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**FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCo)  
EXECUTIVE OFFICER'S REPORT**

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**AGENDA ITEM No. 14**

**DATE:** October 9, 2013

**TO:** Fresno Local Agency Formation Commission

**FROM:** David E. Fey, AICP, Executive Officer

**SUBJECT: Provide Direction:** Options to Consider if the Commission is unable to obtain health insurance with the SJVIA or County of Fresno

**RECOMMENDED ACTIONS**

1. Direct staff to work with legal counsel to prepare resolutions requesting LAFCo's participation in the SDRMA and/or CalPERS health plans; and
2. Authorize the Chairman to sign resolutions requesting participation in the SDRMA and/or CalPERS health plans and direct staff to start processing LAFCo's applications for health insurance.

**EXECUTIVE SUMMARY**

Staff is currently pursuing multiple options for group health coverage. Two options, SJVIA, and an MOU with Fresno County, are in progress. Two others, SDRMA and CalPERS, require resolutions by the Commission to proceed further. The recommended actions will permit staff to continue its evaluation of these options.

**BACKGROUND**

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 permits Local Agency Formation Commissions to seek independence from the County when possible and practical. The Commission has since voted to become independent.

During discussions regarding actions to achieve independence, the Commission expressed its intent to offer its employees comparable healthcare, dental, vision, life insurance, and other benefits that they had as County employees, and to seek these through a group rate rather than as privately-insured individuals. Those criteria continue to guide staff's evaluation of the feasibility of the various benefit options.

The Commission has determined that any new employees would be employees of LAFCo and not the County. As a result of this change, employee benefits (i.e. health care benefits, retirement, etc.) would no longer be provided by the County, but would become the responsibility of LAFCo to provide. There is currently only one LAFCo employee, the Executive Officer; the other two employees are County employees working for the Commission under a professional service agreement.

Staff researched the relationships of other LAFCoS in the state and their health benefit arrangements. Using a database prepared by the California Association of Local Agency Formation Commissions (CALAFCO) staff has determined that approximately one-quarter of the LAFCoS that have independent staff contract with their respective county for benefits. Others are still county departments or are independent with private (or no) benefit arrangements.

## **HEALTH INSURANCE OPTIONS CURRENTLY BEING EXPLORED**

### **San Joaquin Valley Insurance Authority**

Before the previous executive officer retired, staff understood that LAFCo could obtain employee health insurance through the San Joaquin Valley Insurance Authority (SJVIA) and authorized the Executive Officer to enter into an agreement on behalf of the Commission to obtain health insurance with SJVIA. This direction proved unproductive as the minimum group for SJVIA coverage is 15 persons.

In authorizing the Executive Officer to approach the Board of Supervisors (as discussed in the next section), the Commission broadened its authorization to permit the Executive Officer to approach the SJVIA and request an exemption of the minimum group to permit direct contracting, rather than working through the County. In response, staff has arranged to request this exception at the SJVIA board at its November meeting.

### **MOU with Fresno County**

Discussion between previous and current Executive Officers and County Administrative Officer Navarrette explored the option of a Memorandum of Understanding between LAFCo and the County of Fresno to allow LAFCo staff to participate in the County's health insurance plans. Presently, such a MOU would only cover your Executive Officer; however, an MOU should also anticipate future new (non-County) LAFCo employees to also be included in this plan.

At the September 10, 2013 Board of Supervisors Meeting, staff presented a request asking if the Board would consider entering into a Memorandum of Understanding with LAFCo to allow LAFCo employees to participate in the County's health insurance plans. Some of the Board members were concerned over past groups that became independent of the County but still wanting to keep the benefits offered to County employees. The Board of Supervisors voted 4 to 1 to consider allowing LAFCo to participate in the County's health insurance plans.

Staff anticipates that the draft MOU will present the administrative details of coverage, reimbursements to the County for coverage, and administration. As of this report, County staff has not projected a date when a draft MOU will be available for Board and Commission consideration.

A draft financial comparison of this option is evaluated later in this report.

### **Special District Risk Management Association**

The Special District Risk Management Association (SDRMA) has provided comprehensive coverage protection to California Public Agencies for over 25 years. It currently serves over 900 members (including many LAFCoS) with health benefits, property/liability, workers' compensation, and other services. However, SDRMA requires at least two employees in order

for an agency to participate. An application to SDRMA requires a resolution from the Commission requesting participation in its plan.

