

INTERNAL SERVICES FUND

The Internal Services Fund was established in July 2006. In seven of the eight fiscal years since this fund was established, the district has been partially self-funded with stop-loss insurance that covered specific plan participants with claims that exceed \$175,000, or aggregate claims for all plan participants that exceed 115% of expected. In fiscal years 2010 and 2011 the district was fully-insured. However, during these periods the district and Town maintained the Internal Services Fund to allow for the transition back into partial self-funding when the market favored this decision.

The Internal Services Fund provides a mechanism for full disclosure of revenue and expenditures on one statement, retaining fund balances specifically for health benefits, and establishing long-term budget stability. The Board of Education is responsible for recording the transactions for the fund and preparing periodic reports. The Town is responsible for maintaining the bank accounts and providing the necessary cash flow.

The Fund was also established to account for all of the business transactions associated with providing employees with the health benefit program outlined in collective bargaining agreements and the Board of Education's agreements with non-represented staff. The fund has a "Revenue and Expenditure Statement" and a "Balance Sheet".

There are several revenue sources that support this Fund. The largest source of funding is from the Board of Education's Operating Budget, which consists of an annual appropriation. Other sources of funding are derived from employee cost sharing, the State Teachers' Retirement Board, retiree co-payments and COBRA.

The expenditures accounted for in this Fund include paid and accrued claims for medical, prescription and dental coverage, stop-loss insurance, administrative fees, Medicare supplement payments, wellness program expenses, fees and taxes assessed to the district as a result of the Affordable Care Act and consultant fees. For FY 2018, the actuarial contribution for OPEB is \$47,000, which will be fully funded through the Internal Services Fund. At the end of each fiscal period, the district's insurance carrier provides the dollar amount of the outstanding claims liability, which is recorded in the financial statements of the Town as incurred but not recorded (IBNR).

In FY 2018, staff represented by the WTA will contribute 15.5% of the cost of their health insurance through December 31, 2017 and 16% from January 1st, 2018 to June 30th, 2018. The WAA will contribute 16% of the cost of their health benefits while those employees represented by AFSCME will contribute the FY 2015 rate of 13.5%, pending contract negotiations.

In FY 2018 the district will be taxed for the Affordable Care Act (ACA) in the amount of \$7,150. This is a reduction from prior years as the ACA Reinsurance Fee is no longer applicable. The district's health care plan may also be subject to a "Cadillac Tax" in the future. This is an excess tax that impacts plans that cost more than the threshold amount established by the federal government.

As of June 30, 2016, there was a fund balance of \$2,793,243. The reserve balance is anticipated to be reduced to \$2,435,815 based on a budget drawdown of \$150,000, \$47,000 for OPEB and \$160,428 for higher than anticipated claims. When self-insured, the fund balance is maintained for the possibility of three items, which include aggregate stop loss, IBNR and a budget stabilization. The amount needed to cover these three items varies based on risk tolerance and population. Our aggregate stop loss amount needed for our fund balance represents 15% of expected claims, which for FY 2018 would represent \$1,071,166. Our IBNR amount has averaged over the last three fiscal years at 12.75%. At 12.8% this would be \$910,491. The aggregate stop loss and IBNR would require \$1,981,657 within our fund balance. The FY 2018 budget is projecting a fund balance of \$1,981,657, which is our target fund balance for both aggregate stop loss and IBNR. The district will review our aggregate stop loss options and premium renewals before the end of the current fiscal year.

While the fund balance is anticipated to decrease this year and budgeted to decrease in FY 2018 the fund balance remains at a strong level when compared to our surrounding districts who are self-insured.

Due to higher than expected claims in the first 3 months of FY 2017 as well as higher than expected claims towards the second half of FY 2016, our health insurance trend rate is anticipated to be 9.4%. Given that in the first 4 months of FY 2017, three individuals have hit the individual stop loss amount of \$175,000 and in FY 2016 six individuals hit the individual stop loss of \$175,000 with a total of 24 claimants above \$50,000 each, our anticipated stop loss renewal is expected to increase approximately \$115,000 from its current level of \$506,654. This, coupled with the trend rate of 9.4%, results in an operating budget increase of \$452,811 for the Internal Services Fund contribution. This increase represents a 0.93% increase in our operating budget.