



TO: BOARD OF DIRECTORS **BOD Meeting: 5-17-2012**
FROM: RICHARD H. AVERETT, EXECUTIVE DIRECTOR **Item: 4A**
SUBJECT: APPROVAL OF FY2013 BUDGET AND MEMBER ALLOCATION

RECOMMENDATION

Approve the proposed FY2013 Budget and Member Allocation as recommended by the Executive Director.

BACKGROUND

Local Government Services Authority and Regional Government Services Authority currently receive insurance services through California Joint Powers Insurance Authority (CJPIA). Deductible amounts with CJPIA are \$30,000 per occurrence. If LGS and RGS were to continue with CJPIA, the estimated FY2013 costs for insurance premiums alone are reflected in the table below. It is important to note that these premium calculations were base on JPA census data that did not incorporate recent growth in clients and employees.

| | <u>General Liability</u> | <u>Crime</u> | <u>Workers' Comp</u> |
|----------------|--------------------------|----------------|----------------------|
| LGS | \$128,416 | \$ 500 | \$71,614 |
| RGS | 92,623 | 500 | 23,898 |
| TOTALS: | <u>\$221,039</u> | <u>\$1,000</u> | <u>\$95,512</u> |

Premiums for CJPIA are subject to retrospective adjustments based on actual claims for LGS and RGS as well as the pools' actual claims. In fiscal year 2011 these adjustments resulted in total insurance costs of \$421,000. LGS and RGS will continue to be subject to retrospective adjustments for a period of 8 years after LGS and RGS cease active participation in the pool (6/30/2012).

MUNICIPAL SERVICES AUTHORITY

As an alternative to actively participating in the CJPIA pool, LGS and RGS can purchase insurance services through Municipal Services Authority, an insurance JPA. With MSA, the policy would have a per occurrence deductible of \$50,000. Estimated FY2013 costs for insurance are reflected in the table below. Premiums are not subject to retrospective adjustments.

| | <u>General Liability & Crime</u> | <u>Workers' Comp</u> |
|------------|--|----------------------|
| MSA | <u>\$85,000</u> | <u>\$76,000</u> |

Additional MSA expenditures would include brokerage fees (\$38,000), RGS administration (\$30,000), and annual independent audit costs (\$6,000). Staff recommends that member agencies also contribute to funding reserves for retention of risks (i.e. deductibles). The total MSA budget for FY13 is recommended to be \$335,000.

Member Allocation: It is recommended that insurance costs be allocated to each member of the insurance JPA on the basis of each Agency's most recent FTE counts, adjusted for projected changes, at the time of budget creation.

| | <u>FTE Count</u> | <u>%</u> | <u>Allocation</u> |
|------------|-------------------------|-----------------|--------------------------|
| LGS | 39 | 33% | \$111,000 |
| RGS | 78 | 67% | \$224,000 |

ANAYLSIS

Cost per employee is expected to be down approximately 10% from CJPIA costs, when anticipated adjustments for growth in the number of employees are factored into premium costs. In addition, MSA (and LGS and RGS) will not bear the costs of adverse claim history of non-member agencies, as is the case with CJPIA. Increasing the deductible and pooling LGS and RGS headcounts, reduces premium costs. This is a cost that is paid to external parties and is never recovered. Funding the deductible risks means LGS and RGS contribute to MSA reserves for losses. This money is retained by MSA until needed, and can accumulate – which can result in lower future annual contributions from the Members.

FISCAL IMPACT

There is a projected annual insurance cost savings of at least \$368 per employee achieved by switching to purchasing insurance services through MSA. There is also the potential of retaining moneys contributed for deductible coverage.