

**COUNCIL POLICY NO. C-16**

**TITLE:** EMPLOYEE BENEFITS SELF INSURANCE FUND BALANCE / RESERVE  
POLICY

**POLICY:** See attached.

**REFERENCE:** City of Salem Finance Committee report dated December 17<sup>th</sup>, 2018, agenda  
item no. 4a.

## **FUND BALANCE / RESERVE POLICY FOR THE EMPLOYEE BENEFITS SELF INSURANCE FUND**

### **Purpose**

This policy establishes the components and uses of the fund balance for the Employee Benefits Self Insurance Fund (“the Fund”). Sound financial management practices include establishing designated and undesignated fund balances sufficient to provide resources for events and service needs that were unanticipated during budget development; cover cash flow needs during a fiscal year; and provide a source of funds to sustain services during a temporary slowing in revenue and/or a source of bridge funding to allow transition to sustainable service levels.

### **Scope**

This policy applies to the Employee Benefits Self Insurance Fund.

### **Definitions**

Contingency Account – A budgetary account used to appropriate resources that can be used to address events or service needs that were unanticipated during budget development. With City Council adoption of a transfer resolution, funds are transferred from the Contingency Account to an operating program.

Claims Reserve – A reserve set aside for unpaid losses, including IBNR losses.

Fund Balance – On a budgetary basis the Fund Balance is the sum of the Contingency Account, Rate Stabilization Reserve, and Claims reserve. In the Comprehensive Annual Financial Report it is identified in the schedule titled Statement of Revenues, Expenditures and Changes in Fund Balance.

Incurred But Not Reported (IBNR) – An actuarial estimate of the liability for claim-generating events that have taken place but have not yet been reported.

Rate Stabilization Reserve – A reserve established to provide resources in the event of a material decrease in projected revenue during a given fiscal year, which will impact the upcoming fiscal year. The Rate Stabilization Reserve allows the continuation of services for a finite period until additional resources are identified or a transition to a sustainable service level is completed.

### **Related Financial Policies**

- Council Policy C-8: Budget and Revenue Policies
- Council Policy C-11: General Fund Balance / Reserve Policy

## Policy Statement

The Fund Balance for the Benefits Self Insurance Fund is the sum of the following:

- Rate Stabilization Reserve
- Contingency Account
- Claims Reserve

For the purposes of preparing the budget, the Fund Balance shall consist of:

- The Rate Stabilization Reserve, which shall equal 12 months of budgeted operating expenditures and 10% of budgeted claims expense.
- The Contingency Account, shall be equal to the fund balance above the claims reserve and rate stabilization reserve.
- The Claims Reserve, shall be equal to the actuarial review of the program to cover IBNR and unpaid loss expense estimate.
- The Rate Stabilization Reserve, Contingency Account, and Claims Reserve can be used in the following circumstances:
  1. Rate Stabilization Reserves can be used by the City Manager to offset an unanticipated loss of revenue within a fiscal year or in the event anticipated revenues may be insufficient to meet the expenditures necessary to maintain current services. Utilization of the Rate Stabilization Reserve must be within the context of a multi-year financial plan designed to bring services to a sustainable level through additional resources, service reductions, or a combination of such actions.
  2. Contingency can be used with City Council adoption of a transfer resolution to meet expenditure requirements resulting from events or service needs not anticipated during budget development.
  3. Claims Reserve can be used for claim expenditures.