

**CITY OF MONTEREY
RISK MANAGEMENT POLICY STATEMENT**

THE RISK MANAGEMENT FUNCTION

Risk management is an administrative process that applies modern professional methods of loss identification, loss control, loss prevention and loss financing to support an entity's organizational objectives and to cost-effectively manage and minimize the uncertainties facing an entity. The five steps of risk management are:

- Identification and analysis of exposures to accidental loss
- Examination of feasible alternative risk management techniques for managing those exposures
- Selection of the apparently best risk management technique
- Implementation of that chosen risk management technique
- Continual monitoring of the results for effectiveness and re-evaluating alternative techniques as necessary

PURPOSE

The purpose of this risk management policy is to:

- Describe the City's risk management functions, their value and importance to the organization and establish their place in the City's strategic plan
- Incorporate current knowledge and state-of-the-art risk management approaches
- Describe where the risk management functions reside within the organization, their internal structure and the reporting relationships of the staff
- Establish and communicate the authority and responsibilities of the City's key risk management professionals
- State the City's general risk management goals and objectives
- Delineate the self-funded retention policy and guidelines of the Council
- Communicate the City's philosophical approach to risk management and its commitment toward managing risk management programs, link the risk management functions to the organization's overall mission, values and goals and establish a foundation for following established procedures
- Link risk management to program operations and establish the risk management responsibilities of department heads, management, supervisors and employees
- Link risk management to employee tasks and establish the risk management responsibilities of all employees
- Establish a standardized basis for the treatment and coordination of risk management programs among the various organizational units of the City
- Establish responsibility and accountability for risk management, risk financing and risk control
- Establish communication channels regarding risk management issues
- Provide program continuity during personnel transitions in the risk management functions

APPLICATION

This policy applies to all FINANCE DEPARTMENT administered risk management programs and encompasses all pure risks (risks which can cause losses and whose undertaking involves

no possible profit) such as fire, liability suits, theft and other risks of property and liability losses both direct and indirect. This policy does not apply to the City's workers' compensation or employee benefits programs that are administered by the Personnel Department.

CITY RISK MANAGEMENT PHILOSOPHY

Fundamentally, the City's risk management philosophy is based upon anticipation, protection and avoidance in lieu of reaction and is grounded in the City values. The City's general risk management philosophy is to:

- Efficiently and effectively minimize exposures to loss
- Recognize that loss prevention is primary to risk management
- Utilize, as appropriate, a full range of professional risk management techniques incorporating continuing innovation and top quality customer service

The City's liability claims management philosophy is as follows:

- Process all claims in accordance with applicable local, state and Federal laws and rules/regulations governing the administration of self-insurance programs
- Conduct all claims administration/investigation activities quickly and efficiently utilizing professional best-practices and competent, qualified personnel
- Give prompt attention, and resolution where appropriate, to all claims in order to avoid unnecessary litigation, minimize loss and to conclude claims at the earliest possible opportunity
- Identify and vigorously defend against unjustified, unwarranted and unmerited claims
- Professionally and efficiently adjudicate claims, where appropriate, with a focus on restorative fairness
- Treat all claimants with dignity and respect
- Utilize a team approach to claims management including City risk management staff, City Attorney, specialized defense counsel, departmental staff and, when necessary third party claims administrators
- Keep communication open between Finance, City staff, City Attorney and claimants

RISK MANAGEMENT SUPPORT OF CITY'S MISSION

The City's primary mission is to provide quality service to a diverse community in ways that are helpful, caring, responsive and cost effective. In support of that mission, the mission of the City of Monterey Risk Management Program is to:

- Control and minimize loss to City human resource and capital assets
- Provide value-added risk reducing and/or risk minimizing enhancements for City programs
- Provide managers with flexible risk management strategies and solutions to accomplish their goals and objectives
- Provide quality, best-practices expertise, training and resources for managers in the areas of risk control, and
- Implement appropriate risk financing techniques

RISK MANAGEMENT POLICY

The risk management policy of the City of Monterey is to:

- Utilize and incorporate professional risk management practices toward the continuous identification and analysis of potential loss exposures, the examination of feasible risk management techniques for dealing with those exposures, the selection and implementation of appropriate risk management techniques, and the continuous monitoring, reassessment and re-evaluation of fluctuating exposures to loss, the City's loss bearing capacity and available financial resources
- Utilize appropriate risk financing techniques (risk retention, risk transfer) consistent with the City's available financial resources
- Incorporate all practical measures available to eliminate or prevent injury to persons and minimize loss to City property, the budget, other City resources or the ability of the City to continue its responsibilities to the community and residents
- Achieve these results in an efficient, effective, value-added, results-oriented manner
- Maintain and preserve honesty, integrity and respect in all business relationships

RISK FINANCING & COST ALLOCATION POLICY

The City utilizes the risk financing techniques of risk transfer (insurance and contractual indemnification) and risk retention (self-funding).

