

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET ANALYSIS – FISCAL YEAR 2008-09

DATE: May 23, 2008
SUBJECT: **INSURANCE AND RISK MANAGEMENT FUND**
STAFF REPORT BY: Russell Weeks
CC: Cindy Gust-Jenson, David Everitt, Lyn Creswell, Esther Hunter, Ed Rutan, Jodi Langford, Tim Rodriguez, Steve Fawcett, Gordon Hoskins, Jennifer Bruno, Mary Beth Thompson, Jim Korth, Kay Christensen

The budget for the Insurance and Risk Management Fund accounts for costs associated with employee health insurance, dental insurance, disability insurance, life insurance, unemployment compensation, property and casualty insurance, and workers compensation.

The Human Resource Division of the Department of Management Services oversees employee participation in health, dental, life, accidental death & dismemberment, and disability insurance programs. The City Attorney's Office coordinates with a contract third-party administrator on workers' compensation claims; places and monitors property insurance; performs risk assessments; handles third-party subrogation claims, and coordinates citywide safety activities. General liability claims are not paid from the Insurance & Risk Management Fund. The City's general liability claims are budgeted and paid from a separate Governmental Immunity Fund.

The proposed budget for the Insurance and Risk Management Fund shows an increase of 11.9 percent per cent due to increases in premiums for health insurance. It should be noted that information on pages 2 and 3 in this report originally appeared in memoranda or reports by Deputy Director Jennifer Bruno.

Proposed Budget: Insurance and Risk Management Fund

Revenue	Adopted 2007-2008	Proposed 2008-2009	Difference	Percent Change
Insurance Premiums	\$ 31,420,060	\$ 35,168,333	\$ 3,748,273	12%
Interest	54,240	69,181	14,941	28%
Bus Pass Reimbursement	105,708	106,193	485	0%
TOTAL	\$ 31,580,008	\$ 35,343,707	\$ 3,763,699	11.9%

Expenditures	Adopted 2007-2008	Proposed 2008-2009	Difference	Percent Change
Insurance Premiums	\$ 26,429,448	\$ 29,937,918	\$ 3,508,470	13%
Personal Services	610,460	612,035	1,575	0%
Other Charges & Services	4,523,848	4,777,502	253,654	6%
Office Supplies	16,252	16,252	0	0%
Transfer to General Fund	120,000	120,000	0	0%
TOTAL	\$ 31,700,008	\$ 35,463,707	\$ 3,763,699	11.9%

It should be noted that the difference between projected revenue and expenditures is due to the \$120,000 transfer to General Fund line item in the *Expenditures* table. The sum is related to the Risk Management part of the budget. The City is self-insured for employee health coverage. As the chart on Page 1 indicates, premiums make up the bulk of revenue for the Insurance and Risk Management Fund, and the premiums make up the bulk of the fund's expenses.

One also might note that the *Expenditure* table includes expenditures for the Summit Care, Preferred Care, and Advantage Care programs. The Summit Care program is the largest program the City uses. According to the Administration, 84 percent of all City employees are in the Summit Care program. Premium expenditures for that program are projected to rise from \$17,682,840 in the current year's adopted budget to \$21,705,480 in the next fiscal year – an increase of \$4,022,640. Premium expenditures for the other two programs are projected to rise from \$3,850,520 in the current fiscal year to \$4,194,756 – and increase of \$344,236. It might be noted that the \$4,194,756 makes up about 16 percent of total premium expenditures, but serve 16 percent of the total number of City employees – according to the Administration's estimate of the percentage of City employees in the Summit Care program.

