

SULTAN COUNCIL SUBCOMMITTEE AGENDA ITEM COVER SHEET

ITEM NO: D-1

DATE: October 14, 2010

SUBJECT: Revising Sick, Vacation, and Medical Benefits
for Non-Representative Employees

CONTACT PERSON: Deborah Knight, City Administrator

ISSUE:

The issue before the city council is to consider revising and clarifying the sick, vacation and medical benefits for non-represented employees (management team). The purpose of the review is to ensure the city continues to provide a competitive benefits package in order to attract and retain qualified employees. At the same time, the city council must also ensure the benefits package does not create large unfunded liabilities or annual payroll expenses that are not fiscally prudent.

Represented (union) employees are not included in this discussion. The city is obligated to bargain with the Teamsters Union for changes to represented employees' wages, hours and working conditions. The current union contract will expire December 31, 2010. Negotiations with the Teamsters are underway.

STAFF RECOMMENDATION:

Discuss the sick, vacation and medical benefits for non-represented employees. Provide direction on preferred policy alternatives. Direct staff to areas of concern.

SUMMARY:

Sick and Vacation Leave Policies

The city's personnel policies are codified in the Sultan Municipal Code Chapter 2.30 (Attachment A). The personnel policies apply to all non-represented employees. There are several vacation and sick leave policies in Chapter 2.30 that set the maximum accrual rates and require the city to "cash-out" employees for unused sick and vacation leave at separation from service (termination, retirement, etc.).

Vacation and sick leave accruals and payment maximums at separation of service are policy decisions for the city council and are not required under state or federal law. The council should review its employee sick and vacation policies. The council's goal should

be to minimize the city's future liability and current payroll expenses while maintaining a competitive benefits package that will attract and retain qualified employees.

Medical Benefits

the Association of Washington Cities notified the city last year that effective December 31, 2011, the city's medical plan (Plan B) will be discontinued. The city will need to choose a new medical plan for employees.

The city is currently negotiating with the represented employees to review the available medical plan alternatives and select a new medical plan.

The non-represented employees (management team) can be on the same plan as the union employees or choose a different plan.

The cost difference between the premiums for Plan B and the alternative plans now offered by AWC is substantial.

The management employees would be interested in moving forward with changing health plans in early 2011 with council approval. Switching from Plan B to Health First could save the city \$3,150 per year.

| 2011 Rate | Plan B | Health First | Health First 250 |
|------------------|---------------|---------------------|-------------------------|
| Active Employee | 611.75 | 568.00 | 468.76 |
| Spouse | 615.60 | 571.90 | 470.71 |
| First Dependent | 287.80 | 280.20 | 229.49 |
| Second Dependent | 248.70 | 231.80 | 188.95 |

Recommendation: Direct the management team to evaluate health plan alternatives with an effective date of January 1, 2011.

DISCUSSION:

The city council may want to consider the following policy questions before providing direction to city staff regarding sick and vacation leave policies:

- 1. What is the maximum vacation leave an employee may accrue during service with the city?**

SMC 2.30.080(C) states, "An employee may accrue a maximum of two years worth of vacation leave based on the employee's current accrual rate."

Two-times (2X) annual accrual has been standard practice in the public sector for many years. Under the city's policy the maximum vacation accrual is 368 hours or 46 days. There is one city employee with 338 hours of accrued vacation time. At separation of service the city would owe the employee \$11,884.00

A review of recently adopted personnel policies from Ellensburg, Anacortes and Tumwater indicates the standard of 2x annual accrual may be changing. These cities limit maximum vacation accrual to 240 hours (30 days). With a maximum 240 hours of vacation accrual, the city would owe the above employee \$8,438.40 at separation of service.

The maximum amount of vacation accrual is important because the courts have found that employees have an "employment right" to vacation leave. In other words, the employee is entitled to be paid for accrued but unused vacation time at separation of service.

