

## **BUDGET WORKSHOP APRIL 30, 2007**

The Wethersfield Town Council held its budget workshop on Monday, April 30, 2007 at 5:30 p.m. at the Eleanor Wolf Buck Nature Center.

Present: Councilors Cascio, Drake, Forrest, Kirsche, Montinieri, Walsh, Deputy Mayor Fortunato and Chairperson Adil.

Also present: Bonnie Therrien, Town Manager and Dolores G. Sassano, Town Clerk.

Councilor Kotkin participated in the meeting via teleconferencing until 6:30 p.m.

Dolores Sassano, Town Clerk took attendance.

Chris Munroe, Agent of Record said that the Health Insurance Budget is broken down into two components, the Town and Board of Education. The main concern is the open policy year. It covers the year between July 1, 2006 and March 31, 2007. Three pages into the exhibit is a recap of what the Town thought it would spend versus what the Town has actually spent in those nine months. He also provided an annual overview on what the Town can expect to spend based on the next three months. The account as a whole shows the budget is running in a deficit for the first time in years. The deficit position snuck up on the Town quickly. For the first six months, the Town was in a good position with a surplus of about \$160,000. Since January the Town has moved in the wrong direction, particularly the month of March. March 2007 has been the worst claim month the Town has had in the nine years that he has worked for the Town. The Town was averaging about \$550,000 a month in claims. From January 2007 on, the Town is averaging \$820,000, a 40 percent increase just in the last three months. Page 3 shows paid claims by the month. The budget is \$375,000 over what the Town thought it would spend, 7.5 percent over budget. He said that he is at a loss as to what April, May and June will bring in claims. He said he never thought the Town would have a month with so much activity. This activity will impact the Insurance Plan for 2007-2008. When there is this type of activity, the Town needs to discover what is driving this claim activity. He handed out a two page series of events. Every month large claims are tracked. Through the first six months of the Plan year, there were 5 claims over \$50,000. When a claim reaches \$50,000 it is considered a large claim and is tracked month to month. In December, the Town was in good shape with no one over \$100,000 in claims. The five claims represented about 11 percent of the claim output. The actual update to that report shows the Town going from 5 people over \$50,000 to 12 people over \$50,000 with 4 individuals over \$100,000. These people now represent 20 percent of the claims. The first three new individuals are newborn children, and they represent over \$400,000 in claims since January. With large claims, he looks at the probability of the claim continuing. With newborns, the claims are usually one and done, all the claims usually come in at one time. He said that he doesn't know if these children are still in the hospital. April and May are critical months, as they will show if these claims are on-going.

At 6:42 p.m., Chairperson Adil arrived.

Chris Munroe, Health Insurance Agent of Record, brought Chairperson Adil up-to-date.

Chairperson Adil asked if he knew where the Town stood for the month of April.

Chris Munroe, Health Insurance Agent of Record said that based on a phone call today, it looks like the claims for the month of April will be about \$700,000. Some of that \$700,000 may be hold overs from previous months based on processing. He said that he will have an exact figure on May 12th for April's claims. When the Town looks at all this activity and puts it into the Blue Cross formula it generated an increase of about 17 percent for next year's budget which is a dramatic increase over the 10 percent projected based on data from December. He said that he doesn't know if this is an aberration or a sign of things to come. He said looking at history, this would be an aberration. He worked with Blue Cross to come up with an alternate projection. Most underwriters use the most recent 12 months of claim experience but it is not uncommon to use 18 or 24 months of history. He distributed a two page handout. He said if the

Town tries to best reflect some of the better claims experience it can look at a snapshot of the past 18 months to look for a projection for 2007/2008. Using the most recent 18 months of claims experience and putting it through the Blue Cross formula, instead of Blue Cross showing \$7,900,000 it would fall to \$7,550,000. He said that he thinks it is fair to factor in a little bit more of the claims history and not get so hung up on the three months that may be somewhat of an aberration. If the Town moves away from the Insurance Carriers format, it is being somewhat aggressive.

Councilor Drake said that he thought only March was the aberration. He asked if the Town could throw out the highest and lowest number months.

