Meeting Minutes
Workers' Compensation and Employer Liability Trust Board
Regular Meeting

January 31, 2024 | 4:00 p.m.
Council Chambers Conference Room
88 E. Chicago St., Chandler, AZ

CHANDLER arizona
Community of Innovation

Call to Order

The meeting was called to order by Vice Chair Huppenthal at 4:00 p.m.

Roll Call

Board Attendance

Vice Chair Jennifer Huppenthal
Secretary Val Gale
Terry Bond
Mark Knight

Absent

Chair Lily Longacre

Other Attendance

Adam Hirsch, Oliver Wyman
Joshua Jumper, Heinfeld, Meech & Co.
Kristi Smith, Financial Services Assistant Director
Kristin Maier, Human Resource Manager
Lina Alam, Accounting Supervisor
Roni Laxa, Assistant City Attorney
Teresa Canjar, Management Assistant

Scheduled and Unscheduled Public Appearances

Consent Agenda and Discussion

1. November 16, 2023 Minutes

Ms. Bond made a motion to approve the minutes as presented from the November 16, 2023, meeting of the City of Chandler Workers' Compensation and Employer Liability Trust Board, seconded by Mr. Knight, motion carried.

Briefing

2. Actuarial Audit Report – Oliver Wyman

Adam Hirsch from Oliver Wyman Actuarial Consulting provided an overview of the Workers' Compensation Unpaid Losses, and ALAE Executive Summary as of June 30, 2023. We look at all claims the City has as of

June 30 and provide two related estimates. The liability estimate of $11,105,144 reflects future payments that will be made on all accidents occurring June 30, 2023, or prior. Last year's estimate was $10,504,362. This is an estimate because not every claim was known by the City at this time and claims can get larger than initially reported (incurred development). Twelve months of exposure (7/1/22-6/30/23) was added in at $2,812,000, less actual payments $1,483,718. This large difference of these numbers is because of the city's increased retention over the past several years. As you increase retention your reserve balance goes up because you have an increase in exposure to workers' compensation costs. Now that we have the actual information, there is a decrease of $764,500 in losses through 6/30/22.

Ms. Bond asked during the period of COVID we would expect a higher risk, is that reflected now as a lesser risk now that the pandemic is over even though you go back 3 to 5 years? Adam responded when you look at the city's history, we will look at averages beyond 3/5 years. We often keep an eye on averages excluding the COVID years. If we see an outlier in either direction from that period, I don't see any reason to include that in our 2023 information. Vice Chair Huppenthal asked for clarification on the years. Adam responded we use fiscal years which would be 7/1/19 to 6/30/20 and 7/1/20 to 6/30/21.

Ms. Bond asked wouldn't there be more risk for a person just starting than someone who has been in the job for a while? Adam said it can work both ways. A lower tenured employee would have a higher probability for an accident and an older employee might have higher medical expenses if there is an accident. We don't get this detailed.

Even though the reserve is up, the experience has really improved so they are moving in opposite directions. Our projections for the next 12 months are lower than last year because losses were lower than expected. Ultimate frequency involves our estimate for the current year and we think there will be a few late reported claims. Over the last 10 years there has been a slight downward trend. Ultimate Severity shows claims up to $75,000, claims range from $7,000 to $10,000 and generally increase. The Ultimate Loss Cost also limits claims to $75,000, with claims ranging from $6 to $13 per thousand dollars of payroll.

The Claim Changes over $75,000 since the prior report shows 11 open claims and 1 closed claim.

Vice Chair Huppenthal asked why the claims were still open? Adam responded that they are being negotiated to being settled, or settled and not quite paid, or they are still receiving treatment.

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, 2023. The Management's Discussion and Analysis starts on page 5 and provides a general overview of financial highlights for the fiscal year. Page 10 of the report discloses the reserve levels and the reserve goal of the trust. The reserve goal for June 30, 2023, was met. 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. Kristi Smith thanked Accounting and HR staff, and the Heinfeld, Meech team for their assistance in completing the audit.

