

Olivehurst Public Utility District



Agenda Item Staff Report

Meeting Date: July 15, 2021

Item description/summary:

Remove 27th payroll adjustment for salaried staff:

27TH PAYS ANOMALY

OPUD's biweekly payroll has 26 paydays per year, except every 11th year has 27 paydays. Not an issue for hourly employees, the 27th payday affects salaried staff. Currently the District's salaried employees are short-paid every year to offset the 27th paycheck in year 11.

POSITION	CURRENT BASE SALARY	ADJUSTEMENT	27 PAY PERIOD ADJUSTMENT (26 PERIODS)	PER PAYROLL
Salaried Employee X	\$100,000.00	=100,000/2087 hrs * 2080 hrs =	\$99,664.59	\$3,833.25
Employee X is underpaid each year for 11 years and made whole in year 11 with the 27th paycheck		335.41 X 11 years =	(\$3,689.51)	

Fiscal Analysis:

The adjustments understates the true contract salary expense each year except year 11.

Employee Feedback

Staff is in favor of removing the adjustment.

Sample Motion:

Rescind resolution 2194 and authorize staff to remove 27th payroll adjustment.

Prepared by: Karin Helvey

OPUD Memorandum

To: Tim Shaw, General Manager
Cc: Board of Directors
From: Glen P. Phillips, Financial Manager
Date: December 29, 2008
Re: Potential Overpayment to Salaried Employees in 2009

OPUD employees are paid on a bi-weekly basis. As a result, every 12 years, we experience a year with 27 pay periods instead of the usual 26. Calendar year 2009 is such a year. This creates a problem with salaried employees (Managers) because they are paid based on 26 pay periods. For example, a Manager with an annual salary of \$65,000.00 receives \$2,500.00 every two weeks ($\$2,500.00 \times 26 = \$65,000.00$). Next year, if we were to pay the same bi-weekly amount to this Manager, he or she would receive an extra paycheck and their total salary for the year becomes \$67,500.00 ($\$2,500.00 \times 27 = \$67,500.00$).

One method for avoiding the potential overpayment is to reduce the Manager's bi-weekly salary by dividing the annual salary by 27 pay periods versus 26 pay periods. Using the same annual salary of \$65,000.00, the bi-weekly salary would be reduced to \$2,407.40 ($\$2,407.40 \times 27 \approx \$65,000.00$). However, this could cause problems for some employees because the difference is nearly \$100.00 per week and the higher the employee's annual salary, the bigger the difference.

We are not unique in dealing with this problem. Back in 1986, the Federal Government changed the number of hours used to calculate annual salary from 2,080 hours to 2,087 hours. The result is employees are short-changed seven hours of pay each year to make up for the years when they receive an extra paycheck. To illustrate this, divide the same \$65,000.00 salary by 2,087 hours; this equals an hourly rate of \$31.15. Multiply the result by 2,080 and the annual salary becomes \$64,792.00. Thus, the employee would be short-changed approximately \$208.00 per year, or \$8.00 per pay period. This would even out in the long run on the 12th year when the employee receives the extra paycheck for \$2,492.00 (Source: <http://www.govexec.com/dailyfed/0999/090999pb.htm>).

Please refer to the attached summary of these alternative methods. My recommendation is to implement Method 3 which is the method used by the Federal Government.

GLEN P. PHILLIPS,
Financial Manager

Option 1 (Status Quo):

- All managers would receive an extra paycheck in 2009
- Total cost to the District next year \approx \$21,500.00

	\$ 3,534.54
	\$ 3,075.08
	\$ 2,962.54
	\$ 2,834.62
	\$ 2,730.77
	\$ 2,557.69
	\$ 2,200.00
	\$ 1,615.38
Total:	\$ 21,510.62

Option 2 (Increase Number of Pay Periods from 26 to 27):

- Managers' pay would be reduced each paycheck within the range below:

Range:

\$ 130.91
\$ 113.90
\$ 109.73
\$ 104.99
\$ 101.14
\$ 94.73
\$ 81.48
\$ 59.82

- No cost to the District; i.e. all employees receive the same annual salary
- Negative impact on employees; every check is lower for the entire calendar year and the next year it goes back up

Option 3 (Same as Federal Government):

- Managers' pay would be reduced each paycheck by a significantly lesser amount:

Range:

\$ 11.86
\$ 10.32
\$ 9.94
\$ 9.51
\$ 9.16
\$ 8.58
\$ 7.38
\$ 5.41

- Total cost to the District \approx \$0 in the long run; higher initial cost this next year of \approx \$21,500 would be recouped over the next 12 years at the rate of \approx \$1875.00 per year
- Smallest impact on employees; every check is lower, but the amounts are not significant