



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri
Jim Shannon

SUBJECT: SEE BELOW

DATE: January 13, 2021

Approved

Date

01/15/21

SUBJECT: APPROVAL OF UNEMPLOYMENT INSURANCE FUND AND SELF-INSURED MEDICAL FUND APPROPRIATION ADJUSTMENTS

RECOMMENDATION

- (a) Adopt the following Appropriation Ordinance and Funding Sources Resolution amendments in the Unemployment Insurance Fund:
 - 1. Increase the Payment of Claims appropriation by \$1,210,000; and
 - 2. Increase the estimate for Transfers and Reimbursements by \$1,210,000.
- (b) Adopt the following Appropriation Ordinance amendments in the Self-Insured Medical Fund:
 - 1. Establish a Transfer to the Unemployment Insurance Fund in the amount of \$850,000; and
 - 2. Decrease the Ending Fund Balance by \$850,000.

OUTCOME

Approval of the recommended actions will increase the Payment of Claims appropriation by \$1,210,000 (from \$1,900,000 to \$3,110,000) and the revenue estimate for Transfers and Reimbursements by \$1,210,000 (from \$1,150,000 to \$2,360,000), to provide funding for the City to pay the estimated unemployment insurance claims for the remainder of this fiscal year. Additionally, recommended actions to the Self-Insured Medical Fund will partially offset the increase to the Payment of Claims appropriation.

BACKGROUND

The City self-funds for unemployment insurance obligations (reimbursable employer) through rate-based contributions per active employee from respective City departments and funds, equal to annual projected obligations within the City's Unemployment Insurance Fund.

These funds reimburse the State's Unemployment Insurance Fund on a dollar-for-dollar basis (pre-COVID) for benefits paid to eligible former employees and charged to the City's account. Under the CARES Act, the City is receiving a 50% credit for COVID unemployment claims from March 2020 through March 14, 2021 under current/proposed legislation.

Claims in recent years have declined from historical levels during recessionary periods, not requiring the administrative collection of employer contributions from the City's various departments and funds. Instead, the City relied upon accumulated reserves and fund balance to support actual claims costs until 2019-2020, when contributions were reinstated to ensure sufficient funding. Additionally, in anticipation of higher claims activity due to the early impacts of the COVID-19 pandemic, the 2020-2021 Adopted Budget doubled City contribution levels (from \$200,000 to \$400,000) and increased funding for anticipated claims payments (from \$500,000 to \$650,000). However, the full implications of the COVID-19 pandemic, including policy changes, remained unclear.

Shelter-in-place and closure requirements instituted in March 2020 to mitigate the spread of COVID-19, which were subsequently continued in varying degrees, disrupted normal business operations and necessitated remote work, where possible. Since early March, employees who were unable to work, either remotely or due to other conditions, received some administrative pay. Administrative pay for unassigned part-time unbenefited employees was discontinued as of May 4th, 2020, and over 1,100 employees were furloughed or experienced reductions to work hours, many of whom filed unemployment claims.

In July 2020, the City received its invoice for unemployment claims for the period April through June 2020 in the amount of \$1,067,342. With the Adopted Budget amount for Payment of Claims of \$650,000, at the August 25, 2020 Council meeting, the City Council approved actions to appropriate \$500,000 from the Unemployment Insurance Claims Reserve to cover the invoice. Shortly thereafter, the State Employment Development Department (EDD) applied the 50% COVID credit granted by the CARES Act and revised the invoice to \$536,773. This left a balance of \$613,227 available for the remainder of the fiscal year.

In anticipation of continued high claims, the City Council also approved budget adjustments as part of the 2019-2020 Annual Report on October 20, 2020 increase the Payment of Claims appropriation by an additional \$750,000, from \$1.15 million to \$1.9 million. This action was intended to provide funding for at least the estimated July through September 2020 invoice. Staff's intent was to request an additional increase to cover estimated claims for the remainder of this fiscal year after knowing the amount for the July through September 2020 invoice. This action was fully offset by an increase to the unemployment insurance rate applied to bi-weekly payrolls from 0.075% to 0.300% that was administratively effective on September 20, 2020. The unemployment insurance payment is paid by City funds, not contributions from employees.

In October 2020, the City received its invoice for unemployment claims for the period July through September 2020 in the amount of \$1,628,918. With the 50% COVID credit applied, the revised invoice was \$812,012.

ANALYSIS

Actual unemployment claims so far this year greatly exceeded anticipated levels, due in large part to the evolving impacts and response to COVID-19, and are compounded by the difficulty to predict the timing and the cost of claims activity. At this time, claims are anticipated to remain high and staff is preliminarily projecting total payments for the fiscal year of \$3.1 million, which leaves a shortfall of \$1.2 million that is addressed by the actions included in this memorandum.

The current Payment of Claims appropriation is \$1,900,000. After paying the July 2020 invoice of \$536,773 and the October 2020 invoice of \$812,012, the remaining balance is \$551,215. Staff is estimating that the remaining two quarters of claims – for the periods of October through December 2020 and January through March 2021 – will each be roughly equivalent to the amount reflected in the October 2020 invoice, including the continued 50% COVID credit, totaling approximately \$1.8 million. As a result, a projected shortfall of \$1.2 million needs to be addressed as shown in the table below.

