




## CITY of NOVI CITY COUNCIL

Agenda Item J  
July 8, 2013

**SUBJECT:** Approval of Resolution to comply with Public Act 152 of 2011 Publicly Funded Health Insurance Contribution Act by adopting the 80/20 cost sharing model set forth in Section 4 of that Act.

**SUBMITTING DEPARTMENT:** City Manager's

**CITY MANAGER APPROVAL:** 

**BACKGROUND INFORMATION:**

At the September 26, 2011 council meeting City Council approved a Resolution adopting the 80/20 medical insurance cost sharing model as outlined in Section 4 Public Act 152. The 80/20 Cap limits the amount a public employer may contribute towards "the total annual costs" of an employee's healthcare costs by limiting the employer portion to 80% of the cost of premium paid and the remaining 20% paid by the employee. The 80/20 option also includes all annual costs related to healthcare coverage including payments for reimbursements of co-pays and deductibles and payments into health savings accounts, flexible spending accounts, or other similar accounts used for healthcare costs. By the action taken in 2011 by City Council as of January 1, 2012, 148 employees out of the 202 who elect the City's health care program began contributing 20%. The remaining 54 employees contributed various amounts due to binding labor contracts. Due to expiration dates of employment contracts, as of July 1, 2013 **all** City employees that are afforded health care contribute 20% to their healthcare costs.

A table of Novi's Michigan comparables and their respective election of choices offered by PA 152 listed below:

Community	Population	PA 152 form of Compliance
Auburn Hills	21,412	80/20 ✗
Farmington Hills	79,740	Hard Cap -
Livonia	96,942	Hard Cap -
Madison Heights	29,694	80/20 ✗
Oakland County	1,220,657	Opt Out
Royal Oak	57,236	80/20 ✗
Southfield	71,739	80/20 ✗
Troy	80,980	Opt Out
Waterford	71,707	Hard Cap -

The 80/20 option was selected over the three other options (adopt a hard cap, elect not to follow the statute/non-compliance or opt out and revisit the following year) as described by Public Act 152 in order to maintain the City's eligibility for the Economic Vitality Incentive Program (EVIP). Per EVIP guidelines now being interpreted by Treasury Department staff, the City must adopt and re-affirm its commitment to the 80/20 cost sharing model annually, regardless of previous action. Currently the City receives an estimated \$26,887 for participating in all three phases of the EVIP, which is the only form of statutory revenue sharing made available to Michigan municipalities.

By adopting the 80/20 option, back in 2011, the City has saved an approximately \$832,463 (FY 11-12 \$314,284 and FY 12-13 \$518,179) in healthcare premium costs by having employees contribute that much more towards the health care benefit. This savings has help further improve the City's fiscal position and provide resources for the workforce to continue to provide exemplary services to the Novi community.

**RECOMMENDED ACTION:** Approval of Resolution to comply with Public Act 152 of 2011 Publicly Funded Health Insurance Contribution Act by adopting the 80/20 cost sharing model set forth in Section 4 of that Act.

	1	2	Y	N
<b>Mayor Gatt</b>				
<b>Mayor Pro Tem Staudt</b>				
<b>Council Member Casey</b>				
<b>Council Member Fischer</b>				

	1	2	Y	N
<b>Council Member Margolis</b>				
<b>Council Member Mutch</b>				
<b>Council Member Wrobel</b>				



## RESOLUTION TO RE-AFFIRM CITY COUNCIL'S ADOPTION OF THE 80/20 COST SHARING MODEL AS SET FORTH IN SECTION 4 OF PUBLIC ACT 152

### CITY COUNCIL

**Mayor**  
Bob Gatt

**Mayor Pro Tem**  
Dave Staudt

Terry K. Margolis

Andrew Mutch

Justin Fischer

Wayne M. Wrobel

Laura Marie Casey

**City Manager**  
Clay J. Pearson

**City Clerk**  
Maryanne Cornelius

**WHEREAS**, Public Act 152, the Publicly Funded Health Insurance Contribution Act, passed by the state Legislature in 2011, was designed to lessen the burden of employee healthcare costs on public employers;

**WHEREAS**, communities were given four options for complying with the requirements of the act, depending on the impact of the act on the employees of each public employer;

**WHEREAS**, those four options are as follows:

- 1) Apply the hard cap (capped dollar amount each government employer may pay towards an employee's healthcare costs);
- 2) Adopt by majority vote the 80%/20% cost-sharing model;
- 3) Elect not to follow the statute/non-compliance;
- 4) Opt out of the cost-sharing model as set forth in the act and revisit it prior to the next plan year.

