MINUTES
CITY OF ORMOND BEACH
CITY COMMISSION WORKSHOP
FINANCIAL TRENDS AND
HEALTH INSURANCE STRATEGIC PLANNING

March 1, 2016 **5:30 p.m.** **City Commission Conference Room**

I. CALL TO ORDER

Mayor Ed Kelley called the meeting to order at 5:30 p.m.

Present were Mayor Ed Kelley, Commissioners James Stowers, Troy Kent, Rick Boehm, and Bill Partington, City Manager Joyce Shanahan, Assistant City Manager and Public Works Director Theodore MacLeod, City Attorney Randy Hayes, Finance Director Kelly McGuire, Assistant Finance Director Dan Stauffer, Human Resources Director Claire Whitley, Budget Advisory Board members Rick Banker, Kenneth Kimble, Bill Harper, Scott Cichon, and Rafael Ramirez, Brown and Brown Insurance Senior Vice President Julie Freidus and Brown and Brown Insurance Vice President Jessica Scott.

II. FINANCIAL TRENDS

Introduction

Mayor Kelley asked the Budget Advisory Board members to introduce themselves.

Mr. Rafael Ramirez, Budget Advisory Board member, stated that he worked for Halifax Health and lived in Ormond Beach.

Mr. Rick Banker, Budget Advisory Board Chairman, stated that he lived in Ormond Beach on the peninsula.

Mr. Bill Harper, Budget Advisory Board member, stated that he was a retired certified public accountant (CPA).

Mr. Kenneth Kimble, Budget Advisory Board Vice Chairman, stated that worked in insurance and lived in Ormond Beach.

Mr. Scott Cichon, Budget Advisory Board member, stated that he was an attorney with Cobb Cole and was born and raised in Ormond Beach.

Mayor Kelley thanked the members of the Budget Advisory Board for serving the city.

Ms. Joyce Shanahan, City Manager, noted that the Financial Trends Workshop served as the annual kickoff for the budget process. She stated that it was designed to gain the advice and counsel of the City Commission and Budget Advisory Board in order for staff to start their budget preparations. She explained that the Finance Director would present financial information and ask for direction from the City Commission.

Mayor Kelley asked if the Budget Advisory Board had seen the presentation; whereby, Ms. Kelly McGuire, Finance Director, replied that they had not.

Ms. Shanahan explained that the Budget Advisory Board was to have been given the presentation at their last meeting, but the meeting had to be cancelled because there was not a quorum.

Ms. McGuire invited the Budget Advisory Board to also stay for the healthcare portion of the workshop as that topic would have been discussed at that meeting, had it been held.

Long Term Financial Plan

Ms. McGuire stated that at the City Commission's Strategic Planning session, they had indicated that they wanted staff to provide a financial plan. She noted that the Finance Department was gathering the data to put together a long-term financial plan. She explained that once there was a draft of this plan, it would be brought to the Budget Advisory Board and then the City Commission. She noted that a number of key decision points would need to be made and those decisions would help provide forecasting for the next five years. She stated that whatever direction was received would then be incorporated into future budgets and be officially adopted.

Short-Term Financial Issues

Ms. McGuire stated that short-term financial issues were maintaining an affordable tax rate, developing a healthcare funding plan which included expanded choices, and increasing the Vehicle and Equipment Replacement Fund's dedicated millage from 0.0372 to 0.0880 mills. She explained that up until about 2007 or 2008, the General Fund had been providing funds annually for that fund, but it was eliminated when cuts were being made. She noted that last year a millage of 0.0372 mills was put into place as a starting point. She stated that generated a little over $100,000. She explained that essentially the millage was shifted around as the overall millage rate did not increase. She further explained that the dedicate millage needed to be raised from 0.0372 mills to 0.0880 mills.

Other Major Revenue

Ms. McGuire stated that it appeared that there would be a four percent increase next year for franchise fees and sales tax. She noted that she did not believe there would be any increase in utility tax, noting that there had been a slight decrease in the past year. She stated that they expected a one percent decrease in the communication services tax. She noted that the city was doing well in franchise fees and sales tax but was not getting much from utility tax, noting that tax's volatility. She stated that she was not counting on anything significant with the communication services tax.

Ms. Shanahan noted that the state had made comments about cutting the communication services tax for several years. She stated that a large portion of the state communications services tax had been cut. She noted that the communication services tax generated about $2 million worth of revenue for the city. She explained that included cable franchise fees and wireless communication franchise fees, which the state administered and audited. She noted that the state had complete control over them and set the rate for each local government. She stated that she believed the city's rate was a little over 5% and noted that there had been no change in that rate. She explained that if that rate was cut, it would be a serious concern to the city.

Ms. McGuire stated that the revenue from it had been declining, noting that it was once over $2 million and was now about $1.7 million. She noted that they did not project that it would increase but that it would stay level or experience a slight decrease.

Commissioner Partington stated that it was on the chopping block every year.

Commissioner Boehm asked why the revenue went down. He noted that people were not using less cable or cell phones.

Ms. Shanahan reiterated that the city had no control over the distribution.

Commissioner Boehm asked if they could ask the state about it; whereby, Ms. McGuire noted that they could do so, and Ms. Shanahan stated that they did not really tell you anything when you asked.

Commissioner Partington stated that there had been years where that had been audited and the state owed the city thousands of dollars.

Ms. Shanahan explained that when she worked for another community, the state had told that city that it would have to pay back $900,000 and as a result the city made huge budget cuts. She noted that once the audit was complete, the state actually gave the city an additional $400,000.