An important component of LAFCo-coverage of its employees is timing. At this point there is but one LAFCo employee. A LAFCo staff person currently a County employee is considering retiring in mid-2014. Their replacement will be the second LAFCo employee, making LAFCo eligible for SDRMA coverage. An option for the Commission to consider is to extend the Executive Officer's COBRA coverage to mid-2014 and pursue SDRMA coverage for its two employees. No action is necessary at this time, however.

Staff recommends that the Commission direct staff to work with legal counsel to prepare a resolution requesting LAFCo's participation in the SDRMA health plan and authorize the Chairman to sign resolutions requesting participation in the SDRMA health plan and direct staff to start processing LAFCo's application for health insurance.

A draft financial comparison of this option is evaluated later in this report.

### **CalPERS**

Staff is also evaluating CalPERS for health insurance. CalPERS does not require a minimum number of employees for participation like the SDRMA. Once CalPERS has established LAFCo employee's eligibility, it will provide staff with a draft resolution. The resolution is more extensive than the SDRMA resolution because it establishes the employer's maximum contribution for employees, retirees and survivors, as well as the annual increase. In other words, many of the details of CalPERS coverage are established when the Commission adopts a resolution electing to be subject to the CalPERS insurance.

In contrast to SDRMA, CalPERS requires agencies to contribute towards their *retiree's* health plan. LAFCo must first establish the dollar amount it is willing to contribute towards a retiree's health plan and include that amount in its resolution requesting participation in the CalPERS plans. CalPERS uses two contribution formulas, Equal Method or Unequal Method, described below:

#### Equal Method:

The Equal Method requires the employer to provide a contribution of at least \$112.00 per month for both employees and retirees. Under the equal contribution, an employer contributes the same amount toward active employees and annuitants. Government Code Section 22892 (b)(1) requires a minimum employer contribution (MEC) which is adjusted each year by a calculation of the medical component of the Consumer Price Index.

#### Unequal Method:

Under this provision, an employer may initially contribute a lesser amount toward health coverage for retirees than for active employees. Annual increases to the retiree's health coverage as described below will be administered until contributions for annuitants (retirees) are equal.

This requires the Commission to provide an initial contribution for retirees of at least \$1 per month. Each year thereafter, the retirees' contribution will be calculated by the number of years the agency has participated in the Public Employees' Medical and

Hospital Care Act (PEMHCA), multiplied by at least five percent (5%), and multiplied by the current employer contribution toward active employees. This annual adjustment to the monthly employer contribution for an annuitant cannot exceed one hundred dollars per annuitant per month.

A draft financial comparison of this option is evaluated later in this report.

### **Other Options Available But Not Fully Explored**

The following options have not progressed beyond initial evaluation. The Commission may direct staff to explore any of these options further, however.

#### ***Fresno Council of Governments***

The COG only provides health coverage to its employees. Fresno County Rural Transit Agency and FAX employees are technically COG employees that serve those agencies through a professional services agreement. During preliminary discussion between COG management and LAFCo staff it was discussed that any potential coverage of LAFCo employees would need to be accomplished in a similar manner.

There is an example of this in Tulare County where the Tulare County Association of Governments (TCAG) and Tulare LAFCo agreed on TCAG staffing of LAFCo beginning on July 1, 2010. TCAG provides staff only. The Commission provides all direction for LAFCo activities and adopts an independent budget annually.

#### ***Private Insurance Carrier***

This was only evaluated to a minor degree as it the Commission's initial direction was preferred to enroll LAFCo employees in a group plan. The Commission may direct staff to explore this option further if it wishes.

#### ***Insurance Stipend***

In the absence of an employer's group plan, an option is for the LAFCo to provide each employee with a health insurance "stipend" that could be used to pay for premiums for other coverage. One of the challenges of that approach, however, seems to be that the employees getting the stipend must recognize the stipend as income and pay taxes on it while employees who otherwise would be covered under a group plan basically get the stipend on a pre-tax or "tax free" basis.