Chris Munroe, Health Insurance Agent of Record said that January and February represent the beginning of the Town moving in the wrong direction. He said that he has tried to smooth out the bad month by giving it only 1/18th credit for the bad month.

Councilor Drake said that in some years, the Town has overpaid. He asked where the overage money goes.

Lisa Hancock, Finance Director said that 2005/2006 had \$772,000 in the Self-Insurance Fund Balance at the beginning of the year. The reason why the fund was so high had to do with employee co-pays. Prior to her employment, employee co-pays were shown as a General Fund liability but the cash was never moved to the Fund so at the end of last year she moved close to a \$1,000,000. More than \$200,000 of that has been used on fund deficits. The account now has about \$240,000 in it. The Board puts money into this account monthly.

Councilor Montinieri said that it seems like there should be more money in that account.

Lisa Hancock, Finance Director said that the Board of Education has not put the money in yet.

The Board of Education has put in actual claims but not administrative fees. The Town put in the full budgeted amount up front.

Councilor Montinieri asked if it would be safe to say that the amount is close to \$400,000.

Lisa Hancock, Finance Director said that she is estimating about \$260,000 left in the account at the end of the year based on inflow and projected outflows.

Councilor Montinieri said that since there was \$1,000,000 in the account, did that impact the current budget in the way that it was projected.

Chris Munroe, Health Insurance Agent of Record said that if the Insurance Carrier looks at the 18 month history, it will look at a part of the prior year that ran well.

Councilor Montinieri asked if there was a historic expectation for maintaining the fund balance.

Bonnie Therrien, Town Manager said that it was discussed but not acted on.

Lisa Hancock, Finance Director said that the Town was in a deficit in the Health Insurance Account the year before until she found this money and moved it to the account. The Town found out that the Board of Education has been putting in for the claims but were not aware of the administration fees. The money going into the fund is what is recommended at the beginning of the year. For example, if the Board of Education were told to budget \$5,000,000 and the Town \$2,000,000, the Town should be putting the \$2,000,000 in and the Board of Education should be putting in the \$5,000,000.

Dr. Patrick Proctor, Superintendent of Schools said that what the Board of Education has been paying includes the admin fees and related fees.

Karen Clancey, Business Manager said that when she meet on April 23, 2007 with Lisa Hancock, Finance Director, she was unsure of whether the Board of Education was paying the fees. Board staff realized after the meeting that it needed

to provide a more in depth reporting to the Town. The Board of Education is paying all of the fees to the Town with the actual claim.

Deputy Mayor Fortunato said that based on the years she has served on the Board of Education and Town Council, she feels this is an anomaly.

Councilor Forrest said that he agrees with the Deputy Mayor, he thinks this is an anomaly. The question is how does the Town smooth out the anomaly? He asked about the Town's stop-loss reconciliation. In the past, has there ever been a spike like March.

Chris Munroe, Health Insurance Agent of Record, said that it has always been very smooth. Every year the Town sees 4 or 5 claims over the \$50,000 mark. But to have 12 people over that point in the first nine months of the year, is an aberration.

Councilor Forrest asked in the past nine years, what has been the average.

Chris Munroe, Health Insurance Agent of Record, said that last year, there were three people over \$100,000 for the year. This year there have already been 4. The year before, there were 2 people over \$100,000 in claims. He said that he could go back and pull the information for prior years.

Councilor Forrest asked if other Towns have had a spike like this, for both in the dollar amount and number of claims over \$100,000, and if so what happened historically.

Chris Munroe, Health Insurance Agent of Record, said that more than half of his clients are self-insured. He said that generally, he sees three good years and one bad year or five good years and one bad. He said that he doesn't think this means the Town will start to see \$800,000 claims every month. That is why he recommends a 12 percent increase based on the 18 months claim history. He said that a local municipality had an even worse scenario and ran 25 percent over budget. The next year it ran into a large surplus.

Councilor Forrest moved onto the historical recap. He asked about the page three margin deficit account.

Chris Munroe, Health Insurance Agent of Record, said that what he is trying to show in the monthly liability column, in time, the Town should have had in its bank account \$5,991,000 to fund this obligation. When the positives and negatives are carried down monthly, the balance is \$375,000.

Councilor Forrest asked about the \$500,729.

