



**City of Seattle**  
City Budget Office

**MEMORANDUM**

**Date:** September 2, 2011

**To:** Councilmember Jean Godden, Chair, Finance and Budget Committee  
Council President Richard Conlin  
Councilmember Nick Licata  
Councilmember Mike O'Brien

**From:** Beth Goldberg, Director, City Budget Office

**Subject:** Report on progress, SLI 81-1-A-1: Executive's Review of the City's Human Resource Services and Management of City Health Care Costs

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As part of the 2011-2012 budget process, the Council passed a Statement of Legislative Intent 82-1-A-1 regarding the Executive's review of the City's human resource system, and the Executive's focus on managing health care costs in 2011. This memo provides an update on both of these work areas.

***Part 1: Review of the City's Human Resources System***

**Background:**

As part of the 2010 Adopted Budget, the Council passed a SLI 117-1-A-1 stating the Council's intent to work with the Executive on a review of the relative roles of the centralized human resources staff in Personnel, and the decentralized human resources staff in City departments. The goal was to identify best practices that would most effectively and efficiently provide human resource services to the City and its employees. An objective of the 2010 study was to obtain an update on progress made since a similar 2002 study of the City's human resource system, which made short- and long-term recommendations for the personnel program. Specifically, the 2002 study recommended a Citywide strategic human resources plan, establishment of a customer service culture in the Personnel Department, the beginning of a Citywide workforce succession planning process and separation of centralized from decentralized HR functions.

In 2010, the Executive worked with Cindy Eckholt, the former Human Resources Manager for the Department of Finance and Administrative Services (FAS), to conduct the human resources review. The full report was provided to Council in September, 2010. The 2010 study reported

that only a few of the 2002 recommendations were implemented, and progress made on a few more. The recommendations in the 2010 report reinforced the need for a citywide HR strategic plan, the development of a collaborative, customer-focused service model, best practice benchmarking, and revisited the relationship of centralized versus decentralized HR functions between Personnel and other City departments.

In addition to the work done by Cindy Eckholt, the City Budget Office (CBO) reviewed the human resource staffing levels by department and citywide. This review led to the elimination of 15 FTE human resource personnel citywide in the 2011 Adopted Budget. In addition, the Personnel Department budget eliminated 10 FTE, reduced 3 FTEs from full time to part time and reclassified 3 FTEs.

### 2011 Update

As described in SLI 82-1-A-1, the Council recognized that the leadership of the new, permanent Personnel Director was key to making effective changes in the City's human resource system. As such, the Council and Executive agreed to delay the development and implementation of any significant changes until the Council confirmed a permanent Personnel Director. The new Personnel Director, David L. Stewart, was confirmed by Council in August, 2011.

The following provides an update on the 2010 HR study recommendations, and the progress made as of August, 2011 under the new leadership of the Personnel Director.

<b>2010 Study Recommendations</b>	<b>Progress</b>
<b>Begin the development of a Citywide HR strategic plan</b>	Work on a Citywide HR strategic plan has begun with the development of a City Personnel Strategic Plan. Personnel's Strategic Plan focuses resources on priority issues, develops a service model, and aligns staff work with City and Department goals. Personnel's Strategic Plan is expected by December 2011.
<b>Improve the customer service culture of the Personnel Department and build greater trust and confidence</b>	Personnel Department staff conducted a customer service survey in early 2011, asking respondents to evaluate the Department as a whole, and its component programs. The results did not provide a consistent picture. Individual programs received satisfaction ratings above 50%, while the Department as a whole was rated at or below 50% satisfaction.  Action and work plans to address the survey results will be incorporated in Personnel's Strategic Plan.

<b>2010 Study Recommendations</b>	<b>Progress</b>
<b>Lead the creation of a collaborative partnership between the Personnel Department and department HR staff</b>	In his first meeting with department HR staff and managers, the new Personnel Director voiced his commitment to and invited departments to participate in a collaborative review of City HR services. This work continues and, with the completion of the Personnel Strategic Plan, will lead to the creation of a citywide HR Strategic Plan.
<b>Continue to evaluate the adequacy of staffing levels of the Personnel Department.</b>	<p>Economic conditions of the last three budget cycles have left City Personnel with maintenance level staffing and little-reduced work. This poses two significant issues. The capacity to take on new work is diminished and the agility necessary to respond to swiftly changing social and economic conditions is compromised.</p> <p>One additional outcome of the Personnel Department's Strategic Plan will be to identify work by priority so that unnecessary work or work processes are eliminated. The Plan will also identify gaps where skill and capacity development are needed.</p>
<b>Continue to evaluate HR staffing levels for Seattle City Light and Seattle Public Utilities</b>	Work on this recommendation has, to date, been confined to wage-related issues and not on staffing levels.
<b>Consolidate benefits communications and employee assistance services to all City employees in the Personnel Department</b>	While this consolidation has taken place, it is expected that benefits communications, as a customer service, will increase in priority in the strategic planning process.
<b>Consolidate basic skills training for all City employees in the Personnel Department, with appropriate levels of class offerings to eliminate waiting lists for classes</b>	Training and development is one area where City Personnel could step out and shine; however, staff reductions have left skeletal training resources in the Department which are occupied with performance management and career center needs. There is little to no capacity to develop or oversee basic skills training for all City employees at this time. The Personnel Strategic Plan may encourage shifting or adding resources to Training and Development.

## **Part 2: Management of the City's Health Care Costs**

The City provides medical, dental, vision and other benefits to employees and their covered family members. Total City health care costs (medical, dental, vision) have roughly doubled from approximately \$74 million in 2001 to \$144 million in 2010. This represents an average annual percentage growth of 8.9% over the time period 2001-2010. As a comparison, during 2005-2010, the average annual growth rate of salary as a proxy of other employment costs has been around 4.5%. The General Fund pays for approximately half of the City's total health care costs in 2011. As total costs increase for health care, the percentage of General Fund allocated to health care is increasing, thereby reducing resources available for other uses.

