

City of Springfield
Work Session Meeting

MINUTES OF THE WORK SESSION MEETING OF
THE SPRINGFIELD CITY COUNCIL HELD
MONDAY, DECEMBER 6, 2004.

The City of Springfield council met in a work session in the Jesse Maine Meeting Room, 225 Fifth Street, Springfield, Oregon, on Monday, December 6, 2004 at 6:05 p.m., with Mayor Leiken presiding.

ATTENDANCE

Present were Mayor Leiken and Councilors Woodrow, Lundberg, Ralston, Fitch and Pishioneri. Also present were City Manager Mike Kelly, Assistant City Manager Cynthia Pappas, City Attorney Joe Leahy, City Recorder Amy Sowa and members of the staff.

Councilor Ballew was absent (excused).

1. Budget Committee Interviews.

Finance Director Bob Duey presented the staff report on this item. The Budget Committee will have one vacancy each in Ward's 1 and 2, due to the December 31, 2004 term expirations of Budget Committee Members Darnell Manning (Ward 1) and Hillary Larsen-Wylie (Ward 2). Mr. Manning has served less than one full term and is eligible to reapply. Ms. Wylie will have served one full three year term and is also eligible to reapply. The person(s) appointed will serve a three year term which will expire on December 31, 2007.

In response to the news release dated October 28, 2004, one application has been received for the Ward 1 opening and one application has been received for the Ward 2 opening for the two available positions on the Budget Committee.

The council is requested to interview one applicant for Ward 1 (Mr. Darnell Manning) and one applicant for Ward 2 (Hillary Larsen-Wylie). The appointments are scheduled to be ratified at the Regular Session Meeting on December 6th (tonight).

Councilor Fitch suggested asking the two applicants what they would like to change in the Budget Committee.

Mr. Duey said they could do that and also ask their ideas for staffing the jail.

The City Council interviewed Mr. Darnell Manning, applicant for the Budget Committee from Ward 1.

Councilor Fitch thanked Mr. Manning for volunteering for this position.

Mr. Manning thanked the council for the opportunity to serve.

The City Council interviewed Ms. Hillary Wylie-Larson, applicant for the Budget Committee from Ward 2.

Councilor Fitch thanked Ms. Wylie-Larson for her service and her willingness to serve again.

Ms. Wylie-Larson thanked council for the opportunity and said she enjoys serving on this committee.

Council consensus was to re-appoint both Darnell Manning and Hillary Wylie-Larson.

2. Update on Health Insurance Rates.

Human Resources Director Bill Spiry presented the staff report on this item. The city is coming to the end of the first year with the new health Incentive Plan (HIP) which was negotiated and implemented last year as the primary measure to achieve greater containment of escalating health insurance costs. This information is to provide council with a review of the city's first year of experience with the plan and premiums for plan year 2005.

The Health Incentive Plan (HIP) was implemented for plan year 2004 as an alternative designed to achieve long-term cost containment through a combination of cost sharing with employees and savings incentives for more careful utilization of the plan.

The city's premium rates for each year are based upon our utilization experience as a group in the previous plan year. As shown in the attached Council Briefing Memorandum, the city's cost of health premiums for plan year 2004 is \$3,292,000 for all employee groups. The cost of premiums for plan year 2005 based on the city's share of the 19.4% increase to the HIP premiums will be \$3,842,000, an increase of \$550,000 or 16.7%.

Mr. Spiry said it has been a challenging year. The administration worked well on this plan, but had several issues to work out. The city's premiums are based on the experience, or use of the plan, by the members. This past year, the experience numbers for city employees were very high this year. That caused the city's rates to increase higher than what was anticipated in both the HIP and Preferred Provider Organization (PPO) plans. When the HIP plan was put into affect, the cost was shifted to the employee, but was capped. That has been shifted and now the maximum liability of the city as the employer for premiums is based on the premium of the lowest rate plan which is the HIP Plan. Those staying on PPO Plan or the Health Maintenance Organization (HMO) Plans are bearing one hundred percent of the difference between what the city would pay for them on the HIP Plan and what the higher premiums are under the HMO and PPO Plans. He discussed the total costs of benefits for the city for each of the plans.

Councilor Fitch said staff has done an excellent job in signing up employees to the HIP plan. She asked if the two plans were rated separately.

Ms. Belknap said when Pacific Source started with their rating they rated all three plans at the same percent increase. Staff went back and said that was not indicated by the experience or anything else. Pacific Source's point of view was that if the city had open enrollment, it must consider that as a common group. The city pointed out that the HIP Plan was working as far as reduced frequency and costs. Through negotiation, the city got the HIP plan to a lower percent increase. In the PPO Plan, over two hundred percent of the premiums were spent on costs and in the HIP Plan only about eighty-two percent of the premiums were spent.

Mr. Spiry said if it had been a closed plan (just HIP) there would have been a zero percent increase.

Councilor Woodrow asked if the city's contribution to the HIP Plan was continuing.

Mr. Spiry said it is not the intent to stop that payment. It is the incentive part of the plan for employees. It gives employees the incentive to look at creative ways to look at saving money. The city is creating a fund the employee can carry over to the next year and into retirement.

Councilor Woodrow asked if the amount the city is contributing would offset the cost of the premiums.

Ms. Belknap said that is correct. She said the underwriters take the amount the city puts into the Health Reimbursement Account (HRA) into consideration when they set the city's rates.

Mr. Spiry said the rates were set at about twenty-five percent lower than the PPO Plan when they initially began the HIP Plan. Even with the inflation rate, the increases are estimated to be about ten percent lower than the HMO and PPO Plans.

Councilor Ralston said we are projecting a \$700,000 deficit in the city's budget this year and asked if \$550,000 of that is from medical.

