

Meeting of 2003-2-4 Special Meeting

MINUTES
LAWTON CITY COUNCIL
SPECIAL MEETING
FEBRUARY 4, 2003 - 5:00 P.M.
WAYNE GILLEY CITY HALL COUNCIL CHAMBERS

Mayor Cecil E. Powell, Also Present:
Presiding Bill Baker, City Manager
 John Vincent, City Attorney
 Brenda Smith, City Clerk

The meeting was called to order at 5:05 p.m. by Mayor Powell. Notice of meeting and agenda were posted on the City Hall notice board as required by law.

ROLL CALL

PRESENT: Randy Bass, Ward One
 James Hanna, Ward Two
 Glenn Devine, Ward Three
 Amy Ewing-Holmstrom, Ward Four
 Robert Shanklin, Ward Five
 Barbara Moeller, Ward Six
 Stanley Haywood, Ward Seven
 Michael Baxter, Ward Eight

ABSENT: None.

BUSINESS ITEMS:

1. Receive a report on the status of the City of Lawton Employee Group Health and Dental Plan from the plan's Third Party Administrator. Discuss alternatives and provide direction to staff.

Tim Golden, Human Resources Director, said there is a \$471,000 deficit in the health plan and another large claim may be coming, so the situation is bad and it could get worse. He introduced Connie Vann, owner of Managed Health Resources, the City's third party administrator for the self-funded health plan. Ms. Vann also provides this service to Edmond, Okmulgee and Midwest City.

Connie Vann gave a power point presentation which is summarized as follows: Managed Health Resources manages the City's health plan, handling the daily functions of the plan. The City designs the benefits provided and the company pays claims according to the plan document. Managed Health also handles the reinsurance and vendor contracts; the reinsurance carrier is Employers Re; vendors are PPO Oklahoma, the prescription card benefit is Pharmacy Providers of Oklahoma, Med Care is a panel of nurses and doctors that handle the precertification and medical utilization, and the final vendor is Managed Health Resources.

The health plan is self-funded; reinsurance is provided for catastrophic losses so any one individual cannot hurt the health plan any more than \$150,000. The plan administrator is actually the City of Lawton because the City controls the designing of benefits, setting of the deductible, co-insurance, and benefits. The City is responsible for funding, deciding how the plan will be funded, how much the City and the employees will pay into the fund. The City decides who is eligible for the health plan and how many days they have to work for the City before they are eligible.

All of the premiums contributions, whether from the City, the employees or the retirees, go into a City bank account and all of the expenses come out of it. The City carries re-insurance as previously described; there is also the possibility of purchasing aggregate stop loss coverage which acts as an umbrella in case the group as a whole has a bad year. The City does not carry aggregate stop loss, which is not uncommon for a group of this size; it has been reviewed every year and if it would have been purchased any one of the last five years, the City would not have received any benefit from it.

The difference in being self-insured and fully insured was explained as being fully insured is being with an insurance company such as Blue Cross; in self-funded plans, all premiums go into your bank account. A pie chart

illustrated the amounts paid for reinsurance and the vendors. Those are monthly costs regardless of claims, and it is a small amount of the total dollars. The remaining portion illustrates the amount available to pay claims. If those funds are not used, there are reserves left over, therefore, in a self-funded plan, there is the potential to save money. A fully insured plan is one where all of the premiums are paid to the company and there is never a potential for savings; an insurance company will never return money at the end of the year that was not used, they will likely keep it and charge a rate increase.

Last year about this time, quotes were obtained from a number of insurance companies to see if the City was better off being fully insured or partially self-funded. Even though there is an emergency in the health plan, you were still better off being self-funded than going fully insured last year. In the last 12 months, you have contributed \$3.8 million to the health plan; 92% of that money, or \$3.5 million was available to pay claims. If any was left, it would be a reserve. On January 1, 2002, Blue Cross-Blue Shield quoted a rate of \$5.9 million for 12 months, which is \$2 million more than the self-funded plan. The self-funded plan has a deficit, but not a \$2 million deficit, so it was a good decision to remain self funded.

Bass asked if the City ever had a reserve. Baker said premiums were raised 20-25% about five years ago and there was a reserve for a while, but it has steadily been depleted.