Ms. McGuire noted that franchise fees, utility tax, communication services tax, and sales tax were the four major areas that funded the city's budget in addition to property taxes. She stated that the city had no control over any of them.

Taxable Value

Ms. McGuire stated that they were projecting a five percent taxable value increase next year and a four percent annual increase projected thereafter. She noted that this was the case until additional information from the property appraiser was made available. She noted that their projection was through 2020.

General Fund Budget Estimates

Ms. McGuire stated that using the taxable value projections, there would be a slight increase in the city's revenue, but they would start out with a shortfall of $353,332 for the fiscal year 2016-17 budget. She stated that there were other assumptions built into each of these areas that she wanted to mention. She noted that if you looked at the current year's budget versus next year's projection it did not appear that the budgets had changed very much, noting that there only appeared to be a $100,000 difference. She stated that it was a bit deceiving.

Ms. McGuire explained that there were a number of things in the current year budget that would not be in next year's budget. She stated that some of those things were $347,000 of General Fund reserves for the dog park cooperative, $84,000 for additional health saving account funding, $250,000 of revenue stabilization funds for economic development projects, and $215,000 for police vehicles related to new personnel. She explained that while all of those things would not appear in next year's budget, next year's budget assumed a three percent increase in personnel costs, particularly in wages, a nine percent increase in health care costs, a reduction in fuel costs, and a two percent increase in contractual services. She noted that the two percent increase would be for large contractual services such as ball field maintenance. She explained that the Commission may not want to provide a CPI (Consumer Price Index) adjustment, should those contractors request it, but noted that staff wanted to at least plan for it in the budget.

Ms. McGuire stated that a five percent increase assumed in taxable value and the same tax rate would be a five percent increase in the tax revenue. She explained that a five percent increase in tax revenue and some slight increases in franchise fees and sales tax was not sufficient to cover the increasing costs of a modest wage increase of three percent and a small increase to operating expenses. She explained that to cover the full $350,000 shortfall with property taxes, which was the only revenue source the city had control over, the city would need about an eight percent tax increase. She noted that this was a consistent story year after year. She stated that the city would wait for the state's projections and obviously look for things to cut in the budget without cutting services. She explained that she felt it was important to note that long term the formula was that if the city only experienced modest increases in the other revenue sources, and provided modest increases in personnel costs, they were looking at between a five and eight percent tax increase every year to cover the shortfalls. She noted that she would bring back the options for dealing with that in May when the financial plan model was discussed with the City Commission.

Ms. McGuire asked the Commission the following question and instructed them to select their answer by pressing the corresponding number on their handheld keypads:

- ***Should we consider the remaining revenue stabilization of $110,000 as an available resource to balance the budget next fiscal year?***
    1. Yes
    2. No

Ms. McGuire noted that 100% of the Commission selected option #1 – yes; **indicating that the city should consider the remaining revenue stabilization of $110,000 as an available resource to balance the budget for the next fiscal year.**

Ms. McGuire noted that the city had actually added to fund balance and were at 17.81% of General Fund revenue. She stated that was over the 15% threshold established by the Commission. She noted that the question was then what to do with that $950,000. She explained that staff's recommendation was to potentially do two things. She stated that the city had $347,500 for the dog park partnership set aside. She noted that they were looking at that costing $500,000 and stated that some of that $950,000 could be utilized to make up the difference. She stated that the city also did not receive grant funding for a new police patrol unit and as such may want to set aside funds for that.

Ms. McGuire asked the Commission the following question and instructed them to select their answer by pressing the corresponding number on their handheld keypads:

- ***Should the $950,000 above the general reserves policy of 15% be set aside for any of the following?***
    1. Dog park partnership
    2. Personnel costs including new patrol
    3. Both
    4. Neither

Commissioner Boehm noted that he thought he saw healthcare uncertainty as another option. He stated that the dog park difference was about $150,000 and that $800,000 would not be spent on five police officers. He stated that there had to be additional money going somewhere else.

Ms. McGuire explained that option #2, personnel costs, would be for five police officers, if needed, but also could be used for anything personnel related including healthcare.

Ms. McGuire noted that 40% of the Commission selected option #4 – neither, while 20% of the Commission selected option #1 – dog park partnership, option #2 – personnel costs including new patrol unit, and option #3 - both.

Commissioner Partington stated that the reserves should be used for one time expenditures and as such he was fine with it being used for the dog park but not for personnel costs; whereby, Mayor Kelley stated that he agreed.

<u>Facilities Renewal & Replacement Fund / Vehicle & Equipment Replacement Fund</u>

Ms. McGuire stated that she believed this fund was established in 2008 and a certain millage was set aside that funded $500,000 per year for this fund. She explained that they recommended $500,000 at the time because there were a number of projects that needed to be done that had been put aside for years. She noted that they had done well with that amount. She stated that by the end of the year this fund would actually have fund balance of about $312,000.

Mayor Kelley stated that was great.

Ms. McGuire noted that based on the rate they were going; they would probably have almost $1 million at the end of five years. She stated that there was a need for additional funding for the Vehicle and Equipment Replacement Fund. She explained that she wanted the Commission to consider allowing a portion of the millage for the Facilities Renewal and Replacement Fund to be moved to the Vehicle and Equipment Replacement Fund. She stated that she thought $100,000 would be sufficient and would leave $400,000 for the Facilities Renewal and Replacement Fund. She noted that based on the yearly spending, $400,000 would be appropriate.

