SANFORD CITY COUNCIL
WORK SESSION
Tuesday, June 11, 2019
225 East Weatherspoon Street, Sanford, NC

The City Council held a work session on Tuesday, June 11, 2019, at 6:00 p.m. in the West End Conference Room at City Hall. The following people were present:

Mayor Pro Tem Rebecca Wyhof Salmon
Council Member Jimmy Haire
Council Member Charles Taylor
City Manager Hal Hegwer
Management Analyst Holly Marosites
Deputy City Clerk Vicki Cannady

Council Member Byron Buckels
Council Member Sam Gaskins
Council Member James Williams
City Attorney Susan Patterson
City Clerk Bonnie Davis

Absent:
Mayor Chet Mann
Council Member Norman Charles Post, III

Mayor Pro Tem Salmon called the work session to order.

**Sanford Housing Authority Director Shannon regarding Term Limits (Exhibit A)**

Shannon Judd explained that Sanford Housing Authority (SHA) board members are currently serving one, two, and three-year terms and members rotate off the board annually. She stated that these short terms do not allow board members adequate time to learn oversight and policy approval responsibilities needed, particularly with their new RAD (Rental Assistance Demonstration) program, and suggested that terms be increased to five years. City Attorney Susan Patterson reminded Council that Council increased the number of board members on November 4, 2014, from five to seven and those initial terms were staggered, but all terms are now three years and board members can be re-appointed. Ms. Judd explained that they need members with backgrounds in finance, banking, housing and business. She confirmed that she meets individually with board members and they have annual retreats where she and outside consultants provide training. Council Member Gaskins commented that the problem appears to be with members resigning before their terms are completed, with current board members who were appointed to fill these incomplete terms.

Ms. Judd also informed Council that SHA’s fiscal year runs from October 1 through September 30, which creates timing issues since board terms begin July 1 and run through June 30, just as the SHA budget planning process begins. Fiscal years for some housing authorities begin in January and others begin in July, but they are all established by the Department of Housing and Urban Development (HUD) when they are incorporated. Council Member Taylor suggested that the SHA use the same fiscal year as the City, which Ms. Judd agreed to investigate since it would require HUD approval. Mrs. Patterson explained that the City’s Code of Ordinances set the term for board appointments to match the City’s fiscal year (July 1 through June 30) but this could be revised. She noted, however, that allowing one board to have a different year for members could create problems with conflicting dates for recruiting and advertising for members, as well as when making appointments (particularly when “second choice” requests are made by applicants).
Council Member Byron Buckels, who serves as Council liaison on the SHA board, agreed that three-year terms are adequate and stated that he would like to see SHA on the same fiscal year as the City. Mayor Pro Tem Salmon suggested that Council members encourage qualified citizens to apply for the SHA board and noted that feedback from board members would be very useful. She requested that Ms. Judd research whether the SHA can revise their fiscal year to align with the City’s. Council Member Buckels stated that he would keep Council updated and suggested that Council reassess the issue if there are issues. Council Member Taylor suggested that information on specific skill sets needed for any board be included when seeking applicants, similar to the model used by the Tourism Development Authority. Council Member Haire suggested that we obtain occupation information for Citizens Academy participants.

Presentation by Southern Benefit Systems Regarding Health Insurance Analysis and Recommendations to Help Contain Costs (Exhibit B)

Josh Hyman, Consultant with Southern Benefit Systems (“SBS”), reminded Council that the City paid them $6,000 to analyze its health care coverage, with the understanding that they would provide options to save at least that amount or they would return the fee. He reviewed a “SWOT” (strengths, weaknesses, opportunities and threats) analysis and noted that primary strengths of our current plan include the City’s 100 percent contribution for each employee’s premium; strong benefit levels; and the City’s contribution toward Health Savings Accounts for employees who elect that option. The plan’s weaknesses include a continuous high claimant; some “adverse selection” (described below); supply chain management procedures; and transparency issues with Blue Cross/Blue Shield of North Carolina (“BCBS”), our current insurer. Opportunities include some “bolt-on” solutions (described below); medical management implementation; and direct contracting. Threats include the need for a three- to five-year plan; an aging retiree population; increased medical charges (as seen across the nation); and misaligned incentives.

