

**IN THE MATTER OF THE INTEREST ARBITRATION BETWEEN**

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The City of Lino Lakes, Minnesota

EMPLOYER

and

BMS Case No. 12-PN-1175

Law Enforcement Labor Services, Inc.  
(Local No. 299)

UNION

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ARBITRATOR: Richard J. Dunn

DATE AND PLACE OF HEARING: October 17, 2012  
Lino Lakes City Hall  
Lino Lakes, Minnesota

DATE OF RECEIPT OF POST-HEARING BRIEFS: November 13, 2012

DATE OF AWARD: November 27, 2012

ADVOCATES

For the Union

Ms. Kimberley Peyton Sobieck  
Business Agent  
Law Enforcement Labor Services, Inc.  
327 York Avenue  
St. Paul, MN 55130-4039

For the Employer

Mr. Scott Lepak  
Barna, Guzy and Steffen, Ltd.  
400 Northtown Financial Plaza  
200 Coon Rapids Boulevard  
Minneapolis, MN 55433-5894

## **JURISDICTION**

After receiving on July 19, 2012 a written request from the Union and the City to submit contract negotiations to conventional interest arbitration, the Commissioner of the Minnesota Bureau of Mediation Services on July 25, 2012 certified this matter to arbitration and asked each party to submit their final positions on the certified items to the Bureau by August 9, 2012. After receiving the Union and City responses, the Commissioner sent a letter on October 2, 2012 to Richard J. Dunn notifying him of his selection as arbitrator, and enclosing the Certification to Arbitration and the items in dispute between the parties. This certification was pursuant to Minnesota Statute 179A.16, subd.2, and Minnesota R. 5510.2930.

The hearing on this matter was held on October 17, 2012 before Richard J. Dunn, Arbitrator, who was selected by the parties to decide collective bargaining issues certified by the Commissioner. At the hearing, each party was given the opportunity to present evidence and argument. Post-hearing briefs were received by the arbitrator on November 13, 2012, on which date the record is deemed closed.

The parties agreed at the hearing that there were no jurisdictional issues nor questions of arbitrability.

## **BACKGROUND AND ISSUES**

This interest arbitration involves a unit of the Patrol Officers of the City of Lino Lakes, which is represented in collective bargaining by the Law Enforcement Labor Services, Inc. (LELS) (hereinafter the "Union") and the City of Lino Lakes, Minnesota (hereinafter "the City"). The

Union Local 299 represents the licensed peace officers, including 15 patrol officers and one patrol officer/investigator.

The City of Lino Lakes is located in the southeastern corner of Anoka County, and consists of 33.1 square miles approximately 16 miles north of St. Paul. The population of Lino Lakes was estimated to be 20,216 in 2012. The City is classified by the Metropolitan Council as a "developing" community. The City has a City Administrator form of government.

The parties are covered by a collective bargaining agreement effective January 1, 2011 which expired on December 31, 2011. (Union Exhibit 1 - 2, and City Exhibit 1 - 5) The parties negotiated to replace the existing agreement. This agreement continues under the law, and its terms continue in effect and shall be enforceable upon both parties as provided by Minn. Stat. Sec. 179A.20, Subd 4.

After the parties were unable to resolve all the issues, the Commissioner of the Minnesota Bureau of Mediation Services on July 25, 2012 certified eight issues at impasse. Commissioner Josh Tilsen specified the list of issues to the undersigned in the letter of October 2, 2012 as follows:

1. Wages - What, if any, wage increase should there be for 2012? - Art. 24
2. Wages - What, if any, wage increase should there be for 2013? - Art. 24
3. Health insurance - What shall the Employer's contribution to the HSA be for 2012? - Art. 29
4. Health insurance - What shall the Employer's contribution to the HSA be for 2013? - Art. 29
5. Health Insurance - What shall the Employer's contribution for health insurance premium be for 2012? - Art. 29

6. Health Insurance - What shall the Employer's contribution for health insurance premium be for 2013? - Art. 29
7. Health Insurance - What should be the cash option for waiving health insurance for 2012? - Art. 29
8. Health Insurance - What should be the cash option for waiving health insurance for 2013? Art. 2

The parties have more recently reached agreement on Issue Number Three, the Employer's contribution to the Health Savings Account (HSA) for 2012, where they agreed to \$1,500 for single coverage and \$3000 for family coverage. At the hearing the parties also agreed on Issue Number Seven, which specifies the City contribution to employees who opt out of health insurance for 2012, and where they agreed to use the same formula that was in place for 2011.

