

FINANCE COMMITTEE MEETING
held June 9, 2014
6:30 p.m. Conference Room

Present: Councilman Dwight Clark, Chair
Councilman Dave Tadych
Councilman Tom Henderson

Also Present: Mayor Sutherland, Finance Director Mahoney, President of Council Paul Koomar, Councilman Lee, Councilwoman Lieske, Fire Chief Lyons, Law Director Ebert, Mike Brown of AdvoCare Group.

Audience: Marty Mace, Richard Majewski

Mr. Clark opened the meeting at 6:30 p.m. He thanked everyone for their attendance this evening.

Workers' Compensation

Mr. Clark introduced Mike Brown of AdvoCare Group, present at the meeting to discuss Workers' Compensation. Mr. Clark stated that this is an issue where we have noticed over the last couple of years claims have been higher. Finance Director Mahoney has done a great job of getting the city set up on the financial statement side of things and tackling different issues, Workers' Compensation being one of them. The Finance Committee members have agreed that it is a good time to visit Workers' Compensation: what it means to the city, annual costs to Bay Village, and how it is handled.

Mr. Brown stated that he represents the AdvoCare Group, who has a third party administration company called Benefits One Group, which handles claims for the city. They also have a managed care organization, which all employers are required to have, which also works with the city.

Mr. Brown explained that for Workers' Compensation Insurance in Ohio every employer in the state has the choice of buying their Workers' Compensation Insurance from the State of Ohio, or if a large enough employer (at least 500 employees) and good financials can ask the State of Ohio if they can be fully self-insured. There are about a dozen self-insured cities throughout the state (Lakewood, North Olmsted, and Solon).

The City of Bay Village is with the State of Ohio fund. The standard state fund issue for Workers' Compensation is a zero deductible, and the entire payroll is subject to the same classification and the same rate. In general, municipalities' claims tend to come from the Service, Fire, or Police Departments. Mr. Brown provided and reviewed a Cost Analysis of premium versus claims by rating year (Exhibit A attached).

In 2004 the City of Bay Village was in a group rating program. That has existed since the mid-1980's. In 2004, the city was paying \$60,332 in premium. In 2014, the premium amount is \$218,947. The calculation of rates changed and evolved over the years when there was a tremendous amount of discussion about group rating and whether the people that were in group rating were not paying enough to cover the claims. When a claim occurs, it impacts the premium rate for four years. There was a large claim in 2005 in the City of Bay Village, and that claim began affecting the premium rate in 2007. There was another large claim in 2008 that began affecting the premium in 2010. In 2010, group wasn't an option anymore because of the impact of these claims. The city was faced was going from \$238,000 in premium to \$320,000. Former Finance Director Presley opted to get into a Retrospective Rating Program. In retrospective rating, the city selects a per-claim and an aggregate deductible, the Bureau continues to process the claims, they continue to pay the claims, and the Bureau gives a discount. The discount is given up front and the Bureau bills for claims costs. In 2010, the city took a \$200,000 per claim risk and a 200% aggregate risk, and that gave the city a 62% discount less assessments, or a 55% discount. In 2011, the city paid a premium of \$133,900 instead of \$320,000. To date, the city has only paid out \$16,700, and is \$148,000 ahead of the amount they would have paid if they did not switch to retrospective rating. As costs go down, the rates get better and the window of savings shrinks. Since 2010, the cumulative savings amounts to \$527,118. Mr. Brown noted that the way the Retrospective Rating Program works is the City reimburses the Bureau in cash for what they paid out and at the closing date of the Retrospective Rating Program which is a ten-year window, the bureau has the opportunity to bill the City not only for paid claim costs but what they call incurred costs. Incurred costs include reserves for possible future expenditures. As long as the claims aren't active, the reserve is zero. There are a number of options available to the City, as the ten-year point comes near to mitigate whatever reserves there might be.

Mr. Brown stated that the Retrospective Rating Program has worked out great for the City. Before 2010 (Years 2004-2009), claims costs versus premium paid, the City was about \$550,000 in excess premium over a six year period. In the Retrospective Rating Program, the City is about \$500,000 over a five year period to the good. There will be discussions later on this summer. The deadline for renewals this year is October. The \$114,328 premium for 2013 is due in spring of 2014. When we get to 2016, the Bureau will make a change and the premium will have to be paid up front. As part of that, the Bureau will provide a 50% off coupon so that two years of premium is not being paid in the same year. This will impact the decision making process. If you look at 2014, if everything stays the same, the City will have a chance to pay \$109,000 with zero deductible, standard issue Workers' Compensation program, or pay \$52,000 and pay the claims.

