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Staff Report

ITEM
NO. 8

To: Lemoore City Council
From: Jason Shaw, Project Coordinator
Date: October 28, 2009
Subject: Auto Allowance Analysis

Discussion:

Council will recall the itemized list of cost-savings ideas that has been presented several times over the past five months. One of the items specifically mentions the auto allowance provided to four management employees who do not participate in the Take Home Vehicle program. Staff has analyzed the current allowances and the possible alternatives (Appendix A).

Currently there are four employees that receive a monthly vehicle allowance. Presently, the combined vehicle allowance provided to these employees is \$850 per month, or \$10,200 per year. This analysis began August 1, 2009, as each employee was given a set of mileage logs to catalog each trip used in the course of their job. After 2 months of using these mileage logs, the employees turned them into the Project Coordinator.

Other Department Heads in the City currently have Take Home Vehicles; therefore, Option #1 is to take away the vehicle allowance and provide these employees with a benefit equivalent to the benefit provided to their counterparts. Using data garnered from the Take Home Vehicle analysis, it was discovered that the average light duty vehicle costs the city approximately \$0.97 per mile over each vehicle's lifetime. This includes the purchase price, fuel, and maintenance. Each employee's personal use was calculated (combining commute distance and an assumed distance of 5 miles that would be used during lunch breaks), and the total costs to the City would effectively be \$17,987 per year for all 4 employees. This is almost \$8,000 more expensive than the current practice.

Option #2 is to stop giving an allowance to the employees, and provide them with reimbursement at the IRS's current rate (\$0.55 per mile) for City business travel only. For practical purposes, costs associated with the Account Clerk needed to be included, as she would be the person who would tabulate each mileage log and all reimbursement requests at the end of the month. Using the employees' actual mileage for the months of August and September 2009, and including the Account Clerk's hourly rate, costs come out to \$306.96 per month, or \$3,683.50 per year. This would be a savings of greater than \$6,500 per year.

There are several caveats that Council must be made aware of regarding Option #2, one of which is that the benefit provided to the Department Heads with Take Home Vehicles would be greater

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than the benefit provided to those receiving mileage reimbursements. The only way to make this of equal value would be to include reimbursement of costs associated with commuting and use of the vehicle during meal periods. When these costs are included with the IRS Reimbursement Costs, the total amount that would be due to these management employees, based on their actual mileages for the months of August and September 2009, come out to \$853.33 per month, or \$10,239.90 per year (see Note A on Appendix A). This is slightly more expensive overall than the costs of the current Auto Allowances. Additionally, Council should note that, specific to the City Manager, this option necessitates a change to his employment contract.

Option #3 would be to keep the auto allowances as they are. Staff's analysis revealed that current allowance rates are, as a total, similar to the benefit given to management employees with Take Home Vehicles.

In conclusion, Council should note that the current Auto Allowances are already taxed as taxable income to the recipients, and therefore there are no questions or issues similar to those of the Take Home Vehicle program.

Budget Impact:

Option #1: Providing Take Home Vehicles to employees that currently receive auto allowances would increase the City's costs by approximately \$7,800 per year.

Option #2: Elimination of Auto Allowance, in favor of Mileage reimbursement for City business use only, would net a savings of \$6,500 per year.

Option #3: Current practice, therefore no change.

Recommendation:

As long as Council retains the Take Home Vehicle Program, it is staff's recommendation that Auto Allowances continue to be provided.

APPENDIX A

Vehicle Allowance Calculations

		OPTION # 3				OPTION # 1			OPTION # 2		NOTE A
		A	B	C	D	E	F	G	H		
		A	B	B/2	D	(C + (Z1 * 20) + (5 * 20)) * X	\$0.55 * C	D * Y	F + G	(C + (Z1 * 20) + (5 * 20)) * \$0.55	
		CURRENT COSTS				THV COSTS		IRS REIMBURSEMENT COSTS		VALUE	
Monthly	Vehicle Allowance Recipients	Monthly Allowance	Miles (Aug-Sep)	Miles per month	# of Entries on Mileage Log (2 months)	Theoretical THV Cost (per month) ¹ Commute included	Monthly cost at IRS reimbursement rate (\$0.55 per mile)	Account Clerk Cost (per month)	Mileage Cost (inc. Cost of Analysis Inc.)	IRS Reimbursement with equivalent benefit value of THV participants	
	Jeff Britz	\$400.00	652	326	56	\$447.13	\$179.30	\$12.26	\$191.56	254.54	
	Holly Smyth	\$200.00	178	89	19	\$237.96	\$48.95	\$4.16	\$53.11	135.41	
	Judy Holwell	\$150.00	166	83	14	\$633.59	\$45.65	\$3.07	\$48.72	360.69	
	Nancy Cota	\$100.00	39	19.5	13	\$180.38	\$10.73	\$2.85	\$13.57	102.685	
		\$850.00	1035	517.5	102	\$1,498.96	\$284.63	\$22.33	\$306.96	\$853.33	

		I	J	K	L	M	N	
		A * 12	B * 6	(J + Z3 + (5 * Z2)) * X	\$0.55 * J	G * 12	L + M	
		Annual Allowance		Theoretical THV Cost (per year)	Annual cost at IRS reimbursement rate (\$0.55 per mile)	Account Clerk Cost (per year)	Mileage Cost (inc. Cost of Analysis Inc.)	
Annually	Vehicle Allowance Recipients	Annual Allowance	Miles (Est. Annual)				IRS Reimbursement with equivalent benefit value of THV participants	
	Jeff Britz	\$4,800.00	3912	\$5,365.52	\$2,151.60	\$147.13	\$2,298.73	\$3,054.48
	Holly Smyth	\$2,400.00	1068	\$2,854.35	\$587.40	\$49.92	\$637.32	\$1,624.92
	Judy Holwell	\$1,800.00	996	\$7,603.09	\$547.80	\$36.78	\$584.58	\$4,328.28
	Nancy Cota	\$1,200.00	234	\$2,164.53	\$128.70	\$34.16	\$162.86	\$1,232.22
		\$10,200.00	\$6,210.00	\$17,987.48	\$3,415.50	\$268.00	\$3,683.50	\$10,239.90

X THV Costs = \$0.69 per mile (Maint + Fuel)
 \$27,613.39 Avg cost per vehicle (2 year average purchase cost)
 100,000 Expected mileage over vehicle life
 10 years of expected vehicle life
 \$0.97 per mile

Y Account Clerk = \$26.27 per hour
 \$0.44 per minute (Assumed 1 minute per entry)

Z Daily Commute Miles	Z1			Z2		Z3	
	Person	Miles	Work Days/Year	Work Days/Year	Total Commute	Work Days/Year	Total Commute
	Jeff Britz	1.84	240	240	441.6	240	441.6
	Holly Smyth	2.86	240	240	686.4	240	686.4
	Judy Holwell	23.64	240	240	5673.6	240	5673.6
	Nancy Cota	3.36	240	240	806.4	240	806.4