According to Deputy Director Jennifer Bruno's earlier work:

- The City has investigated each year of switching to a different health care provider (IHC, Blue Cross, Etc). However, PEHP charges the lowest Administrative fees (PEHP is on average 4% compared to between 10.42% and 16.23% for Blue Cross Blue Shield) and as such the City has elected to remain with PEHP.
- Between FY 1995 and FY 2009, the average medical plan increase has been 7.73%. There have been many years with little or no increases. The largest increase was in FY 2001, with a 32% increase. This was to address the City's negative cash reserve situation.
- Up to July 1995, the City contributed 74% toward the employee's medical premium, with the employee covering 26%.
- After 1995, the City elected to cover 100% of the employee's premium, with the employee paying any extra for spouse and/or children. This change resulted in mandatory enrollment (so employees would not self-select in or out of the plan).
- Two years ago, the Benefits Committee recommended the City cover 100% of premium costs for all employees, spouses and children (on Summit Care), because of PEHP's new contract with Altius, which provided a cost-effective network. The intent was to get as many employees to switch to this plan as possible.
- The recommendation from the benefits committee of 14% will help increase this reserve, as well as fund a wellness program, to be coordinated by a PEHP employee (12% will be used to fund premium increases, 1% to fund reserves, and 1% to fund the wellness program). This employee will be dedicated to the City, and will, over the next year, set up a complete wellness program tailored to City employees. This could include annual Healthy Utah assessments, nutrition, health coaching, fitness facility memberships and/or a central City employee fitness facility.
- It should be noted that increases and shares of total premiums paid by employees are as follows:

Proposed Health Insurance Premium Changes						
summary of current and proposed bi-weekly payments by plan (full time employees)						
	Current			Proposed		
	City Share	Employee Share	% of Premium Paid by Employee	City Share	Employee Share	% of Premium Paid by Employee
Preferred Care						
Single	\$ 129.18	\$ 47.84	27%	\$ 139.90	\$ 61.90	31%
Double	\$ 290.68	\$ 115.59	28%	\$ 314.81	\$ 148.34	32%
Family	\$ 387.56	\$ 143.57	27%	\$ 419.73	\$ 185.76	31%
Advantage Care	\$ 129.18	\$ 25.84	17%	\$ 139.90	\$ 36.82	21%
Single	\$ 290.68	\$ 93.59	24%	\$ 314.81	\$ 123.26	28%
Double	\$ 387.56	\$ 121.57	24%	\$ 419.73	\$ 160.68	28%
Family						
Summit Care						
Single	\$ 129.18	\$ -	0%	\$ 139.90	\$ 7.36	5%
Double	\$ 290.68	\$ -	0%	\$ 314.81	\$ 16.57	5%
Family	\$ 387.56	\$ -	0%	\$ 419.73	\$ 22.09	5%

In response to Council Member issues and questions from the May 13th Council Work Session Briefing:

- *Health Savings Accounts (HSA)* – The Administration indicates that PEHP will be analyzing the City’s claims data over this year, in order to report to the Benefits Committee next year to see what positive or negative effects City employees could see if the City implements an HSA plan.
- *Premium Increases compared to other agencies* – The Administration indicates that the size, age, and low turnover rate of the City’s workforce all work against premiums decreasing. The Administration has provided a sample of information of other groups cost increases as of January 2008 (see table below). The Administration has indicated that the 14% increase and proposed re-structuring this year is an effort to realize smaller increases in coming years.

Group	Funding Increase
LGRP - January	6.51%
LGRP - July	3%
Provo City	19%
Utah County	23%
Salt Lake County	10%
State of Utah	Pref. <u>24.7%</u> Advantage <u>0%</u> Summit Care <u>0%</u>
Salt Lake City	14%

*LGRP represents Local Governments Risk Pool, which is a multi-employer risk pool. LGRP Plan Year is effective January 1 or July 1, for a 12 month period. In addition, each Plan has three separate options with varying deductibles which allows the groups of the LGRP to customize their plans.