RISK RETENTION

Risk retention is the intended self-retention (non-transfer) of risk in accordance with sound insurance principles, including resource planning and preservation. The principal goal of a self-funding program is to protect the entity's assets from the risk of loss at a minimum of cost while utilizing excess coverage (risk transfer) to protect the entity against single catastrophic and/or significant aggregated losses. The self-funded risk financing technique is typically utilized for programs that have consistent, substantial claims history information and predictably high frequency with low average severity such as workers' compensation and general liability.

With respect to the City's risk retention program, the Risk Management Division of the Finance Department is responsible for administering the general liability reserve fund (Fund 716) through which the City's general liability risk management programs are financed. This fund is utilized to cover the cost of losses within the Council established self-insurance coverage retention for the general liability program. The City's self-insurance coverage follows the form of its excess insurance coverage. In addition, the fund covers the cost of insurance premiums, insurance deductibles, administrative and consultant costs, broker fees, loss prevention costs, information management and other expenditures approved by the Council.

The Risk Management office is responsible for establishing recommended general liability fund reserve levels under guidelines established by the Council (described below). The City's general liability fund reserving policy is to:

- Actuarially review the general liability fund no less than once every two years for the purpose of establishing the levels of expected paid claims and a range of reserve confidence levels.
- Recommend, to the Council, annual funding appropriations or cost allocations for the general liability fund adequate to maintain the fund at a level equal to the actuarially determined ultimate losses between 70% and 90% confidence level plus one total limits loss. Risk Management shall recommend, to the Council, supplemental funding recommendations when the fund falls below the recommended level.

RISK RETENTION RESERVE FUND GUIDELINES

The following guidelines are hereby established by the Council for staff's use and guidance in determining the appropriate fund reserve level for the general liability program and to set the annual cost allocation funding for that program.

It is the City's goal to maintain a general liability fund reserve adequate to fund its actuarially determined ultimate losses between 70% and 90% confidence level plus one total limits loss. Should analysis reveal that the program reserves fall outside the funding goal, staff will make a recommendation to the Council to adjust the annual cost allocation rate to re-establish the funding goal. The City intends to maintain the funding goal in a fiscally responsible manner and staff will work to avoid unnecessary spikes in rates or the need to rebate funds to departments. Staff shall recommend, to the Council, an annual self-insured retention level consistent with this policy after considering insurance market variables and the required self-insured retention of the Authority for California Cities Excess Insurance Liability Pool (ACCEL), the City's liability insurance pool.

RISK RETENTION RESERVE FUND EXPENDITURES

The fund is intended to be used for expenditures necessary to administer the general liability program as determined appropriate by the City Manager or Finance Director. Since the City's self-insurance coverage follows the form of its excess insurance coverage it is not intended to be used to pay expenses or losses associated with risks that are not covered by the City's excess insurance coverages (e.g., liabilities arising out of agreements or contracts and liabilities for back wages or benefits). Likewise, the fund is not intended to pay first party (City) property or vehicle damages or expenses. The City utilizes a separate budget line for that purpose.

RISK RETENTION RESERVE FUND COST ALLOCATION

The City's risk retention program is a collective program wherein all departments and funds contribute through a cost allocation formula developed annually by Risk Management, utilizing a combination of loss experience and risk exposure, toward the pooling of cash assets to fund the risk retention reserve fund. The loss experience of each department impacts the amount of reserve assets required to fund the City's risk financing program and thus impacts all other departments by virtue of the City's general liability cost allocation program.

Staff will develop the annual cost general liability cost allocation using the following formula:

TOTAL ALLOCATION = BASE ALLOCATION + SPECIAL COVERAGE + CLAIM ALLOCATION

where:

TOTAL ALLOCATION = Total annual allocation (determined by Finance based on actuarial study)

BASE ALLOCATION = [(10% of the TOTAL ALLOCATION) x (each department's percentage of the total number # of employees)]

SPECIAL COVERAGE = Department specific insurance premium

CLAIM ALLOCATION = (TOTAL ALLOCATION – BASE ALLOCATION – SPECIAL COVERAGE) x (Each department's percentage of the total claims payments) Note: Each department's percentage share of the total claims payments is based on each department's total claims payments paid out over a period no longer than the most

recent seven years calculated as a percentage of the City's total claim payments made during the same timeframe.

