



SAN FRANCISQUITO CREEK
JOINT POWERS AUTHORITY
SFCJPA.ORG

**Notice of Regular Meeting of the
SAN FRANCISQUITO CREEK JOINT POWERS AUTHORITY BOARD
City of Menlo Park Council Chambers
701 Laurel Street, Menlo Park, California
January 23, 2014 at 4:00 p.m.**

AGENDA

- 1) ROLL CALL
- 2) APPROVAL OF MEETING MINUTES – December 19, 2013 Board meeting
- 3) APPROVAL OF AGENDA
- 4) PUBLIC COMMENT – *Individuals may speak on any topic for up to three minutes; during any other Agenda item, individuals may speak for up to three minutes on the subject of that item.*
- 5) REGULAR BUSINESS – EXECUTIVE DIRECTOR'S REPORT
 - a) Board Organization: select a Chair, Vice Chair, and membership on Board Committees
 - b) Discuss S.F. Bay-Highway 101 project construction planning
 - c) Renew office lease for 2014 at 615 B Menlo Avenue in Menlo Park
 - d) Approve a 2014 schedule of Regular meetings of the Board of Directors
- 6) BOARD MEMBER MATTERS - *Non-agendized comments, requests, or announcements by Board members; no action may be taken.*
- 7) ADJOURNMENT

PLEASE NOTE: This Board meeting Agenda can be viewed online by 4:00 p.m. on January 20, 2014 at sfcjpa.org -- click on the "Meetings" tab near the top. Supporting documents related to the Agenda items listed above will be available at the same online location by 4:00 p.m. on January 21, 2014.

NEXT MEETING: Regular Board meeting, February 27, 2014 at 4:00 p.m., East Palo Alto City Council Chambers.

San Francisquito Creek Joint Powers Authority
January 23, 2014 Regular Board Meeting
Agenda Item 2
December 19, 2013 Board Meeting Minutes

Director Burt called the meeting to order at 4:01 p.m. at the City of Palo Alto Council Chambers, Palo Alto, CA.

DRAFT

1) ROLL CALL

Members Present: Director Burt, City of Palo Alto
Director Keith, City of Menlo Park
Director Schmidt, Santa Clara Valley Water District (SCVWD)
Director Abrica, City of East Palo Alto
Director Pine, San Mateo County Flood Control District

JPA Staff Present: Len Materman, Executive Director
Kevin Murray, Staff
Miyko Harris-Parker, Staff

Legal Counsel Present: Greg Stepanicich

Others Present: Trish Mulvey, Palo Alto resident; Art Kraemer, Palo Alto resident; Jerry Hearn, Portola Valley resident; Joe Teresi, City of Palo Alto; Eileen McLaughlin, CCCR; Fernando Bravo, City of Menlo Park; Jim Wiley, Menlo Park resident; Melanie Richardson, SCVWD; John Doughty, East Palo Alto

2) APPROVAL OF MEETING MINUTES – November 21, 2013

Director Keith made a motion to approve the November 21, 2013 meeting minutes. Director Pine seconded. November 21, 2013 meeting minutes approved unanimously 5-0.

3) APPROVAL OF AGENDA

Director Pine made a motion to approve the agenda. Director Keith seconded. Agenda approved unanimously 5-0.

4) PUBLIC COMMENT

Trish Mulvey, Palo Alto resident, informed the Board that she asked Palo Alto staff member Mr. Dueker for a written summary of the December 3, 2013 emergency response workshop mentioned at the November 21, 2013 Board meeting. Mr. Dueker told her that a written report had not been prepared as it was designed to facilitate future meetings and trainings. Mrs. Mulvey asked that the SFCJPA Board Emergency Preparedness Committee could meet and discuss a written summary.

Director Abrica clarified that he was not requesting a report of the December 3 meeting but rather a summary of the reports and presentations that had been given to the SFCJPA by the different agencies at the January and February Board meetings after the December 2012 flooding event. Mr. Materman replied saying that SFCJPA staff could create one set of slides that were presented and put them on the website and distribute them to the Board at an upcoming meeting.

Eileen McLaughlin, CCCR commented that she had a recent conversation with staff from the US Fish and Wildlife Service about the new alternative that had been mentioned at the SFCJPA December 7 Board retreat. Ms. McLaughlin said that staff she spoke to from Fish and Wildlife said that they had been informed of the design modifications but did not have plan sets to share. Ms. McLaughlin asked when the alternatives would be available for review and she stated that the City of Palo Alto Planning Commission recommended that the final EIR for the golf course should not be brought to the public or certified until the permit process was concluded.

