

MINUTES OF THE CHESHIRE TOWN COUNCIL JOINT SPECIAL MEETING AND BUDGET COMMITTEE MEETING and BOARD OF EDUCATION, HELD ON THURSDAY, MARCH 12, 2015, AT 6:30 P.M. IN COUNCIL CHAMBERS, TOWN HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410

Present

Tim Slocum, Council Chairman; David Schrumm, Budget Committee Chairman.
Council Members: Patti Flynn-Harris, Liz Linehan, Sylvia Nichols, Robert Oris Jr., Thomas Ruocco, James Sima, Peter Talbot.
Board of Education Members Brittingham, Dixon, Heilrich, Pavano, Perugini
Staff: Michael A. Milone, Town Manager; James Jaskot, Finance Director; Gina DeFilio, Deputy Finance Director; Donna Ouellet, Finance Department; Supt. of Schools Dr. Greg Florio, Asst. Supt. of Schools Scott Dietrick, Vincent Masciana, Director of Management Services, Dept. of Education.

1. ROLL CALL

The clerk called the roll and a quorum was determined to be present.

2. PLEDGE OF ALLEGIANCE

The group Pledged Allegiance to the Flag.

**3. PROPOSED FY 2015-2016 OPERATING BUDGET
EDUCATION**

EMPLOYEE BENEFITS: Pension, Medical Benefits, Heart & Hypertension

Mr. Masciana gave a short presentation/overview on the proposed BOE FY 2015-16 proposed operating budget. The budget request is \$69,431,393; increase of \$3.4 million or 5.19%. 94% of the request is for large fixed expenditures in Contractual Services (salaries and benefits), Mandated Special Ed & Transportation, Facility Overhead (utilities & maintenance). These are expenses that cannot be reduced or eliminated without impacting core services.

Salaries - \$42,382,178, 61%; Employee Benefits - \$12,348,103, 18%;
Support Services - \$6,477,806, 9%; Instructional Expense - \$4,815,770, 7%;
Maintenance and Operations - \$3,407,536, 5%.

Mr. Masciana reviewed the large fixed costs in the BOE budget other than salaries and benefits. Transportation, \$3.825 million (new contract reduced this expenditure); Special Ed Tuition and Services, \$3.016 million; Utilities, Heating \$1.9 million (lower costs projected due to performance contract payments over next 15 years); Facilities Cleaning & Maintenance, Supplies, Repairs \$1.94 million.

Budget Increase Details - Within the \$3.4 million increase the categories are:
Salaries \$1,054 million, 2.55%; Benefits \$2.016 million, 19.51%; Support Services & Facilities Costs \$185,898, 1.9%; Instructional Exp. \$165,435, 3.45%.

Employee Benefits - Request - \$12,348,103; increase of \$2,016,136, 19.51%. This expense is 17.8% of the total budget (was 15% in 2014-15).

Pension (non-certified) - total of \$910,548; requested increase of \$171,642, 23.2%. Mr. Masciana commented on the actuarial recommendation, reducing the return assumptions from 8.25% to 7.5%, and noted that prior to 2009 the annual contribution was less than \$200,000. From 2009 to the current budget, pension contributions have totaled \$910,000. Another valuation is being done in June 2015, and the numbers may change.

Medical/Dental - total of \$9.757 million; requested increase of \$1.784 million, 22.4%. HMO plans are fully insured; pharmaceutical and dental is self insured; Medical also includes HSA and PPO Plans; employees pay towards the premiums, have co-pays, HSA deductible; and the BOE contributes based on the union contract. 466 employees are in the plans, with 243 in the HSA; retirees participation dropped to 54 (from 75); employees not enrolled in the plans receive an annual \$1,200 waiver. The goal is to get claims up to contributions, and to rebuild the reserve fund with claims coming down.

Factors & initiatives - The initiatives include: increase HSA enrollment, increase stop/loss, employees paying more towards coverage, international fulfillment for out of country drugs, negotiate standard plan as HSA with employee buy up to the PPO and HMO.

Since 2010 the average cost increase for benefits is 4.3% versus the national average of 5%. The budget request is high because medical costs are increasing rapidly. The BOE packet included a graph on Cheshire's Medical Cost Trend, 2010 to 2014, reflecting an average increase of 4.3% per year.

