

Finance Committee Meeting

Topic: Internal Service Administration Review



City of Lockport, NY

April 12, 2023

What is Internal Service Administration?

- The City maintains management over various services that pertain to internal affairs. This includes:
 - Health Insurance
 - Worker's Compensation
 - Insurance
 - NYS Retirement
- This PowerPoint will review FY 2022 performance and discuss implications for FY 2023 and beyond.



Health Insurance Fund Context

- The City is a self-insured entity that pays all associated medical costs for members. We have a broker, Lawley, who assist us with our third-party administrator, Highmark BCBS.
- For costs and claims over \$150k, we have a stop loss policy (traditional insurance) that reimburses the City for costs.
- Each year, our broker and TPA model out costs that we are likely to experience the following year. This dictates what the City / employees pay. The optimal situation is that we 'break even' and have revenue cover all costs.

Health Insurance Fund – 2022 Performance

- Modeled in mid-2021, the FY 2022 costs for the fund were projected to be a total of \$7 million.
- When creating the budget, revenues were projected to consist of employee contributions totaling \$105k and City payments from the General Water, and Sewer Funds for the remainder. Actual employee contributions totaled \$112k and interfund transfers totaled \$6.5 million. Vacancies/change in employee elections contribute to lesser interfund transfers.
- Total medical costs amounted to \$6 million, creating an excess of \$676k.

CITY OF LOCKPORT, NEW YORK

Statement of Cash Flow

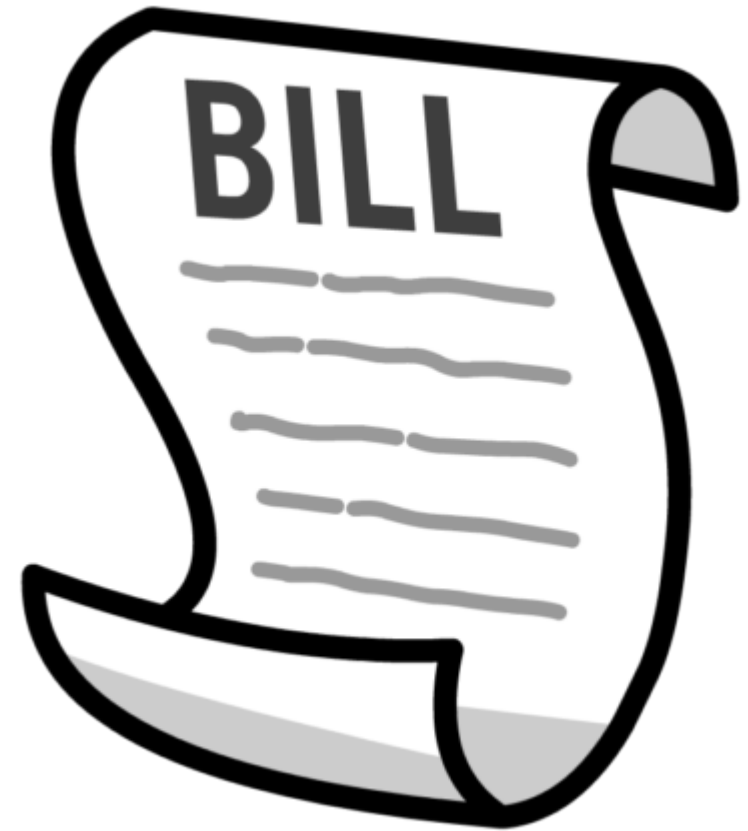
Health Insurance Fund (MS)

For Fiscal Years Ending December 31, 2022, 2021, 2020, 2019, and 2018

Cash Flows from Operating Activities	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Fund Revenues	6,649,786	5,879,650	6,079,811	5,960,966	6,250,003
Fund Expenditures	5,973,963	6,239,847	5,563,779	5,849,546	5,617,110
Net Surplus (Loss)	675,823	(360,197)	516,032	111,420	632,893
 (Increase) Decrease in:					
Accounts Receivable	-	-	-	2,458	(1,886)
Due From Other Sources	-	-	(129,280)	129,280	-
 Increase (Decrease) in:					
Accounts Payable	(57,144)	54,962	(1,504)	3,687	(1,433)
Accrued Liabilities	111,101	4,294	68,890	4,089	(4,971)
Due to Other Funds	-	-	-	-	(408,185)
Total Adjustments	53,957	59,256	(61,895)	139,515	(416,476)
 Net Cash Provided (Used) by Operating Activites	 729,779	 (300,941)	 454,137	 250,935	 216,418
 Cash at Beginning of Period	 <u>1,959,631</u>	 <u>2,260,573</u>	 <u>1,806,436</u>	 <u>1,555,501</u>	 <u>1,339,083</u>
Cash at the End of the Period	2,689,411	1,959,631	2,260,573	1,806,436	1,555,501

