Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Please provide a breakdown of the computation of the $7.2 million increase for workers compensation/self-insurance found on Slide 20 of the County Executive's budget presentation.

Response: The General Fund transfer to Fund 501, County Insurance Fund, included in the FY 2012 Advertised Budget Plan is an increase of $7,151,066 over the FY 2011 Adopted Budget Plan. A similar increase in the General Fund transfer was made to the *FY 2011 Revised Budget* as part of the *FY 2010 Carryover Review*. The breakdown of the changes that have created the need for this increase in the transfer are as follows:

Increased Expenditures	$5,397,958
Changes in Reserves	1,046,300
Decreased Revenues	706,808
Total	**$7,151,066**

While savings have been realized in several expenditure categories, overall expenditures for Fund 501 have increased $5,397,958 in the FY 2012 Advertised Budget Plan over the FY 2011 Adopted Budget Plan level of $16,379,718. The breakdown of these changes by expenditure category is as follows:

	FY 2010 Actual	FY 2011 Adopted	FY 2012 Advertised	Inc/(Dec) Over Adopted
Administration	$1,328,810	$1,459,383	$1,453,713	($5,670)
Workers' Compensation	10,992,094	8,867,400	13,020,000	4,152,600
Self Insurance Losses	2,260,282	2,507,000	3,881,465	1,374,465
Commercial Insurance Premium	3,463,335	3,466,637	3,278,700	(187,937)
Automated External Defibrillator (AED)	70,058	79,298	143,798	64,500
Total Expenditures	**$18,114,579**	**$16,379,718**	**$21,777,676**	**$5,397,958**

As shown in the table above, the primary drivers behind the expenditure increases are Workers' Compensation and Self Insurance Losses. Actual expenditures for these categories fluctuate based on the claims that are made each year. These categories are budgeted based on trends in new claims activity as well as anticipated costs associated with Workers' Compensation claims from prior years and existing major losses. More detail is provided below.

The FY 2012 Advertised Budget Plan includes an increase in Workers' Compensation expenses of $4,152,600 over the FY 2011 Adopted Budget Plan. The County has a statutory responsibility to provide Workers' Compensation benefits to employees who sustain occupational injuries, illnesses, or loss of life. These benefits include medical treatment for life, up to 500 weeks of lost wages due to the related disability, and death benefits. Sprains, strains, and fractures continue to be the largest driver of medical costs, as these are the most frequently occurring injuries in the workforce and can require reconstruction surgery or joint replacement. Significant new injuries include several police officers who were struck by motorists, each requiring several surgeries and long term care. In addition, the County remains liable for prior year claims when additional treatment is required for covered injuries. Several of these older claims have been reopened for further medical care, including surgeries for total knee, hip, and shoulder replacements. The medical costs related to heart claims continue to increase due to the cost of new prescription medication that is now being prescribed by healthcare professionals. In addition, prior year claims have been reopened for various medical conditions including heart attacks and heart blockages. The County actively works to reduce Workers' Compensation costs through aggressive claims management which includes a medical cost containment program, nurse case management, medical bill review, and an approved physicians panel. The Risk Management Division's Loss Prevention Management Program also aims to reduce the frequency and severity of claims and losses through sound management programs, proactive training, and active agency involvement. The specific details of Workers Compensation cases are confidential; however staff can brief individual Board members if additional information is needed.

The County self-insures for losses that are expected to occur regularly such as automobile and general liability, and police professional and public officials' liability. The County also maintains commercial excess liability insurance for catastrophic and significant incidents. The FY 2012 Advertised Budget Plan includes an increase for Self Insurance Losses of $1,374,465 over the FY 2011 Adopted Budget Plan. A recent settlement approved by the Board of Supervisors on January 11, 2011 has impacted this expenditure category in FY 2011, and several additional liability cases are pending which may impact Fund 501 in FY 2012. Other major losses which may impact the County in FY 2012 include several recent sewer backups as well as general liability related to recent storm events.

Changes in reserves account for $1,046,300 of the increase in the General Fund transfer. This increase is primarily attributable to a decrease in the discount rate applied to the Actuarial Accrued Liability. Each year, an actuarial valuation is performed to calculate the outstanding liabilities of the fund based on prior claims and experience, and the discount rate is the assumed rate of return on investments that is used to determine the present value of these liabilities. An amount equal to the Actuarial Accrued Liability is held in reserve. Therefore, as the liability increases, an increased General Fund transfer is required to prevent other reserves, such as the Reserve for Catastrophic Occurrences, from being reduced in order to balance the fund.

Total revenue in the FY 2012 Advertised Budget Plan is a decrease of $706,808 from the FY 2011 Adopted Budget Plan. Revenues have decreased in Fund 501 primarily due to lower interest earnings as interest rates have declined over the past several years. As revenues earned within Fund 501 are used to support required insurance expenditures, an increase in the General Fund transfer to Fund 501 is necessary to replace these decreased revenues.