



MINUTES - approved October 17, 2023

LOSS TRUST FUND BOARD MEETING

**City Attorney Conference Room and Via Teams
3939 N. Drinkwater Blvd.
Scottsdale, Arizona 85251**

**December 15, 2022
5:00 p.m.**

PRESENT: Brandon Perlow, Chairman
Allan Smith, Vice Chairman
Austin Brooker
Jacob Seltzer
Linda Wannie

STAFF: Lori Davis, Senior City Attorney
Denise Plug, Risk Management Assistant
George Woods, Acting Director of Risk Management

GUESTS:

CALL TO ORDER

Chair Perlow called the meeting of the Loss Trust Fund Board to order at 5:03 p.m.

ROLL CALL

A formal roll call confirmed the presence of Board Members as stated above.

1. Approval of the May 10, 2022, public meeting minutes

Chair Perlow called for questions or comments. There were no changes.

VICE CHAIRMAN SMITH MOVED TO APPROVE THE MAY 10, 2022 PUBLIC MEETING MINUTES AS PRESENTED. BOARD MEMBER BROOKER SECONDED THE MOTION, WHICH CARRIED FIVE (5) TO ZERO (0). CHAIRMAN PERLOW, VICE CHAIRMAN SMITH, AND BOARD MEMBERS BROOKER, SELTZER, AND WANNIE VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

Chairman Perlow welcomed Austin Brooker to the Board. Mr. Brooker provided a brief overview of his background and experience.

2. Review, discuss, and take action on recommendations to the City Council for changes to the Loss Trust Fund Document, Code, and Ordinance regarding Department claim deductibles

George Woods, Acting Director of Risk Management, provided an overview of the proposed change to the Loss Trust Fund Document as it relates to page 18, *(p) The first one thousand dollars (\$1,000.00) of any property loss, such loss shall be paid by the separate departments within the City, as required by SRC § 2-170 (b)(12).*

The proposed change is being sought to spur change within the departments and decrease individual employee behavior as it relates to avoidable accidents and property damage, such as striking stationary objects. They want to put enough teeth at the hands of the departments without making it too burdensome. This program is solely to change driver behavior that leads to larger claims of liability.

Records show the current \$1,000 deductible for property damage is not incentivizing the correct behavior. Working with the Treasury Office and Legal Department, the proposed deductible will use a tiered system. All incidents will be reviewed by the Accident Review Board, Site Safety Committee, or any review board within the various departments with reports placed in the employee's personnel file.

- Tier 1 A \$1,000 deductible for a not at fault accident.
- Tier 2 A \$3,000 deductible for an at fault accident.
- Tier 3 A \$5,000 deductible for a second and any subsequent at fault accidents for the same employee.

An at fault accident is one that was preventable, meaning there was something the employee could have done to avoid the accident and damage to City owned property. The proposal includes modifying the language within the Scottsdale Revised Code that will allow revision and customization of the deductible every year with prior notification provided to the Treasurer and all departments.

In response to questions from Vice Chairman Smith, Mr. Woods stated the Treasury Office has authorized up to a \$5,000 deductible without impacting department budgets. There is contemplation of a 10% model, but the details still need to be worked out.

Chairman Perlow inquired of the claims with the same employee more than a couple times a year and if they are within the same department. Mr. Woods stated for this year they have identified 3-7 employees from various departments with more than one at fault accident. There are 120 claims impacted by this change with an estimated 50-60 of them falling within the \$3,000 deductible tier. This is being implemented as a behavioral aim

more so than for budgetary reasons, but 120 preventable accidents could have a potential \$35,000 savings.

Vice Chairman Smith stated he is in favor of using incentives such as this for department heads to manage behavior within their own department.

Ms. Davis provided the recommended amendment that would be included in the Declaration of Trust as the \$1,000 is specific and doesn't lend itself to change over time. "A minimum of the first \$1,000 of a property loss which may be increased annually as determined by the Risk Director in consultation with the City Attorney and City Treasurer shall be paid by the separate departments within the City as required by SRC § 2-170 (b)(12)." This will allow the flexibility for the Risk Director, City Treasurer, and City Attorney to adjust as needs arise.

Board Member Seltzer inquired why the recommended language does not include the tiered structure. Ms. Davis stated the proposed language allows flexibility and would not require the Declaration of Trust and the Scottsdale Revised Code to be amended each time. It would allow a more general application to be adjusted as needed by the departments.

Vice Chairman Smith inquired specific minimum is necessary. Mr. Woods noted the \$1,000 minimum is a place holder as it would never be less than that. Board Member Seltzer added if the modified language is being proposed to allow flexibility it should include the stated \$1,000 minimum and point to a secondary document prepared by Risk Management. Ms. Davis stated they can wordsmith the proposed language to say the amounts listed in a schedule adopted annually by the Risk Department, etc. A discussion ensued as the board collaborated with Ms. Davis on the proposed language.