Mr. Hyman explained that while our fixed costs expenses (administrative fees, stop/loss coverage premium) have decreased each of the past three years, we increased our stop/loss coverage from $135,000 to $200,000; total claims increased by about $100,000 annually; and prescription expenses exceeded $1 million annually, with one particular drug costing more than $200,000. Last year’s renewal premium with BCBS was just under $400,000 but they retained $118,000 in rebates. He contrasted that with a comparable renewal with CIGNA of $570,539 but he noted that they would have allowed $199,000 in rebates (they allow “carving out” prescription coverage while BCBS does not), which would have resulted in a cost of $371,340. Reverting to the $135,000 stop/loss coverage would have generated another $65,000, for a total savings of $93,206 with CIGNA.

Actual cost savings projections presented by Mr. Hyman included the following:

- **Option #1: “Bolt-on Strategies”**: Since we have already renewed coverage with BCBS for the upcoming fiscal year, two options are available for “bolting on” to that coverage:
  - Prescription coverage: This option would be voluntary and would not replace BCBS. Members would have no co-pay for a 90-day supply of their medications (same brand) which would be mailed directly to them at no cost. He pointed out that on the chart of drugs already being used by members (“Pharmacy Solution – Option 1”), the City is currently paying more than $80,000 annually for Aubagio (the costliest), while the proposed option would cost about $32,000, a savings of
more than $48,000. If we had 100 percent participation, this option could save the City nearly $142,000 annually ($189,987 in actual savings less their 25 percent fee) with actual savings based on the number of medications used by participants. Mr. Hyman will confirm with BCBS that our stop/loss coverage would include medication but he suggested that we would not meet the $200,000 limit. He also explained that the vendor would invoice the plan directly each month for the cost of medication.

- **"Adverse selection":** This SIHRA/MERP ("Spousal Incentive Health Reimbursement Account") option would reduce costs to the City by removing coverage for current employees’ working spouses who have coverage available through their employers (the vendor would be responsible for confirming that coverage was available). The incentive to employees is that the plan would cover 100 percent of the spouse’s co-pays, deductible and co-insurance up to $7,900 (the Affordable Care Act out-of-pocket maximum for 2019). In the second year, this option would be offered for dependents: dependents who are transferred from the City’s plan to the working spouses’ plan would also have 100 percent coverage of co-pays, deductible, and co-insurance. This option reduces the potential $200,000 risk (the amount at which stop/loss coverage would apply) to the City for each participant since the total out-of-pocket limit would be capped at $7,900. The cost to the City would not exceed $7,900 in claims per participant, a $25 fee per member per month, and 30 percent of savings generated. He suggested this option would be attractive to employees who foresee large expenses for their spouses or dependents since it would cover co-pays, deductibles and co-insurance amounts. Since the plan covers current employees’ spouses and current employees’ dependents, a provision would be included that working spouses with group health coverage available through their employer would no longer be eligible for coverage under the City’s health care plan for new employees.

Mr. Hyman reviewed the pro forma analysis shown on the "Adverse Selection Solution", and stated that potential fixed cost savings to the City over five years range from $378,000 (with three-percent participation) up to $1.2 million (with ten percent participation). He explained that these numbers do not include void claims (potentially very large claims for severe health issues) that would no longer be paid by the City, but does include the administrative fee. It factors in $4,000 for potential claims for each individual covered (roughly the average reimbursement). He noted that they have seen situations where an employee’s spouse’s policy did not cover a specialty medication and confirmed that an exception could be written to allow the spouse to remain on the employee’s plan and use the pharmacy option.