Six issues remain for the arbitrator to decide.

### **ISSUES AT IMPASSE**

#### **Issue 1 and Issue 2: Wages and Effective Dates for 2012 and for 2013**

**City Position.** The City proposes a one percent (1%) general wage increase effective December 30, 2012 followed by an additional one percent (1%) general wage increase on January 1, 2013.

**Union Position.** The Union proposes a one percent (1%) general wage increase effective on July 1, 2012 and an additional two percent (2%) general wage increase on January 1, 2013.

### **Union's evidence and argument**

With regard to the issue of the effective date for a one percent (1%) general wage increase in 2012, both sides agree to the one percent (1%) increase but differ on the effective date. The Union argues that the historical pattern is for the City to award wage increases on January 1, with two anomalous exceptions, specifically in 1996, when July was the second increase in the year, and 2010, when the Union agreed to a delay of the wage increase because of the City's financial issues. (Union Exhibit 1 - 8(1); 1 - 8 (2)) The Union further argues that in this case there is not an internal pattern because only one bargaining unit has settled with the City on December 31, 2012 as the effective date. (Union Exhibit 1 - 9 (1))

With regard to the wage increase for 2013, the parties differ on the rate of increase but agree on an effective date of January 1, 2013. The Union makes the case for this increase based on internal equity, external market comparisons, cost of living and other economic forces, and the City's ability to pay the requested increase. (Union Post-hearing Brief, p. 5.)

The Union makes the case, after performing the compliance testing, that the City will remain in compliance with the Pay Equity Act in the State of Minnesota after a two percent (2%) general wage increase. (Union Exhibit 1 - 7).

With regard to external patterns, the Union argues that a two year average for cities that have settled contracts for both 2012 and 2013 equals 1.5 percent (1.5%), whereas the City's proposal equals one percent (1%). (Union Exhibit 1 - 12(2)) The average for cities of similar tax capacity for 2013 equals 1.75 percent (1.75%), and the average for cities of similar property tax revenues is 1.375 percent (1.375%). (Union Exhibit 1 - 13 (1) and 1 - 13 (2)) The Union notes that the

five above and five below the Top Patrol averages an increase for 2012 of 1.82 percent (1.82%), and the average increase for the bottom ten (10) for Top Patrol with longevity for 2012 is 1.55 percent (1.55%). (Union Exhibit 1 - 12 (2) and 1 - 12 (3)) The case for a two percent (2%) above average increase is made by citing that this is necessary to begin to make up for a lower than average 2012 increase, as well as to maintain a competitive standing. (Union Post-hearing Brief, p. 7) The Union cites Top Patrol Officer ranking in 2011 of 13th of 27 for average wages among 27 cities. (Union Exhibit 1 - 12 (2)). Lino Lakes Patrol Officers are not paid longevity payments and this places the Top Patrol ranking at 27th of 27 cities, and seven percent (7%) below the average for 2011. (Union Exhibit 1- 12 (3)).

The Union cites cost of living statistics for the CPI-U for the Midwest for January through August of 2012 of 2.3 percent (2.3%), and argues that a two percent (2%) increase in 2013 is therefore required given that a one percent (1%) increase is agreed upon for 2012. (Union Exhibit 1 - 18)

With regard to the ability of the City of Lino Lakes to pay, the Union cites statistics to support a claim that the City has an above average ability to pay for the proposed wage increases. The Union cites a median household income of \$94,728 compared to \$57,243 for the rest of Minnesota. (Union Exhibit 1 -14 - (1) The median family income is cited as \$100,583, with almost fifty percent of the residents with an income between \$75,000 and \$150,000 annually. (Union Exhibit 14 - 1)

The unassigned fund balance for the City general fund is \$5,440,101, which is 64 percent of the

total general fund expenditures (Union Exhibit 1 - 15, page 11) This is above the City's own fund balance policy of 40 to 50 percent. (Union Exhibit 1 - 15, page 41.) The Union's calculation of the combined cost of the 2012 and 2013 general wage increase proposal is \$21,318 (Union Exhibit 1 - 25). This is less than one percent (1%) of the unassigned fund balance.

