

## INTERNAL SERVICES FUND

The Internal Services Fund provides a mechanism for full disclosure of revenues and expenditures on one statement, retaining fund balances specifically for health benefits, life and disability insurances, and providing budget stability. The Town is responsible for recording transactions, preparing periodic reports, maintaining the bank accounts and providing the necessary cash flow. The Board of Education is responsible for negotiating employee benefits, managing the plans and preparing budgets that adequately fund projected costs and align with the Town's reserve funding policy, and providing reports on the financial activity of the fund.

The fund accounts for all of the business transactions associated with providing employees with the health benefit program and life and disability insurances 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 General Fund Operating Budget, which consists of an annual appropriation (FY 2017: \$12,090,482). Other sources are derived from employee cost sharing, which are very competitive compared with area school districts, State Teachers' Retirement Board (TRB), retiree co-payments, COBRA and Medicare Part D. The following are the cost sharing percentages by collective bargaining group for FY 2018:

|                              |                      |
|------------------------------|----------------------|
| Administrators (HDHP)        | 19.5%                |
| Teachers (HDHP)              | 19.5%                |
| Secretaries (PPO)            | TBN (FY 2017: 23.0%) |
| Teaching Assistants (PPO)    | TBN (FY 2017: 23.0%) |
| Food Service Workers (PPO)   | TBN (FY 2017: 23.0%) |
| Custodians/Maintenance (PPO) | 23.5%                |

The expenditures accounted for in this fund include paid and accrued claims for medical, prescription and dental coverage, which are net payments from our stop loss insurance carrier for catastrophic claims, stop loss insurance premiums, administrative fees, life and disability insurance premiums, fees and taxes assessed to the district as a result of the Affordable Care Act and consultant fees. At the end of each fiscal period, the district's insurance carrier provides the dollar amount of the outstanding claims liability. This amount is recorded in the financial statements of the Town as incurred but not recorded (IBNR).

The Board of Education has made cost containment through plan design a priority in contract negotiations. In the summer of 2016, the district successfully negotiated a mirror image of the Teachers' Union health benefits plan with the Administrators' Union. As a result of these negotiations, the traditional PPO Plan was replaced with a High Deductible Health Plan (HDHP) with a co-insurance component of 90/10 after satisfying the deductible. The shift from the traditional PPO Plan to the HDHP for the Administrators and Teachers is expected to mitigate a portion of future increases in claims and provide a foundation for negotiating with other employee groups. In addition to working with our employee groups on plan design and cost sharing, the district has participated in meetings with the Budget Liaison Committee of the Town, which includes members of the Town Council and Board of Finance. One of the focuses of these meetings is to discuss ways to leverage opportunities between the

Board of Education and the Town regarding the procurement and management of employee benefits, such as jointly bidding stop loss insurance, which enabled the district to reduce the contribution from the Operating Budget to the Internal Services Fund by \$192,635, analyzing the financial implications of moving to common insurance carriers and sharing strategies for wellness programs.

As mentioned above, one of the fundamental goals of an Internal Services Fund is to provide budget stability through risk mitigation. Self-insured health plans mitigate risk with stop-loss insurance and by setting aside funds in a reserve to cover the financial exposure that is not covered by stop-loss insurance, should claims exceed projections. The district purchases two types of stop-loss insurance. Individual stop-loss insurance protects the district when a single claimant exceeds a specified threshold in the plan year, which is currently \$300,000. The second type of stop-loss insurance, aggregate stop-loss, protects the district when the total amount of all claims for the plan year exceeds 125% of expected as projected by the carrier at the time of renewal. Consequently, the maximum exposure to the Town and district is 20% of expected claims. In recent years, the Board of Education and Town agreed upon a “Board of Education Insurance Reserve Policy” that reduces the amount of fund balance that needs to be retained in the Internal Services Fund. This amount is set at 60% of the maximum exposure, which is the delta between expected claims and the aggregate stop loss attachment point. The remaining 40% of this exposure is set aside by the Town in a special reserve in the General Fund if needed.

