



MINUTES
THE TOWN OF INDIAN RIVER SHORES
6001 North Highway A1A, Indian River Shores, FL 32963

SPECIAL CALL TOWN COUNCIL WORKSHOP MEETING
RETIREE HEALTH INSURANCE SUBSIDY &
FY 14-15 BUDGET GOALS & OBJECTIVES

Friday, February 14, 2014

1:15 p.m. (or immediately following the 1 pm meeting)

PRESENT:

Brian M. Barefoot, Mayor
Gerard A. Weick, Vice Mayor
Thomas W. Cadden, Councilman
Thomas F. Slater, Councilman
Richard M. Haverland, Councilman

STAFF PRESENT:

Robert Stabe, Town Manager
Laura Aldrich, Town Clerk
Heather Christmas, Finance Department
Bill Beardslee, PZV Chairman
John Werwaiss, John's Island

Capt. Mike Jacobs, Public Safety
Lt. Mark Shaw, Public Safety
Charlene Hall, Public Safety
Deborah Ecker, IRNA
Dean Phypers, John's Island

RESIDENTS:

1. Call to Order

a. Roll Call

(Pledge of Allegiance and Invocation performed at 1:00 p.m. meeting)

The meeting was called to order at 1:05 with the roll call performed as reflected above.

2. Discussion of Retiree Health Insurance Subsidy by Council

Mayor Barefoot introduced the topic by asking if we had any further information on the retiree elections. Mr. Stabe said the two who have not left the Town's subsidized health insurance plan will not be taking a buyout. The buyout amounts were confirmed, and after much research, were not able to find a suitable plan.

Mayor Barefoot asked Ms. Christmas to review the current practice, who reported that for employees who work for the Town, beginning in the 7th year through 25th year they are offered an increasing subsidy of 7.5% to 51.5% for health, life, and dental insurance. There are three who are left on the plan, one who goes off in September to Medicare, and the other two will have seven or eight years. Both were retirees at the 51.5%, so this subsidy will be continued for several (seven or eight) more years.

Councilman Haverland said there are two who are entitled to a cash subsidy each year if they continue to remain under the Town's medical insurance and other offered insurance plans for employee only. It's approximately \$483 per person, or a little less than \$3,000. This subsidy was put in place in 2002. Most municipalities do not offer this explicit subsidy of \$3,000, only what is required by law. If health care costs inflate, our costs inflate, we would assume 6% growth per year as our Treasurer calculates, this will be \$15,000 for a 25-year old person who retires at age 52 with 5% compounding. This is where the \$1.5 million implicit liability comes from, as mentioned in the footnote on the audit, and the \$329,000 is explicit liability. The implicit liability is higher because people who are older are more prone to use services, which increases the cost of our plan. If there is a spouse involved, it is three or four times higher than the explicit subsidy. Prior to this year, we have known the liability existed but have never funded it, which is legal. You have to show it but not fund it. It could continue on a pay as you go basis. Our true costs incurred each year are slightly more than \$200,000 and the explicit costs are \$30,000. The buyouts bought us about \$750,000 drop in liability.

He asked that we fund it annually, and consider how to make the liability smaller. He asked to eliminate the explicit liability for new employees, mainly because 1) it costs the Town a lot of money, and 2) employees are now eligible through the Affordable Health Care for insurance regardless of their medical condition. This subsidy, he determined, may have been offered to protect our employees who may not have been able to get insurance upon retirement. We are in the minority of municipalities who offer this explicit benefit. He did not agree with taking

Please Note: The Town of Indian River Shores does not routinely keep verbatim minutes. Any party interested in such an appeal relating to any decision made by the Council with respect to any matter considered at this meeting is responsible to record the meeting and include the testimony and evidence upon which the appeal is to be based.

anything away from anyone who has already earned a benefit. He suggested that we stop accruing the liability for existing employees and remove the benefit for new employees. The percentage would remain fixed where it is now for what has been earned, but it would not increase between now and retirement.

Mayor Barefoot asked Ms. Christmas what the estimated savings would be if the benefit were stopped today versus the maximum of 51.5%. She said that would have to be calculated. Councilman Slater agreed that is an important number to know. The explicit and implicit liability and percentage of probabilities was discussed between Ms. Christmas and Councilman Haverland. Mayor Barefoot asked how many employees would be impacted, and was told all 23 would be, with about half of those having accrued part of the benefit but have less than seven years of service. Councilman Haverland agreed that someone who has been here less than seven years would have some benefit prorated. Vice Mayor Weick asked statistically how many of the 23 will retire from the Town, to which Ms. Christmas said the GASB calculations estimate 30%, which Vice Mayor Weick concluded is a liability for only 8 employees. He did not agree that it would be worth considering changing this benefit.