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Director Schmidt asked Mr. Stepanicich and SFCJPA staff if a discussion could be had on the design issue raised by Ms. McLaughlin under the current agenda item. Director Schmidt stated that in the future an update on the Bay-101 Project should be on every agenda. Mr. Stepanicich stated that under agenda item 5b there could be a discussion of the funding of the issue. Director Pine commented that he felt comfortable discussing permitting which affects the timeline which affects the funding. Chairperson Burt commented that it would be less of an issue with the Executive Director reporting vs. the Board having a discussion on the topic. Mr. Stepanicich responded saying that Mr. Materman can give an update on what the status is as an informational item related to the timeframe and project cost. Mr. Materman replied saying that staff could respond to Ms. McLaughlin's comments and he explained that an update on the Bay-101 project has been on every recent Board agenda with the exception of this one because this meeting was called specifically to continue the December 7 Board retreat discussions.

5) REGULAR BUSINESS

Continuation from the December 7, 2013 Board retreat: Appoint two Board members to a new Ad Hoc Committee on SFCJPA Purposes, Roles and Responsibilities that will recommend revisions to the Joint Powers Agreement and to Authority policies.

Mr. Materman provided the Board with a follow-up presentation of the discussion regarding SFCJPA purposes, roles and responsibilities. Mr. Materman explained that the members of the proposed Ad Hoc Committee would meet with him and Mr. Stepanicich and perhaps others to recommend changes to the Joint Powers Agreement to enable the success of the desired roles of the SFCJPA.

Jerry Hearn, Portola Valley resident commented that the December 7 retreat was very enlightening and that he would like us all to take this opportunity to look more long-term at what the JPA might be doing in the future and that the revised purposes should be based on what we want in the future and not just what we are engaged in right now. Mr. Hearn voiced his desire to see the JPA assume the role that it has almost already taken on, being the go-to agency as far as the watershed is concerned. Mr. Hearn commented that he and probably other members of the public would like to be engaged in the conversations regarding the roles and responsibilities though it would mean asking more from the three staff that are already doing too much. Mr. Hearn stated that he would like to see the JPA become a bigger agency with bigger roles and responsibilities.

Director Schmidt conveyed his appreciation of Mr. Hearn's comments regarding public participation in this process. Director Schmidt said that the SCVWD should probably be on this committee given the possibility that the SCVWD might be taking on a more extensive role in assisting with hydrology. Director Keith agreed with Director Schmidt's and Mr. Hearn's comments and she nominated Director Schmidt for the Ad Hoc Committee.

Mrs. Mulvey commented that she liked the way the SCVWD Ad Hoc Committees work; that the meetings are noticed. Mrs. Mulvey requested that the JPA figure out a way to let the public know when these Ad Hoc Committee meetings were going to happen.

Mr. Materman noted that the fundamental purpose of the proposed committee is to examine our responsibilities and set priorities. Mr. Materman continued explaining that SCVWD committees like this have substantial staff resources assigned to work on the process; the SFCJPA has a small staff that can eke out a few hours a month to support this process. Mr. Materman said that he envisions an informal process where he and Mr. Stepanicich would bring proposals to the committee, which the committee would discuss with members of the public and that a total of three meetings would be needed to create draft proposals for the full board in May.

Director Keith volunteered to join the Ad Hoc Committee.

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Director Pine made a motion to appoint Director Keith and Director Schmidt to a new Ad Hoc Committee on SFCJPA Purposes, Roles and Responsibilities that will recommend revisions to the Joint Powers Agreement and perhaps to Authority policies. Director Keith seconded. Motion to appoint Director Keith and Director Schmidt to a new Ad Hoc Committee on SFCJPA Purposes, Roles and Responsibilities that will recommend revisions to the Joint Powers Agreement passed unanimously 5-0.

Continuation from December 7, 2013 Board retreat: Discuss the funding of SFCJPA projects

Mr. Materman provided a summary of the December 7, 2013 Board retreat discussion on project funding. Mr. Materman briefly discussed the letter he received on December 4, 2013 from SCVWD CEO Beau Goldie that estimated the funding shortfall, and that prior to advertising for a construction contract we needed to secure regulatory permits, needed real estate, and interagency agreements including funding agreements cover the top of the shortfall range. Mr. Materman reminded the Board that the letter provided four options discussed at the retreat, and at the retreat there was general agreement that two of the options, Option C (reduce projects costs by designing a new project with less flood protection) and Option D (no project) were off the table. Mr. Materman then presented a modified version of Option B in Mr. Goldie's letter.