#### ***Health Savings Account (HSA), Health Reimbursement Arrangements (HRA)***

Another option is for LAFCo to establish a health savings account (HSA). This is a tax-advantaged medical savings account available to taxpayers in the United States who are enrolled in a high-deductible health plan (HDHP). The funds contributed to an account are not subject to federal income tax at the time of deposit. Unlike a flexible spending account (FSA), funds roll over and accumulate year to year if not spent. HSAs are owned by the individual, which differentiates them from company-owned Health Reimbursement Arrangements (HRA) that are an alternate tax-deductible source of funds paired with either HDHPs or standard health plans. HSA funds may currently be used to pay for qualified medical expenses at any time without federal tax liability or penalty.

## Comparison of Current Best Options

Once an insurance option is determined, the Commission must then determine the dollar amount it will contribute towards the employees' premiums. Currently Fresno County contributes approximately \$303 biweekly toward an employee's premium and the employees contribute approximately \$135.95 biweekly, depending on their plan. The County's contribution comes to approximately \$7,900 per year per employee. The rates below are for plans with comparable benefits.

### **MOU with Fresno County / SJVIA**

The County contracts with the SJVIA for health insurance benefits and for the purposes of this comparison, the overall expenses are considered equivalent. Currently Fresno County contributes approximately \$303 biweekly toward an employee's premium which comes to approximately \$7,900 per year per employee. The County's monthly premiums are as follows:

#### Anthem Blue Cross - 2014 Rates

Employee+ Child(ren)	\$ 986.98
Employee + Family	\$1,468.05

If LAFCo staff were to obtain health benefits through the County, the coverage could probably begin almost immediately. The County contracts with the SJVIA

### **Special District Risk Management Authority (SDRMA)**

SDRMA offers seven plans. The Access + HMO 15 plan is their most expensive plan but the benefit package is almost identical to the County's and SJIA's. The Access + HMO 15 plan also appears to be almost identical to the CalPERS Blue Shield NetValue plan.

#### Access + HMO 15 – 2014 Rates

Employee + 1	\$1,444.32
Employee + 2 or more	\$1,876.80

There are less expensive plans with SDRMA but they do not offer the same level of benefits as the Access + HMO 15 plan. SDRMA offers dental and vision plans for an additional charge. Dental coverage is offered under three plans: Low Plan, Medium Plan, and High Plan as follows:

<u>Dental</u>	<u>Low</u>	<u>Medium</u>	<u>High</u>
Employee + 1	\$59.47	\$ 75.79	\$ 96.69
Employee + 2	\$98.94	\$130.15	\$160.85

<u>Vision</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>	<u>Option 4</u>	<u>Option 5</u>
Employee + 1	\$12.65	\$14.69	\$15.30	\$21.22	\$33.86
Employee + 2	\$19.99	\$23.26	\$24.38	\$33.76	\$54.26

If LAFCo were to decide to get health insurance through SDRMA, it would take less than two months to start receiving benefits.

## **CalPERS**

CalPERS has 13 different health plans that vary greatly in cost and benefits. The plan that seems to be the most comprehensive and least expensive is the Blue Shield NetValue plans:

### Blue Shield NetValue – 2014 Rates

Employee + 1 Dependent	\$914.34
Employee + 2 Dependents	\$1,188.64

CalPERS does not include dental or vision benefits; however, LAFCo could go directly to a provider such as Delta Dental and VSP (current dental and vision providers for the County and SJVIA) to obtain those benefits. Of concern for contracting with CalPERS would be that the process for establishing eligibility for obtaining health insurance would most likely take three months. Once eligibility has been established, benefits could begin the next month. Staff has already submitted an applicant questionnaire to begin the process. Hopefully the scenarios/comparisons above will assist the Commission with providing further direction.

## **SUMMARY**

All of the plans listed above offer comparable benefits; however the SDRMA plan seems to be more expensive. For example, health insurance for an employee + 1 (including dental and vision) would be approximately \$1,516.44 and for an employee + 2 or more would be \$1,995.73. The SDRMA plan would not be affordable for LAFCo employees, if LAFCo were to only contribute \$667.46 per month as the County currently does. The less expensive plans through the SDRMA come with a higher deductible and more out-of-pocket expense for employees.

Below is a benefits comparison chart.

	Health	Dental	Vision	Workers Comp	Liability
Fresno County	X	X	X		
SJVIA	X	X	X		
SDRMA	X	X	X	X	X
CalPERS	X				