

A work session of the Beaufort City Council was held on September 21, 2010 at 5:00 p.m. in the City Hall Planning Conference Room, 1911 Boundary Street. In attendance were Council members Donnie Ann Beer, Mike McFee, Mike Sutton, Gary Fordham and Mayor Keyserling, and Dr. Kimberly Foxworth and City Manager Scott Dadson.

In accordance with the South Carolina Code of Laws, 1976, Section 30-4-80(d) as amended, all local media were duly notified of the time, date, place, and agenda of this meeting.

Mayor Keyserling called the work session to order at 5:04 p.m.

PRESENTATION: HEALTH, WELLNESS, AND CONSUMERISM STRATEGIES

Dr. Foxworth introduced **Deirdre Kelley**, Managing Partner at Kelley Benefits Group, Inc., who gave a benefits presentation.

Ms. Kelley said she'd been in the health care business for 30 years. She reviewed the agenda and the objectives. The Health Care Reform Act has implications for most employers 1-1-11 but the city's is in July.

2011

- The city must offer health care to dependents up to age 26, unless the city changes carriers.
- There are no pre-existing conditions for children under 19.
- Lifetime dollars are eliminated.
- Flexible spending accounts to cover over the counter drugs unless they are prescribed by 1-1-11.
- Vending machines and fast food chains are required to disclose nutritional information on each item.
- All plan sponsors must notify participants of the last grandfathered status (if applicable).
- Preventative benefits with no employee cost-sharing
- Emergency room services are treated as in-network.

2012

- Must produce benefit summaries to participants whether the med plan meets certain coverage and cost-sharing provisions of Health Care Reform
- Participants must be given 60 days' advance notice of any changes to their benefits

2013

- Health FSA's will be capped at \$2500 annually

2014

- Everyone in the US is required to purchase health care through their employee or through state run exchange or the employer must pay a penalty.
- Wellness incentives will increase from 20% to 30% - 50%

- Mandatory coverage for clinical trials
- All pre-existing conditions are eliminated.

2015 and beyond

- States can open exchanges to all employees (2017).
- A 40% excise tax will be imposed on “Cadillac plans.”
- The city’s annual premium is \$5,637 for single and \$14,092 for family coverage.

Ms. Kelley presented the average annual deductibles and out of pocket costs. The city of Beaufort’s enhanced plan has a \$600 deductible for employees and a \$1200 deductible for family coverage, which she said is about the norm.

In average costs, the city is about \$2000 more than the average for annual health costs per employee. Family contributions are \$705 per month for the city, about 60% of the premium. The monthly premium is a little higher than average, she said because the city has “higher plan design.” The premiums charged are similar to what a lot of companies are paying right now. 47% of large employers are already using or plan to use financial penalties against those who do not participate in health and wellness programs.

On national trend data, the city isn’t doing too badly compared to the survey data. The families are paying a lot more, though, and that’s where she said the city “falls short.” The deductible is lower or better than most, Ms. Kelley said. The city got a credit for doing the biometric survey. The first year of MedCost was reviewed. 279 people are in the plan. The average age is 43. 90% of claims were paid in network. The average discount was 34% on all medical claims. Total medical claims paid were about \$1.1 million, or \$4046 per member per year.

In claims per relationship, employees made 128, spouses made 54, and dependents made 97. Ms. Kelley said the costs are pretty much following what other companies’ costs are. She said 53% of claims were digestive, neoplasm, neurological, musculoskeletal and ill-defined conditions; cardiac problems are not present in the top 3. The top 20 claimants (7% of the population) represent 64% of the claims paid in costs from \$15,000 – \$143,000. 30 people never filed a claim. 113 were in the up-to-500 range. 4 people were greater than \$50,000. Only 24 people hit the catastrophic level. Not too many people are going to the hospital; the city is meeting norms.

Local trend data

- The insurance carriers are using 10-13% in annual trend per year for underwriting purposes.
- The cost of health care reform is expected to increase medical costs by an additional 2%.
- The city of Beaufort is part of a modified pool arrangement which consists of 21 towns and cities representing 2400 employee lives.
- The advantages of a modified pool are that the experience is underwritten as a “block”: each member’s unique claims experience is reviewed, etc.

- The SCLGAG medical program's average 5 year trend history is 8.6% and national is 7%. The city got an 18 month rate guarantee in June 30, 2010. The current renewal increase effective 7-1-10 was 25%.

She discussed the "components of trend" according to plan design. If it's not changed, employer costs raise exponentially.

Premium development overview: Ideally, approximately \$.85 of every dollar to an insurer should be for health care, and \$.15 should be for the administration of the medical plan, i.e., network access fees, claims payment, customer service, etc. Insurance companies will have to publish their medical loss ratios due to health care reform. She detailed the city's experience with this. The city's loss ratio was 135%.

