

**SPECIAL MEETING
BUDGET WORKSESSION
SEPTEMBER 20, 2005, 8:30 a.m.**

**CITY COUNCIL OF THE CITY OF ABILENE, TEXAS,
CITY COUNCIL CHAMBERS OF CITY HALL**

The City Council of the City of Abilene, Texas, met in a Special Meeting at 8:30 a.m. on September 20, 2005, in the City Council Chambers of City Hall to discuss health insurance trends, changes in regulations and options available to the City's health insurance plan and to conduct a budget worksession. Mayor Norm Archibald was present and presiding with Councilmen Sam Chase, Kris Southward, Anthony Williams, John Hill, Stormy Higgins, and Councilwoman Laura Moore. Also present were City Manager Larry D. Gilley, Assistant City Manager's Michael Morrison and Kathy Merrill, Director of Finance David M. Wright, Assistant Director of Finance Mindy Whisenhunt, City Attorney Sharon Hicks, City Secretary Jo Moore, and various other members of staff.

Mayor Archibald called the meeting to order.

Councilman Southward gave the invocation.

Mayor Archibald led the Pledge of Allegiance.

The Mayor stated today's meeting has been called in order to give Council the opportunity to hear a presentation on current health insurance trends, changes in regulations and options available to the City's Health Insurance Plan, as well as to further review the Revised and Proposed Budgets. The Mayor then turned the meeting over to Larry Gilley, City Manager, who recognized the Texas Municipal League (TML) claims administrator.

Ronnie Kidd, Director of Administrative Services introduced Susan Smith, Claims Administrator for Texas Municipal League Intergovernmental Employee Benefit Pool (TMLIEBP). Mr. Kidd noted appreciation to Ms. Smith and her staff for the service they provide to the City and for keeping City staff so well informed on health issues.

Ms. Smith stated she would cover the City's Health Plan in every dimension during her presentation. Ms. Smith's presentation and review of the City's Health Plan included:

- Board of Trustees for the Texas Municipal League (TML)
- Customer Service Statistics
- Healthcare Costs
- Factors Driving Costs
- Medical/Rx Cost Per Employee
- Paid Claims History (January 2003 thru August 2005)
- City of Abilene Medical/Rx Claims Paid
- City of Abilene Loss Ratio – January – August 2005
- Healthcare Costs

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- Preferred Provider Discounts
- Out of Network Re-pricing Savings Abilene 92.94% Network; TMLIEBP Average 88.31%
- Abilene Plan/ Contribution Subsidy
- Cost Projection Comparison
- Employer Response to Management of Healthcare Costs
 - Increase employee contribution
 - Lower employer subsidies for dependents
 - Provider Network Review
 - Retiree Ordinance/ Resolution/Preparation for GASB 45
- Employer Action:
 - Examine medical and prescription drug claims to identify key utilization data and cost drivers
 - Review vendor contracts and consider negotiating better financial and service terms
 - Refine participant contribution strategies for 2004 for both active and retiree health plans
- Redefining Healthcare Cost Management
- Medical Cost Drivers by Healthy Stages
- Manage Medical Cost Drivers by Stages Health
- Continuum of Care Process
- Consumer Directed Plans
- PBM Drug Costs by Therapeutic Category
- National Response to Prescription Drug Costs
- Prescription Overview
- Multi-faceted Approach to Healthcare Management
- Prescription Claim Cost Management:
 - Fast start information to educate membership to purchase prescriptions that are maintenance from Mail service so employer can receive approximately 6% more off of prescription cost
- Factors Contributing to Drug Costs:
 - Growing proportion of biotech drugs
 - Price inflation
 - Aging populations
 - More aggressive diagnosis and treatment
 - Introduction of new drugs
 - Pharmaceutical marketing
 - Specialty drug expenditures are projected to continue to grow at rates over 20% annually – Medicare decrease in payment for Specialty drugs could cost shift to other payers
- Prescription Update
- National Employer Response to Management of Healthcare Costs
- Management Cost by Volume of Covered Lives
- GASB 45

