

Douglas County School District

Board Agenda Item Memo

Date: October 15, 2026

To: DCSD Board of Trustees

From: Terri Willoughby, Chief Financial Officer

Re: First Reading of Health Fund Reserves Funding and Recovery Policy

Requested Action:

Receive the proposed Health Fund Reserves Funding and Recovery Policy for first reading, provide direction, and advance it to a subsequent meeting for second reading and consideration of adoption. The Health Advisory Committee recommended approval at its September 29, 2026 meeting.

Background Information:

DCSD's self-funded health plan pays covered claims from employee and District contributions. The District bears the claims risk retained under the plan and its stop-loss contracts. Reserves provide a cushion when claims exceed expectations and help pay obligations while contributions or reimbursements are pending.

The draft unaudited FY 2025–26 trial balance reports estimated ending net position of \$167,073.89, or approximately \$167,000, at June 30, 2026. This follows beginning fund balance of \$609,406.03 and an annual loss of \$442,332.14. Revenues were \$9,726,083.19 and expenses were \$10,168,415.33. The trial balance records \$1,040,807 of incurred but not reported claims (IBNR) as a liability. Those claims have already been incurred even though they have not yet been reported or fully processed; that liability is separate from the reserve cushion.

The proposed policy measures reserves as net position after all liabilities, including IBNR. It establishes a minimum of two months of projected annual plan costs (16.7%), a target of three months (25%), and an upper evaluation range of four months (33.3%). These are proposed District standards, not statutory reserve percentages. Adequate cash to pay claims is also required.

For scale only, using FY 2025–26 expenses as a historical benchmark, two months equals approximately \$1,694,736 and three months equals \$2,542,104. The estimated \$167,074 balance represents about 1.6% of annual expenses, or roughly six days of expenses. The gap to the two-month benchmark is approximately \$1,527,662. Actual policy thresholds must use updated projected plan costs, net of reasonably collectible reimbursements and rebates.

The policy requires a corrective plan within 90 days when reserves are below the minimum. Below one month, or when inability to pay claims is projected, Board action must be sought within 30 days or sooner as circumstances require. Initial recovery goals are the two-month minimum by June 30, 2029 and the three-month target by June 30, 2031. Quarterly reporting and annual stop-loss review support that recovery.

Budget Considerations and Impact:

First reading does not approve a transfer, contribution increase, benefit change, or insurance contract. Implementation will require an updated funding and recovery plan. Recurring contributions must cover expected annual costs before reserves can be rebuilt. One-time support alone will not correct an ongoing operating deficit.

What “one big claim away from insolvency” means. With only about \$167,000 of estimated net position, an unexpected claim cost retained by the District could exhaust the reserve cushion. For example, an additional \$200,000 cost above amounts already estimated, after applicable recoveries and without offsetting revenue or savings, would reduce net position to approximately negative \$32,926. This is an illustration, not a prediction or a statement of DCSD’s stop-loss deductible. Payment of a claim already included in IBNR generally settles a recorded liability rather than causing a second expense, but it still uses cash.

Stop-loss insurance can limit covered exposure, but its deductibles, exclusions, claim deadlines, coverage limits, and reimbursement timing determine the protection actually available. The relevant risk is the amount DCSD must retain and finance. A large claim or cluster of claims can also create a cash shortfall before reimbursement arrives. The current stop-loss terms must be confirmed before treating the “one big claim” phrase as a quantified assessment.

What happens if the fund becomes insolvent. Negative net position means recorded liabilities exceed assets. Cash insolvency means the fund cannot pay obligations when due. Either condition requires urgent correction, although they may occur at different times. Running out of reserves does not cancel valid covered claims or transfer them automatically to the claims administrator or stop-loss carrier. DCSD would need to arrange lawful funding and manage its obligations under the plan documents and contracts with legal counsel, the benefits consultant, and the administrator.

Without timely funding, claim payments could be delayed. Employees and dependents could experience unpaid provider bills, billing disputes, and disruptions in access to care, depending on provider and plan arrangements. The District could face contractual disputes and legal claims. Management should immediately update the cash forecast, verify unpaid claims and collectible recoveries, notify the Board, and present funding and coverage options before payments fail. The policy’s response deadlines are outer limits, not reasons to delay urgent action.

Potential General Fund support. The Board may need to consider additional employer contributions or another legally permissible form of temporary support. Any proposal must identify available resources, budget authority, cash timing, and the effect on District operations, with legal review and separate disclosure. A loan, if legally permissible, must have Board-approved repayment terms and a credible repayment source. Support is not automatic. With the General Fund already under fiscal pressure, assistance could deepen its deficit or require spending reductions. Health plan money remains restricted to lawful plan purposes under NRS 287.029.

Budget Considerations and Impact continued:

Potential transition to a fully insured plan. If DCSD cannot sustainably fund the retained claims risk, the Board may need to consider purchasing fully insured coverage. This is a potential corrective option, not an automatic consequence of insolvency. Under a fully insured contract, the insurer assumes covered claims risk for the new coverage period in return for premiums. Pricing, availability, benefits, provider networks, bargaining obligations, and transition timing require evaluation.

A transition does not erase the self-funded plan's prior obligations. Unless a separate enforceable arrangement explicitly assumes them, DCSD remains responsible for covered claims incurred before the transition, including claims reported or paid afterward. These are commonly called run-out claims. The District would therefore need to pay new insurance premiums while also funding the former plan's remaining claims, administrator fees, and other closing costs. Existing IBNR provides a liability estimate, not a separate pot of cash.

Before any transition, staff must obtain an updated run-out estimate and cash schedule, confirm administrator services and claim-submission deadlines, and review stop-loss protection for claims incurred before termination but paid afterward. Any extended run-out coverage must be confirmed in writing. The financial comparison must include both new premiums and legacy obligations so the Board can assess the full transition cost.

Recommendation:

Advance the policy to second reading and consideration of adoption. Direct staff to prepare an updated recovery and liquidity plan using reconciled year-end net position, current claims and IBNR estimates, projected costs, and confirmed stop-loss terms. The plan should identify recurring funding needed, annual reserve milestones, an adverse claims scenario, and contingency options for temporary support or a coverage transition. Contribution and benefit changes remain subject to applicable law, plan documents, and collective bargaining obligations.

Discussed at Previous Meeting:

The Health Advisory Committee recommended approval on September 29, 2026. This memo presents the policy for Board first reading on October 15, 2026. A second-reading date will be scheduled following Board direction.

Key issues for Board Discussion:

The adequacy of current cash and reserves; the District's actual retained stop-loss exposure; affordable recurring funding and recovery milestones; the General Fund's capacity to provide temporary support; and the combined cost of fully insured premiums and self-funded run-out claims.

Attachment(s):

1. Proposed Health Fund Reserves Funding and Recovery Policy after legal review.

Source note: Financial figures are preliminary and subject to reconciliation and audit. Ending net position is calculated as beginning balance plus revenues less expenses. The draft trial balance's balance-sheet section also contains an additional formula at L31 equal to 8% of annual expenses; its purpose and effect on that section must be reconciled before final reporting. Policy thresholds above are illustrative historical comparisons. Legal reference: NRS 287.029, <https://www.leg.state.nv.us/nrs/nrs-287.html#NRS287Sec029>. Coverage and transition obligations require review of DCSD's actual contracts.

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