

Meeting Minutes

Workers' Compensation and Employer Liability

Trust Board

Regular Meeting

February 3, 2022 | 4:00 p.m.
Council Chambers Conference Room
88 E. Chicago St., Chandler, AZ



Call to Order

The meeting was called to order by Chairman Myer at 4:03 p.m.

Roll Call

Board Attendance

Chair Alex Myer
Vice Chair Michael Bohnert
Secretary Lily Longacre
Terry Bond
Val Gale

Other Attendance

Adam Hirsch, Oliver Wyman
Joshua Jumper, Heinfeld, Meech & Co.
Kristi Smith, Accounting Manager
Kristin Maier, Human Resource Manager
Rae Lynn Nielsen, HR Director
Roni Laxa, Assistant City Attorney
Teresa Canjar, Management Assistant

Scheduled and Unscheduled Public Appearances

Consent Agenda and Discussion

1. November 18, 2021 Minutes

Vice Chair Bohnert made a motion to approve the minutes as presented from the November 18, 2021, meeting of the City of Chandler Workers' Compensation and Employer Liability Trust Board, seconded by Ms. Longacre, motion carried.

Briefing

2. Actuarial Report – Oliver Wyman

Adam Hirsch from Oliver Wyman Actuarial Consulting provided an overview of the Workers' Compensation Unpaid Losses, and ALAE Executive Summary and Actuarial Analysis of Workers' Compensation Unpaid Losses and ALAE as of June 30, 2021. The liability estimate of \$10,458,761 reflects the future payments that will be made on all accidents occurring June 30, 2021, or prior. Last year's estimate was \$8,795,715. This is an increase of about \$1.7M due to a heavy volume of claim activity in the new policy year (7/1/20-6/30/21) which has seven claims exceeding \$75,000. This includes a large police officer COVID claim of \$1,106,036. The estimated amount the City will pay in claims that occur during the 21/22 period once they are all settled is \$2,700,000 as of June 30, 2021. The forecast for 21/22 is up 5.7% from the prior forecast due to increases in payroll and the retained limits.

There are significant changes in the Reconciliation of Reserves Table. The Ultimate Frequency chart reflects the number of claims per payroll and the line is pretty stable with a slight decrease over the last ten years. The Ultimate Severity chart reflects the average cost per claim (cap limit of \$75,000) and this line has been increasing over the last ten years. The Ultimate Loss Cost chart combines the Ultimate Severity and Ultimate Frequency charts. This shows the cost of risk; how many dollars of Workers' Comp is the City paying for every \$1,000 of payroll and this line has been fairly flat but has spiked up this last year due to those recent claims. All of the claims on the Claim Changes since Prior Report are open and this means there is a possibility they could increase.

Ms. Bond asked are there reserves in place to meet the costs you are outlining in the future? Adam Hirsch responded that he could answer part of this question. The top left figure of \$10,458,761 is the estimate of the balance sheet liability as of June 30, 2021, which is the remaining responsibility, but the \$2,700,000 in bottom left is distinct as this is the new exposure the City will take on between June 30, 2021, and June 30, 2022. Most clients use the liability estimate as a balance sheet estimate and use this as a projection and accrue it over time. Rae Lynn Nielsen stated the rest of this question would be answered in the following presentations.

3. Financial Audit Report – Heinfeld, Meech & Co.

Joshua Jumper from Heinfeld, Meech & Co. reviewed the audit results of the Chandler Workers' Compensation and Employer Liability Trust through June 30, 2021. He highlighted the Overview of Financial Statements. The analysis on page 7 compares the revenues and expenses for the fiscal years 2020 and 2021. Page 9 of the report discloses the reserve levels and the reserve goal of the trust. The reserve goal of 2021 was met, which is good news. The Notes to the Financial Statements provides more details on the specific line items. The letter to the Governing Board shows there were no difficulties encountered for this audit. The General Fraud Checklist is always included to remind the Board of the importance of their role and fiduciary responsibility. There is also a copy of the engagement letter which is signed at the beginning of the audit process and the representation letter which is signed before the issuance of the audit.

