



City of Scottsdale Loss Trust Fund Board Regular Meeting

*****Amended***** NOTICE AND AGENDA

***Amended to add new Board Member Austin Brooker; renumbered agenda items; and added agenda Item Nos. 1 and 4.

5:00 p.m. Thursday, December 15, 2022
City Attorney Conference Room and via Teams
3939 N. Drinkwater Blvd.
Scottsdale, AZ 85251

Call: 480-378-2354 Conference I.D.: 827 701 012#

Loss Trust Fund Board meetings are being held in-person and electronically for the public to attend and/or listen to the meeting in progress. To join the meeting, **Dial:** 480-378-2354, when prompted by the electronic greeting, enter the **Conference I.D. 827 701 012 followed by the pound sign (#)**. You will then be joined in the meeting.

LOSS TRUST FUND BOARD

**Brandon Perlow– Chairman
Allan Smith– Vice Chairman
Austin Brooker**

**Jake Seltzer
Linda Wannie**

CALL TO ORDER

ROLL CALL

One or more members of the Loss Trust Fund Board may be attending the meeting by telephone, video, or internet conferencing, pursuant to A.R.S. §38-431(4)

OLD BUSINESS

1. Approval of May 10, 2022 minutes.

Action: Motion to approve minutes as submitted or with suggested changes.

NEW BUSINESS

1. ***Welcome New Board Member Austin Brooker

Action: No action required

2. Review, discuss and take action on recommendations to the City Council for changes to the Loss Trust Fund Document, Code and Ordinance regarding Department claim deductibles.

Action: Motion to approve or disapprove

3. Review, discuss Increasing the Cost of Risk measurement for the Safety and Risk Management Department.

Action: No action required

4. ***Review, discuss restating the financial confidence levels associated with the Loss Trust Fund.

Action: No action required

1. OPEN CALL TO THE PUBLIC

OPEN CALL TO THE PUBLIC (A.R.S. § 38-431.02)

Subject to reasonable time, place and manner restrictions, as determined by the Chairperson, members of the public will be allowed to address the Loss Trust Fund Board on any issue within the jurisdiction of the Board. Those wishing to speak are customarily limited to a five (5) minute presentation. At the conclusion of the open call to the public, individual members of the Board may respond to criticisms made by those who have addressed the Board, may ask staff to review a matter or may ask that a matter be put on a future agenda. Members of the Board shall not discuss or take legal action on matters, however, raised during an open call to the public unless the matters are properly noticed for discussion and legal action.

ADJOURNMENT

Action: Motion to adjourn.





DRAFT MINUTES

LOSS TRUST FUND BOARD MEETING

**City Attorney Conference Room and Via Teams
3939 N. Drinkwater Blvd.
Scottsdale, Arizona 85251**

**May 10, 2022
5:00 p.m.**

PRESENT: Brandon Perlow, Chair
Allan Smith, Chair
Richard O'Connor
Jacob Seltzer
Linda Wannie

STAFF: Lori Davis, Legal Advisor
Lauren Beebe, Human Resources Manager
George Woods, Risk Management Director

GUESTS: Charlie Broucek, Hays Companies

CALL TO ORDER

Chair Perlow called the meeting of the Loss Trust Fund Board to order at 5:06 p.m.

ROLL CALL

A formal roll call confirmed the presence of Board Members as stated above.

1. Approval of the December 17, 2021 public meeting minutes

Chair Perlow called for questions or comments. There were no changes.

BOARD MEMBER O'CONNOR MOVED TO APPROVE THE DECEMBER 17, 2021 PUBLIC MEETING MINUTES AS PRESENTED. BOARD MEMBER WANNIE SECONDED THE MOTION, WHICH CARRIED FIVE (4) TO ZERO (0). CHAIR PERLOW, AND BOARD MEMBERS O'CONNOR, AND WANNIE AND SELTZER VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES. VICE CHAIR SMITH ABSTAINED.

Chair Perlow welcomed Jacob Seltzer to the Board. Mr. Seltzer provided a brief overview of his background and experience.

2. Election of Chair and Vice Chair

VICE CHAIR SMITH NOMINATED BRANDON PERLOW TO CONTINUE AS CHAIR. CHAIR PERLOW NOMINATED ALLAN SMITH TO CONTINUE TO SERVE AS VICE CHAIR. BOARD MEMBER WANNIE SECONDED THE MOTION FOR BOTH NOMINATIONS, WHICH PASSED BY A VOTE OF FIVE (5) TO ZERO (0). CHAIR PERLOW, VICE CHAIR SMITH AND BOARD MEMBERS O'CONNOR, SELTZER AND WANNIE VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

3. Presentation, discussion and possible recommendation on the Fiscal Year 2022/23 medical plan premiums

Lauren Beebe, Human Resources Manager, provided an overview of the Benefits Advisory Committee's meeting structure, schedule and purpose. There was a focus on mental health issues over the past year. The City has brought on board a dedicated EAP provider, whose time has expanded from five hours per week to a full day per week on a regular basis. In addition, she is present for days or weeks at a time to work with first responders, after being certified in January to be a first responder provider. The City also has a Behavior Health Subcommittee and a Critical Incident Stress Management Team.

Charlie Broucek, Hays Companies, stated that the City of Scottsdale Medical Plan is increasing by 5.3 percent over last year. Claims are expected to rise by approximately 4.7 percent. There is a contractual administration arrangement with CIGNA with a 1.6 percent annualized increase. The City does not purchase aggregate insurance, but only the individual stop loss coverage. On a rate to rate basis, the stop loss was finalized at 18.76 percent. They will not adjust the 25 percent base, as last year with CIGNA, they were able to negotiate a \$45,000 one-time bill credit to the individual stop loss component. There is an outgoing budget of nearly \$33 million compared with an incoming budget of approximately \$34.7 million.

Chair Perlow asked for additional clarification on the individual stop loss percentage of 18.76. Mr. Broucek acknowledged that the rate has been better in years prior. He reviewed the claims that were considered as part of the determination process, which included seven large claimants. The largest was a claim of nearly \$800,000. Other significant claims totaled \$514,000, approximately \$500,000, \$582,000, \$404,000 and \$432,000. With this number of higher claims and the effects of the pandemic, the stop loss market was a little bit challenging.

For the total incoming budget of \$34.7 million, employees contribute approximately \$7.8 million. The City has established a percentage contribution and held the line, applying the increase to employees and the City on an equal basis, based on their percentage contributions. An overview of the four plans and rates was provided, with the most popular being the OAP in-network plan.

Board Member Seltzer asked if City employees are educated as to whether they may be paying too much for unneeded benefits. Ms. Beebe stated that the history of City employees reflects that they are very risk-averse.

Board Member Seltzer inquired as to the last time adjustments were made to the City's contributions. Ms. Beebe stated that the most significant change was made in 2016, where the City increased the employer's required contribution. In 2020, the City moved to split the difference in the increase, which lowered employee costs. Mr. Broucek added that in aggregate, the City is picking up approximately 78 percent. For purposes of projections, a 7.3 percent trend was used on medical and 10.3 percent on pharmacy. At the time the information was compiled, the plan was running 100 percent to last year's budget and is running now at approximately 102 percent, reflecting a slight deficit on a year-to-date basis. There has been an uptick in utilization this year, as elective surgeries and other procedures were deferred during the pandemic.

Vice Chair Smith asked for a comparison to other cities in terms of the City's share of costs. Mr. Broucek stated that the City is in line with neighboring cities and municipalities.

Chair Perlow inquired about the City's contributions towards HSAs. Ms. Beebe stated that it is \$500 for single coverage and \$1,000 for child, spouse or family. Mr. Broucek stated that the number of employees in this category has increased significantly over the years with Ms. Beebe adding that it equates to approximately 20 percent. Education on the plan is provided to employees via a variety of means.

Mr. Broucek stated that from a large claims perspective, they take a normalized approach based on the historical database and then project forward. Projections include years 2019 full year, 2020 full year and 2021 year-to-date. They also look at average membership and claims above \$100,000 and claims exceeding the \$325,000 stop loss. Gross claims are projected forward and reduced by the underwriting adjustment. The second step involves examining demographics and size of the group and determining the expectation of large claim activity at different thresholds.

Chair Perlow asked for clarification on the difference in expected liability between \$100,000 and \$325,000, between 2019 to 2020 and 2020 to 2021. Mr. Broucek stated that large claims are getting even larger. The ability to treat some cancers versus what was possible in years past continues to increase. The cost for services increases as well.

Vice Chair Smith asked if there are dedicated cost containment providers for specific high severity loss types. Mr. Broucek stated that it is bundled with CIGNA and these services are used by the group.

Mr. Broucek provided an overview of the medical and pharmacy projections. There are currently approximately 5,100 members on the plan, of which 2,100 are employees. There is a claims cost of \$1,292 per month on a projected base. Also included are administration expenses and stop loss, chargeback for wellness services and consulting fees. There are

disabled retirees that the City Council years ago agreed to keep on the plan at employee rates. A calculation is done every year, which comes out of a different bucket and provides the additional subsidy for these individuals. For this period, the amount is \$4.54. All totaled, there is \$1,372.64 per employee per month. Based on the current employee count of 2,107, the projection is \$2.892 million per month or \$34.7 million per year, compared with an outgoing budget of \$32.9, representing a 5.3 percent increase.

Board Member O'Connor referenced Line 18, adjusted membership, and asked what this represents, as it is increasing from 12,615 to 18,737. Mr. Broucek directed attention to Line 11, reflecting 63,000 members during the year and explained the calculations year over year based on the period weight.

Vice Chair Smith asked if the cost of the stop loss is an expected number based on budget, or a negotiated number. Mr. Broucek stated that it is negotiated every year and the current negotiation has already occurred.

Mr. Broucek addressed the four plan designs, noting that there is no change going into the new plan year.

In response to a question from Board Member Seltzer, Mr. Broucek confirmed that \$500 was given to employees for their health savings account and \$1,000 if they had dependent coverage.

Vice Chair Smith referenced the plan benefit rate change year over year of 5.3 percent and asked how this compares to the tier category. Mr. Broucek stated that they are coming off of a year where there was a zero percent increase. 5.3 percent is squarely average for a group of this size across the board.

Chair Perlow asked for more information on the plan change notes. Ms. Beebe stated that this relates to bumping up the out of pocket maximums. Mr. Broucek clarified that this change was made in the prior year.

Mr. Broucek noted other factors, including a tobacco surcharge, blood pressure discount and HRA discount. In response to a question from Vice Chair Smith, Ms. Beebe clarified that the tobacco surcharge applies to not only smoking, but also vaping and chewing, based on an honor system reporting.

Chair Perlow asked for statistics on the percentage of employees who are taking advantage of various incentives. Ms. Beebe said they started with the Health Risk Assessment, which was the main tool for many years. This year, in order to be eligible for incentives, employees must complete the HRA, but it has shifted to include a visit to their primary care doctor. There is approximately 50 percent participation of those going to the doctor and completing the HRA with approximately 30 percent of the blood pressure compliance. On a yearly basis, employees are provided with a chart of the various incentives and addressed via various reach-out methods. Many employees feel guarded about sharing their information. Chair Perlow suggested the possibility of an anonymous survey. Ms. Beebe stated that staff can certainly look into this.

Board Member Wannie asked about the existence of employee self-directed help incentives, such exercise programs and online education in areas such as diabetes prevention, cholesterol and plant-based nutrition. Ms. Beebe confirmed that this type of

option is available. Incentives are given based on the number of classes taken. The HSA remains as the overall gatekeeper. Visiting the primary care physician and good blood pressure apply to the premium. Going to a dental preventive visit, meeting with a diabetes counselor and attending counselors are rewarded with gift cards.

Mr. Broucek addressed the dental plan, noting that they are utilizing a 4.5 percent annual trend. The claims projection is \$76.41 on a per employee per month basis with administrative expenses at \$2.85 for a total of \$79.26 and \$1.6 million. Rates were kept flat with no increase.

George Woods, Risk Management Director, presented Ms. Beebe with a token of appreciation for her service to the City, as she will be retiring soon.

4. Presentation, discussion and possible recommendation on the cost of risk

Mr. Woods stated that the Risk Department's success has been measured as to whether or not they are able to stay below the 2 percent cost of risk. The 2 percent represents a portion of the overall City's operating budget. In speaking with other cities, including Glendale, Avondale, Tempe and Phoenix, the cost for these cities has increased over time to as much as 3 percent. The costs of medical services and procedures are increasing. When damage happens to City property, the expectation is often that replacement will be at the full value, versus the depreciated value, which creates a strain on the budget. Staff would appreciate the Board's input regarding the potential to going to Council with a budget increase request. The proposal is an increase from 2 to 2.5 percent of the City's overall expenses.

Last year, there was a loss in the solid waste department of \$1.6 million from damage to garbage trucks in a fire. Following the incident, approximately \$120,000 was invested into the Solid Waste Department, where trucks aged 2016 and newer were outfitted with a fire backpack suppression system. They would like to continue to take similar proactive measures in other areas. The City has contributed \$686,000 to the Cancer Fund of Arizona this year and will receive reimbursement of approximately \$112,000. There is currently a hardening in the insurance market with cyber insurance and property insurance expected to increase significantly.

Board Member Wannie asked for input on whether City Council is realistically likely to approve the increase to 2.5 percent. Mr. Woods stated that it is realistic in that this year, they had to exceed the approved budget due to a specific claim and via a request for an additional \$600,000. This is not the first occurrence whereby they were required to access the contingency. A 2.5 percent increase will prevent the need to dip into the contingency in the future and will also assist with loss mitigation.

Vice Chair Smith stated that he was in favor of a budget increase for the Department. However, the request to City Council should articulate where and why the extra half percent is needed, i.e., how much will be invested in loss prevention activities. Mr. Woods stated that from a depreciation standpoint, the increase will add approximately \$250,000 to the budget. This is driven by actual claims.

Vice Chair Smith asked why some items for departments and areas are not included in those specific department budgets but are instead included in the Risk Department's

budget. Ms. Woods said that the Department has posed this question for quite some time. Historically, various departments have used the Risk Department's budget to supplement their own budgets. The discussion with the City Manager boiled down to the following questions: Do we increase the budget for 30 departments by \$1 million each for loss prevention, depreciation and replacement, or do we increase Risk Management's budget by a few million dollars to cover the costs? The Adjusted Loss Expense (ALE) has been introduced as of last year for departments. On a weekly basis, adjustors tally how much time they are spending per department. The totals are noted on a quarterly basis. At the end of the year, when premium amounts are set for each department, the 10 percent ALE is included in the calculation. The Solid Waste Department premiums increased by \$193,000 last year because of the ALE adjustment.

Chair Perlow asked about the proposed time for the request to City Council. Mr. Woods noted that budgets are set for this year, so this would be presented as a budget adjustment. They would like to present the request this fiscal year.

Chair Perlow voiced support for increasing the funding and requested that the Board be permitted to review any formal proposal.

Board Member Seltzer stated that it is apparent that the Department is underfunded. The programs being put in place by the Department should be occurring in conjunction with having the other departments taking responsibility for their areas. Further discussion ensued regarding the need for increasing individual department accountability for risk responsibility and loss costs.

In response to a question from Board Member Wannie, Mr. Woods confirmed that the revamping of root cause analysis has been shared with supervisors. When the Risk Department has an opportunity to improve a loss, it is sent to the safety department to investigate and make recommendations for approval. The recommendations are then sent to the director or supervisor for implementation.

Chair Perlow commented that it would be helpful to have an additional discussion to continue to hash out the issues further and assist the Department further. Mr. Woods stated that the next meeting will primarily be used to discuss the annual report. There was discussion regarding holding an additional meeting in the intervening months to revisit this issue specifically. Also discussed was the potential for the City Manager to be present to provide insight and guidance. There was consensus that Mr. Woods would keep the Board apprised of progress and potential to schedule an additional meeting.

PUBLIC COMMENT

No comments were submitted.

ADJOURNMENT

BOARD MEMBER O'CONNOR MOVED TO ADJOURN. BOARD MEMBER WANNIE SECONDED THE MOTION, WHICH CARRIED (5) TO ZERO (0) WITH CHAIR PERLOW, VICE CHAIR SMITH AND BOARD MEMBERS O'CONNOR, SELTZER AND WANNIE VOTING IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 7:18 p.m.

Recorded and Transcribed by eScribers, LLC.



**DECLARATION
OF TRUST
FOR
CITY OF SCOTTSDALE, ARIZONA
SELF-INSURED LOSS TRUST FUND**

Date: September 11, 2012

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**DECLARATION OF TRUST
FOR
CITY OF SCOTTSDALE, ARIZONA
SELF-INSURED LOSS TRUST FUND**

This Trust for the City of Scottsdale, Self-Insured Loss Trust Fund (the "Declaration of Trust" or "Trust") dated and effective this 11th day of September, 2012 is entered into between the CITY OF SCOTTSDALE, a political subdivision of the State of Arizona (the City), and the individuals that execute this Declaration of Trust, as Trustees (with their successors, referred to singularly and collectively as TRUSTEES).

RECITALS:

A. Arizona Revised Statutes § 11-981 authorizes the City to self-insure or procure insurance from any insurer admitted or authorized by the Director of the Department of Insurance, or both, for any of the types of insurance as defined in Title 20 of the Arizona Revised Statutes.

B. The City desires to establish this Declaration of Trust to carry out the Authorized Actions.

C. Statutory and city code references in this Declaration of Trust will refer to those statutes and codes as they may be amended from time to time.

Accordingly, the City agrees as follows:

AGREEMENT:

1. GENERAL TERMS

1.1 Incorporation by Reference.

The recitals are by this reference incorporated into this Declaration of Trust.

1.2 Provision of Insurance or Self-Insurance.

The insurance or self-insurance provided by the City may be extended to include its divisions, elected officials, officers and employees, including employee dependents, and eligible retirees, as further outlined in this Declaration of Trust.

1.3 Authorized Insurance.

1.3.1 Insurance which may be procured includes, but is not limited to:

- 1. Health and Life insurance
- 2. Group life insurance

3. Disability insurance
4. Medical insurance (industrial or non-industrial)
5. Dental insurance
6. General Liability insurance
7. Professional Liability insurance
8. Workers Compensation and Employer's Liability Insurance
9. Public Entity Errors and Omissions
10. Property Insurance

In addition, City may provide health, life, and disability benefits for its elected officials, officers and employees, including employee dependents, in the form of Mental Health & Substance Abuse diagnosis/treatment.

1.4 Declaration of Trust.

The City, in the exercise of the authority granted by A.R.S. § 11-981, establishes and declares this Trust as the City's self-insurance loss trust fund (the Trust). The Trust may cover the City's potential liability (including but not limited to general liability, professional liability, property damage, public/elected official liability, civil rights liability, environmental liability and employee benefits.)

1.4.1 Authorized Actions.

The City is also authorized by A.R.S. § 11-981 to do each of the following things (collectively, the Authorized Actions):

1. Designate a risk management Director or insurance administrator (Director) licensed in accordance with Title 20, Chapter 2, Articles 3 or 9, if this license is verified by the City.
2. Enter into contracts or agreements required for the management or administration of the Trust.
3. Establish terms and conditions of coverage including exclusions of coverage.
4. Ensure that all lawful claims accepted and authorized for payment through the Declaration of Trust are paid promptly.
5. Take all necessary precautions to safeguard the assets of the Trust.
6. Maintain the Trust for payment of operating expenses, claims administration, defense services, losses, anticipated losses and insurance premiums incurred by the risk management program and the employee benefits program.

1.5 Duration and Termination of Trust.

This Declaration of Trust (the Trust) will become effective upon the completion of the Authorizing Procedures described in Section 1.9 below, and will continue until this

Trust is terminated by the City, which termination will be effective upon resolution of the City Council. However, the termination of this Trust will have no effect upon the existence, powers, or other obligations of the City.

1.6 Purposes.

The purpose of this Declaration of Trust is to carry out the Authorized Actions. In furtherance of these purposes, the City agrees to operate the Trust according to the terms and conditions stated in this Declaration of Trust.

1.7 Manner of Financing.

The Trust may be funded by allocation of funds from the General Fund, Non-General Fund Divisions, Special Taxing Districts, Employee contributions, gifts, grants, by any special taxes levied to satisfy judgments, payment of claims or other involuntary indebtedness, by monies recovered from litigation, statutory liens, recovery from insurers, subrogation, salvage value of damaged property, and interest earned on the funds held by the Trust. Additionally, the Trust may be funded through other available financial techniques and methods permissible under state or federal law and authorized by the Trustees and the City Council. The funds deposited to the Trust will not be subject to the provisions of A.R.S., Title 42, Chapter 17, Article 2.

1.8 Conformity with Law.

If any term or provision of this Trust conflicts with or violates any state, federal, or city law, as they now exist or are subsequently amended, this Trust will be considered amended automatically to conform to these laws and statutes. As soon as is reasonably practical, this Declaration of Trust will be amended to conform to the new law.

1.9 Authorizing Procedures.

The Trust will become effective only upon: (a) the determination of the City Attorney's Office that this Declaration of Trust is in proper form and within the powers and authority of the City Council and, (b) the passage by the City Council of a resolution approving the Declaration of Trust and authorizing the Board of Trustees to act on behalf of the Trust.

1.10 Reservation of Authority.

Nothing contained in this Declaration of Trust will modify or restrict the legal obligations of the Board of Trustees to administer and operate appropriate insurance programs for the City of Scottsdale as those programs may be modified from time to time by the City Council.

1.11 Definitions.

1.11.1 "Benefits Manager" means the manager in Human Resources responsible for administering the employee benefits program, including health and life

insurance, group life insurance, disability insurance, medical and dental insurance, and behavioral health insurance.