### **City's evidence and argument**

The City Finance Department has calculated the cost of each one percent (1%) wage increase for the bargaining unit as \$15,500 including withholding costs and associated required payments. (City Post-hearing Brief, page two) The City cites a general deteriorating financial condition, where the City's taxable market value has decreased 27 percent in the last four years, resulting in declining revenues of almost a quarter million dollars (\$250,000) in four years (City Exhibit 1 - 12, p. B-4). The total tax levy has decreased over a million dollars during that time period. (City Exhibit 1 - 12, p. B-6) The City characterizes a previous strong financial base as now deteriorating.

Additionally the City cites a decrease in the Police Department FTE from 29.375 FTE in 2011 to 29 FTE in 2012, with a projected further decrease to 28 FTE in 2013. (City Post-hearing Brief, page 3) Further the City has budgeted a decrease in expenditures for the Police Department of 2.01 percent (2.01%) for 2013 relative to 2012. The City also decreased its contingency fund to \$590,000 from \$742,250 in 2012. (City Post-hearing Brief, page 3) The City cites these revenue and budget trends as part of its case for a year-end effective date for the 2012 increase. A July 1, 2012 general wage increase would cost an additional \$7,750. The additional one percent (1%) wage increase in 2013 would cost another \$15,500 for the bargaining unit, all of which is

not budgeted and would require the City to attempt to find these funds in a shrinking pool of funds. (City Post-hearing brief, page 4).

With regard to internal equity, the City argues that the one settled agreement for 2012 by the AFSCME represented bargaining unit should be given substantial weight in this case, and that it would be inequitable to award a different 2012 effective date for the Patrol Officers.

It is also argued that Patrol Officers are already above their predicted pay, which makes a case that they should not receive a 2013 general wage increase beyond what other employee groups receive. (City Post-hearing Brief, p. 5) Because of recent historical increases in wages, it is argued the Police Officers are in a preferred position.

The City makes a case that external wage comparisons cannot be accurately stated, particularly at any given year, because of multiple year contracts and other factors. Front loaded and back loaded agreements are cited as examples. Further the City argues that arbitration is not the method to change the rank order of compensation for a group of employees relative to those in a variety of jurisdictions. (City Post-hearing Brief, 5)

As to the Consumer Price Index (CPI), the City presented data depicting varying increases and decreases, and concluded that "this does not provide any sort of precise measurement of the overall state of inflation". (City Post-hearing brief page 6.) The City also arrayed CPI data compared to the general increase in wages for the bargaining unit since 2007, concluding that Police Officers have maintained their purchasing power through a 13.5 percent (13.5%) increase

in wages during a period of 11 percent (11%) increase in the CPI-U. (City Post-hearing brief, page 7)

### **Discussion and Decision**

Both the City and the Union agree upon a one percent (1%) increase for wages in 2012. The City proposes to grant a general wage increase on the last day of the year, and represents that as the annual increase for the Patrol Officer bargaining unit employees. The Union proposes a one percent (1%) general wage increase effective July 1, 2012.

In reaching a decision regarding wages, the undersigned has considered what the parties would likely have negotiated had they been able to reach agreement as part of the collective bargaining process, as well as the economic challenges facing the City and the ability of the City to pay the award, and internal and external comparability of wages.

Recent years have seen significant economic challenges to all parties, including the City government. Yet the economic foundation for the City includes a recently growing population with median household income reported by the Census Bureau of \$94,728 for 2006-2010. In its Lino Lakes Comprehensive Plan, the City characterizes its 2030 vision as a "strong and diversified tax base achieved through a balance of economic and commercial activities which are located in designated areas of the City." (City Exhibit 1 - 3, p. 1-12). Recent economic challenges include a decline in the City taxable market value, resulting in a decline of revenues. A relatively high home ownership rate is prevalent in the City, according to the Department of Commerce. The unemployment rate for the City at year-end 2011 was 5.9 percent (5.9%).

The City's unassigned fund balance for the general fund was \$5,440,101, or 64 percent (64%) of total general fund expenditures at the end of 2011. This serves as a measure of the government's net resources available for unrestricted spending at the end of the fiscal year. The City stated in its Management Discussion and Analysis as of December 31, 2011 that \$2,285,605 was available for spending at the government's discretion. The City has calculated the cost of a mid-year 2012 increase as \$7,750, relative to the Contingency Fund balance of \$590,000, or 1.31% of the fund. The above evidence demonstrates that the City can afford to fund the awards decided upon here.