Mr. Duey said part of the deficit was from health insurance.

Councilor Ralston said it appears our major deficit is due to the increase in health care costs.

Mr. Spiry said the deficit is not completely due to health care costs because there was an increase that was projected and included in the budget. The difference is between what was projected and the actual increase. He reminded council that this year claims were extremely high, while in 2003 they were extremely low. Those fluctuations will average to a lower increase overall.

Mr. Duey said one reason the city does continue to have deficit is that the health insurance increases fast than most CPI factors.

Councilor Ralston said at some point, we can't continue to have these negative spending trends. In the private sector, there is nothing like this. He asked if this was a negotiating tool to get a higher percentage of that cost passed on to the employees.

Mr. Spiry said great strides have been made with the implementation of this plan. It is a difficult area and staff will continue to find ways to contain health care costs. He discussed Ms. Belknap's participation in groups around the state looking for ways to find health care cost containment.

Mr. Belknap said there are two main groups. The first is the Joint Benefits Committee, which is an internal group. The Benefits Committee is looking at ways to be more competitive when the city goes out to bid, such as retiring one of the current city plans. This committee is willing to work towards designing a health insurance plan. She is also working with other employers in the private and public sector for cost reducing answers, such as joint purchasing on drugs and benefits. She discussed a new health plan being developed for University employees that could be available to the city. The Benefits Committee and Executive Team will look at that option. Part of this new plan is to pay hospitals and physicians based on the outcomes rather than the number of office visits. City staff has published information for the employees on prescription drug costs and how to compare costs from one drug or prescriber to another. These things all take a lot of time and move very slowly. All employers in Lane County are looking for answers.

Councilor Pishioneri asked about the anticipated increase.

Mr. Spiry said it was projected at between nine and twelve percent, but the actual was sixteen to seventeen percent.

Councilor Pishioneri asked what the difference was in dollar amount.

Councilor Fitch said it was about \$110,000 difference. She said with union negotiations coming up next year, she asked if the committee could begin looking at a range to encourage health based on the loss ratio to spread it across the board to all employees.

Ms. Belknap said she would like to talk with Councilor Fitch more about her proposal. The HIP Plan was very new last year and there were no other HRA plans to compare.

Mr. Kelly said the HRA refers to a Health Reimbursement Account, not a savings account. This account can be used for health care costs. The HIP Plan has a lower premium, but a very high deductible of \$3000.00 for a family. The PPO Plan has a higher premium (about \$425.00), no HRA from the city and a lower deductible. This has been a disincentive for employees to be part of the PPO and an incentive for employees to move to the HIP.

Councilor Fitch asked what percentage of employees was enrolled in the HIP Plan this year.

Ms. Belknap said they do not yet have that information, but will have it soon.

Mr. Spiry said the numbers are increasing, but there are still employees who have chosen to remain with the PPO.

Councilor Fitch asked if there was outreach to determine why employees were choosing to stay with the PPO.

Mr. Spiry said there has been ongoing outreach.

Ms. Belknap said staff will be looking at how much money is left in the HRA's, for single, two-party and family.

3. Oregon Public Employees Retirement System Equal to or Better Than Testing.

Human Resources Manager Ardis Belknap presented the staff report on this item. A 2003 legislative change to statute ORS 237.620(4) added a requirement that the Public Employees Retirement Board shall test "equal to or better than" (ETOB) employers every two years to determine whether the public employer complies with the ETOB requirements. As an employer with an ETOB retirement plan, the City of Springfield is subject to this retesting requirement.

The City of Springfield is one of the public employers with an ETOB retirement plan. The active members of the plan are Springfield Police Association members hired before April 1, 1996, and police management employees.

Administrative rules are being developed or modified to guide the retesting process. The City of Springfield has been active in the rules process. The affected employers have agreed on a set of guidelines to address the various issues in the rules.

Several of the issues have been referred to the Oregon Department of Justice (DOJ). Depending on action by the DOJ, it is anticipated that the rules will be adopted in February 2005 with the testing to immediately follow. Any changes required in the city's plan would need to be made by July 1, 2005 at the latest.

An actuarial study will be performed at the expense of the affected employers. The undecided issues in the rules will determine the complexity of the actuarial study. The cost of the study will depend on the complexity.

Other potential costs are attorney services, plan changes if the plan is amended, and the potential of a forced integration to PERS. These costs are being studied, but are unknown at this time.

No council action is requested at this time.

Ms. Belknap said she cannot give a parameter of the costs at this time. If the city fails, staff may have to pull salary records from 1973 if actual data is required. She said they are not sure where they could fail the test, so it is difficult to determine where modifications should be made.

Councilor Fitch asked if the city could limit the scope on this so it would not become a full employment for a section of PERS that could take two years or some other cycle.

Ms. Belknap said once the new legislation is incorporated and interpreted, every two years it should be automatic. Once it is all in place, it will just be a matter of running the numbers.

Councilor Pishioneri asked if the PERS actuary tables for emergency services personnel had come out yet. He asked if those figures would give the city a better estimate of the amount

Ms. Belknap said the actuary tables should be available at the February or March board meeting. Whether or not the tables would help the city with their estimates would depend on what time frame the city is testing for. The City of Springfield is the second to the largest group in the ETOB group, with the City of Portland being the largest. The current rates will probably not affect the test this time, but will affect it in two years because of the testing period.

Councilor Fitch thanked Ms. Belknap for her hard work on this issue.

ADJOURNMENT

The meeting was adjourned at 6:52 pm.

Minutes Recorder – Amy Sowa

Sidney W. Leiken
Mayor

Attest:

Amy Sowa
City Recorder