- 1.11.2 "City" means City of Scottsdale, Arizona.
- 1.11.3 "Claim" means the aggregate of operative facts that raise allegations of injury to persons or damage to property and results in a demand for money that may give rise to a right enforceable by a court.
- 1.11.4 "Clerk" means the Clerk of the "City Council" of the City of Scottsdale, Arizona.
- 1.11.5 "Council" or "City Council" means the City Council as the governing body of the City of Scottsdale, Arizona.
- 1.11.6 "Department of Insurance" means the State of Arizona, Department of Insurance.
- 1.11.7 "Designee" means any City employee to whom the Trustees delegate authority under the terms of this Trust.
- 1.11.8 "Director" means the Risk Management Director or risk management consultant appointed by the appropriate City Charter officer. Any appointed Director must be licensed as required by A.R.S. § 20-281, *et seq.* or certified as an insurance administrator under Title 20, Chapter 2, Article 9 (A.R.S. § 20-485, *et seq.*).
- 1.11.9 "Division" means any division, department, agency, authority, budgetary unit, board or commission of the City.
- 1.11.10 "Employees" mean all persons who are paid a wage or salary from public monies in accordance with official entries on the City payroll, officers, and Council members of the City. Additionally, agents of the City will be considered to be employees for purposes of this Trust if and to the extent coverage under the Trust is expressly promised to an agent (including contractors) by written agreement approved by the City Council. Additionally, volunteers who provide services to or on behalf of the City will be entitled to the benefits of and coverage under this Declaration of Trust [except for Employee benefits as authorized in Article 4.1.1(g)] when acting in accordance with direction and under the control of authorized City Employees and if:
- a) The volunteers are considered employees as provided in A.R.S. § 23-901.06; or
 - b) The volunteers are participating in programs authorized or created in accordance with state or federal law and which the City Council has approved by resolution; or

- c) The volunteers are participating in programs authorized or created in accordance with City Council resolution; or
 - d) The volunteers are participating in a program designed and administered by any City division and which has been reviewed by the Director.
- 1.11.11 "Expenditures" means all disbursements made from this Trust and authorized by the Trustees acting through the Director or designee for the management and administration of a self-insured retention program for those purposes as specified in A.R.S. § 11-981.
- 1.11.12 "Release" means any spilling, leaking, discharging, emitting, escaping or leaching of one or more contaminants or pollutants into groundwater, surface water, surface soils, subsurface soils, as well as any definition of "release" arising out of applicable federal or state statute or regulation.
- 1.11.13 "Retiree" means an employee or member of the City Council under the age of 65 who draws monthly benefits under the Arizona State Retirement System, Public Safety Personnel Retirement System, or the Elected Officials Retirement System within 60 days of leaving employment with the City of Scottsdale, and who elects to participate in the City's medical insurance plan.
- 1.11.14 "Toxic Tort" means any claim of bodily injury or property damage arising from the release or discharge of contaminants or pollutants.
- 1.11.15 "Trust" means the City of Scottsdale, Arizona, Declaration of Trust for the Self-Insured Loss Trust Fund.
- 1.11.16 "Trust Member" is any City of Scottsdale employee or entity covered under the provisions of this Trust.
- 1.11.17 "Trustees" or "Trustee" means individuals who are residents of the City of Scottsdale, Arizona, appointed by the City Council to administer the Trust, and the successors of the Trustees.

1.12 General Provisions.

- 1.12.1 The business affairs of the Trust will be conducted by a Board of Trustees. The Trust will comply with all federal, state and local laws, rules, regulations, standards and executive orders, without limitation to those designated within this Declaration of Trust. The laws and regulations of the State of Arizona will govern the rights of the parties, the performance of this Trust and the resolution of any disputes covered by this Trust. Any action relating to this Trust will be brought in an Arizona court. Any changes in the governing laws, rules and regulations applicable to this Trust during the term of this Declaration of Trust will apply to this Declaration of Trust but these changes will not require an amendment to this Declaration of Trust.

- 1.12.2 The Trust has no authority to borrow money. All such authority on behalf of the Trust rests in the City Council.
- 1.12.3 The Trust will not discriminate against any individual in any way on account of the individual's race, color, religion, sex, age, disability, or national origin.
- 1.12.4 The financial activities, management, and business affairs of the Trust will be managed effectively and efficiently with reports submitted to the Board of Trustees at least semi-annually or as otherwise requested by the City Treasurer. The Trustees vest all power to invest the funds of the Trust in the City Treasurer who will invest in accordance with City investment policies and report to the Trustees the status of those investments at least semi-annually or as otherwise directed by the Trustees.
- 1.12.5 The Trust will be audited annually by an external auditor and a copy of the audit report kept on file in the offices of the City Clerk for a period of not less than 5 years. The fiscal year of the Trust will be from July 1 through June 30 of each year.
- 1.12.6 This Declaration of Trust including attached exhibits will constitute the entire Declaration of Trust and supersede all other understandings, oral or written. This Declaration of Trust may be amended or modified only by the City Council.

2 TRUSTEES.

2.1 Trustees, Number, Term of Office, Qualification and Compensation.

- 2.1.1 The Trust will be administered by no less than 5 joint Trustees. At the time of appointment the appointee shall be a resident of the City of Scottsdale and shall maintain residency during the term for which appointed. Loss of residence shall be considered resignation from office. The minimum professional qualification to serve as a Trustee is at least 10 years of senior level management experience in any of the following fields: Risk Management, Banking, Finance or Healthcare. The City Council will be the sole and final judge of the qualifications of any appointee. No person may act as a Trustee until he or she has been approved by the City Council by a written appointment, which will be lodged with the City Clerk and placed in the records of the Trust. The terms of the initial Board of Trustees will begin upon approval of this Trust Agreement by the City Council. The term of office for a Trustee will be for 3 years beginning with the date the written appointment is filed with the City Clerk, except that the initial Board of Trustees will complete their existing term of office as currently appointed. Any Trustee may be reappointed by the City Council upon expiration of his or her term, or upon the expiration of his or her term any Trustee may continue to serve until his or her replacement is appointed by the City Council. The maximum term of service shall be six (6) years. Trustees will not be entitled to receive compensation for their services as Trustees.

- 2.1.2 A Trustee may resign at any time by giving notice in writing to the remaining Trustees and to the City Clerk. The resignation will take effect not later than 60 days after the date it is received by the Trustees and City Clerk. The City Council may accept the resignation at any time within the 60 day period and if not formally accepted within 60 days, the resignation will be considered accepted as a matter of law. Appointment of a successor automatically accepts the tendered resignation by the resigning Trustee. No resignation, once submitted, may be withdrawn before its consideration and approval or rejection by the City Council. The City Council may remove any Trustee with or without cause at any time by written notice delivered to the Trustee.
- 2.1.3 The resignation, incompetency, death or termination for cause of any or all of the Trustees will not terminate the Trust, or affect its continuity. During a vacancy, the remaining Trustee or Trustees may exercise the authorized powers of the Trustees. Vacancies among the Trustees will be filled by appointment by the City Council, and lodged with the Clerk and the records of the Trust. The determination of a vacancy among the Trustees by reason of resignation, incompetency, or death, or for any other reason, when made by a majority of the remaining Trustees, as stated in writing and delivered to the City Council, will be final and conclusive for all purposes. If, at any time, by reason of resignation, incompetency or death, there are no remaining Trustees, the City Council will promptly appoint the requisite number of successor Trustees.
- 2.1.4 The Trustees will meet as frequently, but not less than semi-annually, as they determine necessary and appropriate. Meetings may be conducted in video-conferencing or by other electronic means of communication. The Chair may call a meeting at any time upon 2 days' notice, either written or verbal. The Director may request a meeting within 10 days to consider such matters as the Director considers appropriate. Any 2 Trustees may call a meeting upon 2 days' notice to the other Trustees, either written or verbal. The Trustees may act only during a formal meeting of the Trustees, except in case of an emergency, as determined by the Chair or a majority of the Trustees; the Trustees may act without a meeting subject to ratification and confirmation of the act at the next meeting of the Trustees. Any action by a majority of the Trustees in office will be conclusive and binding as an action of the Trustees. All agreements, deeds, checks, documents, reports, and any and all other instruments executed by a majority of the Trustees or executed by one authorized Trustee or an authorized agent of the Trust, in accordance with authorization of a majority of the Trustees given either at a meeting or in writing, will be effective and binding as if executed by all of the Trustees.
- 2.1.5 The Trustees will elect from their members a Chair and a Vice-Chair, who will act as Chair and Vice-Chair for a period of 1 year or until such time as his or her successor will have been elected and qualify or he or she resigns, or is removed by vote of the Trustees. No person shall serve in the same capacity for more than two (2) consecutive full one-year terms. The Chair and Vice-Chair will be elected by a majority of the Trustees serving the Trust. An election of the Chair and Vice-Chair will take place at the first meeting of each new calendar year. The Vice-Chair shall be the acting Chair and shall perform all duties of the office whenever the Chair is absent, has declared a

conflict of interest, or otherwise does not participate. Should the office of the Chair be vacated, the Vice-Chair will fulfill the remaining term of office. At the next Board meeting, a new election will be held for the Vice-Chair's office. Should the Vice-Chair's office be vacated, a new election will be held at the next Board meeting to elect a Vice-Chair. The office of Chair and Vice-Chair may be declared vacant at any time by a vote of three (3) or more Board members.

- 2.1.6 The Chair will establish the date, time and place of the meetings of the Trustees, and direct the Director at, or before the meeting, to provide an agenda of subject matter to be covered during the meeting. All meetings will take place in the City of Scottsdale, Arizona, and will be subject to all applicable statutes, rules and regulations otherwise pertaining to public meetings, including the State's open meeting law, A.R.S § 38-431 *et seq.*; provided, however, that a Trustee whether or not present within the City of Scottsdale, may participate in a meeting via telephone or other means of electronic communication.
- 2.1.7 If a non-emergency meeting of the Trustees is conducted exclusively via electronic means with no Trustee physically present at the posted location of the meeting, the Director will make available to the public an adequate means of listening to the deliberations and proceedings.
- 2.1.8 In case of an actual emergency, a meeting, including an executive session, may be held upon such notice as is appropriate to the circumstances, provided that within 24 hours following the emergency meeting, a public notice is posted declaring that an emergency session has been held and stating the specific matters discussed, considered or decided. If the emergency meeting was conducted in executive session, the public notice will include only a general description of the matters considered and will not contain information that would defeat the purpose of the executive session.
- 2.1.9 In the case of an actual emergency, a matter may be discussed and considered and, at a public meeting, decided, even though the matter was not listed on the agenda, provided however, that a statement setting forth the reasons necessitating the discussion, consideration or decision is placed in the minutes of the meeting, and at the public meeting, is publicly announced. In the case of an executive session, the reason for consideration of the emergency measure must be announced publicly immediately before the executive session.
- 2.1.10 At all meetings of the Trustees, a majority of the Trustees then serving will constitute a quorum for the transaction of business. The act of a majority of the Trustees present at any meeting at which there is a quorum will be the act of all Trustees, except as may be otherwise specifically provided by statute. If a quorum is not present at any meeting of the Trustees, the Trustees present may recess the meeting from time to time until a quorum is present. At such resumed meeting at which a quorum is eventually present, any business may be transacted which might have been transacted at the meeting originally noticed; provided that, to the extent applicable, the

requirements of the Arizona open meeting laws (A.R.S. § 38-431 *et seq.*) are satisfied.

2.1.11 The Trustees must be bonded or insured in an amount determined by the Director. This requirement may be satisfied by a blanket performance bond or other coverage provided by the City.

2.1.12 The Trustees must comply with the provisions of Title 38, Chapter 3, Article 8 (A.R.S. §§ 38-501 through 511) (Conflict of interest of officers and employees and Relatives), as well as any other applicable law regarding conflict of interest.

2.2 Powers of Trustees. The Trustees will establish necessary policies, rules, and procedures to enable the Trust to do all lawful acts and things which are permitted by statute and by this Declaration of Trust. The Trustees may without limitation do all of the following:

2.2.1 Adopt policies, rules and procedures for the administration of the Trust; provided, however, that these policies, rules and procedures may not be inconsistent with the provisions of this Declaration of Trust or applicable city, state and federal law and regulations.

2.2.2 Authorize the Director to retain the services of actuaries, auditors, engineers, private consultants, administrators and advisors as the Trustees consider necessary in order to carry out the business and purposes of the Trust. The Trustees will seek legal advice from or through the City Attorney when legal advice is considered necessary. In the event that the City Attorney cannot provide legal advice due to conflict of interest or otherwise (as determined by the City Attorney), private outside counsel will serve in his or her place. The Trustees will consult with the City Treasurer before the selection of actuaries, auditors, and financial consultants/advisors.

2.2.3 Recommend modifications of the terms and conditions of this Trust document to the City Council.

2.2.4 Authorize the Director or designee to administer the day to day affairs of this Trust as provided in Article 4.

2.2.5 Maintain minutes of their meetings.

2.2.6 Delineate in the written minutes of its meetings the areas of authority it delegates to the Director. The Director will be an ex officio member of all committees of the Trustees.

2.2.7 The Trustees will, through the City Treasurer, provide for the investment of Trust monies in a manner consistent with the provisions of A.R.S. § 35-321 *et seq.*

2.3 Non-Liability of Trustees. Except as otherwise provided by law, no Trustee will be liable individually for any act or omission of any Trustee or agent or representative of

the Trust or for negligence, error in judgment, or any act or omission, except his or her own bad faith, gross negligence or willful and wanton misconduct in the conduct of his or her duties.

Every act or thing done or omitted in their Trustee capacity, and any power exercised or obligation incurred by the Trustees, or any of them, in the administration of the Trust, or in connection with any business or property of the Trust, will be considered done, omitted, exercised, or incurred by the Trustees, as Trustees, and not as individuals; and, upon any debt, claim, demand, judgment, decree, or obligation of any nature whatsoever against or incurred by the Trustees in their capacity as Trustees, whether founded upon contract or tort. Recourse will be had solely to the property of the Trust.

Nothing contained in this Trust will protect an agent or representative of the Trust against liability to the Trust, or to the beneficiaries of the Trust for gross negligence, bad faith, or willful and wanton misconduct in the conduct of his or her duty.

- 2.4 Indemnification. The Trust will indemnify, defend and hold harmless each Trustee from and against all claims and liabilities, whether they proceed to judgment or are settled, to which the Trustee may become subject, by reason of his or her being or having been a Trustee, or by reason of any action alleged to have been taken or omitted by him or her, as Trustee, and will reimburse him or her for all legal and other expenses reasonably incurred by him or her in connection with any claim or liability; provided, however, that no Trustee will be indemnified or reimbursed under the foregoing provisions in relation to any matter, unless it will have been adjudicated that his or her action or omission did not constitute bad faith, gross negligence, or willful and wanton misconduct in the conduct of his or her duties, or, unless, in the absence of such an adjudication, the Trust will have received a written opinion from the City Attorney, or in case of conflict a private outside counsel to the effect that if the matter of bad faith, gross negligence or willful and wanton misconduct in the conduct of duties had been adjudicated, it would have been adjudicated in favor of the Trustee. The rights accruing to a Trustee under these provisions will not exclude any other right to which he or she may be lawfully entitled, nor will anything contained in this Trust restrict the right of the Trust to indemnify or reimburse the Trustee in any proper cause, even though not specifically provided for in the Trust; provided, that no Trustee may satisfy any right of indemnity or reimbursement granted in this Trust, or to which he or she may be otherwise entitled, except as provided by law.
- 2.5 Disclaimer of Third Party Beneficiaries: Nothing in this Declaration of Trust is intended to confer the status of third-party beneficiary on any person or entity.

3 PUBLIC LIABILITY, ENVIRONMENTAL LIABILITY, AND EMPLOYEE BENEFITS.

- 3.1 Insurance. A.R.S. § 11-981 authorizes the City to self-insure or procure insurance from any insurer admitted or authorized by the Director of the Arizona Department of Insurance or insurance acceptable to the City, or both, for any of the following types of insurance as defined in Title 20 of the Arizona Revised Statutes. The insurance or self-insurance provided by the City may be extended to include its Divisions and Employees, including Employee dependents, and eligible retirees, as further outlined

in this Declaration of Trust which may include, but is not necessarily limited to the following:

- 3.1.1 Property insurance,
- 3.1.2 Difference in conditions insurance,
- 3.1.3 Performance bonds,
- 3.1.4 Storage tank liability insurance,
- 3.1.5 Fine arts insurance,
- 3.1.6 Stop loss insurance,
- 3.1.7 Health and Life insurance,
- 3.1.8 Dental Insurance,
- 3.1.9 Disability insurance,
- 3.1.10 Behavioral health insurance,
- 3.1.11 Crime insurance,
- 3.1.12 Airport owners liability insurance,
- 3.1.13 Public entity liability insurance,
- 3.1.14 Motor Vehicle liability insurance, or
- 3.1.15 Workers' Compensation Insurance.

3.2 Liability, Claims and Expenses not Expressly Authorized. In the event liability, expenses or costs are incurred in connection with any claim not expressly referred to in Scottsdale Revised Code, §2-170, §2-178 or §2-179, the Trustees, in consultation with the City Treasurer, will make a determination whether the Trust will provide funds for that liability, expense or cost.

4 ADMINISTRATION OF TRUST.

4.1 Powers and Duties of Director.

4.1.1 The Trustees direct and authorize the Director to establish, manage, and administer a program to finance the risk of loss arising from losses, claims, costs, and expenses, from environmental impairment liability and associated losses, claims, costs and expenses and from employee benefit-related loss, claims and expenses, which are the obligation of the City, its Divisions, and Employees. The Director will exercise his or her judgment to procure

insurance from any insurer admitted or authorized to do business in the State by the Director of the Arizona Department of Insurance or otherwise approved by the Council; to establish self-insured retention programs; to combine self-insured retention programs, and procurement of insurance; or any combination of these types of insurance. If a self-insured retention is maintained, the Director will establish adequate and appropriate reserves, which may include an allowance for claims incurred but not reported, for any claims made against the City and which are covered by this Trust. Any program established by the Director will conform to the provision of this Trust and applicable law to insure:

- a) All City-owned buildings or structures, whether financed in whole or in part by City monies, or buildings in which the City has an insurable interest as determined by the Trustees.
- b) Contents in any buildings or structures owned, leased or rented, in whole or in part, by or to the City, and reported to the Trust.
- c) The City, and its Divisions, Employees, and such others as may be necessary to accomplish the functions or business of the City and its Divisions, against liability for acts or omissions of any nature while acting in authorized governmental or proprietary capacities and in the course and scope of employment or authorization except as otherwise prohibited by this Declaration of Trust. For purposes of third-party liability claims only, an Employee will be considered to be acting within the course and scope of his or her employment whenever operating a City-owned vehicle in accordance with applicable City and departmental policies and procedures.
- d) All personal property reported to the Director, including vehicles owned by the City, and all non-owned personal property which is under the clear responsibility of the City because of written leases or other written agreements, or policies and procedures adopted by the City.
- e) Workers' compensation and employer's liability as prescribed by Title 23 of the Arizona Revised Statutes.
- f) Commutation coverage if specifically authorized and approved by the Board of Trustees, except that no coverage may be provided to any employee who is a peace officer as defined in A.R.S. § 1-215 or a professional firefighter defined as a member of an organized and paid fire department.
- g) Health, dental, life or disability benefits, mental health and substance abuse diagnosis, counseling and treatment for Employees and their dependents.
- h) Other exposures to loss where insurance may be required to protect the City and its Divisions, and Employees acting in the course and

scope of employment or authorization except as otherwise prohibited by this Declaration of Trust.

- i) For purposes of Sections (d), (g) and (h) above, Employee does not include agents of the City where the term of their agency precludes coverage or City liability for Employee benefits or acts or omissions of the agents, or where the agents are considered independent contractors as a matter of law.
- j) For environmental impairment liabilities:
 - 1) Any action necessary in the investigation, response, abatement, removal, and other corrective activities, as legally required by applicable federal or state statutes, rules or regulations governing the release of contaminants or pollutants into groundwater, surface water, surface soils, subsurface soils or air;
 - 2) The cleanup of contaminants or pollutants in compliance with a written order from a court of competent jurisdiction, or a federal or state agency having jurisdiction over rules, regulations or statutes requiring corrective action from the City;
 - 3) Payment of the costs incurred in the removal or remediation of contaminants or pollutants; and
 - 4) Monetary awards or settlements of compensatory damages arising from claims the City is legally obligated to pay as a result of the release of contaminants including the investigation and defense of any claim or lawsuit. A claim or lawsuit includes a notice or lawsuit from a federal or state agency having jurisdiction over the release of contaminants or pollutants into groundwater, surface water, surface soils, subsurface soils or air.

4.1.2 The Trustees do further direct and authorize the Director to establish a program for Loss Control and Prevention to reduce or eliminate the frequency and severity of loss and claims to City physical and financial assets and human resources. The Loss Control and Prevention program may:

- a) Conduct surveys of City facilities and operations to assist in hazard identification, analysis and mitigation;
- b) Provide specific training in life safety, OSHA and EPA compliance and corresponding training requirements;
- c) Assist in formation of Loss Control and Prevention committees as a deterrent to loss;

- d) Assist in identification of the causes of loss frequency and severity and implement techniques to mitigate such losses;
- e) Continuously monitor the City Loss Control and Prevention to assure compliance with federal and state standards, regulations, and statutes; and
- f) Implement any additional programs which will foster Loss Control and Prevention.

