

Attachment A



Financial Advisory Council Meeting

Tuesday, April 6, 2004
Governing Board Room
2:00 p.m. to 4:00 p.m.

MINUTES

Members Present: Jan Binder, Sue Burrola, Larry Christiansen, Roy Cohen, Art DeCabooter, Rufus Glasper, Karen Hardin, Leah Heathcoat (CGCC Student), Maria Hesse, Emily Hogan (GCC Student), Conrad Mills, Lorie O'Brien, Linda Rosenthal, Jane Saldana-Talley, Anna Solley, Trevor Smith (CGCC Student), Les Strickland, Debra Thompson, Yvonne Zeka

Members Absent: Alyssa Brown, Rick DeGraw, Carnella Hardin, Steve Helfgot, Willie Minor, Steve Riley

Guests: Carl Couch, Chad Douwstra, Dianne Johns, Mark Mason, Janet Ortega, Arlen Solochek, Mark Valarde

Welcome and Introductions: Everyone was welcomed to the meeting. The "be an objective listener" ground rule was reviewed.

March 2, 2004 FAC Meeting Minutes: Correction: Sue Burrola was present at the meeting. The minutes were unanimously approved.

Agenda Items:

Health Care Insurance Provider Bidding Process/Information Item – Dianne Johns provided FAC with an overview and update on the Health Care Insurance provider bidding process. FY 04-05 is the last year the district has on its BC/BS healthcare contract. BC/BS has been the district's healthcare provider for the last 4 years with one contract year remaining. The district will be going to bid in the next month for a contract that will start in FY06. By law, we have to go to bid every 5 years. The bidding process will be for the entire program; including medical, dental, disability and life insurance.

This is the first year that the district will be looking at a self-insured option, in addition to asking for bids for programs similar to what we now have. The cost savings have not been established at this point. Dianne reviewed the difference between the two models and what new expenses and issues the district might face if self-insured. Being self-funded (self-insured) means that the district would pay for medical claims from its own assets without shifting the risk or liability for medical payments to an insurer. Medical

claims can come in above or below annual funding levels. Per employee per month fees would accrue for administration, network access (MCCD would rent a network that includes, stop loss insurance, and fiduciary responsibility (this is optional)). Fiduciary responsibility is when a claim is appealed and when you are self-insured you form a committee (non district committee) to look at the claim that has been appealed and a decision is made, this also allows for someone to file suit against the district and therefore a need for legal services. This is an example of where there is more liability for the district if we are self-insured. If we are self-insured the monthly premium would be distributed to a trust fund, which would pay monthly administration fees, stop loss insurance, provider access fees etc. Clarification was asked for on the meaning of stop loss insurance. Stop loss insurance is when claims hit a certain level and you have another level of insurance that kicks in and you are no longer responsible to pay the claims at the higher level. Typically, a Third Party Administrator would be hired to perform the insurer's administrative duties (e.g. pay claims, distribute ID cards, distribute provider booklets etc.). Currently, Maricopa has an average of 140,000 claims annually.

There is an increase in liability when you self-insure. Some differences between being self-funded and the current insured program that were highlighted:

Self-Funding

Admin costs and risk charges (claims are paid from risk account) typically 10-15% of total cost
 Premium taxes are not applicable to claims or admin. expenses
 Claims paid by employer as they are incurred and paid
 The employer holds their own funds for incurred but unpaid claims
 Pay all claims regardless of projected claim estimates, subject to stop loss insurance recoveries
 Employer is free from complying with all State insurance regulations
 Employer ultimately responsible for ruling on all claims appeals. Employer responsible for legal defense for litigation; contract with medical staff as needed
 Employer must coordinate services for claims administrator, pharmacy vendor, network vendor, etc. if not purchased from single vendor
 Employer contracts with attorney / Administrator to develop documents
 Employer pays a monthly fee to use contracted medical provider network and discounts
 HIPA Compliance: Employer has more responsibility for privacy of claims information and computer system compliance

Current Insured Program

Admin and risk charges typically 15-20% of total premium
 2% of premium (exception of BC/BS plans)
 Consistent premium paid monthly for all claims incurred and paid
 The insurer hold funds from premium for incurred but unpaid claims
 Fully insured premium, which pays all claims
 Insured plans must comply with all State insurance regulations
 Insurance carrier ultimately responsible for ruling on all claim appeals. Carrier provides legal defense for litigation
 One vendor coordinates all areas of service
 Provided by insurance company
 Use provider network with discounted services provided by insurance company
 HIPA Compliance: Insurer has more responsibility for privacy of claims, computer system compliance

A point was made that currently under BC/BS if our claims exceed what we have paid BC/BS for the year as our provider that BC/BS is responsible to pay claims above that amount. Last year the district claims did exceed that amount and BC/BS paid the difference. If we are self-insured we are responsible for paying that overage. All claims will be contracted out, the district will not administer any claims in any case.

At this time, the specific savings to the district by going self-insured are not known. The district has been advised that in the long run there are significant savings over the years if we are self-funded. In the first couple of years it is possible that the self-funded option will be more costly.

A request was made for some comparisons. FAC would like to see some information on similar private and/or public institutions that have gone to being self-funded. The group would like to look at some experiences others might have had throughout this process. At this time the City of Tempe and the City of Mesa are both self-funded. Some additional information will be collected on their experiences and be brought back to FAC. From what Dianne has heard employees are pretty happy with the self-funded option.