Director Schmidt said that \$700,000 to compact soil stored on the golf course into the new levees should be added to the overall cost so that we are not decreasing contingency. Director Schmidt continued that there was mention that perhaps a modification could be made to Middlefield Bridge rather than replacing it, and that additional Santa Clara County side funding from the SCVWD would likely have to come from the SCVWD's funding for the Middlefield Bridge. Mr. Murray said that in regards to Middlefield we do not know for sure if it is technically feasible to modify rather than replace the bridge. Mr. Materman said that right now we are shooting for the worst case scenario and he would prefer not to take Middlefield off the table until we the scenario we are dealing with. Director Schmidt stated that in a conversation he had with SCVWD staff, it might be helpful if the SFCJPA Board requested that SCVWD staff spend time working on design and construction for the Bay-101 project. Chairperson Burt asked for clarification on what work the District staff is speaking of. Director Schmidt responded saying finalizing work on the Bay-Highway 101 bid documents.

Melanie Richardson, SCVWD, said that she believes that Director Schmidt is referring to a discussion with Mr. Goldie regarding SCVWD staff dedicated to the San Francisquito Creek project.

Chairperson Burt asked if the Board could make such a request based on today's agenda. Mr. Stepanicich replied saying that the best way to handle to this would be to direct Mr. Materman to come back with formal approval at the next meeting. Mr. Materman commented that this is the first time SFCJPA staff has heard of this request and he is interested in finding out exactly what kind of staff resources would be provided in addition to – or distinct from – what we have been provided, which is significant. Further, he would like to know if there would be any expectations regarding an assumed funding or staff match from the San Mateo side.

Board members requested Mr. Materman place the SCVWD request on a future Board agenda, if needed.

Director Keith commented that we are all in this together but Menlo Park does not receive direct benefit from the Bay-Hwy. 101 project except that it has to be done to improve the upstream reaches. Director Keith continued saying that her support of a funding contribution from Menlo Park requires if the Middlefield Bridge were eliminated or marginally modified. Director Keith said when we come up with an MOU she would like to see one with a fully funded project at the high end, for the entire project as we have talked about in the past.

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Director Keith requested clarification regarding the source of the \$400,000 already committed by East Palo Alto. Ruben Abrica and Jon Doughty, City of East Palo Alto, explained that the funds are from the City's general fund; they came from proceeds from a bond refund. Chairperson Burt asked for clarification that in order to complete the 100-year goal Middlefield has to be replaced or at least significantly altered. Mr. Materman responded saying that the SCVWD has a consultant on board to try to figure out exactly what that would look like. Chairperson Burt commented that Middlefield has to be fixed for 100-year protection and the concern is whether we would be going forward with downstream of Highway 101 by borrowing funds from the interim (50-year) measure for Middlefield and not borrowing from the final (100-year) project, which would have to be funded by a new finance district. Mr. Materman responded saying that a reconstructed Middlefield does not necessarily have to be funded through an assessment district, but agreed that taking the projects to 100-year protection would.

Director Schmidt suggested that in order to try to provide some direction to staff maybe we should start thinking about contingencies. Director Schmidt continued saying maybe we can say that Middlefield will be part of comprehensive funding agreement if the cost of the Bay-Highway 101 project comes in less than the amount in the agreement (which is at the high end of the estimated cost range). Likewise, if the project costs exceed the amount in the agreement, then the agencies would need to figure out how to pay for the increased cost. Director Pine expressed his understanding of Menlo Park's perspective and acknowledged the difficulty of getting precise numbers. Director Pine said that he believes that the County of San Mateo will have funding available as a loan in addition to the funds the County has committed.

Mr. Materman proposed bringing back funding scenarios that include and do not include Middlefield Bridge. Chairperson Burt added that the benefits Menlo Park receives may drive what funding goes into Middlefield, i.e. Pope-Chaucer and University bridges and channel bottlenecks, so that we can lay out what Menlo Park is seeking in benefits and which would be achieved in this phase. Chairperson Burt continued saying that all of the issues on Middlefield apply to Palo Alto as well, and perhaps we can come to an agreement on what risk each of the two cities are willing to share.