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- Difficult Decisions regarding Retiree Costs:
 - Do employers offer benefits to retirees?
 - Do employers increase length of time with organization to access retiree benefits?
 - What is projected retiree population over next 3 years? Identify early and 65 and older retirees.
 - Do employers provide medical, prescription, dental, vision, life/LTD/STD or other supplemental benefits?
 - Employers are reviewing stability in retiree plan
 - Retiree ordinances should be reviewed to ensure retiree benefit procedures are in compliance with current ordinances and is there going to be an issue due to current ordinance/resolution and prior ordinance/procedure or resolution
 - Local Government Code 175 should be reviewed
- Abilene Retiree Summary
- Retiree Cost Options
- Retiree Plans
 - Define eligibility requirements for retiree benefits
 - ✓ Years of Service
 - ✓ Age and Service Rule
 - ✓ Use TMRS information
 - Part A: Facility
 - Part B: Physician
 - Part C: HMO
 - Part D: Prescription
- Prescription GAP Program would provide supplemental benefits for the gap between \$2,250 - \$5,100.
- Deductible: \$250; 75/25 - \$2,250 gap to \$5,100 then 95/5 benefit percentage.
- Subsidy potential for benefit support to retiree population.

Ms. Smith stated if the City considers the Medicare Part D for the retirees her recommendation would be to also consider the supplemental prescription plan to bring in the gap. Ms. Smith noted the need for a timely decision by Council due to the education process TML provides to the retirees requiring a 90 day period.

Council, staff, and TML representative discussion included: 1) Council questioning their not being timely informed on health issues; 2) TML staff noting complexity of the process but assured the Council that information would be shared in a more timely manner in the future; 3) staff noting procedural changes due to new regulations and options available to the health insurance plan and Council's interest in being more involved in the process; 4) various types of plan structures for active employees and retirees; 5) potential rate/premium adjustments; 6) Council's concerns over the 45% cost increase to health premiums and funding strategies; 7) Abilene's catastrophic cases not being out of proportion with other cities our size; 8) the need for employees to become educated consumers; 9) the ideal loss ratio being 85% (Abilene's

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current is 113.28%); 10) TML's responsibility being to make sure employees and providers are educated and know how to use the health plan; 11) pro's and con's to the City utilizing outside consultants, and; 12) auditing of TML claims administrator's recommendations and numbers.

Councilman Hill left the meeting.

Ms. Smith stated in moving toward improved vendor negotiation and in an effort the help political subdivisions in the state, TML, the Texas Association for counties and the Texas Association for school boards are working together for certain purchases of vendors. A company by the name of Public Employers Benefits Alliance (PEBA) is combining Independent School Districts, Counties, and Municipalities to vendor negotiate on their behalf. Due to prescriptions being one of the City of Abilene's highest health care cost, if the City chose to participate in PEBA money could be saved. Ms. Smith further stated because of the Pool's relationship with the Alliance Abilene would have no administrative cost to belong to PEBA and only a nominal amount would be charged to participate in a bid.

Further discussion included: 1) impact health care costs have to the City's general budget; 2) the wealth of information and education provided through TML's presentation; 3) how uninsured victims of hurricane Katrina may impact health care cost; 4) Council wanting to be, and to stay, informed on health care issues and to be involved in philosophical decisions, and; 5) TML representative noting if negotiation for one health center was considered, with the current situation that center would be Hendrick Medical Center and negotiations would need to start soon.

Mayor Archibald stated appreciation to Ms. Smith and her staff for the wealth of information provided during her presentation. The Mayor noted the importance of Council staying informed on health issues due to the tremendous impact those issues have on the City's General Fund Budget.

No Council action was required.

The Council recessed for a break at 10:07 a.m. and reconvened at 10:15 a.m. All Councilmembers were present except for Councilmen Southward and Hill.