Chris Munroe, Health Insurance Agent of Record, said that he took the nine month number and annualized it.

Councilor Forrest said that there was a discussion on the Insurance Fund Balance being \$400,000 and \$780,000. He asked what Fund Balance is that going into and if it is a separate account, does it compromise the Town's fund balance.

Bonnie Therrien, Town Manager said that it is a separate Fund Balance.

Lisa Hancock, Finance Director, said that as of last Friday, the balance in Health Fund Balance was \$242,000. It is in the Budget as of December 2006.

Councilor Forrest asked for a clarification on the smoothing out of the percent of cost for the insurance.

Chris Munroe, Health Insurance Agent of Record, said that in December, he said the Town could budget between 10 and 12 percent over what it paid in the 2006/2007 year. It would be conservative, but the Town would be okay. Now, when he compares that against the numbers, there is about a \$400,000 disjoint.

Bonnie Therrien, Town Manager said that the Town budgeted 10 percent. It can be seen on page E-5 of the budget.

Chris Munroe, Health Insurance Agent of Record, said that he is now recommending 12.6 percent based on the 18

month history.

Councilor Kotkin asked that the handouts be forwarded to him.

Bonnie Therrien, Town Manager said that she would e-mail all of the handouts to him.

Councilor Kotkin disconnected from the teleconference.

Lisa Hancock, Finance Director, said that the Town number of \$1,844,974 is what was in the account for the 2007/2008 projection. Another \$250,000 would be added in employee co-pays, for a total Town-side contribution of \$2,940,974. That is the budget at 10 percent.

Councilor Drake said that the monthly liability is what is supposed to be put into the account. It is not real clear if the Town is doing that but hopefully it will start. If last year is 7.6 percent and the Town is adding 10 percent to 8.25 that is still higher than what Chris Munroe wants it to be.

Chris Munroe, Health Insurance Agent of Record, said that the Town has to factor in the captured expenses.

Councilor Cascio said that all Councilors agree that this is not something that will be seen every year. The bottom line is that the Town is short the money. The Town Council has the experts telling it where to go and the Town Council needs to do it. He said he wants to know how the Town Council is going to get to the bottom line of the money.

Chairperson Adil said that the Town Council needs to decide if it should go with the Blue Cross number of 17 percent or the 12.6 percent number.

Councilor Forrest said that it looks like the Town needs about \$200,000 to move to the 12.6 percent from the 10 percent. He said that he is interested in the \$240,000 in the fund balance and where it is represented in the budget.

Lisa Hancock, Finance Director said that the \$240,000 is not shown in the budget because the figures only go through December 2006. It is in the monthly financial statements. There have been negative balances throughout the years.

Bonnie Therrien, Town Manager said that the Finance Director transferred money to this account.

Councilor Drake stated again that he felt the Town should not be smoothing out the bad month, but eliminating it when it is figuring out next year's budget.

Councilor Forrest asked if the funds were interest earning.

Lisa Hancock, Finance Director said that some of the funds in this account are interest earning. The interest goes back into that account. The majority of the cash is invested in a class account and that is where the interest goes.

Councilor Forrest said that at the end of the year if there is a \$500,000 shortage and the Town uses the \$240,000 left in the Fund Balance account, does that come out of the General Fund balance to pay those liabilities.

Lisa Hancock, Finance Director said that in the past the Insurance Fund Balance would show a negative balance. That should not have happened, it should have been funded. An appropriation would have to be made from the General Fund, Fund Balance or Contingency.

Deputy Mayor Fortunato said that when she sees inactive, does that mean the claim has been paid or the person is off the policy.

Chris Munroe, Health Insurance Agent of Record said that it means that the person has passed away or an employee or dependent is no longer on the policy.

Deputy Mayor Fortunato said that she looks at March as an anomaly but said that the Town needs to look at its employee demographics. Is the population changing and can the anomaly become the norm.

Chris Munroe, Health Insurance Agent of Record said that even in good years, the population is still aging and one can argue that as new employees come on line they are usually teachers and they are usually younger and subsidize the older risk. He said this anomaly is really the newborns that generated \$475,000 in claims.