Vann said health insurance is going up nation wide and plans are experiencing a minimum increase on the medical bills of 10% per year, the prescription bills of 20% per year, and dental 5% per year. Over the last two years, prescription drug companies have charged 20% more per year so drugs are costing 40% more than two years ago even if no new drugs are purchased. When the City's and employees' contributions to a health plan remain stagnant every year, there is a downward spiral because as long as inflation goes up, contributions have to go up, even if claims do not go up.

Health care costs are rising due to directed consumer marketing; people hear advertisements for drugs and tell doctors what prescriptions they want. Doctors may give samples, and write a prescription if the medicine works. Drug companies provide samples of the most expensive drugs because that is where they make their money. No one asks if there is something else that costs less but does the same or better.

Another part of the problem is the baby boomers, the work force is getting older, more drugs are being taken and more doctor visits are being made. Medical technology will keep us alive longer; people have heart attacks, strokes and cancer and return to work because technology works and we live longer.

Consumers are not aware of what medical costs are; they are not practicing consumer-ism, meaning not looking for the best medical care at the lowest price. They do not need to practice consumer-ism because too much of it is paid for automatically.

Other employers are coping with these problems by a combination of reducing benefits and increasing premiums. There has been a trend of raising deductibles, co-pays, co-insurance out of pocket and co-pay for prescriptions; the more it costs, the more you have to cost share, raising premiums paid by both the employees and the employer. Health care is a large budget item and must be a shared effort for the right benefits for the right price for the right contributions. Last year the federal government increased their premiums to their participants 22%. Employers can no longer pay the entire cost of health coverage, it must be a shared effort in all three areas; you cannot reduce benefits enough, you cannot increase premiums enough, it has to be a combined effort.

A chart was presented showing the current premiums. Individual employee coverage is paid for 100% by the City. The family premium is made up of the single premium for the employee and the premium for the dependents that are on the health plan; the City pays 100% of the single and 50% of the dependent, so the City pays all or a portion of both parts of that premium. It is important to look at that when raising rates because the way it is done impacts the financial balance of the City.

The City contributes \$188.54 per month for single employee coverage. If they have dependent coverage, the City contributes \$199.46, so for a family, the total contribution per month by the City is \$388. The employee contributes the same \$199.46 as the City if they have dependent coverage. The total premium for family coverage is \$587.46. The retirees pay the full amount. Vann said you may recognize that it is a very reasonable rate, very inexpensive rate. The benefits are close to a Cadillac and the funding is close to a Volkswagen, so there is where the rub is obviously.

Baker said the City earmarks approximately \$200,000 per month for the health plan, or the budgeted total of \$2.5 million for this insurance. Funds have been advanced to pay the premiums by two months, so at the end of the year there will be a big problem if something is not done.

Vann said last year the City contributed \$2.5 million, employees and retirees contributed \$1.2 million, for total contributions of \$3.8 million. In the last 12 months, there have been medical claims of \$3.3 million, prescription claims of \$678,000, and fixed costs of \$294,000, for a total cost last calendar year of \$4.2 million. The City received

\$124,000 from the reinsurance carrier due to a claim exceeding the specific stop loss amount, so the net cost of the City's health plan last year was \$4.159 million. This is still less than it would have been with an insurance carrier, but the funding provided was only \$3.8 million, leaving a deficit on December 31 for the calendar year of \$340,000 and those are the funds Baker spoke about that the City is having to advance to the health plan.

Vann said she was charged to look forward to December 31, 2004, as to the solvency of the health plan. The deficit was \$340,000 on December 31, 2002; it is \$435,000 now or by the end of the week, and whatever number is used today will be different tomorrow or next week. Vann said looking forward to December 31, 2004, required some reasonable guesses based upon years of doing this, the history of medical care, and the history of Lawton's plan. The plan was under funded the last 12 months so it is being under funded at least \$340,000; the health plan owed the City \$400,000 on the day the screen was done and it is a little more now. Medical inflation means those same bills that created the deficit of \$340,000 this year will create an additional spending of \$428,000 and then the next year there will be medical inflation that will increase the need again of \$471,000. All of this is if everyone keeps the exact same buying patterns of their medical care as they have right now, then on December 31 there would be a deficit of \$1.6 million. A health plan should have some reserves and a minimum target should be 10%, but 30 to 40% would be better. To add a reserve of 10%, or \$500,000 by December 31, would give a deficit funding to be cleaned up by December 31, 2004, of \$2.1 million if nothing changes. Shanklin asked if that is over the anticipated income. Vann said yes, if nothing changes looking forward to December 31, 2004.

