

## MINUTES 2/28/22

### SELF-INSURANCE PROGRAM BOARD MEETING

A meeting of the Self-Insurance Program Board of Trustees was called to order at 10:30 a.m., Monday, February 28, 2022.

#### MEMBERS PRESENT

Board Chair Francisco Heredia  
Linee Ferguson  
Courtney Guinn  
Peggy Lynch  
Michael Kennington, CFO

#### OTHERS PRESENT

Tracy Hurt, Board Secretary  
Teri Overbey, HR Director  
Janice Ashley, Emp. Benefits Admin  
Nitra Hawkins, Safety Administrator  
Jason Reed, Deputy City Attorney  
Lisa Lorts, Risk Mgmt. Claims Analyst  
Brian Ritschel, OMB Asst. Director  
Samuel Schultz, OMB Deputy Director  
Allyson Beetham, Budget Analyst, OMB  
Linda Jones, Budget Coordinator, OMB  
Lucy Hambright, City Council Assistant

#### Citizens Present

None

1. Board Chair, Councilmember Heredia called the meeting to order at 10:30 a.m. with a roll call of board members present. Mr. Heredia asked if there were any citizens present who wished to speak. There were no citizens present. Mr. Heredia introduced the first presenter, Deputy City Attorney Jason Reed for the Public Property and Liability (PPL) Trust Fund.
2. Jason referenced the 2022 PPL Trust Fund Board Report (attached) and provided an overview of the PPL Trust which handles costs associated to claims and lawsuits against the City, including litigation legal staff and insurance costs. He stated that the PPL Trust Fund incurred \$7.7M in costs in FY 20/21 (\$4.5M for claims and lawsuits, \$2M for insurance, and \$1.2M for staffing costs of the litigation unit. For FY 21/22, the City estimates that it will have \$7.0 million in costs: \$3.0 million estimated for claims and lawsuits; \$2.3 million for insurance; and \$1.7 for the staffing costs of the litigation unit.

Michael Kennington asked about keeping the cases in house to help contain cost and Jason agreed that this was the importance of the litigation unit which develops a strong working knowledge of City operations and strong working relationships with City employees which allows the City to recognize significant cost savings in contrast to using outside counsel because they do not have to spend the time and money getting up to speed on City operations and City witnesses when a new claim or lawsuit is filed. Additionally, the City Attorney's office also helps to reduce exposure by working collaboratively with departments to identify better practices, additional training and increased liability sensitivity.

Linee Ferguson asked what the industry standard length of litigation is and Jason indicated that 18-30 months is a very broad rule of thumb and some cases may exceed that range.

Courtney Guinn asked about prior claims and if use of precedents is involved in settlements. Jason noted that jury verdicts weigh heavily on any settlement and the

City may be required to pay attorney's fees which is an additional consideration to analyze during settlement options.

Moving on to the insurance costs, Mr. Reed noted that premiums have been significantly increasing for the last four years and obtaining the historical \$50M of coverage has been more difficult. Some contributing factors are carriers that have left the municipal insurance market resulting in fewer competitors that can raise premiums, inflationary pressures, and natural disasters that have resulted in significant payouts by the carriers. Due to these market conditions in the insurance industry, the City Attorney is asking for Council to adopt a resolution (attached) similar to the one adopted in 2020 that would allow the City Attorney and City Manager to procure insurance for a period of five years with updates to Council on the amounts of insurance obtained and the costs.

Samuel Schultz presented the Office of Management and Budget recommendation of \$6.0M contribution for FY21/22 which would result in a reserve balance of \$11M and a \$7.8M City contribution to the PPL Trust Fund for FY 22/23 to achieve a minimum forecasted ending reserve balance of \$10M which is the ending reserve balance target.

No additional questions were brought forward by the Board and Councilmember Heredia introduced Nitra Hawkins, Safety Administrator, as the next presenter.

Nitra referenced the Worker's Compensation (WC) Trust Fund 2022 Report (attached) which gives an overview of the City's Workers' Compensation program and five-year claims history in addition to the expenses of the program. As Nitra discussed the pharmacy benefits portion of the Workers' Compensation program, Linee asked what controls were in place to ensure that the pharmacy benefit card for a workers' compensation claim was not used for other purposes. Nitra explained that each pharmacy card is tied directly to a workers' compensation injury claim number and cannot be used for any prescription not related to the claim.

Legal fees related to WC Attorneys and administrative court fees may occur when there is a dispute of the claim. Courtney Guinn asked how many times we use legal representation and if internal legal counsel could be used for these matters. Nitra said that we currently have 15 claims in litigation and Jason Reed indicated that it is a specialty practice and we do not have an internal attorney with this specialty. The volume and cost of outside counsel has not risen to the level of staffing for this particular specialty at this time.

Nitra explained the self-insurance surety bond is required based on a snapshot of the outstanding liabilities once a year. The snapshot includes the open and compensable claims that are to be paid out and requires a bond to cover those amounts to show the Industrial Commission that we can meet our outstanding fiduciary liabilities for those claims.

