

Ketchikan Gateway Borough School District

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Melissa Brooks-Johnson, Interim Superintendent • Katie Jo Parrott, Business Manager

Catherine Alilin, Human Resources • Derek Meister, Special Services • Alonso Escalante, Curriculum



Memo

To: Melissa Johnson, Interim Superintendent
From: Katie Jo Parrott, Business Manager
CC: Vicki Wallace, Controller
Date: August 13, 2021
RE: **Health Insurance Fund Deficit and Supplemental Contribution Recommendations**

The District's Health Insurance program has been operating in a deficit for the past several years that has required the District to make supplemental end-of-year contributions to the District's Health Insurance Reserve fund, otherwise known as the Internal Service fund. The current deficit in the district's health insurance reserve fund held by the Ketchikan Gateway Borough is approximately \$1,561,189.72. The district administration views this deficit as an outstanding liability, or a bill that has yet to be paid by the district.

The fund is projected to incur another sizable deficit as of the end of FY21, in large part due to the high number of COVID-related claims in FY21 (currently more than \$1.3 million). As a result, it is my recommendation that the District increase the end-of-year supplemental contribution in the amount of \$146,649, which would be in addition to the \$574,787 already authorized in the Board approved FY21 budget, for a total of \$721,436. This amount falls within our existing FY21 expenditure authority and would not require additional action of the Borough Assembly.

This would leave a prior-years' deficit of approximately \$435,333 in the fund—not including the FY21 year-end deficit, the accounting for which is currently being completed—which is under the amount the Borough Assembly withheld from the district's FY19 funding request in order to maintain Borough reserves and to assist the district by carrying the deficit (i.e., \$511,704). This modest increase in supplemental contribution would have only a very minor impact to the District's fund balance based on preliminary end-of-year figures. Specifically, with this increased contribution, the District's fund balance is still projected to increase from last year's amount by just under \$400,000. There is potential for a significant portion of the remaining deficit in the health insurance reserve to be addressed utilizing COVID relief funds for COVID specific costs, pending funding agency approval, as well as an additional contribution pending audited financial statements that show a surplus of operating funds.

While it is advisable in uncertain fiscal times to maintain as strong a fund balance as possible, it is in the district's best interest to meet our financial obligations, particularly with regard to employee benefits. It is the opinion of district administration that carrying a large deficit in the Health Insurance Reserve fund indefinitely is not in the best interests of the district financial future. By addressing a portion of the deficit now with existing funds, we will stave off the unsustainable growth while working to establish a contribution level that better matches costs of the program. It should be noted that this approach is part of the District's 5-year plan for addressing the operating deficit in the program. Additionally, cost control strategies put in place in previous years prior to COVID began to achieve cost savings that we believe can continue in future years as part of a developing comprehensive fiscal plan to achieve a bright sustainable future for our schools and community.

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