

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."

Several revenue sources 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 2019: \$11,991,285, which is \$760,383 more than the FY 2018 appropriation of \$11,230,902). Other sources include 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 2020:

Administrators (HDHP)	21.0%
Teachers (HDHP)	20.0%
Secretaries (HDHP)	19.0%
Teaching Assistants (HDHP)	19.0%
Food Service Workers (HDHP)	19.0%
Custodians/Maintenance (HDHP)	19.0%

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. The Town records this amount in the financial statements as incurred but not recorded (IBNR).

The Board of Education has made cost containment through plan design a priority in contract negotiations. Currently, members of the Administrators', Teachers', Food Services, Teaching Assistants, and Secretaries' Unions are eligible to participate in the High Deductible health Plan (HDHP) with a co-insurance component of 90/100 after satisfying the deductible. In 2018, the district successfully negotiated a similar plan with the Custodians. Because of these negotiations, the HDHP will replace the traditional PPO Plan for all New Canaan Public School employees on September 1, 2019. The district expects that the shift from the traditional PPO Plan to the HDHP will mitigate a portion of future increases in claims. 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, analyzing the financial implications of moving to common insurance carriers for prescription drug coverage 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 exceeds insurance coverage, should claims surpass 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 a percentage of expected as projected by the carrier at the time of renewal. The 2020 budget anticipates maintaining this exposure at 120%. Therefore, this threshold caps the financial exposure to 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 of 20%. The Town sets the remaining 40% of this exposure aside 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. In addition, the district adjusts this estimate 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 2020 budget for the Statement of Revenue and Expenditures and Balance Sheet presented below. These statements reflect the FY 2018 actuals, FY 2019 budget, FY 2019 projected and the FY 2020 proposed budget. We recalibrated FY 2019 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 \$2,444,381 as of June 30, 2019. This analysis provided the basis for estimating our budgetary needs for FY 2020.

As we developed the FY 2020 budget proposal 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 2020 General Fund Operating Budget appropriation for the Internal Services Fund needs to increase by \$298,241. Claims for FY 2019 are tracking close to budget through December 2018, and were credible for building the FY 2020 claims forecast. We used an annual trend of 8.57%, and discounted the projection by 3.0% for plan design changes. Our proposed contribution from the Operating Budget for FY 2020 would have been \$13,101,196 or a \$1,109,911 increase over FY 2019. However, the district reduced this amount by \$811,670 by using the projected fund balance that exceeds the Town's Reserve Policy to offset the proposed budget.

New Canaan Public Schools, New Canaan, CT
New Canaan, Connecticut
Internal Services Fund
Board of Education's Proposed Budget for 2019-2020

	2018	Actuals 2019	Budget	2019 Projected	2020 Proposed
<u>Statement of Revenue & Expenditures</u>					
<i>Revenues</i>					
Board of Education Operating Budget Contributions	11,230,902	11,991,285		11,991,285	12,289,526
Employee Contributions	2,555,770	2,206,000		2,206,000	2,206,000
Retiree Contributions, COBRA & Medicare Part D	552,228	603,000		603,000	603,000
Interest Income	0	25,211		0	0
<i>TOTAL REVENUES</i>	14,338,900	14,825,496		14,800,285	15,098,526
<i>Expenditures</i>					
Claims Paid	12,645,919	13,401,120		13,401,120	13,605,927
Individual Stop Loss Insurance Reimbursement	(239,127)	0		(13,784)	0
Rx Subsidy	(388,696)	(255,000)		(350,000)	(382,500)
Employer H.S.A. Deposit	631,833	920,200		911,500	1,018,900
Administrative Services	478,742	504,024		484,355	498,776
Stop Loss	713,125	905,487		782,258	952,564
Group Insurance (Life, ADD & LTD)	135,442	139,800		139,800	139,800
Service Fees	86,377	60,000		73,000	73,000
ACA Taxes	3,409	3,409		3,489	3,729
<i>TOTAL EXPENDITURES</i>	14,067,024	15,679,040		15,431,738	15,910,196
Change in IBNR	94,787	0		0	0
<i>NET CHANGE - CURRENT YEAR</i>	177,089	(853,544)		(631,453)	(811,670)
<i>Fund Balance 7/1</i>	2,898,745	2,461,678		3,075,834	2,444,381
<i>Fund Balance 6/30</i>	3,075,834	1,608,134		2,444,381	1,632,711
<i>60% of the 20% Corridor</i>	1,608,134	1,608,134		1,632,711	1,632,711
<i>Difference to Reserve Policy</i>	1,467,700	0		811,670	0
<u>Balance Sheet</u>					
<i>Assets</i>					
Cash and Equivalents	3,924,497	2,633,598		3,494,909	2,831,152
Prepaid Expenses	95,778	0		0	0
Accounts Receivables	178,901	0		0	0
	4,199,176	2,633,598		3,494,909	2,831,152
<i>Liabilities</i>					
Accounts Payables	3,091	0		0	0
Accrued Liabilities (IBNR)	1,120,251	1,025,464		1,120,251	1,120,251
Due to Other Funds	0	0		0	0
	1,123,342	1,025,464		1,120,251	1,120,251
<i>Net Position</i>					
Unrestricted	3,075,834	1,608,134		2,444,381	1,632,711

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, 2018 was \$1,120,251. 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 2019 fund balance of \$2,444,381 is \$811,670 more than the reserve policy (60% of the 20% corridor for FY 2020). The FY 2020 Operating Budget request anticipates using the projected fund balance to offset the increase in projected claims and other costs.

Superintendent's Internal Services Fund Analysis

	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
Total Assets	\$4,725,989	\$3,795,773	\$4,850,619	\$2,567,261	\$7,543,175	4199176
Total Liabilities	\$1,235,698	\$1,028,004	\$3,365,616	\$997,953	\$4,644,430	1123342
<u>Net Assets</u>	<u>\$3,490,291</u>	<u>\$2,767,769</u>	<u>\$1,485,003</u>	<u>\$1,569,308</u>	<u>\$2,898,745</u>	<u>\$3,075,834</u>
<hr/>						
Operating Revenues	\$12,171,862	\$11,732,214	\$13,149,442	\$14,215,806	\$14,676,863	\$14,338,900
Total Operating Expenses	\$13,190,364	\$12,466,639	\$14,436,897	\$14,138,016	\$13,372,637	\$14,161,811
Operating Income (Loss)	-\$1,018,502	-\$734,425	-\$1,282,765	\$77,790	\$1,304,226	\$177,089
Change in Net Assets	-\$993,015	-\$722,523	-\$1,282,765	\$84,305	\$1,329,437	\$177,089
<u>Net Position - EOY</u>	<u>\$3,490,291</u>	<u>\$2,767,769</u>	<u>\$1,485,003</u>	<u>\$1,569,308</u>	<u>\$2,898,745</u>	<u>\$3,075,834</u>