

Report of the Consolidated Services Working Group May 27, 2015

Background

In 2013 the State of Connecticut adopted Public Act No. 13-60 (the “Act”), with an effective date of October 1 of that year. The Act provided a procedure for a town’s board of finance to make recommendations to the local board of education for consolidating non-educational services with similar services furnished by the town. In June 2014, in response to the Act, the Board of Selectmen, with support from the Board of Finance and the Board of Education, established the Consolidated Services Working Group (the “CSWG”) as an advisory committee to “explore opportunities and identify options to make recommendations on ways in which non-educational services may be combined to create financial efficiencies.” Under the adopting resolution, the CSWG is to submit its findings to the Board of Selectmen. This report is for submission to the Board of Selectmen.

The CSWG has been composed of six voting members, two appointees from each of the Board of Selectmen, the Board of Education and the Board of Finance. The Board of Selectmen’s appointees have been Jayme Stevenson, the First Selectman, and Jerry Nielsen, the Board of Education’s Michael Harman and Callie Sullivan (who succeeded Heather Shea) and the Board of Finance’s Liz Mao, its Chair, and Frank Huck. At an organizational meeting on July 9, 2014, upon the suggestion of Jayme Stevenson, Frank Huck was selected as the chair.

Process

On August 12, 2014, the CSWG held a “brainstorming” session. It was led by Doug Campbell, who was acting as a facilitator, and included Lynn Pierson, Interim Superintendent of Schools, Mike Feeney, Director of Finance for the Schools, Karl Kilduff, Town Administrator, Kate Buch, Director of Finance for the Town, and Board of Finance members Jamie McLaughlin and Bruce Orr, in addition to the CSWG members. Martha Banks acted as the “scribe.”

The session focused first on identifying facilities, functions and services where Town and Board of Education sharing or cooperation might lead to improvements or cost savings and then on criteria for determining which of those should be taken up. The consensus was that the areas most meriting reviews were facilities and vehicle maintenance and management, health insurance and other employee benefit programs and back office functions like finance and procurement. The criteria for selecting among them naturally included the potential benefits of collaboration, the investment in time and funds that would be necessary to effect change and regulatory and contractual restrictions on change. Given the criteria, the CSWG settled on health insurance and facilities maintenance and management for particular study.

The participants in the session noted, with some emphasis, the extensive sharing that already takes place, in information technology services, in pension and other postemployment benefit management, in commodities purchasing and in liability and workers' compensation insurance purchasing. They also agreed on the need for regular attention to the possibility for Town and Board of Education cooperation as new issues arise and initiatives commenced.

In a series of meetings held on September 3, 2014, October 29, 2014, March 25, 2015 and April 22, 2015, the CSWG, along with Town and Board of Education officials, met to consider the possibilities for cooperation in the areas selected for review – health insurance and facilities maintenance and management – as well as to understand the history and value of the sharing that goes on today. There is general satisfaction with the management of the current shared services and with the allocation of related costs.

Health Insurance

Health insurance is a major expense for both the Town and the Board of Education and its cost for each is projected to increase as a percentage of its budget going forward. The Town and the Board of Education each negotiate health insurance coverage with multiple unions. Any negotiation, if it doesn't end in mandatory arbitration with terms imposed by the arbitrators, is shaped by past precedents and by

expectations of what arbitrators would decide in arbitration. The union contracts have different contract periods. Nonetheless, both the Town and the Board of Education have sought and obtained reasonable consistency in their various contracts, and the Town has joined the Board of Education in moving towards offering only high deductible plans for employees eligible for them (which is to say, those not over 65).

The CSWG determined to look specifically at two new approaches to health insurance to see if savings or service improvements might be available. The first was to possibly package the Town's and Board of Education's health insurance needs together in approaching insurance carriers for coverage, and the second was to consider self-insurance, either together or separately but with coordinated adviser, acknowledging that a health insurance company would still be necessary to administer the plans. The Town and the Board of Education requested their long-standing health insurance advisers to submit mock requests for proposals to their respective current insurance providers, ConnectiCare and Aetna, for indications of what the cost savings might be if their employee pools were consolidated for coverage. To do so, the advisers agreed together on some basic assumptions and separately assembled and submitted to the insurance companies recent experience records for their respective clients' employees. The advisers initially suggested that the pricing of the administrative services component of the health insurance expense would be more likely to benefit from consolidation than the medical insurance component.

Definitive responses to the requests for proposals were not ultimately obtained because the Board of Education commenced a re-bidding of its insurance coverage while the requests were being considered. The advisers, however, based on discussions with the insurance companies relating to the requests for proposals, were able to estimate potential savings from consolidating the pools of at most a couple of percent. The Town would be the main, and likely the only, beneficiary because the Board of Education participant base is in excess of the 350 or so necessary to form a credible coverage pool. Importantly, the discussions surrounding the reporting of the results

highlighted the differences in the Town's and the Board of Education's attitudes in purchasing health insurance coverage.

The Board of Education regularly re-bids its coverage, typically on a two- or three-year cycle. The re-bidding process is handled in a way intended to elicit attractive offers from the then non-incumbent carriers. The Board of Education's advisers believe it regularly acquires health insurance coverage at less than the winning company's cost. Because the process inevitably results in a change of carrier, there are some "friction" costs for employees, but these costs have come down as the provider networks used by the different insurers increasingly overlap and the employees become used to the change process. The Darien Education Association, the Board of Education's most significant union, gets involved in any switch and is cooperative.

