

Madam Moderator,

On July 1, the Town put into effect the terms of a new coalition bargaining agreement reached with the Lexington Public Employee Committee. This agreement represents a step in the right direction, balancing compensation and benefits in a manner fair to current and future employees, to Town retirees, as well as the taxpayers. The changes in plan design and the increase in premium contribution rate for subscribers to 17.5% this year and 20% next year serve as incentives to reduce underlying costs through informed consumption. Nonetheless, as has been pointed out in previous Appropriation Committee reports to Town Meeting, annual increases in healthcare costs remains a significant area of concern for the Lexington budget. We encourage the Town and its employees to continue to consider total compensation when negotiating coalition bargaining and collective bargaining agreements. We also suggest exploring new plan design alternatives for future contracts that will further reduce underlying costs while providing necessary care.

A portion of the total savings accruing from the plan design changes and increased employee premium contributions are intended to fund the salary adjustments in the new agreement. Part (a) of the Article 2 motion proposes to transfer \$684,400 from the health benefits budget (line 2130) and divide it among the personal service (wage and salary) accounts of each departmental budget, including the School Department. Parts (b), (c) and (d) of the motion make the adjustments for salaries of employees paid from the Water, Sewer and Enterprise Fund budgets.

Should Town Meeting reject the proposed transfer, then the terms of the agreement call for Town's contribution to premiums to revert to 85% as of the next pay date following Town Meeting. The salary adjustments and the plan design changes continue throughout the year and revert to previous levels on July 1, 2012. While these changes still result in a small net savings to the Town, they create a potential shortfall in salary budgets that would have to be addressed later in the year at the 2011 Annual Town Meeting. This exposure of about \$477,000 in the FY2011 operating budget would occur since plan design change savings are realized as reduced costs to the Claims Trust Fund and only materialize for consideration in the FY2012 budget.

A few additional comments about the Healthcare Budget

As requested by a resolution amending Article 4 passed at the 2010 Annual Town Meeting, the Committee has closely monitored line 2130 spending and utilization. In addition to savings accruing from the new coalition bargaining agreement, a reduction in the final FY2011 rates and fewer enrollees than anticipated during the budgeting process are projected to contribute to a surplus in the line 2130 healthcare budget at the end of FY2011. More detail is available in our written report and we will again report on this budget line at the 2011 Annual Town Meeting.

The Committee recommends approval of the budget transfers specified in the Coalition Bargaining Agreement.