A question was asked if any companies had gone self-insured and reversed to contract with a provider. The companies that had gone back were smaller companies and did not realize the savings. Dianne was not aware of any large companies that had gone back to a provider's program. An additional inquiry was made as to how we would know the amount that would need to be budgeted for the first couple of years of a self-funded program. An estimated budget is one of the items that will be submitted to us in the RFP process and we would work with a consultant to establish how much to fund in the first years if the district decides to go self-funded. We would want to fund on the conservative side. Consultants will help us coordinate stop-loss and reserves. Consultants have advised that any institution with an excess of 1000 employees should consider self-funding as an option.

Updates on the bidding process will be provided to FAC.

2004 Legislative Session Update/Information Item – Chad Douwstra from the Government Relations office provided an update on the 2004 Legislative Session. We are down to one bill that MCCD would like to see not pass, House Bill 2263. This bill would drop the commercial property tax rate down to 24% from 25%. This would in essence put some of the charge to homeowners and public entities. We hope to have the votes to stop it on the floor or that it will not even go to the floor. K-12 is also working hard against this bill.

This is the last week to hear bills and we are trying to make sure that there are no bills that go through that pose a threat to community colleges. There are a couple of bills that the Government Relations office is watching. Senate Bill 1138, a bill regarding opening leases to community colleges over 15 years. ATRA had some concerns and an amendment has been added to the bill to address their concern. They are agreeable to the amendment that will allow us to do leases with Native American tribes, the Federal Government and the Airport Authority. Senate Bill 2601, the clean up bill for community colleges was heard, passed and scheduled to go to the floor the week of April 12th. SB 2601 continues the transfer and removal of general administrative powers, authorities, reporting, oversight and responsibilities of the State Board of Directors for Community Colleges.

Talks with many members have been very successful. We have received many favorable comments on fully funding Enrollment Growth Funding. The House has not released their budget yet and anticipate releasing it the week of April 12th.

Tuition and Fee Update/Information Item – The proposed tuition increase of \$4 was presented to the Governing Board as an action item at the March 23rd Governing Board meeting. The \$4 tuition increase was not approved and the discussion has been moved to the April 27th Governing Board meeting. Some other proposals are being prepared and looked at and a budget discussion has been schedule for the April 20th Governing Board retreat.

Capital Development Program Operating Cost Support/Information Item – With the proposed 2004 bond program, funds will need to be budgeted for operating costs to support the program. Funds will need to be allocated to support the capital development program, for example, to open the buildings that will be built in the bond program (i.e. heating and cooling, support staff in Crafts, M&O and Safety, etc.). Voter approval of the bond referendum does not bring any additional operational resources to the district. The FAC Subcommittee put together documents that reflect and support the proposed planning for operational costs district-wide. The proposed allocation process for the 2004 bond program is reflective of the 1994 bond program and follows similar guidelines. The expectation is, and has been, that the colleges will partner with the district office in the commitment to support capital program operating costs. The intent is that the colleges will support about half of the real operating costs. The recommendation for the 2004 Capital Program is to support new construction at \$15 per GSF and renovated space at \$5 per GSF. In addition, district-wide technology investments may also be supported. Technology project support will be reviewed on a project-by-project basis for those projects that substantiate an operating cost need as part of the overall project budget in the technology plan.

Guidelines that were highlighted:

- 1) GO Capital Development Program funded new construction: \$15 per GSF
- 2) GO Capital Development Program funded renovations: \$5 per GSF
- 3) Only projects funded by G.O. capital development funds will be eligible for operating cost funding
- 4) New and renovated space eligible for support will receive full support one month prior to scheduled project completion date as identified by Facilities Planning and Development. A small portion of these funds can be requested at an earlier date if the project can demonstrate placing a burden on existing staff in order to provide appropriate college project oversight. These requests will be brought to FAC and a process will be put in place for review.
- 5) Allocations will be pro rated, if appropriate, in the initial budget year.
- 6) Project costs include Furniture, Fixtures and Equipment and budgeted contingency funds
- 7) New and major district-wide information systems may require additional operating costs. These may receive support and will be on a project-by-project basis.

- 8) Initial funding estimates are based on FY03-04 college master planning. These estimates may be revised as colleges complete educational specifications for specific projects. Final funding will be at the level set under design. The budget office and FAC will monitor changes in funding requirements that occur as projects become more defined through the design process; if overall costs begin to increase materially, FAC will review and make recommendations to the District's ability to fund the program at these levels.
- 9) There may be some additional budget needs for District divisions that directly support the capital program, such as Facilities, Planning and Development, Business Services and Legal. The needs will be assessed and presented separately to FAC.

Suggestions made for guidelines:

- Add emphasis on partnering providing resources for technology support and similar needs
- Add mention of other financial support for our operational support is Enrollment Growth Funding
- Draw attention to deadlines

The Council was also asked to take into consideration when a building might open in between budget cycles. A decision could possibly need to be made on which FY to include the allocations in.

The Council was also asked to take into consideration establishing a process in the event that a college builds less or more than their planned square footage. The council felt a modest increase was addressed in the guidelines, the actual design will be funded. In the event that the increase is substantial, FAC will need to review the increase.

A point was made that this is a working document and once suggested changes from FAC have been made it will be moved to CEC for review.

The Subcommittee was complimented on their work with the document and supporting documentation.

Other Business: An announcement was made that MCC was reduced from \$350 thousand to \$260 thousand in liability insurance. Other colleges have also experienced a similar decrease in their cost liability insurance.

Plus / Delta

- + Informative Staff reports
- + New Thinking (e.g. Dianne Johns' report)
- + More positive Legislative report

Next Meeting / April 27, 2004 from 2:00 p.m. to 4:00 p.m. in the Governing Board Room