Retirees: The SCLGAG absorbed \$71,047 in additional costs. The monthly premiums for retirees is \$932 per month and \$1957 per month for spouse coverage which is higher than national benchmark data (which is \$633 per retiree and \$1,249 for retiree/spouse).

The overall loss ratio at 130% is extremely high and needs to improve or premiums will continue to increase significantly in the coming years. She hopes the worst is over and a better nine months of claims will drop that down. At present, the city is not attractive to insurers.

She discussed the impact of lifestyle choices on health and cost, i.e., smoking, working out, etc. and the costs of that. She said data shows that 20% of health care expenses are probably preventable. 40% are attributable to modifiable risk. 11,500 hours of productivity are lost per year due to health conditions. Employee behaviors determine more than 70% of health status and associated costs.

On the wellness front for similar companies, there are gym membership payroll deductions, and a \$25 smoking cessation surcharge for those who want to keep smoking. The biometric screening summary gave a \$300 credit for participating toward employees' annual deductible. 176 people participated. The BMI was high, tobacco was a little lower than average, and only 38% said they were inactive (which she said may be due to perception). In the risk factor analysis, if the city can reduce the number of risk factors someone is subject to, costs can be reduced. Employers are measuring this and can compare from year to year. Ms. Kelley showed a wellness cost-saving illustration; an investment in wellness programs can mean a savings total of \$110,000 or \$500,000 over 5 years.

Ms. Kelley showed possible strategies:

- \$12,200 savings are possible if everyone in the city went from the "enhanced plan" to the "basic." A family would save \$1200 per year in employee contributions. Another option is cost-management.
- Review current employee contribution model (0-60%).
- Eliminate retirees from the plan as they have an impact on the claims experience.
- Consider a high-deductible health plan with a health savings account.

- Offer health care through the state exchanges in 2014 and pay the penalty.
- Increase the smoker surcharge.
- 54 spouses on the plan cost the city \$345,000. Some employers are excluding spouses if they are eligible for benefits through another employer.
- Seek proposals from other qualified insurance companies though with the current 130% loss ratio, the city is not a good risk. Even a good risk like 80% will have a very significant increase in a year.

Wellness Management Ideas

- Mandatory biometric screening to be eligible for medical benefits
- Obesity – Offer Weight Watchers on site; reimburse up to 50% with results
- Smoking - Surcharges
- Inactivity – Subsidize gym memberships and local walking competitions and programs
- Nutrition – Healthy vending machines

Other ideas: Built-in incentives don't necessarily cost money. They can offer paid time off, workplace recognition, reserved parking, etc. to reward people for good health.

Ms. Kelley told Mayor Keyserling that the city should wait 9 months before shopping. If the contract is terminated earlier, "the day it's cut off is the day it's cut off." \$500,000 in claims would have to be paid; it's not in the premiums. If the city stays with the current program and waits until June 30, it's off the table. Fiscally, she wouldn't touch it until 6-30-11. Others have to do it 1-1-11 and she feels the city should watch what the rest of the world does before they have to make a decision 7-1-11.

Councilman Sutton said he's alarmed by the 130% loss ratio. He wondered about the key component of reducing that when 20 members represent a large piece of that cost. Ms. Kelley said it's been a rough 12 months for everyone whose data she's looked at, in part because people were using their insurance for fear of losing their jobs, etc. She reiterated that it's difficult to look at insurance one year at a time; 3-5 years at a time reflects more accurate trends. Mr. Dadson said they couldn't get the claim data from their previous carrier; that would have showed more of the trend. All of the strategies are in the wellness part, Mr. Dadson said. In a 7-year cycle, things will be very good sometimes and sometimes very bad. Mr. Dadson said management can now think about the strategies and present them to council.

Mr. Dadson said that things can change a lot politically and individually between now and 2014; there are many factors that could change. Dr. Foxworth said it's both an emotional and business decision. She said the employees would hear this information throughout the week, then department heads would reconvene, and Ms. Kelley will have information on the components of the plan that employees, spouse and retirees want to see in it.

Ms. Kelley said people spend too much on health care in fear of a catastrophic event. People aren't educated and are frightened, so they pick the "Cadillac plan" when they probably need a

“Volkswagen” plan. Dr. Foxworth said the department heads have received the information and aren’t attend the meetings with the employees, spouses and retirees, so they can speak their minds.