Recommendation: Keep the city's current policy of 2x annual accrual

2. What is the maximum sick leave an employee may accrue during service with the city?

SMC 2.30.090(A) states

Eight hours per month accrual is standard practice in the public sector. Under the city's policy the maximum sick leave accrual is 960 hours. The City of Tumwater has the same maximum accrual. In Grandview the maximum sick leave accrual is 1800 hours. Ellensburg does not impose a maximum.

The maximum accrual of sick leave is not as important as the maximum accrual of vacation leave. Unlike vacation leave, sick leave is not considered an earned benefit. There is no obligation to pay employees for sick leave balances unless the city adopts a policy to cash-out or buy-back accrued sick leave.

Recommended Alternatives:

- 1. Keep the current maximum of 960 hours *if* the city keeps the benefit of cashing employees for 100% (or a lower rate – 25%) of sick leave at separation from service.**
- 2. Eliminate the maximum if the city eliminates sick leave cash-out at separation from service.**

3. What action should the city take once the maximum vacation and sick leave accruals are reached?

Vacation

SMC 2.30.080(C) states, "In the event an employee reaches the maximum vacation accrual, the employer shall notify the employee of such."

There is no direction given as to how the employee will reduce accrued vacation leave once the maximum level is reached. In a previously adopted version of the same policy, the city provided for the following,

"The employee shall have sixty (60) days to reduce the vacation leave to below the maximum. Any vacation leave in excess of the maximum accrual not used within the sixty (60) day period shall be forfeit. The sixty day period may be extended with the written approval of the Mayor."

In Grandview, vacation in excess of 240 hours is forfeited on an annual basis. Tumwater has a similar policy.

One current city employee has a vacation balance of 458.11 hours. This exceeds the maximum 368 hours allowed under city policy. The employee has explained that 120 hours is sick leave that was converted to vacation leave under a former policy. The city's policy should clarify how converted leaves should be used. For example, should other forms of leave be used first or allowed to accumulate in the vacation leave account in excess of the maximum?

Recommendation: Re-adopt the previous accrued vacation procedure detailing the steps for notifying employees and forfeitures.

Sick Leave

SMC 2.30.090 provides, "Any hours accrued beyond 960 hours shall be converted to sick leave buy back as described in subsection D of this section. Subsection D allows non-represented employees to be cashed out for 40 hours of sick leave annually on the last payday of the year if the employee has a minimum of 480 hours accrued sick leave.

Tumwater has a similar buy-back program for employees with at least 768 hours of accrued sick leave. Ellensburg does not have a cap on accrued sick leave and does not cash-out or buy-back accrued sick leave.

One city employee has a sick leave balance of 1,579.72. This is in excess of the 960 maximum set by city policy. How does the city council want to handle the sick leave maximum? Should employees be allowed to earn more than 960

hours annually, receive a 40 hour buy-back in December and then return the sick leave account to 960 hours each January?

Recommendation: Eliminate a cap on the maximum sick leave accrual. Eliminate the annual sick leave buy-back benefit. Eliminate sick leave cash-out at separation from service.

4. Should the city continue its policy of “cashing-out” vacation time and “buying back” sick leave above certain maximum levels?

Vacation

SMC 2.30.080(D) outlines the city’s annual vacation cash-out policy, “For the purpose of reducing excess vacation accrual, non-represented employees will receive compensation, annually, for a maximum of 80 hours of accrued vacation each year, so long as two workweeks of vacation remain for the benefit of the employee.”

In 2011 the city will pay approximately 300 hours of accrued vacation time at an average rate of \$32/hour for a total of approximately \$9,600.

Recommendation: Keep the existing policy as a way to reduce unfunded liability at separation from service.

Sick

SMC 2.03.090(D) outlines the city’s annual sick leave buy-back policy, “For the purpose of reducing excess sick leave accrual, non-represented employees shall be compensated, annually, a maximum 40 hours sick leave; provided they have a minimum 480 hours accrued sick leave. This compensation shall occur on the last payday of the year.”

In 2011 the city will pay approximately 80 hours (2 employees x 40 hours) of sick leave buy-back at an average rate of \$31/hour for a total of approximately \$1,240 dollars.

Analysis

There is no obligation for the city to cash-out or buy-back accrued leaves. Together, these two policies will cost the city approximately \$8,900 in 2011.