Vann said some wealthy companies and law firms still have \$250 deductible, such as the City has, but most companies are raising deductibles to \$500, which she recommended be done by the City. If that change would have been in place last year, it would have saved \$91,000. Effective January 1, 2003, the health plan did away with the out of network benefit. If that change would have been in place last year, it would have saved \$284,000. Doing away with the out of network benefit does not deprive anyone of medical care, it only directs them to receive that medical care with a doctor who has a contract with the health plan. Those savings would have gone a long ways toward the deficit.

The remaining deficit of \$2.1 million, if all of those changes were in place January 1 of this year, and only part of them are, but if they were, then over the two year period there would be savings both years and you would have \$751,000 in savings. The remaining deficit funding would be \$1.4 million. In addition to the benefits that are shown as needing to be changed and funding that needs to be increased, the plan document itself needs a total revamping to bring it up to all current regulations. Vann said she had prepared a draft of that which included the benefit changes she was recommending, it was presented to the insurance committee and copies are available for Council. Even with the benefit changes, there will still be a \$1.4 million funding deficit over the next two years, or 22 months.

Baker said the \$1.4 million was needed to make up the deficit but it would also provide a balance of \$500,000 by January 1, 2005. Vann said that was correct, it should allow for a \$500,000 reserve.

Shanklin asked if that included paying the City back the \$400,000 that had been advanced. Vann said it is covering the deficit or you reduce the reserves, but it makes sure you should not need additional advances to the health plan for those two years.

Vann said many different funding models can be done to provide the \$1.4 million, and she was showing one suggestion of how an increase could work. Information was distributed to the Mayor and Council in this regard. The example and recommendation was provided as follows:

The City contribution for a single employee would increase from \$188.54 to \$213.54, or \$25 per month, and the employees would contribute \$25 per month for single coverage.

The City would increase its contribution for employees with dependents by \$67.50 per month up to \$266.96; the employee contribution would increase by the same \$67.50 per month up to \$241.96. The employee would pay \$25 for their individual coverage, the City would contribute \$213.54 for the individual coverage so the total City contribution would be \$480.50; the total employee contribution would be \$266.96. The total family coverage premium per month would be \$747.46.

This still does not get you in the ball park of the required premiums in a fully insured plan but it boosts the premiums to accomplish what is needed and remains a fairly cheap health plan. This would bring in \$1 million extra each year; , which could not be achieved this year because it is already February. Of that \$1 million, the City would be putting in an additional \$491,000, and the employees and retirees would be contributing an additional \$539,820.

Vann said the pure math of this and the fiduciary responsibility of the City creates a situation for which you need to find a way to create a solvent health plan. Benefits and premiums can be changed and it will take a combination thereof. The sooner it is done, the more months you have to spread it over and the less money will be accumulating as being borrowed from the City outside of the budget.

Shanklin said the information distributed showed a comparison of Lawton's health plan versus others in Oklahoma. Vann said it was given to Council but the figures are from other clients of Managed Health Resources, and they do not mind it being shared with Council but did not necessarily want it publicized because it is somewhat private information. Shanklin asked what was represented by the \$188. Vann said that is the amount the City puts in for a single employee; the total family premium is \$587.47. Shanklin asked if the City was contributing those two numbers combined. Vann said the \$188 and the \$388 are the amounts the City is contributing; the difference in the \$388 and the \$587 is what the employee is putting in currently; the first set of numbers were total premiums for different municipalities, the second set of numbers on that same page were what those municipalities were putting in and underneath it is for what benefits it represents.

Shanklin asked if the City was paying \$587. Vann said no, \$388 is what the City is putting in for a married employee or an employee with children or a spouse on the plan; for a single employee the City is putting in \$188.54. Shanklin said it shows \$690 for Edmond. Vann said that is the total premium they are charging for their health plan, and the \$500 number is what the City is putting in and the difference is what the employees are putting in.