Mr. Masciana reviewed the participants by employee group. This illustrated a total of 520 participants in all plans; 243 employees in the HSA plan; and 54 retirees.

In the proposed budget, \$130,000 is for fees and taxes associated with the Affordable Care Act (ACA) expenditures.

Medical Benefits Reserve Fund - Mr. Masciana reviewed the contributions and claims out of this fund. Medical claims (not controllable) are paid each month out of this fund, which decreases the balance in the fund. Contributions (controllable) are charged to the operating budget and "deposited" to the fund which increases the balance in the fund each month. In 2014-2015 contributions totaled \$7.475 million.

Trust Fund Contributions vs. Claims - a graph illustrated the actual contributions vs. claims, and shows that claims rate has exceeded contribution rate since 2011-12.

Fund Balance - the actual fund balance as of February 28, 2015 is \$205,585. At this time the fund is below 1/2 month of reserve funds, while a healthy reserve is 2 months.

Dr. Florio informed the Council that the BOE is into 2/3rds of the year and claims are at \$5.5 million, and could be at \$8 million at this current rate.

Health Care Reform Provisions - It was pointed out by Mr. Masciana that some 2014 key provisions have been pushed out to 2015. Under these provisions, an employer must offer adequate and affordable plans to 30+ hour employees or pay \$3,000 penalty per employee who receives benefits from the exchange. 70% of eligible employees must be offered plans or employer pays \$2,000 penalty x all eligible employees. In 2016 the percentage increases to 95%. In 2018 the "cadillac tax" kicks in.

The importance of these provisions was cited by Mr. Masciana, in that most school districts have many 30 hour employees, i.e. Instructional Assistants/Para-professionals. The benefits may be available and adequate under the ACA but they must meet the "affordable" requirement. An I.A. is paying 30% to 40% of income to buy benefits; the 30 hour per week also includes substitute teachers and custodians. The impact on the ACA law will be significant on school districts.

Timeline for ACA - this information was included in the packet. Mr. Masciana said there are already administrative ACA costs being encountered at this time, and there will be more going forward. For FY 2015-16 the costs are over \$130,000 for the BOE.

Dr. Florio commented on the fact that the BOE is not simply providing medical benefits, but will be educating 4,500 students in the Cheshire School District.

With regard to the \$575,000 addition to the Superintendent's budget, and Town Manager Milone's removal of this funding, Dr. Florio stated his understanding of their actions.

Over the last few years the school district has faced many issues, and Dr. Florio noted that federal and state funding has been flat. There is some federal help with special education costs, but these funds are capped. In his budget, Dr. Florio is requesting 4 Instructional Assistants which are needed for the special education program. He commented on the drop in ECS costs, bringing students back into the school district. IDEA and Title I dollars are flat and State reimbursement is declining.

Enrollment - According to Dr. Florio enrollment is going down; there are 126 less students this year and the same projections for next year. The district dropped 100 students last year, and it will be about 50 students this year, mostly at the elementary level. If elementary enrollment continues to decline some positions could be eliminated. At this time there is no enrollment history with full day kindergarten, and families moving into the district have children spread across the grades, i.e. 2nd, 3rd to high school.

For the 2015-16 budget, Dr. Florio projects 220 full day kindergarten students, which is the same as last year. The BOE is looking at 1st graders not in the system now, but it is

uncertain if there will be a bump in 1st grade enrollment. Without bumps the district would have to eliminate 3 or 4 elementary teaching positions.

School Registration - Dr. Florio explained that the district makes a strong effort for kindergarten enrollment as soon as possible, and sets registration days. But, parents can enroll a child up to the start of the first school day of the school year. With regard to elimination of teaching positions and then increase in enrollment, Dr. Florio said there is a hard look at the numbers, without recommendations made unless it will be effective.

Special Education I. A.'s - The Council was informed by Dr. Florio that these staff members work with the special education students, must have a minimum level of education and professional experience. He noted that an I.A. working with a child on the autism spectrum would be required to have special training.

Retirements - In the budget Dr. Florio factored in 6 retirements; 5 of the 6 have formally announced retirement; and the BOE incentive over 2 years has been a factor.

Regarding hiring of new teachers, Dr. Florio stated that with any consolidation at the elementary level, he would not hire another teacher, except for special education, World Language...where someone has to be hired.