The Board of Education’s annual General Fund Operating Budget for the Internal Services Fund request is determined by offsetting projected expenditures by anticipated revenues. This estimate is further refined by increasing or decreasing the requested appropriation by the amount necessary to retain at least 60% of the aggregate stop-loss corridor in the fund balance. We worked closely with our consultant to develop the FY 2018 budgeted Statement of Revenue and Expenditures and Balance Sheet presented below. These statements include the FY 2016 actuals, FY 2017 budget and projected and the FY 2018 budget request. We recalibrated FY 2017 revenues and expenditures based on changes in claims experience and trend, actual premiums for insurances and fees, adjustments to revenues and other variables that impacted the projected year-end position of the fund, which is estimated to be \$2,217,261 as of June 30, 2017. This analysis provided the basis for estimating our budgetary needs for FY 2018.

As we developed the FY 2018 budget request we reviewed and modified each revenue and expenditure line for expected changes, such as claims experience, trend, plan design, employee cost share percentages, changes in laws, etc. As a result, our request for the FY 2018 General Fund Operating Budget appropriation for the Internal Services Fund is less than the FY 2017 budget. The primary reason for this change is that the improvement in claims that was experienced in the second half of FY 2016 is projected to continue through FYs 2017 and 2018. The historically high claims experience that informed the FY 2017 budget has moderated, and expected claims for FY 2018 are less than budgeted claims for FY 2017. Furthermore, the incremental increase in budgeted claims from FY 2017 projected to FY 2018 budgeted is substantially lower than in prior years at 4.8% or \$586,091. The net change in all other expenditures related to the Internal Services Fund in FY 2018 is \$85,779, with employee cost sharing increasing by \$63,750. Our budget before any change in fund balance would have been \$12,080,650 or \$9,832 less than the FY 2017 budget. However, we anticipate offsetting this amount by \$657,113 with fund balance carried forward from FY 2017.

The district’s plan for FY 2018 budget anticipates funding the IBNR at the FY 2016 amount of \$966,465, and providing for the necessary 60% corridor reserve of \$1,530,148.

**New Canaan Public Schools, New Canaan, CT**  
**New Canaan, Connecticut**  
**Internal Services Fund**  
**Board of Education's Adopted Budget for 2017-2018**

