

**Audit and Finance Committee
Minutes - Draft
July 23, 2019 - APPROVED
Old Jail Conference Room**

Present: Mack Cook, Bud Shattuck, Rordan Hart, Ann Rider Olivia Hersey (arrived at 3:34 p.m.), Peter Salton, Chuck Rankin, Laura Shawley (arrived at 3:34 p.m.)

Excused: Steve Thayer

Guests: Judy Drake, Board of Directors Chair; Elin Dowd, Executive Director; Don Barber, Consultant (via conference call); Rick Snyder, Treasurer; Steve Locey, Robert Spenard, Locey and Cahill; Sarah Thomas, Tompkins County Human Resources; Mary Alice Avery, Zia Quasim, Wilmington Trust

Call to Order

Mr. Cook, Chair, called the meeting to order at 3:35 p.m.

Changes to the Agenda

There were no changes to the agenda.

Approval of Minutes of June 25, 2019

It was MOVED by Mr. Shattuck, seconded by Ms. Rider, and unanimously adopted by voice vote by members present, to approve the minutes of June 25, 2019 as submitted MINUTES APPROVED.

Mrs. Shawley and Ms. Hersey arrived at this time.

Presentation on the Consortium's Investment Portfolio

Mary Alice Avery, Vice President of Institutional Client Development, and Zia Quasim, Fixed-Asset Portfolio Manager for Wilmington Trust, thanked the Consortium for the opportunity to provide a report and said it is important to maintain an open relationship with the Consortium. Mr. Quasim walked the Committee through things that have been happening lately with the market and commented that it was reported at a Federal Reserve meeting that a cut in interest rates is expected, although the level of the cut is still unknown. He said risks to the economy are increasing and investors are preparing to respond to those cuts.

Mr. Quasim provided an overview of the Consortium's portfolio activity. Mr. Snyder spoke concerning 2020 budget preparation and commented that he will be transferring an additional \$1 million into the portfolio and that will help mitigate some of the impact due to the decrease in interest rates.

Mr. Snyder spoke of the JURAT filing and said Wilmington Trust has done a tremendous job providing information; their service has been exemplary and have "gone the extra mile" in working with the Consortium.

Discussion Regarding a Unified Narrative Supporting Existing Fund Balance Level

Mr. Cook said he thinks there needs to be discussion of ways to be proactive to defend the Consortium's fund balance as the 2020 budget process approaches. He spoke of the need to be sensitive to towns and villages due to the change in AIM (Aid and Incentives to Municipalities) funding that was part of the Governor's budget. He would like there to be discussion of how the Consortium will justify a rate increase at five percent or above with the

increase in its fund balance. He suggested taking a proactive approach and providing Directors with as much information as soon as possible in advance of the budget process. Mr. Shattuck said if the rate were to increase at a level of seven percent, for example, there likely would be more questions raised about the fund balance level. This could also increase the risk of municipalities withdrawing from the Consortium.

Mr. Locey said if something were done to artificially hold down the premium rate at a level that is less than expenses it would be creating a deficit budget. If this were done there would be more of an increase in the following year to make up that difference. He said the premium is supposed to drive and pay for the expenses of the Consortium. The fund balance is a separate item and there are different ways to address that. It can be dealt with by deficit budgeting, hiatus of premium, or by premium refund. Premium is a shared expense that includes portions from an employee, employer, and retiree and he would not recommend artificially holding it down by a substantial amount because of the problems that it could create going forward. He also noted that two of the reserves are statutory.

Mr. Snyder suggested the Consortium develop an official fund balance policy. Mr. Locey said what needs to be part of the discussion is that if not for interest income and prescription drug rebates the rates would be higher than they are. Because there is a fund balance there is income being generated which is helping to hold down rate increases. Mr. Locey said the initial goal when the Consortium was established was to have modest, steady, reasonable growth in rate over a long period of time. Mr. Locey said the Consortium's rates are extremely competitive in comparison to the open market and its rates of increase are lower than what the average has been.

Ms. Dowd said information can be compiled in advance of the Board meeting to share concepts that have been discussed and to help educate members on what the goal has been.

Mrs. Shawley spoke in support of Mr. Snyder's suggestion to create a fund balance policy.

Financial Update

Mr. Locey distributed a memo concerning outstanding items from the BMI audit of medical claims. He reviewed action items along with BMI's and Excellus' responses to each item along with comments by Locey & Cahill on the status and/or further actions needed to close the items out.