4.1.3 The Trustees delegate and authorize the Benefits Manager to administer the City's Employee Benefits Program.

4.2 Program for Disbursements.

4.2.1 The Trustees further direct and authorize the Director to establish a program for disbursements to be made for and on behalf of and for the benefit of the City, which program will approve for payment any and all reasonable expenditures necessary to establish, operate and administer the Trust including but not limited to the following:

- a) To settle and pay any lawful claims of liability made against the City for the risks of casualty loss in an amount up to the limits established by Schedule A; settle and pay workers' compensation or disability loss payments as required by law or as provided under the terms of this Declaration of Trust;
- b) To pay, upon such terms and conditions as are considered appropriate and proper the cost arising from claims for the restoration or replacement of property, the removal of any debris resulting from the loss of property, and the loss of City income arising from the damage to property;
- c) To pay, upon such terms and conditions as are considered appropriate and proper the legal claims, settlements or judgments, including pre-judgment and post-judgment interest, arising from lawful claims of liability that are the obligation of the City;
- d) To pay, upon such terms and conditions as are considered appropriate and proper, the claims resulting from injuries to employees that would be covered under the terms of A.R.S. Title 23, Chapter 6;
- e) To pay all reasonable costs and expenses of Trust administration; administrative costs and expenses of Risk Management and benefits administration and such other costs and expenses as may be directed by the Trustees.
- f) To pay all reasonable legal fees, expenses and costs incurred in connection with the administration of the Trust;

- g) To pay all costs of investigations and legal defense of claims;
- h) To pay all reasonable actuary expenses and costs incurred in connection with the administration of the Trust;
- i) To pay all reasonable consultant expenses and costs incurred in connection with the administration of the Trust;
- j) To pay all reasonable audit expenses and costs incurred in connection with the administration of the Trust;
- k) To pay all reasonable insurance broker's fees and costs incurred in connection with the administration of the Trust;
- l) To pay any other reasonable and appropriate expenses including third party administration or claims management fees as may be necessary in connection with the administration of the Trust;
- m) To establish adequate and appropriate reserves for any and all valid claims for corrective action necessary in the response, abatement, investigation, remediation and removal activities resulting from the release of contaminants or pollutants that are the obligation of the City;
- n) To establish adequate and appropriate reserves for any and all valid claims for legal liability arising from the release of contaminants or pollutants that are the obligation of the City;
- o) To pay, upon such terms and conditions as considered appropriate and proper, the costs arising from claims for corrective action necessary in the response, abatement, investigation, or remediation and removal activities resulting from release of contaminants or pollutants that are the obligation of the City;
- p) To pay, upon such terms and conditions as considered appropriate and proper the legal claims, settlements or judgments, including pre-judgment and post-judgment interest, arising from the release of contaminants or pollutants that are the obligation of the City;
- q) To pay for taking corrective action and for compensating third parties for bodily injury and property damage caused by accidental releases arising from the operation of petroleum underground storage tanks;
- r) To pay all reasonable and appropriate insurance premiums and costs incurred as the result of the purchase of insurance, surety bonds, or other programs and plans which insures the City, its Divisions, and its Employees against costs for lawful environmental impairment claims that are the obligation of the City;
- s) To pay, upon such terms and conditions as considered appropriate and proper the health, dental, life or disability benefits for Employees

and Retirees of the City and their dependents and expenses associated therewith. Expenses may include but are not limited to third party administration fees, legal fees, consulting fees, actuarial fees, training expenses, professional membership fees and communication expenses.

- t) To pay, upon such terms and conditions as are considered appropriate and proper, expenses associated with the Live Life Well employee wellness program.

4.3 Program for Defense of Claims.

4.3.1 The Trustees direct and authorize the Director to establish a program for the defense of claims for liability and for environmental impairment liability against the City.

- a) The Director will make decisions to settle claims and lawsuits or to try lawsuits subject to the approval of the City Attorney. The Director has the authority to reject in whole or in part, or to settle or compromise (within the limits of authority set forth in Schedule A to this Trust), any claim made by any Employee or third party against the City. The Director is authorized to re-delegate all or any portion of that authority to City adjustors and similar Employees or agents who report to the Director, and this re-delegation of authority will survive any vacancy in the Office of the Administrator.
- b) The Director will consult with the City Attorney when claims are likely to involve litigation. If the City Attorney declines to provide the defense for a damage suit, the Director will, with the concurrence of the City Attorney, select and contract for an appropriate legal counsel based upon their expertise and experience in the particular type of litigation in question.
- c) The Director has the authority to determine, in the exercise of his/her best judgment after consultation with the City Attorney, whether an offer to compromise and settle a claim has sufficient merit for consideration and after consultation with the City Attorney, to make a recommendation with regard to the proposed compromise and settlement. An offer to compromise and settle a claim of \$20,000 up to the sum of \$100,000 must receive the approval of the City Council. Any offer to compromise and settle a claim over \$100,000 must receive the approval of the City Council or the Trustees.
- d) The Director may, after consultation with the City Attorney, issue a reservation of rights whenever a claim is presented for which the City and this Trust appear to be, but may or may not be liable, depending upon the determination of the factual basis for the claim.
- e) The defense and indemnification of city employees, the mayor, council members, and charter officers will be in accordance with the provisions of SRC § 2-178 and 2-179.

4.4 Exclusions from Trust.

4.4.1 Unless approval has been obtained from the Trustees for payment, the coverage provided under the provisions of the Trust do not apply to loss, claims, or defense and related costs or fees listed below:

- a) Arising from any expenditure for any purpose not specified in A.R.S. §11-981 or Article 3.1 above;
- b) Arising from fines, assessments, penalties, punitive, exemplary, or treble damages arising out of the willful violation of a penal statute or ordinance;
- c) Arising from an act or omission determined by a court having jurisdiction to be a violation of Arizona Revised Statutes Titles 13 and 28, or a violation of any other federal, state or local law or ordinance which allows the imposition of criminal penalties including claims arising out of acts of bad faith or fraud committed by or at the direction of an individual with affirmative dishonesty or actual intent to deceive or defraud. Any acts or omissions which may reasonably be characterized as a violation of the above-referenced laws are also excluded from coverage under the Trust, provided however, that the Trust may pay for the costs, including reasonable attorneys' fees, of investigating and defending against any such claims upon the following conditions:
 - 1. When incurred before entry of judgment of guilt or entry of a guilty plea or entry of a no contest plea to a violation of the above-referenced laws, which ever will first occur; provided however, that the City will have the right to recover all costs and fees expended upon investigation and defense of any claims which result in a conviction or plea of guilty or no contest;
- d) Arising from a default of or breach of contract or agreement entered into with third parties by the City, its Divisions, or Employees, unless the default or breach is related to conduct or matters covered by the Trust;
- e) Arising from any routine maintenance costs necessary for the reconstruction, repair, replacement, upgrading, or rebuilding of any City owned storage facility necessary for the storage of materials that may be considered as contaminants or pollutants;
- f) Arising out of a disciplinary or licensure proceeding before a professional regulatory body unless written approval has been obtained from the Trustees before payment;

- g) Arising out of City law enforcement agency Whistle Blower proceedings, pursuant to A.R.S. § 38-531 *et seq.*, except that non-coverage is limited to: 1) compensation of any hearing officer; 2) compensation of any court reporter(s) and costs of transcripts; 3) compensation of any persons who administer or provide administrative support service to a City law enforcement agency Whistle Blower proceedings; 4) costs of reinstatement, including back pay and benefits, of any Employee, as ordered by the City law enforcement agency Whistle Blower proceedings; and 5) payment of any civil penalties imposed pursuant to A.R.S. § 38-532 against an Employee;
- h) Arising from intentional and willful wrongful act(s) of an Employee;
- i) Arising from judicially or administratively imposed or mandated costs for wages, benefits or penalties arising out of employment or agency relationships with the City; the Trustees may elect to include coverage for wages if under Title VII or similar claims;
- j) For claims arising directly or indirectly out of any actual or alleged taking of property, condemnation, inverse condemnation, dedication, enforcement or interpretation of a land use, zoning or subdivision ordinance or regulation, for the regulatory approval or disapproval of any development or redevelopment project, and contract disputes except when the dispute involves insurance coverage;
- k) Claims which are covered by a valid insurance policy or which are deemed uninsurable under law;
- l) Claims for healthcare/dental services not covered in the City's plan design, provided, however, that the Director and Benefits Manager may mutually agree to pay such claims as individual circumstances may warrant;
- m) Any claim based upon a person gaining in fact any personal profit or advantage to which he was not legally entitled;
- n) Any claim when a service was allegedly rendered for compensation from a source other than the City and when the City is not liable;
- o) Inventory shrinkage and damages to City property that has customarily been repaired by City employees;
- p) The first one thousand dollars (\$1,000.00) of any property loss, such loss shall be paid by the separate departments within the City, as required by SRC § 2-170 (b)(15);
- q) Lost wages not covered under the workers' compensation laws of the state or any other state.

4.4.2 Underground Petroleum Storage Tanks. This self-insurance Trust may constitute the local government fund mechanism for purposes of demonstrating financial responsibility for the City's operation of underground petroleum storage tanks.

4.4.3 Trust Subject to Conditions. The coverage provided under the provisions of this Declaration of Trust will be subject to the following conditions:

- a) If a claim is made or suit is brought against a Trust Member covered by the terms of this Declaration of Trust, the Trust Member will forward to the Director within 7 days, every demand, notice, summons or other process received by the covered party or its representative. Failure of a Trust Member to promptly forward to the Director every demand, notice, summons or other process received may result in denial of coverage by the Trust.
- b) The Director will oversee the investigation, settlement or defense of any claim made or suit brought or proceeding instituted against a party covered by the terms of this Trust, and any party covered by the terms of this Trust will cooperate fully with the Director and appointed counsel in the defense of claims covered under the Trust. The failure of a covered party to fully cooperate in the administration, investigation and defense of any claim will result in the loss of coverage under this Trust.
- c) In the case of an Employee operating his or her private vehicle on City business, if valid and collectible commercial insurance is available to a party covered by the terms of this Trust that covers a loss also covered by this Trust, other than insurance that is written specifically in excess of coverage afforded by the Trust, the coverage afforded by this Trust will be excess of and will not contribute to any other insurance. Nothing contained in the terms of this Trust will be construed to make the Trust subject to the terms, conditions and limitations of any other insurance.
- d) Any loss payable for damage to property or contents of the City will only be payable upon the restoration or replacement of the property. The Trust will not be obligated to compensate any Division of the City, or any Employee if property covered by the terms of this Trust is damaged but is not restored or replaced.

4.5 Non-Liability of Director. Except as otherwise provided by law, the Director will not be liable individually for any act or omission of the Director or agent or representative of the Director or for negligence, error in judgment, or any act or omission, except his or her own bad faith, gross negligence or willful and wanton misconduct in the conduct of his or her duties. Every act or thing done or omitted, and power exercised or obligation incurred by the Director in the administration of the Trust, or in connection with any business or property of the Trust, in his or her capacity as Director, will be considered done, omitted, exercised, or incurred by the Director acting under the powers and duties imposed on the Director under the provisions of this Trust; and, upon any debt, claim, demand, judgment, decree, or obligation of any

nature whatsoever against or incurred by the Director in his or her capacity as the Director, whether founded upon contract or tort, recourse will be had solely to the property of the Trust. Nothing contained in this Trust will protect the Director or agent or representative of the Trust against liability to the Trust, or to the beneficiaries of the Trust for gross negligence, bad faith or willful and wanton misconduct in the conduct of his or her duty. For purposes of Articles 4.5 and 4.6 only, wherever the term "Director" is used, it will be understood to include the Benefits Manager or the Director's designee.

- 4.6 Indemnification of Director. The Trust will indemnify, defend and hold harmless the Director from and against all claims and liabilities, whether they proceed to judgment or are settled, to which the Director may become subject, by reason of his or her being or having been the Director, or by reason of any action alleged to have been taken or omitted by him or her, as Director, and will reimburse him or her for all legal and other expenses reasonably incurred by him or her in connection with any such claim or liability; provided, however, that the Director will be indemnified or reimbursed under the foregoing provisions in relation to any matter, unless it will have been adjudicated that his or her action or omission constituted bad faith, gross negligence or willful and wanton misconduct in the conduct of his or her duties, or, unless, in the absence of an adjudication, the Trust will have received a written opinion from City Attorney, or in case of conflict a private outside counsel to the effect that if the matter of bad faith, gross negligence or willful and wanton misconduct in the conduct of duties had been adjudicated, it would have been adjudicated in favor of the Director. The rights accruing to the Director under these provisions will not exclude any other right to which he or she may be lawfully entitled, nor anything contained in this Trust, restrict the right of the Trust to indemnify or reimburse the Director in any proper cause, even though not specifically provided for in this Trust; provided, that the Director may satisfy any right of indemnity or reimbursement granted by this Trust, or to which he or she may be otherwise entitled, except as provided by law.
- 4.7 Designation of Director. The Trustees designate and appoint the Risk Management Director as the administrator of the Trust. The Director will be in charge of and responsible for the operation of the Trust.
- 4.8 Procurement Provisions. All purchases of the "Trust," except for purchases of commercial liability insurance, fidelity insurance, surety insurance, appeal or other types of bonds, single premium immediate or deferred annuities and structured settlement annuities, and any other insurance listed in Recitals A, B, and C of this Declaration of Trust acquired by a broker of record for the City will comply with City rules and regulations pertaining to competitive bidding or requests for proposals in accordance with the City's Procurement Code. The Director, or his or her designee, will be designated as a procurement officer authorized to purchase all materials and services required for the operations of the Trust in accordance with the authority delegated by the Trustees. Payment for materials and services contracted for by the Trust will be the exclusive obligation of the Trust.
- 4.9 Counterparts. This Declaration of Trust may be executed in several counterparts, all of which together will be considered an original.
- 4.10 Stop Loss. For each City self-insured liability (including without limitation employee

benefits and casualty loss liabilities) the stop loss terms and amount will be the same for each Trust Member for which this Trust exists as the source for payment of the self insured liabilities allowed under A.R.S. § 11-981. The stop loss will apply equally in terms and amount to each Trust Member, subject to the type of coverage involved, for which this Trust exists as the source for payment of self insured liabilities.

The Mayor and City Clerk have executed this Declaration of Trust as of the date stated above, in accordance with the authority granted by the City Council in Resolution No. 9166.

CITY OF SCOTTSDALE, STATE OF ARIZONA

By  _____
W. J. "Jim" Lane, Mayor

ATTEST:

 _____
Carolyn Jagger, Clerk of the City

TRUSTEES:

 _____
George Hostal, Chairman

 _____
William R. Powell

 _____
Jim Stabilito

 _____
Jim Tomlinson

 _____
David Petulla

LEGAL COUNSEL DETERMINATION

City Attorney has reviewed this Declaration of Trust and has determined that it is in proper form, and is within the powers, authority, and discretion granted to the City and the City Council under the laws of the State of Arizona.

DATED this 28th day of August, 2012.



Bruce Washburn, City Attorney

By: Clifford J. Frey
Senior Assistant City Attorney

SCHEDULE A**Public Liability Settlement Authority**

[NOTE: For purposes of this Schedule A Claim means the demand or demands for compensation made by an individual person or other legal entity which a) arise(s) from a single incident or related set of circumstances, and b) is/are compensable under the provisions of this Trust. The provisions of A.R.S. § 12-612 notwithstanding, each statutory beneficiary in a wrongful death action will be considered as having an individual Claim for compensation for damages.]

- | | |
|---------------------------------|--|
| a. Risk Management Director | Any claims covered by this Declaration of Trust up to \$19,999.99. |
| b. The City Council | Claims of \$20,000 up to \$100,000. |
| c. City Council or the Trustees | Claims over \$100,000. |

RESOLUTION NO. 9166

A RESOLUTION OF THE COUNCIL OF THE CITY OF SCOTTSDALE, MARICOPA COUNTY, ARIZONA, APPROVING SCOTTSDALE NO. 2012-144-COS, DECLARATION OF TRUST FOR CITY OF SCOTTSDALE, ARIZONA SELF-INSURED LOSS TRUST FUND AND AUTHORIZING TRUSTEES TO ACT ON BEHALF OF THE TRUST.

The City has self-insured a portion of its risk of loss for a number of years; and

To comply with the requirements of A.R.S. §11-981, the City must place all of its self-insured funds into a Trust fund for the purpose of administering and managing direct payment of benefits, losses or claims for employees and officers of the City for health, accident, life or disability benefits and Workers' Compensation; and

The Industrial Commission of Arizona is requiring all municipalities who have self-insured loss funds to adopt a Declaration of Trust to insure proper administration and management of the self-insured loss trust fund; and

In compliance with this requirement, a Declaration of Trust has been prepared and has been reviewed by the trustees and its approval is recommended by the trustees.

BE IT RESOLVED by the Council of the City of Scottsdale as follows:

Section 1. The Mayor of the City of Scottsdale is authorized and directed to execute Scottsdale No. 2012-144-COS, the Declaration of Trust for City of Scottsdale, Arizona Self-Insured Loss Trust Fund. The Board of Trustees is authorized to act on behalf of the Trust.

PASSED AND ADOPTED by the Council of the City of Scottsdale this 11th day of September, 2012.

ATTEST:

CITY OF SCOTTSDALE, an
Arizona Municipal Corporation

By: Carolyn Jagger
Carolyn Jagger, City Clerk

By: W. J. "Jim" Lane
W. J. "Jim" Lane, Mayor

APPROVED AS TO FORM:

Clifford J. Frey
Bruce Washburn, City Attorney
By: Clifford J. Frey
Senior Assistant City Attorney



City of Scottsdale, Arizona

**Actuarial Study of the Self-Insured
Workers Compensation,
General Liability, Automobile Liability,
Property and Automobile Physical Damage
Programs as of June 30, 2021**

Issue Date: September 21, 2021

17875 Von Karman Avenue, Suite 300
Irvine, CA 92614
tel: 949.608.6300 • fax: 949.608.6475 • www.aon.com
Aon Risk Solutions | Global Risk Consulting | Actuarial and Analytics



September 21, 2021

City of Scottsdale
7447 E. Indian School Rd. Suite 225
Scottsdale, Arizona 85251

Attn: Mr. George Woods
Risk Management Director

**Actuarial Study of the Self-Insured
Workers Compensation,
General Liability, Automobile Liability,
Property and Automobile Physical Damage
Programs as of June 30, 2021**

This study has been completed for the City of Scottsdale, Arizona, for the specific objectives listed in the study. It contains the analysis and conclusions of our work.

Each section and appendix of the study is an integral part of the whole. We recommend a review of the entire study prior to reliance upon this study.

No key personnel have a relationship with the City of Scottsdale, Arizona, that may impair our objectivity.

Please call if you have any questions. Thank you for the opportunity to be of service.

Respectfully submitted,

Aon Risk Consultants, Inc.

Ziruo Wang, FCAS, MAAA
Senior Consultant and Actuary

Michael Pehl
Actuarial Analyst

ZW:MP

X:\Clients\Actuarial\S\Scottsdale, City of 463\2021_06_30\Report\Scottsdale_063021.doc



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| B | Glossary of Actuarial Terms |
| C | Exhibits |



I. Background

The City of Scottsdale (the City) established the self-insurance program on July 1, 1978. Coverages include workers compensation, general liability (inclusive of professional errors & omissions), automobile liability, property and automobile physical damage. On July 1, 2005, the City began providing coverage for the fire department. The scope of this actuarial analysis does not specifically address environmental liability. We recommend the City collect statistics on this potentially expensive coverage.

Since the inception of the program, the City has purchased excess of loss insurance for workers compensation, general liability, automobile liability, and property. Table I-1 is a summary of the self-insured retentions.

**Table I-1
Self-Insured Retention**

| Claim Period (1) | Workers Compensation (2) | General Liability and Automobile Liability (3) | Property (4) | Automobile Physical Damage (5) |
|-----------------------------|---|---|-------------------------|---|
| 07/01/78 to 06/30/80 | \$250,000 | \$250,000 | \$25,000 | Unlimited |
| 07/01/80 to 06/30/81 | 250,000 | 100,000 | 25,000 | Unlimited |
| 07/01/81 to 06/30/82 | 200,000 | 100,000 | 25,000 | Unlimited |
| 07/01/82 to 06/30/85 | 150,000 | 100,000 | 25,000 | Unlimited |
| 07/01/85 to 06/30/86 | 150,000 | 250,000 | 25,000 | Unlimited |
| 07/01/86 to 06/30/87 | 175,000 | 250,000 | 25,000 | Unlimited |
| 07/01/87 to 06/30/88 | 175,000 | 1,000,000 | 25,000 | Unlimited |
| 07/01/88 to 06/30/89 | 250,000 | 1,000,000 | 25,000 | Unlimited |
| 07/01/89 to 06/30/95 | 300,000 | 1,000,000 | 25,000 | Unlimited |
| 07/01/95 to 06/30/96 | 300,000 | 1,000,000 | 50,000 | Unlimited |
| 07/01/96 to 06/30/02 | 250,000 | 1,000,000 | 50,000 | Unlimited |
| 07/01/02 to 06/30/03 | 400,000 | 2,000,000 | 100,000 | Unlimited |
| 07/01/03 to 06/30/06 | 600,000 | 2,000,000 | 100,000 | Unlimited |
| 07/01/06 to 06/30/11 | 750,000 | 2,000,000 | 100,000 | Unlimited |
| 07/01/11 to 06/30/12 | 850,000 | 2,000,000 | 100,000 | Unlimited |
| 07/01/12 to present | 1,000,000 | 2,000,000 | 100,000 | Unlimited |

Note: Above information provided by the City.

We assumed the City will maintain the current insurance coverage through 2026/27. A review of the collectability of the excess insurance was not within our review.



Data

Workers compensation, general liability, automobile liability, automobile physical damage, and property data valued as of June 30, 2021 was provided to us by the City.

The City provided 2020/21 payroll. The payroll information for years prior to 2020/21 we relied on the figures provided for the study as of June 30, 2020 (Prior Study). Projected payroll for 2021/22 through 2026/27 is based on a 2% trend as instructed by the City in the prior study. For vehicle count and property values, we relied on the prior study, and applied a 1% trend for the projected years.

For general liability, automobile liability, property, and automobile physical damage, claim counts exclude \$0 claims. Since all claim numbers were unique, we assumed non-workers compensation claims are provided by occurrence and applied the appropriate self-insured retention to each claim.

In conducting this analysis, we relied upon the provided data without audit or independent verification; however, we reviewed it for reasonableness and consistency. Any inaccuracies in quantitative data or qualitative representations could have a significant effect on the results of our review and analysis. Any material discrepancies discovered in the loss data by the City or any other parties should be reported to us immediately, and if warranted, we will make appropriate amendments to the report.



COVID-19

The potential short- and long-term impacts of the COVID-19 pandemic and the ensuing economic recession are currently unknown. However, considerations for the County regarding this emerging risk include:

Due to the stay-at-home orders, the exposure to the claims is reduced.

We recommend the County consult with its claims professionals and legal counsel to ascertain any potential risk for COVID-19 claims.

To reflect the impact on the 2019/20 and 2020/21 projected losses. Claim frequency was assumed to have the following reductions:

- For workers compensation, 30% frequency reduction for March through June 2020 and 20% reduction for July 2020 to June 2021, based on the limited available claim data from other similar clients and the City's historical reported claims by month. We applied a risk-adjustment factor of 0.89 to the 2019/20 payroll and a risk-adjustment factor of 0.8 to the 2020/21 payroll to reflect the lower expected claims for these years.
- For general liability, automobile liability, automobile physical damage, and property programs, we did not adjust the exposure.

Adjustments stated above are based on the limited claim frequency data available at this time. Due to the uncertainty of the COVID-19 pandemic, our estimate of the projected losses for 2020/21 is subject to more uncertainty than usual.