**WHEREAS**, the City Council adopted the 80/20 cost sharing model by resolution at their September 26, 2011 meeting as its choice of compliance obligations under PA 152;

**WHEREAS**, in order to be in compliance of the Economic Vitality Incentive Program (EVIP) the City needs to re-affirm its decision to adopt the 80/20 cost sharing annually.;

**NOW, THEREFORE, BE IT RESOLVED**, the Novi City Council elects to comply with the requirements of the Publicly Funded Health Insurance Contribution Act by adopting the 80/20 cost sharing model set forth in Section 4 of Public Act 152.

**CERTIFICATION:** I hereby certify that the foregoing is a true and complete resolution adopted by City Council for the City of Novi at a regular meeting held this 8<sup>th</sup> day of July, 2013.

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Maryanne Cornelius  
City Clerk

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cityofnovi.org

CAPS ON PUBLIC EMPLOYER CONTRIBUTIONS  
TO MEDICAL BENEFIT PLANS  
"Hard Cap" or "80/20" Rule

Senate Bill 7 (SB 7), the "Publicly Funded Health Insurance Contribution Act," was approved by both the House and Senate on August 24, 2011. The law takes effect January 1, 2012 and applies to all public employers. However, any collective bargaining agreement or other contract executed on or after September 15, 2011 must comply.

SB 7 creates a "hard cap" on the amount a public employer may contribute to a medical benefit plan, which includes but is not limited to hospital and physician services, prescription drugs and related benefits. SB 7 provides an option to elect an 80% contribution cap rather than the hard cap, and it contains a provision to allow a local unit to opt-out entirely.

*As of August 29, 2011, it is unclear how the penalties for non-compliance with this act will intersect with the requirements created by EVIP related to health care, and the penalties therein.*

"Hard Cap"

For the medical benefit plan coverage year beginning on or after January 1, 2012, a public employer may not pay more of the annual costs for medical benefit plans than a total amount equal to:

- \$5,500 times the number of employees with single person coverage
- \$11,000 times the number of employees with individual and spouse coverage
- \$15,000 times the number of employees with family coverage

A public employer may allocate its payments among its employees and elected officials as it sees fit. These caps will be adjusted by October 1 each year, to apply to following calendar year, based on the change in the medical care component of the United States consumer price index (CPI) for the most recent 12-month period available from the United States Department of Labor, Bureau of Labor Statistics.

"80/20"

By a majority vote of its governing body, a public employer may opt-out of the hard cap and into an 80% cap option wherein the public employer may not pay more than 80% of the total annual costs of all the medical benefit plans it offers or contributes to for its employees and elected officials. See the next page for details on the option to opt-out entirely from these requirements.

The public employer may allocate employees' share of total annual costs of medical benefit plan as the employer sees fit. However, *elected* public officials must pay 20% or more of the total annual costs of the medical benefit plan.

### **Complete Opt-Out**

By a 2/3 vote of its governing body each year, a local unit of government may exempt itself from the requirements of this act for the next year. An exemption is not effective for a city with a mayor who is both the chief executive and chief administrator, unless the mayor also approves the exemption.

### **Total Annual Costs**

Both the hard cap and the 80% cap pertain to total annual costs of the medical benefit plan. These include the premium and all employer reimbursement of co-pays, deductibles, and payments into health savings accounts, flexible spending accounts or related accounts.

### **Collective Bargaining Agreements or Other Contracts**

This law does not apply to existing collective bargaining agreements or other contracts until the agreements or contracts expire, are extended, or renewed. However, any collective bargaining agreement executed after September 15, 2011, must comply.

