



# City of Grand Island

Tuesday, April 13, 2010

Council Session

## Item I2

**#2010-111 - Consideration of Premium Holidays**

Staff Contact: Mary Lou Brown

# **Council Agenda Memo**

**From:** Mary Lou Brown, Finance Director  
Brenda Sutherland, Human Resources Director

**Meeting:** April 13, 2010

**Subject:** Healthcare Premium Holidays

**Item #s:** I-2

**Presenter(s):** Mary Lou Brown, Finance Director

## **Background**

City Staff has been reviewing potential items that may be used to close the current fiscal year gap caused by declining receipts, primarily sales tax. The forecasted revenue shortfall is \$1,935,000. Items ranging from the management of open positions to reductions in the General Fund Capital program have been identified. One of the items identified is the use of excess cash reserves in the General Insurance Fund, Fund 615.

## **Discussion**

The General Insurance Fund maintains balances related to the City's workers' compensation, general insurance and health insurance programs. The cash balances related to each of these is separately tracked within the Fund. As of March 31, 2010, the cash balance related to the health insurance program is \$4,352,748.

It is appropriate to maintain a level of reserve related to the healthcare program. Projections show that normal activity in the program may reduce the cash balance by \$300,000 to \$400,000 by the end of the fiscal year. This would leave approximately \$3,900,000 as a balance.

This balance, which over the past four years has ranged from \$2.2 million to \$4.5 million, was addressed by Council during the 2009/2010 budget process. The suggestion was made that the cash balance be used to ease the budget concerns. City Staff agreed to review the situation and make a recommendation prior to, or during, the 2010/2011 budget process.

It has been determined that an excess cash balance has been built up in the health insurance program. The balance has grown due to the following factors:

- Charging City departments a rate higher than what actual experience would support;
- Charging City employees a rate higher than what actual experience would support; and
- The impact of the City wellness program.

For the current year, employees have contributed 16% of the healthcare costs and the City the remaining 84%. Prior to this year, employees contributed 15% and the City 85%. The cash balance started to increase in the 2007/2008 timeframe which is also concurrent with the implementation of the City's wellness program. The wellness program has directly contributed to a reduction in the number of healthcare claims and this reduction has been maintained over the past couple of years.

As the City's wellness program has played a large role in the reduction of claims and therefore the excess cash reserve, we would like to address the holidays in a fashion that keeps the wellness "drive alive" and tie them to promotions that encourage healthy lifestyle choices. Continued efforts to promote a healthy workforce will continue to serve the City with an able-bodied workforce and maintenance of claims growth that has been trending well below the national average.

Since the cash balance is attributable to both the City and the City's employees, the excess cash should be drawn back out of the program in a manner that benefits both parties. It is the recommendation of Staff that up to three healthcare premium holidays be implemented for the healthcare program in the current fiscal year. These premium holidays will result in an estimated reduction of the healthcare insurance cash balance of \$420,000; the cash balance at the end of the fiscal year is projected to be at \$3,480,000.

The premium holidays will help close the budget shortfall since General Fund departments will see a reduction in the amount of costs they pay to the General Insurance Fund.

### **Alternatives**

Alternatives to be addressed by the Council include the following:

1. Accept the recommendation of three healthcare premium holidays.
2. Modify the recommendation.
3. Deny the recommendation.

### **Recommendation**

It is the recommendation of Staff that up to three healthcare premium holidays be implemented for both the City departments and the City employees for the healthcare program within the General Insurance Fund.

### **Sample Motion**

Move to approve the recommendation that three healthcare premium holidays, observed by both the City departments and the employees, be implemented during the remaining months of the current fiscal year.

RESOLUTION 2010-111

WHEREAS, the City of Grand Island provides health and dental insurance to its employees; and

WHEREAS, the City's General Insurance Fund is amply funded; and

WHEREAS, administration is recommending up to three premium holidays that will reduce the fund to an acceptable limit and assist with meeting the current budget year deficit; and

WHEREAS, the premium holidays will be observed by both the City and the employees; and

WHEREAS, the premium holiday will result in neither the City nor the employee paying a premium for said holiday;

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, to approve up to three premium holidays for the City's health and dental plan.

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Adopted by the City Council of the City of Grand Island, Nebraska, April 13, 2010.

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Margaret Hornady, Mayor

Attest:

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RaNae Edwards, City Clerk