6) BOARD AND ASSOCIATE MEMBER MATTERS - *Non-agendized comments, requests, or announcements by Board and/or Associate members, no action may be taken*

7) ADJOURNMENT:

Chairperson Burt adjourned the meeting at 5:35 pm

Minutes Prepared by Clerk of the Board: Miyko Harris-Parker

San Francisquito Creek Joint Powers Authority
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Agenda Item 5
Executive Director's Report

With the help of Kevin Murray and Miyko Harris-Parker, I am pleased to submit the following:

a) Board Organization: select a Chair, Vice Chair, and membership on Board Committees

The first meeting of the year is a time for Board members to fill officer positions and positions on Board committees. The Board appointed the members of the Ad Hoc Committee on Purposes, Roles and Responsibilities at its previous meeting on December 19, 2013. The positions to be decided upon by a vote of the Board at this time include Chair, Vice Chair/Secretary, and members of the Finance, Personnel and Emergency Preparedness Committees. In 2013, these positions were filled by the following Directors:

Chair: Pat Burt (Palo Alto) Vice Chair: Kirsten Keith (Menlo Park)

Committees

Finance: Kirsten Keith and Dave Pine (San Mateo County Flood Control District)

Personnel: Pat Burt and Brian Schmidt (Santa Clara Valley Water District)

Emergency Preparedness: Brian Schmidt and Ruben Abrica (City of East Palo Alto)

Purposes, Roles and Responsibilities: Brian Schmidt and Kirsten Keith

While there were changes to Board Alternates in 2013, the last change in Board membership was in January 2012, and the composition of these committees has not changed since that time.

The role of the Finance Committee is to hear, comment on, and then present to the full Board the annual budget and audit. The role of the Personnel Committee is to initiate the review of the Executive Director. The role of the Emergency Preparedness Committee is to provide policy direction on this issue and the Purposes, Roles and Responsibilities Committee will recommend to the Board changes to the agency's founding Joint Powers Agreement.

Proposed Board Action: Select a Board Chair and Vice Chair, and members of the Board Finance Committee, Personnel Committee, and Emergency Preparedness Committee.

b) Discuss S.F. Bay-Highway 101 project construction planning

For the past year of Board meetings, we have discussed our efforts to prepare for construction and relocate utilities related to this project. Since the last Board update, SFCJPA and member agency staff have worked on issues related to project financing and permit and land easement acquisition, and our consultants have worked on the project design and permits. Each week, there are new developments on these, and this agenda item will allow us to discuss key issues known as of the day of the Board meeting.

The execution of amendments to the SFCJPA-SCVWD-SMCFCD funding agreement and HDR and ICF consultant agreements have put us in a position to complete design and secure regulatory permits. Hopefully, we will complete these items, as well as funding and land acquisition agreements, within the next few months in order to take full advantage of the June-October window to work in the creek.

Project Permits

We are still working to acquire the regulatory permits needed for the project. Permit applications were submitted to federal and state regulatory agencies in March and April 2013. As we have discussed, U.S. Fish & Wildlife Service staff have expressed concern with what they view as a potential impact to California Clapper Rail and Salt Marsh Harvest Mouse, protected species for which high quality habitat exists in the Faber Tract marsh north of the creek. In December, SFCJPA staff and consultants met with USFWS staff to present a modified project that addressed this concern (see "Project Design" below).

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Additionally, staff from the Regional Water Quality Control Board (RWQCB) have stated that they view our flood control project as being closely linked with Palo Alto's project to reconfigure its Golf Course, and they view our permit application as both an opportunity to require the mitigation of this project's physical impacts and an opportunity to reduce pollutants, increase Low Impact Development (LID), and compel other measures by SFCJPA member agencies that might benefit water quality. At the request of RWQCB senior staff, the SFCJPA is convening a meeting on February 3rd to discuss these concerns with their leadership and staff leadership from SFCJPA member agencies, as the controls sought by the RWQCB are usually set county-wide by municipal National Pollutant Discharge Elimination System (NPDES) permits, which the SFCJPA is not a party to.

Project Design

The project design included lowering the levee separating the creek from the Faber Tract in order to lower the water surface elevation during extremely high flows and to recreate the historic connection between the creek and marshland. As mentioned above, regulatory staff expressed concern with this approach because they believe it would have a potential impact on special status species in the Faber Tract. In November, we asked our design engineering firm, HDR, to do additional hydraulic modeling to determine the expected frequency of creek flows into the Faber Tract, if we altered our project design by not lowering the Faber Tract levee.

