

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF JANUARY 28, 2009

REGULAR MEETING

TO: Francesca Loftis, Chair, and
Members of the El Dorado County Local Agency Formation
Commission

FROM: José C. Henríquez, Executive Officer

AGENDA ITEM #6: AUTHORIZE STAFF AND THE BUDGET AD HOC
COMMITTEE TO RESPOND TO AN INCREASE IN GENERAL
LIABILITY INSURANCE COVERAGE

RECOMMENDATION

Staff recommends that the Commission:

1. Authorize the Executive Officer to move monies within the current budget to cover an estimated increase of almost \$23,000 over what the Commission budgeted for General Liability Insurance coverage;
2. Provide direction to the budget ad hoc committee regarding how to budget for General Liability Insurance coverage, whether LAFCO should retain coverage with the County or explore other insurance entities; and
3. Provide direction to staff, Chair or budget ad hoc committee on any other action the Commission wishes to take to respond to the insurance premium increase.

REASON FOR RECOMMENDED ACTION

On January 13, 2009, LAFCO staff was notified by the County's Risk Management group that this agency's General Liability Insurance costs for FY2008-09 would be \$29,592 because of a change in the County's methodology for assessing risk. This jump in cost has significant implications for next year's budget.

BACKGROUND

LAFCO staff adopts an early budget as a courtesy to the funding agencies so that they can plan accordingly as they start their budget proceedings. By adopting an early budget, however, LAFCO runs the risk in not fully knowing the estimated costs of certain items, most notably health insurance, Worker's Compensation Insurance and General Liability Insurance (GLI) premiums. To mitigate this uncertainty, the Executive

Officer (EO) contacts the County and SDRMA to obtain estimates for the following year, if available, or information that may affect the cost for the service. The EO then employs a few budgeting models to determine a recommended budget level to the Commission. While not strictly scientific, the recommended budgeted levels have been fairly accurate in predicting the actual cost.

The linchpin to the process is accurate information. In the first draft budget, presented to the Commission in February 2008, the recommended budget level for GLI was \$18,000. The EO's budgeting model assumed that the premium would remain the same because the last lawsuit filed against LAFCO (in FY2001-02) would still appear in the County's Risk Management's cost methodology.

When the Commission directed staff to cut 10% off the February budget, staff went through every line item looking for additional savings. As part of this process, LAFCO staff contacted Risk Management again to see if their analyst had a better estimate on the GLI premium. Risk Management indicated that LAFCO's GLI premium would drop from \$17,000 in FY 2007-08 to \$3-5,000 in FY 2008-09 because the County uses a five-year horizon in their cost methodology formula. Consequently, the last lawsuit would "fall off" in FY2008-09 and so would the premium. Removing the lawsuit as a factor, the EO's budgeting model predicted a General Liability cost to be closer to \$7,000, which was reflected in both the revised proposed budget (adopted March 2008) and adopted budget (adopted May 2008).

Unknown to LAFCO at the time, the County Administrator's Office and Auditor-Controller reviewed the risk calculation methodology and developed a new formula based on a ten-year horizon in April 2008. The altered horizon caused LAFCO's last two lawsuits to factor back into Risk Management's calculations of risk, cost of defense and any anticipated payout of a lawsuit or claim filed against this agency. LAFCO was not notified of this change in methodology. The first time LAFCO was notified of the changed formula was on January 13, 2009 when staff was informed that the GLI premium for FY2008-09 will be \$29,952. Risk Management also indicated that next year's GLI premium will be approximately the same amount.

The effect of the GLI premium on this year's budget is that there is a \$23,000 hole in the agency's finances. LAFCO staff is requesting that the Commission authorize the Executive Officer to move monies from other funds within the budget, most notably the Salaries and Benefits account, to the GLI account in order to have sufficient funds to cover the GLI premium.

While this action can be accomplished without seriously impacting current operations or staff, it will have two significant effects on next year's budget. First in order to cover this year's premium, the estimated carryover amount into next year will be reduced by \$23,000. As the Commission is aware, carryover funds are the second largest source of LAFCO's revenues. A smaller carryover puts pressure on other revenue sources in order to meet expenses. Given that agency contributions are the largest source of revenue, this will be the category that will see the largest impact of a reduced carryover. The second impact is that, if all things remain the same, the Commission will spend approximately \$30,000 next year in GLI insurance. Added together, this translates to a \$43,000 in additional costs that neither staff nor the budget ad hoc committee anticipated as recently as last week.

Two years ago the Commission explored the possibility of contracting with another GLI carrier and received quotes from the two most widely used insurance carriers among public agencies. As of this writing, staff is completing the preliminary paperwork so that these entities can provide insurance quotes to LAFCO. The intent is to have these quotes by the time of the Commission's January meeting. Staff recommends that, if these quotes are available, the Commission provide direction to the ad hoc committee on how to budget for GLI in FY2009-10. In other words, the Commission should provide direction on whether to budget \$30,000 if the Commission chooses to remain as part of the County's GLI pool or to budget an alternative amount from these other carriers. If the Commission chooses the latter, it should authorize the ad hoc committee to pursue coverage with the preferred alternative on behalf of LAFCO.

In addition, the Commission may also authorize any other action to be taken by staff, the Chair or the budget ad hoc committee to respond to the increase in GLI insurance.

Attachments

Attachment A: Approved FY2008-09 Budget

Attachment B: E-mail from Risk Management to LAFCO, dated March 5, 2008