Ms. Shanahan stated that the city's total millage, including the debt millage, was 4.55 mills. She explained that internally the city set aside some of that millage for certain funds. She noted that the city was far ahead of the curve in Volusia County and the State of Florida in doing so. She stated that most local governments did not dedicate any of their general millage to any specifics. She noted that the Commission had directed staff to have dedicated millage for long-term replacements of facilities, structures, equipment, and more.

Ms. McGuire stated that for the current year money was being transferred into the General Vehicle and Equipment Replacement Fund from the General Fund and the Stormwater Fund so that there was sufficient revenue to cover the expenses. She noted that down the road the fund would eventually be in a deficit position.

Mayor Kelley stated that years ago the Commission had studied in-depth the policy for vehicle replacements. He asked if something had changed in vehicle replacements to create the additional expenses.

Ms. Shanahan replied that it had not been funded. She noted that this included big pieces of equipment like sewer trucks and fire trucks. She explained that what was budgeted for replacement was carefully reviewed. She stated that each vehicle was individually assessed, and it was determined whether it could stay in service, if it exceeded its useful life, and the cost of replacement. She noted that the city also did things like reuse patrol vehicles in leisure services. She stated that the need was always there, but it had not been funded.

Mayor Kelley stated that purchasing a couple of fire trucks would cost $1 million.

Ms. McGuire noted that when the change was made to not fund that fund around 2008, there was over $1 million in fund balance in the fund. She explained that due to that they eliminated the General Fund moving money into the fund. She noted that fund balance was sufficient for the time being, but now the fund was down to $300,000, which might get the city through one year. She explained that last year some of the millage from the General Fund was moved there so that there was millage in there to provide $100,000 annually. She noted that it really needed closer to $300,000 annually.

Commissioner Kent stated that the year after he and Commissioner Partington were elected, the Nova Community Center was shut down for basketball games because it was raining and the roof leaked. He explained that Commissioner Boehm, then in his capacity as a citizen, came to tell them what a travesty it was that the community could not use those facilities because there was no revenue stream to make sure they were properly taken care of. He stated that it was when they set up a dedicated millage, of staff's recommendation of $500,000 per year. He noted that not every year since then have they contributed that full amount, but he believed that it was close. He explained that he was concerned about taking some of that dedicated millage and moving it elsewhere. He noted that he would need to hear more from staff about the shape of the city's facilities and their projections for them before considering it.

Commissioner Kent noted that Mayor Kelley had advocated not needing to continue funding the replacements when the issue arose and the Commission decided to go those years without funding and survived. He stated that he was not saying that the funding was not needed but was advocating caution. He noted that he would like to hear the Budget Advisory Board's thoughts on this, as well. He explained that when he was elected he decided that he never wanted to be in a position to tell residents that the city's facilities were closed because the city did not have funds set aside to repair them.

General Capital Improvement Fund

Ms. McGuire stated that the General Capital Improvement Fund was used for larger scale projects such as new playground equipment, the Environmental Discovery Center, and information technology related projects. She noted that there was sufficient revenue to fund the requests that were contained within the budget.

Transportation Fund

Ms. McGuire stated that the city was past the two large projects on Hand Avenue and John Anderson Drive. She stated that she believed there was about $2.4 million coming in the next year.

Mayor Kelley noted that unlike the county, the city was able to fund and take care of their roadways.

Overall Tax Rate

Ms. McGuire asked the Commission the following question and instructed them to select their answer by pressing the corresponding number on their handheld keypads:

- ***What tax rate should the city use for budget development?***
    1. Increase tax rate
    2. Maintain current tax rate (Estimated revenue increase of 5%)
    3. Rollback tax rate (Revenue neutral, increase shortfall by $620,000)

Ms. McGuire noted that 100% of the Commission selected option #2 – maintain current tax rate (estimated revenue increase of 5%).

Ms. McGuire asked the Commission the following question and instructed them to select their answer by pressing the corresponding number on their handheld keypads:

- ***How should the vehicle replacement funding be addressed?***
    1. Continue to phase in dedicated millage and increase millage by 0.035 mills
    2. Reallocate 0.035 mills from Facilities R&R millage

Mayor Kelley asked if the 0.035 mills would equal $100,000; whereby, Ms. McGuire confirmed that it would add another $100,000 to the $100,000 that was already there.

Mayor Kelley noted that there was already a millage of 0.0372 that Ms. McGuire intended to raise to 0.0880; whereby, Ms. McGuire explained that ultimately she did, but she was not suggesting doing that within one year.

Ms. Shanahan stated that the millage would be phased in to ultimately reach that 0.0880 figure.

Mayor Kelley stated that he believed Ms. McGuire had indicated that she expected property values to increase by four percent.

Ms. McGuire clarified that she expected five percent the next year and was forecasting four percent in years after.

Mayor Kelley noted that he was speaking about the value and not the revenue; whereby, Ms. McGuire confirmed that she was, as well.

Mayor Kelley asked Ms. McGuire if she was taking into consideration that the most that anyone’s assessment could go up was three percent for a homesteaded property.

Ms. McGuire clarified that she was referring to the overall tax roll going up. She explained that when that assumption was made they did not take into consideration any additional revenue from annexations. She stated that was not to say that they would not receive any, but noted that it might be something they could talk about setting aside if they received it. She noted that they would not plan to use that.

Ms. Shanahan stated that there was not much more left to be annexed.