The City of Anacortes does not cash out vacation accruals until separation from services. The maximum accrual rate is 240 hours. Ellensburg has a similar policy with a maximum accrual rate of 240 hours. Tumwater has the same policy. Grandview has a policy similar to Sultan’s and allows employees to cash-out 80 hours of vacation leave annually.

Tumwater buys-back sick leave for accruals over 768 hours at 25% annually. Ellensburg does not have a maximum accrual cap and does not cash-out or buy-back sick leave. Grandview cashes-out employees for sick leave at 25% only at separation from service.

Recommendation: End the sick leave buy-back policy

5. Should the city “cash-out” sick leave at separation of service?

SMC 2.30.090(E) states, “Upon resignation, termination, or retirement an employee shall be compensated for accrued sick leave up to a maximum of 960 hours at the rate of pay at the date of termination in the same manner as unused vacation as described in SMC 2.30.080(E); provided however, that sick leave compensation will commence after all vacation compensation is exhausted.

The unfunded liability for sick leave accrual is 2,589 hours x \$38.75 = \$100,323.

Analysis

As previously stated, there is no obligation for the city to provide sick leave cash-out at separation from service. The city can change its policy and limit its liability.

Tumwater provides sick leave cash-out for voluntary termination or layoff at 25% provided the employee has more than 192 hours of accrued sick leave.

Grandview provides 50% cash-out for employees hired prior to January 2007 and 25% for employees hired after January 2007 provided the employee has a minimum of 360 accrued sick leave. Cash-out is available only upon an employee’s death or retirement (as defined by DRS).

In Ellensburg employees hired after July 1, 1985 will not be paid for any unused sick leave on separating from city service for any reason.

Recommended Alternatives:

- 1. End the sick leave buy-back policy**
- 2. Reduce the cash-out to a maximum 25% if an employee has more 360 hours of accrued sick leave. Set the maximum accrual at 960 hours. Require employees to forfeit sick leave accruals in excess of the maximum.**

FISCAL IMPACT:

| Benefit | Benefit Description (Current Policy) | Fiscal Impact Current Policy | Recommendation |
|--|---|---------------------------------|---|
| Medical benefits | AWC Plan B will terminate 12/31/11. | Save \$3,150 | Switch non-rep employees to new medical plan |
| Maximum vacation | An employee may accrue a maximum of two years worth of vacation leave based on the employee's current accrual rate. | Unfunded Liability \$434,570 | No change. Maximum accrual is 338 hours Forfeit all leave balances over max |
| Maximum sick leave | Sick leave shall be accrued at a rate of eight hours for each calendar month...but not to exceed a maximum of 960 hours. | \$0 | Remove maximum and eliminate cash-out and buy-back. Or, keep maximum and reduce pay-out to 25% of accrual Forfeit all leave balances over max |
| Annual Vacation cash-out | Non-represented employees will receive compensation, annually, for a maximum of 80 hours of accrued vacation each year, | Annual Cost \$9,600 | Keep existing policy as a way to reduce unfunded liability at separation from service |
| Annual Sick Leave Buy-back | Non-represented employees shall be compensated, annually, a maximum 40 hours sick leave; provided they have a minimum 480 hours accrued sick leave. | Annual Cost \$1,240 | Remove maximum and eliminate cash-out and buy-back. Or, keep maximum and reduce pay-out to 25% of accrual |
| Sick leave cash-out at separation from service | Upon resignation, termination, or retirement an employee shall be compensated for accrued sick leave up to a maximum of 960 hours | Unfunded liability \$100,323 | Remove maximum and eliminate cash-out and buy-back. Or, keep maximum and reduce pay-out to 25% of accrual. |

ALTERNATIVES:

1. Consider the sick, vacation and medical benefits provided to non-represented employees. Determine if the city council is interested in making changes to sick, vacation and medical benefits. Provide direction to staff on specific recommended changes or request additional information.
2. Consider the sick, vacation and medical benefits provided to non-represented employees. Determine the benefits package is competitive with other public sector employers and is necessary to attract and retain qualified employees. Direct staff not to proceed with changes at this time.

