DUBLIN CITY COUNCIL
FINANCE COMMITTEE OF THE WHOLE MEETING
Wednesday, August 10, 2016 – 6:00 p.m.
Council Chambers

- Call to Order
- Consent Agenda
    - Approval of Minutes of June 13, 2016 Meeting
- Policy Discussion – Debt Policy and General Fund Balance Policy
- Questions/Discussion
- Next Steps
- Adjourn

DUBLIN CITY COUNCIL
FINANCE COMMITTEE MEETING OF THE WHOLE
Monday, June 13, 2016
Council Chambers

Minutes of Meeting

Mr. Keenan, Finance Committee Chair, called the meeting to order at 5:30 p.m.

Council members present: Mr. Keenan, Mr. Lecklider, Ms. Alutto, Mayor Peterson, Ms. Amorose Groomes, and Vice Mayor Reiner (arrived late). Ms. Salay was absent (excused)
Staff present: Mr. McDaniel, Ms. Mumma, Ms. Kennedy, Mr. Rogers, Mr. Nahvi, Mr. Shawn Smith, Mr. O'Brien.

Mr. Keenan moved to approve the minutes of the meeting of April 25, 2016. Mr. Lecklider seconded the motion.
Vote on the motion: Mayor Peterson, yes; Ms. Amorose Groomes, yes; Ms. Alutto, yes; Mr. Keenan, yes; Mr. Lecklider, yes.

Mr. Keenan stated that the topic of tonight's agenda is the continued discussion of Employee Benefits.

Jason Nahvi, Benefits Administrator stated that tonight, Part 2 of the City's benefits and wellness program will be reviewed. Part 1 was an overview from where the program began to where it is today. Part 2 will:

- Compare the costs of the City's current self-insured program compared to a fully-insured benefits program.
- Compare Dublin's health care plan to the cities of Westerville and Gahanna, to the Central Ohio Health Care Consortium (COHCC), the Franklin County Cooperative, and the private sector.
- Highlight certain aspects of the current plan.
- Review recent Equal Employment Opportunity Commission (EEOC) ruling including how it will impact the City's wellness program.
- Present potential courses of action, including staff's recommendation, for the City's benefits and wellness program.

Comparison of Self-Insured vs. Fully Insured Plans

Self-Insured:

- The City of Dublin has been self-insured for over 13 years. The City operates its own health plan instead of paying a premium to the insurance carrier, UnitedHealthcare, to run a structured plan for the City.
- There is always the risk of incurring larger, catastrophic claims, which the City must pay. These types of claims are not indicative of whether the plan is working or successful.
- Fixed costs include the stop-loss premiums, administrative fees to the insurance carrier or the City's third party administrator, Oswald Companies.
- Variable costs include the monthly payments of the members' healthcare claims. The City pays dollar for dollar for any health care claims up to $150,000. The City pays only up to that amount because it has purchased stop-loss insurance, as it is self-insured. UnitedHealthcare reimburses the City the difference for claims that exceed $150,000.

Fully Insured:

- The City would pay a premium to the insurance carrier (UnitedHealthcare) for the City's benefits program.
- UnitedHealthcare would control the plan and pay the medical claims per the plan design. This would be a more hands-off approach than what the City has now with its self-insured plan.
- The premium rates are fixed for a year, based on the number of employees enrolled in the plan each month.
- The monthly premium only fluctuates during the year if the number of enrolled employees in the plan changes.
- Typically, the employees have co-pays for doctors, emergency room and urgent care visits.

Estimated Cost of Self-Funded Plan for 2017
UnitedHealthcare and Oswald put together the potential costs of a fully-insured plan compared to the City's self-insured plan. The City's paid claims from May 2015 through April 2016 were used to calculate a 2017 estimated cost of $4.3 million. That estimate was reached by taking the total paid claims of $5.2 million and adding the annual administrative and stop-loss fees for a total of $6.3 million. From that amount, the $2 million reimbursement for stop-loss claims was subtracted, resulting in the estimate of $4.3 million for the City's self-insured medical plan in 2017.

Estimated Cost of Fully-Insured Plan for 2017
The UHC monthly estimate for premiums would $448,352, for an annual total of $5.3 million. This is what would be used to pay medical claims. This amount is based on the number of employees on the City's plan and the City's claims experience. Comparing the cost of $4.3 million for a self-insured plan versus $5.3 million fully-insured indicates that the City would pay over $1 million more per year for a fully-insured plan.

The City's self-insured plan was compared to the health plans of the cities of Westerville and Gahanna, the Central Ohio Health Care Consortium (COHCC), the Franklin County Cooperative, and the private sector.

Plan Design for each of those entities

- City of Westerville – Self-insured; High Deductible with Health Savings Account; 1,300 members; UHC provider; voluntary wellness program.
- City of Gahanna – Traditional preferred provider organization (PPO); self-insured; 296 members; UHC; voluntary wellness program.
- Franklin County Cooperative – PPO plan; self-insured; 16,000 members, of which 115 are SWACO employees; UHC; voluntary wellness program.
- Central Ohio Health Care Consortium – PPO plan; self-insured; over 2,200 members; UHC; wellness program.
- Private sector – Either High Deductible or traditional PPO plan; varied numbers of members; various providers; wellness program varies.

All the public entities reviewed were self-insured, like Dublin. Private entities reflected both types of plans. All public entities used UHC as the insurance carrier; the private sector varied.

Plan Design – City of Dublin:

- City of Dublin – Self-insured; High Deductible with Health Savings Account; 990 members; UHC provider; voluntary wellness program.

Deductibles and Out-of-pocket maximums

Out of pocket maximums are typically the most an employee will pay in a year for medical -- and sometimes prescription claims -- before insurance covers 100%.

- City of Dublin - $2,500 single and $5,000 family deductible with a $3,425 single and $6,850 family out-of-pocket maximum.
- City of Westerville – $2,000 single and $4,000 family deductible and out-of-pocket maximums.

City of Gahanna and Franklin County Cooperative have PPO plans, so their deductibles and out-of-pocket costs are much lower than Dublin's.

- City of Gahanna – $200 single and $600 family deductible with $1,000 single and $2,000 family out-of-pocket.
- Franklin County Coop. – $200 single and $600 family deductible with $600 single and $1,500 out-of-pocket maximums.
- Central Ohio Health Care Consortium – varies on plan design with each member.
- Private sector companies with high deductible plans – had lower deductibles, and similar out-of-pocket maximums to Dublin.
- Private companies with traditional PPO plans – had lower deductibles and out-of-pocket maximums than Dublin.

Premiums

- City of Dublin employees do not pay a monthly premium for their health care benefit.
- City of Westerville – 15% monthly premium.
- City of Gahanna – sliding scale of 15% - 10% - 6% monthly premiums, based on wellness program participation.
- Franklin County Coop. – a $124 single and $253 family monthly premium with $600 single and $1,500 out-of-pocket maximums, determined by plan design.
- SWACO – biweekly premiums ranging from $73.21 to $97.71. This kept the employer's cost at 86.64% and employee's cost at 13.36% of premium for 2015
- Central Ohio Health Care Consortium – premiums vary based on plan design with each member.
- Private sector companies – typically pay premiums

Health Savings Accounts

HSAs are only for high deductible plans. Westerville was the only other entity in the study with an HSA. They fund HSAs at 85% of their deductible. Dublin funds HSAs at 75% of their deductible. Westerville funds the HSAs at that amount with no required participation in a wellness program. Dublin requires employees to participate in the wellness program to earn those funds. Dublin believes there is the benefit of employees being more conscious of their own healthcare, and a driving force in keeping plan costs down. The private sector does fund HSAs, as well, depending on the plan design and size of the company.

Total Out-of-Pocket Comparisons

Dublin's employees do not pay premiums, but the potential for an employee's potential out-of-pocket expenses is the highest among all the entities reviewed. An employee with single coverage may pay $3,425.00; an employee with family coverage may pay $6,850 in out-of-pocket costs in one year. In comparison, Gahanna employees out-of-pocket are: single coverage - $1,000; family coverage - $2,000. Dublin's plan has the highest out-of-pocket risk.

Health Plan Costs

Plan costs can be difficult to give an "apples to apples" comparison. Dublin's diligence has kept its costs down. Plan costs vary, depending on the number of employees, claims experience, and plan design. Joining a cooperative or consortium involves paying a premium to the group. That premium is used to pay medical claims. Gahanna paid $1.9 million in premiums to the COHCC in 2015. The Franklin County Cooperative premiums would range from $1,104 to over $1,600 per employee per month.

Stop-loss Thresholds

- Dublin's stop-loss threshold is set at $150,000 per claim.
- Westerville stop-loss threshold - at $125,000 per claim.
- COHCC stop loss-fees - $175,000 per claim.
- Franklin County Cooperative - $1.0 million per claim.

The Cooperative has over 16,000 total members, and the Consortium (COHCC) has over 2,200 total members.

Plan Comparison Uniqueness

- Westerville - Spouses must choose their own employer's insurance as primary if available. Their United Steel Worker employees (50 total) are now on the national USW plan as of May 1, 2016.
  Employees do not have to participate in a wellness program to receive HSA contribution - $1,700 for single and $3,400 for family.

