

# Risk Management Fund

## Mission Statement

It is the mission of the Risk Management Fund to provide for costs associated with insurance, legal claims, risk management, and judgements.

**Primary Functions** → The primary function of the Risk Management Fund is to account for insurance expenses, losses to City owned property, liability claims, and risk management activities.

### Fund Highlights →

Implemented in 1996 to comply with Governmental Accounting Standards Board guidelines, the Risk Management Internal Service Fund pays for all insurance, claim settlements, and accidental property losses for the City. Not unlike a premium from an insurance company, departments are assessed a service charge that is based on a cost recovery basis. The annual service charge covers all risk management services received for that year including claim and loss management, insurance premiums, accidental loss of equipment, and the defense and settlement of claims.

The Risk Management Fund transfers risk exposure to outside companies through purchased insurance. This coverage includes liability, surety, fidelity, and property protection. Approximately 64 percent of insurance coverage is directly attributable to non-general fund departments and grant-funded programs. Those City activities not covered through purchased insurance, such as the operation of fire, police, and public works vehicles, are covered by the City's self-insurance program in which funds are set aside to cover losses and claims.

Governmental accounting standards require the City to record anticipated liabilities from operations. The frequency and amounts of the liabilities can vary significantly from year to year. In 2010, \$115,000 was paid for settlement of an excessive force claim against the Police Department and in 2011, \$550,000 was paid for a wrongful arrest case, \$115,000 for the first installment of a settlement of an auto accident case, and \$50,000 in an excessive force case.

### Budget Summary

RISK MANAGEMENT FUND BUDGET SUMMARY					
APPROPRIATION	2010 ACTUAL	2011 BUDGET	2011 ACTUAL	2012 BUDGET	INCREASE (DECREASE)
CONTRACTUAL	\$846,784	\$1,371,500	\$1,590,608	\$1,466,500	\$95,000
OTHER	329,118	303,200	303,200	419,500	116,300
TOTAL	<u>\$1,175,902</u>	<u>\$1,445,540</u>	<u>\$1,893,808</u>	<u>\$1,886,000</u>	<u>\$211,300</u>
FUNDING SOURCE	2011		2012		
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	
PROPERTY TAXES					
JUDGMENTS	\$1,178,100	72.5	\$1,287,000	68.2	
SERVICE CHARGES	384,100	23.6	485,450	25.7	
PROPERTY DAMAGE REIMBURSEMENTS	63,000	3.9	115,000	6.1	
TOTAL	<u>\$1,625,200</u>	<u>100.0</u>	<u>\$1,887,450</u>	<u>100.0</u>	

# **Risk Management Fund**

## **Budget Analysis**

The Risk Management Fund's budget of \$1,886,000 is \$211,300 more than the prior year's appropriation. The contractual group increases \$95,000. Risk policies increase \$210,000 as a result of new comprehensive liability coverage. Costs incurred for claims against the City decreases \$200,000 and outside legal fees increases \$50,000.

Prior to 1996, the Judgments Fund was funded by a Judgments tax levy and expense activity was limited to tax levy funded departments. Since the conversion to an internal service fund, the Risk Management Fund obtains its revenue from service charges and damage reimbursements from other parties. The total General Fund levy to accommodate this change to a service charge remains approximately same as the amount levied to finance the Judgments Fund in prior years.

Due to the nature of the fund, spending can fluctuate greatly from year to year depending on the claims presented against the City. As a result, the property tax rate for risk management is unlimited by statute. The estimated rate for 2012 is 6.8 cents.

In 2011, the Risk Management Fund spent \$1,893,808 or 113.1% of the budgeted allocation. In the past several years, 61% to 170% of the budget has been spent.

## **Five Year Financial Forecast**

The five-year forecast assumes that primarily small claims will be paid out of this fund with the exception of one to two legal settlements annually. In addition, it is assumed that large claims that cannot be supported by the fund balance will be paid through the issuance of judgment bonds or through structured settlements, because larger claims are not reasonably foreseeable.

Risk Management Fund 2013-2017 Financial Forecast (In 000's)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues	\$1,716	\$1,720	\$1,725	\$1,729	\$1,734
Expenses	<u>1,214</u>	<u>1,247</u>	<u>1,281</u>	<u>1,317</u>	<u>1,355</u>
Excess (Deficit)	<u>502</u>	<u>473</u>	<u>444</u>	<u>412</u>	<u>379</u>
Beginning Balance	<u>(1,000)</u>	<u>(498)</u>	<u>(25)</u>	<u>419</u>	<u>831</u>
Ending Balance	<u>(\$498)</u>	<u>(\$25)</u>	<u>\$419</u>	<u>\$831</u>	<u>\$1,210</u>
Property Tax Rates	6.0	6.0	5.9	5.8	5.7