Ms. McGuire noted that if the Commission had concerns with the millage for this fund, staff could bring back additional information in May, including some of the historical information on the fund.

Mayor Kelley noted that the city had added a significant number of facilities which would come into play in the future. He explained that cutting that fund now might not affect them next year, but it would in future years. He stated that the two choices presented were cutting the funding or increasing taxes.

Ms. McGuire stated that the choices were moving around the existing tax revenue or increasing your own millage contribution.

Mayor Kelley likened the situation to ‘robbing Peter to pay Paul.’

Commissioner Boehm stated that a third choice would be to do nothing and then possibly be short on funds desired for vehicle replacements. He noted that was the third choice, although it was not one given for selection in the presentation.

Ms. McGuire stated that she had gone backwards in the slide presentation and as such it would not display the results of the vote.

Commissioner Partington stated that he would have chosen option #2 – reallocate 0.035 mills from Facilities R&R millage. He explained that he thought that changes could be made year to year as needed.

Commissioner Kent and Commissioner Stowers both noted that they preferred option #1 – continue to phase in dedicated millage and increase millage by 0.035 mills.

Commissioner Boehm stated that he would prefer not to see the tax rate increase.

Ms. Shanahan stated that she believed that more information needed to be provided.

Mayor Kelley stated that he believed the case was made that the Facilities Renewal and Replacement Fund was doing well. He stated that to shift $100,000 from that fund for the next year would seem logical since there was currently a balance in that fund. He explained that it did not seem to make sense to increase the tax allocation when they could use the $100,000 that was there and adjust it the following year if there was need for it.

<u>Leisure Service Fees</u>

Ms. McGuire noted that another revenue source that the city had control over was leisure service fees. She explained that fees were not set to cover expenditures, noting that the fee revenues covered approximately 16% of expenditures.

Ms. Shanahan stated that she read in the newspaper how Palm Coast was discussing funding their golf course and found it interesting. She noted that they had stated that those types of leisure services were amenities to communities and not fees for services. She explained that the city could never recoup its costs on its leisure service amenities as the average resident could never afford to pay for the services. She noted that for the last several years there had been a plan to make a modest three percent adjustment to the fees to keep pace with inflation and rising costs for services.

Commissioner Boehm explained that when he was a citizen serving on the Leisure Services Advisory Board, there were ten years when there was no adjustment to the leisure service fees. He noted that the Commission then made a 30% adjustment in one year, which was quite shocking. He explained that rather than have that happen again, they increased fees three percent every year. He noted that he had not heard any complaints about that.

Commissioner Kent noted that same Commission refused to raise water and sewer service fees for ten years.

Ms. McGuire asked the Commission the following question and instructed them to select their answer by pressing the corresponding number on their handheld keypads:

- ***Should the 3% annual adjustment to leisure services fees be continued?***
    1. Yes
    2. No

Ms. McGuire noted that 80% of the Commission selected option #1 – yes, while 20% of the Commission selected option #2 - no.

Commissioner Stowers stated that he selected “no” but was not saying “no” to a three percent increase but indicating that he would be in favor of an even greater increase. He referenced the chart displayed by Ms. McGuire and noted that it appeared that with just a three percent increase each year the city would be losing ground as time went on. He suggested having leisure service revenues cover 20% each year and having the fees adjust up or down accordingly.

Mayor Kelley asked Ms. McGuire if she would take that suggestion for the fee structure to the Budget Advisory Board and have them discuss it.

Ms. Shanahan noted that was exactly the type of thing that needed to be looked at for a long-term financial plan.

Homeless Initiative

Ms. Shanahan stated that she had received an email that day from the City of Daytona Beach, indicating that they were moving ahead with their homeless initiative and expected that their first year operating would be $1 million. She explained that they were inquiring at what rate the city would be willing to contribute. She noted that previous scenarios had looked at the poverty and per capita statistics for each local government. She stated that the city's contribution was estimated to be about $189,000 based on that model. She noted that she had not responded to them because she had not spoken to the Commission about it. She asked whether the city should consider contributing anything for the homeless initiative; and if so, if $100,000 or some other amount was appropriate.

Ms. McGuire asked the Commission the following question and instructed them to select their answer by pressing the corresponding number on their handheld keypads:

- ***Should we budget $100,000 to be used for the homeless initiative?***
    1. Yes
    2. No
    3. Include in budget at an amount less than $100,000

Commissioner Boehm asked if all 16 Volusia County municipalities were being asked to contribute; whereby, Ms. Shanahan replied that they were but noted that not all of them would participate. She explained that only about five or so cities – including Ormond Beach, Daytona Beach, South Daytona, and New Smyrna Beach, had participated in the study. She stated that Port Orange and Deltona did not participate.

Mayor Kelley stated that maybe by January of next year the county would have a different approach and be willing to contribute some.

Mr. Banker asked if this funding was for the proposed homeless facility on U.S. Route 92; whereby, Ms. Shanahan stated that she did not think that it was and noted she thought that this was for a school that was being converted into a facility.

Mayor Kelley stated that he did not believe it would be for that; whereby, Ms. Shanahan clarified that she was not given specifics on what it was for but was asked whether the city would be willing to contribute.

Commissioner Kent expressed his frustration with being asked for money without being told exactly where or what it was for. He stated that was not a great way to run any government entity and noted that he felt like he was taking "crazy pills."

Mr. Banker stated that he believed the city needed more information.

Ms. Shanahan noted that there was no commitment being made and that she was just bringing their request before the Commission.