In addition, there is significant uncertainty regarding the impact of COVID-19 and any potential legislation, executive orders, or stay-at home orders on 2021/22 and subsequent years' claims. As such, we made no adjustment to the 2021/22 and subsequent years' estimates for COVID-19. The actual emerged claim experience may differ significantly from the estimates projected in this report.



II. Objectives

The specific objectives of this study are the following:

1. **Estimate Outstanding Losses.** Estimate outstanding losses (including ALAE) as of June 30, 2021.

The estimated outstanding losses are the cost of unpaid claims. The estimated outstanding losses include case reserves and the development of known claims and IBNR claims. ALAE are the direct expenses for settling specific claims. The amounts are limited to the self-insured retention.

2. **Project Ultimate Limited Losses.** Project ultimate limited losses (including ALAE) for 2021/22 and five subsequent claim periods.

The projected ultimate limited losses are the losses incurred during each claim period, regardless of report or payment date. The amounts are limited to the self-insured retention.

3. **Project Losses Paid.** Project losses paid during the 2021/22 and five subsequent claim periods.

The projected losses paid are claim disbursements during each claim period, regardless of accident or report date. The amounts are limited to the self-insured retention.

4. **Recommend Fund Balances.** Recommend fund balances at the beginning of 2021/22 and five subsequent claim periods.

The recommended fund balances are based on the full value and present value of the estimated outstanding losses.

5. **Project Ultimate Claims.** Project the number of ultimate claims for 2021/22 and five subsequent claim periods.

The projected ultimate claims are the claims reported by claim period.

6. **Size of Loss Distribution Analysis.** Analyze the distribution of losses in various layers.



III. Conclusions

1. Estimate Outstanding Losses

We estimate outstanding losses as of June 30, 2021 as shown in Table III-1A.

**Table III-1A
Estimated Outstanding Losses
June 30, 2021**

| Program (1) | Estimated Outstanding Losses (2) | Present Value of Estimated Outstanding Losses (3) |
|--------------------------------|---|--|
| (A) Workers compensation | \$15,005,987 | \$13,940,449 |
| (B) General liability | 4,272,044 | 4,206,900 |
| (C) Automobile liability | 969,080 | 961,716 |
| (D) Property | 132,457 | 131,591 |
| (E) Automobile physical damage | 277,345 | 275,752 |
| (F) Total (A)...(E) | \$20,656,913 | \$19,516,408 |

Note: (A) is from Exhibit WC-11.
(B) is from Exhibit GL-11.
(C) is from Exhibit AL-11.
(D) is from Exhibit PR-11.
(E) is from Exhibit APD-11.

The present value of the estimated outstanding losses is the unpaid claims discounted to reflect future investment income. A 1.0% interest rate was assumed, as affirmed by the City.

The estimated outstanding losses reflect the excess insurance maintained by the City.

All non-claim expenses are additional.

The estimated outstanding losses do not include outstanding unallocated loss adjustment expenses (ULAE). ULAE are primarily composed of future claims administration for open claims. Outstanding ULAE are typically 5% to 10% of estimated outstanding losses.



Table III-1B
Change in Estimated Outstanding Losses
June 30, 2020 to June 30, 2021

| Program (1) | Estimated Outstanding Losses as of 06/30/21 (2) | Estimated Outstanding Losses as of 06/30/20 (3) | Change in Estimated Outstanding Losses (2) - (3) (4) |
|--------------------------------|---|---|---|
| (A) Workers compensation | \$15,005,987 | \$15,056,846 | (\$50,859) |
| (B) General liability | 4,272,044 | 3,378,838 | 893,206 |
| (C) Automobile liability | 969,080 | 1,059,986 | (90,906) |
| (D) Property | 132,457 | 20,973 | 111,484 |
| (E) Automobile physical damage | 277,345 | 117,046 | 160,299 |
| (F) Total (A)...(E) | \$20,656,913 | \$19,633,689 | \$1,023,224 |

Note: (2) is from Table III-1A
(3) is from the Prior Study.

The total estimated outstanding losses increased by about \$1.0 million from \$19.6 million as of June 30, 2020 to \$20.6 million as of June 30, 2021. This change is mainly due to the general liability program.

The general liability estimated outstanding losses increased by \$0.9 million compared to our prior estimate as of June 30, 2020, which was \$3.4 million. The change of the general liability estimated outstanding losses can be broken into the following components:

- +\$2.6 million from the additional year (2020/21) of exposure,
- -\$1.4 million for claim payments made during 2020/21, and
- -\$0.2 million due to a change in projected ultimate losses for claim periods 2019/20 and prior.



A reconciliation of the outstanding losses change for each program can be found in Table III-1Ci to III-1Cv.

Table III-1Ci
Reconciliation of Estimated Outstanding Losses
June 30, 2020 to June 30, 2021
(Workers Compensation)

| Claim Period (1) | Item (2) | Amount (3) |
|-----------------------------|--|---------------|
| (A) Through 2019/20 | (i) Estimated outstanding losses as of 6/30/20 | \$15,056,846 |
| | (ii) Losses paid during 2020/21 | (2,622,028) |
| | (iii) Change in projected ultimate limited losses for claim periods 2019/20 and prior: <ul style="list-style-type: none"> • (Aiii) is -0.6% of the total projected ultimate losses | (365,282) |
| | (iv) Estimated outstanding losses as of 6/30/21 (Ai) + (Aii) + (Aiii) | \$12,069,536 |
| (B) 2020/21 | (i) Projected ultimate limited losses | \$4,060,000 |
| | (ii) Losses paid during 2020/21 | (1,123,550) |
| | (iii) Estimated outstanding losses as of 06/30/21 (Bi) + (Bii) | \$2,936,450 |
| (C) Total (Aiv) + (Biii) | (i) Estimated outstanding losses as of 06/30/21 | \$15,005,986 |

Table III-1Cii
Reconciliation of Estimated Outstanding Losses
June 30, 2020 to June 30, 2021
(General Liability)

| Claim Period (1) | Item (2) | Amount (3) |
|-----------------------------|--|---------------|
| (A) Through 2019/20 | (i) Estimated outstanding losses as of 6/30/20 | \$3,378,838 |
| | (ii) Losses paid during 2020/21 | (1,296,804) |
| | (iii) Change in projected ultimate limited losses for claim periods 2019/20 and prior: <ul style="list-style-type: none"> • (Aiii) is -0.5% of the total projected ultimate losses | (244,445) |
| | (iv) Estimated outstanding losses as of 6/30/21 (Ai) + (Aii) + (Aiii) | \$1,837,589 |
| (B) 2020/21 | (i) Projected ultimate limited losses | \$2,562,000 |
| | (ii) Losses paid during 2020/21 | (127,545) |
| | (iii) Estimated outstanding losses as of 06/30/21 (Bi) + (Bii) | \$2,434,455 |
| (C) Total (Aiv) + (Biii) | (i) Estimated outstanding losses as of 06/30/21 | \$4,272,044 |



Table III-1Ciii
Reconciliation of Estimated Outstanding Losses
June 30, 2020 to June 30, 2021
(Automobile Liability)

| Claim Period (1) | Item (2) | Amount (3) |
|-----------------------------|--|---------------|
| (A) Through 2019/20 | (i) Estimated outstanding losses as of 6/30/20 | \$1,059,986 |
| | (ii) Losses paid during 2020/21 | (336,097) |
| | (iii) Change in projected ultimate limited losses for claim periods 2019/20 and prior: • (Aiii) is -1.3% of the total projected ultimate losses | (142,798) |
| | (iv) Estimated outstanding losses as of 6/30/21 (Ai) + (Aii) + (Aiii) | \$581,091 |
| (B) 2020/21 | (i) Projected ultimate limited losses | \$482,000 |
| | (ii) Losses paid during 2020/21 | (94,012) |
| | (iii) Estimated outstanding losses as of 06/30/21 (Bi) + (Bii) | \$387,988 |
| (C) Total (Aiv) + (Biii) | (i) Estimated outstanding losses as of 06/30/21 | \$969,079 |

Table III-1Civ
Reconciliation of Estimated Outstanding Losses
June 30, 2020 to June 30, 2021
(Property)

| Claim Period (1) | Item (2) | Amount (3) |
|-----------------------------|---|---------------|
| (A) Through 2019/20 | (i) Estimated outstanding losses as of 6/30/20 | \$20,973 |
| | (ii) Losses paid during 2020/21 | (15,048) |
| | (iii) Change in projected ultimate limited losses for claim periods 2019/20 and prior: • (Aiii) is 1.6% of the total projected ultimate losses | 42,108 |
| | (iv) Estimated outstanding losses as of 6/30/21 (Ai) + (Aii) + (Aiii) | \$48,033 |
| (B) 2020/21 | (i) Projected ultimate limited losses | \$316,000 |
| | (ii) Losses paid during 2020/21 | (231,575) |
| | (iii) Estimated outstanding losses as of 06/30/21 (Bi) + (Bii) | \$84,425 |
| (C) Total (Aiv) + (Biii) | (i) Estimated outstanding losses as of 06/30/21 | \$132,458 |



Table III-1Cv
Reconciliation of Estimated Outstanding Losses
June 30, 2020 to June 30, 2021
(Automobile Physical Damage)

| Claim Period (1) | Item (2) | Amount (3) |
|-----------------------------|---|---------------|
| (A) Through 2019/20 | (i) Estimated outstanding losses as of 6/30/20 | \$117,046 |
| | (ii) Losses paid during 2020/21 | (110,621) |
| | (iii) Change in projected ultimate limited losses for claim periods 2019/20 and prior: • (Aiii) is 0.4% of the total projected ultimate losses | 21,542 |
| | (iv) Estimated outstanding losses as of 6/30/21 (Ai) + (Aii) + (Aiii) | \$27,967 |
| (B) 2020/21 | (i) Projected ultimate limited losses | \$455,000 |
| | (ii) Losses paid during 2020/21 | (205,624) |
| | (iii) Estimated outstanding losses as of 06/30/21 (Bi) + (Bii) | \$249,376 |
| (C) Total (Aiv) + (Biii) | (i) Estimated outstanding losses as of 06/30/21 | \$277,343 |



The estimated outstanding losses include case reserves and the development of known claims and IBNR claims. Based on our studies of similar programs, we estimate the IBNR claims to be approximately 10% of the development of claims. The components of the estimated outstanding losses are as shown in Table III-1D.

Table III-1D
Components of Estimated Outstanding Losses
June 30, 2021

| Program (1) | Limited Case Reserves (2) | Limited Case Reserve Development [90.0% of (5) - (2)] (3) | IBNR [10.0% of (5) - (2)] (4) | Estimated Outstanding Losses (5) |
|--------------------------------|---------------------------------|--|--|---|
| (A) Workers compensation | \$7,904,211 | \$6,391,598 | \$710,178 | \$15,005,987 |
| (B) General liability | 1,627,044 | 2,380,500 | 264,500 | 4,272,044 |
| (C) Automobile liability | 605,190 | 327,501 | 36,389 | 969,080 |
| (D) Property | 109,630 | 20,544 | 2,283 | 132,457 |
| (E) Automobile physical damage | 159,230 | 106,304 | 11,812 | 277,345 |
| (F) Total (A)...(E) | \$10,405,305 | \$9,226,447 | \$1,025,161 | \$20,656,913 |

Note: (2) was provided by the City.
(5) is from Table III-1A.



2. Project Ultimate Limited Losses

We project ultimate limited losses for 2021/22 and five subsequent claim periods to be as shown in Tables III-2A and 2B.

**Table III-2A
Projected Ultimate Limited Losses
2021/22 to 2026/27**

| Program (1) | 2021/22 (2) | 2022/23 (3) | 2023/24 (4) | 2024/25 (5) | 2025/26 (6) | 2026/27 (7) |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| (A) Workers compensation | \$4,421,000 | \$4,599,000 | \$4,785,000 | \$4,979,000 | \$5,180,000 | \$5,389,000 |
| (B) General liability | 2,530,000 | 2,632,000 | 2,739,000 | 2,849,000 | 2,964,000 | 3,084,000 |
| (C) Automobile liability | 386,000 | 405,000 | 425,000 | 447,000 | 469,000 | 493,000 |
| (D) Property | 200,000 | 206,000 | 213,000 | 219,000 | 226,000 | 233,000 |
| (E) Automobile physical damage | 337,000 | 354,000 | 372,000 | 391,000 | 410,000 | 431,000 |
| (F) Total (A)...(E) | \$7,874,000 | \$8,196,000 | \$8,534,000 | \$8,885,000 | \$9,249,000 | \$9,630,000 |

Note: (A), (B), (C), (D) and (E) are from Exhibits WC-10, GL-10, AL-10, PR-10 and APD-10, respectively.

**Table III-2B
Present Value of Projected Ultimate Limited Losses
2021/22 to 2026/27**

| Program (1) | 2021/22 (2) | 2022/23 (3) | 2023/24 (4) | 2024/25 (5) | 2025/26 (6) | 2026/27 (7) |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| (A) Workers compensation | \$4,197,000 | \$4,367,000 | \$4,543,000 | \$4,727,000 | \$4,918,000 | \$5,116,000 |
| (B) General liability | 2,462,000 | 2,561,000 | 2,665,000 | 2,772,000 | 2,884,000 | 3,001,000 |
| (C) Automobile liability | 381,000 | 400,000 | 420,000 | 441,000 | 464,000 | 487,000 |
| (D) Property | 199,000 | 205,000 | 211,000 | 218,000 | 224,000 | 231,000 |
| (E) Automobile physical damage | 334,000 | 351,000 | 369,000 | 387,000 | 407,000 | 427,000 |
| (F) Total (A)...(E) | \$7,573,000 | \$7,884,000 | \$8,208,000 | \$8,545,000 | \$8,897,000 | \$9,262,000 |

Note: (A), (B), (C), (D) and (E) are from Exhibits WC-10, GL-10, AL-10, PR-10 and APD-10, respectively.

The present value of the projected ultimate limited losses is based on a 1.0% interest rate, as affirmed by the City.

The projected ultimate limited losses reflect the excess insurance maintained by the City.

All non-claim expenses are additional.



Table III-2Ci
Projected Ultimate Limited Losses Comparison
Current 2021/22 V.S. Prior 2020/21
(Workers Compensation)

| Claim Period (1) | Projected Payroll (000) (2) | Loss Rate per \$100 of Payroll (3) | Projected Ultimate Losses (4) |
|-----------------------------|--|---|--|
| (A) 2020/21 (prior study) | \$182,437 | \$2.38 | \$4,343,000 |
| (B) 2021/22 (current study) | 180,144 | \$2.45 | 4,421,000 |
| (C) Change (B) - (A) | (\$2,293) | \$0.07 | \$78,000 |

The projected ultimate losses increased by \$78,000, about 1.8%, from 2020/21 (prior study) to 2021/22 (current study). This change consists of a 1.3% decrease in Payroll and a 3.1% increase in loss rate.

Table III-2Cii
Projected Ultimate Limited Losses Comparison
Current 2021/22 V.S. Prior 2020/21
(General Liability)

| Claim Period (1) | Projected Payroll (000) (2) | Loss Rate per \$100 of Payroll (3) | Projected Ultimate Losses (4) |
|-----------------------------|--|---|--|
| (A) 2020/21 (prior study) | \$182,437 | \$1.44 | \$2,624,000 |
| (B) 2021/22 (current study) | 180,144 | \$1.40 | 2,530,000 |
| (C) Change (B) - (A) | (\$2,293) | (\$0.03) | (\$94,000) |

The projected ultimate losses decreased by \$94,000, about 3.6%, from 2020/21 (prior study) to 2021/22 (current study). This change consists of a 1.3% decrease in Payroll and a 2.4% decrease in loss rate.



Loss Experience Trends

Graphs III-1 and III-2 show loss experience trends for workers compensation as measured by loss rate per \$100 of payroll and frequency and severity, respectively.

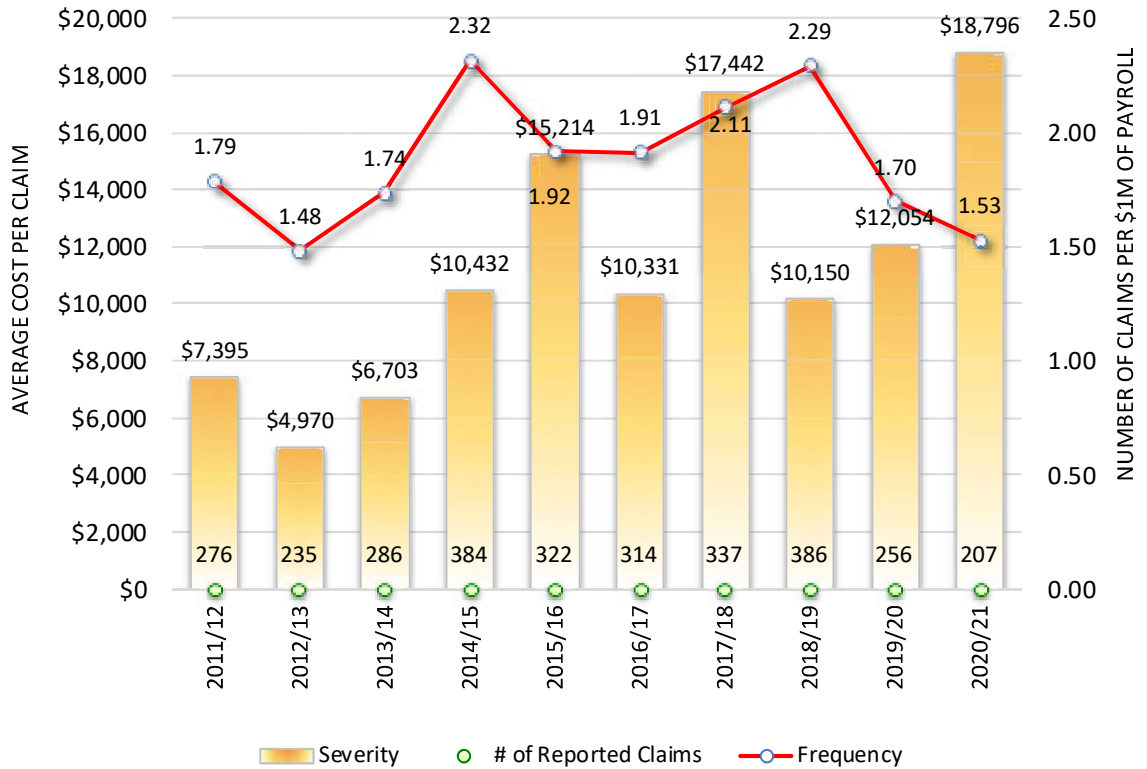
Graph III-1
Loss Rate per \$100 of Payroll
(Workers Compensation)



Note: Loss rates are from Exhibit WC-10, columns (4) and (7).



**Graph III-2
Frequency and Severity
(Workers Compensation)**

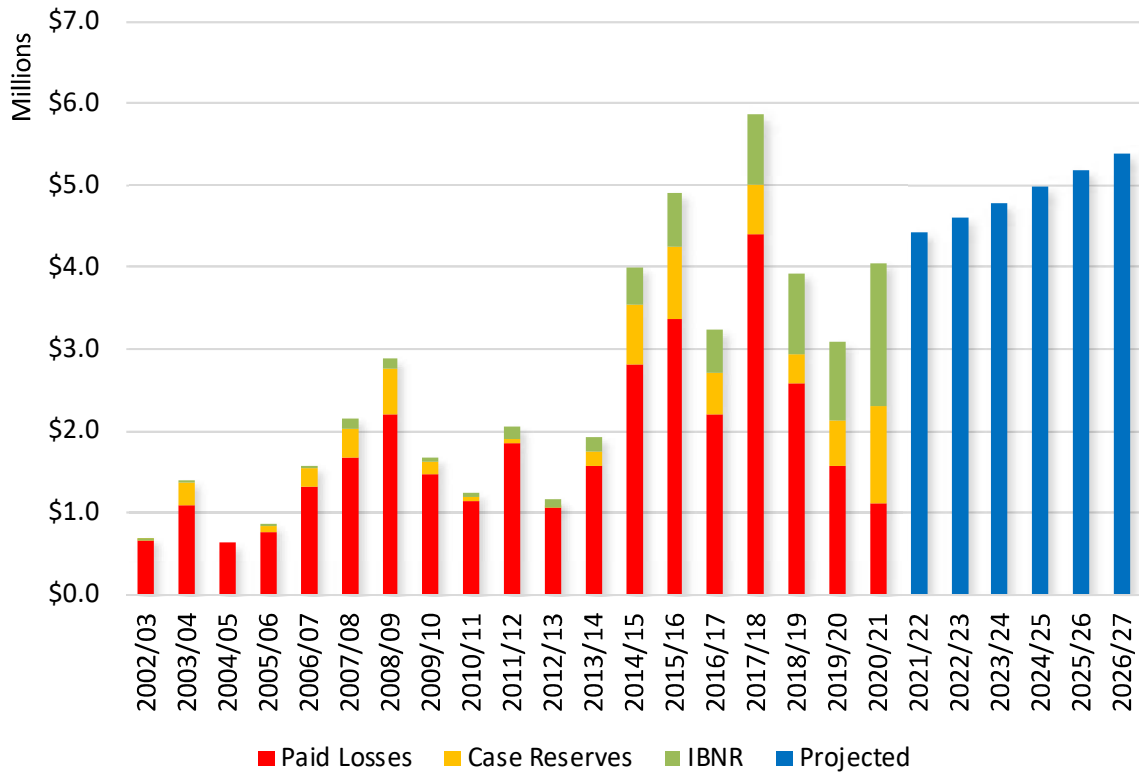


Note: Frequency amounts are from Exhibit WC-8, Section I, column (7). Severity amounts are based on the projected claim counts in Exhibit WC-8 and the projected ultimate losses in Exhibit WC-9.



Graph III-3 shows the composition of the projected ultimate limited losses for workers compensation.