RECOMMENDED ACTION:

Discuss the sick, vacation and medical benefits for non-represented employees. Provide direction on preferred policy alternatives. Direct staff to areas of concern.

ATTACHMENTS

A – SMC 2.30 Sick and Vacation Leave Policies

COUNCIL ACTION:

DATE:

2.30.080 Vacation.

A. Eligibility. All permanent employees whose normal workweek totals 20 or more hours are eligible to accrue vacation benefits. New employees will accrue vacation benefits from their respective employment dates. New employees shall not be eligible to use the accrued vacation until completion of six months of continual service with the city.

B. Accrual Basis. Vacation accrual shall be computed for paid straight time hours only. The schedule set out in Table I shall apply. Employees who work less than eight hours per day shall accrue vacation on a pro rata basis. Employees are expected to make a valid effort to use the full amount of their annual vacation accrual during each service year.

C. General Requirements. An employee may accrue a maximum of two years worth of vacation leave based on the employee's current accrual rate. In the event an employee reaches the maximum vacation accrual, the employer shall notify the employee of such. Except in an emergency situation, employees shall request vacation time, in writing, at least two weeks in advance. Vacation time must be approved, in writing, by the employee's department head. In the case of department heads, the vacation time must be approved, in writing, by the mayor.

D. Annual Vacation Cash-out. For the purposes of reducing excess vacation accrual, nonrepresented employees will receive compensation, annually, for a maximum of 80 hours of accrued vacation each year, so long as two workweeks of accrued vacation remain for the benefit of the employee. This compensation shall occur on the last payday of the year.

E. Termination of Employment. Termination of employment with the city shall have the following effect regarding accrued but unused vacation balance held by any employee at the date of termination:

1. An employee with less than six months current employment with the city shall forfeit all vacation accrued at date of termination and shall not be paid by the city for such accrual.
2. As an exception to subsection of (E)(1) of this section, an employee with less than six months employment with the city who is terminated because of lack of work shall be entitled to reinstate any previously accrued vacation balance if he/she is rehired at a future date. Such employee, for purposes of determining length of employment under subsection B of this section, shall receive full credit for prior service.
3. Upon termination of employment, any employee who has completed six or more months current service with the city shall be paid (at their then current rate) the money equivalent of any accrued but unused vacation balance which exists at the date of termination. Any unused vacation at the date of termination shall be paid at their termination rate of pay at subsequent biweekly pay periods not to exceed 80 hours per pay period until all unused vacation is exhausted. Employees will continue to receive benefits (medical/dental and retirement) until their

vacation is exhausted; however, employees will not continue to accrue vacation or sick leave after their termination date. A terminating employee's final day worked shall be the date of their termination.

F. Leave of Absence. The money equivalent of unused vacation shall not be paid to any employee departing on or during a leave of absence, except in the event of an extended military leave of absence.

Table 1 (Vacation accrual for full-time employees)

| Years of Continuous Service | Monthly | Annually |
|-----------------------------|-------------|-----------|
| Beginning of 1 | 6.67 hours | 80 hours |
| Beginning of 2 | 7.00 hours | 84 hours |
| Beginning of 3 | 7.33 hours | 88 hours |
| Beginning of 4 | 7.66 hours | 92 hours |
| Beginning of 5 | 9.33 hours | 112 hours |
| Beginning of 6 | 9.66 hours | 116 hours |
| Beginning of 7 | 10.00 hours | 120 hours |
| Beginning of 8 | 10.33 hours | 124 hours |
| Beginning of 9 | 10.66 hours | 128 hours |
| Beginning of 10 | 12.33 hours | 148 hours |
| Beginning of 15 | 14.00 hours | 168 hours |
| Beginning of 20 | 15.33 hours | 184 hours |

(Ord. 776-01; Ord. 730-99; Ord. 629, 1995; Ord. 472, 1985; Ord. 448, 1983)

2.30.090 Sick leave.

A. Accumulation. All permanent employees whose normal work week totals 20 hours or more may be granted sick leave with pay for illness or injury. Sick leave shall be accrued at a rate of eight hours for each calendar month of the employee's service, but not to exceed a maximum of 960 hours. Any hours accrued beyond 960 hours shall be converted to sick leave buy back as described in subsection D of this section.

