

CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION

c/o Frederick C. Sussman, Esq., Chair

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May 20, 2016

BY E-MAIL

Mayor and City Council of the City of Annapolis

160 Duke of Gloucester Street

Annapolis, Maryland 21401

Re: Ordinance 13-16 (City's FY 2017 Operating Budget)
Supplementary Letter

Dear Mayor Pantelides and Members of the City Council:

I am writing to you on behalf of the City of Annapolis Financial Advisory Commission ("Commission" or "FAC") to explain additional concerns of the Commission regarding Ordinance 13 -16 (City's FY 2017 Operating Budget) that have arisen since our May 4, 2016, letter.

In order for the City to maintain fiscal responsibility it must insulate the general fund from unexpected and negative budgetary impacts. Expenditures that cannot be directly controlled need to be segregated from the general fund in the form of a committed fund balance that is sufficient to mitigate unexpected and unforeseen expenses. The benefit of such a fund also allows for improved transparency and accountability since surplus contributions and deficiencies can be managed as part of the specific fund rather than being commingled in the general fund

The City uses a self-funded health insurance plan. In this arrangement the City gains greater flexibility over the plan's design and reduced administrative costs making it more attractive and less expensive for employees than a traditional fully insured health plan. In this type of funding arrangement health insurance claims represent an expense category that comprises underlying risks and expenses that cannot be controlled because the City collects premium income based on an estimate of projected claims but it pays expenses based on actual claims. The Finance Director created a segregated Insurance Trust account for fiscal year 2016 but it has not been funded.

The Mayor's proposed FY 2017 operating budget includes funding for a nine percent increase in the cost of the City's health insurance premiums. The City's insurance consultant, Insurance Solutions, calculated this estimate. It was predicated on experience factors realized during the first six months of fiscal year 2016. Insurance Solutions provided a subsequent estimate after the budget was drafted, which updated the original estimate with experience factors for eight months plus the inclusion of reductions in contract expenses resulting in re-negotiated contracts.

The revised estimate is a four percent increase in premium costs. The budgetary difference between the nine and four percent estimates is approximately \$300,000.

The FAC urges the City Council to maintain the Mayor's proposed appropriation for health insurance premiums calculated upon the nine percent premium increase factor. Assuming that claims are managed at a reasonable level in FY 2017, this five percent cushion will help ensure that a satisfactory balance is accrued in the Insurance Trust account to insulate the General Fund from the risk of spikes in health care claims. Going forward the City will be able to routinely monitor premiums and adjust them up or down to maintain a stable balance in the Insurance Trust account. The net result in the long run is that the employees will continue to benefit from the lower premiums of a self-funded plan without increasing the risk to the City's taxpayers.

The FAC again thanks you for the opportunity to weigh in on the proposed FY 2017 operating budget. The FAC stands ready to review and comment on further iterations of the FY 2017 operating budget as it continues to progress through the legislative process.

Sincerely,



Frederick C. Sussman, Chair

cc: Commission Members (By e-mail)
Bruce Miller, Finance Director (By e-mail)
Thomas Andrews, City Manager (By e-mail)
Jacalyn Bierman, Boards and Commissions Coordinator (By e-mail)
Jacquelyn Lee, Legislative and Policy Analyst (By e-mail)
Regina Watkins-Eldridge, City Clerk (By e-mail)