The result of this analysis indicates that by not lowering the Faber Tract levee (and maintaining all other elements of the project design), the project would:

- Keep the frequency of post-project creek flows into the Tract the same as under existing conditions.
- Increase the volume of flows into the Tract during events occurring less than once every 10 years.
- Increase the water surface elevation in the creek by up to six inches. This will likely require additional minor construction on the top of levees prior to requesting a Letter of Map Revision to remove properties from the FEMA floodplain and National Flood Insurance Program (when the tidal floodplain is also removed through improvements to coastal levees).
- Protect against a 100-year creek flow or 100-year tide plus over two feet of Sea Level Rise.

Also, RWQCB staff have expressed concern with our use of rock slope protection to prevent erosion of the new creek levees during high flows. We have asked HDR to utilize other levee protection measures that will reduce the use of rock slopes, which will also be aided by no longer degrading the Faber Tract levee.

Land/Easement Acquisition

On the Palo Alto side of the Creek, the Santa Clara Valley Water District (SCVWD) continues its effort to secure the necessary land easements. Regarding the East Palo Alto side of the creek, San Mateo County staff have pulled and reviewed title reports of the subject properties, have prepared the necessary plats and legal descriptions, and ordered property appraisals, which are expected to be finalized next week. County staff will assist in preparation of formal offer letters to the property owners from which we will need easements. In order to begin work quickly, County real estate staff are billing the San Mateo County Flood Control District (SMCFCD) for their time, and the SFCJPA will work out an agreement to reimburse the SMCFCD.

Construction Funding

At the December 7 Board Retreat and December 19 Regular Board meeting we discussed construction funding for this project and for bridge and channel widening projects upstream of Highway 101. (The construction of additional projects to protect people from floods exceeding the 1998 event, as well as creek side trails and SAFER Bay, could be funded by other mechanisms including a new finance district if the SFCJPA decides to pursue that option.)

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Executive Director's Report

Since the December 19 Board meeting, I have had conversations with Board members and staff from member agencies, and on Thursday just before the upcoming Board meeting, will meet with city managers and the SCVWD CEO to discuss this further. At this Board meeting, I and others will update the Board on the progress of these discussions and the contributions all agencies may be asked to make to realize the shared benefits of these projects.

Construction Schedule

With easement acquisition, permits, and agreements for construction funding not yet in place, the SFCJPA has been focused on project activities that can be accomplished now to save time, construction site conflicts, and funding. These include:

- In mid-August, the City of Palo Alto began importing soil for new Creek levees, and storing it on an unused areas of the Palo Alto Municipal Golf Course. They also will import soil for their project to reconfigure the Golf Course;
- All of the electrical work that could be done by PG&E prior to receiving our project permits has been completed. The wood pole line has been re-aligned and construction on two of three towers that required modification to accommodate the project has been completed.
- The East Palo Alto Sanitary District plans to relocate their sewer line beginning in April 2014 so that the new levees can be constructed as soon as permits allow; and
- In May of 2014, PG&E plans to modify the one remaining electrical tower to be altered (that is currently outside of the creek, but will be within the creek after the project is built).

c) Renew office lease for 2014 at 615 B Menlo Avenue in Menlo Park

Since December of 2011, the SFCJPA has leased office space at 615 B Menlo Avenue in Menlo Park. Our second one-year lease expired on December 31, 2013. At the end of last year, staff briefly explored other available office sites, but none offered the combination of cost effectiveness, functional space, available parking and location that our current site offers. The property owner has offered us the renewal of the existing lease with an increase in rent from \$2,200 to \$2,350 per month. Our Operating Budget contingency can absorb this increase during the current Fiscal Year. At this Board meeting, I will request that the Board authorize me to sign the extension of this lease for the 2014 calendar year.

Proposed Board Action: Authorize the Executive Director to renew for one year the office lease at 615 B Menlo Avenue, Menlo Park, which includes a rent increase from \$2,200 to \$2,350 per month.

d) Approve a 2014 schedule of Regular meetings of the Board of Directors

Attached to this Report is a draft schedule of SFCJPA Board meetings in 2014 following the same rotation between the city council chambers of Menlo Park, East Palo Alto and Palo Alto. This schedule proposes to maintain our meeting time of 4:00 p.m. on the fourth Thursday of each month, except for the months of November and December when that day falls on a holiday.

Proposed Board Action: Approve a schedule of Regular Board meetings for 2014.

Submitted by:


Len Materman
Executive Director



SAN FRANCISQUITO CREEK
JOINT POWERS AUTHORITY
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DRAFT 2014 Regular Board Meeting Schedule

All meetings are on Thursday, beginning at 4:00 p.m.