Part-time employees accrue sick leave at a rate proportionate to the number of regular hours worked per month. This section shall not apply to employees hired under LEOFF I.

B. Eligibility. Sick leave shall be available to permanent employees. Sick leave shall be granted for the following reasons:

1. Personal illness or physical incapacity resulting from causes beyond the employee's control.
2. Serious illness or death in the immediate family. Leave shall not exceed three days; except, in cases where travel distance is excessive, two additional days may be granted by the mayor.

3. Medical or dental appointments.

4. Sick leave may be granted for one day in order to attend the funeral of a family member or for other persons with the approval of the department head.

C. Notification. Any employee on sick leave shall notify their immediate supervisor of the fact. Failure to do so within one hour after commencement of the normal work shift may be cause for denial or paid sick leave for the period of absence.

D. Sick Leave Buy Back. For the purposes of reducing excess sick leave accrual, nonrepresented employees shall be compensated, annually, a maximum of 40 hours sick leave; provided, they have a minimum of 480 hours accrued sick leave. This compensation shall occur on the last payday of the year.

E. Termination of Employment. Upon resignation, termination, or retirement an employee shall be compensated for accrued sick leave up to a maximum of 960 hours at the rate of pay at the date of termination in the same manner as unused vacation as described in SMC [2.30.080\(E\)\(3\)](#); provided, however, that sick leave compensation will commence after all vacation compensation is exhausted.

F. Doctor's Certificate. After three consecutive days and/or at the discretion of the department head, certification of illness by a doctor may be required for approval of sick leave with pay. Certification establishing the date on which an employee was able to return to work may also be required.

G. Abuse. Abuse of sick leave privileges shall be cause for dismissal. (Ord. 776-01; Ord. 730-99; Ord. 629, 1995; Ord. 472, 1985; Ord. 448, 1983)

2.30.095 Payroll records.*

Official payroll records are kept by the city clerk/treasurer. Each department head shall turn in to the clerk/treasurer on a biweekly basis a signed record of sick leave and/or vacation taken by employees of their respective department. (Ord. 776-01)

*Code reviser's note: Ordinance No. 776-01 sets out these provisions as Section [2.30.100](#). The section has been editorially renumbered to prevent duplication of numbering.

2.30.100 Holidays.

A. Holiday Schedule. Employees shall be granted the following holidays with pay:

| | Holiday | Date to be observed: |
|----|---------------------------------|-----------------------------|
| 1. | New Year's Day | January 1 |
| 2. | Martin Luther King Jr. Birthday | 3rd Monday in January |
| 3. | President's Day | 3rd Monday in February |

| | | |
|-----|----------------------------|--------------------------|
| 4. | Memorial Day | Last Monday in May |
| 5. | Independence Day | July 4 |
| 6. | Labor Day | 1st Monday in September |
| 7. | Veteran's Day | November 11 |
| 8. | Thanksgiving Day | 4th Thursday in November |
| 9. | Day after Thanksgiving Day | 4th Friday in November |
| 10. | Day before Christmas | December 24 |
| 11. | Christmas Day | December 25 |
| 12. | Floating Day | As approved |

B. Holidays Occurring on Weekends. Any regular holiday which falls on a Saturday shall be observed on the preceding Friday and any regular holiday which falls on a Sunday shall be observed on the following Monday.

C. Uniformed Personnel. Full-time police officers may be granted "holiday" vacation hours in lieu of the above holidays. Vacation days shall be approved in the best interests of the city within 12 months of the worked holiday. Such vacation hours shall accrue as the holidays set forth in subsection (A) of this section occur at the rate of eight hours per holiday. In lieu of accruing vacation hours, a police officer has the option to receive eight hours' holiday pay during the pay period in which the holiday occurs. (Ord. 730-99; Ord. 629, 1995; Ord. 472, 1985; Ord. 448, 1983)