MINUTES OF DIRECTORS MEETING

LANE TRANSIT DISTRICT

SPECIAL MEETING/WORK SESSION

Monday, February 16, 2004

Pursuant to notice given to *The Register-Guard* for publication on February 14, 2004, and distributed to persons on the mailing list of the District, the Board of Directors of the Lane Transit District held a special meeting/work session on Monday, February 16, 2004, beginning at 5:30 p.m., in the LTD Board Room at 3500 E. 17th Avenue, Eugene.

Present: Susan Ban
Patricia Hocken, Secretary
David Gant
Gerry Gaydos, Vice President, presiding
Dave Kleger
Virginia Lauritsen, Treasurer
Ken Hamm, General Manager
Jo Sullivan, Clerk of the Board, Recording Secretary

Absent: Hillary Wylie, President

CALL TO ORDER: The meeting was called to order at 5:43 p.m. by Board Vice President Gerry Gaydos.

SALARIED EMPLOYEES' RETIREMENT PLAN AMENDMENT: Director of Human Resources Mary Neidig said that after the death of an LTD administrative employee two weeks earlier, a glitch was discovered in the Salaried Employees' Retirement Plan. The Board would be asked to vote on an amendment to the Plan at its regular meeting on Wednesday, but staff had wanted to provide an opportunity for Board members to discuss the issues and ask questions at the work session.

Executive Session: Mr. Kleger moved that the Board meet in executive session pursuant to ORS 192.660(1)(h), to consult with counsel concerning the legal rights and duties of a public body with regard to current litigation or litigation likely to be filed, and ORS 40.336, lawyer-client privilege. Ms. Ban seconded, and the Board unanimously entered executive session at 5:45 p.m. Retirement Plan attorney Everett Moreland was present for this discussion with the Board.

Return to Regular Session: Upon a motion by Mr. Kleger and seconding by Ms. Hocken, the Board returned to open session at 6:25 p.m.

FISCAL YEAR 2004-05 BUDGET AND LONG-RANGE FINANCIAL PLAN: Mr. Hamm stated that staff had been doing a lot of strategic thinking about the budget and wanted to discuss some of the issues with the Board that evening. Issues affecting the budget included a decrease in local employment and increases in health care and operating costs. He noted that LTD had established a strategic plan with four major external goal statements: deliver reliable public transportation service; develop innovative service that reduces dependency on the automobile; maintain LTD's fiscal integrity; and provide progressive leadership for the community's transportation needs. Part of how LTD achieved its mission involved how to balance those goals with diminished or flattened revenues.

Mr. Hamm explained that the proposed Fiscal Year 2004-05 budget had been discussed by the Board Finance Committee the previous week. The Committee members wanted to be sure they were on track in the wages and benefits area, since that was the area of predominant cost to the District. Director of Human Resources Mary Neidig had been researching health care costs and options for employees. The full Board now was being asked for its feedback on whether a 4 percent financial "box" for containing overall cost increases was the right box. He noted that at the same time the budget was being developed, the District was approaching labor contract negotiations, so that part of the budget would not be known for awhile. The Finance Committee also had asked for an executive session in which to discuss negotiations issues.

Director of Finance and Information Technology Diane Hellekson stated that the key to long-term stability and viability in operations and capital was in managing to a limited expenditure growth. Approximately 75 percent of LTD's operating budget was in personnel services costs. Payroll tax revenues accounted for approximately 75 percent of LTD revenues. Ms. Hellekson stated that LTD would never want its growth in personnel services costs to be greater than payroll tax revenue increases. A 20-year payroll tax receipts trend line was between 3 percent and 4 percent. The 4 percent growth rate for personnel services had come from the trend line. She said that two years ago the growth rate was a minus 2 percent and last year it was zero, so 4 percent was somewhat optimistic, and the pension and health benefits pieces were very challenging. The previous week, staff had begun discussing with the Board Finance Committee what a 4 percent growth rate would like for administrative employees. The Committee thought that this was a strategic discussion for the full Board, and should include a discussion of negotiations issues.

Ms. Neidig discussed results of an administrative staff survey showing how staff had ranked the importance of certain benefits. The defined benefit (retirement) increases were fixed, so that became the first priority for personnel services cost increases. Merit increases affected only a small number of administrative staff who were eligible, and amounted to less than one-half of one percent. It was understood that LTD had to do something about a 20 percent annual growth rate in health care. There was overwhelming support from staff, but unlikely that changes to the health plan could be made before January 1, 2005, so the current plan probably would have to be continued for half of Fiscal Year 2004-05. That likely would mean a double-digit increase followed by six months under a new plan with more controlled costs. These areas left a 1 percent cost of living adjustment for administrative employees, within the 4 percent growth limitation.