Health Insurance Fund – 2022 Impact

- Premiums were increased by 10% in FY 2022 as a result of FY 2021 deficit. Premiums were not raised in FY 2023. Based on current year performance, it is likely no additional premium increase will be required in FY 2024 (or only a modest increase).
- Minimum cash required to be in the fund amounts to \$1,069,658 at the year end of FY 2022. This is met and exceeded.



Worker's Compensation Fund Context

- Like health insurance, the City maintains self-insurance for worker's compensation costs. We maintain a third party consultant group and a separate primary administrator, FCS.
- For costs and claims over \$150k, we have a stop loss policy (traditional insurance) that reimburses the City for costs.
- Each year, our broker and TPA model out costs that we are likely to experience the following year. This dictates what the City pays. The optimal situation is that we 'break even' and have revenue cover all costs.

Worker's Compensation Fund – 2022 Performance

- Projected costs for FY 2022 totaled \$860,500 from interfund revenue for the General, Water, and Sewer Funds. Actual revenue amounted to \$924k, largely due to \$69k in excess prior year refunds and a high \$22k from interest earnings.
- Expenditures totaled only \$543k this period, creating a surplus of \$381k. Medical claims for covered incidents were significantly lower than anticipated. Types of claims and services being applicable continue to decline.



CITY OF LOCKPORT, NEW YORK

Statement of Cash Flow

Worker's Compensation Fund (S)

For Fiscal Years Ending December 31, 2022, 2021, 2020, 2019, and 2018

Cash Flows from Operating Activities	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Fund Revenues	923,779	855,293	927,602	716,201	1,271,907
Fund Expenditures	543,023	436,093	(91,552)	986,250	678,497
Net Surplus (Loss)	380,756	419,200	1,019,154	(270,049)	593,410
 (Increase) Decrease in:					
Due From Other Sources	-	-	(25,467)	25,467	-
 Increase (Decrease) in:					
Accounts Payable	(80,520)	-	(3,999)	3,999	-
Accrued Liabilities	-	(26,432)	(764,838)	(37,543)	(351,271)
Total Adjustments	(80,520)	(26,432)	(794,303)	(8,078)	(351,271)
 Net Cash Provided (Used) by Operating Activites	 300,236	 392,768	 224,851	 (278,127)	 242,139
 Cash at Beginning of Period	 <u>2,352,920</u>	 <u>1,960,152</u>	 <u>1,735,301</u>	 <u>2,013,428</u>	 <u>1,771,289</u>
Cash at the End of the Period	2,653,156	2,352,920	1,960,152	1,735,301	2,013,428

Worker's Compensation Fund – 2022 Impact

- In FY 2022, we lowered total premium equivalents by \$100k from the prior year. Despite this, surplus created a net cash supply of over \$300k, creating an excess of policy in the amount of \$1,189,776.
- FCS has recommended we pursue settlement options for select cases. Doing so would utilize excess cash to make a one-time payments to absolve our liability (and future monthly payments) for said case. Generally, these settlements produce a savings ranging from 50% to 70% of the anticipated future costs of the claims.
- Doing settlements will reduce our FY 2024 budget and impact on operating funds.

Other Internal Services

- General insurance costs via Evans Agency (NYMIR) have increased into FY 2022 in the amount of \$60k. The prior year experienced an increase of \$24k.
- NYS retirement costs have decreased in FY 2023 from \$2.5 million to \$2.4 million.



~Internal Service Takeaways~

- Internal service administration in the City consists primarily of health insurance and worker's compensation, but also consist of other services, like insurance and NYS retirement.
- While often overlooked during the budget process, internal service funds have a significant role in the management of City operations and can have an impact on operating budgets of the following year.