

2018-2019 BUDGET QUESTION
Response to Request for Information

DEPARTMENT: Financial Services – Controller’s Office and Law

REQUEST NO.: 47

REQUESTED BY: Alter

DATE REQUESTED: 8/16/18

DATE POSTED: 8/31/18

REQUEST: Are there any cost savings to be achieved by having Austin Energy, Austin Water, and Aviation contribute to the Liability Reserve Fund instead of their current practice of covering claims independently? Please also discuss any non-fiscal implications at stake if this practice is changed.

RESPONSE: The City is self-insured for third party liabilities. The Liability Reserve Fund was created to establish a reserve to cover potential payouts that City departments may not have included in their operating budget. The Liability Reserve Fund revenue is comprised of transfers from the General Fund and other operating funds except for Austin Energy, Austin Water and the Aviation Department. Transfers from each operating fund are based on claims history.

No cost savings would be achieved by having Austin Energy, Austin Water, and Aviation contribute to the Liability Reserve Fund. The City’s overall cost is the same for processing these claims and liabilities regardless of the funding source. The key consideration is an individual department’s ability to fund a large claim or settlement in any given budget year, should a judgment or settlement occur.

Austin Energy, Austin Water, and Aviation are the City’s largest enterprise funds representing 50% of the City’s overall FY 2018-19 Proposed Operating Budget. In FY 2016-17, Austin Energy, Austin Water, and Aviation began budgeting for lawsuits and major claims costs within their own operating fund – primarily because each of these large enterprises have sufficient reserves of their own to cover these third party liabilities when they arise. Because these enterprise operations are subject to potential rate challenges and audits by the Federal Aviation Administration that involve cost allocation reviews, a direct cost approach was a better financial practice than an allocation. These enterprise funds are no longer relying on the City’s general Liability Reserve Fund.

