



Department of Administration
Budget and Management Division

Tom Barrett
Mayor

Sharon Robinson
Administration Director

Dennis Yaccarino
Budget and Management Director

May 14, 2020

Ref: Contingent Borrowing

Council Members
Common Council City Clerk Office
City Hall Room 205

SUBJECT: Contingent Borrowing Files 200016 and 200078

Dear Council Members:

Our office introduced two Common Council files, 200016 and 200078, that authorized contingent borrowing to fund a 2019 appropriation shortfall. Common Council file 200016 can be placed on file. Common Council file 200078 provides contingent borrowing of up to \$13.5 million to cover 2019 expenditures and is being recommended for approval.

Common Council file 200078 will cover shortfalls of \$8.6 million in health care and \$4.9 million in DPW-Operations. The following will provide the reasons for the shortfalls as well as things that have been or may be recommended to address potential issues in 2020 and 2021.

Health Care - \$9.7 million

- Pharmacy expenditures increased \$1.1 million over 2018
- An increase in catastrophic claims (over 20%) drove expenditures up \$5.5 million
 - One catastrophic claim accounted for over \$2 million
 - Active employees had a 29% increase in the number of catastrophic claims and an expenditure increase of 13%
 - Retirees had an 8% increase in the number of catastrophic claims and an expenditure increase of 49%
- Early Retiree non-catastrophic claim experience increased \$2 million or around 11%
- Use \$1.1 million to cover a portion of the shortage from the health care reserve account
- Use \$8.6 million in contingent borrowing to cover remaining portion of shortage

Changes Included in the 2020 Budget to Control Health Care Costs

- Increase Retiree benefit design (deductibles, coinsurance, ER Copay) for projected \$1.6M savings
- Increased premiums for all groups based on experience:
 - Actives 6.9%
 - Early Retirees 3%
 - Medicare Retirees 6.7%

Health Plan and Pharmacy Changes Implemented for 2020

- Implement UHC plan standard for increased radiology and cardiology medical necessity along with focused claim review for \$.5M savings
- Multiple pharmacy programs implemented to control costs

Health Plan Changes Being Considered for 2021

- Modify existing benefit rules to align with best practice
- Recalculate health care tiers to better reflect the expenses of each group
- Consider benefit design changes for employees and retirees
- Increase pharmacy coinsurance and/or maximum payment per prescription
- Promote and expand virtual and telehealth care options



- Execute RFP for Stop Loss Insurance to mitigate significant catastrophic claim exposure (those above \$1M)
- Partner with vendors that offer specific services at a reduced rate for the health plan (member and City cost share)

DPW-Operations - \$8.9 million

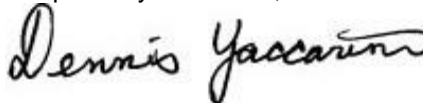
- \$5.6 million – Snow plowing
- \$1.1 million – Non-Snow plowing Salary Costs
- \$1.1 million – MPD Vehicle Repair
- \$1.1 million - Fleet Parts
- \$8.9 million
- \$4.0 million – Less Contingent Fund & WSF
- \$4.9 million – Contingent Borrowing

Fixes for 2020 and 2021

- Analyze the snow & Ice fee so it closer reflects actual costs
- Make sure snow costs are being fully tracked and reported correctly
- Control hiring of positions not related to snow
- Increase the budget allocation for parts and repair

The City will fund the shortfall with contingent borrowing in the form of notes. Notes are 10 years because this is an operating budget funding. Estimated annual debt service will be \$1.5 million per year. Please contact me at 708-3715 if you have any questions.

Respectfully submitted,



Dennis Yaccarino
Budget and Management Director

DY:cei

Finance\Resolutions\2020 contingent borrowing.doc