



**CITY OF PACIFIC GROVE**  
300 Forest Avenue, Pacific Grove, California 93950

**AGENDA REPORT**

**TO:** Honorable Mayor and Members of the City Council  
**FROM:** Patty Maitland, Finance Director  
**MEETING DATE:** November 4, 2015  
**SUBJECT:** Workers' Compensation Phased Refunding Plan  
**CEQA:** Does not constitute a "Project" under California Environmental Quality Act (CEQA) Guidelines

**RECOMMENDATION**

Direct staff to implement a 5-year refunding plan to bring the fund into compliance with Council policy.

**DISCUSSION**

Workers' Compensation is a form of insurance the City utilizes to provide compensation and medical care for employees who are injured during the course of employment. Workers' Compensation provides for: payments in place of wages (functioning as a form of disability insurance), compensation for economic loss (past and future), reimbursement or payment of medical and like expenses (functioning as a form of health insurance), and benefits payable to the dependents of workers killed during employment (functioning as a form of life insurance).

The City accounts for its Workers' Compensation risk financing activities in an internal service fund (ISF). The ISF is funded outside the General Fund and the costs are allocated to departments on an annual and continuing basis. Contributions to the ISF are calculated on a cost recovery basis through charges apportioned to City departments based on claim trends and number of participants. The Workers' Compensation ISF is used to separately budget and account for services provided to City departments.

Council Policy 400-6 Budget and Finance states:

*Workers Compensation Fund:* The Workers Compensation Fund shall maintain a balance of current assets equal to 67% of total liabilities, or higher, should actuarial analysis conclude an imminent risk to the City for unanticipated losses.

For the past several years, the Workers' Compensation fund has had a negative fund balance. As shown in the following table, the actual revenues received in the fund on a fiscal year basis from 2006-07 through 2010-11 exceeded the expenditures. Unfortunately, this positive revenue trend was insufficient to fully balance the fund deficit and from 2011-12 going forward, expenditures exceeded revenues in the fund, further exacerbating the deficit.

Fund Balance	FY	Expenditures		Revenues		Δ between Actual Revenues & Expenditures
		Budget	Actual	Budget	Actual	
\$ (2,225,128)	06-07	\$ 635,265	\$ 773,425	\$ 934,279	\$1,178,819	\$ 405,394.07
\$ (1,819,734)	07-08	\$ 878,503	\$ 811,183	\$ 720,000	\$ 831,198	\$ 20,015.42
\$ (1,799,718)	08-09	\$ 590,632	\$ 492,351	\$ 786,000	\$ 986,357	\$ 494,005.62
\$ (1,305,713)	09-10	\$ 537,000	\$ 442,959	\$ 537,211	\$ 786,735	\$ 343,775.31
\$ (961,938)	10-11	\$ 474,606	\$ 846,038	\$ 474,786	\$1,582,087	\$ 736,048.66
\$ (225,889)	11-12	\$ 736,406	\$ 858,605	\$ 586,407	\$ 477,481	\$ (381,123.63)
\$ (607,012)	12-13	\$ 515,060	\$ 641,809	\$ 525,000	\$ 526,733	\$ (115,076.43)
\$ (722,090)	13-14	\$ 673,560	\$ 977,067	\$ 800,000	\$ 717,893	\$ (259,173.46)
\$ (981,263)	14-15	\$ 695,577	\$ 864,724	\$ 800,000	\$ 745,955	\$ (118,769.02)
\$ (1,263,667)	15-16*	\$ 695,577	\$ 410,183	\$ 720,000	\$ 78,026	\$ (332,156.95)

The Workers' Compensation negative fund balance has been a persistent, long-term problem for the City. As such, a long term solution is needed to remedy the deficit. A phased, 5 year refunding plan, as set forth in the table below, is recommended to bring the fund into compliance with Council policy.

		Year 1	Year 2	Year 3	Year 4	Year 5
<b>Police</b>	\$ 540,680	\$ 108,136	\$ 108,136	\$ 108,136	\$ 108,136	\$ 108,136
<b>Fire</b>	\$ 438,394	\$ 87,679	\$ 87,679	\$ 87,679	\$ 87,679	\$ 87,679
<b>Public Works</b>	\$ 184,592	\$ 36,918	\$ 36,918	\$ 36,918	\$ 36,918	\$ 36,918
<b>CEDD</b>	\$ 36,334	\$ 7,267	\$ 7,267	\$ 7,267	\$ 7,267	\$ 7,267
<b>Total</b>	\$ 1,200,000	\$ 240,000	\$ 240,000	\$ 240,000	\$ 240,000	\$ 240,000

The amounts specified in the table will be recovered from the operating budgets of the departments that currently have Workers' Compensation allocations recovered from them. These refunding amounts would be *in addition* to the regular fiscal year charges for the current year. Although it is difficult to predict expenditures associated with workplace accidents, the regular fiscal year charges to departments in future years will be proportionate to projected expenditures so as not to continue the fund imbalance. Alternatively, the Council could elect to transfer from reserves sufficient funds to eliminate the negative fund balance.

Workers' Compensation status reports on case statistics and internal service fund status will be made to the Council on a quarterly basis.

### OPTIONS

1. Do nothing.
2. Approve a longer or shorter refunding plan (e.g. 3 years or 7 years)
3. Approve a one-time transfer of reserves to the Workers' Compensation Fund to eliminate the negative fund balance.

**FISCAL IMPACT**

Eliminating the negative fund balance in the Workers' Compensation fund over a five-year period, will reduce operating budgets but will eventually bring the fund into compliance with Council Policy. Approving a one-time transfer of reserves from the General Fund to the Workers' Compensation fund would reduce reserves but would immediately bring the fund into compliance with the Council Policy.

RESPECTFULLY SUBMITTED:

REVIEWED BY:

*Patty Maitland*

*Thomas Frutchey*

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Patty Maitland  
Finance Director

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City Manager