

**CITY OF OAKLAND**  
**AGENDA REPORT**

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

2004 JUL -8 PM 6:03

TO: Office of the City Administrator  
ATTN: Deborah Edgerly  
FROM: Risk Management Division  
DATE: July 20, 2004

RE: **DISCUSSION AND ACTION ON A REPORT REGARDING ALLOCATING COSTS OF GENERAL LIABILITY CLAIMS AMONG CITY AGENCIES ACCORDING TO A MODEL USED BY THE CITY OF PHOENIX**

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**SUMMARY**

After a series of reports and meetings discussing options for a viable cost allocation program for the City of Oakland, on January 6, 2004, the City Council asked that the Risk Management Division implement a cost allocation program modeled after the program utilized by the City of Phoenix ("The Phoenix Model"). This report outlines the status of the implementation of this program.

The Phoenix Model is significantly different than the City of Oakland's previous "Risk Management Incentive Program" in that it utilizes an actuarial analysis of the City's losses to project an anticipated loss budget for the next budget cycle. It then uses the actuarial data to determine what percentage of that total budget should be allotted to each of the "big four" (Police, Fire, Parks and Public Works) agencies' budgets during the next budget cycle. Each agency then uses this cost allocation to pay for its own liabilities over the course of the next budget cycle. If the agency goes over its allotted amount, the agency must notify Council. If it remains under budget, some type of reward system was anticipated.

**FISCAL IMPACT**

Since this report is informational only, no fiscal impacts are included.

**BACKGROUND**

On January 6<sup>th</sup>, staff presented the last of a number of reports exploring alternatives to the Risk Management Incentive Program. As stated above, Council asked that the Phoenix Model be implemented in place of the Risk Management Incentive Program. The differences between the two programs are significant.

1. The old Risk Management Incentive Program

- Take a five year loss average for each Agency as a gross number.
- Compare the current year's loss with the five year average loss. (Not adjusted for inflation, unusual occurrences, or other actuarial data).

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- If a targeted agency went over its average, 25% of the excess would be taken from the agency budget. If it went under, the agency would get to keep 25% of their “profit.”

## 2. The Phoenix Model:

- One Year Before the budget process, an actuary studies the City’s loss history and liability fund, applies generally accepted standards of actuarial analysis and makes a projection of the City’s future losses. This analysis considers a number of factors to come up with a scientifically-based projection of loss.
- Loss performance of the “big four” agencies (police, fire, public works and parks) is looked at as a percentage of the total liability budget. That percentage is then applied to the liability fund projection and that amount is included into each targeted agency’s budget during the budget process.
- If any of the agencies expend over its allotted cost allocation, Council must be notified by the affected department before outside funds are used. If any agency uses less than anticipated, Council had discussed that some type of reward system be put in place. In Phoenix, if an agency uses less than its allotted amount, there is no reward. The Oakland Council had not fully determined what would happen with the overage at the January 6<sup>th</sup> meeting as it would depend on the financial health of the City during the budget discussions.

## KEY ISSUES AND IMPACTS

The changeover to the Phoenix model represents a dramatic change in the way liability losses are projected and accounted for. Instead of calculating raw numbers, as had been done in the past, actuarial analysis will be performed to begin a legitimate cost allocation system in the City. This process is substantially different than the old Risk Management Incentive Program, but will result in a more realistic and more appropriate risk analysis of the losses of the targeted agencies. As described in the January 6<sup>th</sup> report, although the cost allocation process tracks the budget process, Risk will continue to make annual loss reports.

## PROGRAM DESCRIPTION AND IMPLEMENTATION PLAN

1. Earlier this year, Risk asked ArmTech a division of Aon Risk Consultants to present a proposal for actuarial services. ArmTech is the division of Aon which specializes in self-insured public entities across the nation. In response, an actuary from ArmTech consulted with the City of Phoenix and discussed the program with staff in detail and then discussed the program with staff from Oakland. ArmTech provided a detailed scope of services to comply with the City’s request.

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The scope of services included an estimate of outstanding losses, projections of future losses for 2005/06, projected losses to be paid during 2004/05 and 2005/06 (separately by fiscal year) and the provision of a statement that the conclusions in the actuarial study are consistent with GASB (Governmental Accounting Standards Board) No. 10 compliance. ArmTech will also assist in making recommendations for the actual funding allocations.

2. Loss numbers for 03-04 are released sometime in mid-August after year-end closing. These numbers then have to be put in an appropriate format in excel for submission to ArmTech. Staff must then be available to provide loss data and detailed claim information from the past ten years.
3. Armtech will gather and compile data and will review for reasonableness with an analysis of anomalies. Individual claims will be discussed with the City as large claims can have a disproportionate impact upon the analysis. ArmTech will also review our claims in comparison with insurance industry statistics and with other public entities to predict loss. Their estimates will be developed based on generally accepted actuarial practices and will be consistent with GASB Statement No. 10. They will consider at least the following actuarial methodologies:
  - Paid loss development
  - Reported incurred loss development
  - Case reserve analysis
  - Reported claims development
  - Frequency and severity analysis
  - Loss rate analysis
4. A draft result of the analysis is expected to take at least 4 weeks from the time the final numbers are presented to the actuary in an appropriate format. With this information, staff will prepare a report and recommendation to the Budget office which must be submitted by the Budget Agency's November, 2004 deadline to prepare reports for budget hearings which begin in March, 2005.
5. In November or December, 2004, Risk will present its annual report on liability and losses, as anticipated by the January 6<sup>th</sup> report.
6. In March, Council will have full reports of the cost allocation analysis and will make key decisions during the budget hearings, such as: 1) whether the Parks and

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Recreation cost/loss allocations should be transferred to Public Works as a result of any reorganizations involving the maintenance division (the chief loss centers); and 2) what should be done with any excess amounts if an agency spends less than its allocation – this was left for a future decision during the meeting on January 6<sup>th</sup>.

**SUSTAINABLE OPPORTUNITIES**

This is an information report only.

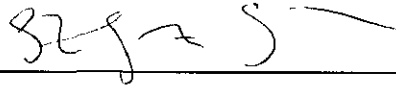
**DISABILITY AND SENIOR CITIZEN ACCESS**

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**RECOMMENDATION(S) AND RATIONALE**

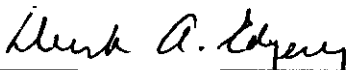
Staff respectfully requests that this report be accepted.

Respectfully submitted,



Stephanie Garrabrant-Sierra  
Risk Manager

APPROVED AND FORWARDED TO THE  
CITY COUNCIL



OFFICE OF THE CITY ADMINISTRATOR