Taking up the Benefits Committee’s recommendation to have a PEHP employee work with the City to improve employees’ overall health, the Administration plans to fund a wellness coordinator through PEHP and medical plan reserves. Under the plan, the City would offer employees a small (\$50) financial incentive to take part in PEHP’s Healthy Utah surveys that the health program periodically performs in the City. Information from the survey then would provide a baseline exclusive to the City to

use for ways to help employees individually and as a group improve their health. According to the Administration, the goal is to have 95 percent of employees participate in the program.

Premium costs for other insurance programs either are projected to remain flat or rise marginally.

Other Items

Workers compensation – Workers compensation medical payments are projected to decrease from the current year's budget of \$995,440 to \$831,484 in the next fiscal year. Workers compensation awards also are projected to drop from the current year's budget of \$194,160 to \$148,864 in the next fiscal year.

Bus pass program – The bus pass program traditionally is funded by the general fund through a transfer from the Non-departmental budget and by transfers from each enterprise and internal service fund. The budget is included in the Insurance and Risk Management Fund because bus passes are a benefit for employees.

Last year, the City Council adopted a motion authorizing Mayor Ross C. Anderson to sign a franchise agreement with the Utah Transit Authority that allowed UTA to build tracks for its commuter rail line on and through City streets and property between 1800 North and 1700 South streets. One of the ways UTA agreed to compensate the City for the franchise was to provide free "Eco-passes" to Salt Lake City employees for three years retroactive to January 1, 2007. The Administration estimated the total value of the passes over the three years at about \$520,000.

During research on the agreement, the Administration learned that UTA planned to increase the cost of Eco-passes, and that the City could pay roughly \$270,000 by 2009 for the program. Given that, the Insurance and Risk Management Fund included a \$105,708 allocation for the bus pass program in the current fiscal year. The fund includes a \$106,193 allocation for the program in the next fiscal year to help pay for Eco-passes when UTA's obligation expires.

However, the Administration has raised concerns over the potential effects of the cost of eco-passes and other UTA charges in future budgets. The Administration has spent about \$22,000 in the current fiscal year to upgrade the 1,028 "eco-passes" to cover the cost of employees using express bus service and Frontrunner commuter rail. The Administration estimates the upgrade will cost \$37,000 in the next fiscal year. The Administration also estimates that the City would have to obtain another 800 eco-passes if it were to provide a pass to every employee. (The figure does not include police officers and fire fighters who can ride UTA transit free.) The Administration notes that it has issued the entire 1,028 eco-passes this year. Obtaining more eco-passes and paying for the upgrades starting in January 2009 could have a significant effect on the budget, according to the Administration. In addition, UTA has notified the City that the UTA Board of Directors may institute a fuel surcharge due to the rising cost of diesel fuel. (Please see attachments.) The UTA Board is scheduled to consider the issue at its May 28 meeting.

It also might be noted that the City Council recently received a letter from the Police Union raising an equity issue relating to the bus pass program. The public safety officers receive free transit services by showing their badges while other City employees receive that same service by showing a bus pass.

The Council may wish to clarify whether the City's policy is to assure that all City employees have available to them the opportunity to ride mass transit free of charge, or whether the City's policy is to provide to employees a benefit equal to the retail cost of a transit pass. It appears that the latter approach could cause a significant budget increase.



3600 South 700 West

P.O. Box 30810

Salt Lake City, UT 84130

May 14, 2008

Mr. R. Bryan Hemsley
Chief Procurement Officer
Salt Lake City Corporation
451 S. State St.
Salt Lake City, UT 84111

Re: 2008 ECO Pass Agreement

Dear Mr. Hemsley:

The purpose of this letter is to advise you that UTA is hereby increasing the price Salt Lake City Corporation has been asked to pay for the 2008 ECO Pass Agreement.

UTA is facing a financial crisis caused by soaring fuel prices. As you know the majority of UTA's public transportation services provided to your employees depend on diesel fuel for continued operation. Since the first of this year, fuel prices have increased *over 45%*. If the rising cost of diesel fuel trend continues, UTA will have an unbudgeted exposure of over \$5 million.