Mr. Gaydos said he thought he had heard at the Finance Committee meeting that there was a concern about administrative staff salaries versus union employee wages. Ms. Hellekson explained that union employees had received increases of about 4 percent annually for four years, and administrative employees had not, so there was some compression between positions. Mr. Hamm said it was difficult to compare the represented group with the non-represented group, so by setting the box at 4 percent, the issues for each group could be defined within that 4 percent.

There was some discussion about specific health care benefit components to clarify staff input on the survey and possible changes that could occur. Ms. Neidig explained some of the actions being taken by other employers, such as passing on the increased rates to employees through a premium share. If 100 percent of an 18 percent increase in health care rates was passed through to employees, that would mean an average of about $116 per month per employee. Other employers were reducing health care plans so that overall costs were the same but benefits were reduced. The most common reduction was to change the co-pay for prescription benefits. She stated that prescription costs were by and large the largest single cost in the health care plan. That would amount to about half of the 18 percent figure. Then LTD could increase co-pays for hospital

services, which was the second largest cost in the health care plan, and still would have to look to a third area to get to 18 percent, such as increasing the co-pay for office visits. Another option on the list was to provide coverage for employees only; however, for an employee to pay 100 percent of family coverage would be very expensive, almost cost-prohibitive. Ms. Neidig said that there were incremental ways to do any of these options that would have less of an impact on the employee.

One element under consideration was a health reimbursement arrangement model (HRA). In concept, LTD would provide the employee a very basic, high-deductible health care plan, often referred to as a catastrophic plan. The rest of the money that LTD would allocate toward health care would be used in a tax-deferred account for each employee to help offset costs. This model was used by four or five private employers in the area, and the City of Springfield had implemented it on January 1, 2004. In other parts of the country, it had been used for a long time.

Ms. Neidig explained how the HRA model would work. LTD would buy the basic, high-deductible plan. Recent estimates showed that the cost of this plan would be about 40 percent of what LTD currently paid for a more extensive health care plan. She said that it typically included 80 percent coverage. The deductibles and out-of-pocket expenses were relatively high, and prescription drug coverage involved a higher co-pay. An employer could add certain coverage to enhance the plan to meet more specific needs, such as 100 percent coverage for an annual exam, so people continued to receive full coverage for preventive care. Otherwise, she said, if people did not receive treatment for preventive care, the whole cost of health care increased. Then whatever else LTD chose to contribute would go into a health reimbursement account. Each employee would receive a certain amount of money to manage under his or her own health reimbursement account. That account typically would be set up through a third-party administrator, which would administer the claims and charge a per-person fee per month. Ms. Neidig stated that the primary advantage would be that LTD would be able to set the amount of the contribution to the HRA account. She said that this was the only model where an employer could decide up front what its costs were going to be.

Ms. Neidig said that premium increases for catastrophic kinds of health care plans were significantly less than for more comprehensive plans, because the risk was lower and there was less exposure to the insurance carrier. LTD could enhance the basic plan in ways that made sense for the District. If there was something in addition to preventive health care that was really important for LTD employees based on their usage of the plan, LTD could add something, at a cost.

The biggest advantage to employees was if they did not use all of their HRA contribution in a year, their balances would roll over. Therefore, people who managed their health care and did not need a lot of health care could accumulate money over time and at retirement or when they left LTD they could cash it out or roll it over into some other form of medical needs in their retirement.

Ms. Neidig stated that if LTD could set up and implement such a plan by the end of the calendar year, the increase could be kept to 10 percent in FY 2004-05, and then closer to a 0 percent or a moderate increase after a full budgetary cycle.

Mr. Hamm said he liked the fact that employees in these plans assumed some responsibility for the cost of health care, once they were educated about how to manage their accounts, rather than taking services for granted. He thought it had a lot of potential to involve employees in making decisions about the use of generic prescription drugs, trips to the emergency room versus the doctor's office, etc. It wasn't just a matter of passing the cost of health care on to the employees; it was more about asking the employees to help the employer manage the cost.

Ms. Ban asked if when someone exhausted the HRA, additional costs would come out of the employee's pocket. Ms. Neidig said that was true, and that there was a calculator program that employees could use to enter their usage and see how they would fare under this model. She thought that most employees would have a pretty good idea of how this plan would affect them. In some cases, she said, there would be significant situations where employees would be making up the difference. The difficulty was that in the first year there was no rollover from prior years. She said that sometimes an employer would contribute more during the first year that it typically would afterward, in order to get the plan started.

