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Date: October 31, 2024

To: John Weidl, City Manager
Common Council

From: Rachelle Blitch, Director of Financial and Administrative Services

Re: Proposed 2025 Budget Amendment

The current 2024-2025 Biennial Budget, initially adopted on November 21, 2023, requires amendments to the 2025 budget period due to various updates in estimated revenues and expenditures. An initial draft budget for 2025 was presented on October 15, 2024, and has since been revised to reflect newly available information which will be shared in detail during the formal budget presentation.

Following a detailed review by the Finance Committee, the budget has been recommended to the Common Council, along with a request to explore options for enhancing police staffing. The request identified a potential option to use \$100,000 from the recent transfer to the Health Insurance SIR Fund to support this initiative.

The fund was established to reserve savings generated by transitioning from ETF to a hybrid self-funded health plan. Reverting to ETF, if needed, requires a three-year waiting period and could incur a re-entry penalty. Additionally, without access to a comprehensive claims history, there is a risk of significant premium increases in the second year.

This reserve fund serves two primary purposes: first, to stabilize any potential premium hikes, and second, to cover re-entry costs should the City decide to return to ETF. It's essential to note that savings are only guaranteed in the first year; subsequent increases could reduce potential savings. Setting aside reserves is best practice to prepare for these potential cost fluctuations. In the third year, we could consider reallocating a portion of these funds if conditions allow.

Staff contacted Lake Mills to inquire about the re-entry penalty they were quoted (memo attached), providing insight into the reserves needed for a similar scenario. Lake Mills received a surcharge of \$400 per single contract and \$1,000 per family contract in the first year, reflecting a 40% penalty. The second-year surcharge is estimated at 20%, though it remains subject to adjustment. Please note, these are monthly charges not yearly.

If Whitewater faced these conditions, the total impact of the first-year surcharge alone would be approximately \$703,200, based on the City's current 29 single policies and 47 family policies.

While claims risk can vary significantly between municipalities, this approach aims to account for a worst-case scenario. Setting aside these reserves ensures the City could mitigate substantial budget costs in future years if a return to ETF becomes necessary.