



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: JUNE 20, 2023

DEPARTMENT: FINANCE

FROM: MARK ROBERTS, DIRECTOR OF FINANCE

TITLE: FINANCIAL POLICIES AMENDMENTS

RECOMMENDED MOTION:

Staff recommends the City Council approve a resolution approving amendment of the City of Salinas Financial Policies as reflected in the attachments hereto.

EXECUTIVE SUMMARY:

At its regular meeting of April 26, 2022, the Council approved several amendments to the Financial Policies (“Policies”), including formalization of the Workers’ Compensation Self-Insurance Reserve and establishment of a General Liability Self-Insurance Reserve. Since the policies were amended, the information upon which the minimum target level of the Workers’ Compensation Self-Insurance Reserve is based has improved. Therefore, staff recommends updating the minimum target level standard to be reflective of the improved information.

BACKGROUND:

The minimum target levels of the self-insurance reserves correspond to the net liability for the outstanding claims estimated by the City’s actuary for the respective liability programs/funds. When the reserve policy amendments were approved, the Workers’ Compensation report prepared by the actuary reflected the estimated liability only at the “expected” level, the actuary’s best estimate given current information. However, the actuarial reports now also provide estimates reflecting the uncertainty inherent in the claims settlement process, which is quantified by “confidence levels,” to assist the City in determining the funding level necessary to meet the cost of these claims should it be greater than the expected level. For example, an eighty percent (80%) confidence level equates to the actuary’s belief that future payments have an eighty percent chance of being less than the liabilities at the eighty percent confidence level and only a twenty percent (20%) chance of exceeding the eighty percent confidence level estimate.

Staff recommends increasing the minimum target level of the assets in the Workers’ Compensation Self-Insurance Reserve from an amount equal to the present value of estimated outstanding Workers’ Compensation Program claim losses to the present value of estimated outstanding claim losses for the program at the eighty percent (80%) confidence level.

To ensure vigilance in keeping the Policies relevant and effective, staff also recommends amending the introductory section of the Policies to include the requirement they be reviewed at least annually and updated as necessary. Addition of a statement of purpose to the introductory section is also recommended.

CEQA CONSIDERATION:

Not a Project. The City of Salinas has determined the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378).

STRATEGIC PLAN INITIATIVE:

The proposed amendments to the Financial Policies are recommended to enhance the City's fiscal sustainability by increasing the Workers' Compensation Self-Insurance Reserve's minimum reserve target level and ensuring review and updating of the Policies as frequently as necessary. Therefore, approval of the recommended resolution would achieve the Council 2022-2025 Strategic Goal of Effective Government.

FISCAL AND SUSTAINABILITY IMPACT:

If approved, the Financial Policies, as amended, will strengthen the minimum reserve target level of the City's Workers' Compensation Self-Insurance Reserve.

ATTACHMENTS:

Exhibit A – City of Salinas Financial Policies (Original)

Exhibit B – City of Salinas Financial Policies (Draft)

Exhibit C – City of Salinas Financial Policies (Final)

Resolution