- Gahanna - Paid Central Ohio Health Care Consortium $1,915,382 in premiums for 2015; United Steel Worker employees covered under national USW plan. Their Wellness plan is similar to Dublin's wellness program

- Franklin County Cooperative - Control of health plan is by Franklin County Benefits Department; the County Cooperative controls funds; the estimated premium for City of Dublin to join is close to $7 million dollars; the plan recently experienced a "spike" in costs due to increased claims in preventable conditions and increase in catastrophic claims. Wellness program is voluntary and employees/spouse/partner earn a monetary reward.

  City staff met with the Director of Benefits and Risk Management and the Senior Budget Analyst to learn about the Cooperative. It was estimated that Dublin would pay the higher end of the premium with its size and claims experience. There is an estimated premium cost of $1,600 per employee per month. Total premiums would be over $7 million to join the Cooperative compared to Dublin's total health plan budget of $6 million. With the Cooperative, the employee wellness program is voluntary.

The City would have less to no control over its plan design and no control over the premiums being paid into the fund. The Franklin County Cooperative made mention in their "Spotlight" Benefits & Wellness Newsletter from February 2016 that their health plan had experienced a spike in costs over the past 12 months from a number of claims exceeding one million dollars. There is concern with the increase in claims for conditions that are preventable, such as diabetes and back injury/surgery. They felt these claims were avoidable and directly related to how the employees managed their health.

- Central Ohio Health Care Consortium - The Board of Directors sets and approves all benefit programs and premiums; each member of the COHCC has a rep on the Board of Directors; members must stay on plan at least three years; members pay a premium based on number of covered lives and claim experience. With the COHCC, the monthly contribution is determined for each member in accordance with the number of covered employees and dependents and the prior loss experience of the respective member group. The members' contributions represent an amount in excess of the expected costs of the Plan, which has allowed the Plan to establish reserves for future operations.

- Private Sector – Varies depending on the company. Used Dublin's current plan to benchmark other plan designs.

<u>City of Dublin Highlights</u>:

- Recipient of the 2015 UnitedHealthcare "Well Deserved Leadership Award". Only two UnitedHealthcare customers in Ohio and 11 nationwide won this award. The City was recognized for its commitment to its wellness program.
- Recipient of the American Heart Association's Gold Fit-Friendly Worksite award for building a culture of wellness and providing employees with more options to make healthy choices.
- Dublin has been able to keep its costs low and reduce the per employee cost per year. More important, however, are the preventive care screenings. Employees are catching acute illness early, resulting in better outcomes for members. This keeps plan costs down.

<u>EEOC (Equal Employment Opportunity Commission) Update</u>

The EEOC recent ruling will have an impact on the City's wellness program, but not as severely as first anticipated.

- On May 17, 2016, the EEOC issued a change in rules effective for the plan year starting January 1, 2017. The rules were set to ensure wellness programs were complying with the Americans with Disabilities Act (ADA) and the Genetic Information and Nondiscrimination Act (GINA). It is protecting employees who might not be able to meet guidelines set by a wellness program due to a disability.
- The City consulted with Oswald, the City's third-party administrator and City attorneys for the most accurate information regarding these changes.
- The rule states when a wellness program is open only to employees enrolled in a particular plan, then the maximum allowable incentive an employer can offer with the wellness program is 30% of the total cost for self-only coverage (Dublin's COBRA rate) of the plan in which the employee is enrolled.
- If spouses are included in the incentive plan, employers are limited to 2x the self-only coverage (Dublin's COBRA rate) instead of 30% of family premium for a wellness incentive.

An employee with family coverage with no spouse will receive 30% of the total cost of self-only coverage (Dublin's COBRA rate) for a wellness incentive. This is a significant change. Currently, the City doubles the money paid into an HSA for an employee with a family plan and no spouse. Under the new rule, Dublin cannot apply the 2x rule for 30% of the COBRA rate when there is no spouse on the plan. THE EEOC ruling specifically states that an employee or spouse only can be incentivized.

- Dublin can incent an additional 20% due to the tobacco incentive with the EEOC ruling. A wellness program that merely asks employees whether or not they use tobacco (or whether they ceased using tobacco by the end of the program) is not a wellness program that asks disability-related questions. Therefore, the rule's 30% incentive limit does not apply and, an employer can offer an incentive up to 50% (for tobacco only).

Ms. Alutto asked if there would be a difference if the City did administer a test to prove no tobacco use.
Mr. Nahvi responded affirmatively. It would need to remain at the 30% level.

- The EEOC ruling changed how the City can fund HSA accounts for participating in the wellness program. Dublin can continue to incent employees' HSA accounts at $1,875 for single coverage and $3,750 for family coverage with a spouse per year. The COBRA rate for single coverage is $449.86. Multiplying that by 30% is $134.958. That number is multiplied x 12, which equals $1,619.15. That amount is how much the City can incent an employee's HSA account who has single coverage and participates in the wellness program. If there is a spouse on the plan, that number can be multiplied x2, for a total of $3,239. The tobacco incentive with this ruling will allow the City to increase the numbers. It can switch the $300 incentive that it gives employees for meeting the BMI incentive to the tobacco incentive and only incent the BMI for $150. That way, not taking tobacco into account the total annual incentive would be $1,575 ($1,125 for completing wellness activities and $150 for blood pressure, $150 for BMI/Waist, and $150 for cholesterol) which is less than $1619.50. The City would be compliant with the 30% rule. The additional $300 for non-tobacco status allows the City to incent the HSA account at the current $1875 for single and $3750 for family, which makes the employee whole and keeps the City under the additional 20%.

- Employees with a family plan and no spouse on the plan will be impacted. The EEOC ruling only allows employers to incent employees and spouses on the plan. With no spouse, employees with family coverage and no spouse would only be able to receive $1,875 for their HSA funding. This will impact 49 employees on the City's plan.

<u>Final Comparisons</u>

<u>Westerville vs Dublin</u>:

- Both have a high deductible plan with a Health Savings Account. Westerville has more covered members on their plan. Both are self-insured through UnitedHealthcare. Plan costs are similar and budgets are close.
- They charge employees a premium while Dublin does not. Westerville's budget for medical premiums, not including their HSA funding, dental, vision and life insurance is $5.5 million. Dublin's total budget for all its healthcare is $6 million.

- Westerville funds their HSAs at 85% with no wellness participation. Dublin funds at 75% with participation.
- Westerville's plan cost per employee is $7,412/single; $23,000/family. Dublin - $10,195/single; $23,000/family.
- Westerville also requires spouses to choose their insurance as primary. The USW employees switched to the union's national plan.

Gahanna:

- Gahanna has a PPO plan through the COHCC. They are self-insured through United Health-Care. They have fewer total members on their plan at 296 compared to Dublin's 990. They pay a premium to the COHCC and medical claims are paid through the premium.
- They have a strong wellness program. They do charge their employees a premium based on wellness participation.
- Gahanna's total budget was $2.4 million, with less employees, compared to Dublin's $4.9 million for medical only.
- Gahanna's USW employees moved to the union's national plan.
- They do not have an HSA, because they have the traditional PPO.

Franklin County Cooperative:

- The Cooperative's plan is a traditional PPO, they are self-insured, and covered through UHC. If Dublin joined the Cooperative, Dublin would have no control over plan design or the money paid into the fund. Our estimated premiums would be over $1,600 according to the Cooperative, which puts us at over $7 million dollars a year in premiums compared to our total budget of $6 million for our health plan. Employees are charged a premium and Dublin could determine the premium for employees.
- There would be no HSA with this plan.

Central Ohio Health Care Consortium:

- It is a traditional PPO through UnitedHealthcare and they are self-insured.
- Premiums are based on the number of covered employees and spouses and claims experience. If Dublin joined the Consortium, its premiums could be around $5 million dollars. There are options with the plan, and Dublin would be part of the Board of Directors making decisions about the Consortium as a whole. The wellness program could be continued.
- There would be no HSA with this plan.

Private Sector:

- Information varies based on the company. Benchmarked companies similar to Dublin in size. Numbers show Dublin is in line with private sector deductibles and plan costs. Private sector companies do charge employees premiums.

City of Dublin Fully-Insured:

- The fully-insured plan would cost an additional $1,050,850 more than the current self-insured plan.

<u>Assumptions</u>
The following list of principles and/or assumptions in the past have served as a guidepost for the City's benefits and wellness program:

- Be an employer of choice by providing competitive compensation to include a benefits and wellness program that will attract the best and brightest candidates to the City of Dublin.
- Promote a benefits plan that is both fiscally responsible and provides access to programs and services that address the needs of our employees.
- Maintain a high employee awareness of their health and develop strategies for providing benefits that are long-term in focus and sustainable over time.
- Focus on cost containment of the benefits and wellness program. Keep costs in line or lower than other plans comparable to the City of Dublin.
- Design a benefits and wellness program that has the agility and flexibility to act, respond, and mitigate the impacts of rising costs in healthcare, changes in government rules and regulations, and the evolving needs of employees.
- Prepare for the upcoming operating budget process.
- Communicate openly, honestly and timely with employees regarding potential adjustments to the existing benefits and wellness program.

