



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: 25-812

November 18, 2025

Introduced: 10/31/2025

Current Status: Agenda Ready

Version: 1

Matter Type: General Agenda Item

- a. Approve and adopt Amendment No. 2 to the County of Monterey Section 125 Flexible Benefit Plan to increase the Dependent Care Assistance Program contribution limit effective January 1, 2026 from \$5,000 to a flexible contribution limits as set by Congress or the Internal Revenue Service effective January 1, 2026.
- b. Authorize the Human Resources Department and the Auditor-Controller's Office to implement the amendment to the Monterey County Section 125 Flexible Benefit Plan.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Approve and adopt Amendment No. 2 to the County of Monterey Section 125 Flexible Benefit Plan to increase the Dependent Care Assistance Program contribution limit effective January 1, 2026 from \$5,000 to a flexible contribution limits as set by Congress or the Internal Revenue Service effective January 1, 2026.
- b. Authorize the Human Resources Department and the Auditor-Controller's Office to implement the amendment to the Monterey County Section 125 Flexible Benefit Plan.

SUMMARY:

The County of Monterey offers all eligible County employees a robust pre-tax benefits package through Cafeteria Benefit Plan, which includes a Dependent Care Assistance Program (DCAP). The Dependent Care Assistance Program allows employees to make an irrevocable election each Open Enrollment Period to set aside pre-tax dollars for the upcoming calendar year to pay for eligible dependent care expenses such as daycare, afterschool program, and summer day camp. Historically, the annual DCAP contribution limit has been set at \$5,000 per household, as established under Internal Revenue Code (IRC) Section 129.

On July 4, 2025, the H.R.1 Bill was enacted by Congress, which increases the maximum annual contribution limit for the Dependent Care Assistance Program (DCAP) from \$5,000 to \$7,500, effective January 1, 2026. In order for the County to offer this increased benefit to employees, the County's Section 125 Cafeteria Plan must be formally amended to incorporate the new federal contribution limit in accordance with Internal Revenue Code Section 129. In response to this change, and to ensure timely compliance with current and future federal law, the Human Resources Department recommends amending the Cafeteria Plan to expressly adopt the \$7,500 annual limit for the 2026 plan year, and to include language that allows the County to automatically implement future increases to the DCAP limit if the IRS or Congress updates the allowable contribution amount in

subsequent years. This approach ensures that the Plan remains compliant with federal law and eliminates the need for future formal amendments to Article VII, Section 7.9 of the Section 125 Flexible Benefit Plan to accommodate changes to the statutory limit.

DISCUSSION:

The proposed Plan amendment replaces the fixed dollar limit currently stated in the Section 125 Flexible Benefit Plan with a provision that references the maximum limit allowable under current federal law. This change will allow the County to implement the new \$7,500 limit beginning with the 2026 plan year and allows the County to automatically offer employees the ability to contribute up to new maximum contribution limits in future plan years if Congress or the IRS changes the allowable contribution limit.

This amendment ensure the County remains in compliance with IRC Section 129 while maximizing tax-advantageous benefits for employees and minimizing administrative burden to the County. It also ensures that employees can take advantage of increased tax savings in a timely manner when federal limits are raised, without delay and helps support employees experiencing challenges with childcare expenses. The Dependent Care Assistance Program is entirely employee-funded through pre-tax salary redirection. As such, the increased limit does not result in any additional County cost. There is no fiscal impact to the County as a result of this amendment. For these reasons, it is recommended that the Board of Supervisors approve the amendment to the Monterey County Section 125 Flexible Benefit Plan.

OTHER AGENCY INVOLVEMENT/COMMITTEE ACTIONS:

The Human Resources Department has consulted with the County Administrative Office, and the Offices of the County Counsel and Auditor-Controller regarding the applicability and implementation of these changes.

FINANCING:

There are no associated costs with the implementation of these provisions as contributions toward the Dependent Care Assistance Program is funded by employee payroll deductions.

BOARD OF SUPERVISORS STRATEGIC PLAN GOALS:

This amendment supports the Strategic Plan Goal of Well-Being and Quality of Life by expanding access to tax-advantaged dependent care benefits, helping working families better manage the rising cost of child and elder care.

- ☒ Well-Being and Quality of Life
- ☐ Sustainable Infrastructure for the Present and Future
- ☐ Safe and Resilient Communities
- ☐ Diverse and Thriving Economy
- ☐ Dynamic Organization and Employer of Choice

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Approved by: Andreas Pyper, Director of Human Resources, 755-5043

Attachments:

Attachment A - Board Report

Attachment B - Amendment No. 2

Attachment C - Amendment No. 1

Attachment D - Section 125 Flexible Benefit Plan