



CITY COUNCIL AGENDA STATEMENT



December 18, 2018

File ID: **18-0559**

TITLE

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA ADOPTING THE CITY OF CHULA VISTA CAFETERIA BENEFITS PLAN FOR 2019

RECOMMENDED ACTION

Council adopt the resolution.

SUMMARY

The Internal Revenue Code requires that the Section 125 Cafeteria Benefits Plan offered by the City to its employees be in a written document and that the document be formally adopted by the City Council on or before the first day of the plan year. Adoption by resolution of the attached plan document fulfills the City's obligation for the 2019 plan year.

ENVIRONMENTAL REVIEW

The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not Applicable.

DISCUSSION

In June 1998, the City established its first Section 125 Cafeteria Benefits Plan. In compliance with Internal Revenue Code §125(d) the City Council annually adopts a written plan document prior to the first day of the plan year. The first day of the City's plan year is January 1, 2019.

This Plan Document lays out how the City offers eligible employees the choice between cash and certain nontaxable benefits (such as health insurance), thereby allowing employees to pay for the benefits they choose on a pre-tax basis.

The specific health plans offered and their structure are not part of this Cafeteria Plan Document. They are included in what is known as the Summary Plan Document that was given to eligible employees as part of their open enrollment materials to assist them in making their benefit choices. The plans offered and their structure are determined after our broker, Marsh and McLennan Agency, extensively markets and negotiates with providers to provide coverage comparable to the prior year while keeping the increase in costs to the

City and its benefited employees to a minimum. All employee groups are advised of the offers and the plan structures that will provide the least increase in premium costs.

Under current cafeteria plan regulations having an approved written plan is critical. Without a written plan or if the written plan does not comply with applicable requirements regarding content and timing of adoption, then the plan is not a cafeteria plan and employees' elections will be taxable. The City has timed its open enrollment period for 2018 to comply with these regulations and to meet provider cutoff deadlines for enrollment to ensure employees are covered without interruption.

The City's Plan includes the following required information:

- Description of available benefits
- Participation rules
- Election procedures
- Manner of contributions
- Maximum amount of contributions
- The plan year
- The plans provisions for complying with flexible spending arrangements (FSAs)

The attached Plan incorporates all of the operating rules prescribed in Code §125 and the regulations thereunder.

DECISION-MAKER CONFLICT

Staff has determined that the action contemplated by this item is ministerial, secretarial, manual, or clerical in nature and, as such, does not require the City Council members to make or participate in making a governmental decision, pursuant to California Code of Regulations Title 2, section 18704(d)(1). Consequently, this item does not present a conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. Adopting the City's Cafeteria Benefit Plan document supports the Operational Excellence goal as it helps attract and retain quality employees. A Cafeteria Benefit Plan is an advantage for both the City and its employees because it allows health premiums to be deducted on a pre-tax basis. For the employee, it reduces the amount of federal and state taxes the employee has to pay. For the City, it reduces its payroll tax liability.

CURRENT-YEAR FISCAL IMPACT

Staff assumed a 10% increase in medical premiums in the 2018/19 budget, based on preliminary information from the City's insurance brokers. While the City spent \$12.7 million in fiscal year 2017/18 on these benefits for all funds, as a result of the final medical premiums negotiated by the City's brokers for the 2019 Benefits Plan Year, the City is expecting an overall savings of \$775,000 in fiscal year 2018/19.

ONGOING FISCAL IMPACT

Flex Allotments are negotiated with the City's bargaining groups. Unrepresented employees and elected officials also receive Flex Allotments. With the exception of Public Safety bargaining groups, the City shares the cost of medical insurance premium increase on a 50/50 basis. The 50/50 cost sharing formula utilizes the average cost increase of family premiums of non-indemnity health plans. Then to determine the next plan year's Flex Allotment, 50% of the average increase is added to the current year's Flex Allotment amount. For Public Safety bargaining groups, the City assumes the full cost of the medical premium increases. As a result of no overall average increase to medical premiums in the 2019 Benefits Plan Year, the 2019 Flex Allotments will remain the same as 2018.

The tables below illustrate the cafeteria flex allotments for the 2019 Plan Year. The impact to future budgets and the five-year financial forecast will depend on the outcome of negotiations with the City's bargaining groups and the changes in medical insurance premiums.

Group	Annual Amount	Monthly Amount	Twice Monthly Amount
CONFIDENTIAL	\$ 14,614	\$ 1,217.83	\$ 608.92
ACE	\$ 14,114	\$ 1,176.17	\$ 588.08
EXECUTIVE, CITY MGR, CITY CLK	\$ 17,390	\$ 1,449.17	\$ 724.58
MM and PROF (MMUC,MMCF,PRUC,PRCF)	\$ 14,990	\$ 1,249.17	\$ 624.58
SENIOR MGR	\$ 15,990	\$ 1,332.50	\$ 666.25
WCE	\$ 14,990	\$ 1,249.17	\$ 624.58
ELECTED OFFICIALS (MY,CL,CATY)	\$ 17,390	\$ 1,449.17	\$ 724.58

ATTACHMENTS

1. 2019 City of Chula Vista Cafeteria Benefits Plan Document
2. Exhibit A – Health Care & Dependent/Child Care Flexible Spending Accounts
3. Exhibit B – Voluntary Plan (The Hartford)
4. Exhibit C – Employee Assistance Program (EAP)

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