<u>Possible Courses of Action</u>

1. Keep current High Deductible Plan and adopt Equal Employment Opportunity Commission (EEOC) ruling to incentivize wellness program up to the 50% limit with tobacco adjustment. No employee premiums. Potentially saves the City $91,875.00 by accepting the EEOC ruling re HSA funding for family plan with no spouses, not making up the HSA funding, and putting that money back into the budget.
2. Keep current High Deductible Plan and adopt Equal Employment Opportunity Commission (EEOC) ruling to incentivize wellness program up to the 50% limit with tobacco adjustment. We would also charge employees a bi-weekly premium at 15%, 10%, or 5% of the current plan costs -- $10,195 for single and $23,080 for family. This would be additional savings to the plans as the employee premiums paid would be put back into the budget.
3. Keep current High Deductible Plan. No employee premiums. Incentivize Health Savings Account (HSA) up to Equal Employment Opportunity Commission (EEOC) 50% limit with tobacco adjustment. The City would contribute the difference to the employee's HSA account to make those employees whole, who would be impacted with the no spouse ruling. This would cost the City the $91,875 it would have gained with the EOOC no spouse provision.
4. Join the Central Ohio Health Care Consortium (COHCC). We would have a member of the staff sit on the Board of Directors to give input on plan designs. We would go back to a traditional PPO plan and would still have our wellness program.
5. Join the Franklin County Cooperative. The City would allow their actuarial to review our claims costs. Members would have a monthly premium. According to the Cooperative, premiums would be over $1,600 per employee per month and for the year over $7 million. The City would switch to a traditional PPO, and control of the plan design and the premiums paid into the fund would be with the Franklin County Benefits Department.
6. Explore options for employee's spouses on the City's benefits plan. Spouses are the City's highest cost claimant (on a net basis) when compared to employees and dependents.

   <u>Option 1</u>: Spouses with insurance through their employer must choose their employer's insurance as primary.

- Used the 2015 per employee per year cost for a spouse of $3,951. Reviewed the cost savings if 30%/20%/15% of spouses came off of our plan.
- 30% - 65 spouses off the plan for an estimated savings of $256,830
- 20% - 43 spouses off the plan for an estimated savings of $169,903
- 10% - 22 spouses off the plan for an estimated savings of $86,927

Option 2: Allow spouses with insurance through their employer to stay on our plan but charge a spousal surcharge of $150 per month.

- Monthly surcharge of $150 and annual surcharge of $1,800
- 30% - 65 spouses pay the yearly surcharge of $1,800 for a savings of $117,000
- 20% - 43 spouses pay the yearly surcharge of $1,800 for a savings of $77,400
- 10% - 22 spouses pay the yearly surcharge of $1,800 for a savings of $39,600

Option 3: Pay employees $2,500 for spouse to elect employer's insurance.

- True savings would be the difference between option 1 and option 3
- May run into a discrimination issue and have to pay $2,500 to all employees who have a spouse on their own employer's insurance
- Dublin pays spouses $2,500 to take coverage with employer
- 30% - 65 spouses receive the $2,500 payment for a cost of $162,500. This will give the City $94,000 in savings.
- 20% - 43 spouses receive the $2,500 payment for a cost of $107,500
- 10% - 22 spouses receive the $2,500 payment for a cost of $55,000

7. Switch to a fully-insured plan under UnitedHealthcare (UHC); switch from a high-deductible health plan to a traditional PPO.

Recommendation

- Keep current high deductible health care plan with a Health Savings Account attached through UnitedHealthcare (UHC)
- Keep the Healthy By Choice wellness program – continue to move program toward outcome based over the next three years
- Incentivize HSA up to EEOC limits and provide HSA contribution up to previous level prior to EEOC ruling – keeps employees whole
- No employee premium – remain an employer of choice and competitive with recruiting
- Explore spouse options with health plan coverage
- Bargaining units consider looking at national health plans through their union
- Continue to assess cost savings initiatives with health plan

Council Discussion

Ms. Alutto inquired:

1. Is there any benefit in joining a larger group -- a cooperative or consortium?

Mr. Nahvi responded that there is. If the rest of the group is having a good plan year, the City would benefit from that positive experience. Rates might be better. At the same time, the City takes on a risk.

2. Does the Consortium look at the total claims as well as individual claims experience?

Mr. Nahvi responded affirmatively.

3. What percentage of an FTE is represented by how much time it takes to complete the hands on management that Dublin is currently doing with its plan?

Mr. Nahvi responded that management of the plan is handled by himself, as the Benefits Administrator, and the wellness coordinator.

Mr. McDaniel stated that even if the plan were to switch, the City would still have the overhead administration of it. The City would still need the employee to manage the program. We would not lose any FTE equivalent.

Mr. Keenan stated that the problem with joining a group is that the City can control many things within its own group. Demographics can change dramatically from one type of group in the county versus another. Some of the things the City does, for instance with its Workers Comp Program, has a big impact on our health insurance experience – beyond the Workers Comp. Those type of factors are very important. He has observed that with larger groups, there are always those who take advantage and cause a downward spiral within the group.

Ms. Mumma stated that there is a difference between the two groups – the Consortium versus the Franklin County Cooperative. The Consortium is truly self-funded. The participants have an equity position, similar to our CORMA program. With the Franklin County Cooperative, the City would have no ownership of any savings gained. That is the difference between those two programs.

Mr. Lecklider that, although it is not yet common knowledge, it is a matter of public record that Fairfield County, which is a member of the Cooperative, filed a Declaratory Judgment Action and has given their notice that they want to leave the Cooperative.
Mayor Peterson inquired what the reason is.
Mr. Lecklider responded that he believes that their position is that they are contributing too much in relation to their claims history. Their reserve, to which they are entitled, is in the range of $11 million. They are asking for a return of their premiums. Their work force is younger. Another county member of the Cooperative has a higher average age and a more negative claims history. Although Fairfield County is leaving the Cooperative, the question is whether the $11 million reserve will be returned to them.

Mr. Keenan stated that, depending on the terms of their contract, they may take their claim with them and any tail that may follow for a year or beyond -- that is a cost that is very difficult to identify. There may also be some unknown claims coming.
Mr. Lecklider agreed there is that aspect of that contract, which will be argued.

Mr. Rogers stated that in terms of the difference between Dublin's plan and the Consortium, since his employment with the City, he has received at least three appeals of denied claims. When he reviewed the reasons for the claim denials, it was less expensive for the City to approve the claims. The City has the ability to determine what is best for its employees, rather than letting a consortium determine.

Mr. Keenan stated that is an important point. His biggest problem with the City's plan is the high out-of-pocket for a family. Many plans have embedded a single deductible and a family deductible. With the City's plan, it is necessary to satisfy the entire family deductible. Medical expenses can occur at the beginning of the year before the money has been distributed into the HSAs. For City employees who are making $40,000 - $80,000/year, $6,000 in expenses at the beginning of year is a real burden. This situation has occurred. There are ways to address that. The new EEOC ruling will impact some families, as well. Perhaps an embedded deductible takes care of that.

Mr. Nahvi stated that the City also has a policy where, if an employee does have a high claim at the beginning of the year, they can request their HSA funding from the City upfront to help with some of those costs.
Mr. Keenan responded that he is aware of that, but it is difficult. An amount of $6,000 out-of-pocket has a much greater impact on an employee making $40,000/year than on an employee making $100,000. He has never liked that part of the plan, which he has stated previously.

Ms. Alutto continued:

4. In regard to Course of Action #6, Option 3, which is to pay employees $2,500 for spouse to elect employer's insurance -- why wouldn't the City simply pay the amount of the lost incentive to them -- $1,875? It is an incentive, but why over incent them?
5. She believes that working with the bargaining units to encourage them to consider looking at the union's national health plan is a good idea.
6. What other areas around central Ohio do not charge employee premiums?

Mr. Nahvi responded that the ones he is aware of are the City of Dublin and the Parks District.

7. If the City were to take a look at potential premiums, would the City evaluate the impact on employee's take-home pay?

Mr. Nahvi responded that would have to be evaluated. Plan design would be re-evaluated, as well, and perhaps consider moving to a traditional PPO.

Mr. Keenan stated that the City could offset the deductible amount. If it were to begin charging a premium, it could lower the deductible threshold.

Mr. Lecklider inquired what is the point of charging a premium if the deductible would be lowered. It is more appealing for the City to be able to say there is no employee insurance premium.

Mr. Keenan stated that the EEOC ruling may have an impact on how the City's plan is designed. All employees will not be able to receive the same amount of HSA money, which will have a big impact on some employees.

Ms. Amorose Groomes inquired how the City would verify spousal opportunity to secure healthcare elsewhere.
Mr. Nahvi responded that it would be determined by responses to a questionnaire, which would include the caveat that falsification of information could lead to termination of the employee – essentially, it would be based on an honor system.

Ms. Alutto stated that it would be similar to tobacco use. There is no testing involved; it is also based on an honor system.
Mr. Nahvi responded that is what Westerville does, as well.