Councilman Sutton asked Dr. Foxworth for the costs to the city for penalties in 2014 if they didn’t provide insurance. Mr. Dadson said about \$400,000. Ms. Kelley said that’s what’s on the books now, and that price is going to correct itself. She questions whether the exchanges will be up and ready in 2014. Councilman Sutton said he would like to have all the data. Mr. Dadson said the high deductible is allowed now, and for some people, that money in the health savings account is a way to control the cost: It is “a better bank for the dollar.”

Dr. Foxworth said the state’s plan and what it will look like is unknown. Comparing the city’s plan to the county or BJSWA plans is hard because the information is proprietary. Since they don’t know all the costs that go into their plan, they can’t be compared. Ms. Kelley said Port Royal is about the same for what they’re paying, but they can’t be compared because they could have an 80% loss ratio while the city’s is 130%; each is a unique population and can’t be compared.

Councilman Fordham asked about the information on costs from the city’s former insurer. Dr. Foxworth said she continues to request information and has not received a response. Ms. Kelley said the city employees are considered insured, and the industry practice was that those who are insured aren’t supposed to need any data. That’s changed. Those groups with 100+ members are entitled, but that’s fairly new. Councilman Fordham asked how the city can get that information. Ms. Kelley said they can’t, but the city will have 2 years of real data by June 30.

DISCUSSION REGARDING AMENDING SECTIONS 5.1 AND 5.3.D OF THE UDO TO PERMIT SHORT TERM RENTALS BY SPECIAL EXCEPTION IN THE HISTORIC DISTRICT

Mayor Keyserling said at the council meeting discussion of this issue, someone said this couldn’t happen on The Point. Councilman Sutton said it includes the whole Historic District, but only the Historic District, not Pigeon Point, Mossy Oaks, etc. Mayor Keyserling gave background on the matter to the members of the public at the table. The Planning Commission recommended dealing with this by special exception, so it goes to the ZBOA instead of it being a zoning change.

Mayor Keyserling said he has had short-term rentals and feels short-term rentals are a novel thing and of benefit to the community. He said some people have had poor experiences with short-term rentals in their neighborhoods. There’s been a lawsuit in Battery Creek Marina Village where the property owners association sued because large families would come in for a graduation as an alternative to a hotel room. “Vacation Rental By Owner” (www.vrbo.com) will show properties all over the city being operated that way. He’s not sure this change addresses the larger issue. The Historic District has a lot of components to it that are different from one another. He feels the integrity of the neighborhood needs to be maintained for the families that live there. He thinks they might need to look at it by zoning rather than by district.

Mr. Dadson said it can be looked at in corridors, too. He said the options are for council to say no, which is the safest; they can say yes, by special exception only, or they can set up more conditions.

Mayor Keyserling discussed the difficulties of divvying up the corridors, i.e., Bladen Street; the way it ties together is complicated. He feels it's an asset, but the city should get ahead of it and allow the enforcement of current zoning. Councilwoman Beer asked if they could do special exception with conditions. Councilman McFee said there are no set standards for special exception. Councilman McFee said "conditional" is less stringent, and he likes the more stringent choice, which is special exception. Mr. Dadson said they might be able to add guidance on top of that.

Beth Grace said it depends on who is on the ZBOA and their personal experiences. She said her block is "ruined" because of a bad experience with the ZBOA. Her biggest concern for her neighborhood is that it's inviting discord and discontent. She said owning property in a resort, like Fripp Island, requires a master plan where there can be a combo of rentals and permanent residents. They were subjected as renters to much abuse by owners. They don't want to set the Historic District up for neighbors fighting neighbors.

Maxine Lutz was also surprised to hear that it doesn't apply to any other neighborhood. Ms. Grace said if the amendment's considered, all neighborhoods should be treated the same: "We don't want the city of Beaufort to end up like the Historic District in Charleston" which she said is full of "drive-by residents." Second family homes already dilute the community in The Point.

Mayor Keyserling said they want the option, but they need to create it carefully. The city framework involves mixed uses and diversity. Mixed use is not bad but doing anything in one neighborhood and not another can be problematic. Mayor Keyserling said it's a zoning issue. He asked, if it's good for the community and / or the tourism business, how do they take the framework and make room for it to happen? Ms. Lutz said in her neighborhood, they are having trouble creating community, i.e., lack neighbors, parking issues, etc. are standing in the way of building downtown community.

Councilman Sutton commented that he knew the full-time residents of the neighborhoods would feel this way. Though they champion preservation, they may need to look at possible tools for that, which short-term rentals could be. The house under discussion is one block off of being able to do this as commercial zoning. The Point looks like it's 48% empty to him. He has a problem with the absentee person who can't be reached for issues. He said there are a lot of pieces to it. The short-term rentals now, Councilman McFee said, are paying the taxes, if they're legitimate. Councilman Sutton said the matter should be approached cautiously, not rashly just because of they have an applicant in question.