While the City has not budgeted specifically for the awarded increase, the City entered into this interest arbitration with the understanding that an award would be final, binding and require funding from a source such as the Contingency Fund.

Internal wage and salary comparability has in recent years been given greater weight by arbitrators. Sometimes, as the City representative pointed out, external comparisons present difficult challenges to serve as a guide in granting wage increase. And sometimes internal equity more closely reflects what the parties would have negotiated in the collective bargaining process. In this case there is no internal wage settlement pattern for the arbitrator to reference. Only one AFSCME represented bargaining unit has settled upon a 2012 contract with the City. The City has not detailed the changes in terms of the wage settlement in its post-hearing brief, other than to state that the unit accepted the 2012 wage proposal of the City. The historical internal pattern for implementation of wage increases is for a January 1 effective date. There is not a

compelling case made for delaying the 2012 general wage increase date until December 30, 2012 for reasons of internal equity.

With regard to external comparable wage settlements, the Union depicts wage data averaging a 1.66 percent (1.66%) overall increase in 2012 for top patrol officers. None of the external 2012 contracts settled at no increase. The City states that the one percent (1%) increase is the only increase for 2012, albeit effective the final day of the year.

For reasons described above related to financial affordability, external comparability and inflation, a July 1, 2012 effective date for the one percent (1%) general wage increase is awarded, with back pay due to that date.

With regard to the 2013 general wage increase, the Union's external market data depicts an average of 1.54 percent (1.54%) increase in 2013 for the eight bargaining units with settled contracts. The City did not present comparable market data because of the notion that such market data cannot be accurately stated. The City has suggested that this data is of limited utility, and claims this external wage comparison factor is of much less importance.

There is no pattern of internal settlements for 2013. No bargaining unit has a settled 2013 contract. In the absence of internal settled contracts, external data takes on added significance. It is possible to survey and exhibit salary and wage reference points indicative of the current market conditions and the competitive dynamics in relevant jurisdictions. Such reference points are regularly produced by surveys in the private and public sector for the purpose of guiding

employer wage and salary adjustments. The City has acknowledged that such external data is an historical marker.

The January through August 2012 inflation rate is 2.3 percent (2.3%), serving as another reference statistic.

Again for reasons of financial affordability, external comparables, and inflation, the 2013 wage increase awarded is 1.5 percent, effective January 1, 2013.

**Issue 3: HSA Contribution for 2012**

This issue was settled prior to arbitration. It was agreed that the Health Savings Account (HSA) contribution for 2012 will be fifteen hundred dollars (\$1500) for single coverage and three thousand dollars (\$3000) for employees with family coverage. (City Post-hearing Brief, p 1. and Union Post-hearing Brief, p. 11)

**Issue 4: HSA Contribution for 2013**

The parties have agreed that the City's contribution toward the HSA in 2013 should be one thousand dollars (\$1000) for employees with single coverage. (City Post-hearing Brief, p. 7; Union Post-hearing Brief, p. 11) They have not agreed on the contribution to an HSA in 2013 for those with family coverage, which presents the issue for arbitration here.

**City position:** The City proposes a two thousand dollar (\$2000) HSA contribution for those employees with family coverage in 2013 (City Exhibit C-2)

**Union position:** The Union proposes a two thousand five hundred dollar (\$2500) HSA contribution for those employees with family coverage in 2013. (Union Post-hearing Brief, p. 11)

### **Union's evidence and argument**

The Union proposal is to reduce the 2013 HSA employer contribution for employees with family coverage from 2012 by five hundred dollars (\$500) when the City contributed three thousand dollars (\$3000) annually. (Union Exhibit 1 - 21) The Union argues that the HSA reduction for family coverage should be the same as the reduction for the single plan. And the Union argues that the City's proposed HSA contribution of two thousand dollars (\$2000) will have a significant negative impact on employees with families.

Because no other contract in Lino Lakes is settled for 2013, no internal pattern exists for the City's HSA contribution.

The Union also argues that the City shifted a significant financial burden on to the employees when it discontinued the traditional health plan and began offering the high deductible health plan and HSA in 2011. The Union objects to the City argument about "seed money" in the form of HSA contributions in 2011 and 2012, and the idea that the City is "greatly reducing the contribution in subsequent years". The Union in a footnote in their Post-hearing Brief gives evidence of five (5) metro jurisdictions which have continued to make the same amount or more

of HSA contribution as the first year of their introduction of an HSA or VEBA (Union Post-hearing Brief, p. 12) The Union further objects that the City provided no evidence to substantiate their claim that other cities which have introduced high deductible plans with HSAs have subsequently significantly reduced their contribution.

