

Robert J. Paek

TOWN COUNCIL MAJORITY OFFICE

2018 MAY 17 A 8:38

ORDINANCE COMMITTEE

TOWN CLERK
EAST HARTFORD

MAY 10, 2018

PRESENT Rich Kehoe, Chair, Councillors Linda Russo and Esther Clarke

ALSO Mike Walsh, Finance Director

PRESENT Rich Gentile, Assistant Corporation Counsel

CALL TO ORDER

Chair Kehoe called the meeting to order at 5:47 p.m.

APPROVAL OF MINUTES

December 5, 2017 Meeting

MOTION By Esther Clarke
seconded by Linda Russo
to **approve** the December 5, 2017 meeting minutes.
Motion carried 3/0.

OPPORTUNITY FOR RESIDENTS TO SPEAK

None

OLD BUSINESS

None

NEW BUSINESS

Reserve Funds – OPEB

The Chair explained that the purpose of this meeting was to develop some concepts for providing, in ordinance, proper reserves for future liabilities of the town. If we as a town can maintain appropriate reserves for these liabilities, we will maintain a more fiscally sound financial position. The Chair noted that we already maintain fairly solid reserves for most of these liabilities which we should ensure are preserved in the future. The OPEB health

insurance, which is for retirees' health insurance, has significant unfunded liabilities and we should begin to slowly methodically address that significant liability.

Mike Walsh, Finance Director, compiled a summary of our Health Insurance Fund, Workers' Compensation Fund, General Liability Fund, including balances and appropriations for the past ten years, and provided that information to the Committee.

The Committee proceeded to review the current financial state of each of these Funds:

Medical Reserve (aka Health Insurance) Fund.

The current reserve for the Health Insurance Fund is \$5.2M. The question is whether that amount is an appropriate reserve for the amount of claims that we receive or do we have more than enough for an appropriate reserve?

Mike Walsh's recommendation is to have a reserve equal to two months of the paid claims, which is defined in our audited statement as the "operating expense". The operating expense includes paid claims, premiums that we pay for other insurance – like an umbrella policy – and administrative charges. In discussing the appropriate reserve and in reviewing the operating expenses for the past 10 years, the Committee noted that the number has been fairly steady – increasing somewhat in some years mainly because of medical inflation and decreasing in other years because of a good experience on paid claims. In light of that, it was thought that we should have the two months' worth of operating expenses based on an average of the preceding two budget years. That way if there is a spike or a drop in operating expenses, such aberration will be smoothed out by taking a two-year average.

Workers' Compensation Reserve Fund.

This fund has a negative reserve but only if you take into account long-term heart and hypertension liability. Total assets in the fund are \$1.3M and there is \$300,000 of current liability for a net cash reserve of \$1M in the Workers' Compensation Fund. However it is projected that there will be about \$1.8M in long-term liability for employees who have heart and hypertension claims. Those liabilities, much like pension liabilities, are expenses that are due over a number of years, but probably should have some reserve.

The Finance Director recommended that in light of (1) the relatively speaking small dollar amounts of claims in the Workers' Compensation Fund – for example the average number of annual claims is running roughly \$1.4M compared to \$22M in health benefits; and (2) the annual claims over the last 10 years are very volatile, ranging from \$405,000 up to \$1.9M, a reserve of 50% of the paid claims average – also known in our audited statements as "operating expenses" would be prudent. Because of the volatility in annual claims, rather than a two-year average as we were using in the Medical Reserve Fund, we would use a five-year paid claims average to smooth out the annual gyrations in the number of claims that are paid.

It was also discussed that there should be a way to slowly address the long-term heart and hypertension liabilities. Therefore, the Committee discussed that beginning fiscal year 2020, the reserve should include 10% of the long-term liability and increase such percentage annually by five percentage points. Each year the reserve would include – not only 50% of

the five-year paid claims average, but also the percentage of the unfunded long-term liabilities. Therefore, in fiscal year 2021 the Workers' Compensation Fund would contain 50% of the five year fund claims average plus 15% of the long-term liability for heart and hypertension claims. In fiscal year 2022, the percentage would increase to 20% of long-term liability.

Automobile and General Liability Reserve Fund

This Fund is also a relatively small dollar amount, but like the Workers' Compensation Fund, has significant volatility. Over the past ten years, annual paid claims range from \$788,000 to \$1.9M. As such, the Committee and the Finance Director recommended that we set aside 50% of the five-year average of paid claims and therefore treat the Automobile and General Liability Reserve Fund the same as the Workers' Compensation Reserve Fund. It was noted that unlike the Workers' Compensation Reserve Fund, there are no long-term liabilities for which we need to set aside any dollar amount.

There was some concern that the 50% of paid claims number could be ultimately lower than the current \$500,000 deductible (otherwise known as the self-insured retention) that the town has for automobile and general liability under the town's umbrella insurance policy currently known as "CIRMA". The Committee thought that there ought to be a minimum amount in the reserve equal to the largest deductible (self-insured retention) that the town has with its umbrella or excess liability insurer.

OPEB Trust

With regard to the retirees' health insurance, there is a significant liability number that was explained at a recent Town Council meeting. It is fiscally impossible to set aside on an annual basis the actuarial amount for paying that liability off, but the Committee felt that we should have a starting point and move slowly towards addressing the overall liability. The Finance Director will come back with a recommendation to the Committee.

The Committee discussed having some language that would allow future Town Councils to have an exemption for meeting these reserve standards that will be established in ordinance. One issue that the Committee members wanted to avoid was future Councillors raiding the reserve funds in order to reduce taxes in the short term – knowing that raiding would cause significant long-term liability to those same taxpayers. One legitimate reason for not meeting the ordinance standards would be if such required expenditures would cause a significant increase in taxes. The Committee will discuss further the definition of "significant increase in taxes". The Committee also wanted to make clear that any action that is an exemption from this ordinance would need to be in writing and would explain that such action would, in fact, increase long-term liabilities for the town. The goal is that not following the ordinance would be made publicly with a clear explanation and understanding by the Town Council and by the public that such action would increase long-term liabilities of the town.

Rich Gentile, Assistant Corporation Counsel, will draft an ordinance with these concepts for further review by the Ordinance Committee.

ADJOURNMENT

MOTION By Esther Clarke
 seconded by Linda Russo
 to **adjourn** (6:52 p.m.)
 Motion carried 3/0.

cc: Mayor Leclerc
 Mike Walsh, Finance Director
 Rich Gentile, Assistant Corporation Counsel