



Council Agenda Correspondence

DATE: May 17, 2022
TO: Mayor and Council
FROM: Brigitte Elke, Finance Director
Nickole Domini, Human Resources Director
VIA: Derek Johnson, City Manager
SUBJECT: Item #6a – FY 2021-22 Third Quarter Budget Review

The purpose of this correspondence is to incorporate an additional recommendation as part of the FY 2021-22 Third Quarter Budget item at the May 17th City Council meeting. Staff recommends authorizing the use of \$150,000 from the City's Insurance Fund balance to cover claims and related expenses for the remainder of the 2021-22 fiscal year. As part of this recommendation, staff recommends amending the draft Resolution in Attachment B of the Council Agenda Report to incorporate this change.

Background

The City of San Luis Obispo is a member of the California Joint Powers Insurance Authority (CJPIA) which provides workers' compensation and general liability insurance for the City and other member agencies throughout the State. In 2016, the City entered into an agreement with CJPIA and Carl Warren, a third-party administrator, to manage its liability claims. Carl Warren provides intake of claims, legal counsel, investigation of claims, and represents the City in mediations and court cases.

At the beginning of FY 2021-22, \$400,000 was placed in the reserve for the Liability Excess Insurance Program that was expected to be sufficient for anticipated expenses in FY 2021-22; however, a high-cost claim was settled this year. In addition, several other claims that have not yet settled require legal expertise and have now resulted in higher than anticipated costs.

Staff therefore recommends appropriating \$150,000 of the City's Insurance Fund balance to cover anticipated claims and related expenses for the remainder of FY 2021-22. This number is based on the average monthly expenses to date in FY 2021-22. The Insurance Fund has a current fund balance of \$1.9 million of which \$400,000 are currently unassigned and above the City's reserve requirement for the fund¹.

Attachment

A - Draft Resolution amending FY 2021-22 Budget Allocation (Redline)

¹The Insurance Fund is maintained at a 75% confidence level based on actuarial studies. According to the most recent actuarial report, the 75% confidence level based on the City's recent claims experience place that reserve requirement at \$1.5 million.

RESOLUTION NO. _____ (2022 SERIES)

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAN LUIS
OBISPO, CALIFORNIA, APPROVING AN AMENDMENT TO THE 2021-
22 BUDGET ALLOCATION**

WHEREAS, in accordance with the San Luis Obispo City Charter Section 802, the City Manager submitted the 2021-23 Financial Plan to Council for its review and consideration on June 1, 2021; and

WHEREAS, on June 1, 2021, the Council approved and appropriated the 2021-22 budget allocation including operating expenditures, debt service, and capital improvement plan budget (R-11251); and

WHEREAS, the City received \$6,900 in 2016 for trailhead improvements at Terrace Hill that was paid by a developer; and

WHEREAS, the revenue was deposited into the Open Space Protection Fund and currently resides in the fund balance; and

WHEREAS, the City will now be utilizing the funding to build new fences at Terrace Hill and needs to appropriate the expenditure budget from fund balance; and

WHEREAS, the City created an Insurance Fund which aggregates insurance-related expenses including insurance premiums and payment of claims for workers' compensation and excess liability and related costs; and

WHEREAS, the 2021-23 Financial Plan provides for the Insurance Fund to manage the fluctuations in the insurance programs with a reserve for the Liability Excess Insurance Program maintained at approximately 75% funded confidence level based on the prior five-year average claims experience; and

WHEREAS, the funds within the reserve for the Liability Excess Insurance Program are insufficient to cover anticipated claims and related expenses for the rest of the 2021-22 fiscal year; and

WHEREAS, the Insurance Fund balance is sufficient to cover these costs so that current transactions can take place in a timely manner.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of San Luis Obispo as follows:

SECTION 1. The 2021-22 budget is hereby amended to appropriate \$6,900 of the City's Open Space Protection Fund balance into operating budget.

SECTION 2. The 2021-22 budget is hereby amended to appropriate \$150,000 of the City's Insurance Fund balance to cover anticipated claims and related expenses for the remainder of FY 2021-22.

Upon motion of _____, seconded by _____, and on the following roll call vote:

AYES:

NOES:

ABSENT:

The foregoing resolution was adopted this _____ day of _____ 2022.

Mayor Erica A. Stewart

ATTEST:

Teresa Purrington
City Clerk

APPROVED AS TO FORM:

J. Christine Dietrick
City Attorney

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of San Luis Obispo, California, on _____.

Teresa Purrington
City Clerk

R _____