

**MANAGERS REPORT**  
**December 12, 2011**

**TO:** MAYOR HORNADAY / HOMER CITY COUNCIL

**FROM:** WALT WREDE

UPDATES / FOLLOW-UP

1. Revolving Energy Fund: Earlier this year, the Council transferred money from the Revolving Energy Fund into a project fund to improve energy efficiency and lower energy costs at city buildings and facilities. That project is now complete and I will ask Carey to provide you with a final project report. You may recall that the ordinance establishing the Revolving Energy Fund called for the fund to be replenished with the savings that are realized from reduced energy costs. These savings will need to be accounted for and audited beginning in 2012. The Draft 2012 Budget before you does not take this into account. In other words, it does not show transfers from the General Fund, Water and Sewer Fund, and Port and Harbor Fund to the Revolving Energy Fund (or to the depreciation funds). This could be done with a budget amendment later in 2012. It is not necessary to complicate the budget discussions at this late hour. However, we do have some concerns about the accounting process required by the REF ordinance. We are also concerned about the impacts the ordinance may have on the budget given that energy prices continue to rise and the projected savings, while real (these improvements have protected the City from even higher bills), are not likely to be evident in terms of the approved budget. In other words, the City likely won't see real savings within the budget that can simply be transferred to the REF account. Council would have to come up with more money, above and beyond the existing budget, to make those transfers. We would suggest a workshop later this winter to go over this in more detail before taking action.
2. Proposed Workshop / Insurance Broker: Last week, Jeff Paxton, from the Mercer Company was here for three days. Jeff is the City's new insurance broker. He proved to be a wealth of information and it did not take very long for me to realize that hiring his company will be well worth the money. He has already saved the City quite a bit (see number 3 below). Jeff has a great deal of information and insight into trends in health care costs and benefit packages. He is also very knowledgeable about the new health care law and the potential impacts it may have on the City's finances and the insurance coverage it provides to employees. Jeff recommends that any changes the City makes to insurance coverage or premiums it charges employees should be done with the new health care law in mind. I would strongly suggest that we schedule a Council workshop with Jeff later this winter to discuss some of these issues. We shared some of this information (and some of Jeff's time) with the Employee Committee when it met on Thursday. In my view, the more the Council and the employees know about the City's self insured plan, current trends and industry standards, and the new health care law, the better. Informed choices are generally the best ones.

3. Health Insurance Plan Savings: The City's new insurance broker is already at work trying to obtain the most cost effective health insurance coverage possible. Several City insurance contracts are about to expire on December 31. Jeff has been seeking bids and negotiating prices with insurance providers. In the last few days, we decided to switch life insurance providers from Lincoln Financial to Prudential. This resulted in a 23% savings or about \$4,000. We also switched stop loss coverage. We renewed coverage with the current provider but switched PPO networks (Facility Steerage). Under the new PPO, South Peninsula Hospital and two commonly used Homer clinics are preferred providers. This move has resulted in savings of \$88,000. Jeff is currently working with the City's third party administrator to see if we can amend that contract and negotiate a lower price.
4. City Hall Expansion and Renovation Update: This project continues to progress on time and on schedule. Construction of the new section of the building is now essentially complete. The Clerk's office and the Finance office have moved into the new section. Work has now begun on remodeling the rest of the building. It is anticipated at this time that the project will be basically complete by the end of this year. If everything stays on schedule and there are no unanticipated delays, we are planning to move Administration, Planning, and IT personnel out of the old school and back into City Hall either the last week of December or the first or second week in January.
5. Administration Budget Amendments: Your packet contains several proposed FY 2012 budget amendments that I hope Council will move to place on the table and vote on. These are all items you have been informed about and I hope are anticipating. The first is a change in the personnel budget. Council recently approved a change in job description and compensation for Anne Marie's old position. This requires an increase in the Economic Development salary budget of about \$12,000. At the same time, the Admin Assistant in the City Manager's office is transferring to Public Works. That position is being downgraded back to its original job description and compensation, saving approximately \$12,000. So this amendment is basically budget neutral. The second amendment has to do with the damaged fenders on the Deep Water Dock. This is something that needs to be fixed as soon as possible or usage of the dock will be restricted and safety compromised. The budget amendment calls for \$125,000 to be transferred from the Port and Harbor reserves to a project budget for design and construction. We are proposing this to give us the flexibility to act quickly. We hope we will not have to spend most of this money. This damage may be covered by insurance and we would only have to pay the deductible if that is the case. Further, the legislative grant scope of work on the \$6 Million in cruise ship funds that Council is about to accept calls for replacing all of the fenders on the dock. So, if we can get everything in place quickly, we may be able to use grant funds for this project and protect the reserves. The third amendment we discussed has to do with furniture at City Hall. At the time this report was drafted, staff was still compiling a list of the most necessary items and cost estimates. Measurements are also being taken and since the new offices are now occupied, folks can see how furniture fits and what configurations might work best. So, there is no proposed amendment at this time. We will talk to you about this further in January when the dust settles and we have a clearer picture of what is needed.

6. Budget Amendments / Employee Committee: At the last Committee of the Whole, the Council asked if it was possible for the Employee Committee to provide a recommendation on potential changes to the health insurance plan by this meeting. The Committee held a meeting on Thursday December 1<sup>st</sup> and it send a survey out to employees on Monday December 5<sup>th</sup>. The Committee received a very clear message from the employees. Well over 70 percent of them responded to the survey and their preference was clear. Matt Clark, the Chair of the Committee will be available at the Committee of the Whole to discuss all of this. He has also prepared a short power point and a memo which discusses the alternatives the Committee can up with and the choice made by the employees. I hope Council will provide him some time. It is important to keep in mind that the alternative favored by the employees is not on the table at this time. The employees are not intending to simply say here, cut our benefits or charge us a premium. Doing so would be a real hardship for many. What they are saying, is that if the Council determines that it is in the overall best interest of the City to make changes this year, and it has the votes to do that, this proposal should be substituted for the proposed amendment which is on the table.
7. Health Insurance Fund: Health Insurance claims vary widely from month to month as you might expect. The fund was operating in the black for most of the early part of this year. What I mean by that is that monthly costs were consistently below the approved budget. However, the number of claims and overall costs to the plan increased dramatically during several months in the summer and fall. We now have the numbers through the end of October and we are more confident in projecting that the plan will end the year with a deficit of around \$150,000 to \$200,000. Hopefully it will be less than that depending upon what occurs the last two months of the year. If a deficit occurs, there are adequate funds in the health insurance reserves to cover it this year. The bigger problem is the trend going forward. We budgeted the same amount for per employee contributions in the budget for FY 2012 as we did in 2011. That seemed reasonable back in September based up past plan usage trends and the health of the reserve fund. However, we are now projecting a budget deficit this year. And the City's insurance broker, based upon what he knows about industry trends, predicts that health care costs will rise at least 10 percent in 2012. So in other words, he agrees with the statement Francie made at the last meeting that the proposed budget for monthly per employee contributions (\$1,300) is probably too low. I mention this now because the Council may have to amend the budget at mid-year or sooner based upon how our expenses go as we start the new year. Also, if the Council decides to charge employees a premium beginning next year, the funds raised by this premium must be used for health insurance costs by law. I would strongly recommend that the Council not lower the budgeted amount for health insurance contributions. It should be kept at the same level and increased by the amount of the employee contribution.

#### ATTACHMENTS

1. Memorandum from Library Director re: Books
2. Finance Department Award.