January 23

City of Menlo Park Council Chambers
701 Laurel Street
Menlo Park

February 27

City of East Palo Alto Council Chambers
2415 University Avenue
East Palo Alto

March 27

City of Palo Alto Council Chambers
250 Hamilton Ave
Palo Alto

April 24

City of Menlo Park Council Chambers
701 Laurel Street
Menlo Park

May 22

City of East Palo Alto Council Chambers
2415 University Avenue
East Palo Alto

June 26

City of Palo Alto Council Chambers
250 Hamilton Ave
Palo Alto

July 24

City of Menlo Park Council Chambers
701 Laurel Street
Menlo Park

August 28

City of East Palo Alto Council Chambers
2415 University Avenue
East Palo Alto

September 25

City of Palo Alto Council Chambers
250 Hamilton Ave
Palo Alto

October 23

City of Menlo Park Council Chambers
701 Laurel Ave
Menlo Park

November 20

City of East Palo Alto Council Chambers
2415 University Avenue
East Palo Alto

December 18

City of Palo Alto Council Chambers
250 Hamilton Ave
Palo Alto

Agenda Item 6

Board Member Matters

Director Schmidt Report on Fall 2013 ACWA JPIA Conference

TO: Water District Board and Staff
San Francisquito Creek JPA Board and Staff

FROM: Brian Schmidt

SUBJECT: Report out on Fall 2013 ACWA JPIA Conference

DATE: January 17, 2013

I attended the December ACWA JPIA meeting as the representative of Santa Clara Valley Water District and San Francisquito Creek JPA. I want to report specifically about a presentation on Account Based Health Plans: an optional, employer-funded Health Savings Accounts (HSA) combined with high-deductible health plans. HSAs are not “use it or lose it” accounts; they belong to the employee in a similar manner as an IRA. HSAs can be used to pay medical expenses not paid for by insurance at any time without penalty. In other respects they are similar to IRAs, except some of the funding must be kept in liquid assets.

The presentation described an option for employees that, as it has worked at the JPIA itself, provides financial benefits to employees immediately and eventual long term benefit to the employer. In essence, the high-deductible health plan costs the employer less, and the employer transfers the annual savings to employee Health Savings Account which more than makes up for the increased cost of the deductible. In the long run, for those employees that have banked large amounts of money, the employer will only transfer half the annual savings.

They described the following scenario, which is close to the actual figures for the JPIA’s employees.

Existing:

Cost of annual, low deductible health plan	8000
Employee pays 10% share	800
Cost of plan to employer	7200
Deductible for employee	200

Employees retain choice of existing plan above or the new alternative.

New alternative part 1:

Cost of annual, high deductible health plan	6500
Employee pays 0% share	0
Cost of plan to employer	6500
Savings to employee from not paying 10% of existing plan	800
Savings to employer	700

New alternative part 2:

Transfer employer savings to employee’s HSA	700
Net value to employee, excluding change to deductible	1500
New high deductible	1500
Change in deductible from existing plan	1300
Minimum annual net benefit to employee, up to \$5000 cumulative, possible additional cumulative increase above \$5000	200

The effect is a minimum annual raise to employees of \$200 per person at no cost to the employer. The actual benefit to the employee would be greater in years that the employee does not expend the full deductible, and in a hypothetical year with no medical expenses would reach \$1500.

The employer benefits by being able to increase employee compensation at no cost to the employer. In the long term, the plan benefits the employer financially when the HSA account reaches \$5000 – at this point, and so long as the HSA balance stays above \$5000, the employer only contributes half of the employer’s savings (\$350) annually to that HSA. At this point, whether the employee gains additional benefits in any given year depends on whether the employee expends the entire deductible. Compared to the existing plan, an employee may be as much as \$1350 better off or \$150 worse off. Even in the worst case scenario though of the employee starting draw down on the HSA, the compensation from the employer increases to the full \$700 if the balance drops below \$5000. There may be savings to the employer as well from avoiding some application of the “Cadillac” health plan tax projected to occur in future years.

There are some additional complications if the employee chooses to add to the HSA with her own contributions, and there are some record-keeping and reporting aspects that I think may be burdensome or intrusive. With those important caveats, the employer-funded HSA combined with high-deductible plans may provide an opportunity to better compensate employees, to ultimately reduce employer expenses, and to provide an opportunity to rein in health care costs through employee choice.