Ms. Amorose Groomes inquired if this is determined annually.
Mr. Nahvi responded affirmatively.

Mr. Keenan stated that it was discovered by ACA that, statistically, the number of people claiming they were tobacco free varied significantly from the general population statistics that were available.

Ms. Alutto inquired if it is tobacco use only, or also nicotine.
Mr. Nahvi responded that, currently, it is tobacco only.

<u>Vice Mayor Reiner stated that</u>:

1. The City has a rich plan. Do job applicants appreciate the plan the City has? What is the feedback?

Mr. Nahvi responded that it is used as a recruiting tool. Before receiving this promotion, as a business partner he used that when making a final offer to job applicants – no premium and 75% of the deductible is funded. It is an incentive to some applicants.

2. Referred to Course of Action #5 – Explore spouse option with health plan coverage. This option was of the most interest to him, and he believes it merits discussion.

Mr. Nahvi stated that both Westerville and Upper Arlington have this provision in their plans, as do many public and private sector plans.

Ms. Alutto stated she agrees this option should be explored, as there is the potential for significant savings. As good stewards of the public funds, any opportunity to save money should be considered, although not at the expense of City employees' health. How often is this intense review of employee benefits conducted?
Mr. Nahvi responded that it is done annually.

3. In regard to the healthy outcomes of the City's health benefits program, are statistics available?

Mr. Nahvi responded that the yearly reviews with UnitedHealthcare and Oswald provide those statistics.
Vice Mayor Reiner inquired if those outcomes are the basis for the recognition the City's plan has received.
Mr. Nahvi responded that it is the aggressive wellness program, employee outcomes and the reduction in costs achieved by the program, as well.

Vice Mayor Reiner stated that he and his wife have received beneficial guidance from the employee screening program.
Mr. Nahvi responded that is the reason we want to make our wellness program more outcome based, not just participation. That is the only way the City will continue to have a positive impact on the cost of its plan, as well as employees' health.
Vice Mayor Reiner stated the City's goal is healthy employees.
Mr. McDaniel stated that as the City's workforce ages, these investments will reflect future savings, as well.

Mr. Keenan stated that in regard to the possible courses of action offered, he suggests:

- The City plan remain self-funded, because it has worked well over the years, including with Workers Comp. The plan can be tweaked, as needed, in response to upcoming changes.
- The only feature he does not like is the high deductible impact on a family. He considers $6,000 out-of-pocket for a family problematic.

Mr. Rogers stated that one of the things that allows the City to have that high deductible requirement is that there is no employee premium. There is that counter balance.

He noted that there are a couple other items he needs to mention:

- The USW contract negotiations will be coming up within the next 75 days, which will include their benefits package.
- The FOP negotiations will occur near the end of the year, as well.
- There is a need to address the impact to the 49 single-parent families that will be affected by the recent EEOC ruling. Potential ways to address that include:
    - The way in which the City provides the HSA funding. The EEOC limitation is only for the part of the plan tied to a wellness program. The City of Westerville does not tie its HSA funding to any wellness program, so there may be a middle ground for that category of employee.
    - Modify how the deductibles are structured. Currently, the City has a Single and a Family coverage. Perhaps a middle tier for single-parent families could be created, and their deductibles would be somewhere between the other two. Staff will run an analysis on that and provide Council a recommendation.

Ms. Alutto responded that there are several public entities that do have that additional level of coverage. Ohio State has moved to that, as well. This could incent a spouse into having separate coverage. It also can mitigate some of the pressure on a single-parent family. For a single parent with three children making only $40,000/year – being hit with that large amount early in the year is difficult. It would be beneficial to look at these options.

Mr. Keenan stated that after the $3,000 HSA contribution, an additional $3,000 of the $6,000 family deductible remains that the employee must pay from "after tax" dollars.

Ms. Amorose Groomes stated that she would like the City to look at requiring spouses to obtain their insurance from their employers. That is a reasonable requirement.
Vice Mayor Reiner concurred.

Mr. Lecklider expressed agreement with Mr. Keenan's comments. He would also support a cash incentive for spouses. Southwestern Schools previously offered that incentive, and perhaps still does. He would not favor charging spouses any premium – that would detract from the City's competitiveness.

Mr. McDaniel stated that the spouse insurance coverage was suggested as an opportunity to explore and provide information to Council. Then, if Council determines to move forward in that direction, it would be rolled out slowly. That would provide plenty of advance notice and time to determine how to administer it. He would not recommend moving forward immediately, perhaps in the next budget cycle. It would also be a component of bargaining unit negotiations.

Mr. Keenan inquired if the City has data on coordination of benefits.
Mr. Nahvi responded that it can be obtained.
Mr. Keenan stated that because it is free, employees often will elect to keep both plans. The "birthday rule" is to be used to coordinate benefits between the two plans. The City's TPA should be able to tell us how many employees are actually coordinating their benefits – keeping two plans in place. Because the City has no premiums, it makes it easier for them to make that choice.
Mr. Nahvi responded that staff would look into that.

Mr. Keenan inquired if staff has the direction needed.

Mr. Nahvi stated that there is one additional point in regard to the EEOC ruling. The City currently offers Healthy By Choice points for attending certain classes. We would have to consider those as part of that 30-50% rule. We would have to discontinue offering those points, if we wanted to keep the current HSA funding level. Currently, in addition to a T-shirt or mug, employees can use their points to purchase gym or pool memberships at a lower rate, and that is taxed.

Mr. Keenan stated that at some recent legislative hearings in DC, Congressman Tiberi was very interested in that. He questioned why incentives are being taxed. There may be some other rule changes occurring. This subject has caught attention, much like the Cadillac tax, which he fully anticipates will be eliminated.

Mr. Rogers stated that after talking to Oswald and the City's legal counsel, the point to keep in mind is that this is the EEOC rule. It is actually in conflict with three other major departments – the Department of Labor, Department of Taxation, and Department of Health and Human Services. We are not sure what changes may occur, but will continue to watch them.

Mr. Keenan inquired the target date for City plan changes for 2017 – October - November?
Mr. McDaniel stated that the goal is to have this assessed before the 2017 Operating Budget hearings but perhaps earlier, as any changes would need to be made before bargaining unit negotiations.

Ms. Amorose Groomes inquired if the City has already addressed the domestic partner vs spouse issue.
Mr. Nahvi responded that was addressed earlier, before he became Benefits Administrator.
Mr. Keenan stated that it was addressed approximately two years ago.
Mr. Rogers stated that domestic partners are included in all City plans and contracts. No additional movements occurred on that topic this year.
Ms. Amorose Groomes stated that she had heard that several entities were removing domestic partners, since same sex marriage legalization. She would like to see the City look at removing domestic partners in favor of spouses.
Mr. Keenan stated that he would like to have more input before that is pursued.

Mr. McDaniel stated that he believes a policy decision was made that domestic partners would not be removed from the City's plan.
Ms. Amorose Groomes inquired if that was determined after the same sex marriage legislation.
Mr. Keenan stated that it was. That discussion occurred in January of his second term as mayor.
Mr. McDaniel stated that he does not believe that was a legislation action.
Mr. Keenan stated that Council did not adopt anything, just decided not to act.

Ms. Amorose Groomes stated that she believes it would be good to look at what others are doing.
Mr. Rogers stated that earlier this year he looked to see how many City employees will claim domestic partnership, and, currently, it is minimal.
Ms. Amorose Groomes stated that she was referring to what others are doing in the insurance realm.
Mr. Rogers responded that there is movement on that, because it was never part of our state law. Many places around Ohio have dropped that language because it is no longer necessary due to the Supreme Court ruling.

Ms. Alutto stated that she believes some other places have a premium differential for domestic partner vs. spouse.
Mr. Rogers stated that his biggest concern is that the way City Code is currently written, it includes same sex or opposite sex. We could have various situations, such as a boyfriend and girlfriend living together who could claim domestic partnership on the City's plan.

Ms. Amorose Groomes stated that she believes the City should look at how the insurance world is addressing this, now that there aren't those limitations.

There was no further discussion.

The meeting was adjourned at 6:35 p.m.

____

Clerk of Council

City of Dublin

Office of the City Manager
5200 Emerald Parkway • Dublin, OH 43017-1090
Phone: 614.410.4400 • Fax: 614.410.4490

Memo

To: Members of Dublin City Council
From: Dana L. McDaniel, City Manager
Date: August 4, 2016
Initiated By: Angel L. Mumma, Director of Finance
Re: Financial Policies

Summary

During City Council's 2016 goal setting meeting, held March 10-11, 2016, staff made a presentation to Council regarding financial sustainability and General Fund reserves. As Council is aware, it has been the City's practice and stated policy to prepare the operating budget with the goal of maintaining an actual year-end General Fund balance equal to 50 percent of the actual General Fund expenditures. However, no formal policy has been adopted by Council that states such.

The two rating agencies the City utilizes, Moody's Investors Service and Fitch Ratings, both consider the General Fund balance as part of their rating methodology to determine the City's overall credit worthiness. While our General Fund balance is very strong and significantly higher than the general percentage that Aaa/AAA rated entities generally have, both agencies are specifically looking for adopted policies as opposed to standard operating practices. As such, it was staff's recommendation during goal setting to formally adopt a General Fund Balance policy.