Mayor Barefoot recapped that Councilman Haverland has presented two thoughts, capping the benefit or eliminating the benefit. Vice Mayor Weick said people tend to work longer to keep their insurance, which is a dear benefit to employees, a consideration when they prepare for retirement. None of us know how the Affordable Care Act will impact this. We have a line item in the budget that we pay for insurance, like electric and water, and did not see why it should be considered.

Councilman Haverland said we are required to offer health insurance by state law, which has an annual cost (per employee) in today's dollars of \$12,000 - \$15,000 explicit. The implicit cost of \$3,000 will disappear very gradually.

Councilman Slater agreed that Vice Mayor Weick might be right, and asked for a firmer number on the dollar amounts we are discussing. The explicit numbers and assumptions are what we need to explore. Councilman Cadden agreed, and indicated that he will speak with Heather privately to answer his questions.

Mayor Barefoot said the whole country is looking at how to get away from defined benefits to defined contribution planned benefits, to know their costs. Councilman Slater said the Town is building up a future obligation. Short term cash obligation is not the problem, but a multi-million dollar long term liability is.

Mayor Barefoot discussed the number of \$329,000 as a "guesstimate estimate," as there are assumptions about who will retire and who will leave prior to retirement for 23 employees. The implicit \$1.5 million, Mayor Barefoot agreed, has to be paid by someone sometime. He used the analogy of depreciation on the books for capital projects like replacing the roof; you set aside money for when it comes due.

This is a defined benefit, Councilman Haverland said. We put away money while the employee is working so when they retire the benefit is "due and payable." It is the same as pension, but the health insurance liability has no obligation to prefund it. The liability should have been absorbed by past taxpayers, but now has rolled forward to future taxpayers.

They can't all retire at once, they reach an age of eligibility, Vice Mayor Weick noted. It averages to a total line item of \$30,000 - \$40,000. Next year there might only be two people, which is \$6,000. Councilman Slater said we need to match up what they are earning with what will be due. They discussed this further. Councilman Haverland also mentioned how the cost of our current health plan insurance is driven up by having retirees in the plan. Using an average age of 45 for employees and retirees and a retirement age of 59.5, there is an average cost of \$6,000 per employee implicit subsidy and \$13,000 with spouse.

Mayor Barefoot said the problem with this discussion is that we need more specificity. All questions and numbers they have are to be given to Heather for further analysis. Having these questions answered will help to determine the course of action. At the end of the day it may be that we choose not to change anything.

As an aside, Mayor Barefoot noted that the Affordable Health Care only has had 3.3 million sign up and 8 million have lost their health insurance, out of 330 million Americans.

Councilman Haverland asked if the Council could articulate their questions to Heather now. If we were to do this, and project normal retirements and replacements for the next five or ten years, what would our liability look like in five or ten years. This would frame the issue. Councilman Slater said that is a good starting point. There are overall assumptions, with or without a change, Councilman Slater continued, and foresaw three projections with three scenarios.

Ms. Christmas confirmed that they desired that she calculate with no change, with the plan frozen and with the impact on the GF. Also with or without turnovers. Mayor Barefoot said to also give some credit to current employees.

Mayor Barefoot said there are 34 Blue plans in the country, and he chairs the Finance Committee for Massachusetts, which is a big plan. For the first time in three years, the fourth quarter is starting to go back up (for plan usage). The trend has been downward only, and now it is starting to go up showing that people are beginning

to feel more secure. Between that and the mix for employees in the assumptions (about half of the younger 25-40 year olds), the assumptions were not right. The mix is actually older and sicker people, so premiums will be going up a lot. If we continue to provide the explicit subsidy accruing against a substantially higher cost of insurance, there could be a significantly greater cost than we can imagine today. Mayor Barefoot said we need to be in a position to explain a tax increase. This exercise that Councilman Haverland has brought up is vital whether we change anything or not. We have a responsibility to know what our fiscal obligations are, Mayor Barefoot added. As they work, we fund the plan and stay current.

Councilman Haverland said we have also talked about taking the amount we put aside and invest it differently than in half percent CDs, asking if we have the latitude to invest it in anything else.

Ms. Christmas said our Investment Policy is restrictive, and she was investigating this for the Finance Committee. The Florida League of Cities has pooled funds (statewide) that we can invest in (contains our General Employees FMPTF), which is not SBA. This was discussed between several members of the Council, the expected returns historically and liabilities, and determined to try to reduce costs if we change the investment strategy. Ms. Christmas mentioned the Finance Committee meets in March. Mayor Barefoot said he suspects the Town could do something differently, but is unsure what the right way to improve our position is.