By contrast, the Town, whose employee population tends to be older and isn't as well compensated, is more concerned with risk of the "market fatigue" which might accompany frequent carrier changes and tends to place more value on carrier stability. It often negotiates renewals with its incumbent insurance provider and tracks the different cost components closely to insure successful negotiations. Each of the Town and the Board of Education is committed to its approach, and the Board of Education's advisers see adding the Town's employee pool to its own as likely compromising their effectiveness in any re-bidding exercise. Taking a taxpayer's perspective, the Board of Education's advisers worry that any savings to the Town in a consolidation of health insurance purchasing could be more than offset by losses on the Board of Education's side.

Both the Town and the Board of Education have, from time to time, talked with their advisers about whether it would be useful to self-insure claims under their health insurance plans. The advisers have counseled that the principal reason to self-insure is to save the Connecticut premium tax of 1.75%. Self-insurance, however, would result in more fluctuations in annual costs that may prove troublesome in any given budget year and would, of course, still necessitate hiring an administrator from among the major Connecticut health insurance carriers and the purchase of stop loss policies. While the move to self-insurance is relatively straightforward, a reversal can lead to some tail

exposure for claims relating to prior years. The Board of Education's advisers believe that, since it typically purchases coverage for less than cost, it could not anticipate any savings from self-insurance. Because its employee pool is fairly small, the Town would be exposed to particular variability in year-to-year costs.

Facilities Management

The Town and the Board of Education officials responsible for facilities maintenance and management have met on several occasions during recent months to investigate cost savings and service improvement opportunities through further cooperation. They have also done a facilities "walk through" to specifically gauge the feasibility and usefulness of relying more on Board of Education personnel for managing Town properties. Their discussions have led to some joint purchasing and enhanced sharing of skills and expertise, largely through one-off, uncompensated requests for assistance. The officials expect to extend their cooperation to jointly soliciting bids for similar work (such as the parking lot repaving planned for this summer) and to planning for projects of interests to both sides (such as new sidewalks near schools, town garage expansion and natural gas line extensions). The officials will seek to institutionalize their cooperation by establishing a regular meeting schedule. As a starting point, we would recommend meetings occur quarterly.

Following the walk through of its facilities, the Town decided to consolidate its own facilities management under the new Public Works Director, with some personnel upgrades. The enhanced professionalism should be a gain to Town Hall and the Mather Center, the Police Station, the Town Garage and Parks and Recreation properties.

Conclusions and Observations

The CSWG's meetings, and the considerable preparation by Town and Board of Education officials for them, have been valuable. They have highlighted the areas of existing cooperation, which illustrate willingness to work together and suggest some factors to look for in contemplating further collaboration. They also have pointed to how history and diverse goals and circumstances can effectively raise

barriers to cooperation in some activities. The following are some conclusions and observations coming out of the meetings and preparation:

- The areas with good, long-term cooperation – information technology, purchasing and managing workers’ compensation, casualty and liability insurance and pension services and commodities purchasing– all entail some economies of scale and most require particularized expertise. Cost allocation has not been a troublesome issue and concerns about favoritism seem to have been manageable. Commodities purchasing has a reciprocal element – the Town purchases electricity and the Board of Education petroleum products. As information technology becomes even more important to the Town and the Board of Education, the IT staff will need to continue to provide excellent service all around, customized as appropriate, in order to prevent small and large cracks in the unified approach.
- Health insurance, which absorbs large portions of the Town’s and Board of Education’s budgets, seemed at first an item ripe for consolidation. However, its very importance to each budget, the complications of union involvement, the differences in the employee pools and the dramatic divergence in opinion on the part of the established advisers all lead to each side wanting to chart its own course in providing for health insurance. Each, given its own situation, has a reasonable take on the right way to handle coverage. Very significant compromise on one side or the other would be necessary to adopt a more coordinated approach, which might not yield a better overall result. Health insurance plans are, of course, subject to rapidly evolving legal, regulatory and market developments. Those developments may make consolidation more compelling at some point in the not very distant future. The implementation of the “Cadillac” tax on high cost health insurance plans, if indeed it is implemented as scheduled in 2018, may be a time to reconsider consolidation – and quite possibly self-insurance as well.
- Facilities and vehicle maintenance and management show more promise for near-term cooperation. A handful of meetings among

officials and key staffers have already triggered a number of ideas for sharing of resources. The Town's own consolidation of its facilities management should, as an incidental consequence, make it easier to coordinate skill sharing, joint bidding for outside services and planning for new projects with the Board of Education personnel. The relevant officials have clear mutual respect and have experience and training that push them to reach out to each other for help not internally available. The Town and Board of Education should endeavor to institutionalize regular contact and incentivize reciprocated support. At the managerial and political levels, there should be at least semi-annual conferences to consider what planned and desired projects could benefit from coordination and cross-advice. Town residents, including RTM members, should be given chances to recommend avenues for cooperation.

- Areas not examined by the CSWG that could benefit from cooperation potentially include, no doubt among others, the adoption of energy-saving practices, snow removal, the consideration and implementation of wellness plans, staff training and such finance functions as accounts payable and payroll processing. Administrators are encouraged to pursue discussions concerning these areas.

While the CSWG itself has reached a point of diminishing returns in its own deliberations, each of the boards in Darien – the Board of Selectmen, the Board of Education and especially the Board of Finance – owes to the residents a focus on identifying and tackling opportunities for useful cooperation and coordination between the Town and the Board of Education. The political culture of Darien should be conducive to such cooperation, notwithstanding normal organizational instincts for self-control. The residents of Darien expect its governmental units to work together and will reward elected and other public officials who do so.