As part of that discussion, Council also requested that staff prepare a formal Debt Policy. Like a General Fund Balance Policy, an adopted Debt Policy that provides guidelines to City Council and the Administration regarding the use of debt to finance capital projects demonstrates good financial management to the public and the rating agencies.

Attached for Council's consideration are two new policies – a General Fund Reserve Policy and a Debt Policy. Both documents articulate the practices that are in place today and the principals that have guided both the five-year Capital Improvements Budget as well as the Operating Budget over the past few years. A summarization of the documents is as follows:

<u>Debt Policy</u>

In addition to articulating the City's practice of allocating 60% of the City's 25% in income tax revenue that is dedicated to the Capital Improvements Tax Fund to retire debt issued for capital projects, the policy also addresses the following areas:

- Authorized methods of sale;
- Credit objectives;
- Refunding debt;
- Investment of bond proceeds;
- Compliance with federal regulations, including arbitrage requirements;
- Compliance with Annual Continuing Disclosure requirements;

- The hiring of Underwriters;
- Waiver of the Debt Policy;
- Debt limitations;
- Sources of revenue to retire debt; and
- Structural features of debt.

The Government Finance Officers Association (GFOA) has recommended best practices with regard to establishing a debt policy, which were considered when creating this policy. Additionally, advisors from the City's Financial Advisory firm, Umbaugh, provided recommendations based on the City's financial position as well as experience with the rating agencies and other public entities.

<u>General Fund Balance Policy</u>

In addition to articulating the City's practice of maintaining a General Fund balance of no less than 50% of the General Fund expenditures, this policy also addresses the General Fund balance that exceeds the 50% level. Staff recommends that at the end of each fiscal year, to the extent that the General Fund Balance exceeds 75% of the year's General Fund expenditures, 25% of the amount in excess of 75% will be transferred to the Capital Improvement Tax Fund. The use of the transferred funds shall be consistent with the goals and policies of the Capital Improvement Tax Fund.

Other Information

State and local governments often engage one or more credit rating agencies with respect to the issuance of debt. A rating reflects the independent opinion of a particular agency on the credit worthiness of the issues to make timely payments of principal and interest on the debt. While it should not be the sole consideration when financial decisions are made, the impact that decisions could have on the City's credit rating should be taken into account as the higher the rating obtained by the City, the lower the cost of borrowing, thus saving the taxpayers money.

During discussions with our advisors from Umbaugh in preparation of the General Fund Balance and Debt Policies, we were advised that the credit rating agencies are increasingly looking for finance officers to share the financial position with the governing bodies on a regular basis.

As Council is aware, a quarterly financial update is provided, which includes a written report as well as a presentation during a Finance Committee of the Whole meeting. This information is also presented on the City's website so the public can be informed about the financial state of the City. However, upon advice from our financial advisors, staff will begin preparing monthly financial reports to City Council. For the time being, this report will include the following:

- Summary report that shows the monthly revenue, monthly expenses, and General Fund Balance as of the last day of the month. Additional information will include an income tax revenue summary and a summary of the City's investment holdings.
- Monthly revenue report – this will reflect the month-to-date and year-to-date revenue as compared to the budget.
- Monthly expense report – this will reflect the month-to-date and year-to-date expenditures as compared to the budget. Outstanding encumbrances will also be reflected.

Beyond income tax revenue, detailed information regarding revenues and expenditures will not be provided on a monthly basis, rather reviewed as part of the quarterly financial update.

Staff anticipates that as time goes on, the monthly revenue and expense reports will also include monthly totals compared to the monthly totals from the previous years. However, that information will not be available until March 2017, when we will have one full year's worth of data in the new financial system.

Staff will prepare these monthly reports and include them as part of the "Information Only" materials for the second meeting of each month. The first monthly report to Council will reflect August 2016 activity and will be distributed in the September 26 meeting materials. Unless otherwise requested by Council, staff does not anticipate making a presentation regarding the monthly reports. Presentations will be reserved for the quarterly updates scheduled with the Finance Committee.

Recommendation

After addressing any questions or concerns at the August 10, 2016 Finance Committee of the Whole meeting, staff will bring forward Ordinances to adopt the City's General Fund Balance Policy and Debt Policy on August 22, 2016 (second reading/public hearing to be held September 12, 2016).

Attachments

CITY OF DUBLIN, OHIO

DEBT POLICY

I. Purpose

The purpose of this debt policy is to provide guidelines to City Council and the Administration regarding the use of debt to finance capital projects. The City's legacy of financial stability is built upon a conservative approach to spending as well as a long-term commitment to full and timely repayment of debt.

For a debt management policy to be an effective tool, the provisions of the policy must be compatible with the City's goals pertaining to the Five-Year Capital Improvement Program (CIP). Multi-year forecasts of debt service requirements will be included in the City's annual update of the Five-Year CIP.

II. Authorized methods of sale

There are two basic types of debt sales: Competitive Sale and Negotiated Sale. In a competitive sale, the City (along with its financial advisors and bond counsel) structures a bond or note sale internally and offers the securities for sale through a competitive bidding process. In a negotiated sale, the City selects an underwriter or team of underwriters to represent it in the market. The underwriting team selected sets the rates on the bonds in consultation with the City and its advisors.

The City will maintain a bias toward the competitive sale format under the following conditions:

- On general obligation sales: The City is a highly rated entity and has a high level of market acceptance for its general obligation bonds and notes. These attributes are conducive to accessing the market via competitive bid.
- Stable market conditions: During periods of low volatility, market timing is less critical than when conditions are rapidly changing. The advantages of a negotiated sale are reduced during periods of stable market conditions.
- Traditional structure: Debt structured with level annual debt service payments or level annual principal payments are easily accommodated through a competitive sale.

The City will maintain a bias toward the negotiated sale format under the following conditions:

- On revenue bond issues or project backed financing: The City will consider issues supported only by a specific revenue stream or the revenues of a particular project from time to time. Market acceptance may be lower on these types of financings and investor education will be beneficial on such sales. This is more easily achieved through a negotiated sale.

- Volatile market conditions: The City may want to access the market quickly when market conditions are volatile in order to take advantage of brief "windows of opportunity". Negotiated sales are advantageous when these conditions exist.

- Refinancing: When considering a refinancing opportunity, the City will generally establish a "target" level of savings. The City will want to know that its target can be met prior to offering the bonds for sale. A negotiated sale provides a higher degree of certainty with regard to timing and pricing of the bonds.

- "Non-traditional" structures: Whenever the debt must be structured in a tailored manner, the desired structure is best achieved through a negotiated sale. When zero coupons or variable rate securities are anticipated, the negotiated format is preferred.

III. Credit objectives

The City seeks to maintain the highest possible credit rating for all categories of its debt without compromising the delivery of its basic services. The Administration and City Council will attempt to take prudent steps to maintain the highest ratings possible, but recognizes that external factors impact the rating decision making process. The City will maintain an ongoing dialogue with rating analysts in an effort to ensure that the analysts fully understand its capital program, operations, and decision making processes. The City's debt policy will be communicated to the rating agencies, and deviations from the stated policy will be fully disclosed.

- Use of credit enhancements: The City will use bond insurance and/or letters of credit when it is economically or administratively advantageous to do so, or when required for the marketing of the bonds.

IV. Refunding debt

There are two types of refundings, as defined by Federal Tax Laws; a current refunding in which a refunding takes place within 90 days of the optional call date; and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date. Federal regulations permit issuers to advance refund an issue of bonds only once during the life of the issue. The City intends to be prudent in using this one opportunity. Regulations do not restrict the number of times that debt can be refinanced on a current basis, and the City will consider reducing its minimum savings threshold for current refunding issues. The City will consider refunding its debt obligations when it can be clearly demonstrated that such refunding will result in present value savings of 3-5% of the debt being refinanced. However, in certain circumstances, lower savings thresholds may be justified.

V. Investment of bond proceeds

The City will invest bond proceeds in investments that are consistent with the adopted Investment Policy. Any fees charged in relation to the investment of bond proceeds will be paid from interest earnings on the bond proceeds.

VI. Compliance with federal regulations, including arbitrage requirements

The City will comply with Internal Revenue Code Section 148, Arbitrage Rebate regulations by monitoring bond proceed expenditures against deposits and investment earnings on each of their respective bond funds. The City will make the necessary rebate filings and, if necessary, rebate payments to the Internal Revenue Service and will continue to take all actions required and recommended by bond counsel and or the municipal advisor to assure that any bonds issued as tax-exempt securities shall remain as such throughout the life of the issue.

The City will follow a policy of full disclosure on every financial report and bond prospectus and will adhere to SEC Rule 10b-5 which establishes a two-pronged standard for disclosure: what the disclosure statement says must be accurate and it must not suffer from any "material omission." This includes, but is not limited to, providing accurate financial information, especially audited financial statements, and disclosing information about pending or threatened litigation that would be considered material to the bond issue or the City. SEC Rule 10b-5 provides that it is unlawful for any person, directly or indirectly, in connection with the purchase or sale of any security "to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading."