Baker said if a City employee has dependent coverage, they pay \$199 a month in addition to what the City is paying, and the City pays half of the dependent coverage.

Baxter asked if there was a difference in premium costs corresponding to the number of dependents being covered. Vann said no, it is a two-tiered rate and a family is two or more people. Baxter said that is part of the problem. Vann said perhaps; when you take the total people on the plan, if you go from a two-tier to a four-tier you still have the same number of people and the same need for the same amount of money; if you create a lower rate for an employee's spouse and an employee's child, you will have to increase the family because if you lower two segments, you will have to increase the other segment. Vann said that is a popular or an unpopular thing to do depending on a person's circumstances. Baxter said if an employee has two kids but there are 40 families that have six kids, they are paying the same amount and that is not correct or fair. Shanklin asked if a person had ten kids would they all be covered. Baxter said yes, at the same price. Vann said the family rate means two or more people in the family, so it is the employee plus one up to however many there are.

Devine asked if something was available where the City would pay 80% of the claims and then get a supplement for the rest with another company. Vann said that coverage is probably available but she had not investigated it and had not really heard of that precisely, but knew of supplemental policies that employees could purchase to reimburse them if they have an accident or so much cost for a night's stay in the hospital and the funds go the employee to offset their out of pocket expense.

Baker said he and Devine had discussed a supplemental type of insurance that a firm wanted to offer and deal with the employee directly to help offset their out of pocket expenses; the plan pays 80% now so the employee must pay 20% out of pocket and this would be supplemental for those costs. Vann said that is a voluntary product that employees can purchase if they want to.

Ewing-Holmstrom commended Vann on her presentation. She asked if consideration was given to reducing the coverage to 80%. Vann said the health plan is currently at 80% with \$250 deductible.

Larry Mitchell, Assistant City Manager, asked if information was available on who actually uses the plan, whether it is the individual or family. Golden said 61% of the expense is for the employees themselves and 39% is spent on the family according to the last available numbers.

Baker said the plan used to be 90% if it was PPO and 80% if it was non-PPO, and Council made that change about a year ago to go to 80% PPO and 70% non-PPO, so we already reduced that benefit. He said something needs to be done and our claims payment for January alone was \$695,000. Baker said the claims must be paid when they are received, we have a responsibility and a written contract with the unions to pay the claims so it must be made fiscally solvent. He said in his opinion the premiums needed to be raised and he would ask the City Attorney for comments but Council recently changed the plan to where you had to use PPO to get paid, we have received grievances from both bargaining units on that saying we did not have the authority to make that plan change; it appears those may be going to arbitration so at this time there is some uncertainty as to whether you can raise premiums and change the benefits for members of the two bargaining units. Baker said our position is that you can; obviously their position is you cannot, and that is something else Council must consider as a pending issue that can affect this. Mayor Powell said one should not be required to bear the entire brunt of this entire package; everyone should contribute.

Baker said this has been discussed numerous times with the health committee and the only recommendation he ever received was that the City needs to put more money in the plan, and to him that was not very helpful when we have a serious budget deficit facing us right now. He said it has gone to the committee on more than two occasions. Baxter asked if there are any union members on the committee. Baker said yes.

Golden said during his seven month employment with the City he had been before the insurance committee eleven times; there were four special meetings and they agreed to discuss it but always come back to the fact that the single premium rate needs to be increased. Golden said the sheet that was distributed shows what other cities are paying and when the committee sees that, their position is Lawton should pay that. Golden said there is not enough money in the City's budget to do that and in the mean time, the deficit has continued to accrue. He said he thought if they kept nursing it along that they might be able to squeak through this year, make it into the next fiscal year and then be able to negotiate something and stay solvent, but we really got hurt in January by two large claims, one being \$199,000 and another was \$99,000. \$49,000 will be returned from the \$199,000 claim from reinsurance but it will be two or three months down the road. He said that was how we had gone from relatively making it to being in really poor shape. Golden said he anticipated another \$150,000 claim so they are in a position that something must be done.