Variables affecting this allocation include:

- Change in percentage of total number of employees
- Change in department's percentage of the total claims costs paid out over last ten years (a rolling seven years)
- Change in the TOTAL ALLOCATION for the general liability account (determined by staff based on actuarial reports)

SCOPE OF RISKS AND CITY RISK OBJECTIVES

The scope of risks extends to all departments and encompasses all City programs; any department can experience an accidental event at any time. The scope of each department's operational risks varies depending on the type and scope of services. Each department is ultimately financially impacted, whether or not operationally impacted, by any individual loss and by all losses cumulatively.

The City's pre-loss risk management objectives are:

- Loss prevention
- Legal and regulatory: compliance with all required legal and regulatory standards
- Effective, efficient protection of City resources
- Favorable public image

The significance of a particular loss exposure to the City ultimately depends on how severely that loss prejudices the City's ability to achieve one or more of its risk objectives. In the event of a loss (post-loss), the City's risk management objectives are (in priority order):

- Humanitarian: To support operational departments' efforts to assure that citizens:
 - Are safe from threats to their life
 - Have access to the basic necessities of food, shelter, clothing and access to needed medical care
 - Have access to services that can assist them in contacting family and rebuilding or recouping lost or damaged property
- Continuous operation: to support operational departments' efforts to assure that essential public services continue uninterrupted
- Legal and regulatory: to comply with all required legal and regulatory standards
- Stability:
 - To protect and preserve the City's resources
 - To protect the City against the financial consequences of catastrophic accidental losses
 - To maintain the City's earning capacity
 - To minimize the total long-term recovery costs to the City
- Favorable public image

ORGANIZATIONAL PLACEMENT

All risk management programs will be managed through the Risk Management office in the City Finance Department. An Administrative Services Manager, reporting to the Finance Director, will be responsible for overall management of the Risk Management function. All staff performing risk management related tasks will be assigned to the Risk Management office

under an organizational structure developed by the Administrative Services Manager and approved by the Finance Director.

AUTHORITY & RESPONSIBILITY

Because the City's risk management programs impact all departments, the authority, responsibility and interdepartmental relationships of all stakeholders are described in the following sections.

City Council

The City Council provides overall policy guidance and approval on risk management issues and serves as the ultimate claims/lawsuit settlement authority. Pursuant to Resolution 01-204 Council is required to approve denial of claims equal to or exceeding \$50,000.00. In addition, Council will evaluate staff recommendation for payment or settlement of any claim equal to or exceeding \$25,000. Additionally, the Council will indemnify, support and defend, against claims and lawsuits, the actions and deeds of City employees operating within the course and scope of their employment.

Finance Department

The Finance Department is the receiving point, as authorized under State law, for general liability claims made against the City of Monterey.

Administrative Services Manager

The Administrative Services Manager serves in an advisory capacity to managers with respect to risk control strategies (loss prevention, loss avoidance, risk transfer, etc.) and in an advisory capacity to the FINANCE DEPARTMENT in all risk financing matters.

The Administrative Services Manager is solely responsible for thoroughly evaluating the sufficiency and form of all tort claims against the City and for giving notices relative to the investigation of claims and any deficiency of such claims to the claimant(s). The Administrative Services Manager is solely responsible for determining the extent of investigation based on the likelihood of a lawsuit, for investigating and adjusting all tort claims against the City and for making recommendations for their disposition to the Finance Director and City Attorney as appropriate.

The Administrative Services Manager may deny any claim amounting to \$14,999.99 or less, or may approve for payment, settlement or compromise any claim amounting to \$14,999.99 or less including those in which liability is denied but settlement is deemed appropriate to avoid costs of litigation. Claims recommended for denial that equal or exceed \$15,000.00 and claims recommended for payment, settlement or compromise equal to or exceeding \$15,000.00 shall be forwarded to the City Attorney for their review and concurrence.

The Administrative Services Manager is responsible for the identification of loss and risk hazards and for the development, implementation and maintenance of appropriate risk controls, risk avoidance, risk transfer and/or risk financing strategies and policies for Citywide use. In addition, the Administrative Services Manager is responsible for analyzing insurance contracts,

purchasing insurance, selecting insurance brokers or agents, reviewing the risk aspects of contracts or other legal documents and for developing the annual risk charge allocation.

City Attorney

The City Attorney is responsible for supporting the City’s risk management function by providing legal advice, research and support relative to general liability claims, risk transfer and loss intervention strategies. The City Attorney is also responsible for defending, against claims and lawsuits, the actions and deeds of City employees operating within the course and scope of their employment

The City Attorney is responsible for reviewing and approving recommendations from the Administrative Services Manager for payment, settlement or compromise of any claim between \$15,000 and \$25,000 and for claims recommended for denial where the amount claimed is between \$15,000 and \$50,000. In addition, the City Attorney is responsible for reviewing all claims recommended to City Council for denial or approval.

