# The Case for Replacing BOE Leadership on May 17

Scott Moody May 2016

#### Track record since 2011:

- At least \$7.8 million wasted on healthcare over-spend
- \$20 million of fund balance depleted to cover operating
- 28 staff cuts needed minimum in 2016 ... many others from prior years
- Credit rating agencies: one rating downgrade, outlook change to "Negative
  - Rating action due to structural budget imbalance and management's decision to repeatedly use reserves to fund budget shortfalls
  - As the district's credit rating deteriorates, interest rates to borrow in the future will increase ... more of the budget will go to interest payments, less to education
- Compensation & Benefits growth rate (nearly 80% of total expense) outpaced revenue growth rate by almost 2:1

### The BCSD Health Care Tax — How it Works

Imagine there are two buying groups that offer discounts to access a network of sporting goods stores to buy equipment for your children. Same stores in both networks.

- Group A has negotiated member discounts of 44% on everything purchased
- Group B offers discounts of 51% on everything purchased

(Remember, you can easily join either group and shop at the same stores for the same merchandise in either case)

You would naturally join group B and get the better discounts, right?

Well, not BCSD ...

# \$7.8 Million Wasted & The BCSD Health Care Tax How it Works:

**BCSD - POMCO** 

Cigna, Aetna, United Healthcare, Blue Cross

#### Same benefits and provider networks

In – network average discount: 44%

% 51-52%

#### X-Ray at MKMG

List Price: \$200.00

POMCO Discount: 44%

Cost to Health Plan

(BCSD taxpayer): \$112.00

#### X-Ray at MKMG

In – network average discount:

List Price: \$ 200.00

Cigna Discount: 51%

Cost to Health Plan

(BCSD taxpayer): \$ 97.60

Due to an unfavorable third part administrator (TPA) contract with POMCO, BCSD pays almost 15% more on average than all leading carriers would pay for the exact same medical procedures with the same doctors at the same facilities

Var. \$	Var. %				
\$ 14.40	14.8%				

Source: Willis Towers Watson BCSD presentation, March 30, 2016. Page 28.

Cumulative financial impact to BCSD

## The BCSD Health Care Tax – Impact on Budget

BCSD Health Care Expense									
1990- 2010E	2011	2012	2013	2014	2015	T: 2016E	otal '11- '16E		al 1990- 2016E
2010L	2011	2012	2013	2014	2013	2010L	10L		
\$ 129.9 \$	12.5 \$	13.1 \$	13.5 \$	16.5 \$	15.8 \$	19.0 \$	90.4	\$	220.3
11.2	1.1	1.1	1.2	1.4	1.4	1.6	7.8		19.0
\$ 118.7 \$	11.4 \$	12.0 \$	12.3 \$	15.1 \$	14.4 \$	17.4 \$	82.6	\$	201.3

Medical cost
variance is
15%, when all
administrative
and Medicare
B costs are
included the
variance is
8.6%

This analysis does not take into account additional savings that should have been realized through efficient plan design ... potentially another 10%+ annually

Source: 2011-2016: BCSD presentations, 1990-2010 estimated based on 7% annual health care cost trend.

**Actual Spend** 

15% POMCO Medical

Overspend

Pro Forma Spend

with Cigna