She mentioned that this is also the second year of a split self-insured retention (SIR) requirement based on statutes passed for presumptive cancers. Two million dollars is the SIR for Presumptive Cancer claims, \$1.25M for non-presumptive injury/illness claims and \$1M for wildland firefighter claims. Linee asked if these amounts were per claim and Nitra confirmed.

The five-year claim history on page 2 of the WC presentation shows an average of 406 new claims per year and Nitra referred to page 3 to explain the direct vs. indirect cost of injuries related to a claim. Michael Kennington asked Nitra what the driver was on the increase in open claims in the last three years and she noted that physical assaults with PD officers getting injured, slips, trips and falls, over exertions from lifting and carrying patients by Fire and Medical, increased cancer claims, and COVID claims were some of the drivers. Courtney Guinn asked if the cancers and COVID claims must be tied to the job and Nitra explained that presumptive cancers mean it is presumed to be job related and the burden is on the employer to show that they are not correlated to the job if that is the case. The number of presumptive claims that are accepted continues to increase across the State of Arizona.

Nitra stated that it takes approximately 3 years to close a claim and our Experience Modification Rate (EMOD) is calculated based on our claims compared to other municipalities across the nation. Our target is 1 or below which would mean we are performing below industry average and we could obtain discounts on insurance. She said that she anticipates our EMOD to increase for 2021 and is anticipating it to also increase in 2022 based on the three- year timeframe to close a claim.

Michael Kennington asked if there was a time limit filing a claim on the presumptive cancers after the employee has left the City. Nitra said that they have until age 65 to file a presumptive claim. Samuel Schultz added that there is a state fund that the City contributes \$1.3M to in order to help spread out costs (risk pool management) and since this is new research will be done to determine how the risk pool is working to hopefully prevent a large amount of costs hitting one area. Michael Kennington asked if the pool covers all cities in the state and Sam confirmed it does.

Linee stated that it would be good to see the Arizona average and Nitra agreed. She explained that the EMOD is calculated based on the previous three years claims and that it takes time for the EMOD to change based on the dropping off of the previous claims and the frequency and severity of claims.

Nitra said that in order to help reduce injury and claims they provide safety inspections and safety trainings utilizing their three safety coordinators and safety committees.

Councilmember Heredia asked if there is any guidance from the industrial commission or state on long-term effects of COVID related illness and workers' compensation. Nitra indicated that we follow the Industrial Commission of Arizona guidance issued May of 2020. Approved COVID claims can be reopened for

Samuel Schultz presented the Office of Management and Budget recommendation of an estimated \$5.6M City contribution to the Workers' Compensation Trust Fund to achieve the reserve fund balance target of \$7.5M for FY22/23 (see attached Workers' Compensation Trust Fund: Financial Update and FY 2022/23 Funding Recommendations Report).

There were no additional questions from the Board regarding the Workers' Compensation Trust Fund and Councilmember Heredia introduced Janice Ashley, Employee Benefits Administrator as the next presenter.

Janice referenced the Employee Benefits Trust Fund Operations Report (attached) which provides an overview of the benefits and programs offered to employees and a large group of our retirees. She noted that the stop loss medical insurance is getting increasingly difficult to obtain and costly for the market in general, not specifically to do with City of Mesa experience. Our provider has changed from Nationwide to United States Fire Insurance Company who provides stop-loss medical insurance as well.

Janice reviewed provider updates on page 2 of the Employee Benefit Trust Presentation and the funding sources for the trust located on page 3, highlighting the new Specialty Drug Advocacy Services which will provide cost diversion by finding alternate funding for approximately 400 specialty drugs that will take the funding obligation out of the health plan for members who are qualified to receive alternative funding. Cost savings by this program will incur an EBT fee that is calculated at 30% of the cost savings amount payable to the Specialty Drug Advocacy Service provider.

Linee asked what impact the increased membership/utilization had on claims and if we also tracked the utilization of the Wellness Program and if that was having any impact on claims. Jan indicated that she would address the Wellness Program statistics listed at the end of her presentation.

Courtney Guinn asked if the Specialty Drug Program was a copay assistance program and Jan noted that was a portion of the program.

Jan stated that Open Enrollment for the 2022 benefit year occurred in October 2021 and had record participation levels with over 2,000 employees and retirees using the eBenMesa enrollment platform created and maintained by City of Mesa Information Technology department.

Jan reviewed the Health Plan and Wellness Center responses to COVID-19 located on page 6 and 7 of the presentation and the expanded Wellness Initiatives which allow spouses/committed partners to participate if enrolled in a City medical plan located on pages 8 and 9.

Linee asked if the Wellness Incentive gift cards were taxable and Jan stated yes, but was grossed up and funded by the City.

