



TOWN OF APPLE VALLEY

TOWN COUNCIL STAFF REPORT

To: Honorable Mayor and Town Council **Date:** March 27, 2018

From: Douglas B. Robertson, Town Manager **Item No:** 08
Town Manager's Office

Subject: 2017/2018 BUDGET RECOMMENDATIONS

T.M. Approval: _____ **Budgeted Item:** Yes No N/A

RECOMMENDED ACTION:

To provide direction to staff on the implementation of the budget cuts as recommended by the Town Manager.

SUMMARY:

Staff is currently developing the draft 2018-2019 fiscal year budget. In preparing the budget, several cuts are being recommended for early implementation in an effort to reduce the dependence on reserves for the current fiscal year. If adopted, these cuts would take effect at the start of the next pay period, April 1, 2018. In addition to helping the current budget year, early implementation allows staff to know exactly what cost cutting measures will be included in the FY2018-2019 budget. Although it is anticipated additional cuts will be necessary, these efforts provide a starting point for discussion and implementation.

CalPERS Contributions:

The Town of Apple Valley (Town) currently contracts for three (3) different benefit tiers with CalPERS. Employees hired prior to October 22, 2011 are in Tier 1, 2.7% @ 55, and pay 4% of the CalPERS designated 8% employee contribution. Employees hired between October 22, 2011 and December 31, 2012 are in Tier 2, 2% @ 55, and pay the full 7% CalPERS designated employee share. Employees hired after January 1, 2013 fall into

one of two categories. Employees with prior CalPERS, or reciprocal public agency service without a break in service of greater than six (6) months, are hired into Tier 2. Employees hired without prior CalPERS or reciprocal public agency service or with a break in service greater than six (6) months, are hired into Tier 3. Tier 3 employees fall into the 2% @ 62 plan and pay the full 6.25% CalPERS designated employee share.

Please see CalPERS chart below:

CalPERS Tiers	Formula	Effective Date	Employee Contribution
1	2.7% @ 55	Employees hired prior to October 22, 2011	4% of the 8% employee rate
2	2.0% @ 55	Employees hired between October 22, 2011 and December 31, 2012 and new hires with current PERS or reciprocal public agency membership.	Full 7% employee rate
3	2.0% @ 62	Employees hired after January 1, 2013 and former PERS employees with a break in service greater than 6 months.	Full 6.25% employee rate

Tier 1 employees have enjoyed a higher level of benefit for a lower out of pocket cost than employees in the other tiers. Changing the benefit schedule to have Tier 1 employees pay the full 8% share of their retirement contributions would add an element of parity to a system that is inherently unfair due to differing levels of retirement benefit the Town cannot change. The Town Manager recommends this change to coincide with the beginning of the next payroll period, April 1, 2018. Estimated annual savings of \$182,000.

Cafeteria Plan Benefits cash out:

The Town currently provides \$760 per month toward medical, dental, and vision benefits. Employees hired prior to September 1, 2008, are permitted to opt out of up to two benefits and take the remaining cafeteria benefit dollars as cash. This can have the effect of incenting employees to add to their take home pay rather than opt for the benefits provided to all employees. There is some disincentive for the Town to require or encourage all employees to sign up for all benefits available as this would add cost for potentially unnecessary coverage. Many other cities provide a stipend in lieu of a full cash out of benefits. The Town Manager recommendation is to change existing policies to allow for the cash out of 50% of remaining cafeteria plan funds after benefit selections with a

cap not to exceed \$250 per month. The Town Manager recommends this change coincide with the beginning of the next payroll period, April 1, 2018. Estimated annual savings of \$100,000.

Longevity Pay:

Long term employees earn 5% additional pay beginning in their 15th year of employment with the Town. This amount increases 1% annually to a maximum of 15%. Longevity pay is paid on top of a 15 step 2.5% increase per step compensation plan. Under this plan, employees earn approximately 37.5% more once they reach the 15th step of the range. Other cities have similar ranges with varying step amounts. As examples, Hesperia has an 11 step, 2% per step range for a total of 22% increase. Victorville has a 5 step plan at 5% increments for a total range increase of 25%. Without a full classification and compensation study, it is difficult to ascertain the impact of the varying classification plans; however, with a range increase of 37.5%, it is clear Apple Valley has a mechanism to encourage long term employment with or without Longevity Pay.

The Town Manager recommends an immediate freeze of Longevity Pay at current rates and a suspension effective December 31, 2018 without an accumulation of amounts owed during the suspension of this benefit. Employees with 15+ years with the Town will naturally also be affected by some or all of the above benefits change recommendations; therefore, the phased suspension of this benefit would give employees time to prepare for an up to 15% reduction in take home pay. The estimated annual savings, upon full implementation of the suspension of this benefit, is \$173,000.

Additional benefits currently under review are the Town's contribution to deferred compensation or 401a plans, auto allowances, merit and COLA increases. Staff has been made aware of the potential for further cuts to benefits and/or pay as we work with the Town Council to set budget priorities over the next few months. Further, based on staff input in budget discussions, the Town Manager recommends a full classification and compensation study as described in Municipal Code Section 2.60.070 as a cost cutting measure, one has not been performed since 2015. Proposed cuts can be implemented as a suspension of benefits, until such time a compensation study is completed. The goal of the compensation study is to assess the Town's compensation plan to ensure we are offering competitive salaries and benefits to recruit and retain the highest quality employees, as identified in Goal 6 of Vision 2020, while providing a good value for the services they provide to our residents.

FISCAL IMPACT:

The above recommendations will have a positive impact to the 2017/2018 fiscal year in the amount of \$70,500.