4. Financial Statements

Statement of Net Position as of December 31, 2021

Kristi Smith advised the Board that the total assets were \$14,896,751, cash is up \$205,000 from last quarter, and Due from the City is down about \$82,000. Total liabilities are \$31,000, no change from the prior quarter. The unrestricted net position is \$14,865,751 which is up from last quarter. When you compare the Net Reserve to 6/30/21, there is a surplus of almost \$1.7 million.

Statement of Revenues, Expenses and Changes in Net Position – December 31, 2021

The prorated budget is shown, some items are based on the number of months while other items may have been 100 percent spent and the budget reflects as such. The total actual operating revenues are \$2,217,760 which is slightly over budget. Operating expenses are under budget at \$2,559,639 primarily related to claims payable. This provides for an Operating Loss of \$341,879, which is \$1,286,693 less than anticipated. The nonoperating revenues and expenses total \$740,252 and there is a change in net position at \$398,373. The ending net position is \$14,865,751 which agrees with the Statement of Net Position.

Statement of Cash Flows – December 31, 2021

Kristi Smith advised the Board that this report shows the inflows and outflows of cash by activity. The Cash and Investments total \$14,776,629 which agrees with the Statement of Net Position.

5. Investment Report – December 31, 2021

Kristi Smith provided a brief overview of the Investment Performance Review. As mentioned last quarter, PFM has now become PFM Asset Management LLC so the report will look different than in the past. The portfolio statistics yield at cost is 0.48% which is down from 0.50% in the previous quarter. Yield at Market is 0.69% which is up from the prior quarter of 0.32%. Effective Duration is at 1.77 as compared to the prior quarter of 1.87. The Benchmark Effective Duration is 1.82. The money market rate for Wells Fargo (now Allspring Global Investments) is 0.01% and First American Funds (PFMAM) is 0.01%. The Sector Allocation is showing a continued shift to treasuries.

6. Rate Contribution and Reserve Recommendation

Kristi Smith said the Actuarial Report Comparison information has already been covered in the previous reports and we are in a good position as of June 30. In the Audit Report Comparison section, we have added the IBNR and Case Reserves. For the Reserve Analysis, we look out three years and compare where we think we might be at that point. In the Revenues section, we added in a transfer for Municipal Firefighter Cancer Reimbursement Fund because of recent legislation. We factor in inflation to anticipate the reserve amount, so we have sufficient funds. We are not recommending any changes in the Workers' Comp rates for FY 2022-23.

Action Agenda

7. Approve Resolution No. WC-009 – A Resolution of the City of Chandler Workers' Compensation and Employer Liability Trust Board recommending Workers' Compensation Contribution and Reserve Level for Fiscal Year 2022-23.

Vice Chair Bohnert made a motion to approve Resolution No. WC-009, City of Chandler Workers' Compensation and Employer Liability Trust Board recommending Workers' Compensation Contribution and Reserve Level for Fiscal Year 2022-23, seconded by Ms. Bond, motion carried.

Members Comments/Announcements

Rae Lynn Nielsen made Alex Myer aware that he terms out this year on May 1, 2022, but he can continue until a replacement is found. Terry Bond is also up for renewal and is thinking about her renewal. We will be conducting some interviews for Trust Board replacements within the next couple of months.

Calendar

The next regular meeting will be a combined meeting on Thursday, June 16, 2022, at 4:00 p.m., in the Council Chambers Conference Room, 88 E. Chicago St.

Informational Items

Agenda Items for Future Meeting Dates

- Financial Statements – Management Services
- Investment Report – Management Services
- Excess Insurance Renewal
- CorVel Contract Renewal
- New Members and Election of Officers

Adjourn

Vice Chair Bohnert made a motion to adjourn the meeting of the City of Chandler Workers' Compensation and Employer Liability Trust Board of February 3, 2022, at 4:50 p.m., seconded by Ms. Longacre, motion carried.

Teresa Canjar, Secretary

Alexander Myer, Chair