Mr. Gant said that one thing that struck him was that it seemed that there was a challenge between an employee group staying lock-step together in an option where everyone pays more, and the other options that started to divide people, such as married people with children versus those without, or people who were healthy versus those who were not. He understood that it was attractive to think that an HRA plan could keep people from abusing the system, but there were a lot of people who through no fault of their own were ill. He thought that would be the hard part in choosing this option. Also, he wondered about the fairness of benefits that were the same for families and individuals.

Ms. Neidig said that there were several policies that would need to be made before any health care plan decisions were reached, such as whether LTD should contribute differently to employees based on their family situations. Mr. Hamm said there was a bigger question in the community about what private-sector people saw in government entitlement programs. Part of it was LTD's responsibility to balance costs if they were out of control. Mr. Gant wondered if employees should be asked about whether they wanted to stay together even if they had to share some of the costs, rather than some options which seemed as if they would pit different groups against each other.

Mr. Gaydos said those kinds of issues should be flagged for future discussions.

Mr. Kleger asked if staff knew how the HRA plan responded to a person with a chronic condition. Ms. Neidig said that the way to learn that would be to plug some statistics into the calculator and figure out what kind of benefits such an employee would receive. Someone with a long-term, chronic condition that required multiple medications and treatments, such as dialysis, would use up his or her HRA fairly quickly. Ms. Ban then asked if there was room for an additional accommodation, with a different contribution from the employee. Ms. Neidig said that there was a maximum out-of-pocket cost, but that probably would be higher than the account balance. Another point was that the choice might not be a mandatory one, so someone could choose to stay on the managed care plan instead. She said that the City of Springfield made this plan voluntary, and more than 85 percent of employees changed to it. However, the people remaining on the existing plans are likely to be the ones with high usage, so that would increase the benefit plan costs for those employees, and LTD would not receive the value of having the full number of employees when negotiating the catastrophic plan under the HRA model. That could hurt the District's costs in a couple of ways, but those were the balances on the fairness question that would need to be discussed.

Ms. Hocken noted that this was a very different way of sharing the cost, and seemed to penalize people who were sick rather than people who have the good fortune to be healthy. She thought that for a lot of people this would result in a lot more out-of-pocket cost, to the level where it could be a serious problem. She thought that if the District were going to save enough money, it could not put enough money in the HRA accounts to offset this problem. She had difficulty believing that

any group would see this as something positive, unless the other plan was cut back so much that this option was not much worse of an alternative.

Ms. Ban wondered if employees could contribute more to this plan. Ms. Neidig said that employees still would have the option of putting pretax dollars in a flexible spending (125) account.

Ms. Hellekson said that staff would need Board direction on health care issues for budget purposes no later than March 15, and preferably sooner. Mr. Gaydos explained that no decision was expected that evening, but the Finance Committee had wanted the full Board to understand what the 4 percent box for health care increases really meant, and how little flexibility that allowed. He thought it might be worthwhile to try to respond to some of those questions in another work session.

Mr. Hamm discussed a page showing administrative personnel services assumptions and the kinds of decisions that had to be made in order to stay in this 4 percent box. Going higher than 4 percent would mean additional cuts in staffing or service or somewhere else. Mr. Gaydos added that going higher than 4 percent would be higher than the historical trend line, which Ms. Hellekson stated would not necessarily be a sustainable level.

Mr. Viggiano noted that what the Board needed to decide before March would be the amount to be budgeted for health care, but not the plan itself. Ms. Hellekson added that the LTD Budget Committee would decide on the budget amount during the April budget meetings. The March deadline for the Board was set in order to be able to prepare the materials for the Budget Committee.

Mr. Gaydos suggested an additional work session to work on that issue. Ms. Ban said that one of the directing priorities was managing costs, but there also were some other ethical or parity/fairness issues that emerged.

The Board took a break from 7:28 to 7:35 p.m.

EXECUTIVE SESSION: Mr. Kleger moved that the Board meet in executive session pursuant to ORS 192.660(1)(d), to conduct deliberations with persons designated by the governing body to carry on labor negotiations. Ms. Hocken seconded, and the Board unanimously entered executive session at 7:36 p.m.

RETURN TO REGULAR SESSION: Upon a motion by Ms. Ban and seconding by Mr. Kleger, the Board returned to regular (open) session at 8:15 p.m.

Mr. Vobora handed out a summary of proposed changes to the pricing plan, which would be discussed at the February 18 Board meeting. The summary included what the estimated revenue might be from the changes, which could save a percent and a half of service cuts.

ADJOURNMENT: There was no further discussion. Mr. Gaydos thanked everyone for being there that evening. The meeting was adjourned at 8:18 p.m.

Board Secretary

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