Graph III-3
Composition of Projected Ultimate Limited Losses
(Workers Compensation)

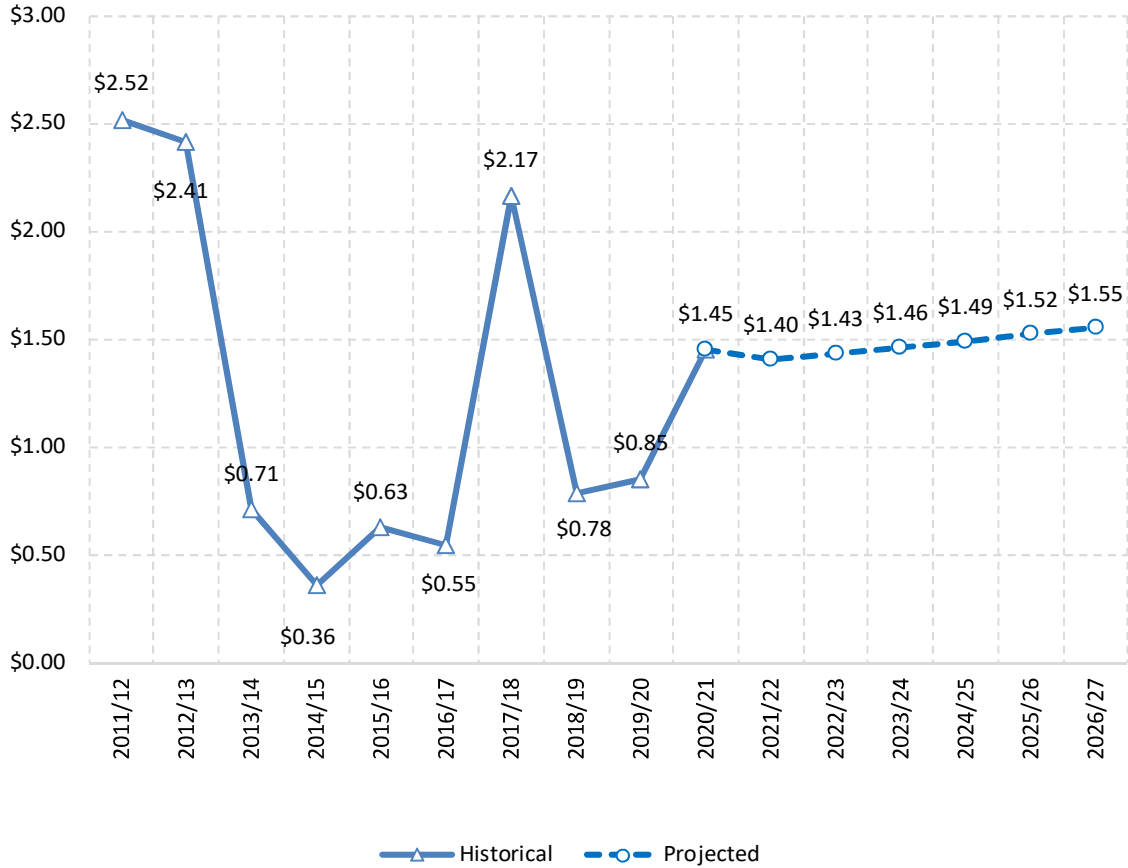


Note: Amounts through 2020/21 are from Exhibit WC-11.
 Amounts for 2021/22 to 2026/27 are from Exhibit WC-10.



Graphs III-4 and III-5 show loss experience trends for general liability as measured by loss rate per \$100 of payroll and frequency and severity, respectively.

**Graph III-4
Loss Rate per \$100 of Payroll
(General Liability)**

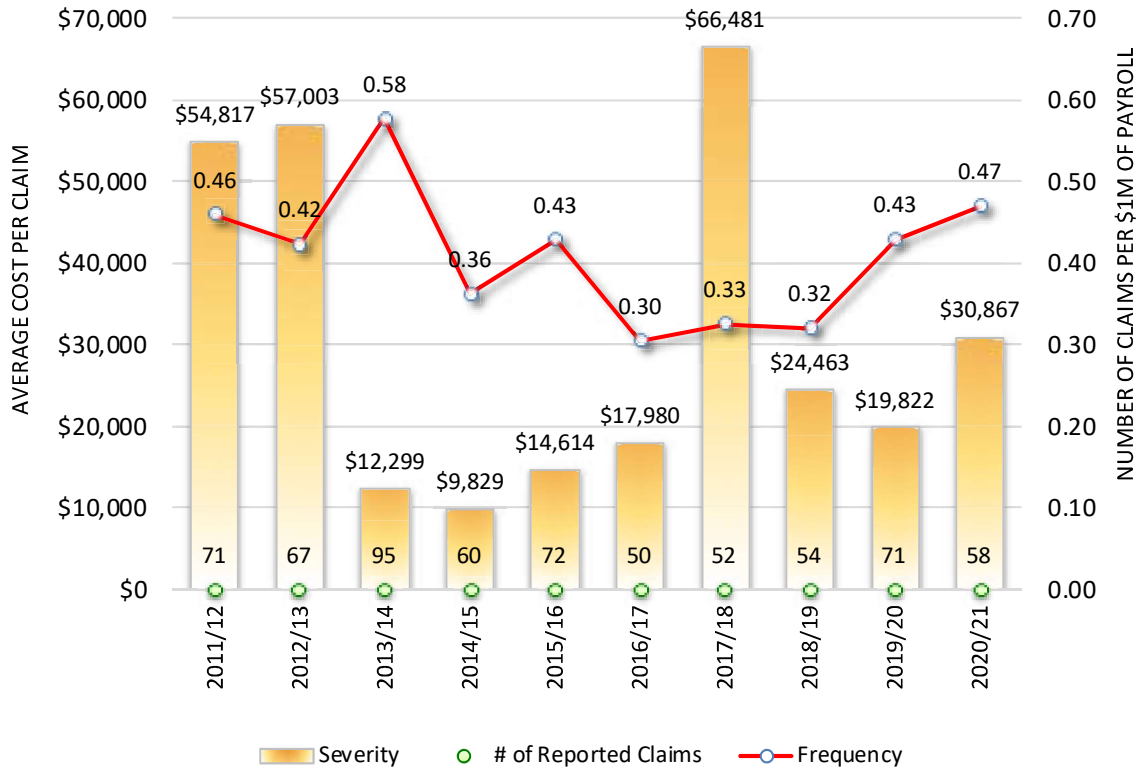


Note: Loss rates are from Exhibit GL-10, columns (4) and (7).

A list of large claims can be found in Exhibit GL-19.



**Graph III-5
Frequency and Severity
(General Liability)**

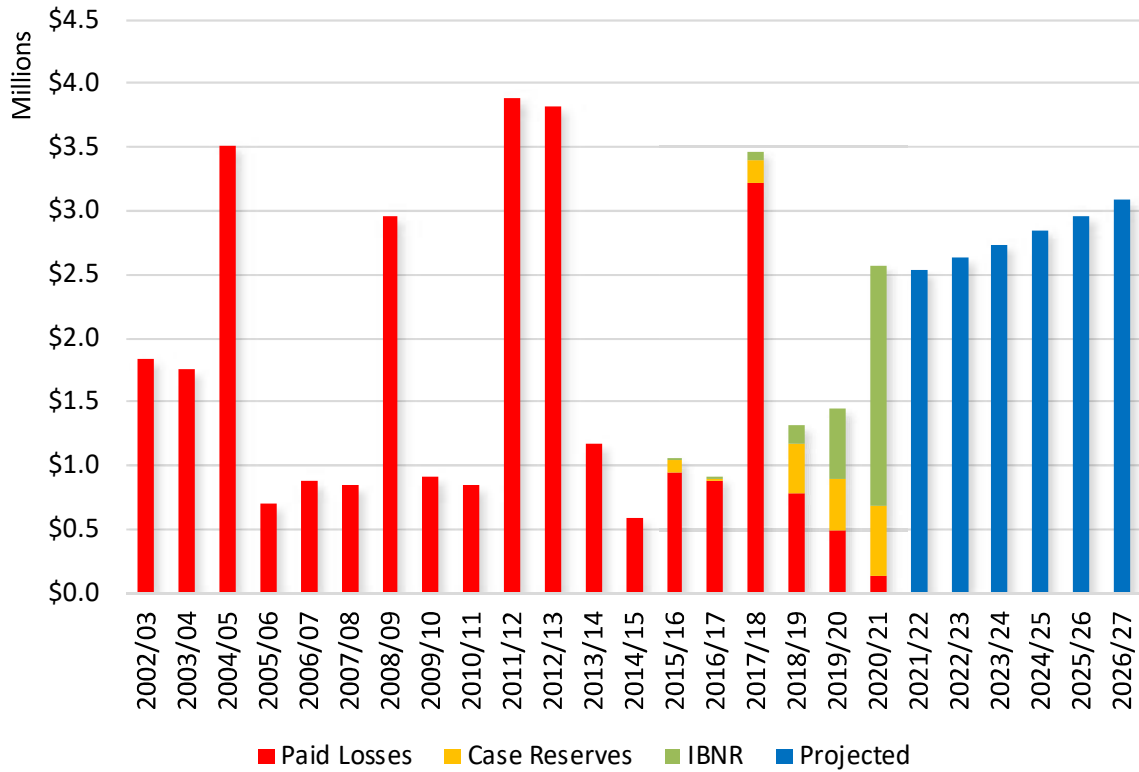


Note: Frequency amounts are from Exhibit GL-8, Section I, column (7). Severity amounts are based on the projected claim counts in Exhibit GL-8 and the projected ultimate losses in Exhibit GL-9.



Graph III-6 shows the composition of the projected ultimate limited losses for general liability.

Graph III-6
Composition of Projected Ultimate Limited Losses
(General Liability)

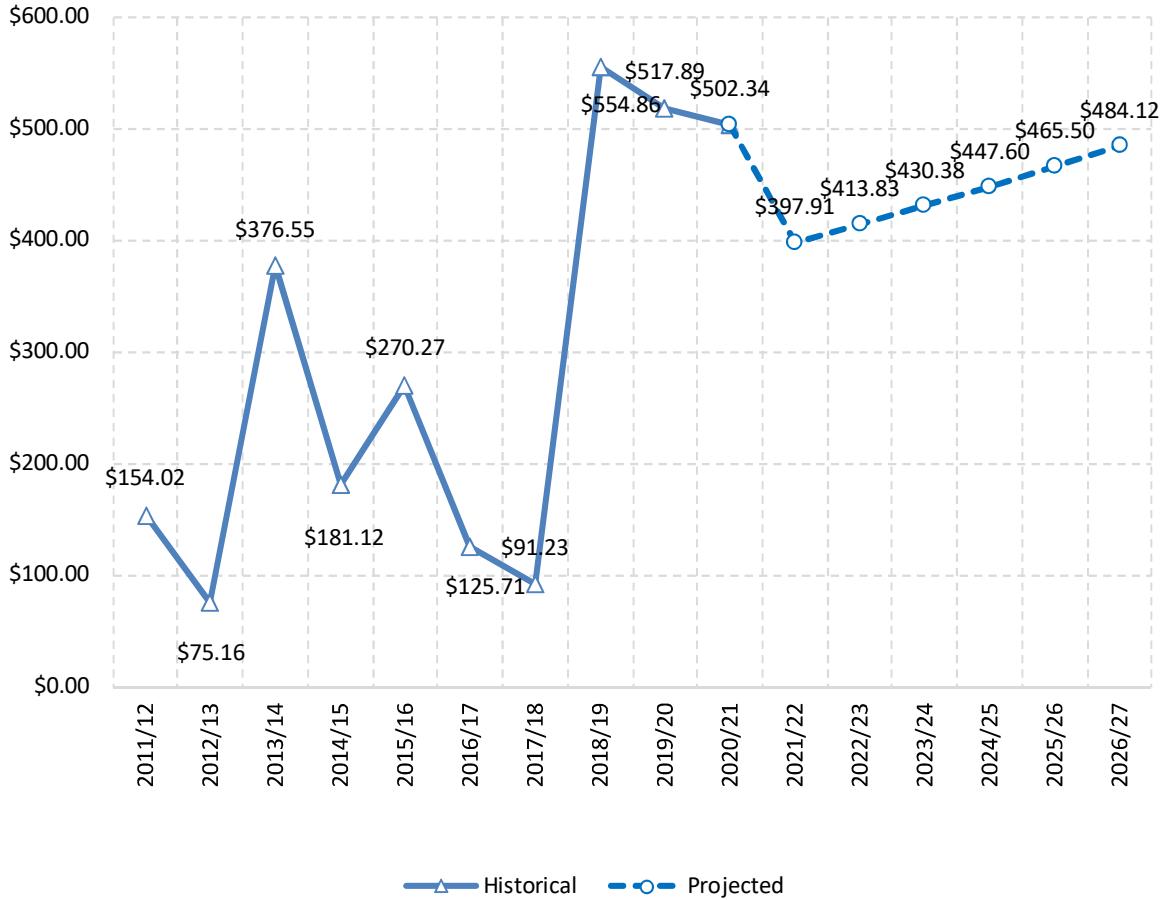


Note: Amounts through 2020/21 are from Exhibit GL-11.
 Amounts for 2021/22 to 2026/27 are from Exhibit GL-10.



Graphs III-7 and III-8 show loss experience trends for automobile liability as measured by loss rate per vehicle and frequency and severity, respectively.

**Graph III-7
Loss Rate per Vehicle
(Automobile Liability)**

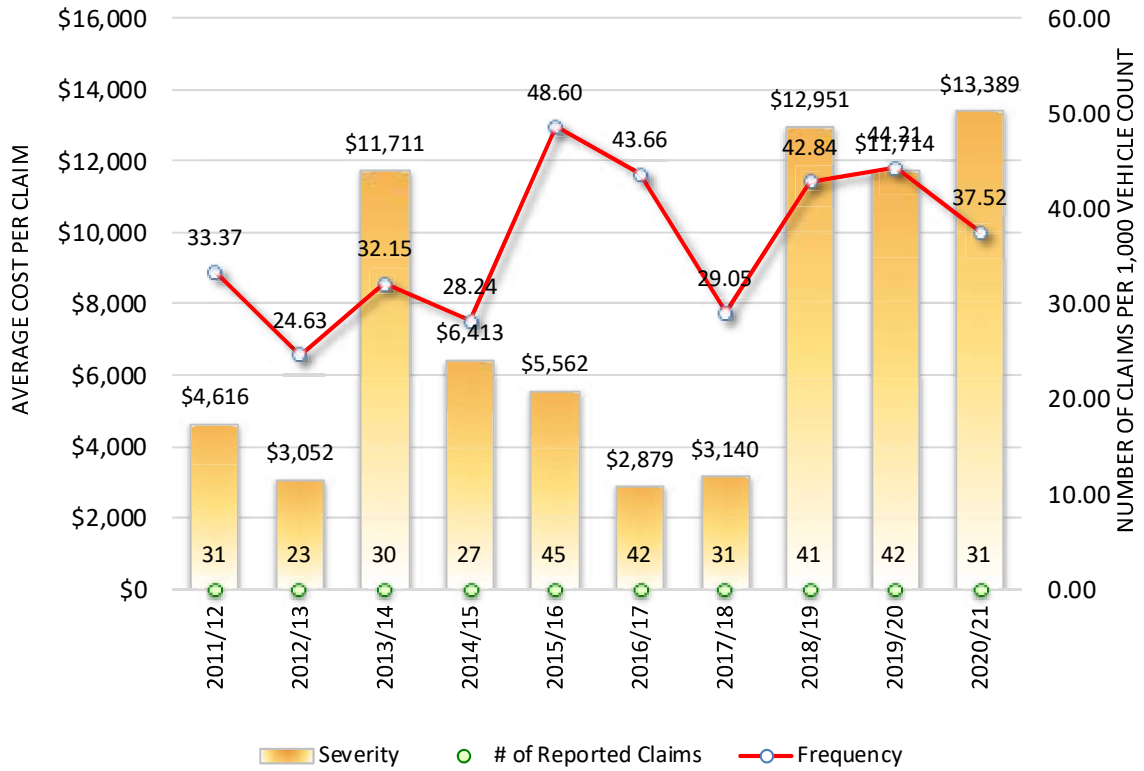


Note: Loss rates are from Exhibit AL-10, columns (4) and (7).

A list of large claims can be found in Exhibit AL-19.



**Graph III-8
Frequency and Severity
(Automobile Liability)**

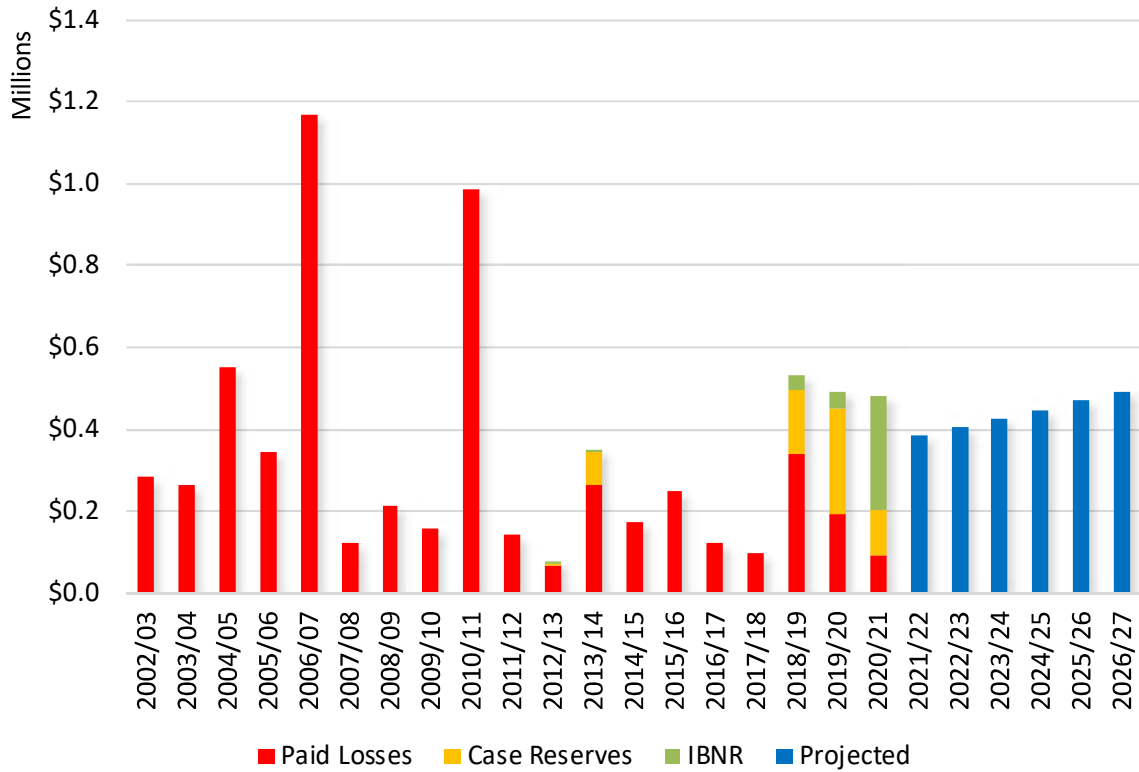


Note: Frequency amounts are from Exhibit AL-8, Section I, column (7).
Severity amounts are based on the projected claim counts in Exhibit AL-8 and the projected ultimate losses in Exhibit AL-9.



Graph III-9 shows the composition of the projected ultimate limited losses for automobile liability.

Graph III-9
Composition of Projected Ultimate Limited Losses
(Automobile Liability)

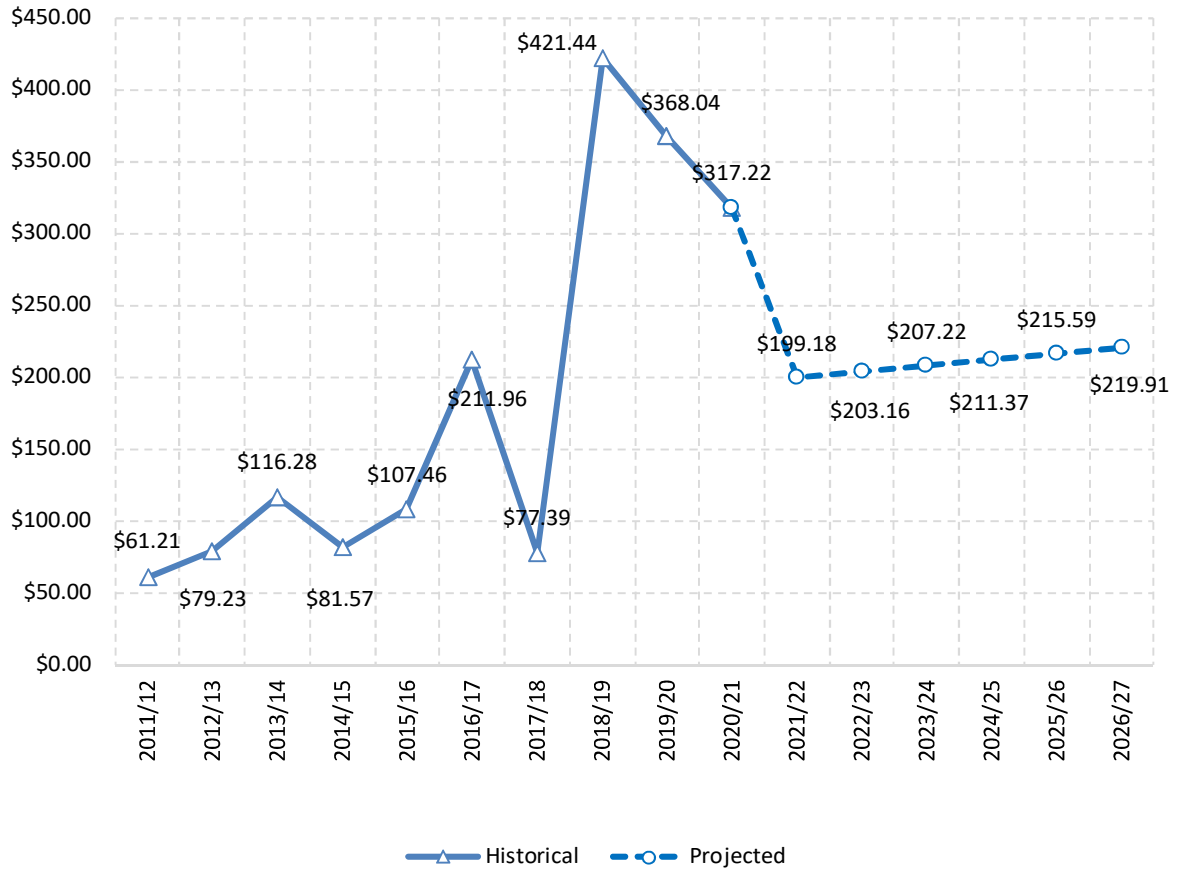


Note: Amounts through 2020/21 are from Exhibit AL-11.
 Amounts for 2021/22 to 2026/27 are from Exhibit AL-10.