Deputy Mayor Fortunato asked if these newborns are going to require further medical care.

Chris Munroe, Health Insurance Agent of Record said that information is not available. He can try to find out where these children are now. If they are home, that is a great sign. He said that he is encouraged that these large claims are on something that is generally a one time thing.

Deputy Mayor Fortunato said unless they have developmental delays that will require services. Has that been determined, yet.

Chris Munroe, Health Insurance Agent of Record said that is hard to determine but if they are developmental delays there will be claims but not to the tune of \$200,000 a year. These claims

in March are all NICU claims. He said that his experience says that this type of claim month will not be the norm.

Bonnie Therrien, Town Manager said in response to Councilor Cascio's comment, this year there is \$375,000 on each side. Her recommendation is to take the money from the Reserve Account, any Board of Education surplus, and the Contingency Account. She would suggest waiting until the end of the year to make these transfers when the Town has the actual real numbers. As for next year, there is 10 percent budgeted. She will figure out the magic number for 12.6 percent as recommended by Chris Munroe.

Councilor Montinieri said that as of December the Fund Balance was at \$1,000,000. It was \$250,000 at the end of March. Was the \$750,000 a timing issue on claim receipts.

Lisa Hancock, Finance Director said yes and no. Some of it is the way it is projected out.

Councilor Montinieri said that this is a flow through account.

Deputy Mayor Fortunato said that the Vice Chairperson of the Insurance Committee is at the meeting and may wish to add his input if that is appropriate.

Michael Fortunato, Vice Chairperson of the Insurance Committee, said that the numbers that Chris Munroe, Agent of Record is giving the Town Council are the gross claims and doesn't account for the increased employee benefits contribution that have been negotiated with the unions. This may alleviate some of the costs. The last decision is where the Town Council should leave the Fund Balance.

Deputy Mayor Fortunato asked if the Insurance Committee has a recommendation for the Town Council.

Michael Fortunato, Vice Chairperson of the Insurance Committee, said not at this time. Other comparable Towns are leaving the Fund Balance at \$700,000.

Chris Munroe, Agent of Record said that there are really two ways to fund the Fund Balance. The incurred claim reserve is the amount the Auditor's require, generally 1 1/2 months of claims. That would be about \$900,000 in the IBNR reserve. Since the Town is self-insured it should have a rainy day fund, too.

Chairperson Adil said that he has been told that the retirees are being dropped from ConnectiCare and are going on Blue Cross.

Chris Munroe, Agent of Record, said that there are 23 people, five or six which are active in ConnectiCare. The Town is currently spending \$225,000 for those 23 people on ConnectiCare. In the model for Blue Cross he is using the same \$225,000 since he has no claims experience for them. The experience when a group of people were moved to Blue Cross years ago was a savings of about \$1,000 per person.

Councilor Drake said that the \$1,000,000 in the Fund Balance in December is not a real number.

Lisa Hancock, Finance Director said that is just a snapshot of the account. In December the Town money was in the account and the claims weren't too bad and then there were bigger hits.

Councilor Drake said that it is important to get the information that Chris Munroe has into worksheets for the Town, so that the Town has more actual numbers.

Councilor Forrest said that if the \$1,000,000 is a snapshot of December and then \$550,000 was used, April still has a snapshot of \$245,000. He is unsure of the snapshot.

A discussion ensued.

Lisa Hancock, Finance Director said that there are timing issues, too. The Board of Education adds its fund to the account monthly. The money may not have been received, yet. All of the entries may not be posted yet either. As of April 27th, the number did not include any claims for the month of April because they are not posted in the system. The expenditure side represents everything up to March 31st. On the revenue side money went in for April.

Chairperson Adil suggested that the Town Manager schedule a time for any Councilors interested to meet with Lisa Hancock, Finance Director to discuss this further.

Bonnie Therrien, Town Manager said that Lisa Hancock, Finance Director has put together a list of GASB 45 funding recommendations. She is recommending dollars from co-pays in the pension for retiree health insurance to be put into a trust fund that the Town Council would have to establish. The funds total about \$1,000,000. That would be the deposit for the GASB 45. It would show the Bond Rating Agencies that the Town is making a start. The Town is going to have to start to set money aside every year for this obligation. This is also recommended by the Auditor.