In response to questions about inferior coverage, Mr. Hyman stated that almost all area doctors are included in PPO networks for BCBS, CIGNA, United Health Care or Aetna, and that claims incurred at out-of-network providers would still be eligible for reimbursement up to the $7,900 out-of-pocket maximum. He confirmed that the employee could bear some expense for going to an out-of-network hospital and having a costly procedure above the $7,900, but noted there
are very few out-of-network area hospitals. He also confirmed that an exception could be written to cover this situation.

- Medical Management: Mr. Hyman explained that this option is designed to provide the “right patient the right care at the right time at the right facility”. He reviewed charts showing claims paid from January 1, 2017, through March 31, 2019, at nine area hospitals and a ranking done by Quantros Analytics, a third-party analytic firm that does only hospital analyses, showing their overall quality rankings and orthopedic care quality rankings. The goal of this program is to educate participants and steer them to the facility that will provide the best quality care, thereby reducing re-admissions and complications that increase costs. While not all visits are scheduled and participants will often use the most convenient facility, much of this type of care is pre-planned and will require pre-notification. Participants can potentially be offered no cost surgery with their deductible covered by the City if they use facilities with higher quality ratings. He also noted that the average clinically adjusted cost shown on the Quantros Analytics sheet for Central Carolina Hospital was higher than Duke Health Raleigh’s adjusted cost; they also had a 98 overall quality hospital care rating compared to Central Carolina’s rating of 30.1. He confirmed that facilities are not limited to those shown and this particular information is more of an analysis summary. He explained that this information is not available to employees and this option is also voluntary. It has a fixed cost of $6.12 per employee per month and is a much better option if combined with Option #2.

- Option #2- Fully Transparent Model Replacing BCBS: Mr. Hyman explained that this option would require that BCBS be replaced since they do not allow pharmacy benefits to be “carved out”. There is a fixed administrative fee of $6.75 for each prescription and a “fiduciary pharmacy benefit manager” would pass all rebates along with no spread pricing. He stated that it could reduce our pharmaceutical expenses by a minimum of approximately 20 percent, for an estimated savings of $151,000. He explained that SBS encourages clients to bolt all of Option #2 with Option #1.

He reviewed the top fifteen medications used by members and noted that the plan paid more than $31,000 for Dexilant (the costliest). The pharmacy option included in Option #1 offers a solution for about $15,000 while this Option #2 provides a clinical alternative for less than $800, for a potential savings of more than $30,000. He also noted that Latuda (#15 on the list) cost more than $2,300 on our current plan whereas this option would provide a clinical alternative for less than $8, a savings of more than $2,300. The “alternative” example he provided was two 500-milligram pills of Metformin costing $5.31 with Option #2 compared to one 1000-milligram pill costing more than $10,600 on our current plan. The pharmacy benefit manager would confirm what is “clinically necessary” and in the best interest of the member, while the vendor would maximize prescription savings. In response to questions about a third-party making a clinical decision as opposed to the doctor, he explained that the third-party would work with the doctor on these decisions and this option would bring oversight to the process. He reviewed two case studies showing cost reductions of 34 and 52 percent (this particular
vendor has generated an average of 20 to 40 percent in savings) and explained that the potential savings to the City on the top 15 medications is approximately $129,000. This option would tie into Option #1 and the vendors would work together to determine where medications can be best sourced.

- Option #3- Fair Pay Model: This option offers the highest level of cost containment by working directly with providers to obtain the best possible cost for the same procedure. It is done through direct contracting, pre-negotiated up-front pricing, and potential cash pricing where they are paid within three to four days rather than billing patients. He explained that BCBS discounted the City’s charges of about $6.6 million last year by 50.9 percent and our total plan spending, including fees, was about $2.4 million. Under this program, those charges would have been discounted by 68.4 percent and our total expenses, including fees, would have been $1.6 million, for a savings of $791,000.