### **City's evidence and argument**

Both the City and the Union have agreed on an unspecified reduction of the HSA contribution for 2013.

The City acknowledges that no other employee group in Lino Lakes has an agreement in place for the 2013 HSA contribution, and that this presents a difficulty for the arbitrator. (City Post-hearing Brief, p. 8)

The City argues that it has made a significant employer contribution during the first two years of the high deductible plan, thereby allowing each employee an opportunity to build a savings account in the form of an HSA sufficient to transition to the high deductible plan. To continue with this in the third year would be "an extra and generous benefit to employees", argues the City. (City Post-hearing Brief, p.8)

The City also cites a May 12, 2011 decision by Arbitrator John Flagler discontinuing the City of Champlin, Minnesota employer contribution to the HSA after that City moved to a high deductible plan. (City post-hearing Brief, p. 8)

The City further argues that high deductible health care models exist to create an incentive for employees to play an economic part in making health care decisions, thereby causing employees to be more judicious with their health care expenditures. (City Post-hearing Brief, page 9) This may have the effect of lowering the health experience rating of the entire pool of participants, thereby lowering premiums or decreasing the rate of premium increases. The City argues that an employee will not have an incentive to be judicious in using health care services, except out of a desire to "save" the HSA funds, in the situation where the employee anticipates having less than two thousand dollars (\$2000) in medical expenses. The case is made that an employee contribution to the HSA is key to making the high deductible plan effective. Therefore it is not advisable for the City to contribute to the HSA more than two thousand dollars (\$2000) for 2013 family coverage. (City Post-hearing Brief, p.9.)

### **Discussion and Decision**

For Patrol Officers electing family coverage, the Union has proposed an HSA reduction of five hundred dollars (\$500) for 2013, resulting in an HSA employer contribution of two thousand five hundred dollars (\$2500) rather than the historical employer contribution of three thousand dollars (\$3000).

The 2013 HSA contribution to employees with family coverage for 2013 will now be communicated to Police Patrol Officers presumably after this decision, which comes late in 2012. The Union provided testimony at the hearing that individuals in the bargaining unit are contributing to the amounts that go into the HSA, and they plan their contributions. A more

significant reduction of one thousand dollars (\$1000) at this point in the 2012 year presents difficulties for employees to plan their 2013 health expenditures.

It should be noted that the Arbitrator Flagler decision in the Champlin case was dated May 12, 2011, which is considerably earlier in the calendar year, thereby giving employees adequate notice and the opportunity to plan for the subsequent year of health expenditures and contributions.

While it is generally a sound policy to apply the same or very similar design to all members of the health program, there is no pattern at this time with regard to the 2013 HSA employer contribution. Nor has the City introduced any evidence or communication that there is a City policy as to the employer HSA contribution, other than what was written in their Post-hearing Brief. This lack of timely employee communications can be a serious detriment to the administration of a sound employee health plan benefit, particularly where major design changes are introduced and require employee actions, including their own financial contributions to the HSA.

The decision is for the City to offer employees with family health insurance coverage a 2013 HSA annual contribution of two thousand five hundred dollars (\$2500) .

## **Issue 5: Employer's Contribution to Health Insurance Premium for 2012**

**City Position:** The City proposes to pay \$333.99 monthly for the single health insurance premium in 2012. For family coverage in 2012, the City proposes to pay \$855.66 monthly for the health insurance premium.

**Union Position:** The Union proposes to retain the current language that provides for the City's contribution of one hundred percent (100%) of the single monthly premium for health insurance. For family coverage in 2012, the Union proposes the City's monthly contribution to be \$880.33.

### **Union's evidence and argument**

The Union contends that it is a change for the City to specify the employer contribution in absolute dollar terms rather than percentage terms for 2012, and that the burden is on the City to demonstrate that there is a problem with the existing contract language which describes this contribution in percentage terms. The Union Post Hearing Brief points out that the City's 2011 contracts contain absolute dollar amounts in two other contracts, and percentage terms in two additional contracts. Further the Union notes that a historical pattern exists since 1999 for use of the percentage term "100%". (Union Exhibit 1 - 24) The Union also notes that the City has not given evidence of a compelling reason to change the language from this historical pattern.