UTA, like the rest of the general public, has been blind-sided by the extraordinary increase in diesel fuel costs. UTA has implemented several internal cost controlling measures which will allow UTA to defray a portion of the increases. For example, UTA has implemented a hiring freeze and we've cut outside services by five percent across the board among other items. Because of the enormity of the impact of fuel costs to UTA, UTA has no choice but to implement a fuel surcharge that, with UTA Board of Trustees approval will be added to all UTA fares for all public transportation services (the "Fuel Surcharge"), including the amount paid by employers participating in the Eco Pass program.

The rate that you were being asked to pay in 2008 reflected the fare increases adopted in 2007 that were implemented simply to keep up with normal inflationary operating costs and consumer price indices, as well as the additional services UTA is now offering, including commuter rail. ***The Fuel Surcharge you will be asked to pay for the remaining year will go up by approximately ten percent or whatever the applicable Fuel Surcharge is in effect during the year according to the Fuel Surcharge Matrix attached hereto as Exhibit A.***

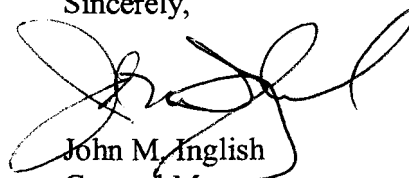
Even paying an additional ten percent, the ECO Pass program offers an exceptional value. By comparison, the adult cash one-way fare is currently \$1.75 and monthly passes are respectively, \$58.50 for local, and \$145 for Express and FrontRunner

services. Moreover, UTA will be asking the general public to pay an additional 14%, but only asking employers to pay an additional ten percent. We feel that 10 percent is reasonable in light of the extreme circumstances and the value provided to your employees.

I appreciate the complexities associated with the budgeting process that you may have in place. For that reason, UTA can make alternate billing arrangements for the additional ten percent Fuel Surcharge if necessary for the successful implementation of the ECO Pass program at Salt Lake City Corporation. Assuming that the cost of diesel fuel returns to an average of \$3.00/gallon in 2009, UTA will suspend the implementation of the Fuel Surcharge and the price of the ECO Pass program will be reduced accordingly. If, however, diesel fuel prices continue to rise, UTA will be forced to continue to impose the Fuel Surcharge according to the Fuel Surcharge Matrix attached hereto as Exhibit A.

I would not be writing this letter unless UTA was faced with the potential for financial upset. UTA has been very appreciative of the relationship we have enjoyed with the employers in this State. We look forward to continuing to serve the employees at Salt Lake City Corporation.

Sincerely,



John M. English
General Manager

cc: Ms. Jodi Langford

Exhibit A

Fuel Surcharge Matrix

Quarterly DOE Diesel/Gallon	Base Fare Surcharge	Base Fare Increase	Annual Eco Contract Surcharge	Quarterly Eco Contract Surcharge
\$0.00- \$2.99	\$ -	0%	0.0%	0.0%
\$3.00- 3.99	\$ 0.25	14%	10.0%	2.5%
\$4.00-\$4.99	\$ 0.50	29%	20.0%	5.0%
\$5.00-\$5.99	\$ 0.75	43%	30.0%	7.5%
\$6.00-\$6.99	\$ 1.00	57%	40.0%	10.0%



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UTA is Seeking Public Input on Potential Fuel Surcharge

04/29/2008

Since January 1, 2008, diesel fuel has skyrocketed over 25 percent.

This is hitting the Utah Transit Authority's budget very hard, considering the agency will be purchasing 6.1 million gallons of diesel fuel this year. Every 10 cent increase in fuel adds as much as \$610,000 to UTA's operating costs. If nothing is done, UTA could face a budget shortfall of over \$5 million in 2008.

In response, the Authority has already implemented \$2.7 million in cost cuts in several areas of operation such as hiring delays and the elimination of certain contracted services, as well as restricted travel, decreased supply purchases and the implementation of other strategic cost cutting practices.