Ewing-Holmstrom asked how we could do anything when our hands are tied dealing with the unions, and asked if we will set ourselves up for a lawsuit. Vincent said it is the position of the City Attorney's Office that as far as benefits go, just like we handled the PPO, we feel that we're on solid ground and he could not guarantee a win but felt we were on solid ground. Ewing-Holmstrom said she had no comfort in what Vincent was saying. Vincent said he understood. Ewing-Holmstrom said this was great on paper but did not see where they could go forward with it due to possibly being sued by either the firefighters or police because we are changing their contract, and at the end it will be the general employees that are ultimately affected. Ewing-Holmstrom said if we are sued and lose, it will go on the ad valorem taxes and it does not seem like a win for anyone. Mayor Powell asked Ewing-Holmstrom if she had any suggestions. Ewing-Holmstrom said no, it seems we have backed ourselves into a corner.

Baker suggested an item be returned to make the benefit changes and hold up any kind of premium changes until we know a little bit more. Ewing-Holmstrom asked how they could move forward with anything that affects the bargaining units without putting ourselves in a precarious position. Baker said there is already a grievance on the other, he assumed we might get a grievance on additional changes but then we deal with those grievances.

Mayor Powell asked if there was any direction Council would like to give to staff.

Devine asked if the statement was correct that if the City is sued that a judgment would go on the ad valorem taxes. Vincent said there is a possibility that it might be able to go on the ad valorem taxes similar to the overtime issue that happened about ten years ago; there is also the possibility that a judge would not let it go on the ad valorem taxes. Mayor Powell said we do not know for sure and Vincent said no. Mayor Powell asked if history tells us that. Vincent said the state statute says anything over \$10,000 must be approved by a judge before it can be placed on ad valorem so it is totally up to the District Judge.

Devine said an election is coming up in March and asked about bringing forward a sales tax increase. He said the issue always comes up about putting costs on the utility bills, which only affects 30,500 homes, but a sales tax would affect every person that comes through the City and buys anything, they would all be contributing to the future of the City. Devine said he knew sales tax increases were unpopular but that something had to be done other than going after those 30,500 people every time we get in trouble.

Mayor Powell asked if Devine was suggesting a sales tax increase was needed to pay for this. Devine said suggestions were requested and it would be better than just taxing our general employees because we are not going to be able to get to the unions, they will fight us off, and the only alternative there is to make this budget come around, even the deficit, is to go to either utility bills or sales tax because those are the only two avenues Lawton has to collect money.

Baxter said the single page hand out talks about the single family rate that the employer contributions are paying; Lawton is \$188.54, and you take the average of those four cities and it comes out at \$301.86 so maybe the committee is right, maybe we are under funding our own part. He said he would also agree that the deductible needed to be raised.

Bass said it is obvious that the health care plan has been in trouble for a long time, and somehow we have to come up with some way to solve it. He said fire and police are going to file grievances whatever you do, it does not matter, so that is their prerogative if that is what they want to do, so we cannot worry about what they are going to do, we have to worry about solving the City's problem, in his opinion. He said the Council has to solve this on the health plan and realize grievances may be received.

Hanna asked where the City would get the money to pay the grievances. Bass said he had no idea but the City was going to be down \$2 million anyway, so what is the difference; if you lose the grievance or you lose the health plan, what do you do. Bass said you cannot worry about the unions, you have to fix the health plan.

Mayor Powell said recommendations were made this evening by people who have studied this and Council had listened well, and asked if there were directions for staff. He said this will not be swept under the carpet, it is a real

deal, it is here and we have known it has been here for quite some time, we have got to address this issue and it probably will not be popular on anything that we do, but we must have some direction to give to the staff. He said if another special meeting is called, this will still be in your face.

Bass said the fire and police filed a grievance about the PPO change. Shanklin said just because they file a grievance does not mean they will win it, and if they win it, we can take it to a vote of the people.

Shanklin said we did not lay anyone off, or have any furloughs and the Mayor told everyone we would not do that and we have not done that. Mayor Powell said apparently some people agreed with him. Shanklin said we did, but the Mayor did say we would not do it and we did not do it; he said we have 150 more employees than we had ten years ago with the same number of water meters; we are providing more services but doing a very poor job of telling the people what we are doing for them in the way of Parks & Recreation and all of the other services. Shanklin said he did not know where you would get the money but that he was not going to roll over and play dead for the unions.