Commissioner Stowers stated that Daytona Beach and Volusia County often seemed at odds but had recently worked together, each contributing $20 million, for a parking garage and mixed use center. He noted that the figures he had seen for the proposed facility at U.S. Route 92 were $4 million for the property and $8 million for five years of operations. He stated that it was disappointing to him that the two entities that came up with the $40 million policy could not come to terms on $12 million and have tried to spread the burden throughout the county.

Commissioner Boehm agreed with Commissioner Kent. He noted that they were being asked for money but not being told what it was being used for. He stated that their estimated operating budget was an estimate and could be way off. He noted that the Safe Harbor budget was the worse one he had ever seen; whereby, Ms. Shanahan agreed that was so.

Mayor Kelley stated that he did not believe this funding was for the Hearst Elementary project. He noted that he believed that had already been worked out with the county.

Ms. Shanahan stated that she would forward the email to the Commission and that they would be talking about it again during their operating budget workshop. She noted that she wanted to bring them the current request. She stated that her response was that she had no information and no money budgeted at this time.

Mayor Kelley noted that if it would help the homeless, he felt that the city should participate but stated that the city should know exactly what was being asked of them and what the project was before they agreed. He stated that Ormond Beach was the first city to help the study. He reiterated that Deltona and Port Orange had indicated that they would not participate.

Ms. Shanahan stated that she did not believe their minds would be changed.

Commissioner Kent noted that each city not participating put a larger burden on those that would; whereby, Ms. Shanahan replied that it had been stated that the burden would not be passed on to the other cities. Commissioner Kent expressed his skepticism.

Mayor Kelley noted that had been said but that they did not know where the money would come from.

Commissioner Kent stated that when he was able to watch this issue unfold in the media he thought it was disgusting. He noted that he heard the homeless czar would be paid a package of around $100,000 and have $20,000 budgeted for t-shirts for the volunteers to wear. He stated that he did not want to contribute Ormond Beach taxpayer funds for that. He explained that he believed that the county needed to handle this and that it was the county's responsibility. He noted that everyone paid county taxes. He stated that the county needed to step up and stop spending $4 million on the west side of A1A without asking that city's elected officials if they should purchase it. He asked how many other cities they had dropped millions of dollars on like that without asking them. He stated that Volusia County should pay for this. He noted that the state legislators should have money set aside for this, as well. He stated that it was a huge social problem that should not be put on the backs of a residential community of 40,000 people. He noted that this was a county problem in his opinion. He explained that he would vote “no” to paying the director of a homeless center $100,000 and spending $20,000 on volunteer t-shirts. He stated that that was crazy and ridiculous.

Mayor Kelley noted that Commissioner Kent made a good point about the state needing to partner in this. He stated that the city’s teachers were penalized financially for living in a coastal community and now the city would be penalized because it attracted the homeless.

Commissioner Kent stated that everyone was paid less in this area. He noted that the county was then asking these underpaid individuals to tax themselves more for roads because they did not know how to handle their funds appropriately. He invited those at the county to come to Ormond Beach and spend an hour and a half with Ms. Shanahan and Assistant City Manager and Public Works Director Ted MacLeod so that they could tell them how to operate a successful road program. He noted that you could feel when you left Ormond Beach city limits when driving in your car due to the conditions of the roadways outside of the city.

Mayor Kelley stated that there were 508,000 people in the county. He stated that for $3.50 per person the county could fund the operational costs.

Commissioner Stowers stated that his part earlier was not about where funds had gone but about the administration’s management of funds. He noted that the road issue was a good example. He stated that they were being asked to contribute Ormond Beach taxpayer dollars to a black hole and he could not stand by that.

Mayor Kelley stated that perhaps in January of next year it would change.

Commissioner Boehm noted that somehow $20 million was available for a single retail center on International Speedway Boulevard, but there was no money available for roads or the homeless.

Commissioner Kent stated that he had also requested information about a running race from the county, noting that it had stated in the newspaper that the county was going to spend $350,000 of taxpayer money for. He explained that he had asked who the partners were and how much return they would receive from this. He stated that after two weeks his County Council representative, after being reminded, answered him. He noted that the county took in $163,000 but spent $350,000.

Ms. McGuire noted that she would skip the answer portion of this question and move on in the presentation.

<u>Stormwater, Water & Wastewater, and Solid Waste Funds</u>

Ms. McGuire stated that no increases were recommended in stormwater fees. She noted there were no deficits to worry about in the Stormwater Fund also. She explained that there was already a rate increase scheduled to go into effect on September 30, 2016 for water, sewer, and solid waste. She stated that all of those funds were in good shape.

III. HEALTH INSURANCE STRATEGIC PLAN

Introduction

Ms. Shanahan noted that this would be the first in a series of several workshops on the issue of healthcare. She explained that this was to review where the city was with its employee healthcare and how it got there.

Ms. Claire Whitley, Human Resources Director, stated work was being done on a strategic plan and this would be the first of many presentations and discussions. She noted that the plan could not be developed without the City Commission's input and guidance. She explained that the challenges the city had been facing in the healthcare market and the changes in the renewal process would cause multiple decisions to be made at upcoming renewals. She stated that the city could better tackle those challenges if they knew the City Commission's goals and priorities. She reiterated that this was the beginning of the conversation on healthcare and would review what happened with the last renewal.