However, this is not enough to offset the substantial increase in the cost of fuel, and UTA is announcing the agency will hold three public hearings to discuss a possible fuel surcharge.

Notice of these public hearings has been published in local newspapers today, Tuesday, April 29. The notice is listed below.

It is important to note low-income Utahns (using state-issued Horizon cards to purchase their monthly passes) will not be affected by the proposed fuel surcharge. They will continue to be able to use UTA's system for the same amount they are currently paying for service, which is at a 16 percent discount.

UTA only recovers an average of 17 percent of the total operating costs of the entire system on fares. The rest is subsidized by local sales taxes and federal money. UTA expects 11 percent of all operating costs will be used on fuel, meaning almost two thirds of UTA's fare revenue will be used for fuel purchases.

* * * *

NOTICE OF PUBLIC HEARINGS

UTAH TRANSIT AUTHORITY

RE: FUEL SURCHARGE PROPOSAL FOR UTA TRANSIT SERVICES

I. UTA is a multi-modal provider of bus, rail, Paratransit and other public transportation services along the Wasatch Front. Since January 1, diesel fuel prices have increased over 25% and if the trend continues, UTA will have an unbudgeted exposure of over \$5 million. To avoid reducing its public transportation services, UTA is proposing a fuel surcharge program to begin on July 1, 2008. This is in combination with other steps UTA has already taken in response to the unprecedented increase in fuel costs including delays in hiring, reducing contractual services and other internal strategic changes to management practices. The following public hearings will be held to discuss the proposed fuel surcharge structure:

Salt Lake County: 5:30 p.m., May 13th, UTA Offices, 3600 South 700 West, Salt Lake City,

Utah County: 5:30 p.m., May 14th, Provo City Library 550 North University Avenue, Room 201, Provo.

Weber County: 5:30 p.m., May 15th, Ogden Commission Chambers, Ogden County Building, 2380 Washington Blvd., Ogden.

II. The proposed fuel surcharge matrix is as follows:

Quarterly U.S. Dept of Energy Diesel/Gallon	Surcharge
\$.00-\$2.99	Base Fare
\$3.00-\$3.99	Level A Surcharge
\$4.00-\$4.99	Level B Surcharge
\$5.00-\$5.99	Level C Surcharge

\$6.00-\$6.99	Level D Surcharge
And so on....	

Fuel costs will be evaluated on a quarterly basis, and the fuel surcharge will be adjusted as outlined above. If the cost of diesel fuel returns to an average of less than \$3.00/gallon, UTA will suspend the fuel surcharge.

III. At the hearing, the Utah Transit Authority will afford an opportunity for affected citizens, private transportation providers, public officials and interested agencies to comment on the proposed changes. To be included as part of the public hearing record, all comments must be postmarked no later than May 20, 2008.

IV. THE FORMAT FOR THE PUBLIC HEARINGS WILL BE AS FOLLOWS:

- a. Presentation by UTA representative regarding proposal (at 5:30 p.m.).
- b. Open House to review and discuss proposal with UTA representatives (immediately following the presentation)
- c. Public comment period (available immediately following presentation). Comment will be given orally to a court reporter, written or tape recorded.

V. To assure full participation at the hearing, accommodations for effective communication, such as sign language interpreters or printed materials in alternative formats, or a language interpreter for non-English speaking participants, must be requested at least five (5) working days prior to the date of the scheduled event. Requests for ADA accommodations should be directed to UTA ADA Compliance Officer at 801-287-3536 or 287-4657 (TDD). To request a language interpreter, please contact Celeste Burningham at 801-287-2369.

VI. Written comments or email comments may be submitted to the following addresses: Celeste Burningham, 3600 South 700 West, Salt Lake City, UT 84119 or email directly to cburningham@rideuta.com. Phone calls about the proposal may be directed to Celeste at 801-287-2369. All comments will become part of the public hearing record if received by 5:00 p.m. May 20, 2008.

