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City of Racine, Wisconsin  
**COMMON COUNCIL**

**AGENDA BRIEFING MEMORADUM (ABM)**

**COMMITTEE:** Committee of the Whole    **LEGISLATION ITEM #:** 1177-19

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**AGENDA DATE:** October 30, 2019 Committee of the Whole  
October 30, 2019 Special Common Council

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**DEPARTMENT:**

Prepared By: James M. (Jim) Palenick, City Administrator

Reviewed By: Cory Mason, Mayor

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**SUBJECT:**

A request to approve the Allocation Matrix for the distribution of \$915,550 in employer contributions to Non-Utility, Active City employees for Fiscal-Year 2020 Health Savings Accounts (HSA).

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**EXECUTIVE SUMMARY:**

The Common Council previously approved changes to the health care coverage plan design for active employees to include moving to a single plan option, High-deductible Health Plan with the addition of Health Savings Accounts (HSA'S) for covered employee participants. The Common Council also approved allocating \$915,000 for FY2020 to grant active, non-utility, covered employee participants with a one-time, yearly (paid out in January, 2020) employer contribution to the newly-established health savings accounts. The Common Council further requested that City staff return with a recommendation as to how to most equitably distribute the allocated \$915,000 in funds to the estimated 616, non-utility, full-time covered employees who would likely be eligible to receive such contributions. A number of considerations were taken into account, with the highest priority given to accomplishing the following:

- 1.) Incorporate and establish a clear incentive to employees who are residents of the City.
- 2.) Differentiate the contributions to account for the overall cost of and financial impact on employees as a result of electing "single" vs "family" coverage.

- 30 3.) Differentiate the contributions to provide for a successively declining rate of contribution as  
31 base wages increase. That is, employees who receive the lowest base pay will receive the  
32 highest HSA contribution; while employees who receive the highest base pay will receive the  
33 lowest HSA contribution.
- 34 4.) Develop the “allocation matrix” (spread-sheet of total eligible employees, by category of  
35 coverage and range of base pay times suggested employer HSA contribution) to total  
36 \$915,000.
- 37 5.) Include within the matrix provisions the assumption that we will provide for and treat  
38 bargaining unit employees equally to those non-represented employees in advance of actual  
39 collective bargaining discussions.

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41 **BACKGROUND & ANALYSIS:**

42 Knowing that we could never develop a distribution formula for the Health Savings Account  
43 contributions (“Allocation Matrix”) which would fully satisfy everyone’s objectives; and further  
44 knowing that there are reasonable and legitimate policy alternatives which are competing in their  
45 aims; we made every possible effort to create a final matrix which might best satisfy the largest  
46 number of articulated concerns; to the fullest extent possible; while remaining fair and equitable and  
47 totaling precisely (or very nearly) \$915,000. After a great deal of effort, by a number of City staff, we  
48 feel we have accomplished the optimal allocation matrix as presented herein and attached.

49 It first creates a clear incentive for resident employees by setting aside \$99,500 of the \$915,550 to  
50 provide the estimated 199 employees who are City residents with a \$500 bonus HSA contribution,  
51 regardless of what their base pay is, and regardless whether they elect “single” or “family” coverage.

52 Next, it clearly differentiates, to an appropriate degree, use of the remaining \$815,550 in funding,  
53 within categories of base pay, between the contribution for “single” coverage and “family” coverage.

54 Then, it is very definitely weighted such that the lower the base pay of the employee, the higher the  
55 HSA contribution, and vice-versa (from \$2,000/\$1,250 for the employee earning less than  
56 \$50,000/year; to \$750/\$450 for the employee earning greater than \$110,000/year) – so that larger  
57 contributions go to those employees least able to react to what might be sudden financial impacts of  
58 the health care changes. In fact, fully 53% of the \$816,050 is allocated in this proposal to employees in  
59 the two lowest wage tiers.

60 Finally, it includes all 616 expected, non-utility, health plan-covered employees (both bargaining unit  
61 and non-represented) so that the goal is to treat each employee fairly and equitably.

62 Overall, the final total to accomplish the allocation is estimated at precisely \$915,550, or \$550 over  
63 that which Common Council approved. However, understand this is an estimate based on an  
64 employee census in mid-2019. It could change slightly by the time we actually make HSA contributions  
65 in early January, 2020 based upon employee turnover or changes to employee residency or elections  
66 of single vs family coverage for 2020. Please further note that there are a very small number of  
67 covered employee participants within the police and/or fire bargaining units that are married to other  
68 such covered employees and have, to-date, each been provided City health coverage. Going forward,  
69 these married couples will be eligible for only one, “family” coverage plan, but this matrix does

70 contemplate each employee being eligible to receive a separate, “single” contribution to HSA, for  
71 2020; or, jointly, a “family” contribution, at the lower of the two pay rates (if different), whichever is  
72 greater.

73 We strongly recommend the allocation matrix as developed and believe it to be the optimal solution  
74 to this distribution at this time. Remember also it is a one-time, one-year proposition. For Fiscal-year  
75 2021 and beyond, based on the budget circumstances and implications at the time, Council will be  
76 tasked with making decisions whether any employer HSA contributions can or should be made, and if  
77 made, based on what distribution formula.

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79 **BUDGETARY IMPACT:**

80 The \$915,550 allocation would be accounted for in FY2020 as \$750,000 in employee benefits  
81 operating costs along with \$165,550 in use of Health Care Reserve Funding. As detailed in the Agenda  
82 Briefing Memorandum supporting the changes to the health care plan design changes and  
83 introduction of the employee Health Savings Accounts, the plan design changes approved for FY2020  
84 are estimated to result in \$3,200,000 in Budget savings while the \$750,000 in employee benefits cost  
85 allocations would conversely impact savings reductions by an equal \$750,000 – resulting in net budget  
86 savings of \$2,450,000. Then, with the added cost of moving to the 7.5% premium share for all active  
87 employees, those savings would decrease by an additional \$150,000 – meaning the end result of the  
88 health care changes to active employees in FY2020 would be a net savings of \$2,300,000. This  
89 \$2,300,000 was critically necessary to assist in filling the \$5,100,000 in structural deficit first evident in  
90 the draft FY2020- Budget prior to a series of high-impact budget reduction measures (also including  
91 the \$1,800,000 in revenue increase provided by moving the fire protection charge to a fee include on  
92 the utility bill).

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94 **OPTIONS/ALTERNATIVES:**

- 95 1.) To approve the Allocation Matrix for the distribution of \$915,550 in employer contributions to  
96 Non-Utility, Active City employees for Fiscal-Year 2020 Health Savings Accounts (HSA).  
97 2.) To approve an alternative Allocation Matrix which collectively distributes \$915,000 in  
98 allocated employer funding to Non-Utility, Active City employees for Fiscal-Year 2020 Health  
99 Savings Accounts.  
100 3.) To further defer action on approving an Allocation Matrix for FY2020 employer contributions  
101 to Non-Utility Active, City employees, and, in turn fail to comply with the Common Council’s  
102 previous action to complete this effort by the end of the Month (October).

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104 **RECOMMENDED ACTION:**

105 To approve the Allocation Matrix for the distribution of \$915,550 in employer contributions to  
106 Non-Utility, Active City employees for Fiscal-Year 2020 Health Savings Accounts (HSA).

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108 **ATTACHMENT(S):**

109 **Allocation Matrix titled, "Non-Utility Active Employees with an additional \$500 contribution for**  
110 **Residents, Allocate H.S.A. Contribution by Annual Wage Category".**