Councilor Drake said that he thought the actuaries said it was better for the Town to pay as you go then set up a trust fund.

Bonnie Therrien, Town Manager said that the actuaries encouraged the Town to set up a trust fund. Becky \_\_\_\_\_ also suggested it.

Councilor Walsh said even though it is not required, if the Town starts putting money in the Trust Fund now it would be cheaper in the long run.

Chairperson Adil said that even if the Town doesn't fund it, the Town needs a mechanism to move the money.

Councilor Drake said that it could just be done through the budget process as it is now, without a trust fund.

Bonnie Therrien, Town Manager said that she has provided the Town Councilors with information that was requested at other Budget Workshops. The first column is items that could be added on and the next column is items that can be eliminated. The next column is Patrick Proctor, Superintendent of School's budget. The Board of Education has already knocked it down \$100,000.

Lisa Hancock, Finance Director said that there is an error in the summary column.

Chairperson Adil said that he doesn't see reflected the hiring of a Police Officer offsetting the Police Overtime Account.

Bonnie Therrien, Town Manager said that it could be put in there.

Chairperson Adil said that he thought it was \$15,000.

Lisa Hancock, Finance Director said that the total adjusted budget for 2007/2008 for the proposed budget would be

based on \$79,246,185 and the dollar increase should be \$4,508,436 for a total overall percentage increase of 6.03 percent. The grand total line for the Town budget would become \$34,396,353 a total of 6.46 percent increase. The tax revenue is \$64,824,045 and zero out the secretary for parks for a grand total revenue of \$79,246,185. She said that she needs to verify all of these numbers again.

Chairperson Adil said that the Town Council always looks at the tax increase and mill rate. He asked for that information.

Lisa Hancock, Finance Director said this budget here and now would have a .74 mill rate increase with a \$108,000 reduction from the Board of Education budget. It would create an average homeowner increase of \$123.

Deputy Mayor Fortunato asked about the Clean Energy Money of \$10,000. She thought that the Town Council was going to take \$5,000 from this year's budget.

Bonnie Therrien, Town Manager said that the Town Council could, but she was a little leery because there were a lot of things brought up with the Health Insurance costs so she wanted to make sure that the Town was okay this year.

Deputy Mayor Fortunato asked if there was any money in escrow accounts that could support some of these things.

Bonnie Therrien, Town Manager said that one of the escrow accounts can pay for the brochures for the Elderly Safe Fire Program and transfer the brochure money into the wages in the Fire Marshal's Account.

Councilor Drake asked what the chance that the State money for next year stays perpetually and is not a one year aberration.

Bonnie Therrien, Town Manager said that it would look bad for legislators if the money was put in for one year and then taken out.

Councilor Forrest said that if the Town Council was to take into account that the Governor's Proposed Budget could be cut, it would be a reduction in revenue. If the Town Council softened that blow, where would that buffer be put in?

Bonnie Therrien, Town Manager said that she has put in a buffer with the conveyance tax.

Lisa Hancock, Finance Director said that the buffer is about \$30,000.

Bonnie Therrien, Town Manager said that the Fund Balance will have to be used to offset the tax rate.

Councilor Cascio said that in the new proposed budget there are a lot of tax exempt areas. Are there any new areas that would be affected in this budget.

Bonnie Therrien, Town Manager said no.

Councilor Cascio asked if the Town Manager could check her notes because he remembers some additions in the Library budget.

A discussion ensued concerning hiring additional staff for the Library when it re-opens.

Bonnie Therrien, Town Manager said that there will be a Regular Meeting on Monday, May 7th; a Shared Services Meeting on Tuesday, May 8th; and the next Budget Workshop on Wednesday, May 9th. Some of the meetings are at the Nature Center and others will be at the Community Center.

## **ADJOURNMENT**

Deputy Mayor Fortunato moved "**TO ADJOURN TO THE BUDGET WORKSHOP OF WEDNESDAY, MAY 9, 2007 AT 5:30P.M.**" seconded by Councilor Drake. All Councilors present, including the Chairperson voted AYE. The

motion passed 9-0-0.

Dolores G. Sassano  
Town Clerk