

December 8, 2022 (Agenda)

Local Agency Formation Commission
105 East Anapamu Street
Santa Barbara CA 93101

Transition from W-2 to Contractor 1099 for Commissioners for Payroll Services

Dear Members of the Commission

RECOMMENDATION

It is recommended that the Commission consider recommendation regarding payroll service options and direct staff accordingly to transition all Commissioners from W-2 employee to Contractor 1099 status with ADP Inc.

DISCUSSION

In February 2022, staff reported concerns with our current payroll service provider ADP's system which cannot adequately complete local State quarterly tax filings under two CA ID numbers. The Commission authorize the Executive Officer to investigate if there is a better payroll service option for LAFCO to use and present these options at a future meeting. In May 2022, the Commission authorized a new professional service agreement with Payroll Vault to provide payroll services.

Since this time, Payroll Vault transitioned its payroll software and organizational operations to a standardized system that would no longer support the needs of Santa Barbara LAFCO. The local control and needs required to submit two separate local taxes to EDD will require a manual solution and submittal. Payroll Vault newest system no longer offers this manual solution. The last remaining option presented in May 2022 included transitioning the Commissioners to a Contractor Status using a 1099 form rather than a W-2. This was presented as Option #2 as outlined below.

Option #2

Based on ADP's system, the Commissioners Stipend could be paid under a Contractor 1099 style payment rather than an Employee W-2. What that would mean is taxes would not be taken out of the Commissions Stipend for each payroll. At the end of the year ADP would file a 1099 form with each Contractor (Commissioner) for year-end taxes to be filed by the individual. This would allow ADP to file local taxes for only one CA ID number. Staff would file with the State to remove the other existing ID. No added costs are associated with this option, rather re-assignment of Commissioner payroll type with ADP would be necessary. Option #2 does appear to meet LAFCOs needs. Although, if ADP continues to make estimate regarding local taxes, continued adjustment would be likely, causing further processing and staffing time to track.

Conclusion

Since the beginning of 2005, LAFCO has been contracting with ADP to provide payroll services. ADP has preformed this service with minimal discrepancies over the last five years. Starting last year, with the addition of a second CA ID number ADP has stated they cannot file local taxes under two IDs. This leaves LAFCO in the position to find an alternative for processing LAFCOs payroll. Options #2 is now the only available option to continue with ADP. This transition would occur January 1, 2023.

Attachments

None

Please contact the LAFCO office if you have any questions.

Sincerely,



Mike Prater
Executive Officer