Bass said he really did not think you could dance around the unions; you have to solve the health plan and bring it back with it being fixed and the unions will do whatever they decide but the Council cannot dance around them. He said we want them to be happy, we want everyone to be happy, but we are in a budget crunch right now and things are tough and they will just have to understand it.

Baxter said we pay this lady to take care of the plan and she made a nice presentation.

MOVED by Baxter, SECOND by Hanna, to accept her premium increase recommendation which is the top of the single page she sent out, with the \$500 deductible increase that she had in the earlier presentation.

Baker said that will have to be brought back at the next meeting. Baxter said he acted like someone needed to make a motion so he did so. Vincent said he interpreted that as direction to staff to bring back the appropriate documents at the next Council meeting. Baxter said he was trying to say that in the motion.

Shanklin asked if the \$500 deductible was each time or once a year. Baxter said one time a year.

Ewing-Holmstrom asked if they could look into the two-tier, four-tier family versus two persons. Mayor Powell said that could be done.

Mayor Powell asked for roll call on the motion to provide direction to the staff. The Clerk asked for a copy of the page being referred to for the record, and a copy was provided. Moeller asked if documentation would have to be returned to Council for approval. Mayor Powell said that was correct.

Shanklin said the statement was this will cost the City another \$491,000 for the year 2003. Baxter said yes. Shanklin said we are going further in debt as far as our budget goes every time we meet then.

Baker said if the direction is that the premiums would go up as recommended then the City's portion of the premiums would go up also, which is \$491,000, and asked if that was correct. Baker said it would be for a 12 month period so for the rest of this year it would not be \$491,000 but it would probably be a third.

VOTE ON MOTION: AYE: Hanna, Devine, Ewing-Holmstrom, Shanklin, Moeller, Haywood, Baxter, Bass. NAY: None. MOTION CARRIED.

ADDENDUM:

1. Consider transfer of Capital Outlay funds to the General Fund and authorize expenditure of funds for operations for duration of FY 02-03, if necessary. Exhibits: None.

Mayor Powell said under the Council Rules of Procedure he needed a motion, second and a majority vote to reconsider this item on the transfer of capital outlay.

MOVED by Bass, SECOND by Devine, to reconsider the transfer of capital outlay. AYE: Devine, Ewing-Holmstrom, Shanklin, Moeller, Haywood, Baxter, Bass, Hanna. NAY: None. MOTION CARRIED.

Mayor Powell read the agenda item title shown above.

Bass said he asked that this be brought back because he was not clear on if the money is left over, are you trying to build a reserve with the remaining funds. Baker said no, not reserve; if we have money remaining at the end of this year, whatever money that is, it will be part of the carryover which will be used to support next year's budget, but it will not be a reserve. Baker said the only reserve that Council has authorized so far is the fifty cents on the refuse bill which we are putting into a reserve and other than that, there is none.

Bass said he would rephrase it; if you do not spend all of the \$1 million in the capital outlay, will the remainder of it go back into capital outlay where it came from.

Baker showed a page from the budget on the view graph stating it is a summary sheet of the budget, page one of the budget document; under projected carry over as of July 1, 2002, you see \$2 million then at the bottom of the page there is a note that the actual carry over was \$1.15 million but we had projected \$2 million in the budget so therefore there is an immediate problem of \$850,000 and everyone understands that. Baker said we projected revenue to support the general fund next year of \$23,166,000, and we will be \$1.7 million less than that projection primarily because of water sales. He said that constitutes the \$2.5 million deficit; if we make up that whole \$2.5 million, the very last column at the top where it says projected balance as of July 1, 2003, that actually is the projected carry over that we would have left over this year to support next year's budget so if we make up that full \$2.5 million deficit, we will have \$678,000 left in the budget. Baker said going down to the note, if we do not buy \$1 million worth of equipment, \$678,000 of that will actually be that carry over so we will only spend \$320,000 of that if we have to; without that \$1 million, we would have no carry over whatsoever and we would be \$300,000 in the hole. Baker said to answer the question, the \$320,000, if we do not need to spend it, will be part of the carry over and if Council told him to budget that for equipment, we can, or we can buy equipment this year, but you should not touch \$678,000 of it or you will not have a carry over to support next year's budget.