Graphs III-10 and III-11 show loss experience trends for property as measured by loss rate per \$1 million of property values and frequency and severity, respectively.

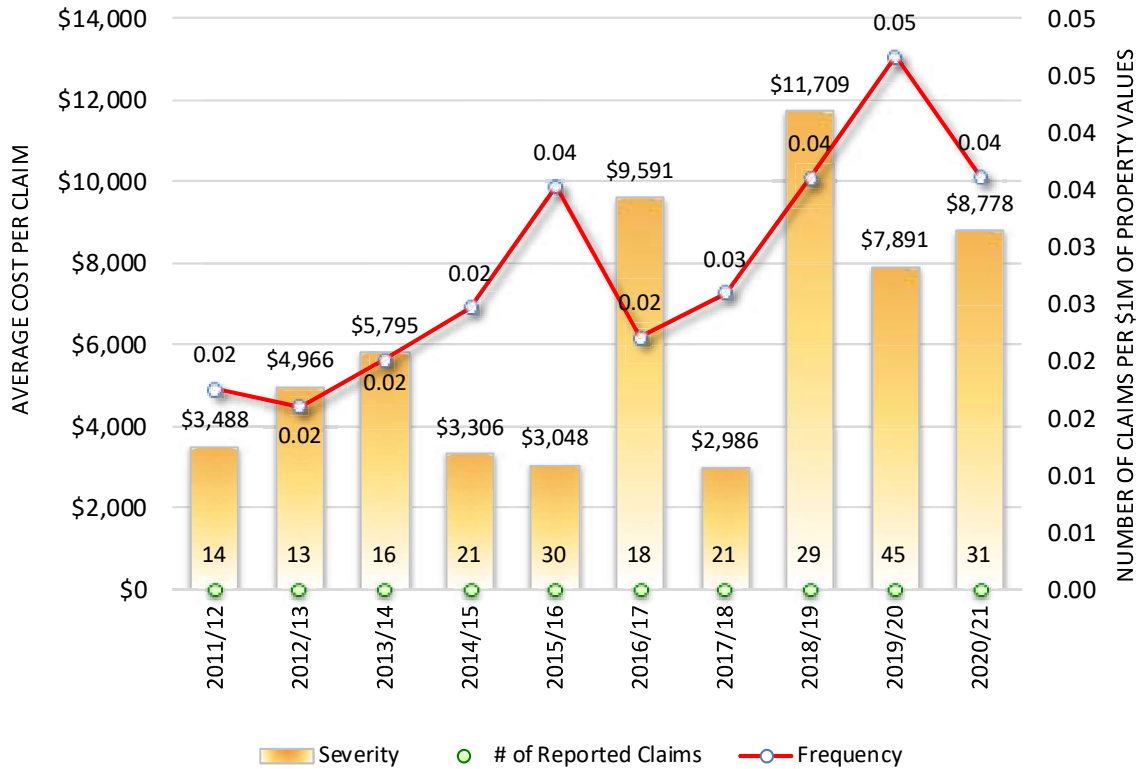
Graph III-10
Loss Rate per \$1 Million of Property Values
(Property)



Note: Loss rates are from Exhibit PR-10, columns (4) and (7).



**Graph III-11
Frequency and Severity
(Property)**

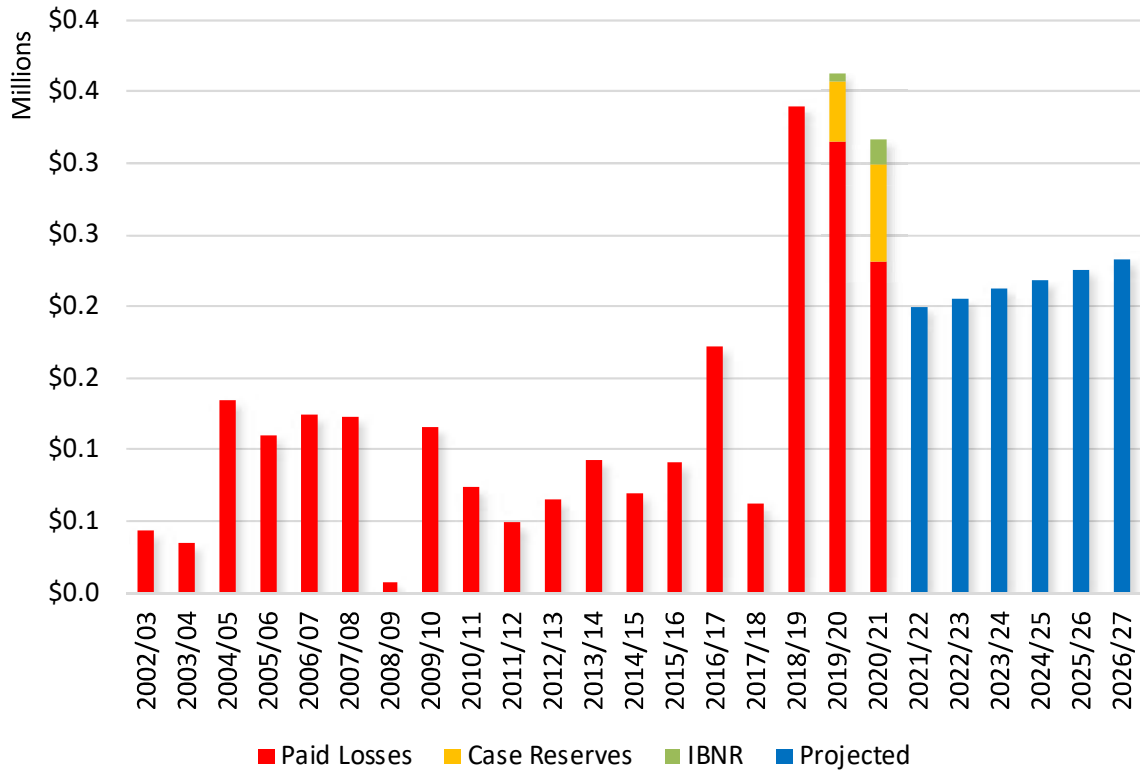


Note: Frequency amounts are from Exhibit PR-8, Section I, column (7). Severity amounts are based on the projected claim counts in Exhibit PR-8 and the projected ultimate losses in Exhibit PR-9.



Graph III-12 shows the composition of the projected ultimate limited losses for property.

Graph III-12
Composition of Projected Ultimate Limited Losses
(Property)

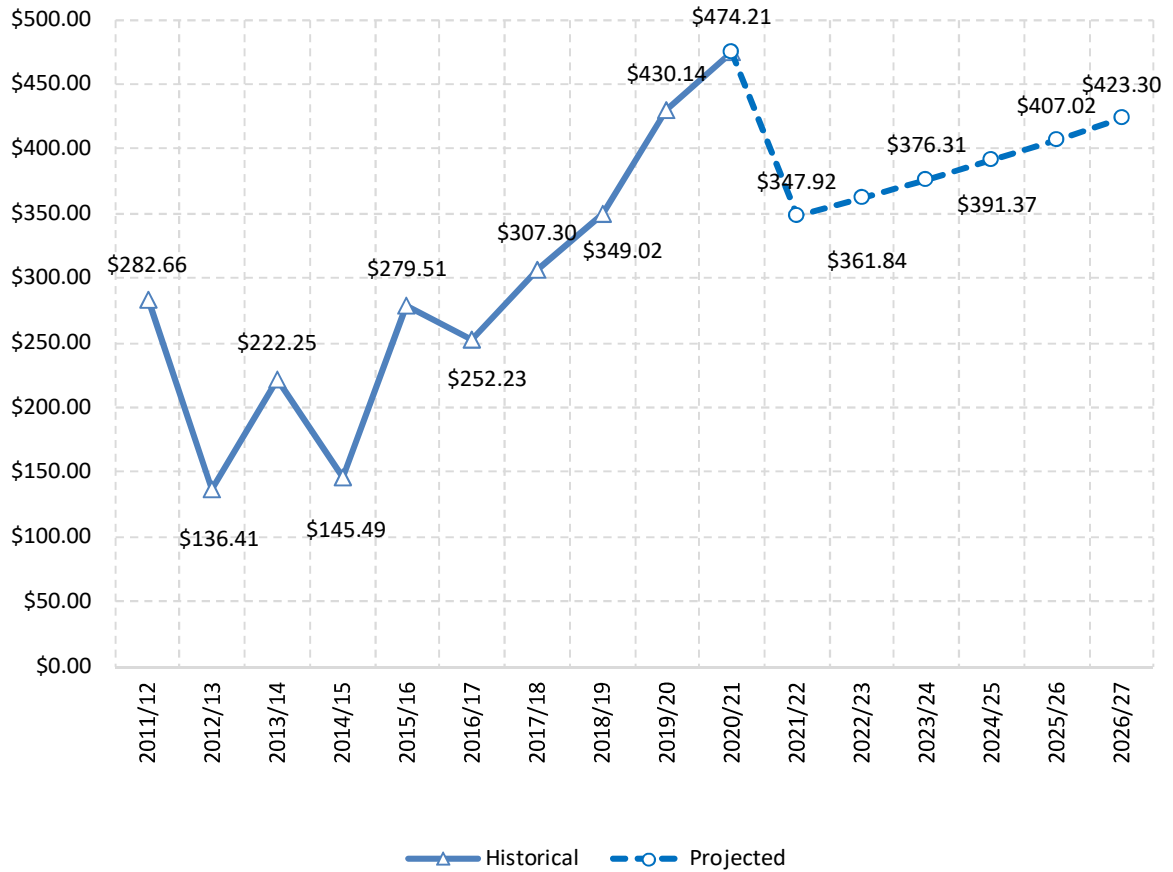


Note: Amounts through 2020/21 are from Exhibit PR-11.
 Amounts for 2021/22 to 2026/27 are from Exhibit PR-10.



Graphs III-13 and III-14 show loss experience trends for automobile physical damage as measured by loss rate per vehicle and frequency and severity, respectively.

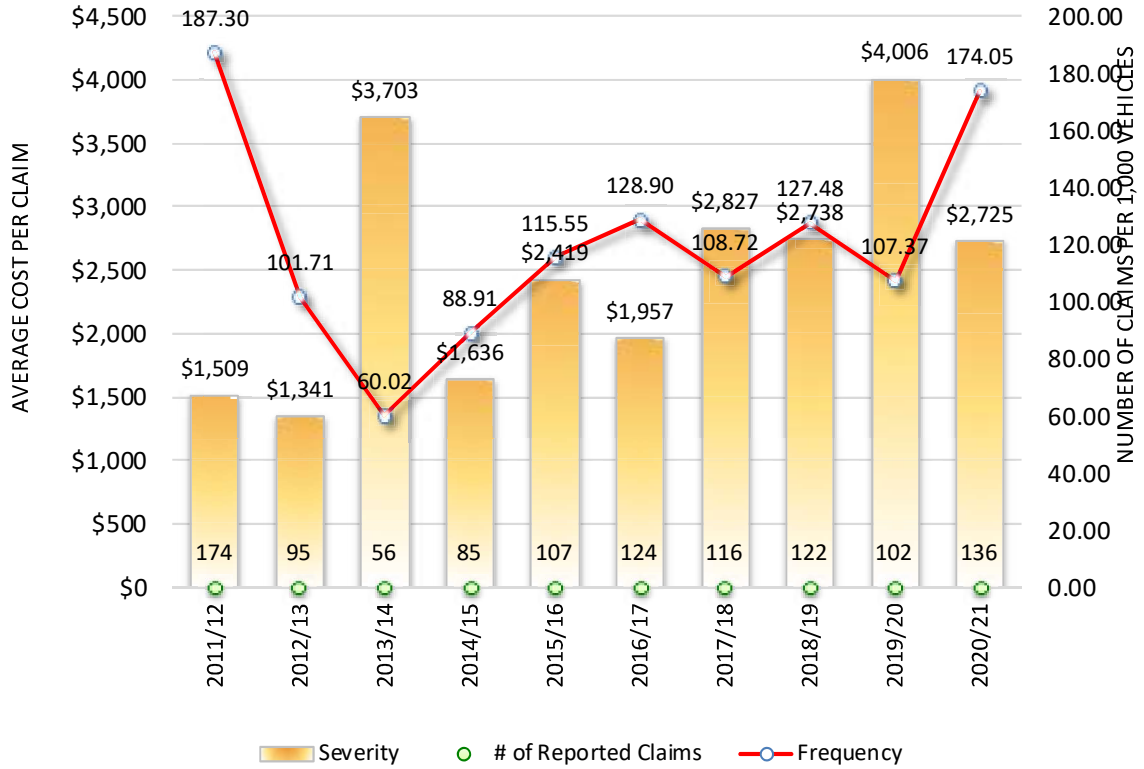
Graph III-13
Loss Rate per Vehicle
(Automobile Physical Damage)



Note: Loss rates are from Exhibit APD-10, columns (4) and (7).



**Graph III-14
Frequency and Severity
(Automobile Physical Damage)**

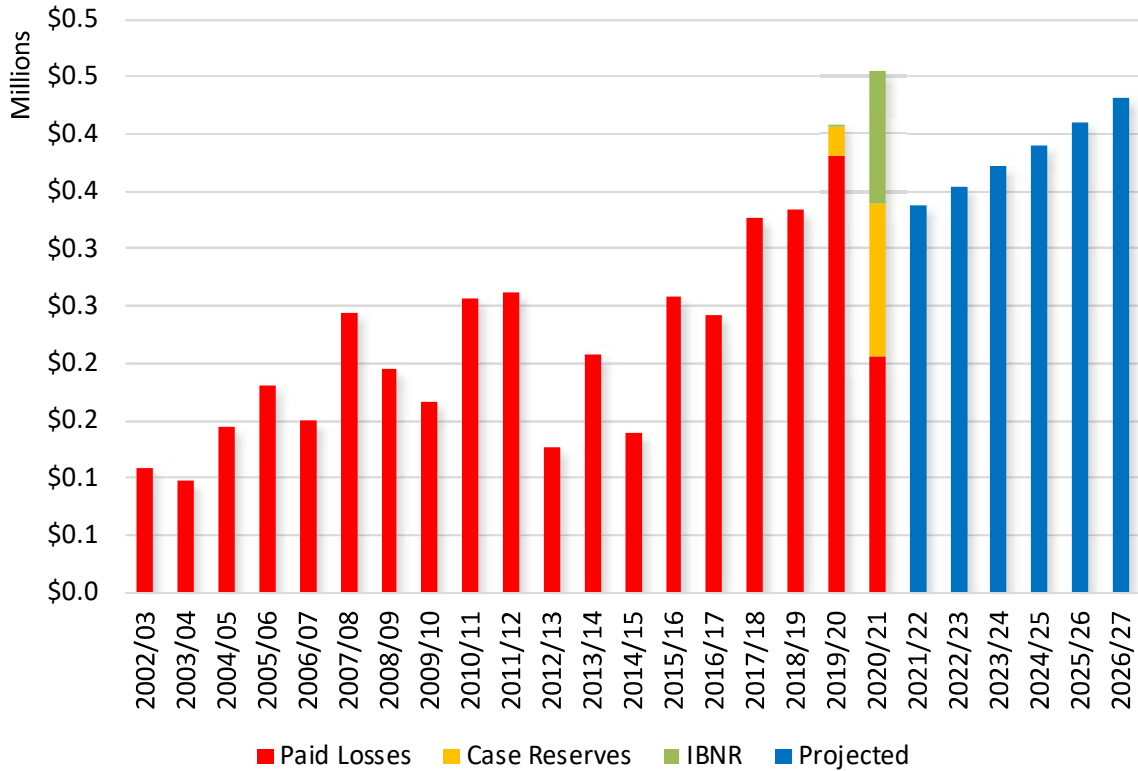


Note: Frequency amounts are from Exhibit APD-8, Section I, column (7). Severity amounts are based on the projected claim counts in Exhibit APD-8 and the projected ultimate losses in Exhibit APD-9.



Graph III-15 shows the composition of the projected ultimate limited losses for automobile physical damage.

Graph III-15
Composition of Projected Ultimate Limited Losses
(Automobile Physical Damage)



Note: Amounts through 2020/21 are from Exhibit APD-11.
 Amounts for 2021/22 to 2026/27 are from Exhibit APD-10.



3. Project Losses Paid

We project losses paid during 2021/22 and five subsequent claim periods to be as shown in Table III-3.

**Table III-3
Projected Losses Paid
2021/22 to 2026/27**

| Program (1) | 2021/22 (2) | 2022/23 (3) | 2023/24 (4) | 2024/25 (5) | 2025/26 (6) | 2026/27 (7) |
|--------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| (A) Workers compensation | 3,618,207 | 3,754,652 | 3,957,955 | 4,110,470 | 4,343,579 | 4,503,743 |
| (B) General liability | 1,757,569 | 2,072,567 | 2,387,766 | 2,598,284 | 2,719,377 | 2,848,931 |
| (C) Automobile liability | 406,524 | 406,067 | 411,747 | 422,322 | 443,527 | 458,369 |
| (D) Property | 273,345 | 216,559 | 211,388 | 217,530 | 230,062 | 232,333 |
| (E) Automobile physical damage | 481,007 | 360,549 | 365,557 | 384,198 | 417,230 | 429,835 |
| (F) Total (A)...(E) | 6,536,652 | 6,810,394 | 7,334,413 | 7,732,804 | 8,153,775 | 8,473,211 |

Note: (A) is based on Exhibits WC-12 to WC-17.
(B) is based on Exhibits GL-12 to GL-17.
(C) is based on Exhibits AL-12 to AL-17.
(D) is based on Exhibits PR-12 to PR-17.
(E) is based on Exhibits APD-12 to APD-17.

The projected losses paid reflect the excess insurance maintained by the City.

All non-claim expenses are additional.



4. Recommend Fund Balances

We recommend fund balances at the beginning of 2021/22 and five subsequent claim periods to be as shown in Tables III-4A, III-4B, III-4C, III-4D, III-4E and III-4F.

**Table III-4A
Recommended Fund Balance
June 30, 2022**

| Program (1) | Recommended Fund Balance - Full Value of Estimated Outstanding Losses (2) | Recommended Fund Balance - Present Value of Estimated Outstanding Losses (3) |
|--------------------------------|--|---|
| (A) Workers compensation | 15,808,780 | 14,682,838 |
| (B) General liability | 5,044,475 | 4,968,897 |
| (C) Automobile liability | 948,556 | 941,527 |
| (D) Property | 59,112 | 58,725 |
| (E) Automobile physical damage | 133,338 | 132,580 |
| (F) Total (A)...(E) | 21,994,261 | 20,784,567 |

Note: (A), (B), (C), (D) and (E) are from Exhibits WC-12, GL-12, AL-12, PR-12 and APD-12, respectively.

**Table III-4B
Recommended Fund Balance
June 30, 2023**

| Program (1) | Recommended Fund Balance - Full Value of Estimated Outstanding Losses (2) | Recommended Fund Balance - Present Value of Estimated Outstanding Losses (3) |
|--------------------------------|--|---|
| (A) Workers compensation | 16,653,128 | 15,466,202 |
| (B) General liability | 5,603,908 | 5,522,181 |
| (C) Automobile liability | 947,489 | 940,613 |
| (D) Property | 48,553 | 48,216 |
| (E) Automobile physical damage | 126,789 | 126,058 |
| (F) Total (A)...(E) | 23,379,867 | 22,103,270 |

Note: (A), (B), (C), (D) and (E) are from Exhibits WC-13, GL-13, AL-13, PR-13 and APD-13, respectively.



**Table III-4C
Recommended Fund Balance
June 30, 2024**

| Program (1) | Recommended Fund Balance - Full Value of Estimated Outstanding Losses (2) | Recommended Fund Balance - Present Value of Estimated Outstanding Losses (3) |
|--------------------------------|---|---|
| (A) Workers compensation | 17,480,173 | 16,231,445 |
| (B) General liability | 5,955,142 | 5,869,381 |
| (C) Automobile liability | 960,742 | 954,153 |
| (D) Property | 50,165 | 49,816 |
| (E) Automobile physical damage | 133,232 | 132,464 |
| (F) Total (A)...(E) | 24,579,454 | 23,237,259 |

Note: (A), (B), (C), (D) and (E) are from Exhibits WC-14, GL-14, AL-14, PR-14 and APD-14, respectively.

**Table III-4D
Recommended Fund Balance
June 30, 2025**

| Program (1) | Recommended Fund Balance - Full Value of Estimated Outstanding Losses (2) | Recommended Fund Balance - Present Value of Estimated Outstanding Losses (3) |
|--------------------------------|---|---|
| (A) Workers compensation | 18,348,703 | 17,037,080 |
| (B) General liability | 6,205,858 | 6,116,579 |
| (C) Automobile liability | 985,420 | 978,847 |
| (D) Property | 51,635 | 51,276 |
| (E) Automobile physical damage | 140,034 | 139,227 |
| (F) Total (A)...(E) | 25,731,650 | 24,323,009 |

Note: (A), (B), (C), (D) and (E) are from Exhibits WC-15, GL-15, AL-15, PR-15 and APD-15, respectively.



**Table III-4E
Recommended Fund Balance
June 30, 2026**

| Program (1) | Recommended Fund Balance - Full Value of Estimated Outstanding Losses (2) | Recommended Fund Balance - Present Value of Estimated Outstanding Losses (3) |
|--------------------------------|---|---|
| (A) Workers compensation | 19,394,124 | 18,009,648 |
| (B) General liability | 6,570,481 | 6,475,493 |
| (C) Automobile liability | 1,034,893 | 1,028,006 |
| (D) Property | 54,573 | 54,193 |
| (E) Automobile physical damage | 153,804 | 152,917 |
| (F) Total (A)...(E) | 27,207,875 | 25,720,257 |

Note: (A), (B), (C), (D) and (E) are from Exhibits WC-16, GL-16, AL-16, PR-16 and APD-16, respectively.