Mr. Clark thanked Mr. Brown for his presentation this evening.

May Financial Reports (Exhibit B attached)

Finance Director Mahoney advised that municipal income tax revenue through May, 2014 is still above the collections for the same period in 2013 at approximately + 8.83%. Mr. Clark noted that Cable Television Revenue has increased this month due to the increase of the portion of the franchise fee from 3% to 5% approved by City Council that the city receives.

On the expense side, the Street Construction, Maintenance and Expense Fund has an encumbrance that was listed that related to the 2013 street repair, but not encumbered until 2014.

The Workers' Compensation Fund will be corrected because there was a purchase order listed as an encumbrance that was paid. The amount shown as \$192,768.70 under encumbrances should be zero; the \$193,648.70 year-to-date expense listing is correct, and includes claims relating to prior years. There is actually about a \$100,000 positive balance in the account, rather than the negative \$96,002.00 shown on the report since the expense was double-counted. Mrs. Mahoney stated that prior to this year there was a healthy budget in this account, but starting next year that account, along with others, will have to be funded more than last year.

In regard to the Health Care Fund, Mr. Clark commented that the claims experience continues to track significantly lower than previous years. Mrs. Mahoney stated that this is due to fewer claims. We are not in the stop loss for anyone this year at this time. Total health care costs are down 34% year-to-date 2014 versus the same period in 2013.

Mr. Henderson asked if the City has Wellness Programs in place. Law Director Ebert stated that the Wellness Program is not yet official. It is part of a process the city is undertaking but it must be formalized in some type of legislation. Mrs. Mahoney stated that all of the unions bargained this year to have a healthcare committee and that must be organized. Anything with a wellness incentive will have to be done with legislation.

Mr. Lee asked about Account No. 580.45410, Sewer Connection Revenue, in the amount of \$37,000 budgeted and year-to-date receipts of \$2,000. Mrs. Mahoney stated that the budgeted amount of \$37,000 was probably too high of an estimate. We are currently charging \$1,500 for the sewer connection fee, so it is difficult to understand the revenue amount of \$2,000. Mrs. Mahoney thought that the sewer connection fee is paid to SAFEbuilt, Inc., and the City receives 15% of the fee. Mr. Tadych commented that he believes this fee does not go to SAFEbuilt because SAFEbuilt's jurisdiction stops at the home. The sewer connection fee is at the city sewer line and the city provides the manpower to make the connection, and the supervision required.

Sewer Rental Fee

Mr. Henderson prepared and presented to the Finance Committee three options for residents on a sewer billing structure:

- 1) Keep the existing fixed rate quarterly billing process in place – no change;
- 2) Adopt a flat base rate minimum charge plus usage-based charge fee per resident; or
- 3) Adopt a variable rate billing process, where the quarterly billing is fully based on each resident's individual water usage.

Director Mahoney stated that right now we pay \$16,000 a year for billing and postage purposes. If we go to any kind of usage-based cost, we are going to have to pay the City of Cleveland about \$150,000 to do everything. The cost for reading the usage is \$24,000, or \$3.94 per

Minutes of a Meeting of Finance Committee
June 9, 2014

resident meter. They could also include the refuse billing in the fee. Mr. Clark stated that there can be further discussion later if it is determined to go to the \$3.94 reading per household.

Mrs. Mahoney commented that the City of Fairview Park utilizes the whole billing service from the City of Cleveland. Fairview Park charges their residents \$31.00 per mcf. The City of Rocky River just gets the rates. When Mrs. Mahoney looked at the rates of \$31.00 per mcf in Fairview Park and compared it to the average household use, the City came up just a little higher than Bay Village's flat rate of \$335.00 per year.

Mr. Clark noted that the City of Rocky River also charges a Capital charge of \$25.00 per quarter, which Bay Village does not have.