Mr. Locey reviewed financial results through June 2019 and said the Consortium is showing almost \$1.8 million in net income for the first six months. He referred to budget versus actual results and said it appears estimates for premium were overestimated and he predicts claims will be lower than expected by close to the same amount. He called attention to interest income having exceeded the total goal for the year and said the Consortium made a wise decision with regard to its investment strategy. Overall revenue is approximately \$.5 million below budget; medical claims are 6% below budget and prescription drug claims are 10% below budget. Most other items are close to budget and there will be a further breakout of other expense items. In summary, Mr. Locey said for the first six months of 2019 the Consortium has a net income of \$1.77 million, \$27 million in cash assets, and overall claims are 7.43% below budget.

Mr. Salton raised the issue of forecasting drug costs and what may be coming up. Mr. Locey said the next time the PBM contract goes out to bid the evaluation could include not only what their reimbursements are for the drugs but what types of rebates are they driving.

Ms. Drake asked that the Committee revisit the decision to pay GASB fees for municipalities. She also suggested changing the line entitled "Admin. Fees" on the Expense Distribution Chart to "TPA/PBM Fees".

Large Loss Report

Mr. Spenard distributed a large loss claim report and said the Consortium is in good shape at this point with only 4 claimants with claims greater than \$200,000. There are no claimants with claim exceeding \$300,000. He referenced the one individual with a \$1 million laser and said to date this claimant has \$180,000 in claims. Mr. Locey noted the other lasered claimant has not shown up in any report for 2019.

Executive Director's Report

Ms. Dowd provided the Committee with a written report that was included in the agenda packet and offered additional comments during the meeting as topics arose for discussion. She provided an update on Consortium staffing and said by mid-August the Consortium will have three positions on its payroll. In addition to the Executive Director, the Clerk of the Board has transitioned from Locey and Cahill to the Consortium, and an Administrative/Computer Assistant has been hired. She said over the next six months she will be looking at what Wellness resources are already available and a decision on next steps for the Wellness Consultant will be decided after that time.

Ms. Dowd said the Consortium received only one response to its Request for Proposals for a Medicare Advantage Plan and that was from Excellus . The Plan is basically the same as what municipalities within the Consortium already have with Excellus. There was discussion at the Executive Committee of looking into securing resources of outside consultants, including Segal, to look at managing the Consortium's retirees. She said the plan is to proceed with offering the Excellus plan for 2020 as a pass through and she will spend the next year looking into the other suggestion to secure an outside consultant.

Ms. Drake spoke of the plan underwriting review and the 2020 budget and said more information should be available to present to the Committee in the next couple of weeks. She suggested the Committee consider holding a special meeting to look at plan underwriting and to discuss the 2020 budget and noted the next Committee meeting falls only two days prior to the Board meeting. The Committee agreed with this suggestion and rescheduled the August 27th meeting to August 13th at 3:30 p.m.

The following invoices for June 2019 were presented for information only with no questions: Invoice for laptops, Armory Associates, American Dining (TC3), and Hancock Estabrook.

Self-Funded Stop Loss Update

Ms. Dowd reported Mr. Locey is working with Armory Associates on coming up with a model to bring back to the Committee what it would look like if the Consortium were to move to a self-funded Stop Loss program.

Adoption of Policy for Determining Departing Municipality's Pro Rata Share of Assets

Ms. Dowd said the proposal as it currently stands is that the Consortium would be populating on an annual basis what the change for that year would be in unrestricted funds as well as any changes in the Surplus and Rate Stabilization Reserves.

Mr. Hart said the Surplus Reserve is statutory and the Rate Stabilization Reserve was established for the best interests of the members of the Consortium who stay. He identified two reasons why a municipality might withdraw – they might find a better rate elsewhere or for political reason. Under both of those situations he thinks it would be in the Consortium's best interests for the remaining members to have these reserves in place and questioned why they would be included in the calculation of pro rata share of assets for a withdrawing member.

Ms. Dowd said the initial thinking was that they bought into the Consortium and that would represent the share they brought in and should receive that share upon existing. It was designed to not be a punitive system. Mr. Barber explained the reasons for including these and noted the Catastrophic Claims Reserve and the IBNR would not be part of the calculation.

Mr. Locey spoke of another consortium he works with in which an entity pulled out and in that case the Board determined the withdrawing member should receive everything except the IBNR. At the end of the process the entity wanted the difference back between what the IBNR was and the amount of actual paid claims. He said the New York State Office of General Counsel has said nothing has to be given back but he thinks there is some validity in only holding back the IBNR and the Catastrophic Claims Reserve. Other reserves are not tied to liabilities and he thinks it would be difficult to justify holding back those funds. Following the discussion Mr. Hart said he would still hold back the Rate Stabilization Reserve because as it grows and interest earnings are greater it will help to offset future premium increases.