Mayor Barefoot asked if the audience had any comments on this. Mr. Stabe cautioned the Council that every time the decision is made to reduce benefits to offer new hires, it makes it more difficult to find the quality of people they have hired in the past. This may not be a huge part of the job offer consideration for a young employee, but the long-term benefits are what is more clearly in focus for the new graduates of the academy. The Town has a 2 multiplier, reduced during the union contract negotiations in 2012 from 2.75, and with paying as much as 13% of salary for pension is a huge difference when compared to other local agencies offering a 3 multiplier with 3% of salary contribution required. Discussion among the Council followed. Mayor Barefoot reiterated that is why it is important to pay off unfunded liabilities.

Mr. Werweiss, a resident, responded to the Town Manager's comment by stating that he understands that the Public Safety Department is hiring part time officers with a very different compensation than what is offered to the full time officers. He said there is absolutely no shortage of highly qualified candidates for those officers, and was curious as to why the Town Manager would speculate that the experience with these other non-union employees would be so precarious. Mayor Barefoot said most of the part time employees here are full time employees somewhere else, and they have better benefits elsewhere. Mr. Werweiss asked if we know what type of benefits they have at their other job, and Mr. Stabe said we do. He clarified that we do not offer the same benefit package as the County. Mr. Werweiss said that Mr. Stabe is speculating that the applicants are less qualified or less plentiful because there is a reduction in our benefits. Mr. Stabe said if there are new graduates from the academy that compare the benefit package here versus the County, they will likely choose the County. Mr. Werweiss asked if we should align our pay scales from the top down to the other municipalities and administrative governments. He added that it was his understanding that many of the Town's employees are paid more than comparable employees in other local areas. Mr. Stabe said no one else has the level of training and experience that our Public Safety staff has, they are triple trained and triple certified. Mr. Werweiss asked how we can be sure that is the best system. Councilman Cadden said we have had triple certified people for many years, and we are very proud of it. We have the best public safety record, and our response times are unbelievable. We don't want to be like the other local municipalities. This was further discussed between the Vice Mayor, Councilman Cadden and Mr. Werweiss.

Mayor Barefoot said Heather had some homework, and asked if she would please contact the Council individually after hearing from them all.

3. FY 14-15 Budget Goals & Objectives

Mr. Stabe asked for the Council's input for next year's budget direction rather than him and the Treasurer heading off with their own assumptions. For instance, he has heard that paying down liabilities is one goal, and asked for what else may be on their mind.

Mayor Barefoot said the appraised values and revenue may be down. Councilman Haverland said he had called the County appraiser to discuss this, and was told no information would be available until March 31. He also spoke with two local realtors who said sales versus assessed prices were down significantly, more than 5%. Mayor Barefoot suggested we would have to cut costs or reconfigure things to keep the same millage rate, and put money away to address unfunded liabilities. We can't do both, so it may be that the taxes will be raised a little.

Councilman Cadden said the staff is managing quite tightly now, and Councilman Haverland suggested starting 3% lower from appraised values. Vice Mayor Weick said they won't pay taxes on a higher rate for a full year, so to look at last year's ending Building Department numbers. Our total assessed value was not down very much.

The only built in increase is in the Union contract, a 2% step increase, so she was asked to assume 2% for the rest of the employees, and estimate health insurance which won't be known until June-July.

Councilman Haverland asked Mr. Stabe if there are any known new, non-recurring expenses we will have in the General Fund. He said at this point there may be some, but it is not significant. We will have to have some software upgrades, the Land Development Code revamp, and then we will begin Town ordinance revisions next year. Vice Mayor Weick mentioned the litigation expenses that have not been settled yet. Mayor Barefoot suggested that they assume the cost base will go up 3% for inflation. He asked if the Postal Center was running better, and Ms. Christmas said it's about \$3,000 less than budget which is on target, having already been reduced by \$5,000 last year.

Councilman Haverland said he thought we should aim for the same millage rate, and do everything we can to deal with the retiree medical liability to fund it to the extent we can. The Pension fund is now headed in the right direction, so when the actuary report is completed we will know how much more is needed.

4. Audience Comments

There were no further comments.

5. **Adjourn**

Hearing no further comments, the meeting was adjourned at 2:28 p.m.

Respectfully submitted,

/s _____
Laura Aldrich, Town Clerk

(Approved by the Town Council at the 2-27-14 meeting)