Mr. Clark stated that this conversation leads into a longer discussion about testing, as CT Consultants did, and Bay Village paying under the new cost of the Rocky River Wastewater Treatment Plant. Mr. Clark stated that at this juncture he is happy to have another committee meeting this summer to talk about it in more detail. Mr. Clark called for opinions of Mr. Henderson and Mr. Tadych.

Mr. Tadych stated that he favors continuing the flat rate as it is done now. He stated it is probably the easiest way for the city and the easiest way for the residents. Mr. Tadych does not think the savings will be significant in going another way. But, he would like to move some numbers around and secure that idea, either rightly or wrongly.

Mayor Sutherland stated that at first blush for her from an administration standpoint she would like to keep it the way it is for those very reasons. Any savings that some residents would potentially get are going to be offset by the cost of doing business with the City of Cleveland.

Mr. Henderson stated that the flat rate billing scheme is expensive because people with a lower income pay a larger percentage of their income in a flat rate scheme, and that is true. A counterpoint to that is what we are really talking is removal of sewage from the property. People benefit from that. Whether or not you agree with the IRS's opinion on fairness they do mention that benefits measured by benefits received or ability to pay, so even though a flat rate fee is by definition regressive, it is not necessarily unfair.

Mr. Tadych advised that when Tom Jelepis was Mayor he wrote to Mayor Jelepis and suggested that we do just what Mr. Tadych just said he didn't think we should be doing now, but he felt very strongly that we should look at the water usage by household at that time.

Mr. Clark stated that there are arguments pro and con to both. The bigger issue is the inflow and infiltration issue that the City faces. In totality, that is a \$940,000 number which Bay now pays as its annual share to pay for the Rocky River Wastewater Treatment Plant, and we are moving the shell from Point A to Point B in this discussion. Maybe the other thought is to gravitate toward an email billing process and save some of that \$16,000 per year in printing, for those people that have internet based access to the newsletter. That would give the impetus to save some money going forward as opposed to sending out 6200 bills by USPS four times per year. Mrs. Mahoney will look into the software for that type of billing.

Mr. Tadych asked how many people currently have the payments deducted from their bank accounts automatically. Mrs. Mahoney stated that approximately 200 have automatic payments, out of the 6200. Other Finance Directors have informed her that on-line payments are not heavily used. Mr. Henderson suggested the idea of offering a small one-time discount off the bill in exchange of signing up for on-line payment. Mr. Clark stated that he too would agree that with the current framework of billing, but we should continue to push ourselves to look at ways to do it better down the road. If we are going to do a test on the flow and strength of the sewers next year, it is going to come out of our pocket at a cost of \$40,000 to \$50,000. If that renders a different solution or outcome we may want to consider something at that point in time.

Mr. Tadych stated that it is going to take continuous asking and checking with people over the next five years before there is any difference in the inflow and infiltration problems. Mr. Clark asked if the completion of the sanitary sewer on Cahoon Road will help with the inflow and infiltration situation. The Mayor stated that it is not going to help the inflow and infiltration. What it is going to do is meet the EPA requirement of closing the overflows that go into the creek during the storm event. Now, they will get processed and actually our costs will go up. Mr. Tadych stated that the cost will go up only if the sewers are misconnected. Mayor Sutherland stated that those overflows are there for a purpose. During these major storm events if we didn't have them and they didn't overflow into the creek they would backflow into the basements. Meeting the requirements of the Clean Water Act is having to close those up. The whole project on Cahoon Road is to achieve that; it really doesn't have anything to do with anything else. The major problem is the neighborhoods that feed into the main pipe on Cahoon Road. You don't want to cause basement flooding by closing the overflows; hence the project was designed the way it was. But, it is not going to get any cheaper. Council is going to have to take a look at how we are going to eliminate the inflow and infiltration. It is private property issues; it is not a public property issue. There are a lot of different ways of doing that. It is a difficult issue and we probably should start talking about it in the fall. Not every neighborhood has the same issue, or the same fix will take care of it. There needs to be toolbox of things that can be utilized and hopefully work with residents.

Mr. Clark reiterated his request to Finance Director Mahoney to look into the cost of software for the on-line billing option for sewer bills.

There being no further business to discuss the meeting adjourned at 7:30 p.m.

Dwight Clark, Chairman

Joan T. Kemper, Secretary