In response to a question about full day kindergarten enrollment as an unknown, with no history for the program, and class sizes with current enrollment, Dr. Florio said there is a concern about the bubble between kindergarten and 1st grade. There are a few points in the elementary enrollment with a few more students, class sizes are a factor. In the school system there is a good spread out of class sizes.

In relation to class sizes and influx of students Birth to 3 to high school, Dr. Florio explained that the birth rate in Connecticut is down with this trend holding as kids go into the school systems. People are moving into the community, into homes which have not had children for a while. The high school is in the 1500 to 1600 student range and will be there for a while, and smaller class sizes will hit Dodd Middle School in a few years and then the high school.

BOE Chairman Brittingham reported that several new housing developments are going on in town, with houses 3,000 sq. ft. or more and this will have an impact on the school system when they are sold.

In response to a comment from Mr. Ruocco about the assumption rate reduced to 7.5%, requirement of an increase in contributions, Dr. Florio stated the Dept. of Education (DOE) takes its cue from the Town Manager and Finance Department to insure the pension plan is funded at the appropriate level.

Town Manager Milone stated that liability and contributions were pumped up at the recommendation of the actuary. There may be disconnects between earnings and assumptions.

Mr. Masciana noted that new employees go into a 403-B pension plan. He said the rate of return dropped due to market conditions, with the Town and BOE living up to their responsibilities.

Stating we have rich benefits and well paid staff, Mr. Ruocco said it is time to start making solutions. He suggested if people want rich medical benefits their salaries should not increase, as a 5% increase is hard to handle. He said people should be aware of the benefits and costs.

BOE member Perugini said some staff have higher premium payments than others, and some of the bargaining units can contribute more. These issues must be revisited during negotiations. Regarding lucrative salaries, Mr. Perugini said new teachers are hired at lower salary levels, but insurance plans continue to go up and are expensive.

When issues relate to future negotiations, BOE Chairman Brittingham said they will not be discussed publicly by the BOE. Regarding benefits and costs information to the public, he reported the information is on the web site for public view.

As a result of the many issues being discussed, Chairman Slocum commented on the student to faculty ratio which may have to change and go up. There is a fixed pot of money which has not changed in the public sector, and it is not what it was a few years ago, even in Cheshire. Education is a people business, but Mr. Slocum said there must be a look at the student to faculty ratio change.

The fixed costs are in positions, and Mr. Perugini said this is the first place to be looked at with a reduced budget.

According to Mr. Brittingham the BOE was not pleased with the retirement incentive, and the most costly overhead is the older teacher with years in service. The incentive was supported as a way to reduce overhead.

The impact on children by hiring "green teachers" versus keeping experienced teachers was questioned by Ms. Linehan. She asked about new teachers better able to teach and implement the common core curriculum.

For teaching staff, Mr. Brittingham said everyone must start somewhere, and if he thought this, he would not have voted for the retirement incentive. Because of professional development, administrators, the team concept, etc. he said teacher evaluation is great and reasonable, but the most important is the actual practice of teacher support. In the Cheshire School System because of the support and the way teams operate he is comfortable with new teacher hiring. Regarding common core curriculum Mr. Brittingham has seen presentations from veteran teachers who are thrilled with personal devices, and are more adapt at using them in the classroom for instructional enhancement.

Mr. Schrumm discussed the BOE budget, elementary staffing levels and elimination of one teacher in each school. He noted the 2nd page in the BOE budget book shows numbers that reflect class sizes without 4 positions, and cited the enrollment numbers at the elementary schools. Mr. Schrumm commented on enrollment situations, shifting students around a little bit, i.e. Doolittle School, and making a matter of policy of shifting kids within the elementary schools. Parents would be made aware that there could be movement of students within the schools.

Dr. Florio said on the fact that parents do not know the impact of the budget until they have kids in the school system...when there is something different. As for "flexible school districts" he will never ascribe to this philosophy. Dr. Florio has no objection to closing a school, and has requested a facility plan from the Town Council for 10 years. If a school is closed there must be accurate enrollment projections before closing, and if numbers come back up, the question is what do we do.

Mr. Schrumm stated new parents to the school district can be told their child is in the flexible district, and can be moved from Chapman to Doolittle to Highland. The last 6 census data indicates population in town is dropping, and new development does not mean more children.