VII. Compliance with Annual Continuing Disclosure Requirements.

As part of the bond issuance process, the City is required to provide or cause to be provided to the Municipal Securities Rulemaking Board such annual financial information and operating data, audited financial statements and notices of the occurrences of certain events in such manner as may be required to fully disclose certain information that may be beneficial to current and potential bond holders in making investment decisions. The requirements are fully detailed in the Continuing Disclosure Agreement that is undertaken with each bond issue. The City will endeavor to keep the terms and requirements of each Continuing Disclosure Agreement consistent with respect to each category of debt being offered. The City will cause all such disclosure to occur in a timely and thorough manner consistent with the terms of each agreement.

- SEC Rule 15c2-12 requires that entities disclose any of the following events, if material, that relate to the bonds in question:
  - Principal and interest payment delinquencies;
  - Non-payment related defaults;
  - Unscheduled draws on debt service reserves reflecting financial difficulties;
  - Unscheduled draws on credit enhancements reflecting financial difficulties;
  - Substitution of credit or liquidity providers, or their failure to perform;
  - Adverse tax opinions or events affecting the tax-exempt status of the security;
  - Modifications to rights of security holders;
  - Bond calls;
  - Defeasances;

- Release, substitution, or sale of property security repayment of the securities;
- Rating changes; and
- Bankruptcy, insolvency, receivership or similar event of the obligated person;

VIII. Hiring of Underwriters

The City will, from time to time, issue requests for qualifications or requests for proposals for Underwriters. It is Dublin's position that it benefits from having a team of professionals pre-approved. Those Underwriters become familiar with the needs and programs of the City which enables them to provide a higher quality of service. Such firms are also motivated to present innovative ideas to the City, because they have a reasonable expectation of being rewarded for their efforts. It is important to have the members of the underwriting team that have access to the retail as well as the institutional market and that bring different but complementary banking skills to the table on behalf of the City. On a deal-by-deal basis, the City will select its underwriting team from the pool or pre-approved firms with the assistance of its financial advisor. The City intends to initiate the RFQ or RFP process every three to five years.

IX. Waiver of debt policy

The City may deviate from the requirements of this Debt Policy when the Administration recommends and City Council concurs that it is in the best interest of the City to do so. Whenever the Administration presents a financing proposal to City Council, it will identify any areas that are not compliant with the Debt Policy and the reasons for recommending a waiver of any provisions of the Policy.

X. Debt limitations

Ohio Revised Code provides two debt limitations on general obligation debt that are directly based on tax (assessed) valuation, applicable to all municipal corporations, including the City.

- Direct debt limitations:
  - The net principal amount of both voted and unvoted debt of the City, excluding "exempt debt", may not exceed 10½% of the total tax (assessed) valuation of all property in the City as listed and assessed for taxation.

  - The net principal amount of unvoted debt of the City, excluding exempt debt, may not exceed 5½% of that valuation.

Additionally, provisions of the Ohio Constitution and the Ohio Revised code impose an indirect debt limitation.

- Indirect debt limitation:
  - The City's ability to incur unvoted debt (whether or not exempt from the direct debt limitations) is limited in that all outstanding unvoted general obligation bonds of the combination of overlapping taxing subdivisions

including the City resulting in the highest tax required for such debt charges in any year is 10 mills or less per $1.00 of assessed valuation.

The City will ensure that prior to any new debt issuance, the total existing general obligation debt as well as the projected new general obligation debt are within the direct and indirect debt limitations.

Given that certain debt that the City issues is considered exempt from the direct and/or indirect debt limitations, a more conservative debt limitation guideline will be followed. That guideline, applied to income tax supported debt, provides the following:

- Of the 25% of income tax revenue that is dedicated to the Capital Improvement Tax Fund, the City will allocate 60% of the revenue to pay the debt service on capital improvements.

- Each year, as part of the annual update of the five-year CIP, the Administration will account for existing debt service as well as anticipated debt service on proposed projects.
    - Anticipated debt service will be calculated using conservative interest rate assumptions.

- The maximum amount of debt (both existing and proposed new debt) shall not exceed 90% of the allocation of income tax revenue allocated to pay debt service.

XI. Sources of revenue to retire debt

The City has several sources of revenue that are available or may become available for the repayment of debt, including but not limited to, income tax revenue, enterprise fund revenue, or tax increment revenue. The City will identify a specific stream of revenue intended to support each issuance of debt.

- Income Tax Revenue

  The primary source of revenue to repay debt is income tax revenue. Pursuant to Ordinance No. 17-87, approved by Dublin City Council on July 20, 1987, (and the subsequent approval by the voters of Dublin to increase the income tax from 1% to 2%), 25% of the income tax revenue collected will be allocated to the Capital Improvements Tax Fund. Of that amount, the City will allocate 40% to cash fund capital projects. The projects funded by cash will generally be recurring in nature or not have a useful life that meets the criteria of projects to be financed by debt. The remaining 60% will be allocated to retire debt issued for capital projects (See Debt Limitation Section). Any excess income tax revenues remaining after funding the annual debt service may be used to 'buy down' other capital project costs in order to issue less debt, cash fund capital projects, or accelerate the repayment of outstanding debt, when appropriate.

Examples of projects that may be funded using income tax revenue: roadway improvements; park improvements; public facilities.

- Enterprise Fund Revenue

  Revenues generated from user fees and other charges within the City's water and sewer systems will be used to pay the debt service on improvements made to the respective systems.

  Examples of projects that may be funded using enterprise fund revenue: water and sewer projects; projects in which a dedicated enterprise fund has been established.

- Tax Increment Revenue

  The City utilizes tax increment financing (TIF) to fund improvements that benefit the property owners within the respective TIF districts. TIF revenues received within these TIF areas may be used to pay the debt service on the improvements. However, until a stable TIF revenue stream is available, the City will consider the debt service on these projects to be income tax funded, and will be included in the analysis of existing and proposed debt, in terms of determining additional debt capacity.

  Examples of projects that may be funded using tax increment revenue: roadway improvements; park improvements; improvements benefiting the TIF district.

- (Unlimited) Property Tax Revenue

  Certain capital projects may lend themselves to financing through voter supported bond issues. A key benefit to this financing method is the fact that such debt is not counted against the 10-mill bond limit for "unvoted debt". This financing approach may be used for specific voter approved purposes and may be a desirable option for certain projects if debt capacity limits are constraining or for projects that are outside the scope of general operations of the City.

  Revenue from a voter approved levy is segregated from all other revenue and available only for the voter approved project and related debt repayment.

  To the extent that money is available from the income tax allocation for debt service for payment of the debt charges on voted debt, the amount of the property tax levied to pay the debt service may be reduced or not collected at all. This does not diminish the pledge of the full faith and credit and property taxing powers of the City to the prompt payment of the debt charges on voter approved debt.

Examples of projects that may be funded using (unlimited) property tax revenue: roadway improvements; park improvements; public facilities.

XII. Structural features of debt

- Use of General Obligation Debt:
  - The City intends to use general obligation debt for non-enterprise capital improvements which it considers to be part of its core mission. To the extent that the City has ample general obligation capacity under the ten mill limitation and direct and indirect statutory debt limits, it will consider issuing general obligation bonds for its various enterprises (water and sewer).

- Use of Revenue Bonds
  - The City may issue revenue bonds for projects that have a definable user or revenue base. Revenue bonds are secured only by a specific source of funds, either from the operations of the project being financed or from a dedicated revenue stream, rather than the general taxing power of the City.
  - If there is capacity, it may be in the best interest of the City to issue "double-barreled" bonds which are secured both by a dedicated revenue stream as well as by the City's general taxing powers (general obligation bonds)

- Duration:
  - Ohio Revised Code provides guidelines on the maximum period of time for which capital improvements may be financed. However, the duration permitted by law may often exceed the City's expectations of the practical economic life of an asset. The City intends to have debt fully retired during the expected useful life of the asset being financed. However, generally the City of Dublin does not expect to issue debt with a final maturity more than 20 years from the date of issuance.

- Bond Anticipation Notes:
  - Bond anticipation notes are an interim means of financing and, by their very nature, expose the City to interest rate and market risk upon renewal. Notes may be used to:
    - Finance small projects until such time as the project or projects can be rolled into a larger bond sale;
    - During times of high interest rates and when the expectation that interest rates are stable or trending downward; and
    - On an interim basis during the construction period for a revenue producing project until such time as the project is placed into service.

XIII. Conclusion

Adherence to a debt management policy signals to rating agencies and the capital markets that the City is well managed and should meet its obligations in a timely manner. Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. This policy provides guidelines for the City to manage its debt program within those available resources and provides a foundation for prudent long-term financial management.

CITY OF DUBLIN, OHIO
GENERAL FUND BALANCE POLICY

I. Purpose

The purpose of this General Fund Balance Policy is to provide guidelines to City Council and the Administration for establishing, maintaining, and reviewing the General Fund Balance for the City of Dublin. It is designed to take a proactive approach to financial management in the City and allows the Administration and City Council to recognize and react to warning indicators of financial stress and set guidelines for proactive measures.