Ms. Julie Freidus, Senior Vice President, Brown and Brown Insurance, stated that she wanted to provide a broad overview of the employee benefits marketplace. She stated that in the 1990s when HMOs (health maintenance organization) were popular, they created a utilization problem with co-payments for all services. She explained that the market started changing and going more towards POS (point-of-service) plans and PPO (preferred provider organization) plans. She stated that the last several years, especially with healthcare reform, HDHP (high deductible health plans) have become the new go-to type plans out of sheer necessity because of the cost of the other plans. She explained that they were asking their clients to think about how they could get their employees to help save them money on their health insurance and how they could help control their costs going forward.

Healthcare Plans Overview

Ms. Freidus stated that the city was on Florida Health Care Plans ("FHCP") and had a large increase this past year. She explained that the city had already shifted some of its responsibility to its employees through the HDHP. She stated that the city had to think about controlling the plan costs in the long term. She explained that when fully insured, the city was ceding all of its responsibility for controlling claims' cost to the fully insured insurance company. She stated that in Volusia County, FHCP was the lowest cost, fully-insured provider. She stated that the city stayed with FHCP and changed plan designs and contribution strategies this past year, noting that it was not necessarily sustainable. She noted that the city did not want to have increases year after year and would eventually like to see some type of leveling off. She stated that possibly self-funding was something they could look at.

Ms. Freidus stated that an employee group of the city's side could possibly be self-funded. She explained that the question would then become whether they did so with FHCP or another third party administrator. She noted that they had explored all of those options. She stated that FHCP was not necessarily in favor of the self-funding. She noted that they had a third-party administrator (TPA) but did not have anyone on that plan presently. She stated that they were speaking to FHCP about other self-funding or quasi-self-funded options, where the city would potentially receive a premium dividend on the backend. She stated that the city really needed to consider if they wanted to take fiduciary responsibility.

Ms. Shanahan explained the reason that the city was unable to do that last year was that they were unable to get reinsurance for certain claims. She stated that the city had three very high dollar claims which would be capped at $100,000 each by the reinsurance carriers. She explained that the city would have had to set $300,000 aside plus bought the reinsurance, which was unaffordable to do so. She stated that she believed Ms. Freidus was talking about looking towards possibly self-funding in the long term, perhaps not next year, but possibly the year after or the year after that. She stated that having a better claim year would put the city in a better position to get reinsurance for high dollar claims.

Commissioner Boehm asked Ms. Freidus if they had any clients of the city's size that were currently self-funded; whereby, Ms. Freidus replied that they did. She stated that they had many clients of similar or smaller size that did so.

Ms. Shanahan asked if any of them were local governments; whereby, Ms. Freidus stated that there were.

Mayor Kelley stated that due to the Affordable Care Act, to keep premiums affordable many plans went to $5,000 and $10,000 deductibles. He asked if the deductibles went up to keep the premiums down or if the cost of healthcare was going up so fast because of the new regulations covering everyone with no limits.

Ms. Freidus stated that the cost was definitely going up due to healthcare reform but noted that did not necessarily impact the city's group healthcare. She stated that the city's group health plan cost was going up because of its historic plan design strategy and its utilization. She stated that the whole concept behind HDHP was not necessarily to increase the deductible. She explained that they wanted to educate employees as to what healthcare costs were. She stated that when you went and shopped for a television, you would shop around for the best price. She explained that when someone received a prescription for a MRI from their doctor, they would just go wherever their doctor told them to go. She stated that even though there may be cheaper options, no one was bothering to check for them because they did not have to if they paid the same co-payment wherever they went. She stated that the HDHP would educate employees about the costs of healthcare and how they could save themselves money since the health savings account (HSA) money was theirs to keep. She noted that in that way employees could help the city save money. She stated that the providers, the hospitals, and the entire healthcare system presently did not have a great answer for how to save money.

Commissioner Partington asked if it was possible to require FHCP to send the patient a bill for every service they received. He stated that his wife had open heart surgery five or six years ago and he never received a bill for it. He noted that he had no idea how much that cost.

Ms. Jessica Scott, Vice President, Brown and Brown Insurance, stated that what Commissioner Partington was referring to was called an explanation of benefits. She noted that most carriers did offer something like that when a service was performed. She explained that FHCP historically had not offered that because they had such rich plan designs that they did not feel that it was necessary. She noted that was something that actually had been addressed this year and was a result of meetings between the City of Ormond Beach, Brown and Brown Insurance, and FHCP. She explained that when someone was on a rich co-payment type plan, as Ms. Freidus had mentioned, the employee had no motivation to look for a cheaper option as they knew that they would be paying the same costs out of pocket. She stated that when employees went to that more expensive option, even though it did not cost them more, it cost the city's plan more and the city would pay for that in increases.

Commissioner Partington noted that his wife was not an employee of the city. He stated that she could have been charged for services she never received, but they did not know if that happened as they never received a bill for it.

Ms. Scott stated that those statements were now going out to all FHCP members, noting that the City of Ormond Beach was actually the pilot group starting that program. She stated that the city was able to weigh in on what they wanted those statements to look like and what information they wanted presented on them.

Ms. Freidus stated that while FHCP was the lowest cost option in the area for a fully insured plan, being fully insured caused the city to pay about five percent in additional taxes and Affordable Care Act related healthcare fees. She noted that because FHCP were the fiduciary, they were taking the risk for being fully insured and the city had to pay a premium for that. She stated that one way to get a handle on claims costs going forward was to be able to have a choice as to what to do with health plans, which they could do by being self-funded. She noted that the City of Palm Coast has been self-funded since 2011 and that this past year was the first time that they had had to increase their employee contributions in five years. She stated that as part of being self-funded, Palm Coast had also added an employee health clinic. She noted that it did not make any sense to have an employee health clinic while fully insured as the city was now.