**Table III-4F
Recommended Fund Balance
June 30, 2026**

| Program (1) | Recommended Fund Balance - Full Value of Estimated Outstanding Losses (2) | Recommended Fund Balance - Present Value of Estimated Outstanding Losses (3) |
|--------------------------------|---|---|
| (A) Workers compensation | 20,279,381 | 18,830,976 |
| (B) General liability | 6,805,550 | 6,707,795 |
| (C) Automobile liability | 1,069,524 | 1,062,351 |
| (D) Property | 55,240 | 54,857 |
| (E) Automobile physical damage | 154,969 | 154,077 |
| (F) Total (A)...(E) | 28,364,664 | 26,810,056 |

Note: (A), (B), (C), (D) and (E) are from Exhibits WC-17, GL-17, AL-17, PR-17 and APD-17, respectively.

The recommended fund balances are based on the full value and present value of the estimated outstanding losses.

All non-claim expenses are additional.



We estimate outstanding losses as of June 30, 2021 to June 30, 2026 at various confidence levels to be as shown in Tables III-4G and III-4H.

Table III-4G
Estimated Outstanding Losses
at Various Confidence Levels
June 30, 2021 to June 30, 2026

| As of Date (1) | Expected (roughly 50% to 55%) (2) | 75% Confidence Level x1.10 (3) | 80% Confidence Level x1.15 (4) | 85% Confidence Level x1.20 (5) | 90% Confidence Level x1.25 (6) |
|-------------------|--|---|---|---|---|
| (A) June 30, 2021 | \$20,656,913 | \$22,722,604 | \$23,755,450 | \$24,788,296 | \$25,821,141 |
| (B) June 30, 2022 | 21,994,261 | 24,193,687 | 25,293,400 | 26,393,113 | 27,492,826 |
| (C) June 30, 2023 | 23,379,867 | 25,717,854 | 26,886,847 | 28,055,840 | 29,224,834 |
| (D) June 30, 2024 | 24,579,454 | 27,037,399 | 28,266,372 | 29,495,345 | 30,724,318 |
| (E) June 30, 2025 | 25,731,650 | 28,304,815 | 29,591,398 | 30,877,980 | 32,164,563 |
| (F) June 30, 2026 | 27,207,875 | 29,928,663 | 31,289,056 | 32,649,450 | 34,009,844 |
| (G) June 30, 2027 | 28,364,664 | 31,201,130 | 32,619,364 | 34,037,597 | 35,455,830 |

Note: (A2) is from Table III-1A.
(B2) through (G2) are from Tables III-4A through III-4F, respectively.

Table III-4H
Present Value of Estimated Outstanding Losses
at Various Confidence Levels
June 30, 2021 to June 30, 2026

| As of Date (1) | Expected (roughly 50% to 55%) (2) | 75% Confidence Level x1.10 (3) | 80% Confidence Level x1.15 (4) | 85% Confidence Level x1.20 (5) | 90% Confidence Level x1.25 (6) |
|-------------------|--|---|---|---|---|
| (A) June 30, 2021 | \$19,516,408 | \$21,468,049 | \$22,443,869 | \$23,419,690 | \$24,395,510 |
| (B) June 30, 2022 | 20,784,567 | 22,863,024 | 23,902,252 | 24,941,480 | 25,980,709 |
| (C) June 30, 2023 | 22,103,270 | 24,313,597 | 25,418,761 | 26,523,924 | 27,629,088 |
| (D) June 30, 2024 | 23,237,259 | 25,560,985 | 26,722,848 | 27,884,711 | 29,046,574 |
| (E) June 30, 2025 | 24,323,009 | 26,755,310 | 27,971,460 | 29,187,611 | 30,403,761 |
| (F) June 30, 2026 | 25,720,257 | 28,292,283 | 29,578,296 | 30,864,308 | 32,150,321 |
| (G) June 30, 2027 | 26,810,056 | 29,491,062 | 30,831,564 | 32,172,067 | 33,512,570 |

Note: (A2) is from Table III-1A.
(B2) through (G2) are from Tables III-4A through III-4F, respectively.

The confidence level margins are based on all coverages combined experience.



5. Project Ultimate Claims

We project ultimate claims for 2021/22 and five subsequent claim periods to be as shown in Table III-5.

Table III-5
Projected Ultimate Claims
2021/22 to 2026/27

| Program (1) | 2021/22 (2) | 2022/23 (3) | 2023/24 (4) | 2024/25 (5) | 2025/26 (6) | 2026/27 (7) |
|--------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| (A) Workers compensation | 338 | 345 | 352 | 359 | 366 | 374 |
| (B) General liability | 74 | 75 | 77 | 78 | 80 | 82 |
| (C) Automobile liability | 35 | 36 | 36 | 36 | 37 | 37 |
| (D) Property | 28 | 28 | 29 | 29 | 29 | 30 |
| (E) Automobile physical damage | 116 | 117 | 119 | 120 | 121 | 122 |
| (F) Total (A)...(E) | 591 | 601 | 613 | 622 | 633 | 645 |

Note: (A) is from Exhibit WC-18.
(B) is from Exhibit GL-18.
(C) is from Exhibit AL-18.
(D) is from Exhibit PR-18.
(E) is from Exhibit APD-18.

The higher level of workers compensation claim counts is discussed in the Data section.

ACTUARIAL ANALYSIS OF WORKERS' COMPENSATION, GENERAL LIABILITY, AUTO LIABILITY, PROPERTY AND AUTO PHYSICAL DAMAGE AS OF JUNE 30, 2022

CITY OF SCOTTSDALE

October 5, 2022

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1. EXECUTIVE SUMMARY

Purpose and Scope

Oliver Wyman Actuarial Consulting, Inc. (Oliver Wyman) has been retained by the City of Scottsdale (Scottsdale or the City) to provide actuarial consulting services. The purpose of this analysis is to estimate unpaid losses and allocated loss adjustment expense (ALAE) as well as claim cost projections for the City's workers' compensation (WC), general liability (GL), auto liability (AL), property and auto physical damage (APD) exposures. The conclusions in this study are related to its stated purpose and may not be applicable for other purposes.

The analysis provides the following for all coverages, limited to the City's per-occurrence deductibles / retention limits:

- Nominal and discounted unpaid losses and ALAE at an actuarial central estimate as of June 30, 2022 for claims incurred through that same date.
- Nominal and discounted unpaid losses and ALAE at various probability levels as of June 30, 2022 for claims incurred through that same date.
- Projected ultimate losses and ALAE and claim counts at an actuarial central estimate for policy periods 7/1/22 – 6/30/23 through 7/1/27 – 6/30/28 as of June 30, 2022.
- Projected ultimate losses and ALAE at various probability levels for policy periods 7/1/22 – 6/30/23 through 7/1/27 – 6/30/28 as of June 30, 2022.
- Projected cash-flows by fiscal year of the ultimate losses and ALAE at the central actuarial estimate through fiscal year 7/1/27 – 6/30/28 as of June 30, 2022.
- Roll-forward of the nominal unpaid losses and ALAE at an actuarial central estimate to June 30, 2023 through June 30, 2028.
- An estimate of unallocated loss adjustment expenses as of June 30, 2022
- Size of loss distribution analysis
- Comparison of results to prior estimates

The estimates are based on data evaluated as of June 30, 2022 and additional information provided to Oliver Wyman (and only that information provided) through October 3, 2022.

The estimates are prepared on both nominal and discounted bases. Discounted estimates considered the time value of money.

Additionally, estimates are presented as actuarial central estimates. An actuarial central estimate is defined as an expected value over the range of reasonably possible, as opposed to all conceivable, outcomes.

Finally, estimates are also provided at various probability levels, meaning the estimates include a margin for potential adverse development in excess of the actuarial central estimate. These estimates represent the amount for which there is a x% chance that the actual unpaid losses and ALAE will be less than or equal to this value.

Unless otherwise stated, all references to loss should be understood to include ALAE and be net of salvage and subrogation. Please note that ALAE is an insurance industry term which generally refers to costs that can be attributed to the settlement of individual claims. Fees paid to outside defense attorneys represent a major portion of this expense item. Also, please note that the terms unpaid losses, reserves and liabilities are used interchangeably throughout this report.

The scope of this project did not include the estimation of any expenses other than ALAE and unallocated loss adjustment expenses (ULAE) that are sometimes associated with insurance programs. Such expenses include insurance premiums, the costs of trustee, legal, administrative, risk management and actuarial services, taxes, fees and assessments, and costs for surety bonds or letters of credit pertaining to outstanding liabilities or capital requirements. ULAE is the insurance industry term generally used to refer to any claims-handling costs that cannot be attributed to individual claims. Fees paid to third party administrators (TPAs) and salaries paid to in-house claim adjusters and in-house defense attorneys represent examples of this type of expense.

This report sets forth the results of Oliver Wyman's analysis and is accompanied by exhibits which should be considered integral parts of this report.

Please note that all values in this report are in U.S. currency.

Actuarial Findings

Table 1 below displays our estimates of unpaid losses and ALAE on both nominal and discounted bases. Further, this table compares the nominal estimates to those from the prior actuarial report. Below the total line, the table displays our estimate of unpaid ULAE (on a nominal basis).

Table 1: Estimated Loss & ALAE Reserves as of June 30, 2022

| <i>Coverage</i> | <i>Nominal</i> | <i>Discounted</i> | <i>Nominal as of June 30, 2021</i> | <i>Nominal Change</i> |
|-----------------|---------------------|---------------------|------------------------------------|-----------------------|
| WC | \$17,806,108 | \$15,755,102 | \$15,005,987 | \$2,800,121 |
| GL | \$3,989,193 | \$3,933,629 | \$4,272,044 | (\$282,851) |
| AL | \$882,237 | \$869,460 | \$969,080 | (\$86,843) |
| Property | \$365,826 | \$362,984 | \$132,457 | \$233,369 |
| APD | \$355,283 | \$353,263 | \$277,345 | \$77,938 |
| Total | \$23,398,648 | \$21,274,438 | \$20,656,913 | \$2,741,735 |
| ULAE | \$729,709 | | | |

On a nominal basis, the total estimate increased by \$2.7 million. The drivers of this change are as follows:

- Increased loss activity:** the City saw \$11.8 million in incurred loss development (across all policy years) over the past twelve months after an average annual level of \$6.2 million the prior four fiscal years. For WC claims alone, the City saw \$8.0 million in incurred loss development compared to an average annual level of \$3.6 million the prior four fiscal years. For several of the WC policy years and GL policy year 7/1/19 – 6/30/20, the incurred value as of June 30, 2022 has surpassed the prior estimated ultimate value. As a result, total case reserves (which serve as effectively the

starting point for the estimate of unpaid loss and ALAE) increased by approximately \$3.7 million. From discussions with the City, we understand a new claims adjuster has been reserving for workers' compensation claims differently, and this is corroborated in the average case reserve per open triangle data. Accordingly, we view some but not all of this increase as a movement of amounts from IBNR to case reserves.

- **Changes in actual/estimated exposure:** the estimated payroll (used for WC and GL) provided for this analysis included increases of 4% and 8% for policy years 7/1/21 – 6/30/22 and 7/1/22 – 6/30/23 respectively relative to the values used in the prior actuarial report. We also note the prior actuarial report adjusted the payroll for policy years 7/1/19 – 6/30/20 and 7/1/20 – 6/30/21 downward in light of expected impacts of COVID-19, and we have not reflected any such adjustment in the current analysis. Further, the City's vehicle count increased from 960 in policy year 7/1/20 – 6/30/21 to 1,463 in policy year 7/1/21 – 6/30/22 (with an expected decrease in policy year 7/1/22- 6/30/23).

Table 2 below displays a reconciliation between the prior and current estimates. The estimated ultimates for new exposure (\$7.5 million in total) are relatively similar to the payments made over the past twelve months (\$8.1 million in total). The change in prior ultimates (\$3.3 million in total) is the key driver of the increase, and is largely driven by the aforementioned increase in incurred loss development (most notably in WC).

Table 2: Reconciliation from June 30, 2021 to June 30, 2022

| | WC | GL | AL | Property | APD | Total |
|-------------------------------------|---------------------|--------------------|------------------|------------------|------------------|---------------------|
| Estimate as of June 30, 2021 | \$15,005,987 | \$4,272,044 | \$969,080 | \$132,457 | \$277,345 | \$20,656,913 |
| Ultimates for New Exposure | \$3,668,000 | \$2,131,000 | \$714,000 | \$411,000 | \$613,000 | \$7,537,000 |
| Payments Made | \$3,892,575 | \$2,750,019 | \$933,092 | \$157,612 | \$320,802 | \$8,054,101 |
| Change in Prior Ultimates | \$3,024,696 | \$336,168 | \$132,249 | (\$20,018) | (\$214,259) | \$3,258,835 |
| Estimate as of June 30, 2022 | \$17,806,108 | \$3,989,193 | \$882,237 | \$365,826 | \$355,283 | \$23,398,648 |

Table 3 below displays the components of the nominal estimate of unpaid loss and ALAE. The case reserves are derived directly from the data, while the incurred but not reported (IBNR) provision is calculated in our analysis. IBNR includes both development on known claims as well as late reported claims, reopened claims and payment on closed claims. For purposes of this table, we have assumed 10% of the IBNR provision is related to late reported claims and the remaining 90% of the provision relates to development on known claims.

Table 3: Components of Estimated Reserves as of June 30, 2022

| Coverage | Limited Case Reserves | Develop. on Reported Claims | IBNR Claims | Total Nominal Est. Reserves |
|-----------------|------------------------------|------------------------------------|--------------------|------------------------------------|
| WC | \$12,039,476 | \$5,189,970 | \$576,663 | \$17,806,108 |
| GL | \$1,167,348 | \$2,539,660 | \$282,184 | \$3,989,193 |
| AL | \$388,711 | \$444,173 | \$49,353 | \$882,237 |
| Property | \$305,492 | \$54,301 | \$6,033 | \$365,826 |
| APD | \$247,651 | \$96,869 | \$10,763 | \$355,283 |
| Total | \$14,148,678 | \$8,324,973 | \$924,997 | \$23,398,648 |

IBNR is estimated in total, and for purposes of this exhibit, we assume a 90 / 10 split between development on reported claims and late reported claims.

Tables 4 (nominal basis) and 5 (discounted basis) below display our projected ultimate losses for future policy periods, at an actuarial central estimate. Prospective period loss and ALAE estimates are directly related to the projected exposures. Therefore, if actual exposures differ from the projection, we would need to adjust the prospective policy/accident period estimates accordingly. Further, the projections below assume the current insurance structure for all future policy periods.

Table 4: Projected Nominal Ultimate Losses for Future Periods

| | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 |
|--------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| WC | \$4,367,000 | \$4,561,000 | \$4,760,000 | \$4,972,000 | \$5,193,000 | \$5,424,000 |
| GL | \$2,394,000 | \$2,486,000 | \$2,581,000 | \$2,678,000 | \$2,780,000 | \$2,885,000 |
| AL | \$548,000 | \$560,000 | \$572,000 | \$585,000 | \$598,000 | \$612,000 |
| Property | \$341,000 | \$369,000 | \$399,000 | \$432,000 | \$467,000 | \$505,000 |
| APD | \$436,000 | \$462,000 | \$490,000 | \$520,000 | \$551,000 | \$585,000 |
| Total | \$8,086,000 | \$8,438,000 | \$8,802,000 | \$9,187,000 | \$9,589,000 | \$10,011,000 |

Table 5: Projected Discounted Ultimate Losses for Future Periods

| | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 |
|--------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| WC | \$4,037,058 | \$4,216,400 | \$4,400,365 | \$4,596,348 | \$4,800,650 | \$5,014,197 |
| GL | \$2,332,091 | \$2,421,712 | \$2,514,255 | \$2,608,747 | \$2,708,109 | \$2,810,394 |
| AL | \$535,937 | \$547,673 | \$559,408 | \$572,122 | \$584,836 | \$598,528 |
| Property | \$338,566 | \$366,367 | \$396,152 | \$428,917 | \$463,667 | \$501,396 |
| APD | \$432,264 | \$458,042 | \$485,802 | \$515,545 | \$546,279 | \$579,988 |
| Total | \$7,675,916 | \$8,010,193 | \$8,355,983 | \$8,721,678 | \$9,103,542 | \$9,504,503 |

Tables 6 (losses and ALAE) and 7 (exposure) below display the changes in the projections relative to the prior report.

Table 6: Changes in Projected Nominal Ultimate Losses for Subsequent Policy Year

| | WC | GL | AL | Property | APD | Total |
|-----------------|-------------------|--------------------|------------------|------------------|-----------------|------------------|
| Prior | \$4,421,000 | \$2,530,000 | \$386,000 | \$200,000 | \$337,000 | \$7,874,000 |
| Current | \$4,367,000 | \$2,394,000 | \$548,000 | \$341,000 | \$436,000 | \$8,086,000 |
| Change | (\$54,000) | (\$136,000) | \$162,000 | \$141,000 | \$99,000 | \$212,000 |
| Change % | -1% | -5% | 42% | 71% | 29% | 3% |

Table 7: Changes in Projected Exposure for Subsequent Policy Year

| | WC | GL | AL | Property | APD |
|-----------------|----------------------|----------------------|-----------------|------------------|-----------------|
| | Payroll (000) | Payroll (000) | Vehicles | TIV (000) | Vehicles |
| Prior | \$180,144 | \$180,144 | 969 | \$1,006,119 | 969 |
| Current | \$199,287 | \$199,287 | 1,150 | \$1,078,306 | 1,150 |
| Change | \$19,143 | \$19,143 | 181 | \$72,187 | 181 |
| Change % | 11% | 11% | 19% | 7% | 19% |

Table 8 below displays the projected loss and ALAE payments, related to all policy years with newly reported or open claims, by fiscal year.

Table 8: Projected Payments

| | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 |
|--------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| WC | \$3,058,649 | \$3,349,123 | \$3,553,130 | \$3,610,061 | \$3,763,829 | \$3,922,972 |
| GL | \$1,881,431 | \$2,014,285 | \$2,250,658 | \$2,436,593 | \$2,566,815 | \$2,666,889 |
| AL | \$507,170 | \$501,787 | \$576,441 | \$562,460 | \$575,975 | \$585,979 |
| Property | \$550,396 | \$445,670 | \$392,497 | \$424,901 | \$459,390 | \$496,794 |
| APD | \$618,840 | \$463,195 | \$482,506 | \$509,064 | \$539,678 | \$572,614 |
| Total | \$6,616,486 | \$6,774,060 | \$7,255,231 | \$7,543,078 | \$7,905,688 | \$8,245,249 |

Tables 9 (nominal; by coverage), 10 (discounted; by coverage), 11 (nominal; by confidence level) and 12 (discounted; by confidence level) display our estimates of the unpaid loss & ALAE or reserve position as of future June 30 dates. These estimates are dependent on the projections of ultimate loss and ALAE for future policy periods and thus assume the current insurance structure for all future policy periods.

Table 9: Estimated Nominal Reserves as of 6/30/20xx

| | 23 | 24 | 25 | 26 | 27 | 28 |
|--------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| WC | \$19,114,459 | \$20,326,336 | \$21,533,206 | \$22,895,145 | \$24,324,316 | \$25,825,344 |
| GL | \$4,501,762 | \$4,973,477 | \$5,303,819 | \$5,545,226 | \$5,758,411 | \$5,976,522 |
| AL | \$923,067 | \$981,280 | \$976,840 | \$999,380 | \$1,021,405 | \$1,047,425 |
| Property | \$156,431 | \$79,761 | \$86,264 | \$93,363 | \$100,974 | \$109,179 |
| APD | \$172,443 | \$171,249 | \$178,743 | \$189,679 | \$201,000 | \$213,386 |
| Total | \$24,868,162 | \$26,532,102 | \$28,078,871 | \$29,722,793 | \$31,406,105 | \$33,171,856 |

Table 10: Estimated Discounted Reserves as of 6/30/20xx

| | 23 | 24 | 25 | 26 | 27 | 28 |
|--------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| WC | \$16,912,750 | \$17,985,036 | \$19,052,892 | \$20,257,956 | \$21,522,507 | \$22,850,638 |
| GL | \$4,439,059 | \$4,904,203 | \$5,229,944 | \$5,467,989 | \$5,678,204 | \$5,893,277 |
| AL | \$909,699 | \$967,069 | \$962,693 | \$984,907 | \$1,006,612 | \$1,032,257 |
| Property | \$155,215 | \$79,141 | \$85,594 | \$92,638 | \$100,189 | \$108,331 |
| APD | \$171,463 | \$170,275 | \$177,726 | \$188,600 | \$199,857 | \$212,172 |
| Total | \$22,588,185 | \$24,105,724 | \$25,508,849 | \$26,992,089 | \$28,507,369 | \$30,096,675 |

Table 11: Estimated Nominal Reserves as of 6/30/20xx

| | 22 | 23 | 24 | 25 | 26 | 27 | 28 |
|---------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Central | \$23,398,648 | \$24,868,162 | \$26,532,102 | \$28,078,871 | \$29,722,793 | \$31,406,105 | \$33,171,856 |
| 75% | \$27,659,178 | \$29,400,975 | \$31,376,771 | \$33,209,407 | \$35,148,626 | \$37,131,708 | \$39,211,493 |
| 80% | \$29,662,082 | \$31,548,892 | \$33,685,382 | \$35,647,124 | \$37,714,961 | \$39,825,476 | \$42,038,775 |
| 85% | \$32,259,478 | \$34,337,333 | \$36,684,439 | \$38,812,579 | \$41,045,571 | \$43,319,212 | \$45,703,436 |
| 90% | \$35,978,113 | \$38,334,634 | \$40,987,290 | \$43,351,591 | \$45,817,873 | \$48,320,983 | \$50,945,682 |

Table 12: Estimated Discounted Reserves as of 6/30/20xx

| | 22 | 23 | 24 | 25 | 26 | 27 | 28 |
|---------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Central | \$21,274,438 | \$22,588,185 | \$24,105,724 | \$25,508,849 | \$26,992,089 | \$28,507,369 | \$30,096,675 |
| 75% | \$25,173,682 | \$26,733,096 | \$28,537,421 | \$30,201,922 | \$31,953,203 | \$33,739,791 | \$35,613,250 |
| 80% | \$27,044,412 | \$28,738,908 | \$30,694,522 | \$32,479,250 | \$34,349,366 | \$36,253,228 | \$38,249,533 |
| 85% | \$29,476,167 | \$31,349,225 | \$33,503,620 | \$35,443,642 | \$37,466,691 | \$39,520,997 | \$41,674,913 |
| 90% | \$32,968,564 | \$35,103,166 | \$37,546,860 | \$39,707,914 | \$41,947,638 | \$44,214,191 | \$46,590,503 |

Table 13 below displays projected ultimate claim counts for future policy periods, by coverage. Similar to prospective loss and ALAE estimates, these estimates are directly related to the projected exposures. Therefore, if actual exposures differ from the projection, we would need to adjust the prospective policy/accident period estimates accordingly.

