TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES
DATE: NOVEMBER 22, 2004 CMR:473:04

SUBJECT: APPROVAL OF THREE RESOLUTIONS FIXING THE AMOUNT OF THE CITY’S CONTRIBUTION UNDER THE PUBLIC EMPLOYEES MEDICAL AND HOSPITAL CARE ACT (PEMHCA) FOR IAFF, LOCAL 1319, INTERNATIONAL ASSOCIATION OF FIREFIGHTERS (IAFF) AND MANAGEMENT AND PROFESSIONAL PERSONNEL

RECOMMENDATION

This report recommends Council approve the attached resolution fixing the City of Palo Alto’s contribution under the Public Employees’ Medical and Hospital Care Act (PEMHCA) for IAFF, Local 1319, International Association of Firefighters (IAFF) and Fire Chiefs’ Association and for Management and Professional Personnel to reflect that the City shall pay up to the Blue Shield premium rates on behalf of eligible active employees, up to the single party Blue Shield rate for individual retired employees and the required percentage of health care premiums for eligible dependents of retired employees (applying the Blue Shield cap).

BACKGROUND

In 2003, the average health premium costs paid by the City increased by 22%. In 2004, the health insurance premiums costs increased by another 18% and costs will increase yet again in 2005 by 11.5%. The City’s goal is to maintain excellent health insurance benefits for its employees, not only a key recruitment tool but also as an incentive to keep employees working for the City of Palo Alto.

In May 2003, a Healthcare Committee was formed with representatives from each of the City’s bargaining groups and Human Resources Department staff to address the escalating costs of employee benefits. The Committee concluded that City employees value the stability of the PEMHCA Health Plans, and that the preferable alternative to looking at alternative healthcare plans lower costs is to stay in PEMHCA and to cap medical benefits at a lower rate. In 2004, the City again looked at alternatives, participating as part of the Bay Area Medical Review Committee (BAMR), a committee of twenty Northern California public agency representatives. The goal of the committee was to explore alternate health care models and ascertain what viable
options may be available. Unfortunately, the City of Palo Alto was the largest public agency interested in the possibility of a joint venture and would therefore be required to assume the highest costs with risk of little to gain. Instead, during this year’s labor negotiations, the City was able to reach agreement to cap health care premiums with Local 1319, International Association of Firefighters (IAFF) and the Fire Chiefs Association. The Management and Professional Personnel group also agreed to cap medical costs at the Blue Shield plan rate.

**DISCUSSION**

Effective January 1, 2005, the City will cap its contribution to health care premiums at the Blue Shield plan rates for Local 1319, International Association of Firefighters and Fire Chiefs Association, as well as for the Management and Professional Personnel group. Retirees who worked in this bargaining group who are enrolled in PERSCare Basic on 1/01/05 will pay, then be reimbursed by the City for the difference between the PERSCare and Blue Shield plans due to the City’s differing legal obligations to these retirees. Capping at the Blue Shield plan rate will provide affected employees with a quality HMO plan and will still lower the City’s cost of providing health insurance by offering an option that is lower than the more costly PERSCare PPO health plan. Employees still have the option of staying in the PERSCare plan, with the option to pay the difference in premiums, or enrolling in lower cost health plans such as PERSChoice, PORAC (if eligible) or Kaiser HMO.

**RESOURCE IMPACT**

The increase in premiums between the 2005 Blue Shield Basic Plan rates compared to the 2004 PERS Choice Basic Plan rates is: single $40.55; 2-party $81.10; family $105.43. This CalPERS contract amendment raises the maximum benefit cost to the City by $140,000 and involves 132 employees. Approximately half of the increase results from year-over-year premium inflation and the remaining from the shift to the Blue Shield Basic Plan cap. However, if the City had not implemented the cap, the potential exposure for the monthly premium rate if these employees had been allowed to select PERSCare would have been $497,804. By capping the premium cost at the Blue Shield HMO rate, the total monthly premium totals $313,139 resulting in a monthly savings of $184,666. The 2004-05 Adjusted Budget does not require any changes to accommodate this contract amendment. The 2005-06 Proposed Budget will include the fiscal impacts of this amendment from the last half of calendar 2005.

**POLICY IMPLICATIONS**

This request does not represent any change to existing City policy.

**ENVIRONMENTAL REVIEW**

This is not a project under the California Environmental Quality Act (CEQA).

**ATTACHMENTS**

Attachment 1 – Resolutions fixing the City of Palo Alto contribution under the Public Employees’ Medical and Hospital Care Act at the Blue Shield plan rates for
(IAFF), Local 1319, International Association of Firefighters and Fire Chiefs Association and the Management and Professional Personnel group.

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