A public employer's expenditures for medical benefit plans under a collective bargaining agreement or other contract are to be excluded from the maximum payment formula under the hard cap provision.

### **Deductions**

A public employer may deduct an employee's or elected official's portion of the costs of medical benefit plans from compensation due, and the employer may condition eligibility for the plan on the employee/elected official providing authorization to make such a deduction.

### **Penalties**

Failure to comply with this act will result in the State Treasurer reducing each Economic Vitality Incentive Program payment by 10% (EVIP, PA 63 of 2011) for the period of non-compliance. This penalty is separate and distinct from the health care component of the EVIP certification process. Action under this act does not certify or disqualify you for regular EVIP payments.

## Pearson, Clay

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**From:** Cardenas, Victor  
**Sent:** Thursday, June 27, 2013 11:29 AM  
**To:** Pearson, Clay  
**Cc:** Place, Melissa; GronlundFox, Tia; McCarter, John; Cornelius, Maryanne; Hanson, Cortney; Nazarko, Nevrus; Dorey, Jessica  
**Subject:** FW: EVIP Cat. 3 Vote

Clay,

Per notification from the Department of Treasury the City Council needs to re-affirm its decision to retain the 80/20 medical insurance cost share annually to qualify for the 2013 EVIP program (all \$24,000 of it). I, personally, believe this is a frivolous request as the initial 80/20 resolution set the tone/direction for contract negotiations and medical plan design for years to come. I have not been informed on the rationale behind this provision but my assumption is by requiring an annual affirmation it prevents smaller Michigan communities from switching back to a municipality funding 100%, but again that's only my assumption.

We will have the same resolution, albeit revised, approved in 2011 prepped and ready to go for the July 8<sup>th</sup> City Council meeting. X

Regards,

Victor

**From:** TreasRevenueSharing [<mailto:TreasRevenueSharing@michigan.gov>]  
**Sent:** Tuesday, June 11, 2013 1:33 PM  
**To:** Cardenas, Victor  
**Subject:** RE: EVIP Cat. 3 Vote

Victor,

I did not catch it in the resolution that you initially set in but it was much more obvious when you sent in the minutes. It does have to be by an annual vote to adopt the 80/20 option so we do need a vote for this medical benefit plan coverage year. You are still qualified for both payments but we do need meeting minutes/resolution showing a majority vote for this coverage year. Please let me know if you have any questions. I apologize I did not catch it initially. Please let me know if you have any questions.

Thanks  
Denise

*Denise Flowsky*  
Michigan Department of Treasury  
[elowskyd@michigan.gov](mailto:elowskyd@michigan.gov)  
517-335-3234

**From:** Cardenas, Victor [<mailto:vcardenas@cityofnovi.org>]  
**Sent:** Thursday, May 30, 2013 4:11 PM  
**To:** TreasRevenueSharing  
**Cc:** McCarter, John; Nazarko, Nevrus; Pearson, Clay; Dorey, Jessica  
**Subject:** RE: EVIP Cat. 3 Vote

Good Morning Denise,

Per your message I'm attaching the minutes from the September 26, 2011 meeting that specifically outlines the number of Councilmembers (page 8) that voted for and against the previously shared resolution. With that being shared, correct me if I'm wrong, but a governing body can't pass a resolution without a majority vote? And we shared the signed version of the resolution with the completed EVIP documentation.

Regards,

Victor

**From:** TreasRevenueSharing [<mailto:TreasRevenueSharing@michigan.gov>]

**Sent:** Wednesday, May 29, 2013 5:13 PM

**To:** Cardenas, Victor

**Subject:** EVIP Cat. 3 Vote

Victor,

I have received your Category 3 EVIP submission and resolution, however, I am missing the majority vote. Please send documentation to verify that the 80/20 option was passed with a majority vote.

Thanks

Denise

*Denise Flowsky*

Financial Analyst

Michigan Department of Treasury

Office of Revenue and Tax Analysis

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Phone: 517-335-3254