TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES
DATE: NOVEMBER 20, 2006 CMR: 420:06

SUBJECT: APPROVAL OF FOUR RESOLUTIONS FIXING THE AMOUNT OF THE CITY’S CONTRIBUTION UNDER THE PUBLIC EMPLOYEES MEDICAL AND HOSPITAL CARE ACT (PEMHCA) FOR LOCAL 1319, INTERNATIONAL ASSOCIATION OF FIREFIGHTERS (IAFF); FIRE CHIEF’S ASSOCIATION, MANAGEMENT AND PROFESSIONAL PERSONNEL AND LOCAL 715, SERVICE EMPLOYEES INTERNATIONAL UNION

RECOMMENDATION

Staff recommends Council approve the attached resolutions fixing the City of Palo Alto’s healthcare premium costs under the Public Employees’ Medical and Hospital Care Act (PEMHCA) for Local 1319, International Association of Firefighters (IAFF); Fire Chiefs’ Association; Management and Professional personnel; and for Local 715, Service Employees International Union (SEIU). The purpose of this recommendation is to complete the PERS contract amendment process required to implement the Memorandum of Agreement provisions for these bargaining groups.

BACKGROUND

Rising healthcare premium costs continue to be a major issue for the City over the last several years. 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 by 10% yet again in 2005. In 2006 the cost increased by 9% and in 2007 the rates will go up approximately 12%.

In 2003, in an effort to contain escalating healthcare costs, the City began negotiation with the various employee groups to cap healthcare premiums. Since 2003, the City has had agreements to cap PEMHCA health care premiums with Local 1319, IAFF, Fire Chiefs Association; and the Management and Professional group. This year during negotiations with SEIU, the City was able to reach agreement to reduce its maximum payment for medical premiums from the highest health plan (PERSCare) to the second highest (currently Blue Shield HMO) for all current employees as well as future retirees cap beginning January 2007.
**DISCUSSION**

In order to implement Memorandum of Agreement provisions for the aforementioned bargaining groups, the PERS contract amendment process requires Council to approve the attached resolutions which reflect the 2007 Blue Shield premium rates. This action reflect the City’s past practice to 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).

Capping at the Blue Shield plan rate will provide affected employees with a quality HMO plan while lowering the City’s cost of providing health insurance by offering an option that is lower than the more costly PERSCare PPO health plan. Current employees still have the option of staying in the PERSCare plan and paying the difference in premium or enroll in a lower cost health plans such as PERSChoice, PORAC (if eligible), Blue Shield or Kaiser HMO for which the City pays the premium in full.

Retirees who worked in these bargaining groups and who are enrolled in PERSCare Basic prior to 1/01/07 will have the difference in premium deducted from their CalPERS retirement check. The City is legally required to reimburse those retirees for the difference between the PERSCare and Blue Shield plans. Employees retiring after 1/01/07 who enroll in PERSCare will be required to pay for the difference between the PERSCare and Blue Shield plans from their CalPERS retirement check.

**RESOURCE IMPACT**

The CalPERS contract changes include a 12 percent increase in the 2007 health premium rates, which will increase the City’s healthcare cost by approximately $1.6 million for current and retired employees. However, the cap in health benefits negotiated with SEIU represents $450,000 annual net savings in medical premium payments made by the City for current employees. Additional cost avoidance after January 2007 will result from capping future retiree medical benefits. The 2006-07 Adopted Budget does not require adjustment to accommodate this contract amendment. The 2007-09 Proposed Budget will include the fiscal impacts of this amendment from the last half of calendar 2007.

**POLICY IMPLICATIONS**

This change supports the Finance Committee’s recommendation for staff to bring alternatives forward on how to slow the increase of employee benefits and lessen the impact on infrastructure and other City priorities.

**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, the Management and Professional Personnel group and Service Employees International Union, Local 715.

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