Mr. Locey said he thinks the proposed resolution is fair and it is good that it is being taken up now and not at a time when there is a participant considering withdrawal.

RESOLUTION NO. — 2019 - ADOPTION OF POLICY FOR DETERMINING DEPARTING MUNICIPALITY'S PRO RATA SHARE OF ASSETS

MOVED by Mr. Rankin, seconded by Ms. Rider, and unanimously adopted by voice vote by members present.

WHEREAS, Section P.4.of the MCA provides guidance for determining member equity where it states:

"The surplus or deficit shall include recognition and offset of any claims, expenses, assets and/or penalties incurred at the time of withdrawal, but not yet paid. Such pro rata share shall be based on the Participant's relative premium contribution to the Consortium as a percentage of the aggregate premium contributions to the Consortium during the period of participation. This percentage amount may then be applied to the surplus or deficit which existed on the date of the Participant's withdrawal from the Consortium. Any pro rata surplus amount due the Participant shall be paid to the Participant one year after the effective date of the withdrawal. Any pro rata deficit amount shall be billed to the Participant by the Consortium one year after the effective date of the withdrawal and shall be due and payable within thirty (30) days after the date of such bill.", and

WHEREAS, the policy for which assets to include in calculating a member's equity or deficit has not been established and the Audit and Finance Committee has deliberated on this policy, and

WHEREAS, the Audit and Finance Committee has found that the Unrestricted Funds should be included in the members equity calculation; and that "Change in Unrestricted Funds" are tracked annually and allocated by the member's aggregate premium contribution for that

year; and the annual allocation of that year's Unrestricted Fund equity is added to all previous year's total (note this may not always be a positive number annually or tenure total), and

WHEREAS, the Audit and Finance Committee has found that the member's portion of the Surplus Reserve, which is also based on the member's aggregate premium contribution for that year should be included in the members equity calculation (note this will always be a positive number), and

WHEREAS, the Audit and Finance Committee has found that the Catastrophic Claims Reserve should not be included in the members equity calculation, because this reserve has been used to offset premiums which was a financial benefit to all members premium calculation, and

WHEREAS, the Audit and Finance Committee has found that the Rate Stabilization Reserve should be included in the members equity calculation, Changes in the Rate Stabilization Reserve are tracked annually allocated by the member's aggregate premium contribution for that year; and the annual allocation of that year's Rate Stabilization Reserve is added to all previous year's total (note this may not always be a positive number annually or tenure total), and

WHEREAS, the Audit and Finance Committee has found that the Incurred But Not Reported Reserve should not be included in the members equity calculation, because the departing member's portion of this IBNR Reserve will be applied toward that member's subscriber's tail of claims expense, now therefore be it

RESOLVED, That the Audit and Finance Committee recommends the Board of Directors adopt the following policy for calculating a departing member's equity:

Determination of a departing Member's equity shall include the following:

1. Unrestricted Funds: "Change in Unrestricted Funds" are tracked annually allocated by the member's aggregate premium contribution for that year; and the annual allocation of Unrestricted Fund equity is added to all previous year's total (note this may not always be a positive number annually or tenure total)
2. Surplus Reserve: at the time of departure, that year's Surplus Reserve is apportioned base on the member's aggregate premium contribution for that year (note this will always be a positive number)
3. Rate Stabilization Reserve: Changes in Rate Stabilization Reserve are tracked annually allocated by the member's aggregate premium contribution for that year; and the annual allocation of change in the Rate Stabilization Reserve is added to all previous year's total (note this may not always be a positive number annually or tenure total)

Resolution No. 015-2019 – Board Policy Regarding Compliance with Section A.3 of the Municipal Cooperative Agreement

Mr. Cook said this items was defeated at the last Board of Directors meeting due to lack of quorum. Mr. Salton reiterated his opinion that he doesn't think this resolution is necessary as the Board can request the municipality to submit a waiver request.

It was MOVED by Ms. Hersey, seconded by Ms. Rider, to recommend the Board reconsider and adopt Resolution No. 015-2019 – Board Policy Regarding Compliance with Section A.3 of the Municipal Cooperative Agreement. A voice vote resulted as follows: Ayes –

6, Noes – 0, Excused – 1 (Thayer), Temporarily Out of Room – 1 (Shattuck); Abstentions – 1 (Salton). MOTION CARRIED.

Next Agenda Items

The following items will be included on the next agenda:

- Revisit GASBE 75 (October meeting)
- Resolution Approving Medicare Advantage Plan
- 2020 Budget Review
- Plan Underwriting Review
- BMI Medical Claims Audit Action Items

Adjournment

The meeting adjourned at 5:13 p.m.