Moeller said the answer to his question is no, and anything transferred or left over will go into carry over. Baker said that would be his recommendation, if we have money left over, it just becomes part of the carry over and we try to buy this equipment next year.

Bass said the reason this is so confusing is that no one mentioned it was from rolling stock, and capital outlay is the rolling stock. He asked if it would not go back into the rolling stock capital outlay but it would be for any expenses Baker wanted to use it for. Baker said that is correct and we will not spend that \$320,000 until about the last week or two at the end of the year because we spend over \$3 million a month so that \$300,000 will not be spent, if we spend it, until the last week or two of the year.

Mayor Powell said as he had watched it over the years, it goes back in to the carry over and then it comes back out to the Council and the Council says where that money goes. Baxter agreed. Baker agreed and said if Council wanted him to increase the amount of capital outlay next year by that amount he would put it in the preliminary budget. Bass asked if Baker meant capital outlay as far as rolling stock. Baker said yes. Mayor Powell said the Council directs where the money goes; recommendations are made to the Council but the ultimate decision is by the Council.

Shanklin said we have added more to the \$2.5 million deficit, some was added tonight, some was added that was not shown on the water sales and he would bet the deficit now was over \$3 million. He asked where that would be made up between now and June 30. Baker said he did not think it would be \$3 million. Shanklin said we did not get the \$175,000 for water and now we are adding more for the health plan and it does not take long to reach that \$3 million and we have done that. Baker said if we have a deficit of more than \$2.5 million then the carry over will be less than \$600,000; it could be \$400,000.

Mayor Powell asked if there were any other options Baker would like to bring. Baker said the only other thing is last time it was discussed he said he only had two feasible options and that was either furlough of employees or do not buy the equipment. Baker said there are other options that he had not brought to Council that he did not think were feasible and he had not gotten into those but obviously there are other options and he was not trying to hide anything from the Council but he did not think some of those options were very feasible and he had not brought them forward, but he would be happy to present them if Council desired to hear them. Shanklin said Council should hear it and as the public should know the options.

Baker said the Council could generate more revenue and we could buy all of the equipment listed in the budget and do everything else we want to do and have the money to do it, but to him that was not feasible because a surcharge of about \$9 per month would have to be added for the remainder of the year and it was not feasible in his opinion. He said that is one option he did not bring because he did not think it was something the Council would seriously consider.

Baker said he had received suggestions that perhaps we should not give pay raises for the rest of the year, freeze step increases, and we can certainly do that. He said the problem is that you cannot freeze it for members of the fire and police bargaining unions and he did not think the Council would want to do it only for the general employees, so to him that was not feasible.

Baker said the other thing was to not pay longevity and sick leave for the remainder of the year, and once again there is the same issue; you could probably do that to general employees but you cannot get away with it, in his opinion, with the police and fire so he did not think Council wanted to do that.

Bass said on the longevity, you say you cannot do it to the fire and police because of the bargaining units, but you can and if they file grievances, they can do that; you can do it, you do not need their permission. Baker said Council could do it, they could eliminate the step increases for all employees, cut the sick leave pay for all employees, and he was not saying Council did not have the authority to do these things but was just saying he would not recommend them because there are contracts that you normally try to honor.

Shanklin asked how it had been done all over the rest of the state. He said the Daily Oklahoman has stories regularly about steps being taken in other cities and he used to kid the Council about Lawton being one of the richest cities in the state when we really are one of the poorest.

Ewing-Holmstrom said if we are willing to go that route with the health plan with the firefighters and police, what is stopping us from doing that for longevity and sick leave. She said she understood Baker did not want to do it because it would be more arbitration, and asked what the numbers would be.

Baker said he had the staff work on those numbers today and had numbers on longevity, sick leave and step increases for the remainder of the year. He said not paying any more longevity for the rest of the year would be a total of \$734,000. Bass asked if that would have been \$1.4 million if it would have been frozen before December, and if checks are issued in December and June. Golden said yes.

Baker said sick leave pay is \$249,000; police and fire have already received their sick leave pay. He said freezing step increases for the rest of the year is \$39,000, so it is a total of \$1 million, which is about the same amount as was budgeted for equipment.