The Union argues that the proposal for the City to contribute \$880.33 monthly toward family premiums in 2012 is intended to help offset no wage increase in 2012, and if a wage increase is awarded, to result in a "wash" for the year. Further the Union argues that this employer

contribution represents no increase, but rather a decrease by \$24.67 per month. (Union Post-hearing Brief, p. 14-15)

The Union also argues that their proposal is consistent with the Police Sergeant contract which provides for an employer contribution in 2012 of \$880.33 monthly for those Patrol Officers selecting family health insurance.

### **City's evidence and argument**

The City refers to the amount of \$333.99 for its single premium contribution as reflecting the actual amount that is paid in 2012. The City does not expand on its reason for specifying the single coverage contribution amount in absolute dollar terms rather than the historically used percentage terms.

The City argues that because the 2012 health plan premium decreased from 2011, the Police Officers and the City should each benefit equally from the savings, rather than give all these savings to the employees as the Union proposed. The City objects that the Union did not give a rationale as to why employees should receive the entire savings benefit.

The City also refutes the Union argument that their contribution amount should equate to the amount agreed to for the Police Sergeants' unit in 2012. An opportunity had been extended by the City to the Union representing Patrol Officers to accept the same contribution amount as agreed to by the Police Sergeants, and this was not accepted by the Union at that time.

Additional information as to the actual 2012 rate then became available, and the City believes the Patrol Officers should not benefit from this later rate information.

The City also notes that the bargaining unit represented by AFSCME agreed to the City's proposed contribution at the lower level. The City argues that internal equity demands that the Patrol Officers receive the same treatment as other bargaining units and nonunion staff that waited until after the Police Sergeants agreed to the 2012 contribution amount. (City Exhibit 1 - B, p.10)

### **Discussion and Decision**

With regard to the 2012 single premium employer contribution, the decision is to describe the employer contribution to single coverage as 100 percent (100%) of the premium, which equates in 2012 to a \$333.99 monthly premium contribution by the City.

With regard to the family health insurance premium employer contribution, the decision is for the Patrol Officers and the City to share equally in the savings from the health insurance premium reduction from 2011 to 2012. This results in an employer contribution of \$855.66 monthly. This places the Patrol Officers, the nonunion staff and AFSCME in an equitable position with respect to the City's family contribution to health insurance premiums, based on the most recently available health insurance rate information at this time.

## **Issue 6: Employer's Contribution to Health Insurance Premium for 2013**

**City position:** For 2013 the City proposes to pay for the entire health insurance premium for single coverage, and for family coverage, a contribution of \$855.66 monthly plus or minus one-half the increase or decrease in the premium for family coverage, thereby sharing equally in any change in family premium rates with employees.

**Union position:** For 2013 the Union proposes that the City pay one hundred percent (100%) of the single health insurance premium, and for family coverage, a contribution of \$902.53 monthly plus fifty percent (50%) of the increase over the 2012 family premium rate.

### **Union evidence and argument**

The Union proposal for the City contribution in 2013 to family health insurance coverage is to have the City assume the first four percent of any premium increase, and divide any remaining premium increase equally between the Patrol Officers and the City, and add the resulting amount to the previous year's premium contribution. This is described as a way to partly make up for the decreased 2013 HSA contributions by the City. Further the Union describes this as designed to partially limit the risk of increasing premiums on the Union member while sharing any risk in excess of the four percent premium increase. (Union Post-hearing Brief, p. 15)

### **City evidence and argument**

The City indicates that it has not established premiums for other employee groups for 2013. The City proposes a contribution of \$855.66 plus or minus one-half of the increase or decrease in the family premium. It describes the proposed change for family monthly premium contributions from the current contribution as intended to equally benefit or pay for any premium changes between the Patrol Officers and the City.

Further the City indicates that the traditional family plan in 2010 carried a premium of \$524.56 monthly and has been \$81.75 monthly in 2012 under the high deductible plan. (City Post-hearing brief, page 11) The City cites this as a significant health benefit rate reduction for employees, and it should not be asked to do more with its contribution to health insurance.

### **Discussion and Decision**

It is agreed by both parties that the City will pay for the entire single premium for 2013.

