
2006 BUDGET BRIEFING NOTE– Adequate Insurance Reserve Funding

Issue:

This note reviews the consequences of reducing the 2006 Non Program contribution to Insurance, Premiums and Claims from \$5 million to \$3 million.

Background:

City Council on May 17, 18 and 19, 2005, adopted, without amendment, Policy and Finance Committee Report 5 Clause 32 entitled, Allocation of the 2005 Non-Program Amounts for the Insurance Reserve Fund.

The report identified the funding sources for the City Insurance, Premiums and Claims. The 2005 Non Program Budget contained \$21.0 million, Operating Budgets of City Divisions and applicable Agencies, Boards and Commissions contained \$13.0 million and investments/recoveries contributed \$4.2 million for total funding in 2005 of \$38.2 million which exceeded Insurance, Premium and Claim expenditures by \$3.8 million thereby allowing a minimal balance growth to the Insurance Reserve Fund.

The report recommended that the 2005 Non Program amount of \$21.0 million for contribution to the Insurance Reserve Fund be reallocated to appropriate cost centres from the Non Program contributions. In future additional funding will be requested through the Non Program budget in order to meet the target balance of the Insurance Reserve Fund.

In this regard, the 2006 Non Program Budget contains \$5.0 million contribution to City Insurance, Premiums and Claims consistent with the additional Non Program contributions in 2004 and 2003.

Key Points:

Contributions to Insurance, Premiums and Claims from 2006 City Divisions and A,B&Cs Operating Budgets is \$34.0 million. Expenditures are estimated to be \$37.8 million. A Non Program contribution of \$5.0 million is recommended to continue the funding strategy to gradually increase the balance to address the City's \$90.1 million estimated outstanding insurance liabilities as reported annually to external auditors Ernst & Young. This liability represents the estimated insurance settlement costs within the deductible portion of City insurance policies and excludes the portion of claims that is the insurer's responsibility.

As a corporate principle, the balance of the Insurance Reserve Fund should be maintained at approximately the same level as the City's estimated outstanding insurance liabilities, while

meeting annual expenditure requirements for Insurance, Premiums and Claims. Additional annual contributions to the Insurance Reserve Fund less than the requested 2006 Non Program amount of \$5.0 million would defer growth of the Fund to address the outstanding claims liability. The 2005 year end Insurance Reserve Fund balance is only \$13.0 million compared to \$90.1 million in outstanding insurance claim liabilities.

The table on page 3 provides a breakdown of the estimated 2006 Operating Budget for Insurance, Premiums and Claims and illustrates a \$2.0 million reduction of the \$5.0 million 2006 Non Program budget request.

The reduction in additional funding from \$5.0 million to \$3.0 million in 2006 and in subsequent annual budgets will prevent the growth of the fund balance to address the City's total outstanding liability amount which is estimated at \$90.1 million. In addition, expenditures will exceed contributions causing a draw down of the Insurance Reserve Fund balance to a negative amount by 2010. Reduced funding does not allow for future unexpected increases in annual Insurance, Premiums and Claims expenditures.

Conclusion:

Council previously authorized that additional funding will be requested through the Non Program budget in order to meet the target balance of the Insurance Reserve Fund. Reducing the 2006 Non Program request from \$5 million to \$3 million impedes the progress to gradually increase the Insurance Reserve Fund balance and makes 2006 Insurance, Premium and Claims contributions very close to estimated expenditures thereby leaving very little flexibility for unforeseen cost increases to the insurance program. Such costs could arise from an insurance premium increase at the June 1, 2006 renewal, reporting increased asset values for property insurance resulting from appraisals and increased claim activity as was experienced from the August 19, 2005 rain storm.

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Attachments: Table 1

Table 1
\$3.0 Million Additional Contributions
Insurance Reserve Fund from Non Program Budget

	2005	2006	2007	2008	2009	2010
Balance at January 1	9,140	13,010	14,491	12,807	9,394	4,175
Program Operating						
Budgets Contributions	13,027	34,027	37,027	37,027	37,027	37,027
Non-Program						
Budget Contributions	21,000	3,000	0	0	0	0
Investment Earnings & Recoveries	4,217	2,300	2,300	2,300	2,300	2,300
Total Contributions	38,244	39,327	39,327	39,327	39,327	39,327
Insurance Premiums	7,666	9,046	9,950	10,448	10,970	11,519
Self Insured Retention	25,831	27,897	30,129	31,334	32,588	33,891
Operating Expenses	877	903	930	958	987	1,017
Total Expenditures	34,374	37,847	41,010	42,741	44,545	46,427
Net Change in Year	3,870	1,480	(1,683)	(3,414)	(5,218)	(7,100)
Balance as at Dec. 31	13,010	14,491	12,807	9,394	4,175	(2,925)