8,033	8,305
Human Resources	1,142	1,294	1,380	1,817	1,369	-24.7%	1,410	1,452	1,496
Finance Dept - Risk Mgmt	2,840	2,459	2,420	2,420	2,466	1.9%	2,539	2,616	2,694
Total	42,507	32,209	25,797	28,763	27,865	-3.1%	28,348	29,191	29,643
Change in Net Assets	60	8,845	7,662	4,648	3,340		4,131	3,927	516
Net Assets	(15,433)	(6,588)	1,074	(1,940)	1,400		5,531	9,458	9,974
Cash Balance	28,995	42,081	49,743	46,729	50,069		54,200	58,127	58,643
Long Range Financial Plan Target Cash²	23,412	30,663	37,317	37,317	42,986		47,670	51,370	54,086
Variance Cash to Financial Plan	5,583	11,418	12,426	9,412	7,083		6,530	6,757	4,557

¹ In 2009, medical, dental, and life insurance do not flow through the Self Insurance Fund. In 2010, in addition to medical, dental, and life insurance, COBRA medical and dental no longer flow through the Self Insurance fund.

² The cash projections for 2009 onward are based on the updated long-term financial plan for this fund, adopted by Council in 2008, which accelerated the target cash balance.