	Amount
Current Payment of Claims Budget	\$1,900,000
July 2020 Invoice	(\$536,773)
October 2020 Invoice	(\$812,012)
Available Balance	\$551,215
Remaining Estimated Payments thru June 30	(\$1,761,215)
Remaining Balance/ (Shortfall)	(\$1,210,000)

Two actions are recommended to offset the increase for Payment of Claims:

1. Recognize an increase to the revenue estimate in the Unemployment Insurance Fund for Transfers and Reimbursements of \$360,000 resulting from higher than anticipated City contributions (transfers in) from various funds (from \$1.15 million to \$1.51 million). These revenues are attributable to the revised estimate of revenues generated from the unemployment rate that was previously modified on September 20, 2020 (as described in the Background section above). All funds are anticipated to be able to absorb the contributions, therefore, no appropriation adjustments are needed elsewhere.
2. Recognize a transfer from the Self-Insured Medical Fund of \$850,000 to the Unemployment Insurance Fund. The Self-Insured Medical Fund had previously received transfers from the General Fund in prior years to ensure fund solvency. However, the payment of claims within the Self-Insured Medical Fund were lower than anticipated, leaving an available balance that can be repurposed to assist with the payment of claims in the Unemployment Insurance Fund.

Last week, staff received information regarding New Economic-Coronavirus Relief Legislation from our Third Party Administrator which has a provision to extend the 50% credit of the costs of COVID related unemployment benefits from December 31, 2020 to March 14, 2021.

Following is the information received: "Late Monday night, December 21, 2020, Congress passed an omnibus bill (H.R. 133) for federal government spending during the 2021 fiscal budget year, and also includes \$900 billion in Covid-19 relief funding. The bill has been sent to the White House, awaiting the President's signature. **Extension of Emergency Unemployment Relief for Governmental Entities and Nonprofit Organizations:** The CARES Act provision, which amended the Families First Coronavirus Response Act to provide federal support to cover 50% of the costs of unemployment benefits for employees of state and local governments and non-profit organizations, is extended through March 14, 2021."

CONCLUSION

Given the evolving response to the impacts of the COVID-19 pandemic and limited data available during budget development and budget adjustments processes due to the timing of reporting/invoicing, unemployment claims have exceeded and are anticipated to continue to exceed current budgeted levels for 2020-2021. The actions recommended in this memorandum are necessary to fulfill the City's obligation for estimated unemployment claims for the remainder of this fiscal year. Staff will continue to monitor the claims activity and bring forward any further necessary budget adjustments.

EVALUATION AND FOLLOW-UP

The Human Resources Department and the City Manager's Budget Office will continue to monitor the Unemployment Insurance Fund and forecast future anticipated claims activity. If the City's obligation again exceeds the modified budget, additional budget adjustments, as necessary, will be brought forward to fully fund the obligation before the end of the fiscal year.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

The recommended actions are anticipated to provide funding for the estimated unemployment claims for the remainder of this fiscal year. Further obligations for 2020-2021 are presently unclear, but the Administration has estimated the obligations for 2020-2021 based on claims activity to date.

The Administration will continue to monitor future claims activity, and as necessary, any adjustments to the budget to adequately self-fund the City's unemployment insurance liability will be brought forward for City Council consideration later in the year. In order to fully fund the City's obligations for 2020-2021, the actions in this memorandum will recognize higher than anticipated City contributions from various funds (\$360,000) and a transfer from the Self-Insured Medical Fund (\$850,000). The Self-Insured Medical Fund had received General Fund contributions in prior years to cover that fund's anticipated payment of claims; however, the amount of claims were lower than estimated and the savings fell to the fund's ending fund balance. It is recommended that a portion of these savings support the increase in the City's obligation for unemployment claims. As the Self-Insured Medical Fund is scheduled for closeout by the end of 2020-2021, any remaining balance in this fund will be transferred to the General Fund as part of a future budget process.

BUDGET REFERENCE

The table below identifies the budgetary adjustments required to support the unemployment claims payments described in this memorandum.

Fund #	Appn #	Appn. Name	Total Appn	Recommended Budget Action	2020-2021 Adopted Budget Page	Last Budget Action (Date, Ord. No.)
157	3222	Payment of Claims	\$1,900,000	\$1,210,000	X – 13	10/20/2020, Ord. No. 30494
157	R003	Transfers and Reimbursements	\$1,150,000	\$1,210,000	X – 13	10/20/2020, Ord. No. 79742
158	NEW	Transfer to the Unemployment Insurance Fund	N/A	\$850,000	N/A	N/A
158	8999	Ending Fund Balance	\$1,223,445	(\$850,000)	X – 12	10/20/2020, Ord. No. 30494

HONORABLE MAYOR AND CITY COUNCIL

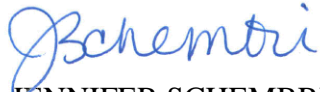
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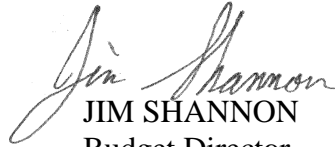
CEQA

Not a Project, File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment



JENNIFER SCHEMBRI

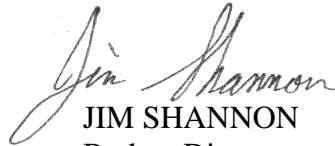
Director of Human Resources and
Employee Relations



JIM SHANNON

Budget Director

I hereby certify that there will be available for appropriation in the Unemployment Insurance Fund in the Fiscal Year 2020-2021 moneys in excess of those heretofore appropriated therefrom, said excess being at least \$1,210,000.



JIM SHANNON

Budget Director

For questions, please contact Emily Hendon, Human Resources Benefits Division Manager, at (408) 975-1448.