VICE CHAIRMAN SMITH MOVED TO APPROVE THE LANGUAGE AS MODIFIED "THE INITIAL DEDUCTIBLE OF A PROPERTY LOSS AS SET BY A SCHEDULE THAT MAY BE MODIFIED ANNUALLY AS DETERMINED BY THE RISK DIRECTOR IN CONSULTATION WITH THE CITY ATTORNEY AND CITY TREASURER SHALL BE PAID BY SEPARATE DEPARTMENTS WITHIN THE CITY AS REQUIRED BY SRC § 2-170 (b)(12). BOARD MEMBER BROOKER SECONDED THE MOTION, WHICH CARRIED FIVE (5) TO ZERO (0). CHAIRMAN PERLOW, VICE CHAIRMAN SMITH, AND BOARD MEMBERS BROOKER, SELTZER, AND WANNIE VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

3. Review, discuss, increasing the Cost of Risk measurement for the Safety and Risk Management Department

Mr. Woods discussed the Cost of Risk that is currently set at 2% and was previously discussed by the board to be increased to 2.5% this year. In reviewing the insurance and risk program and speaking with the Finance Department the Cost of Risk is being recommended at 2.3% this year. The benchmark of surrounding cities shows an average of 2.5 - 3%, except for Chandler at 1% as they do not include workers compensation in their Cost of Risk.

This is a slight increase that is agreed upon and able to be funded and will be recommended to City Council and added to the Annual Report. The additional funding will help to offset the increasing cost of maintaining the infrastructure from damage

caused by storms. With the assistance of a new vendor, workers' compensation claims have been reduced.

Chairman Perlow and Board Member Seltzer stated they support the increase.

Ms. Davis stated this will come back before the board in January for formal action.

4. Review, discuss, restating the financial confidence levels associated with the Loss Trust Fund

Mr. Woods reviewed the financial confidence levels with the board and explained the need for a switch from Actuary AON to Actuary OliverWyman. Through comparison of the two actuaries, it was determined AON was using a more conservative approach when projecting the confidence levels at 85%. Based on this information, a proposed switch from 85% to 75% confidence level funding will be used providing a projected \$33 million fund balance in 2027. This would be a \$1 million increase over what was projected by AON actuary using the 85% confidence level.

Board Member Seltzer inquired if the city was tied to this report and if there is an option to go lower than 75%. Mr. Woods stated they are tied to this report. Traditionally, Scottsdale has funded their trust higher than 50% and it will not be well received by all parties if elected to go that low.

Board Member Seltzer inquired of the current trust fund balance. Mr. Woods advised the balance is \$24 million with an anticipated ask to increase it to \$26 million next year, which comports with the OliverWyman Actuary at a 75% confidence level.

In response to a question from Vice Chair Smith, Mr. Woods explained when looking at expected claims and expenses, historical claim payouts have averaged \$14 - 15 million per year. To maintain an 85% confidence level as projected by the OliverWyman Actuary and increase the fund balance by \$5-6 million doesn't make sense. It would take funding away from other departments only to sit in the trust fund and not be used. The recommendation, as agreed collectively within the City, is to fund the trust at 75% to ensure we can pay claims but not overburden other departments within the City.

Board Member Seltzer stated it appears the excess is being used to buy down the confidence level. Mr. Woods explained the funding mechanism that is used being, the projected confidence level (\$24 million) minus \$2 million brought in from recovery minus money left in the trust from the prior year and you typically get the \$14 - 15 million asked for from various departments within the City. Nothing has changed in the funding, the only reason this came before the board was based on the need to switch to OliverWyman Actuary and their updated projections. In speaking with OliverWyman they didn't feel the 20% delta was not indicative of an actual 85% confidence level, but they also recommend using the 75% confidence level for 2023.

Vice Chairman Smith inquired if we are comfortable funding to a lower confidence level not necessarily a dollar delta, because of a confidence level adjustment? Chairman Perlow stated his concern is how the two actuaries came to these differences with the claim's history. Mr. Woods reviewed and explained the actuary findings, specific to workers compensation.

Ms. Davis stated this recommendation will come before the board in January for action.

PUBLIC COMMENT

No comments were submitted.

ADJOURNMENT

BOARD MEMBER SELTZER MOVED TO ADJOURN. VICE CHAIRMAN SMITH SECONDED THE MOTION, WHICH CARRIED (5) TO ZERO (0) WITH CHAIRMAN PERLOW, VICE CHAIRMAN SMITH AND BOARD MEMBERS BROOKER, SELTZER, AND WANNIE VOTING IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 6:05 p.m.

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