

## **COUNCIL POLICY NO. C-17**

**TITLE:** RISK SELF INSURANCE FUND BALANCE / RESERVE POLICY

**POLICY:** See attached.

**REFERENCE:** City of Salem Finance Committee report dated December 17<sup>th</sup>, 2018, agenda item no. 4b.

## **FUND BALANCE / RESERVE POLICY FOR THE RISK SELF INSURANCE FUND**

### **Purpose**

This policy establishes the components and uses of the fund balance for the Risk Self Insurance Fund (“the Fund”). Sound financial management practices include establishing designated and undesignated fund balances sufficient to provide resources for events and service needs that were unanticipated during budget development; cover cash flow needs during a fiscal year; and provide a source of funds to sustain services during a temporary slowing in revenue and / or a source of bridge funding to allow transition to sustainable service levels.

### **Scope**

This policy applies to the Risk Self Insurance Fund.

### **Definitions**

Confidence Level - An estimated probability that a given level of funding will meet or exceed claims costs for a specified period. For example, the 85% confidence level refers to an estimate for which there is an 85% chance that the amount will be sufficient to pay loss costs.

Contingency Account – A budgetary account used to appropriate resources that can be used to address events or service needs that were unanticipated during budget development. With City Council adoption of a transfer resolution, funds are transferred from the Contingency Account to an operating program.

Claims Reserve – A reserve set aside for unpaid losses and loss adjustment expenses (LAE).

Fund Balance – On a budgetary basis the Fund Balance is the sum of the Contingency Account, Rate Stabilization Reserve, and claims reserve. In the Comprehensive Annual Financial Report, it is identified in the schedule titled Statement of Revenues, Expenditures and Changes in Fund Balance.

Loss Adjustment Expense (LAE) – The cost of investigating and adjusting losses. Including both allocated loss adjustment expenses (ALAE) and unallocated loss adjustment expenses (ULAE). ALAE are allocated to a specific claim, while ULAE are not allocated to a specific claim.

Rate Stabilization Reserve – A reserve established to provide resources in the event of a material decrease in projected revenue during a given fiscal year, which will impact the upcoming fiscal year. The Rate Stabilization Reserve allows the continuation of services for a finite period until additional resources are identified or a transition to a sustainable service level is completed.

## **Related Financial Policies**

- Council Policy C-8: Budget and Revenue Policies
- Council Policy C-11: General Fund Balance / Reserve Policy

## **Policy Statement**

The Fund Balance for the Risk Self Insurance Fund is the sum of the following:

- Rate Stabilization Reserve
- Claims Reserve
- Contingency Account

For the purposes of preparing the budget, the Fund Balance shall consist of:

- The Rate Stabilization Reserve, which shall be a minimum of the combined deductibles for Workers Compensation and Liability programs, plus two times the property deductible for catastrophic losses (e.g., terrorism, streets, bridges, dams, tunnels, and properties in certain flood zones)
- The Claims Reserve, shall be equal to the actuarial review of the program at the 80% confidence level for unpaid losses and loss adjustment expenses.
- The Contingency Account, shall be equal to the fund balance above the claims reserve and rate stabilization reserve.

The Rate Stabilization Reserve, Contingency Account, and Claims Reserve can be used in the following circumstances:

1. Rate Stabilization Reserves can be used by the City Manager to offset an unanticipated loss of revenue within a fiscal year in the event anticipated revenues may be insufficient to meet the expenditures necessary to maintain current services. Utilization of the Rate Stabilization Reserve must be within the context of a multi-year financial plan designed to bring services to a sustainable level through additional resources, service reductions, or a combination of such actions.
2. Contingency can be used with City Council adoption of a transfer resolution to meet expenditure requirements resulting from events or service needs not anticipated during budget development.
3. Claims Reserve can be used for claim expenditures