TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: NOVEMBER 21, 2005

DEPARTMENT: HUMAN RESOURCES CMR: 422:05

SUBJECT: APPROVAL OF THREE 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 AND MANAGEMENT AND PROFESSIONAL PERSONNEL

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) and Fire Chiefs’ Association and for Management and Professional personnel. 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. This action reflects 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). This action reflects the 2006 Blue Shield premium rates.

BACKGROUND

Rising healthcare premium costs have been a major issue for the City over the last two 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. It is projected that in 2006 the cost increase may decrease to 9%.

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 preferred alternative to lower healthcare premium 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. Accordingly, the City did not continue participating in BAMR.

Instead, in an effort to assist the City to control healthcare costs, in 2003, the City was able to reach agreement to cap PEMHCA health care premiums with Local 1319, IAFF and the Fire Chiefs Association. Management and Professional personnel also agreed to cap medical costs at the Blue Shield plan rate.

**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 2006 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).

Retirees who worked in these bargaining groups and who are enrolled in PERSCare Basic on 1/01/06 will pay, and 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, and either pay the difference in premium or enroll in lower cost health plans such as PERSChoice, PORAC (if eligible), Blue Shield or Kaiser HMO.

**RESOURCE IMPACT**

This CalPERS contract amendment raises the maximum benefit cost to the City by $192,000. In 2004, the City experienced savings as a result of capping at the Blue Shield Rate since the City was no longer paying the higher PERSCare rate for those employees in PERSCare. This year, virtually all employees have shifted out of PERSCare so the savings to the City from not paying PERSCare rates, while still real, is only speculative. The 2005-06 Adjusted Budget does not require adjustment to accommodate this contract amendment. The 2006-07 Proposed Budget will include the fiscal impacts of this amendment from the last half of calendar 2006.

**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 and the Management and Professional Personnel group.

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