Telling this to someone moving into a new home is not a problem, but Dr. Florio said families living on a street go to Doolittle this year and next year to Chapman.

With regard to fixed costs for staff, Mr. Schrumm said this does not mean the BOE cannot control the number of staff. His numbers show enrollment is down 600 students in the last 7 years with another 100 fewer students this year. The BOE budget is \$+11 million over this same time frame.

By way of explanation, Dr. Florio stated most of the expenses have been special education related, keeping these students within district at lower costs than sending them out, and he is aware of declining enrollment. He commented on replication of the Darcy Early Intervention Center in another school...square feet needed, # of classrooms needed, compliance to all codes with such a move. He asked Mr. Schrumm to give him a plan, with information to accommodate the program, the costs involved, etc. so it can be given to the community. Dr. Florio is willing to look at these things, but will not guess because someone says enrollment is done, and these things can be done. He needs concrete facts so plans can be put in place.

Dr. Florio reiterated that the BOE has asked for Council approval of a "Facilities Plan". He said it is not as simple as saying...enrollment is down...so things can change. There is a need to know trends, costs, etc. and there is no opposition to consolidation of facilities. Dr. Florio reported that the BOE would like to have kindergarten in the home schools, if there is room. To do this there are issues associated with it, and help is needed to plan for these changes.

It was stated by Dr. Florio that it is unfair to sit here for one night talking about budget, and trying to wrap a facilities plan into the discussion.

Mr. Oris expressed appreciation to Dr. Florio and Mr. Brittingham for their comments. It is recognized that teacher contracts cannot be opened up and changed, and many of the costs are fixed. There is agreement on honing in on enrollment, with opportunity to cut some positions without impact on services. He is very pro-education which is viable to the community, ties into property values and is something we owe to our children. In this difficult economy, with people on fixed incomes, we need to find a way to be collaborative, identify areas of common ground, reduction in expenses (possible elimination of positions) without risking services or gutting the budget...and Mr. Oris would like this to be done. He recommended the BOE, Town Council, and administration get together to work on these issues, have meaningful change, determine how to prudently use funds and cut some costs.

In that regard, Mr. Brittingham commented on the productive meetings held last year by Town Council, BOE and administration, and expressed interest in holding another meeting following the pattern used.

EMPLOYEE BENEFITS

Councilor Ruocco recused himself from discussion employee benefits due to possible conflict of interest.

Town Manager Milone distributed a handout to the Council members.

The Council was informed by Mr. Milone that a very comprehensive RFP for medical benefits coverage was issued in January 2015. Five proposals were submitted and they have been narrowed down to three...Anthem, Cigna, ConnecticutCare, and interviewed by the committee.

There have been two meetings with the Town's benefit consultant. Mr. Milone reported there is still dissatisfaction with the rates. The consultant went back to the companies, and they have been asked to lower the rates with the final rates to be received on Friday, March 13th.

The handout to the Council is the proposal submitted by Anthem, and it is 2 1/2 months old. It is important in that it recognizes some good savings, points out changes to be made and what we want to make. There are no allocation rates for some time (single, couple, family); it is done as an aggregate all in number. Once it is decided what is most cost effective, there is a break out of these rates for the plans in which the Town is interested. The providers looked at things from the current arrangement which is 3/4ths of employees in self insured programs and 1/4 of employees in an HMO premium based program. We need to find out savings by moving everyone into a self insured program, and assure rates stay constant for at least 2 years, maybe 3 years. All providers have indicated they would do this. The Town is looking at significant savings with outplacement of the pharmaceutical portion with Symetra. Anthem will

not, in the HSA program, allow outplacement of the pharmaceutical portion. There is advantage of a lower rate there by only in cases where people are not in the HSA. The process is still in the negotiation process.

Mr. Masciana reviewed the numbers. Option #1 - \$1,443 dollar change without doing anything different next year; we will be flat in medical benefit costs; there is room in the administration fees. Option #2 - \$517,691 savings; this is the most affordable one; this column represents taking a fully insured HMO, paying a premium for coverage. This is added to the self insured throne. It is recommended because the experience rate over the last 5 years in this plan is a loss ratio under 60%. With \$1 million in premium, they are paying out \$600,000 of claims; there are administrative fees of about \$100,000; Anthem keeps \$300,000 out of the \$600,000, and is taking a risk. In this HMO there are retired police officers and other staff, and the concern is this plan experiencing high claim rates. By moving from fully insured to self insured, with a stop/loss of \$150,000, is a risk worth taking.