Vice Chair Huppenthal asked why the Independent Auditor's Report on Internal Control and On Compliance is not dated? Joshua replied it is dated on the bottom under the signature line.

4. Financial Statements

Statement of Net Position as of December 31, 2023

Lina Elam advised the Board that the total assets were $18,857,740, up $860,000 from last quarter. Total liabilities are $50,000, no change from the prior quarter. The unrestricted net position is $18,807,740 which is up $860,000 from last quarter. When Net Position is compared to the Reserve Goal as of June 30, 2023, there is a surplus of almost $4,800,000.

Statement of Revenues, Expenses and Changes in Net Position – December 31, 2023

The annual and prorated budget is shown, some items are prorated based on the number of months while other items may have been 100% spent. The total actual operating revenues are $2,621,664 which is $91,614 over budget. Operating expenses are $2,332,227 which is $1,079,778 under budget primarily related to claims payable and insurance premiums expenses being less than budgeted for the quarter. This provides for an Operating Income of $289,437, which is $1,170,778 more than anticipated. The Non-Operating Revenues and Expenses total $260,289 and there is a change in net position of $549,726. The ending net position is $18,807,740 which agrees with the Statement of Net Position.

Statement of Cash Flows – December 31, 2023

Lina Elam advised the Board that this report shows where funds were received and spent by activity, operating, capital, non-capital, and investing. The end of year Cash and Equivalents total $17,753,768 which agrees with the Statement of Net Position.

5. Investment Report – December 31, 2023

Lina Elam provided a brief overview of the Investment Performance Review. The portfolio statistics yield at cost is 3.20% which is up from 1.96% in the previous quarter. Yield at Market is 4.78% which is down from the prior quarter of 5.21%. Effective Duration is 0.90 as compared to the prior quarter of 1.05. The Benchmark Effective Duration is 1.76. The money market rate is continuing to trend up and is 5.22% for Allspring and 5.24% for First American Funds (PFM). The Sector Allocation is showing slight change in each of the security types.

6. Rate Contribution and Reserve Recommendation

Kristi Smith said we have reviewed last year's numbers, the Actuarial Report Comparison information by Oliver Wyman, the audit information, and the current financial statements now we are going to look at where we need to be for the upcoming fiscal year from a budget perspective. The Actuarial Report showed a reserve need of almost $14 million. The audit report presented by Heinfeld Meech shows net position without IBNR of almost $17.8 million which provides an excess of almost $3.8 million. The Reserve Analysis is prepared on the budgetary basis with actuals for FY 21/22 and FY 22/23, estimated FY 23/24 and proposed FY 24/25 and expenditures include a 5% inflationary rate. That leaves an estimated ending balance for FY 24/25 of $20,204,845 and compared with the Actuarial Calculated "Nominal/Central Level) (6/30/23 report) that leaves a balance of $13,990,144 with a Projected Fund Balance for FY 24/25 over Nominal/Central Level of $6,214,701. As a result, we recommend the total contribution remain unchanged at $5,060,100.

Action Agenda

7. Approve Resolution No. WC-011 – A Resolution of the City of Chandler Workers' Compensation and Employer Liability Trust Board recommending Workers' Compensation Contribution and Reserve Level for Fiscal Year 2024-25.

Mr. Knight made a motion to approve Resolution No. WC-011, City of Chandler Workers' Compensation and Employer Liability Trust Board recommending Workers' Compensation Contribution and Reserve Level for Fiscal Year 2024-25, seconded by Ms. Bond, motion carried.

Members Comments/Announcements

Calendar

The next regular meeting will be a combined meeting on Thursday, June 12, 2024, 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

Mr. Gale made a motion to adjourn the meeting of the City of Chandler Workers' Compensation and Employer Liability Trust Board of January 31, 2024, at 4:45 p.m., seconded by Mr. Knight, motion carried.

Sarah Meland, Secretary

Jennifer Huppenthal, Vice Chair