Mayor Pro Tem Salmon questioned why more governments and businesses are not moving to these models. Mr. Hyman responded that there is fear of employee pushback, particularly on the adverse solutions model (requiring working spouses to move to their companies’ coverage); many people are not aware of options such as these; and the “status quo” sentiment to keep doing what has been done in the past; however, the potential for cost savings should offset these factors. He acknowledged that these decisions depend largely on budgetary constraints and moving to other options may be a two-, three- or even ten-year plan.

Mr. Hyman proposed an action plan to implement Option #1 with the “bolt-on” pharmacy solution and the SIHRA (requiring employees’ working spouses to move to their company’s plans) in the first year by offering them a reimbursement plan to provide 100 percent coverage of co-pays, deductibles and co-insurance up to $7,900. In the second year, those incentives could be offered to employees who transfer their dependents to their spouses’ employer’s plan. He explained that SBS would plan education meetings for vendors to meet with employees to explain options and benefits. They would also provide ongoing member education through monthly meetings, emails or phone calls and offer quarterly performance meetings to show exactly where savings are being generated and to suggest participants who could be targeted (particularly those using expensive medications, in order to determine if other options are available). They would also provide an ongoing review of medical and prescription claims to consider prior to next year’s renewal. He recommended that we select one or both programs in Option #1 and consider the other options as the next step. He suggested that the prescription option could be effective July 1 and if there is apprehension on the requirement to shift spousal coverage, a 90-day notice period could be written into the plan.

City Manager Hal Hegwer thanked Mr. Hyman for gathering information and presenting options as requested and suggested that staff be given time to analyze these options. He also noted that the City has considered and implemented changes to employee insurance coverage over the years (changing carriers, revising stop/loss coverage, increasing employee co-pays and deductibles) and suggested that it is incumbent on Council to consider and digest this information. Human Resources Director Christy Pickens agreed that any type of change often creates apprehension before employees become accustomed to it. When the specialist co-pay was increased from $60 to $70, her department received negative feedback from employees but it levelled off.
Council Member Taylor questioned whether there was consensus to move forward on the voluntary prescription option for implementation on July 1. Mrs. Pickens recommended that more time be given to review these options. Mr. Hyman confirmed that he could set up initial educational meetings with staff, provide information on the spousal coverage and review savings on prescription claims from July through October. Mayor Pro Tem Salmon suggested that barring any new developments, Council could vote at its next meeting on whether to proceed with the pharmaceutical option described in Option #1 and establish a start date adequate for the Human Resources Department.

Mr. Hyman confirmed that there is no implementation fee for Option #1’s pharmaceutical feature since they are paid a percentage of the savings and it is a “stand alone” feature; however, if we were to elect this option and sever the relationship with SBS, there would be a $20,000 implementation fee. He further explained that if they are to continue reviewing claims prior to next year’s renewal, they would charge a $2,000 monthly retainer but savings would cover these expenses if even one person uses the costliest medication referred to earlier. Financial Services Director Beth Kelly reminded everyone that no funds had been budgeted for these expenses. Ms. Salmon expressed concern about moving forward without additional review and confirming all costs. Mr. Hegwer agreed to have staff analyze the information and report back to Council.

Closed Session
Council Member Taylor made a motion to go into closed session in accordance with NCGS 143-318.11(a)(1) to prevent the disclosure of information that is privileged or confidential; and (4) to discuss matters relating to the location or expansion of industries or other business in the area served by the public body. The motion was seconded by Council Member Buckels and carried unanimously.

Other Business
Council Member Charles Taylor questioned whether we could compare tag fees received prior to implementing the $30 vehicle registration fee with fees received after implementation. Financial Services Director Beth Kelly explained that the state collects this fee for us and she was not sure how much detailed information is sent to the county. Mr. Hegwer agreed that staff would research to determine whether there were any trends.

Adjournment
Council Member Gaskins made the motion to adjourn. Seconded by Council Member Buckels, the motion carried unanimously.

T. Chet Mann, Mayor

Bonnie Davis, City Clerk