|   | 2016<br>Actuals   | 2017<br>Budget     | 2017<br>Projected | 2018<br>Budget    |
|---|-------------------|--------------------|-------------------|-------------------|
| <b><u>Statement of Revenue &amp; Expenditures</u></b> |                   |                    |                   |                   |
| <b>Revenues</b>                                       |                   |                    |                   |                   |
| Board of Education Operating Budget Contributions     | 10,500,000        | 12,090,482         | 12,090,482        | 11,230,902        |
| Employee Contributions                                | 2,729,645         | 2,588,760          | 2,212,804         | 2,276,554         |
| Retiree Contributions, COBRA & Medicare Part D        | 726,038           | 1,117,308          | 572,296           | 572,296           |
| Interest Income                                       | 6,517             | 0                  | 0                 | 0                 |
| <b>TOTAL REVENUES</b>                                 | <b>13,962,200</b> | <b>15,796,550</b>  | <b>14,875,582</b> | <b>14,079,752</b> |
| <b>Expenditures</b>                                   |                   |                    |                   |                   |
| Claims Paid   | 12,014,060        | 13,423,900         | 12,165,144        | 12,751,235        |
| Rx Subsidy  | (260,123)         | 0                  | (255,066)         | (255,000)         |
| Employer H.S.A. Deposit                               | 506,000           | 696,000            | 595,000           | 622,000           |
| Administrative Services                               | 518,841           | 533,000            | 518,432           | 559,186           |
| Stop Loss   | 802,811           | 888,650            | 860,996           | 1,021,360         |
| Group Insurance (Life, ADD & LTD)                     | 148,157           | 150,000            | 150,080           | 152,388           |
| Service Fees  | 77,943            | 75,000             | 75,000            | 75,000            |
| Teachers' Retirement Board Reimbursement (one-time)   | 0                 | 0                  | 130,255           | 0                 |
| ACA Taxes   | 70,204            | 30,000             | 17,788            | 3,331             |
| <b>TOTAL EXPENDIURES</b>                              | <b>13,877,893</b> | <b>15,796,550</b>  | <b>14,257,629</b> | <b>14,929,500</b> |
| <b>NET CHANGE - CURRENT YEAR</b>                      | <b>84,307</b>     | <b>0</b>           | <b>617,953</b>    | <b>(849,748)</b>  |
| <b>Fund Balance 7/1</b>                               | <b>1,485,001</b>  | <b>0</b>           | <b>1,569,308</b>  | <b>2,187,261</b>  |
| <b>Fund Balance 6/30</b>                              | <b>1,569,308</b>  | <b>0</b>           | <b>2,187,261</b>  | <b>1,337,513</b>  |
| <b>60% of the 20% Corridor</b>                        | <b>1,441,687</b>  | <b>1,610,868</b>   | <b>1,459,817</b>  | <b>1,530,148</b>  |
| <b>Difference to Reserve Policy</b>                   | <b>127,621</b>    | <b>(1,610,868)</b> | <b>727,444</b>    | <b>(192,635)</b>  |
| <b><u>Balance Sheet</u></b>                           |                   |                    |                   |                   |
| <b>Assets</b>   |                   |                    |                   |                   |
| Cash and Equivalents                                  | 2,120,322         | 812,556            | 3,183,726         | 3,026,613         |
| Due from Other Funds                                  | 446,939           | 1,610,868          | 0                 | 0                 |
|   | <b>2,567,261</b>  | <b>2,423,424</b>   | <b>3,183,726</b>  | <b>3,026,613</b>  |
| <b>Liabilities</b>                                    |                   |                    |                   |                   |
| Accounts Payables                                     | 31,488            | 0                  | 0                 | 0                 |
| Accrued Liabilities (IBNR)                            | 966,465           | 812,556            | 966,465           | 966,465           |
|   | <b>997,953</b>    | <b>812,556</b>     | <b>966,465</b>    | <b>966,465</b>    |
| <b>Net Position</b>                                   |                   |                    |                   |                   |
| Unrestricted  | <b>1,569,308</b>  | <b>1,610,868</b>   | <b>2,217,261</b>  | <b>2,060,148</b>  |

Note: (1) The IBNR is accounted for separately in the Internal Services Fund as a liability on the Balance Sheet. The amount as of June 30, 2016 was \$966,465. This amount may change from year to year, and the difference between the prior and the current year will either increase or decrease the expense. (2) The projected FY 2017 fund balance of \$2,187,261 is \$727,444 more than the reserve policy (60% of the 20% corridor). Of this amount, \$70,331 is being carried forward to FY 2018 to fund the change in reserve requirement, \$500,000 is retained in the fund to mitigate the budget increase for FY 2018, and the remaining \$657,113.

