DATE: December 13, 2017

TO: City Council

THROUGH: Greg Nyhoff
City Manager

FROM: Steve Naveau
Director of Human Resources

SUBJECT: Budget Appropriation from Fund Balance - Public Liability Fund

CONTACT: Steve Naveau, Director of Human Resources
Steve.Naveau@oxnard.org, 385-7947

RECOMMENDATION:

That City Council approve a budget appropriation in the amount of $900,000 from the Public Liability Fund for the purpose of increasing the budget for liability claims expenses. This request is due to the increase in liability premiums and liability claims. This has no impact on the City’s General Fund reserves.

BACKGROUND

Though November of the current Fiscal Year 2017-18, the Public Liability Fund (Fund 701) has experienced higher-than-normal costs to date. The increase is a result of the following two factors:

Increased Excess Insurance Premium

The City pays excess liability insurance premiums to the Big Independent Cities Excess Pool (“BICEP”) which provides $25 million in liability insurance coverage to the City in excess of a $1 million self-insured retention. Compared to FY 2016-17, the cost for this coverage rose by 13%, from $1,123,296 in Fiscal Year 2016-17 to $1,268,248 in Fiscal Year 2017-18. This is a result of a tightening insurance market coupled with an increase in losses reported by BICEP. The increase was not offset by a corresponding dividend for prior
years’ loss experience, as it had been in recent years. For example, in FY 2016-17, Oxnard received a dividend distribution of $595,992 from BICEP, resulting in a net premium of $527,304 (e.g., $1,123,296 - $595,992). In Fiscal Year 2017-18, no such dividend was issued. As a result, the City had to pay the full premium of $1,268,248.

It should be noted that BICEP does not know the premium amount for the upcoming fiscal year until late June annually, well after the City has already finalized its budget. Due to the volatile insurance marketplace, this makes projecting the insurance premium more challenging.

Increased Liability Claims Expenses

Through November 30, 2017, liability claims expenses have totaled $1,140,339. Of this total, nearly 65% ($735,000) is related to the settlement of one large claim. Over the past three fiscal years, liability claims expenses have averaged approximately $2 million annually. Therefore, an increase in the budget for liability claims of $900,000 is warranted.

STRATEGIC PRIORITIES

This agenda item is a routine operational item or does not relate to the four strategic plans adopted by City Council on May 17, 2016.

FINANCIAL IMPACT

There is no impact to the City’s General Fund in Fiscal Year 2017-18 as a result of this appropriation. The Public Liability Fund Balance estimated at $1,370,114.49 at 6/30/2017 (unaudited) will be reduced to an estimated $470,114.49. In future years beginning in Fiscal Year 2018-19, increased internal service fund charges to all funds (including the General Fund) will likely be necessary in order to increase reserves for future claims expenses.

ATTACHMENTS:

Attachment A: Budget Appropriation
REQUEST FOR BUDGET APPROPRIATION

Department: Human Resources
Project/Program
Manager: Mike More
Date: December 6, 2017
Phone: (805) 385-7480

Reason for Appropriation:
Increase Liability Claims Expense Account Budget.

Accounts and Descriptions

Fund: Public Liability Fund (701)

Expenditures/Transfers Out

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<th>Human Resources Department</th>
<th>LIABILITY CLAIMS EXPENSE</th>
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Sub-total Expenditures

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Net Change to Fund Balance

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Net Appropriation Change

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Approvals

Department Director

Chief Financial Officer

City Manager

REQUIRES CITY COUNCIL AUTHORIZATION