With CPD and OPRB Mr. Milone said there were concerns about future health problems because people would be taking advantage of the plan later on in life when there is likelihood of more health problems. In looking at the loss ratios it is clear that the loss ratio in the fully insured plan is better than in the self insured plan. More than one-half of people on the Town side are police officers, and 20 other employees. This is not an attractive plan for Town employees.

In looking at the sheet, Mr. Milone pointed out columns 2 and 3 (at top of page); the number of participants change from 578 to 725; and this assumes everyone is in the self insured plan. The benefits are not changing, and the only change is the way the plan is funded.

Mr. Masciana said 147 people will be moved out of the HMO into a self insured HMO totaling 725 people. Option #2-Anthem RX; Anthem provides HMO self insured with keeping current prescription provider. Option #3-Anthem RX takes over prescription coverage, is charging more, savings decrease, and this option will not be recommended. With this option the Town loses control of the RX management, with no rebates or incentives with a self insured plan. It is safe to say if the Town moves to self insured on the HMO, \$517,000 is savings is realized next fiscal year. Mr. Masciana expects improvement on these numbers as each company reviews the numbers and adjusts options.

The experience period looked at was through December, and Mr. Milone said the companies will now have January and February, and for the Town side, these were the lowest months in 3 years. The BOE numbers do not look too bad either. Collectively, the numbers look good. Much of this information is already factored into the numbers submitted to the Council for FY 2015-16. Estimated savings is \$200,000; the percentage was raised by another 5% to 7% over what is seen in the rates; the reduction is about 17% to 18%; also additional savings are expected when the bids come in.

At this time, Mr. Masciana reported there is a line item in the BOE budget for fully insured claims.

Mr. Oris asked about the \$517,000 savings, and paying additional claims out of this number, pushing this number down.

Based on projected claims this is factored in and Mr. Milone said \$517,000 is the savings. Expected claims estimate is \$1.3 million; this amount is budgeted; the obligation is met; under the minimum premium (now) there is a limit of 120% of expected claims; and the Town will have to pay over 120% of claims in the next fiscal year. Under the fully self insured program the claims are all paid in the same fiscal year. This has never been exceeded to where the Town could not pay it, and there is a healthy trust fund balance.

On the stop/loss coverage the threshold is \$150,000, and Mr. Brittingham said this is for the BOE and the Town. He asked how often this has been exceeded, and would it be a cost savings to lower the threshold amount and lower premiums.

Dr. Florio said this was changed a few years ago due to no benefit at the lower level, paying higher premiums. Prescriptions are now covered.

With a self insured plan, Mr. Milone said the risk is ours; with a fully insured plan the company is padding premiums.

Mr. Masciana said the match rate between companies is about 97%. We are awaiting official numbers, and once received, the IBI consultant will be present and go into more details on each submittal.

The Council and BOE was told by Mr. Milone that a 2 hour meeting with the consultant will have to be scheduled for the 3 proposals, in executive session. He recommended the week of March 23rd...maybe Thursday, March 26th. Dr. Florio suggested that the meeting also include Attorney Floyd Dugas, the BOE attorney. There could be legal time and cost issues involved.

BOE Chairman Brittingham suggested the BOE meet with the bargaining units and explain the plan once everything is settled and staff informed.

Handout March 12, 2015. Mr. Milone issued this document in response to Council questions.

Page 1 - shows the 8 sample properties, grand list assessment 2013, \$ and % variances at 27.6 mill rate and 31.45 mill rate.

Page 2 - shows historic details for the two year tax comparisons for the 8 sample properties, and taxes paid on these properties.

Page 3 - illustrates the tax impact by levels of changes using 30.25 mill rate.
of Accounts - less than \$100 - 980 properties have lower assessment and lower taxes. The data is shown for more than \$500 through less than \$100.

Mr. Milone will use these same 8 properties and calculate the data at 30.45 mills.

4. ADJOURNMENT

MOTION by Mr. Ruocco; seconded by Mr. Talbot.

MOVED to adjourn the meeting at 9:03 p.m.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk