



# City Council Memorandum

City of Arts & Innovation

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**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: NOVEMBER 19, 2019**

**FROM: HUMAN RESOURCES DEPARTMENT      WARDS: ALL**

**SUBJECT: ONE-TIME EXCEPTION TO SECTION 6(I) OF THE FRINGE BENEFIT AND SALARY PLAN TO ALLOW FOR A NON-PERSABLE VACATION CASH OUT ALLOWANCE FOR ELIGIBLE EMPLOYEES IN THE EXECUTIVE, PARAPROFESSIONAL, SUPERVISORY, CONFIDENTIAL, SENIOR MANAGEMENT, MANAGEMENT AND PROFESSIONAL GROUPS, TO REDUCE FUTURE LIABILITY AND RESULT IN FUTURE COST SAVINGS TO THE CITY.**

**ISSUE:**

Approve a one-time exception for fiscal year 2019/2020 to Section 6(I) of the Fringe Benefits and Salary Plan to increase the vacation cash out allowance for eligible employees in the Executive, Paraprofessional, Supervisory, Confidential, Senior Management, Management and Professional groups, from forty (40) hours to one hundred and twenty (120) hours of unused vacation time.

**RECOMMENDATIONS:**

That the City Council:

1. Approve a one-time exception for fiscal year 2019/2020 to Section 6(I) to increase the vacation cash out allowance for eligible employees to one hundred and twenty (120) hours of unused vacation time; and
2. Authorize the City Manager, or designee, to execute this action with affected employees.

**BACKGROUND:**

Section 6(I) of the Fringe Benefit and Salary Plan (FBSP) currently provides for eligible employees in the Executive, Paraprofessional, Supervisory, Confidential, Senior Management, Management and Professional groups, to convert up to 40 hours of unused vacation time into cash, payable at the base salary rate in effect at the time of conversion. To be eligible, an employee must have actually taken at least 40 hours of vacation in the preceding twelve (12) months; and must have at least 80 hours of vacation hours remaining after such conversion.

**DISCUSSION:**

The purpose of the City’s vacation benefit is for eligible employees to take time off to achieve higher productivity, stronger workplace morale, greater employee retention, and significant health benefits. The City understands workplace demands may limit an employee’s ability to take vacation. The City also recognizes that employees may choose to receive their benefit in cash, in addition to their normal pay, as circumstances may necessitate. The proposed increase to the vacation cash out allowance will provide for added flexibility in the use of vacation time while reducing vacation accruals and future liability when an employee separates or retires from City service.

The proposed one-time exception to the Fringe Benefit and Salary Plan will increase the current vacation cash out allowance from 40 hours to 120 hours for the current fiscal year only. Employees will be required to meet existing eligibility requirements of taking 40 hours of vacation in the preceding twelve (12) months and must have at least 80 hours of vacation hours remaining after such conversion.

The proposed revision to the Fringe Benefit and Salary Plan will result in future cost savings by paying out vacation hours in today’s dollars versus upon future retirement or separation. This equates to a savings to the City because employees will, during the regular course of employment, receive regular step and merit increases as well as cost of living increases, therefore, it cost the City less to allow employees to cash out vacation hours now at their current salary then later at a hirer salary. The accumulation of excess vacation hours results in an increase in future liability to the City and must be paid out upon separation from service.

The vacation cash-out is a non-PERSable benefit and therefore has no impact to the City’s unfunded liability under CalPERS. Pursuant to Internal Revenue Service (IRS) rules, the payment is treated as supplemental pay and the employee is taxed accordingly.

This is a one-time exception for fiscal year 2019/2020 only therefore there is no amendment proposed to the Fringe Benefit and Salary Plan.

**FISCAL IMPACT:**

There are currently 266 general fund staff eligible for vacation cash out. On average, approximately 90 staff members per year have taken advantage of this one-time vacation cash out policy. If all 266 eligible employees took maximum advantage of this benefit, which is highly unlikely, the total financial impact could be as high as \$1.9 million dollars to the general fund. Cashing out vacation in today’s dollars versus upon retirement in future dollars is preferable. This could potentially save the City several hundred thousand dollars. As has been the standard practice, any unplanned vacation cash outs will be absorbed into the current year budget.

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| Prepared by:                           | Stephanie Holloman, Human Resources Director            |
| Certified as to availability of funds: | Edward Enriquez, Chief Financial Officer/City Treasurer |
| Approved by:                           | Rafael Guzman, Assistant City Manager                   |
| Approved as to form:                   | Gary Geuss, City Attorney                               |