Samuel Schultz provided the Office of Management and Budget recommendation of a 6% increase in premium contributions for active employees and 0% increase in premium contributions for retirees in CY 2022 and recommends a 6% increase in premium contributions for active employees and 0% increase in premium contributions for retirees in CY 2023. This equates to a FY 2022/23 City contribution of \$83.6 million to the EBT Fund. The FY 2022/23 year-end fund balance estimate is \$36.5 million, or 30.9% of fund balance to following year's total expenses. The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

Peggy Lynch noted that these rate increases were such an incredible minimum increase for the second year in a row compared to other increases across employers and noted that her ASRS premium increased by 15 percent and increased the deductible and increased the out-of-pocket maximum. With 27 years as a director of benefits for Banner Health and 7 years as assistant Benefits Administrator at the City she stated that the benefits staff have done an excellent job in keeping costs down for employees and retirees by turning over every stone, excellent contract negotiations, vendor management and collaboration.

Linee asked if the employees are educated on the benefits they receive and if they are provided benefits statements as a communication tool? Jan said that the electronic enrollment system shows the plans and what they City and employee pays for their plan. The value of City contributions to employee medical coverage is also shown annually on the employee's W-2.

3. There were no additional questions from the Board and the next item on the agenda was to discuss and vote on recommendations to City Council regarding the financial viability and OMB staff recommendations for budgeting of the following Trust Funds for FY 22/23.

- a. Public Property and Liability Trust Fund:

Office of Management and Budget projects a City contribution of \$6.0 million for FY 2021/22 so that the PPL Trust Fund will have an ending balance of \$11 million. Staff recommends including a \$7.8 million City contribution in the FY2022/23 budget to achieve a minimum forecasted ending reserve balance anticipated to be at \$10 million.

- b. Worker's Compensation Trust Fund:

OMB staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 2022/23 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation Trust Fund expenses. For FY 2022/23, the reserve fund balance target is \$7.5 million. Based on the FY 2021/22 projected reserve balance, and the expenses forecasted for FY 2022/23, a decrease to the workers' compensation rates from the previous year is recommended for the FY 2022/23 budget to reach the targeted reserve. The current estimate for the City contribution for FY 2022/23 is \$5.6 million.. The final budgeted contribution may vary slightly from the recommendation as the adjusted rates are applied to budgeted salaries and the budget process has not yet been completed.

- c. Employee Benefits Trust Fund

OMB Recommendation FY22/23) OMB staff recommended a 6% increase in premium contributions for active employees and 0% increase in premium contributions for retirees in CY 2022 and recommends a 6% increase in premium contributions for active employees and 0% increase in premium contributions for retirees in CY 2023. This equates to a FY 2022/23 City contribution of \$83.6 million to the EBT Fund. The FY 2022/23 year-end fund balance estimate is \$36.5 million, or 30.9% of fund balance to following year's total expenses. The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process..

Linee Ferguson motioned to approve the OMB recommendations for budgeting the trust funds for FY 22/23 as presented. Michael Kennington seconded the motion. The Board voted as follows:

Linee Ferguson: Yes

Courtney Guinn: Yes

Peggy Lynch: Yes

Mr. Kennington: Yes

Councilmember Heredia: Yes

4. The next item on the agenda was to vote on the Board's recommendation that City Council should pass and adopt a proposed resolution that allows the City Manager

and City Attorney, through the City's National Insurance Broker, to obtain insurance for the City for the next five years.

Michael Kennington motioned to approve the recommendation and Linee Ferguson seconded the motion. The Board voted as follows:

Linee Ferguson: Yes  
Courtney Guinn: Yes  
Peggy Lynch: Yes  
Mr. Kennington: Yes  
Councilmember Heredia: Yes

5. The Board was presented and verified risk management/insurance provider licenses were current. (attachments: Insurance License Landsdale, EBT Broker Farren License and Buck Global License, WC Broker License AJ Gallagher)
6. The Board discussed and voted to authorize the Chairperson of the Board to approve Board minutes after draft minutes have been circulated to all members. Motion to authorize was made by Courtney Guinn. The motion was seconded by Michael Kennington. The Board voted as follows:

Linee Ferguson: Yes  
Courtney Guinn: Yes  
Peggy Lynch: Yes  
Mr. Kennington: Yes  
Councilmember Heredia: Yes

7. Discussion of scheduling future meetings as needed annually per budget schedule for February 2023.
8. Councilmember Heredia adjourned the meeting at 12:30pm.



Francisco Heredia, Board Chair



Date

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Attachments:

- d. Public Property and Liability Trust Fund (attachment 2022 PPL Trust Fund Board Report)
- e. Worker's Compensation Trust Fund (attachment Workers Comp 2022 Report)
- f. Employee Benefits Trust Fund (EBT Operations Presentation)
- g. Insurances Licenses
- h. Public Property and Liability Trust Fund (attachment OMB PPL Fund FY22/23 Recommendation)
- i. Worker's Compensation Trust Fund (attachment OMB Workers Comp FY22/23 Recommendation)
- j. Employee Benefits Trust Fund (attachment EBT OMB Recommendation FY22/23)