

THE UNIVERSITY OF WYOMING
BOARD OF TRUSTEES “SPECIAL” MEETING REPORT

November 8, 2010
12:00-1:00 p.m.
Conference Call in Old Main Boardroom

AGENDA

- I. FY 2011-2012 Biennium Supplemental Budget Request: Agency 067 (UW Block Grant),
Vinzant1

I. AGENDA ITEM TITLE: FY 2011-2012 Biennium Supplemental Budget Request: Agency 067 (UW Block Grant), Vinzant

CHECK THE APPROPRIATE BOX (ES):

- Work Session
 Education Session
 Information Item
 Other Specify:

BACKGROUND AND POLICY CONTEXT OF ISSUE:

UW's benefited employees are eligible to participate in a self-funded health insurance plan administered by Employees' Group Insurance (EGI), a part of the State of Wyoming Department of Administration and Information. EGI has announced changes to the plan effective January 1, 2011. Some changes are being made to comply with the recent health care reform law, the Patient Protection and Affordable Health Care Act (PPACA), although the complete financial impact of these changes will not be known for some time. The current changes of greatest interest to most employees are those to premium rates.

In summary, health insurance premiums will increase 19.9 percent to 22.8 percent next year, depending on the level of coverage. The resulting increase for the majority of employees will range between 24.8 percent and 76.1 percent, dependent upon deductible plan (most are enrolled in the \$350 and \$750 deductible plans). These changes have been communicated to employees through the September EGI newsletter, *The Benefit Press*, as well as by an e-mail sent to all benefited employees by UW Human Resources. In addition, presentations have been made to various employee groups such as the Executive Council, Staff Senate, Academic Deans and Directors, and others.

UW's employer contribution pays approximately 85 percent of the premium for benefited employees, and the University's costs will increase by 18.7 percent to 19.0 percent. The magnitude of the increase will have a significant impact on both Section I and II budgets.

Section I cost increases for the University are projected at \$2.2 million for FY 2011 and \$3.8 million for FY 2012 (the increase in the second year is due to the fact that the premium increase goes into effect with the December 2010 payroll), a total of \$6 million in the current biennium. The University is seeking approval from the Board to request \$6 million as a supplemental general fund appropriation for the FY 2011-2012 biennium to address this cost increase for the employer-share of the increase in group health insurance premiums.

The cost increases for Section II budgets are estimated at \$0.85 million for FY 2011 and \$1.45 million for FY 2012. In as much as these premium increases were not released until September 2010, fee increases necessary to cover the employer contributions in Section II budget units were not considered when mandatory and non-mandatory fee rates (including room and board) were approved by the Board in January 2010. Some combination of expenditure reductions, use of one-time reserves, and/or rate adjustments will be necessary to cover these increases. In all likelihood,

increases to mandatory and non-mandatory fees will be required for FY 2012 to cover the health insurance cost increases along with the retirement contribution increase that took effect in September. As a result, the Board will be asked to consider and approve an item on Section II fee increases at the March 2011 or May 2011 meeting.

PRIOR RELATED BOARD DISCUSSIONS/ACTIONS:

The Board approved the FY 2011 operating budget at its May 2010 meeting. The Board approved the FY 2011-2012 Biennium Supplemental Budget Request for General Fund appropriations and capital outlay authorizations at its special meeting in August 2010.

WHY THIS ITEM IS BEFORE THE BOARD:

At the Executive Budget Hearing with the Governor and Budget Division staff in late October 2010, the University learned that the State Budget Division has interpreted a section of the appropriations bill specific to health insurance premiums in a manner that UW believes differs from prior practice. Moreover, the State Budget Division has applied this interpretation in a retrospective manner to the past four biennial budget development processes, arguing that the University should have treated the employer-paid insurance premiums—an element of the block grant appropriation—as though this was a distinct appropriation, for at least the past four biennial budgets. The State Budget Division contends employer paid health insurance premiums are expected to be separately accounted for by UW and used exclusively for health insurance premiums. Prior reviews by state budget officers never elicited this opinion.

UW differs from the position of the State Budget Division on three key points: (a) the abrupt departure from historic practice under which both UW and the Budget Division operated for several biennia; (b) the lack of communication of a new interpretation regarding the funding within the block grant for health insurance premiums; and (c) an interpretation which limits the traditional flexibility of this specific budget adjustment within UW's block grant. Consistent with the University's understanding of the block grant appropriation, the University has reallocated resources to cover significant cost increases in areas such as utilities and operations and maintenance for new facilities, at least a portion of which would have come from savings in the benefits budget. Going forward, UW will work with the State Budget Division to achieve resolution on the budget adjustments and use of funds included in the block grant for health insurance premiums.

The Board approves the operating and capital budgets for the University of Wyoming. To address the cost escalation of the employer-share of group health insurance premiums in the context of the State Budget Division interpretation, the University seeks Board approval to submit a supplemental budget appropriation for the FY 2011-2012 biennium in the amount of \$6 million.

ARGUMENTS IN SUPPORT:

This budget request reflects a critical need and is consistent with the supplemental nature of the state's approach to biennial budgeting.

The alternative to requesting a supplemental state appropriation would be internal budget reallocation in the middle of the biennium which would result in significant disruptions, including reductions in employment and elimination of other UW priorities.

ARGUMENTS AGAINST:

Some may contend that UW should reallocate internally to address this deficit.

ACTION REQUIRED AT THIS MEETING:

Approval of a General Fund supplemental budget request for the University of Wyoming (Agency 067) as presented.

PRESIDENT'S RECOMMENDATION:

The President recommends Board approval of the FY 2011-2012 supplemental budget request for the University of Wyoming (Agency 067) as described in this item.