At the outset of 2011, there was no forum in place for the City to effectively evaluate the drivers of the increase in the Health Care Plan ("Plan") costs, or to develop a strategic citywide policy approach to this significant cost area. In early 2011, the Executive formed an Executive Health Care IDT that serves as a joint Council-Executive collaboration to evaluate the City's health plans, and develop a longer term set of strategic health care policies. The Health Care IDT's work serves to inform discussions of HC2, LMLC and other groups that have an influence on the short and long-term direction of the City's health care benefits. The work of the IDT supplements the work that Personnel, FAS and CBO staff are involved in on a day to day basis to provide program management and oversight of the Health Care Fund. The IDT does not replace HC2 or the LMLC, but rather provides a venue for broader, inter-departmental discussions.

### The IDT includes:

- Beth Goldberg, Director, City Budget Office (Lead)
- Ben Noble, City Council Central Staff Director
- Dave Stewart, Director, Personnel Department
- Glen Lee, Finance Director, Finance and Administrative Services
- Ex officio: David Bracilano, Director of Labor Relations, Personnel Department.

The staff work group supporting the IDT includes: CBO (Hall Walker & Kristi Beattie), FAS (Dave Hennes & Nick Maxwell), Personnel Employee Health Services (Florence Katz & Renee Freiboth), and City Council Central Staff (Patricia Lee).

During 2011, the IDT evaluated a set of changes to the City's health care plans that would reduce health plan costs, without reducing benefits. Controlling the cost growth of healthcare benefits is important given that growth in this cost area requires GF and other resources that otherwise could be focused on maintaining and expanding direct services. Limiting the growth of health plan costs also benefits employees in that it reduces their exposure to increased premium costs on an annual basis.

The IDT also evaluated the current reserves established in the Fund. City policy now sets health care rates to reflect forecasted experience for the self-insured medical plans (Aetna). The Healthcare Subfund overall has sufficient reserves to cover an annual shortfall, but these reserves are maintained in Orgs whose purposes do not include covering annual deficit situations. The IDT recognized that a new reserve within the Health Care Subfund would be prudent to cover deficit situations in the time period prior to recovering a shortfall through an increase in City and employee premiums.

Following review, the IDT recommended the following changes to reduce overall program costs over the long term, and therefore reduce the amounts that both the City and employees pay in

health care premiums. These changes were presented to HC2 and accepted in August. As a result, these changes are incorporated into the 2012 health care rates and will become effective in January, 2012.

- 1) Stop purchasing stop-loss insurance (reinsurance, primarily on large claims) on self-insured medical plans
  - Saves approximately \$1 million annually over the long term in carrier risk charges and State premium taxes;
  - Reduces administrative burden related to monitoring for and pursuing periodic stop loss reimbursements; and
  - Allows the City to internally manage the risk associated with large claim activity rather than having those costs carried by a remote insurance company for an insurance premium cost that is rising significantly year over year.
- 2) Self insure the City's Washington Dental Service (WDS) plan
  - Saves approximately \$300K annually through a combination of reduced premium taxes and reduced risk charges.
- 3) Establish a new Forecast Variance Reserve (FVR) for Medical/Pharmacy claims and for Dental claims within the Health Care Fund.

The Forecast Variance Reserve (FVR) is specifically designed to address risks that cannot be forecasted precisely, and to insure the City internally against catastrophic costs that are no longer covered by stop-loss insurance as a result of the change describe in (#1) above. Other reserves exist in the Health Care Fund for a) benefit enhancements and/or to limit additional premium sharing by signatory-union members, b) benefit enhancements and/or to limit additional premium sharing by non-represented members, and c) for terminal liabilities of the self-insured medical plan, but not specifically to address fluctuations for self-insured risk.

The City forecasts health care rates for the self-insured medical plans (Aetna) to align as closely as possible with forecasted experience. In the event that the rates do not collect fully for the health care costs incurred in a given year, the shortfall (or deficit) is recouped to the Health Care Fund in the subsequent year by recovering the deficit amount via an increase to the health care plan rates. However, under this arrangement, the Plan does not have the funds readily available to cover the extra risk it has experienced. The FVR is being fully established in 2012 in part through a one-time transfer of "excess" terminal liability reserves in the Fund, and in part through a component included in 2012 rates to cover unanticipated utilization or price growth, or an unexpected number and/or size of large claims in a given year.

The City's health care actuary, Aon Hewitt, supported the IDT's recommendation to establish the FVR as a prudent step under the current rate forecasting model, and when taking on additional claim risk by stopping loss insurance coverage on the self-insured medical plans (Aetna) and self insuring the WDS Dental plan. Aon Hewitt worked with the City to determine the initial funding level of \$5.4 million.

In 2012, the cost savings that will be realized as a result of making these changes net to approximately zero due to the need to fund the Forecast Variance Reserve anew in 2012. However, beginning in 2013, Aon Hewitt estimates that the City will experience a reduction in costs for the overall health care plan for the City, controlling for other issues, on the order of \$1-

\$4 million annually as Forecast Variance Reserve funding in future years will not involve full replenishment, but rather, only replenishment of any funds used and/or any increase in expected risk.

Moving forward, the IDT will continue to evaluate additional potential cost savings measures. The IDT will also continue to evaluate and understand better the trends in the City's health care costs. Further changes may be proposed by the IDT in 2012 for the 2013 benefits and rate setting process.

Please contact me if you have any questions, or would like additional information.

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