Commissioner Boehm referenced the reinsurance market that Ms. Shanahan had mentioned earlier. He stated that she had referenced claimants having significant expenses in the past and noted that there could be similar claims made in the future. He asked if the city would have trouble getting everyone insured when they went for reinsurance. He noted that there would be a stop-loss at some point, maybe $250,000 or $300,000, and that an employee with open heart surgery or another major medical condition would go over that.

Ms. Freidus stated that it was sound enough. She noted that Ms. Scott had done a really good job working with FHCP on getting the information they needed to make sure we could get those proposals.

Ms. Scott stated that in the past it had been challenging to get much information, such as prognosis and treatments, on the high claimants. She explained that underwriters needed that information to determine how to assess the city's risk. She noted that getting that information was a challenge last year and that the underwriter was either going to exclude or put a higher limit on those claimants. She explained that since they had been meeting more frequently with FHCP, they were able to get more information on the high claimants to better understand what was happening. She noted that it was important to her to make sure that there were case managers involved and those claims were being managed back to health.

2016 Renewal Review

Ms. Scott stated that the 2016 renewal came in at a 30% proposed increase, noting that the city had budgeted for a 15% increase. She stated that the 30% proposed increase was $433,510 over what the city had budgeted for. She noted that the reasons for the increase were the Affordable Care Act, medical trends, and the city's utilization. She explained that a loss ratio was the claims that were paid out by the insurance carrier versus the premiums that they took in. She further explained that in the city's case those ended up being equal, meaning that for every premium dollar paid out a dollar was paid out in a claim. She noted that at that point the insurer took a loss on the city's group and did not make any money. She stated that insurance carriers like to see a loss ratio closer to 80%.

Ms. Scott noted that the city's utilization was rather high. She explained that the utilization information would be brought to the city on a regular basis to keep track of what was happening with its loss ratio and its claims. She noted that she suspected with the new plan design that part of that initiative was to lower that loss ratio to put the city in a better position with insurance carriers. She stated that around July they would be bringing the information back to see what impact the new plan had had on the city's claims. She noted that last year the city had nine large claimants totaling about $1.2 million. She stated that those nine claimants constituted 41% of all of the claims paid. She stated that the high claimants were in the categories of cancer, hepatitis C, renal disease, and heart disease. She noted that some of those claims had been ongoing. She reiterated that it was hard to get information on those claims, and therefore some of the insurance carriers did not feel comfortable underwriting the risk.

2016 Plan Selection

Ms. Scott stated that the city went out for bid for fully insured and self-funded quotes. She noted that those came back in the range of a 32% to 66% increase, which left the city trying to see what they could work out with FHCP. She stated that Brown and Brown Insurance had a risk management department, whose job was to assess the city's plan performance, taking into consideration national trends and how their carrier was trending with their underwriting. She noted that if the city had stayed with their HMO they would predict that the city would continue to have double digit increases. She stated that a HDHP trended much lower and tended to have better claims experience so there would be less volatility in the rates on a long-term basis. She noted that the graph in the presentation was not representative of an an exact science but was just intended to give a snapshot of the differences they typically witnessed between the two plan design structures.

Ms. Scott stated that the city chose the HDHP. She stated that the total annual premium ended up around $2.7 million, with the city's cost ending up being just under $2 million. She noted that represented a 1.5% premium increase, which left room in the budget for the city to contribute to the employee's HSAs. She stated that the city decided to fund $1,350 into an HSA for each employee. She noted that brought the total cost increase to 21.5%. She explained that deciding to help fund the HSA accounts helped the employees tremendously on this plan design structure.

Financial Impact to Employees

Ms. Scott stated that she was displaying a presentation slide depicting an employee with minimal claims who was relatively healthy and their savings on the HDHP versus the HMO plan. She noted that this type of employee may get sick a couple times, have some acute care, and perhaps get some medications. She stated that that employee's claims averaged about $500. She noted that these scenarios were per employee and so to illustrate for a family she would multiple it by three. She stated that because the city funded the HDHP at $1,350, this employee would end up actually saving $850 on the HDHP as opposed to paying $100 out of pocket in co-pays on the HMO plan.

Ms. Scott stated that the next scenario would be for an employee with average claims. She noted that this may be someone who had a chronic illness and saw a specialist once a month and were on medications. She stated that for this individual they assumed claims of $4,800, and again to illustrate for a family multiplied that by three. She noted that the employee on the HMO plan would have spent $780 out of pocket and the employee on the HDHP would have out of pocket expenses of $890. She stated that in this instance the HDHP would have cost a little bit more for the employee as an individual, noting that for the family the HDHP would have been slightly less.

Ms. Scott stated that the final scenario would be for an employee with a catastrophic claim event. She noted that the assumption was that this employee and/or everyone in their family ended up in the hospital and that the out of pocket maximum would have been met regardless of what plan they were on. She stated that the employee on the HMO would have spent $2,000 out of pocket while the employee on the HDHP would have spent $1,850 out of pocket. She stated that for the family scenario, multiplying the individual by three, the family would have paid $12,402 out of pocket on the HMO and $11,609 on the HDHP, which was slightly less.

Ms. Freidus stated that $12,000 out of pocket was a lot of money. She explained that when she looked at that she thought about the city's employees and their health plans for the future.