II. Background

Establishing a minimum General Fund balance is a mechanism that governments can implement to help insure adequate levels of fund balance are available to help mitigate current and future risks. A minimum fund balance policy is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations.

The Government Finance Officers Association (GFOA), is an organization whose mission is to enhance and promote the professional management of governmental financial resources for the public benefit. The GFOA recommends governments establish a formal policy that maintains a minimum unreserved fund balance in the General Fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.

In addition to the benefits of having a formal policy that provides a level of reserve that mitigates current and future risks, credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's General Fund to evaluate a government's continued creditworthiness.

III. Policy

At the time of budget preparation, the annual appropriations shall be adjusted to ensure that the estimated year-end General Fund balance is no less than 50% of the budgeted General Fund expenditures.

Throughout any fiscal year, the General Fund balance may be used to fund the cost of capital improvements in which the ultimate funding source will be a grant or the issuance of notes or long term bonds. In this instance, the General Fund balance may temporarily fall below the minimum funding level in anticipation of a future financing. If the funds are to be reimbursed through notes or bonds, the Administration will work with appropriate legal and financial advisors to assure that the funds that are to be expended are eligible to be reimbursed through such financings prior to any expenditures.

IV. Application

The anticipated year-end General Fund balance will be calculated as part of the budget preparation process and will be reported to City Council along with the Budget. It will be calculated by taking the budget year's projected beginning fund balance less appropriations plus anticipated revenue. The resulting fund balance must comply with the minimum fund balance established in this Policy.

Throughout the course of the fiscal year, any amendments to the appropriations approved by City Council as part of the annual budget process must comply with the restrictions established in this Policy, unless such amendment is for an approved purpose as noted in this Policy and approved by the majority of City Council.

V. Replenishment

In the event that the use of the General Fund balance would result in a balance below the 50% target (other than when paying the costs of capital improvements in which the ultimate funding source will be grants or the issuance of notes of long term bonds as noted in Section III), City Council shall approve a plan for replenishment at the same time the use of the balance is approved. If feasible, replenishment to bring the General Fund balance back to the minimum 50% level should occur within the following fiscal year.

VI. Conditions for Use

The General Fund balance is intended to provide the City with sufficient liquidity to support one-time emergency costs and other non-recurring operating shortfalls such as:

- Natural disaster or other emergency
- Economic recession/depression
- Unexpected decline in revenue
- Unexpected large one-time capital expenditures

The General Fund balance shall not be used to fund recurring operating expenses. An exception may be made for winding down a program or service which must be eliminated in order to provide sufficient notice and reduce the impact to the community. This action shall have a definite end date of not more than one fiscal year.

A majority vote of the City Council will be required to use the General Fund balance in a manner that would reduce the balance below the 50% minimum requirement.

VII. Excess fund balance

At the end of each fiscal year, to the extent that the General Fund Balance exceeds 75% of the actual expenditures for the year, the Director of Finance will transfer 25% of the amount in excess of 75% to the Capital Improvement Tax Fund. Upon the recommendation by the City Manager, City Council may elect to transfer an amount in excess of 25%. The use of the transferred funds shall be consistent with the goals and policies of the Capital Improvement Tax Fund.

VIII. Reporting and Review Provisions

As part of the annual operating budget review process, the Director of Finance shall provide a report to City Council containing 1) the projected year-end General Fund balance for the current fiscal year and 2) the proposed year-end General Fund balance for the next budget year. The resulting fund balance must comply with the minimum fund balance established in the scope of this Policy.

On a monthly basis, the Director of Finance shall provide a report to City Council containing year-to-date revenues and expenditures, budget versus actual revenues and expenditures, and the current General Fund balance (as of the last day of the preceding month). These monthly reports will be followed by quarterly financial updates which will provide a detailed analysis of the activities of the quarter. The quarterly financial update will also include current and projected year-end General Fund balances.

The City's General Fund Balance Policy shall be adopted by Ordinance by City Council. City Council shall review and reaffirm this Policy every three years, or more frequently if recommended by the Director of Finance, the City Manager, and/or City Council.

FINANCE COMMITTEE OF THE WHOLE
INFO ONLY ITEMS
8-10-16

- 2nd Quarter 2016 Financial Information

City of Dublin

Office of the City Manager
5200 Emerald Parkway • Dublin, OH 43017-1090
Phone: 614.410.4400 • Fax: 614.410.4490

Memo

To: Members of Dublin City Council
From: Dana L. McDaniel, City Manager
Date: August 4, 2016
Initiated By: Angel L. Mumma, Director of Finance
Re: Financial Update – Second Quarter 2016

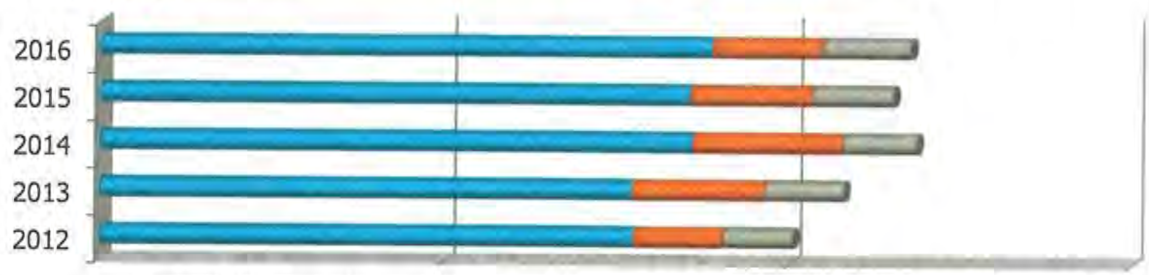
Summary

Income Tax Revenues

In the 2016 Operating Budget, revenue from the local income tax was projected to be $83,285,000, with 75% or $62,463,750 programmed in the General Fund, and 25% or $20,821,250 programmed in the Capital Improvements Tax Fund. Maintaining our conservative approach to estimating revenue, this estimate was based on an assumption of no change from our 2015 revised revenue estimate, determined when the 2016 Operating Budget was approved. However, our actual income tax revenue for 2015 exceeded the revised estimate by 5.4%. As such, the 2016 estimated income tax revenue reflected a 5.1% decrease over 2015 actual collections.

As previously reported to City Council, the first quarter ended with income tax revenues increasing 4.1% over the first quarter 2015. Through the second quarter of 2016, income tax revenues increased 2.2%, or $1,014,916. This increase was driven by a 3.7% increase in withholding, the largest source of income tax revenue. Business profits declined $681,706 or 9.7% while individual returns increased $423,093 or 8.9% over the second quarter of 2015. In total, the City received $46,996,145 in income tax revenues through the second quarter of 2016.

The graph below depicts the City's income tax revenue through the second quarter each year from 2012 through 2016.



	2012	2013	2014	2015	2016
Withholding	$30,939,909	$30,839,834	$34,348,155	$34,202,681	$35,476,210
Net Profit	$5,133,973	$7,677,287	$8,663,230	$7,043,150	$6,361,443
Individual	$4,072,082	$4,586,907	$4,351,870	$4,735,399	$5,158,493

For planning purposes, staff can start to draw more informed conclusions as to projected income tax revenues at year-end based on collections through the first half of 2016. As indicated on the attached spreadsheet, our actual revenues through the second quarter reflect a 7.7% increase over the 2016 budgeted amount. While remaining conservative, we have revised our 2016 income tax revenues upwards by 2.8% to reflect anticipated revenue of $85,590,000, an increase of $2,305,000. You will see this revised projection utilized as a basis for our revenue when the Capital Improvements Program (CIP) for 2017 – 2021 is presented. While this revised projection still reflects a 2.5% reduction over the 2015 actual receipts, it takes into account an anticipated reduction in income tax revenue from Nationwide beginning in the second half of 2016.

General Fund Balance

The General Fund balance is a critical component to the financial stability of the City and continues to be a key financial indicator used by the rating agencies in evaluating the financial strength of the City. As Council is aware, the City's practice has been to maintain a year-end balance equal to or greater than 50% of the General Fund expenditures, excluding advances.

The General Fund balance through the second quarter of 2016 was $65,800,805, or 94.1% of the 2016 planned General Fund expenditures, excluding advances.

Property Taxes and Service Payments

Property tax revenue increased 17.4% or $286,601 over the first half of 2015. The property taxes generated from the City's inside millage (1.75 mills) is distributed with .35 mills credited to the Parkland Acquisition Fund and the remaining 1.4 mills to the Capital Improvements Tax Fund. This resulted in $338,477 in revenue for the Parkland Acquisition Fund and $1,353,986 for the Capital Improvement Tax Fund through the second quarter. Given that the total increase in valuation from 2015 to 2016 (tax year 2014 to 2015) was only 1.8%, it is expected that our second half distribution will be lower to bring out total revenue in line with the overall increase in valuation.

Revenues generated from service payments, or payments in lieu of taxes, on properties within the Tax Increment Financing (TIF) areas increased 2.5% over 2015. Given that the overall change in valuation in our commercial TIF areas increased 1.4% from 2015, the revenue collected through the first half of year is in line with the amount expected. Total service payments collected through June totaled $4,524,365.

