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## SALT LAKE CITY COUNCIL STAFF REPORT

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**DATE:** October 17, 2003

**SUBJECT:** **FUNDING EMPLOYEE LEAVE LIABILITY**

**AFFECTED COUNCIL DISTRICTS:** Citywide

**STAFF REPORT BY:** Gary Mumford

**ADMINISTRATIVE DEPT. AND CONTACT PERSON:** Management Services  
Rocky Fluhart, Chief Administrative Officer

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### KEY ELEMENTS:

In June 2003, the City Council issued a legislative intent that the Administration provide options to the Council and a recommended plan to budget for payments of vacation leave and other retirement payouts. On October 10, 2003, the Administration provided a memorandum to the Council giving options for funding the employee leave liability and recommending that the City continue with the current practice of funding the liability in the year paid.

### MATTERS AT ISSUE:

In the event of termination or retirement, Salt Lake City reimburses employees for unused accumulated vacation leave. Upon retirement, employees receive a cash payment equal to 25% of accumulated sick leave or they can convert 50% of the value of accumulated sick leave into medical benefits. In the City's initial program, there was no limit on the accumulation of sick leave. In 1997, the City implemented a personal leave plan that contains an 80-hour accumulation limit. Those employees that voluntarily switched to the personal leave plan received a retirement leave account for a portion of their accumulated sick leave. The retirement leave account is paid out upon retirement. The primary purpose of the personal leave plan was to reduce the accumulation of sick leave and, therefore, the liability for cash payouts upon retirement. Since November 1997, all new employees, except police officers, are required to participate in the personal leave plan. Over time, the limitation on personal leave accumulation will reduce payouts at retirement.

The City's unfunded employee leave liability was \$13.3 million as of June 30, 2002 for the City's general fund and internal service funds. The liability hasn't yet been calculated for June 30, 2003.

By state law, the accumulation of fund balance in the General Fund cannot exceed 18% of general fund revenue. Any fund balance in excess of 5% of the revenue may be utilized for budget purposes. The City's fund balance is approximately \$19 million or 11.8% of general fund revenue. Of this amount, approximately \$11 million is in excess of the 5% minimum.

In the past, some individuals have questioned the necessity of reducing programs or employee positions when there is a large reserve balance. During labor negotiations, union officers are also aware of the reserves. It is tempting for the Administration to propose or the Council to balance on-going expenditures with fund balance or to finance interim budget amendments from reserves. Transferring a portion of the fund balance to a separate employee-leave liability account may provide a more accurate representation of the City's unencumbered fund balance as compared to its liabilities. Establishing a separate employee-leave account by reducing fund balance should help both the Administration and the Council to closely evaluate needs before appropriating fund balance in the annual budget or in budget amendments. In the case of a true emergency, the Council would have the option of restoring the fund balance from remaining balances in the leave liability account.

### **OPTIONS:**

The Administration identified three options and recommends that the City continue the current practice of budgeting \$650,000 per year and handling the few exceptions with a supplemental appropriation from fund balance. The Administration surveyed several other cities regarding funding of leave liability and found that most cities fund the liability in the year paid rather than the year earned.

1. Continue the current practice of budgeting approximately \$650,000 per year for leave payouts in the Police and Fire Departments and requiring other departments to cover additional amounts from their operational budgets or to request a budget amendment if they cannot cover payouts from their operational budgets.
2. Appropriate \$1.1 million per year to fund the average annual cost of leave payouts in the General Fund.
3. Establish a reserve in the Risk Fund to reduce the unfunded liability for future leave payouts. This liability totaled \$13.3 million on June 30, 2002. The reserve could be increased over time by annually appropriating an amount greater than the amount anticipated to be paid to employees in each fiscal year.

Another option that could be considered is to designate a portion of the fund balance in the general fund for employee leave liability.

4. Designate a portion of the fund balance in the City's financial statements. A designation would allow a more accurate representation of the City's available fund balance. The cash would also be readily available in an emergency by un-designating the leave liability. (Note: Designations of fund balance are not considered by the State Auditor's Office in the calculation of the 5% minimum and or 18% maximum amounts.)

A few months ago as Council Members were discussing the issue of the leave that City employees receive, there was brief discussion of reducing or restructuring the benefits. This briefing does not address that issue. Just as the City now requires new employees to be part of the "new" program that caps accumulation at 80 hours, the City could elect to create

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another program for employees that are hired in the future. It may be difficult to require current City employees to move to a new program, since the City made an agreement with the employees that included giving up the right to use their sick leave from the former program. The Council could request that the Administration provide additional information on this issue, including perhaps a review by the Citizen Compensation Advisory Committee and the City Attorney's Office. The Administration has noted that a change could have an impact on the City's recruitment ability. Currently the City administers two leave programs, and administering a third may be somewhat cumbersome.

cc: Rocky Fluhart, Gordon Hoskins, DJ Baxter