The Mayor stated the next item on the Council agenda is further review of the Revised FY 2005 and Proposed FY 2006 Budgets. The Mayor further stated this item is for discussion only and that the final readings on the revised and proposed budget ordinances and the tax levy ordinance, with public hearings and Council decisions on the ordinances being scheduled for the September 22, 2005 Council meeting.

Mayor Archibald noted further review of the budgets is on the Council's agenda today at the request of Councilman Chase and the Mayor asked Councilman Chase to begin the Council discussion with any comments he may have.

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Councilman Chase stated appreciation to the Mayor for placing further review of the budgets on the agenda. Councilman Chase further stated that his questions concerning the budget issues have been answered and that staff has been very responsive to those questions. Councilman Chase noted that although Council was not involved in the developing of the proposed budget to the degree that may have avoided some confusion and detailed analysis of the budgets this year, some discussion concerning the model for the future budget preparation process has taken place, and with future Council meetings having been scheduled to assist with that process some of the budget issues Council faced this year have been addressed.

Councilman Chase stated the city has approximately three and one half million more dollars today than a year ago and basically it is all being spent. Councilman Chase also noted that there is approximately two to two and one half million dollars shortfall in the self-insurance fund. With the Open Meetings Act requiring Council to conduct discussion concerning city issues in an open meeting Councilman Chase stated he had requested this item be placed on the agenda in order to have that discussion.

Councilman Chase then requested Council discussion on the Alley Paving Program budget issue. Council discussion included: 1) a lack of comfort with the alley paving program; 2) a request for the guidelines/priority list on the alley paving program; 3) staff reviewing history of alley paving program and rationale for current recommendations, and; 4) Council's concern for the focus on alley paving when there are citizens living on unpaved streets.

Mayor Archibald noted that depending on the outcome of the Bond Advisory Committee recommendations, and at looking philosophically at the Capital Improvement Projects the alley/street issues may need to become a priority for next years budget. The Mayor further noted the importance of Council staying focused on issues and working toward resolving those issues and addressing needs whether in the current or future year.

Council discussion continued and included: 1) increasing employee health insurance contributions to offset shortfall; 2) increase may be inevitable due to a 45% increase needed in premiums; 3) employees viewed as city's largest asset and city's responsibility to those employees; 4) Council discussion needed prior to budget preparation next year on budget issues including philosophy on funding insurance for employees, passing health care cost to employees, implementing employee salary increases and prioritizing projects to be funded and resources for that funding; 5) Council requested when it is known that there will be excess funds for budget revision that they be given the opportunity to provide input on their priorities (i.e. 2nd study on Ft. Phantom); 6) COLA increase, 5 year vesting, or holding funding for those for further review; 7) unknowns that may occur and impact Council decisions (i.e. non-civil service retiree cost of living adjustment that was to be a one time \$240,000 adjustment and that was verified by TML, but turned out to be a yearly adjustment); 8) confidence noted in current proposed budgets but earlier budget worksessions are still preferred for next year;

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9) civil service and non-civil service pay increase and retirement program issues, and; 10) pro's and con's to cost of living increases and pay for performance.

Councilman Higgins left the meeting.

Council also discussed: 1) funding for developing of Land Development Code; 2) funding for a zoning enforcement officer to assist Planning staff to allow staff to develop Land Development Code; 3) time required for consultants versus city staff to develop Land Development Code; 4) the process that would be followed if staff develops the Code; 5) removing larger budget items (i.e. alley paving, 5 year vesting, COLA, Land Development Code) from the budget and leave funds for those items in reserve until issues have been further reviewed and comfort level reached concerning long term funding needs; 6) support of current proposed budget and respect for balance of power between staff and Council, and; 7) the biggest known challenge Council will face next year will be health care cost (self insurance fund).

Mayor Archibald reiterated the need for Council to be involved and to provide input on a year round basis concerning budget issues.

No Council action was required.

There being no further business, the meeting was adjourned at 11:20 a.m.

Jo Moore
City Secretary

Norm Archibald
Mayor