VII. Relevant information about the proposed changes will be available at the public hearings or may be reviewed at the UTA office, 3600 South 700 West, Salt Lake City, Utah from May 13, 2008 until May 20, 2008. Comments must be postmarked or received by UTA no later than May 20, 2008 to be part of the public hearing record.

<u>Local Service, local bus and TRAX</u>	<u>Base Fare</u>	<u>Level A Surcharge</u>	<u>Total</u>
Adult Cash	\$ 1.75	\$ 0.25	\$ 2.00
Senior and Medicare Cash	\$ 0.85	\$ 0.15	\$ 1.00
Reduced Fare Cash	\$ 0.85	\$ 0.15	\$ 1.00
Adult Monthly Pass	\$ 58.50	\$ 8.00	\$ 66.50
Senior Monthly Pass	\$ 28.25	\$ 5.00	\$ 33.25
Reduced Fare Monthly Sticker	\$ 28.25	\$ 5.00	\$ 33.25
Minor Monthly Pass	\$ 43.50	\$ 8.00	\$ 51.50
Student Monthly Pass	\$ 43.50	\$ 8.00	\$ 51.50 (1)
Day Pass	\$ 4.50	\$ 0.50	\$ 5.00
Round Trip Ticket (Trax Only)	\$ 3.50	\$ 0.50	\$ 4.00
Token 10 Pack at Pass Outlets	\$ 15.50	\$ 2.50	\$ 18.00 (2)
Token 10 Pack at TVMs	\$ 17.50	\$ 2.50	\$ 20.00 (2)
Family Round Trip Pass	\$ 12.50	\$ 2.00	\$ 14.50 (3)
Monthly Pass purchased w/Horizon Card	\$ 49.00	\$ -	\$ 49.00
<u>Premium Service, express bus and FrontRunner</u>			
Premium Express Cash	\$ 4.00	\$ 0.50	\$ 4.50
FrontRunner Base Fare	\$ 2.50	\$ 0.50	\$ 3.00
Each additional station	\$ 0.50	\$ -	\$ 0.50
Maximum one-direction trip	\$ 5.50	\$ 0.25	\$ 5.75
Premium Senior/Reduced/Medicare Cash	\$ 2.00	\$ 0.30	\$ 2.30
FrontRunner Senior/Reduced/Medicare Base Fare	\$ 1.25	\$ 0.25	\$ 1.50
Each additional station	\$ 0.25	\$ -	\$ 0.25
Maximum one-direction trip	\$ 2.75	\$ 0.50	\$ 3.25
Premium Day Pass	\$ 12.50	\$ 1.00	\$ 13.50
Premium Express Monthly Pass	\$ 145.00	\$ 15.00	\$ 160.00
FrontRunner Monthly Pass - all stations	\$ 145.00	\$ 15.00	\$ 160.00
Premium Senior/Reduced/Medicare Monthly Pass	\$ 72.50	\$ 7.50	\$ 80.00
FrontRunner Senior/Reduced/Medicare Monthly Pass	\$ 72.50	\$ 7.50	\$ 80.00
Family Round Trip Pass	\$ 12.50	\$ 2.00	\$ 14.50 (3)
<u>Paratransit</u>			
Paratransit Cash	\$ 2.25	\$ 0.25	\$ 2.50

Paratransit Monthly Pass	\$ 76.00	\$ 8.00	\$ 84.00
30-Trip Coupons (1 month expiration)	\$ 48.50	\$ 7.50	\$ 56.00
10-Trip Coupons (no expiration)	\$ 20.00	\$ 2.50	\$ 22.50

(1) Student Monthly Pass are sold only at established schools. May be used by students over 17 years of age when presented with a picture school I.D.

(2) Has a fare value of an adult cash fare

(3) Valid only on weekdays after 5 pm and anytime Saturdays, Sundays and holidays

John M. English
General Manager, Utah Transit Authority

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