

Insurance and Claims Operating Fund

Managing Bureau: Office of Management and Finance, Bureau of Internal Business Services

Statement of Purpose: The Insurance and Claims Operating Fund provides for tort, general liability, and fleet liability claims administration; management of the liability self-insurance program; management of the City's commercial insurance portfolio; and Citywide leadership in loss prevention. Fund expenditures are primarily for claims-related payments. Projected claims are based on an independent actuarial study, which includes a projection for the current fiscal year and for the next five years. The actuarial reserve requirement for the fund is based on the actuarial study, which recommends a range for the reserve levels needed to cover outstanding incurred liabilities. The range is produced by calculating reserves at various confidence levels (i.e. the probability that actual losses will not exceed the reserve level). Reserves are stated at a discounted level, which takes into account the interest the fund earns on the fund balance. The Insurance and Claims Operating Fund's reserves are forecasted at a discounted confidence level of 80%. Interagency revenues are projected on a five-year basis so that, by year five, the fund will achieve the required claims reserve amount forecast by the actuarial consultant for year five. This five-year smoothing of interagency rates is designed to mitigate large fluctuations in rates from year to year. The City is authorized by the State of Oregon per ORS 806.130 to have a self-insurance program for auto liability.

Sources of Revenue: The fund's primary source of revenue is service reimbursements from City bureaus.

Contingency Requirements: Per Financial Policy 2.04, contingency funds should be used to address reasonable but unforeseen requirements within the fiscal year. There are no minimum or maximum contingency requirements for the fund.

Reserve Requirements: The operating reserve size requirement is 5% to 10% of the fund's fixed cost annual administration operating budget. The operating reserves purpose is to fund one-time, emergency, or unanticipated administrative expenditure requirements. Authorized uses include funding one-time, emergency, or unanticipated administrative expenditure requirements. The reserve can only be used after it is determined that the operating budget cannot fund the expenditure and the bureau director and Chief Administrative Officer have approved the use. If a fund's reserves are lower than the target levels, the fund will use income from higher-than budgeted collections or lower-than-budgeted expenditures to come up to the required reserve.

The actuarial reserve size requirement is the amount specified by the fund's annual actuarial study at the 80% confidence level. The actuarial reserve exists so that the City's self-insurance program for liability is actuarially sound. Authorized uses include, claims payments and claims defense. The reserve is used when claims payments or claims defense costs are incurred and the fund has no other resources available. If a fund's reserves are lower than the levels specified by the annual actuarial study at the 80% confidence level, the fund will increase rates so that at the end of the five year forecast period the Actuarial Reserve will be replenished.

There is no policy amount for the rate stabilization reserve. The rate stabilization reserve is the amount of money in the fund in excess of the actuarial reserve requirement. The drawdown of this

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rate stabilization reserve over five years is a part of the fund's rate setting process. This five-year smoothing of interagency rates is designed to mitigate large fluctuations in rates from year to year. Authorized uses include gradually offsetting rates over a five year period as the reserve is drawn down to zero. There is no trigger for use. The rate stabilization reserve is factored into each year's update to the fund's five year plan for rates. The reserve does not have to be replenished.

Disposition of Funds: In the event the fund is closed, all remaining resources would be returned to City bureau customers based on prior year levels of services received. Any residual amounts posted to the fund after closure would revert to the General Fund.

Method for periodically testing the cost-effectiveness of pre-funding capital replacement versus leasing or lease purchasing for capital goods: Not applicable.

Equipment Replacement policies: Policies are documented in Chapter 4.05 and 4.09 of the Office of Management & Finance's policies and procedures.

Method of accounting for equipment reserves and purchases for each bureau: Not applicable.

Policy and procedure for protecting capital reserves from being used for operating purposes: Policies are documented in Chapter 4 of the Office of Management & Finance's policies and procedures.

Method for testing the cost-effectiveness of providing services internally: When the need for a service is identified, the manager decides on directing City staff to perform the services or contracting out the work depending on a number of factors including:

- Union agreements
- Costs
- When the work needs to be done
- Time required to deliver the service
- Capacity of staff
- Expertise of staff
- Availability of equipment required to provide service