Table 13: Projected Ultimate Claim Counts for Future Periods

| | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 |
|--------------|------------|------------|------------|------------|------------|------------|
| WC | 248 | 250 | 253 | 255 | 258 | 260 |
| GL | 70 | 70 | 71 | 72 | 73 | 73 |
| AL | 40 | 41 | 41 | 41 | 42 | 42 |
| Property | 50 | 53 | 56 | 59 | 63 | 67 |
| APD | 135 | 136 | 137 | 139 | 140 | 141 |
| Total | 543 | 550 | 558 | 566 | 576 | 583 |

The size of loss distributions for each segment can be found towards the back of each section of the analysis.

Relevant Comments

Unpaid losses and ALAE are composed of claims examiners' estimates and IBNR amounts. The claims examiners' estimates are established by individual claim adjusters on open claims. Claims examiners' estimates are based on the facts of a claim as they are known today; these estimates do not anticipate that a claim will change. The IBNR amounts are estimated by Oliver Wyman and include amounts for late reported and re-opened claims as well as development on known open claims. The fact that Oliver Wyman's IBNR amounts include a provision for development on known claims does not necessarily imply that there is a problem with the claim examiner estimates. The tendency is that, in aggregate, damages or injuries are worse than originally thought. Thus, an adequate provision for unpaid losses and ALAE should include a provision for upward development. Please note that Oliver Wyman's IBNR amounts are appropriate for all historical policy periods in aggregate but not necessarily for any one particular policy period.

2. BACKGROUND

The City of Scottsdale established its self-insurance program on July 1, 1978. The program includes WC, GL, AL, property and APD. On July 1, 2005, the City began to provide coverage for the fire department.

Table 14 below displays the City's self-insured retention by coverage by policy year(s).

Table 14: Self-Insured Retention Limits

| | <i>WC</i> | <i>GL & AL</i> | <i>Prop</i> | <i>APD</i> |
|-----------------------|-------------|--------------------|-------------|------------|
| 7/1/1978 to 6/30/1980 | \$250,000 | \$250,000 | \$25,000 | Unlimited |
| 7/1/1980 to 6/30/1981 | \$250,000 | \$100,000 | \$25,000 | Unlimited |
| 7/1/1981 to 6/30/1982 | \$200,000 | \$100,000 | \$25,000 | Unlimited |
| 7/1/1982 to 6/30/1985 | \$150,000 | \$100,000 | \$25,000 | Unlimited |
| 7/1/1985 to 6/30/1986 | \$150,000 | \$250,000 | \$25,000 | Unlimited |
| 7/1/1986 to 6/30/1987 | \$175,000 | \$250,000 | \$25,000 | Unlimited |
| 7/1/1987 to 6/30/1988 | \$175,000 | \$1,000,000 | \$25,000 | Unlimited |
| 7/1/1988 to 6/30/1989 | \$250,000 | \$1,000,000 | \$25,000 | Unlimited |
| 7/1/1989 to 6/30/1995 | \$300,000 | \$1,000,000 | \$50,000 | Unlimited |
| 7/1/1995 to 6/30/1996 | \$300,000 | \$1,000,000 | \$50,000 | Unlimited |
| 7/1/1996 to 6/30/2002 | \$250,000 | \$1,000,000 | \$100,000 | Unlimited |
| 7/1/2002 to 6/30/2003 | \$400,000 | \$2,000,000 | \$100,000 | Unlimited |
| 7/1/2003 to 6/30/2006 | \$600,000 | \$2,000,000 | \$100,000 | Unlimited |
| 7/1/2006 to 6/30/2011 | \$750,000 | \$2,000,000 | \$100,000 | Unlimited |
| 7/1/2011 to 6/30/2012 | \$850,000 | \$2,000,000 | \$100,000 | Unlimited |
| 7/1/2012 to 6/30/2023 | \$1,000,000 | \$2,000,000 | \$100,000 | Unlimited |

3. DATA

Specifically, the data relied upon are as follows:

- Historical ground-up and unlimited detailed claims listing as of June 30, 2022 and prior June 30 dates provided by the City
- Historical and projected exposure by period provided by the City
- Aon's prior study *Actuarial Study of the Self-Insured Workers Compensation, General Liability, Automobile Liability, Property and Automobile Physical Damage Programs as of June 30, 2021* dated September 21, 2021
- Industry loss development factors, increased limit factors and benefit level changes from the 2020 and 2021 Annual Statistical Bulletins published by National Council on Compensation Insurance (NCCI)
- Industry loss development factors published by 2021 AM Best Aggregates and Averages
- General liability and auto liability increased limit factors published by Insurance Services Office (ISO)

4. METHODOLOGY

The estimates in this report are developed in accordance with the Casualty Actuarial Society and the applicable standards of the American Academy of Actuaries. Below is a discussion of the details underlying the actuarial methodologies and assumptions used by Oliver Wyman in the analysis. Oliver Wyman's projections for the City assumed that the patterns observed in historical policy periods will be applicable to future policy periods.

For WC, AL and GL, Oliver Wyman first selected ultimate losses limited to a base limit (\$100,000 for AL; \$250,000 for WC and GL), which provides a more stable base for projections than the City's historical SIRs (or losses at statutory limits). Oliver Wyman then used the City's data supplemented with insurance industry data to bring the base limit estimates to the actual SIR by policy period. For property and APD, Oliver Wyman estimated losses directly at the \$100,000 and unlimited retentions, respectively.

To develop the estimates of limited ultimate losses, Oliver Wyman applied the following generally accepted actuarial techniques.

- Paid loss development method
- Incurred loss development method
- Claim examiner estimate development method
- Paid Bornhuetter-Ferguson method
- Incurred Bornhuetter-Ferguson method
- Frequency / severity method
- Loss cost method

The following describes these methods in more detail:

Loss Development Method

This method involves estimating how losses will develop in the future. Historical patterns are identified by creating a loss triangle. The triangle presents paid or incurred losses over time at successive 12-month valuations. The triangle reveals how paid or incurred losses have changed over time. From this historical loss development experience, loss development factors (LDFs) are selected to represent Oliver Wyman's expectations of future loss development. If the City's exposure is small and there is not enough historical data to determine its own patterns, or if the City's own patterns are volatile, then insurance industry data may be used to help select appropriate loss development factors.

An accumulation of the selected LDFs provides a means of estimating how losses will develop up to the time that all losses have been settled. The calculated accumulated LDFs are applied directly to the latest paid or incurred losses to project ultimate losses.

An advantage of the paid loss development method is that its predictive accuracy is independent of case reserving practices and philosophies.

The advantages of the incurred loss development method are that incurred losses provide a larger statistical database than paid losses (since claims examiners' estimates are used in addition to payments)

and that incurred losses provide more current information (since payments lag behind the establishment of claims examiners' estimates).

Under the *claim examiner estimate development method*, a mathematical procedure similar to the loss development methods is used. Claim examiner estimates are used in place of losses and a case reserving pattern is established using the payment and reporting patterns.

The advantage of the claims examiners' estimates development method is that when the paid and incurred amounts are incomplete, the claims examiners' estimates can still be used to estimate a case reserving pattern.

In the incurred loss development triangle for workers' compensation, we have also considered a Berquist-Sherman method adjustment for the most recent few valuation points. The Berquist-Sherman method allows for adjustments to the data where there have been changes in the adequacy of case reserving. Where appropriate, the incurred loss triangle is adjusted based on the restated average open triangle. Specifically, the case reserves within the incurred loss triangle are restated to reflect the current level of case reserve adequacy.

Bornhuetter-Ferguson Method

The Bornhuetter-Ferguson (B-F) method is a blending of the results of the loss development method with an *a priori* expectation of ultimate losses. Expected unpaid or unreported losses are added to cumulative paid or incurred losses to derive an estimate of ultimate losses. Expected unpaid or unreported losses are derived by applying the portion of ultimate losses that are estimated to be unpaid or unreported to the expected ultimate losses.

Please note that the preliminary ultimate losses are based on the selected ultimate losses from the loss development methods (for older policy years) and the loss cost method (for more recent policy years). The loss development factors are the same as those used in the loss development method.

An advantage of the B-F method is that estimates of ultimate losses tend to be more stable than the usual loss development method. This is because estimates based on the B-F method are generally a weighted average between the estimate based on a loss development methodology and the preliminary estimates of ultimate losses.

Frequency / Severity Method

Under the frequency / severity method, the ultimate loss for each policy period is the product of the selected ultimate severity (i.e., average cost per claim) multiplied by the ultimate number of reported claims. The preliminary estimate of ultimate losses is based on the loss development methods.

The ultimate severity for the most recent policy period is judgmentally selected based on the historical severities trended to the current period's cost level. The ultimate severity for prior policy periods equals the selected current severity, detrended to the appropriate cost level.

Loss Cost Method

Under the loss cost method, an ultimate loss cost is judgmentally selected and multiplied by the exposure to obtain the ultimate loss estimate. Loss cost equals ultimate losses divided by exposure. Ultimate loss costs are judgmentally selected based on the City's historical loss cost, adjusted for inflation. The preliminary estimate of ultimate losses is based on the loss development methods.

This method can be useful for estimating ultimate losses for the most recent and for future policy periods. The advantages of using a loss cost method for the more recent policy periods are that it accounts for changes in exposure and is less affected by changes in closing and reserving practices than are the incurred and paid development methods.

Estimated Ultimate Number of Claims

Similar to the paid and incurred loss development factors, reported claim count development factors are calculated based on historical claims triangles created from the City's own experience. The selected count development factors are applied to the latest reported counts to determine an estimate of the ultimate number of claims.

A second estimate of the ultimate number of claims is developed based on a combination of the frequency and B-F methods. Oliver Wyman first trends the above-estimated ultimate counts by using a judgmentally selected frequency trend. Using the selected count development factors, the percentage of unreported claim counts is determined. Lastly, these unreported counts are then added to the reported counts to date to create a second estimate of ultimate number of claims. Oliver Wyman then judgmentally selects the ultimate number of claims based on the two estimates.

Estimated Unpaid Losses and ALAE at Retained Limits

To develop the estimates of retained ultimate losses, Oliver Wyman applied three generally accepted actuarial techniques: the Increased Limit Factor (ILF) Method, the LDF method, and the Excess Method.

In the ILF Method, Oliver Wyman used the City's data supplemented with insurance industry data to create ILFs, which is a ratio of expected losses at higher limits to expected losses the selected base limit. These selected ILFs were multiplied by the base limit ultimate loss estimates to bring these estimates to the actual SIR by policy period. This method can be useful for estimating ultimate losses for policy periods with a larger unknown. Typically, this is most useful for more recent or future policy periods and for policy periods with a significantly high SIR, where actual losses have not yet had time to develop into that layer.

In the LDF Method, Oliver Wyman used internal data to adjust the selected limited loss development factors to reflect the incurred loss development pattern appropriate for the actual retention limit by policy period. These LDFs were then applied to the retained incurred losses. This method is useful when it is appropriate to assume that historical development patterns are representative of future development patterns, regardless of what has been reported so far in a given policy period.

In the Excess Method, Oliver Wyman used the aforementioned ILFs, LDFs at the base limits, and LDFs at the actual retention limit to calculate an estimate of IBNR excess of the base limit. This amount was then

added to the limited ultimate losses and the excess incurred losses to estimate ultimate losses at the actual retention limit. This method is a blend of the ILF and LDF methods.

To estimate the unpaid losses at the City’s retention limits, Oliver Wyman selected ultimate losses at the City’s retention limits based on the three methods described above, and then subtracted the City’s actual payments at the retention limits.

Estimate of Unpaid ULAE

Oliver Wyman estimated the unpaid ULAE based on the classical ULAE method. This method assumes that 50% of ULAE is paid when a claim opens, 50% is paid when the claim is closed, that there exists a relationship between ULAE and loss payments, and that only a certain percentage of the IBNR reserves cover “pure” IBNR, (i.e., claims that have truly not yet been reported). The resulting formula consists of the sum of three calculation listed in the first column of the table below.

| <u>Formula Section</u> | <u>Includes ULAE Reserve for...</u> |
|---|--|
| [50% x Case Reserves x Selected ULAE to Loss %] | closing the current open claims |
| [50% x IBNR x Selected ULAE to Loss % x (1 - Selected Pure IBNR %)] | closing the current open and any reopened claims |
| [100% x IBNR x Selected ULAE to Loss % x Selected Pure IBNR %] | opening and closing unreported claims |

Oliver Wyman judgmentally selected a pure IBNR percentage.

Estimates of Reserves at Various Probability Levels

Oliver Wyman also provides estimates of loss and ALAE reserves at various probability levels. A compound Poisson model was developed to gauge the volatility of potential losses. The parameters for the stochastic model were determined based on Oliver Wyman’s analysis of the claim detail.

Oliver Wyman has assumed the loss and ALAE reserves follow a lognormal distribution with a coefficient of variation (CV) selected separately by coverage based on the loss experience. The frequency and severity for the lognormal distribution were estimated based on the number of open and IBNR claims and based on the CV of the City’s loss experience, respectively. Oliver Wyman has judgmentally introduced a variable to calculate any additional parameter risk involved.

Projection of Ultimate Losses and ALAE for Future Policy Periods

To project future losses at the SIR (assuming SIR remains unchanged in the upcoming period), Oliver Wyman adjusted historical ultimate losses at the base limit, where appropriate, to the projected cost and benefit levels and adjusted historical ultimate claim counts to the projected frequency levels.

Using the loss cost method, Oliver Wyman selected a projected loss cost, the result of which was multiplied by projected exposure. The results are estimated ultimate loss and ALAE at the base limit for the next policy period. Using the frequency/severity method, Oliver Wyman selected a projected frequency and severity. The selected frequency was multiplied by projected exposure to arrive at an estimate of projected ultimate claim counts, which was then multiplied by the selected severity to arrive at a second indication of the estimate ultimate loss and ALAE at the base limit for the next policy period.

Oliver Wyman then judgmentally selects a projected ultimate loss and ALAE at the base limit, based on these two indications and shows the resulting selected limited forecasted loss cost at the base limit.

This selected limited forecasted loss cost was then multiplied by the projected exposure and an increased limit factor to bring the estimate up to the SIR.

Unpaid Losses and ALAE Rolled Forward to Future Dates

To estimate the unpaid losses and ALAE as of future accounting dates, exposures and payments had to be estimated using selected ultimate losses and ALAE and the selected payment pattern. The exposures were added and the payments subtracted from the unpaid losses and ALAE to determine unpaid losses and ALAE as of future accounting dates.

Projected Cashflows of Unpaid Losses and ALAE

Using the payment pattern based on the selected paid loss development factors and unpaid losses, future fiscal year payments at the SIR are calculated. Please note that projected ultimate losses for future policy periods are included in this exhibit.

Discounted Unpaid Losses and ALAE

Using the payment pattern based on the selected paid loss development factors and unpaid losses, future fiscal year payments at the SIR are calculated. Under the assumption that losses are paid at the mid-point of each fiscal year, the net present value factor was then determined using the interest rate as provided by the City. The net present value factor for each future period is then multiplied by the expected payments to be made in that fiscal year, which results in the discounted payments for each individual fiscal year. The sum of these discounted payments equals the total discounted unpaid loss estimate.

5. DISTRIBUTION AND USE

Usage and Responsibility of Client – Oliver Wyman prepared this report for the sole use of the client named herein for the stated purpose. This report includes important considerations, assumptions, and limitations and, as a result, is intended to be read and used only as a whole. This report may not be separated into, or distributed, in parts other than by the client to whom this report was issued, as needed, in the case of distribution to such client’s directors, officers, or employees. All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client named herein.

Third Party Reliance and Due Diligence – Oliver Wyman’s consent to any distribution of this report (whether herein or in the written agreement pursuant to which we issued this report) to parties other than of the client named herein does not constitute advice by Oliver Wyman to any such third parties. Any distribution to third parties shall be solely for informational purposes and not for purposes of reliance by any such parties. Oliver Wyman assumes no liability related to third party use of this report or any actions taken or decisions made as a consequence of the results, advice or recommendations set forth herein. This report should not replace the due diligence on behalf of any such third party.

6. CONSIDERATIONS AND LIMITATIONS

Data Verification – For our analysis, we relied on data and information provided by the client named herein without independent audit. Though we have reviewed the data for reasonableness and consistency, we have not audited or otherwise verified this data. Our review of data may not always reveal imperfections. We have assumed that the data provided is both accurate and complete. The results of our analysis are dependent on this assumption. If this data or information is inaccurate or incomplete, our findings and conclusions might therefore be unreliable.

Prospective Policy / Accident Period Estimates – We estimated the prospective policy/accident period estimates developed in this analysis using estimated loss costs and the projected exposures. Prospective period loss and ALAE estimates are directly related to the projected exposures. Therefore, if actual exposures differ from the projection, we would need to adjust the prospective policy/accident period estimates accordingly.

Supplemental Data – Where historical data of the client named herein was either (i) not available, (ii) not appropriate or (iii) not sufficiently credible to develop our actuarial assumptions, we supplemented it with external information, as we deemed appropriate. Although we believe these external sources may be more predictive of future experience of the client named herein than any other data of which we are aware, the use of external data adds to the uncertainty associated with our projections.

Exclusion of Other Program Costs – The scope of the project does not include the estimation of any costs other than those described herein. Such ancillary costs may include unallocated loss adjustment expenses (ULAE); excess insurance premiums; the costs of trustee, legal, administrative, risk management and actuarial services; fees and assessments; and costs for surety bonds or letters of credit pertaining to claim liabilities.

Assumption of Valid Insurance / Reinsurance – We assumed that all insurance/reinsurance is valid and fully collectible. We made no assessment, and do not express any opinion, concerning the viability or collectability of any insurance or reinsurance. We have not evaluated the financial strength, claims-paying ability or any other factors with regard to the past, current, and prospective insurers/reinsurers of the client named herein.

Discounting – Discounted estimates are subject to additional uncertainty that results from the following:

- In addition to the risk of underestimating or overestimating the overall amount of the nominal unpaid loss and ALAE, there is the additional risk that the timing of the future payments will differ from the expected payout.
- There is the risk the actual future yield on the underlying assets (if any) will differ from the assumed yield rate used for determining present value factors.

We have not included any specific provision for this additional risk.

The client named herein provided the interest rate(s) used in this analysis. An assessment of the reasonableness of the interest rate assumption(s) is beyond the scope of our analysis. As a result, we express no opinion on the appropriateness of the interest rate(s) used in the discounting calculation.

Funding of Claim Payments – We have not examined any assets that may be supporting the liabilities and have made no assumptions regarding the maturities and liquidity of these assets, should they exist. This examination is beyond the scope of our review.

Rounding and Accuracy – Our models may retain more digits than those displayed. Also, the results of certain calculations may be presented in the exhibits with more or fewer digits than would be considered significant. As a result, there may be rounding differences between the results of calculations presented in the exhibits and replications of those calculations based on displayed underlying amounts. Also, calculation results may not have been adjusted to reflect the precision of the calculation.

Unanticipated Changes – We developed our conclusions based on an analysis of the data of the client named herein and on the estimation of the outcome of many contingent events. We developed our estimates from the historical claim experience and covered exposure, with adjustments for anticipated changes. Our estimates make no provision for extraordinary future emergence of new types of losses not sufficiently represented in historical databases or which are not yet quantifiable. Also, we assumed that the client named herein will remain a going concern, and we have not anticipated any impacts of potential insolvency, bankruptcy, or any similar event.

Internal / External Changes – The sources of uncertainty affecting our estimates are numerous and include factors internal and external to the client named herein. Internal factors include items such as changes in claim reserving or settlement practices. The most significant external influences include, but are not limited to, changes in the legal, social, or regulatory environment surrounding the claims process. Uncontrollable factors such as general economic conditions also contribute to the variability.

Uncertainty Inherent in Projections – While this analysis complies with applicable Actuarial Standards of Practice, users of this analysis should recognize that our projections involve estimates of future events and are subject to economic and statistical variations from expected values. We have not anticipated any extraordinary changes to the legal, social, or economic environment that might affect the frequency or severity of claims. For these reasons, we do not guarantee that the emergence of actual losses will correspond to the projections in this analysis.

Probability Levels – We have calculated estimates of the statistical uncertainty associated with the process risk inherent in our estimates. However, unless otherwise indicated, our probability level estimates do not address parameter or model risk. To the extent that the probability estimates do not address parameter risk or model risk, the true variability of results is greater than the range of outcomes presented. The client named herein may wish to consider this additional uncertainty in evaluating the estimates presented in this report.

Timing Differences – Oliver Wyman assumes paid losses as reflected in the detailed claim listings provided by the insurance company or TPA reflects amounts paid to claimants and third parties directly involved in treatment of the claimant and the investigation or resolution of the individual claim. It should be noted that often the loss amounts paid by the insurance company or TPA may differ from the loss amounts paid by the City due to timing differences and the reimbursement arrangements negotiated between the insured and the insurance company or TPA. Such arrangements may call for the City to reimburse losses on an estimated ultimate loss, incurred loss or a deferred basis. Oliver Wyman has not adjusted the paid losses for any potential timing differences and the paid loss amounts reflected in this report are based on those reported by the insurance company or TPA.

COVID-19 Pandemic – We have included no explicit adjustments in this report for the effect of the COVID-19 pandemic on loss experience except as specifically noted in this report.

7. ACKNOWLEDGEMENT OF QUALIFICATIONS

Thank you for providing Oliver Wyman with the opportunity to develop this analysis for the City of Scottsdale. We are prepared to discuss the results at your request.

I, Adam Hirsch, am a Senior Principal with Oliver Wyman Actuarial Consulting, Inc. I am a Fellow of the Casualty Actuarial Society (FCAS), a Member of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to counsel on the results contained herein.

I, Andrew Duhancioglu, am a Senior Manager with Oliver Wyman Actuarial Consulting, Inc. I am a Fellow of the Casualty Actuarial Society (FCAS), a Member of the American Academy of Actuaries (MAAA), an Associate of the Canadian Institute of Actuaries (ACIA) and meet the Qualification Standards of the American Academy of Actuaries to counsel on the results contained herein.

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