**Budget Projection FY 2018 (and YE FY 2017 Projected)**

|   | FY 2018             |                    |                  | Projected FY 2017   |
|---|---------------------|--------------------|------------------|---------------------|
|   | Medical             | RX                 | Dental           | Total               |
| <b>Expenditures</b>   |                     |                    |                  |                     |
| Projected paid Claims <sup>(1)(2)</sup>                         | \$9,468,778         | \$2,603,540        | \$678,917        | \$12,751,235        |
| Rx Subsidy  | \$                  | (255,000)          | \$               | \$ (255,066)        |
| Expected ASO Fee  | \$507,562           |                    | \$51,625         | \$559,186           |
| Expected ISL Premium  | \$936,732           |                    |                  | \$936,732           |
| Expected ASL Premium  | \$84,628            |                    |                  | \$84,628            |
| Expected ACA Taxes  | \$3,331             |                    |                  | \$3,331             |
| Total expected claims, fees and premiums                        | \$11,001,030        | \$2,348,540        | \$730,541        | \$14,080,111        |
| HSA Employer Contributions Total <sup>(3)</sup>                 | \$622,000           |                    |                  | \$622,000           |
| Increase in IBNR  | \$0                 | \$0                | \$0              | \$0                 |
| Net Employer Cost of Life and ADD Plan                          | \$152,388           | \$0                | \$0              | \$152,388           |
| Professional Services Fees                                      | \$75,000            | \$0                | \$0              | \$75,000            |
| FY 2017 TRB Reimbursement                                       | \$0                 | \$0                | \$0              | \$0                 |
| <b>Total Expected Cost</b>                                      | <b>\$11,850,418</b> | <b>\$2,348,540</b> | <b>\$730,541</b> | <b>\$14,929,499</b> |
| <b>Revenues</b>   |                     |                    |                  |                     |
| Employee Contributions  |                     |                    |                  | \$2,276,554         |
| Retirees and Cobra (including TRB) (net of Board Contributions) |                     |                    |                  | \$495,296           |
| Medicare Part D subsidy   |                     |                    |                  | \$77,000            |
| <b>Total Expected Revenue</b>                                   |                     |                    |                  | <b>\$2,848,850</b>  |
| <b>Net Expected Budget Needed</b>                               |                     |                    |                  | <b>\$12,080,649</b> |
| Current FY17 Budget   |                     |                    |                  | \$12,090,482        |
| Needed Increase in Budget if no Reserve use                     |                     |                    |                  | \$-9,833            |
|   |                     |                    |                  | -0.08%              |
|   |                     |                    |                  | \$17,788            |
|   |                     |                    |                  | \$13,307,294        |
|   |                     |                    |                  | \$595,000           |
|   |                     |                    |                  | \$0                 |
|   |                     |                    |                  | \$150,080           |
|   |                     |                    |                  | \$75,000            |
|   |                     |                    |                  | \$130,255           |
|   |                     |                    |                  | \$14,257,629        |
|   |                     |                    |                  | \$2,212,804         |
|   |                     |                    |                  | \$495,296           |
|   |                     |                    |                  | \$77,000            |
|   |                     |                    |                  | \$2,785,100         |
|   |                     |                    |                  | \$11,472,529        |
| <b>Budget Need</b>  |                     |                    |                  | \$12,090,482        |
|   |                     |                    |                  | (\$617,953)         |
|   |                     |                    |                  | -5.11%              |

1. FYE 18 Claims Projection Using Claims thru December 2016.
2. FY 17 Claims Projection Updated Using Claims thru December 31, 2016
3. FY 18 HSA Contributions based on 367 Employees in the HSA (including 19 Administrators who will move to HSA 91) based on December enrollment

**Board of Education Internal Services Fund Analysis**

|                                  | June 30, 2011      | June 30, 2012      | June 30, 2013      | June 30, 2014      | June 30, 2015      | June 30, 2016      |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Total Assets</b>              | \$6,815,591        | \$6,278,103        | \$4,725,989        | \$3,795,773        | \$4,850,619        | \$2,567,261        |
| <b>Total Liabilities</b>         | \$1,681,129        | \$1,794,796        | \$1,235,698        | \$1,028,004        | \$3,365,616        | \$997,953          |
| <b><u>Net Assets</u></b>         | <u>\$5,134,462</u> | <u>\$4,483,307</u> | <u>\$3,490,291</u> | <u>\$2,767,769</u> | <u>\$1,485,003</u> | <u>\$1,569,308</u> |
| <hr/>                            |                    |                    |                    |                    |                    |                    |
| <b>Operating Revenues</b>        | \$12,029,273       | \$11,960,064       | \$12,171,862       | \$11,732,214       | \$13,149,442       | \$14,215,806       |
| <b>Total Operating Expenses</b>  | \$11,817,085       | \$12,592,168       | \$13,190,364       | \$12,466,639       | \$14,436,897       | \$14,138,016       |
| <b>Operating Income (Loss)</b>   | \$212,188          | -\$632,104         | -\$1,018,502       | -\$734,425         | -\$1,282,765       | \$77,790           |
| <b>Change in Net Assets</b>      | \$241,044          | -\$596,837         | -\$993,015         | -\$722,523         | -\$1,282,765       | \$84,305           |
| <b><u>Net Position - EOY</u></b> | <u>\$5,134,462</u> | <u>\$4,483,307</u> | <u>\$3,490,291</u> | <u>\$2,767,769</u> | <u>\$1,485,003</u> | <u>\$1,569,308</u> |