Mayor Kelley stated that he had been wondering why they thought this plan was great when he saw those types of figures.

Ms. Freidus noted that hopefully those types of expenses would not be incurred every year. She stated that as long as the city was putting money into the employees' HSAs, and hopefully the employees were contributing to them as well, they would have funds available to help pay for catastrophic medical events. She stated that was the direction the market was going in and the direction that had to be taken because of costs. She noted that it was too expensive to have an HMO or PPO. She stated that it was nice to have the HSA as a safety net because it was a lot of money to ask a family to come up with.

National Trends / Local City Employer Contributions

Ms. Scott stated that in 2009 about ten percent of government employer health plans had HSAs in place. She noted that as of 2014 that had almost tripled and HSAs were in place for 28% of government employer health plans. She stated that this was a trend on the national level specifically in the public sector.

Mayor Kelley stated that the private sector had been utilizing HSAs for a long time.

Ms. Scott showed a graph displaying what local city employer groups contributed for employee only coverage. She noted that this was representative of the base plans that each city offered employees. She stated that eight out of 12 of the examples paid 100% still for the base plan. She noted that about a third of the 12 were now charging employees for the base plan and charging anywhere from four to ten percent of the total premium back to the employee.

Mr. Ramirez stated that other industries were kind of the opposite. He noted that banks mostly shared the cost with employees. He stated that he was not sure how cities compared salary-wise. He stated that the only way to control budgets in a competitive environment was to have employees contribute to healthcare costs.

Ms. Scott noted that it was becoming more and more uncommon to see private sector companies covering their employees' insurance premiums 100%. She displayed a graph showing local cities and their contributions to HSAs. She noted that about half of them had HSAs in place.

2016 Initiatives

Ms. Scott stated that employee education and assistance had been provided for the HDHP and HSA accounts. She noted that they were doing their best to implement tools to help employees become better consumers of their healthcare and lower their own personal healthcare costs. She stated that Workforce Wellness Clinics were in place and that employees paid a five dollar co-payment to use those. She noted that FHCP was starting a new telemedicine program called Doctor on Demand where employees could call in and speak to a physician for a co-payment of $40.

Ms. Scott stated that they had also been conducting quarterly meetings with FHCP to try and resolve some of the issues they were aware of. She stated that one of the initiatives was lowering medication costs at FHCP pharmacies for high utilization prescriptions. She explained that there was a new list from FHCP of high cost medications of which they would offer a $12 alternative. She noted that FHCP was eager to negotiate medication costs as they desired to keep the employees using their pharmacies. She stated that FHCP was also doing more FHCP staff training so that employees had a good experience when they were using the cost estimator or going to the pharmacies. She noted that FHCP had implemented the explanation of benefit statements as mentioned earlier. She stated that they were also doing an ongoing review of large claimant detail and employee utilization and would update the city throughout the year.

2017 Objectives

Ms. Scott stated that there were some options and things that needed to be discussed going forward. She noted that the HDHP currently utilized by the city was a non-embedded deductible so families had to meet a higher deductible upfront. She explained that they could change that plan design as something came out last year that now allowed that to be changed to be embedded, which would mean a per person deductible. She stated that FHCP was not currently doing that, but she had already had a discussion with them and they indicated that they would entertain it if it was something that the city wanted.

Ms. Scott stated that the city could also look into an HMO Buy-Up Plan, which would be a traditional plan with co-payments and be slightly more expensive than the HDHP but would still be less expensive than the POS plan, in order to give employees another option for a plan design.

Ms. Shanahan noted that no HSA would be associated with that. She explained that the federal government did not allow an HSA with a co-payment plan.

Ms. Scott stated that other considerations were the city's contribution to the HSAs, the implementation of a prescription discount program, the implementation of an employee clinic, designing a comprehensive employee wellness plan, and reviewing fully and self-insured renewal proposals.

Commission Feedback

Ms. Shanahan asked the Commission the following question and instructed them to select their answers by pressing the corresponding numbers on their handheld keypads:

- ***What are the most important factors in selecting an employee health insurance plan? (Place in order of importance)***
    1. Lowest cost to taxpayers
    2. Financial impact to employees
    3. High level of coverage and quality care
    4. Dependent cost considerations

Ms. Whitley noted that the Commission was able to select multiple responses on their keypads for this question and as such each selection was weighted. She stated that 100% of the Commission selected option #2 – financial impact to employees, 80% of the Commission selected option #1 – lowest cost to taxpayers and option #4 – dependent cost considerations and 60% selected option #3 – high level of coverage and quality care.

Ms. Whitley asked the Commission the following question and instructed them to select their answers by pressing the corresponding numbers on their handheld keypads:

- ***Assuming an HDHP plan is available in 2017, should the city continue to fund $1350 to employee health savings accounts? (Select all that apply)***
    1. Maintain $1,350 ($250 deductible)
    2. Increase amount to match $1,600 deductible
    3. Decrease amount
    4. Provide opportunities for additional matching funds

Ms. Whitley noted that the Commission was able to select multiple responses on their keypads for this question and as such each selection was weighted. She stated that 50% of the Commission selected option #1 – maintain $1,350 ($250 deductible), option #2 – increase amount to match $1,600 deductible, and

option $3 – provide opportunities for additional matching funds. She noted that 25% of the Commission selected option #3 – decrease amount.

IV. Adjournment

The meeting was adjourned at 6:46 p.m.

Transcribed by: Colby Cilento