CLAIM SETTLEMENT AUTHORITY		
	<u>APPROVE</u>	<u>DENY</u>
Council	≥ 25K	≥ 50K
CAO	15K – 25K	15K – 50K
ASM	< 15K	< 15K

Department Heads

Department heads are responsible for maintaining, protecting and properly utilizing all assets under their care and for reporting the value of those assets to risk management. Department heads are also responsible, with assistance, resources and advice from risk management and through utilization of risk management programs for the

- identification and reporting of any loss or risk hazard
- design, implementation, and ongoing maintenance and administration of loss and risk intervention strategies. Department heads are also responsible for informing their employees of this policy and for enforcing its provisions.

Management and Supervisory Staff

Managers and supervisors are responsible for identifying and reporting loss and risk hazards to appropriate authorities, for observing City and departmental risk and loss standards and policies; and for taking measures to preserve and protect the assets placed under their care.

All Employees

All employees are responsible for reporting loss, risk and safety hazards to appropriate authorities, for observing all City and departmental risk and loss standards and operating policies, and for acting reasonably when performing activities that hold the potential for harm to themselves, their co-workers, all City staff, citizens and public or private real or personal property. Additionally, employees are responsible to carry out their assigned responsibilities utilizing the highest standards of conduct and professionally accepted practice in a safe, efficient manner and to uphold their responsibilities to protect City resources from loss or damage.

COMMUNICATION & INTERDEPARTMENTAL RELATIONS

The success of the City's risk management programs is dependent upon open, honest, timely, constructive communication. Therefore, appropriate, open communication among departments, risk management, employees and the public is essential and encouraged. Examples of essential communication include:

- An annual risk management report to the City Manager presented by the Administrative Services Manager
- Gathering and sharing of utilization, loss and cost statistics where appropriate by the Risk Management office
- Communication of the Council's risk management policies as well as the processes and procedures utilized to implement those policies
- Constant and continual communication with and among departments regarding the need for, and the availability of, loss reduction and intervention programs
- Department head review of loss and prevention aspects of new purchases, property construction or improvement activities as well as new or added risks involving new and existing programs, mandated services and third party contracts
- Field employee reporting of potential safety and loss situations as well as timely reporting of claims and losses as well as the sharing of any other information necessary to facilitate the identification, intervention and management of risks
- Manager, supervisor and employee communication and training on loss and operational policies and procedures

The Administrative Services Manager in Risk Management is responsible for establishing and maintaining communications involving risk management programs.

RISK MANAGEMENT PROGRAMS

The Risk Management office will be responsible for directly administering, managing and financing the following risk management programs:

- General and Tort Liability
- Contract Indemnity and Insurance Provisions
- Property Insurance Policy
- Special Events Insurance Policy
- Primary and Excess Commercial General Liability Insurance
- Boiler and Machinery Insurance Policy
- Hull and Machinery Protection & Indemnity
- Crime and Dishonesty Bond
- Volunteer Accident Medical Insurance Policy

In addition, the Risk Management office is responsible for:

- Developing and recommending risk management policy
- Establishing policy and procedures necessary to carry out the risk management programs
- Managing and administering the:
 - Purchase of insurance coverage
 - Selection of insurance companies and brokers
 - Claims processing associated with the general liability program

- Managing the general liability reserve fund, establishing a reserve level, annual appropriation, and/or funding recommendations to the Finance Director and calculating the annual allocation of risk program costs
- Providing policy recommendation, expertise, training and resources relative to loss prevention
- Developing, implementing and maintaining a system of information systems to provide timely and accurate reporting, recording and analysis of loss trends and risk management program costs
- Developing and distributing guidelines for departmental use of indemnification and insurance requirements in personal service contracts, leases, purchase agreements, etc.
- Support the City Attorney in the processing of lawsuits against the City
- Conducting ongoing risk analysis and developing and implementing risk control and financing techniques
- Providing training and other risk management resources to employees and managers
- Monitoring, analyzing and evaluating risk related legislation and recommending the City's position/response to same
- Developing, implementing and maintaining a program for timely processing and adjudication of general liability claims in accordance with applicable law

The Risk Management office is also responsible for supporting the Workers' Compensation program administered by Personnel by coordinating the purchase of excess workers' compensation insurance.

CONTACTS

Risk Management may be contacted as follows: Admin. Services Manager, Rhonda Combs, 831-646-3948, combs@ci.monterey.ca.us