Ms. Lutz asked what is economically more beneficial to the city. Mayor Keyserling said it would depend. Councilman McFee said looking at the 5 prongs each property could potentially be, a

6% non-residential second home generates more money for the city. Then the 48% vacant homes are generating more money than the residents do. Councilman McFee said if the home is rented long-term, they're paying the 6% and the people living in the house are effectively paying to be in the community. Short-term rentals can be effectively managed. They need to look at the healthiest, most nurturing effect to the city, which is not always dollars.

Mayor Keyserling said in the comp plan, they want to have "a healthy city." There are a lot of blank spaces, and just because they're blank, they don't need to necessarily put something in it. They need more people living downtown, which is more than just Bay Street. He said Charleston "became a feeding frenzy" because they didn't take the time to consider the consequences of chasing people out of the neighborhoods. Mayor Keyserling said The Point has been gentrified, and the Northwest Quadrant could become the same way. The Point today is not The Point is used to be. He said they need to figure out how to keep the mix. The four corridors of downtown may not necessarily be zoned correctly.

Mayor Keyserling said they should consider if there are places where short-term rentals can provide something for the neighborhood, not disrupt what the neighborhood needs, etc. In the Northwest Quadrant, there were once 4 neighborhood stores, and though they're never going back to that, there are a lot of things to be learned from just looking He said Councilman Sutton knows about the character of the Northwest Quadrant. All the things that people like, the city has created rules and regulations to not allow them now, i.e. The Point, Pruitt's store or Bay Street.

Mr. Dadson said cities were built intuitively and should be again. There's nothing for residents to buy on Bay Street because it's designed for tourists, but that's not all of downtown. Not everything should be forced on to two blocks. Mr. Dadson said he'd send it go back to the Planning Commission, who with the Redevelopment Commission could talk to the neighborhoods and ask what works at each block level, in each neighborhood, and how could it be made more livable. Council could then make a better decision about how it wants neighborhoods to fill in and would help with form-based code. There was general discussion of what has been zoned out of the downtown area.

Mayor Keyserling discussed a phone call he'd received about a potential business opening on Bay Street. He agreed with Mr. Dadson's idea to have the Planning Commission look at comparable blocks at the neighborhood level. Ms. Lutz said there are still zoning issues to be resolved. Mr. Dadson said, like Councilman McFee, he's concerned about empty buildings. They need the neighbors to help, too. Ms. Lutz said there was concern in her neighborhood; she noted that at the meeting, there were no formal representatives of any neighborhood associations. Councilman Sutton said they have often spoken of vibrancy and 35% of the city isn't really here. Ms. Lutz said she's torn between her feelings of wanting the houses to be used in some way and concern about short-term rentals. Mayor Keyserling surveyed council and all agreed that they were comfortable with the Planning Commission "digging into it."

Councilman Sutton brought up the matter of four-hour parking on Bay Street, which he said the merchants have expressed interest in and believed was part of the new parking plan. Mr. Dadson said there's not a full-year's data yet. Councilman Sutton wants to continue the discussion about parking because the issues keep coming up. Merchants want 4-hour parking on Bay, and Councilman Sutton said he believes that's what was said when the plan was being developed. There was a general discussion of parking signs. On the time issue, Mr. Dadson said his direction was to hold off for a year until adequate data is attained. They need data from the stores as to whether their daily sales counts are affected by the parking changes. He said obtaining that data is a Main Street Beaufort issue. They're another strategic partner and should provide that information. Then a conversation ensued about the number of hours of parking per spot on Bay Street. Councilman McFee said he didn't remember ever saying it would change to 4 hours. He said they may have intended to make a break eventually, but they need to get Main Street Beaufort to be more of a partner, and the merchants should talk to them if that's what they want. Councilwoman Beer said she agrees with the 4 hours so people can spend longer downtown. Councilman Sutton said people should have the options. Councilman McFee said the parking-related work should be shared with Main Street Beaufort and Redevelopment Commission rather than the council only.

EXECUTIVE SESSION

On motion of Councilman McFee, seconded by Councilwoman Beer, council voted to move into Executive Session pursuant to Title 30, Chapter 4, Section 70(a) (2) of the South Carolina Code of Laws to discuss contractual matters. The motion was approved unanimously.

Councilwoman Beer, seconded by Councilman Sutton, made a motion to come out of executive session and resume the council work session. The motion was approved unanimously.

ADJOURNMENT

There being no further business, Councilwoman Beer made a motion, seconded by Councilman McFee, to adjourn. The motion passed unanimously and the meeting was adjourned at 8:05 p.m.

ATTEST: _____
IVETTE BURGESS, CITY CLERK