For family coverage, the City contribution is to equal the prior year 2012 contribution amount for family coverage, plus or minus one-half of the increase or decrease in the health insurance premium for 2013 over 2012. This offers an equal sharing of the change in family premiums, and causes the City and the Patrol Officers to have an equal stake in managing health care costs and risks.

### **Issue 7: Opt-Out cash for 2012**

At the arbitration hearing the City and the Union agreed to offer to employees who decline City provided health insurance the same opt-out cash stipend for 2012 as the amount of the single monthly health insurance premium after Social Security and Medicare taxes are deducted.

### **Issue 8: Opt-Out cash for 2013**

**City position:** The City proposes to pay an opt-out amount of three hundred dollar (\$300) for 2013, and not follow a formula for determining the amount.

**Union position:** The Union proposes that in 2013 the City pay the same opt-out amount as in 2012, which equals the single premium after Social Security and Medicare taxes.

### **Union's evidence and argument**

The Union proposes to retain the opt-out language which specifies an amount equivalent to the single premium. This is the historical pattern in the Union's contracts since 1999. (Union Exhibit 1-22) The Union claims that the incentive to opt out of health insurance will disappear if the opt-out amount is less than the single premium, and this will result in additional enrollees and possible double coverage, as well as more HSA payments by the City. The Union calculates this as \$34 more per month per employee under 2012 rates. (Union Post-hearing Brief, p. 17))

The Union indicates that the City's claim that young and healthy employees will opt out, and thereby keep rates low, is not supported by any evidence. Again the Union points out that with

the City's HSA contribution, and the City's contribution toward the premium for additional enrollees, the total plan costs would be more.

Also the Union states that the City requires employee proof of health insurance either under the City plan or other health insurance plan, which undermines the idea that the young and healthy opt out of health insurance coverage.

### **City's evidence and argument**

The City believes there is a short term potential cost in their health care design strategy to have a \$300 opt-out policy where this amount is lower than the single premium. This may increase health plan enrollment incentives. But in the long term this approach pools the risk and spreads the costs among a larger population by encouraging participation in the health plan. This enlargement of the employee participant pool thereby includes the healthy as well as those with chronic conditions or high utilization. Therefore the City argues for the lowest reasonable amount for the opt-out payment, which may act as an incentive to participation, and in the long run offer insurance protection at a more reasonable premium for all employees.

### **Discussion and Decision**

The City arguments are the more persuasive for the long term viability of the health plan for the benefit of all Patrol Officers. The \$300 opt-out is approved for 2013.

## **SUMMARY OF AWARDS**

### **Issue 1 and Issue 2: Wages and effective dates for 2012 and 2013**

- A July 1, 2012 effective date for the 2012 wage increase of one percent (1%), with back pay due to that date.
- A 2013 wage increase of 1.5 percent (1.5%) effective January 1, 2013

### **Issue 3: HSA contribution for 2012 (settled prior to arbitration)**

- An HSA contribution for single coverage of fifteen hundred dollars (\$1500), and a contribution for employees with family coverage of three thousand dollars (\$3000)

### **Issue 4: HSA Contribution for 2013**

- An HSA contribution for single coverage of one thousand dollars (\$1000) (previously agreed upon by the parties)
- An HSA contribution for employees with family coverage of two thousand five hundred dollars (\$2500)

### **Issue 5: Employer's contribution to health insurance premium for 2012**

- An employer contribution of one hundred percent (100%) of health insurance single premiums, which equates to \$333.99
- An equal sharing of the savings from the family premium reduction from 2011 to 2012, resulting in an employer contribution of \$855.66 monthly.

**Issue 6: Employer's contribution to health insurance premium for 2013**

- The employer will pay for the entire single premium for 2013 (agreed by both parties)
- The employer will pay for employees with family coverage an amount equal to the prior year 2012 contribution amount plus or minus one-half of the increase or decrease in the premium for 2013 over 2012

**Issue 7: Opt-out cash for 2012**

- The same opt-out amount as the amount of the 2012 single premium, reflective of the Social Security and Medicare taxes

**Issue 8: Opt-out cash for 2013**

- A three hundred dollar (\$300) opt-out amount for 2013

Finally, the representatives of each party to this case are to be commended for their professional conduct during the hearing, for their oral presentations, the comprehensiveness of their exhibits and the quality of their post-hearing briefs.

Dated: November 27, 2012

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**Richard J. Dunn, Arbitrator**