Ewing-Holmstrom said every time this is brought up she asks for an explanation and was hoping it was getting in the record and that it was going to press and on television exactly what longevity is and how it works and exactly what sick pay is and how that works so that the average citizen completely understands \$1 million worth of whatever we are talking about.

Baker said employees accumulate 96 hours of sick leave per year and once an employee accumulates 576 hours of sick leave, then on an annual basis they get paid for anything in excess of 576 hours. He said if they use no leave that year, they would have 96 hours times their hourly salary which is paid as a benefit for unused sick leave; it is called sick leave pay in lieu.

Baker said longevity is a benefit that you can become eligible for at the end of four years, and it is based on Step F of a Meter Reader, whatever their hourly rate is, and the longer you are here, the more longevity you get up to 20 years when it tops out. He said longevity has been paid for the last 30 years and when it was originally started, an employee would be at the top step of the pay plan after four years, so the intent and purpose was once you maxed out and no longer were eligible for merit increases, then you could look forward to the longevity.

Ewing-Holmstrom said now you do not max out after four years and that adjustment was never made so you are getting your steps and you are getting longevity on top of that, and asked if that was correct. Baker said that was correct.

Bass said as far as Lawton on longevity, we are number two in the State of Oklahoma for benefits in longevity; sick leave, we are number one, the best benefit in the State of Oklahoma for sick leave.

Baker said he was looking at recommending some changes on sick leave and longevity so that anyone hired after July 1, 2003, would not be eligible at all and we would freeze it for anyone drawing it as of June 30. He said those are some recommendations he would be bringing to Council for consideration; we cannot really afford to keep paying all of these incentives and benefits.

Mayor Powell said this was placed on the agenda for clarification purposes with no action necessary as he read it. He asked if anyone would like to give a statement about direction for the future regarding this item.

Bass said instead of bringing back furloughing general employees every time something comes up, you do have these options; you could have frozen longevity to save \$1.4 million or \$1.2 million. He said there is \$1 million in overtime, and if it was frozen from now until July it would be \$500,000. Bass said there are other ways to get this money. He said Kan-Haul in 2001 paid us \$500,000 and as of this year they paid us \$8,000; has anyone gone to them and asked why they could not dump in our landfill. Bass said there are other issues that can be used to try to solve this problem instead of having to do layoff of general employees without having to dance around the bargaining units, and you cannot worry about them right now, you have to fix the budget the best way you can.

Mayor Powell said if someone wants an agenda item, they should talk to the City Manager about this so it can be brought back.

2. Pursuant to Section 307B.1, Title 25, Oklahoma Statutes, consider convening in executive session to discuss

the continued employment of Michael Corrales as Municipal Judge, and in open session, consider approving an Employment Agreement with Michael Corrales as Municipal Judge and authorize the Mayor and City Clerk to execute the agreement.

MOVED by Baxter, SECOND by Bass, to convene in executive session as shown on the agenda and as recommended by legal staff. AYE: Ewing-Holmstrom, Shanklin, Moeller, Haywood, Baxter, Bass, Hanna, Devine. NAY: None. MOTION CARRIED.

The Mayor and Council convened in executive session at 6:30 p.m.

MOVED by Hanna, SECOND by Baxter, to return to open session. AYE: Shanklin, Moeller, Haywood, Baxter, Bass, Hanna, Devine, Ewing-Holmstrom. NAY: None. MOTION CARRIED. The meeting reconvened in open session at 6:40 p.m.

Mayor Powell read the agenda item title for Addendum Item 2 as shown above. He requested a motion.

MOVED by Baxter, SECOND by Ewing-Holmstrom, to approve his employment agreement contract for a two-year period at \$74,000 per year. AYE: Moeller, Haywood, Baxter, Bass, Hanna, Devine, Ewing-Holmstrom, Shanklin. NAY: None. MOTION CARRIED.

Mitchell asked for the sheets back that were distributed by Ms. Vann on rates of insurance in other cities.

REPORTS: MAYOR/COUNCIL/CITY MANAGER: None.

There being no further business to consider, the meeting adjourned at 6:42 p.m. upon motion, second and roll call vote.