

Legislation Text

File #: BILL NO. 17-155, **Version:** 2

AN ORDINANCE APPROVING AMENDMENT NO. 1 TO THE BUDGET FOR THE FISCAL YEAR ENDING JUNE 30, 2018, AS ADOPTED BY ORDINANCE NO. 8162, BY REVISING THE AUTHORIZED BUDGET EXPENDITURES OF THE CITY OF LEE'S SUMMIT, MISSOURI WITH FUNDS TO BE BUDGETED FOR AND PAYMENT TO BE ISSUED IN FY2018 FROM THE GENERAL FUND RESERVE BALANCE. (F&BC 7-10-17)

Issue/Request:

AN ORDINANCE APPROVING AMENDMENT NO. 1 TO THE BUDGET FOR THE FISCAL YEAR ENDING JUNE 30, 2018, AS ADOPTED BY ORDINANCE NO. 8162, BY REVISING THE AUTHORIZED BUDGET EXPENDITURES OF THE CITY OF LEE'S SUMMIT, MISSOURI WITH FUNDS TO BE BUDGETED FOR AND PAYMENT TO BE ISSUED IN FY2018 FROM THE GENERAL FUND RESERVE BALANCE.

Key Issues:

The proposed amendment will authorize a \$1,410,378 transfer from the General Fund Reserve Balance to the Health Insurance Reserve Fund for the purpose of funding health insurance liabilities.

The need for this transfer was caused by two items.

1. Calendar year 2016 claims increased 19% per capita over the prior year. This unexpected utilization increase, driven heavily by catastrophic large claims, yielded a \$501,600 deficit versus City funding and did not allow for an intended additional accrual of \$342,654 in reserve for the Health Insurance Fund.
2. The calendar year 2017 contract renewal with Blue Cross and Blue Shield contained a math error which artificially reduced the 2017 maximum and expected health insurance claim liability. The claim liability increase of 1.5% forecast for the City actually calculated to 9.9%. The miscalculation yields a shortfall of \$566,124 in 2017 calendar year funding. As a result, the City has had to pay the difference from the Health Insurance Reserve Fund. At maximum 2017 calendar year liability, a deficit beyond Fund Balance could occur projected at \$163,132.

The direct result of the preceding factors is the erosion of the Health Insurance Reserve Fund. The City is now without necessary funding to cover the contractually obligated terminal liability coverage (run-out). The run-out period covers 12 months following termination of the Blue Cross Blue Shield Cost Plus contract and the funds are required to cover any claims which are incurred in a self funded plan year but have not yet been paid out. The maximum terminal liability for this coverage is estimated to cost \$1,250,626. This amount does not constitute a penalty or other fee. In the event that the City does opt to move from a self funded plan to a fully insured plan and claims incurred in the self funded plan year do not meet or exceed the maximum terminal liability amount estimated, the City will retain any remaining balance at the end of the run-out period.

If approved, this transfer will provide funding to cover the health insurance liability for the remaining plan year and provide a source of funds for terminal liability to potentially change carriers and/or insurance models in 2018 (fully insured vs. self-funded).

The identified funding source for this transfer is the General Fund Reserve Balance. In FY16, the reserve balance increased \$5.2m as a result of increased revenues and expenditures under budgeted levels. At the conclusion of FY17, the reserve balance is estimated to increase \$400,000 to \$25.5 million. The proposed amendment would reduce the General Fund reserve balance to 38% of operating expenditures at year end.

Proposed City Council Motion:

FIRST MOTION: I move for second reading of AN ORDINANCE APPROVING AMENDMENT NO. 1 TO THE BUDGET FOR THE FISCAL YEAR ENDING JUNE 30, 2018, AS ADOPTED BY ORDINANCE NO. 8162, BY REVISING THE AUTHORIZED BUDGET EXPENDITURES OF THE CITY OF LEE'S SUMMIT, MISSOURI WITH FUNDS TO BE BUDGETED FOR AND PAYMENT TO BE ISSUED IN FY2018 FROM THE GENERAL FUND RESERVE BALANCE.

SECOND MOTION: I move for adoption of AN ORDINANCE APPROVING AMENDMENT NO. 1 TO THE BUDGET FOR THE FISCAL YEAR ENDING JUNE 30, 2018, AS ADOPTED BY ORDINANCE NO. 8162, BY REVISING THE AUTHORIZED BUDGET EXPENDITURES OF THE CITY OF LEE'S SUMMIT, MISSOURI WITH FUNDS TO BE BUDGETED FOR AND PAYMENT TO BE ISSUED IN FY2018 FROM THE GENERAL FUND RESERVE BALANCE.

Background:

In 2011/2012, following a health insurance bid, the City of Lee's Summit left Midwest Public Risk (MARCIT) to obtain health insurance from Blue Cross and Blue Shield. Following the change, the City received a refund from MARCIT for excess coverage which was combined with a refund in 2014 from Blue Cross and Blue Shield to build a health insurance reserve fund. In addition, plan renewals in 2015 - 2017 budgeted increases to further fund the health insurance reserve fund with the goal of setting aside money for terminal liability coverage (run-out). As of June 30, 2016, the Health Insurance Reserve Fund had a fund balance of \$726,680. The balance for this fund has been eroded following an increase in the number and severity of health insurance claims.

The contract with Blue Cross and Blue Shield established rates using a self insured model. Under this arrangement, the City was liable for the first \$150,000 of a health insurance claim costs. Once a claim exceeded this amount the remainder would be paid by Blue Cross and Blue Shield. A self insured model can financially benefit an organization if claims experience shows minimal and routine usage. A fully insured model is opposite where the carrier will insure all claims up to the maximum liability.

The City is in the final year of the Blue Cross and Blue Shield contract and is in the process of reviewing requests for proposal (RFP) for health, dental, and vision insurance. With help from Holmes & Murphy, the City's insurance broker, City staff will work with the Health Insurance Task Force employee group to evaluate funding and carrier options. The goal is to bring forward to the City Council a recommendation to award a new health, dental, and vision contract in September/October so that open enrollment can begin in November with the new contract beginning on January 1, 2018.

Presenter: Nick Edwards, Director of Administration | Matt Wheeler, Vice President, Holmes & Murphy

Recommendation: Staff Recommends Approval of AN ORDINANCE APPROVING AMENDMENT NO. 1 TO THE BUDGET FOR THE FISCAL YEAR ENDING JUNE 30, 2018, AS ADOPTED BY ORDINANCE NO. 8162, BY REVISING THE AUTHORIZED BUDGET EXPENDITURES OF THE CITY OF LEE'S SUMMIT, MISSOURI WITH FUNDS TO BE BUDGETED FOR AND PAYMENT TO BE ISSUED IN FY2018 FROM THE GENERAL FUND RESERVE BALANCE.

Committee Recommendation: A motion was made by Vice Chair Edson, seconded by Alternate DeMoro that this Ordinance be recommended for approval to the City Council - Regular Session, due back on 7/27/2017. The motion carried by unanimous vote.