Hotel/Motel Tax Revenue

The Hotel/Motel Tax Revenue collected through the second quarter 2016 totaled $929,590, which represents a $26,568 or 2.8% decrease over collections through the second quarter 2015.

	2012	2013	2014	2015	2016
January	$ 99,516	$104,789	$105,355	$109,687	$122,340
February	107,517	110,988	123,736	127,323	82,241
March	125,855	123,282	124,399	132,335	143,435
April	165,420	157,333	188,454	193,250	167,559
May	154,806	172,538	169,724	189,310	184,732
June	173,043	193,517	204,777	204,253	229,283
2nd Qtr YTD	**$ 826,157**	**$862,447**	**$916,445**	**$956,158**	**$929,590**

As mentioned during the first quarter financial update, the decline in bed tax revenue beginning in February reflects the increase in funding (from 25% to 35% of the actual bed tax revenues) provided to the Dublin Convention and Visitors Bureau (DCVB). The gross bed tax revenues collected through the second quarter of 2016 increased 9.4% or $120,235 over the same time period in 2015. The above referenced numbers show the net amount receipted into the Hotel/Motel Tax Fund.

The amount for the DCVB is deposited directly into a separate fund established solely for their portion of the tax revenue. Through June of 2016, the DCVB had received $471,977 in bed tax funds, which was an increase of $153,258 over 2015.

The Dublin Arts Council (DAC) has similarly seen an increase in revenue as a result of the increased collections coupled with the modification to their agreement which provides them with 25% of actual bed tax revenues as opposed to 25% of an estimated amount. Through June of 2016, the DAC had received $336,912 in gross revenue (prior to any deduction for rent and the art in public places program), which was an increase of $43,139 over 2015.

Other Information

General Fund revenue totaled $38,314,488 through June. This was an increase of $485,705 over the first half 2015. As previously stated, this was driven by the increase in income tax collections, which increased $761,185 in the General Fund alone. This increase was offset by decreases in intergovernmental revenues of $113,143 and interest income of $107,549. Building activity throughout the City resulted in Fines, Licenses and Permits increasing $364,203 over the first half of 2016 while Charges for Services decreased $325,535. It is likely that some of the decrease in Charges for Services is attributable to the timing of deposits.

General Fund expenditures through June totaled $32,082,857, which was a decrease of 46% or $26,860,220 over the same time period in 2015. Please recall that 2015 expenditures included $27,806,000 in advances to other funds. Of that amount, $22,600,000, was advanced from the General Fund to the Capital Construction Fund for construction of the Riverside Drive Realignment, the Riverside Drive/SR 161 Roundabout, and a minimal amount of the riverside park construction. This advance was repaid to the General Fund when long term bonds were issued in the fall of 2015. Excluding advances to other funds, the expenditures through the second quarter increased 0.6% or $945,780 over 2015. Personal services increased approximately $1,054,609 or 10.3% while capital outlay increased $1,885,321 or 1134% as a result of the purchase of the property at Rings Road and Frantz Road (the Nationwide property). On an aggregate level, contractual services, supplies and other charges remained even over second quarter 2015.

Recommendation

For informational purposes only.

Attachments

City of Dublin
Financial Update - Second Quarter 2016

Income Tax Revenues

Quarterly Recap:

	2016 Collections	% Change from 2015	2015 Collections	% Change from 2014	2014 Collections	% Change from 2013	2013 Collections
1st quarter	$ 21,263,892	4.06%	$ 20,434,210	-3.40%	$ 21,153,658	13.80%	$ 18,589,036
2nd quarter	25,732,254	0.73%	25,547,020	-2.53%	26,209,597	6.91%	24,514,992
3rd quarter			21,830,328	2.33%	21,332,530	8.39%	19,680,387
4th quarter			19,973,304	3.10%	19,372,746	0.27%	19,320,955
	$ 46,996,146		$ 87,784,862	-0.32%	$ 88,068,531	7.26%	$ 82,105,370

Monthly Recap:

	2016 Budget	2016 Collections	% Change from 2015	2015 Collections	% Change from 2014	2014 Collections	% Change from 2013	2013 Collections
January	$ 6,005,600	$ 7,435,049	17.46%	$ 6,330,080	-3.35%	$ 6,549,602	2.52%	$6,388,650
February	$ 5,971,236	5,869,620	-6.74%	6,293,859	1.55%	6,197,821	8.55%	5,709,438
March	$ 7,409,917	7,959,223	1.91%	7,810,271	-7.09%	8,406,235	29.51%	6,490,948
1st quarter	$ 19,386,752	$ 21,263,892	4.06%	$ 20,434,210	-3.40%	$21,153,658	13.80%	$18,589,036
April	$ 11,588,546	$ 12,224,221	0.08%	$ 12,214,670	-10.14%	$ 13,592,978	6.06%	$12,816,853
May	$ 5,932,519	6,022,055	-3.69%	6,253,050	24.84%	5,008,950	7.85%	4,644,399
June	$ 6,716,415	7,485,978	5.74%	7,079,300	-6.95%	7,607,670	7.85%	7,053,740
2nd quarter	$ 24,237,480	$ 25,732,254	0.73%	$ 25,547,020	-2.53%	$26,209,598	6.91%	$24,514,992
Year-to-date	$ 43,624,232	$ 46,996,146	2.21%	$ 45,981,230	-2.92%	$ 47,363,256	9.88%	$ 43,104,028
2016 YTD Collections Compared to Budget		$3,371,914	7.73%					
2016 YTD Collections Compared to 2015		$1,014,916	2.21%					

YTD Recap by Type:

	2016 Collections	% Change from 2015	2015 Collections	% Change from 2014	2014 Collections	% Change from 2013	2013 Collections
Withholding accounts	$ 35,476,210	3.72%	$ 34,202,681	-0.42%	$ 34,348,156	11.38%	$ 30,839,834
Net-profit accounts	6,361,443	-9.68%	7,043,150	-18.70%	8,663,230	12.84%	7,677,287
Individual accounts	5,158,493	8.93%	4,735,399	8.81%	4,351,870	-5.12%	4,586,907
	$ 46,996,146	2.21%	$ 45,981,230	-2.92%	$47,363,256	9.88%	$43,104,028

City of Dublin
Financial Update - Second Quarter 2016

General Fund Balance

December 2013	$ 56,038,803
December 2014	$ 61,017,045
December 2015	$ 59,556,334
January 2016	$ 62,148,317
February 2016	61,472,567
March 2016	65,624,052
April 2016	68,442,405
May 2016	67,118,531
June 2016*	65,800,805

*$12,880 reconciling item under review

Hotel/Motel Tax Revenues

Quarterly Recap:

	2016 Collections	% Change from 2015	2015 Collections	% Change from 2014	2014 Collections	% Change from 2013	2013 Collections
1st quarter	$ 348,017	-5.77%	$ 369,345	4.49%	$ 353,490	4.26%	$ 339,059
2nd quarter	581,573	-0.89%	586,812	4.24%	562,955	7.56%	523,388
3rd quarter	-		668,600	18.28%	565,263	5.32%	536,734
4th quarter	-		581,926	11.09%	523,826	-0.63%	527,125
	$ 929,590		$ 2,206,683	10.03%	$ 2,005,534	4.11%	$ 1,926,307

Monthly Recap:

	2016 Collections	% Change from 2015	2015 Collections	% Change from 2014	2014 Collections	% Change from 2013	2013 Collections
January	$ 122,340	11.54%	$ 109,687	4.11%	$ 105,355	0.54%	$ 104,789
February	82,241	-35.41%	127,323	2.90%	123,736	11.49%	110,988
March	143,435	8.39%	132,335	6.38%	124,399	0.91%	123,282
1st quarter	$ 348,017	-5.77%	$ 369,345	4.49%	$ 353,490	4.26%	$ 339,059
April	$ 167,559	-13.29%	$ 193,250	2.54%	$ 188,454	19.78%	$ 157,333
May	184,732	-2.42%	189,310	11.54%	169,724	-1.63%	172,538
June	229,283	12.25%	204,253	-0.26%	204,777	5.82%	193,517
2nd quarter	$ 581,573	-0.89%	$ 586,813	4.24%	$ 562,955	7.56%	$ 523,388
Year-to-date	$ 929,589	-2.78%	$ 956,158	4.33%	$ 916,445	6.26%	$ 862,447

2016 YTD Collections Compared to 2015	$ (26,569)

Property Tax Revenues

	Capital Imp. Fund	Parkland Fund	Safety Fund	Total	% Change from Prior Yr.
1st half distribution 2013	1,237,863	309,466	205,608	1,752,936	4.08%
1st half distribution 2014	1,248,034	312,008	208,216	1,768,258	0.87%
1st half distribution 2015	1,149,307	287,312	207,458	1,644,077	-7.02%
1st half distribution 2016	1,353,986	338,477	238,214	1,930,678	17.43%

Service Payments - TIF Districts

	Total	% Change from Prior Yr.
1st half distribution 2013	3,919,533	-9.89%
1st half distribution 2014	4,674,987	19.27%
1st half distribution 2015	4,412,556	-5.61%