

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Resolution No. 287 revising personnel policies of the Employee Handbook to clarify Section 6.01 limiting annual leave cash out
DEPARTMENT:	Human Resources; City Attorney's Office
PRESENTED BY:	Marci Wright, Human Resources Director

PROBLEM/ISSUE STATEMENT:

As part of the Employee Handbook adopted in 1999, the City adopted section 6.01(D) that determines cash out of annual leave upon separation from employment. This section has a different rule depending upon the employee's ability to retire under the Washington State Public Employees Retirement System (PERS). Payout of accrued vacation leave is limited to 240 hours if the employee will be retiring under PERS. However, there is no limit on vacation payout if an employee leaves the City under any other circumstance. Language describing the limitation should be added to the Employee Handbook to clarify the original intent of this section and to avoid any penalty assessments from the retirement system.

DISCUSSION:

The different treatment for retirees under this personnel policy is driven by the rules of the PERS I system. Public employees that receive large lump sum payments such as leave accruals or severance payments upon separation distort the average compensation that is used to set retirement payments. The highest two years of compensation is used for setting benefits of PERS I employees. To make the system fair to employers and employees that contribute to the system, RCW 41.50.150 allows lump sum payouts of leave up to 240 hours. An employer that exceeds this amount is assessed by the retirement system for the excess compensation based on the actuarial increase in expected retirement payments attributable to the excess compensation over the 240 hour limit.

Shoreline's personnel policy under Section 6.01 of the Employee Handbook allows full payout of unused vacation, but makes an exception for employees retiring under PERS.¹ These employees must use vacation in excess of 240 hours or lose the additional hours. To date, Shoreline has not had many opportunities to apply this rule

¹ Vacation and sick leave are only considered as employee compensation used in setting retirement benefits for PERS I employees, not those in PERS II or PERS III retirement plans. WAC 418-108-456. Shoreline has not set a different benefit rule based on the employees retirement system as a matter of internal equity.

since it is a newer city and has another policy limiting carryover of vacation leave at the end of any year to two year's accrual.

The current language of Section 6.01 bases the limitation in payout hours to "retirement as defined by the rules and regulations of the Washington State Public Employees Retirement System." Cash out is unlimited if the employee separates from employment for reasons other than "retirement." See Exhibit A to proposed Resolution No. 287. The problem with using the event of retirement to determine when the exception applies is that retirement is controlled by the employee. No substantial detriment is suffered by an employee electing to apply for retirement after separation from service other than a break in income. The section is susceptible to a reading that an employee may simply quit, receive unlimited leave cash out and apply for retirement immediately thereafter. This would result in an excess compensation assessment to the City from the retirement system, and allows the employee to circumvent the intent of the policy. Since it is highly likely that an employee that is fully eligible to retire will retire with Shoreline as the last employer that is used to set benefits, the exception should be triggered by the eligibility of the employee to retire at the time of separation regardless of the reason for separation. The draft amendments to section 6.01 makes this intent clearer.

FINANCIAL IMPACT: Shoreline currently has eight PERS I employees that are subject to the State excess compensation rules. Allowing any of these employees to receive excess compensation can be costly to the City. An employee in a higher salary range retiring with 30 years service in his or her mid 60's can generate an assessment from the retirement system of approximately \$20,000 for each 150 hours of excess compensation. The proposed clarification will eliminate this potential cost per PERS I employee over the next several years as well as any litigation costs over the application of the section. The city also avoids the potential of paying the excess hours over 240 although less significant the penalty assessment. All employees will be clear that they must reduce leave balances to 240 hours as they approach retirement eligibility or risk losing hours over that amount if they separate from employment for any reason.

RECOMMENDATION

Staff recommends that Council adopt Resolution No. 287 clarifying personnel policies of the Employee Handbook regarding vacation leave cash outs.

Approved By:

City Manager

City Attorney

ATTACHMENTS

Resolution No. 287

RESOLUTION NO. 287

**A RESOLUTION OF THE CITY OF SHORELINE,
WASHINGTON, ADOPTING CLARIFYING AMENDMENTS TO
PERSONNEL POLICIES REGARDING LEAVE CASH OUTS**

WHEREAS, the City of Shoreline has been operating under Personnel Policies last revised November 2008 by Resolution No. 281; and

WHEREAS, it was the City Council's intent to coordinate policies regarding leave cash out upon retirement with the Washington Public Employee Retirement System (PERS) rules to avoid assessments to the City for paying excess compensation; and

WHEREAS, the Council finds that clarification of these policies would be helpful to avoid misreading of these provisions; now therefore

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF
SHORELINE, WASHINGTON:**

Section 1. Amendment. *Employee Handbook*, Section 6.01 D is amended as set forth in Exhibit A. The City Manager shall distribute a copy of the revision to all current regular and regular part-time employees.

Section 2. Effective Date. The revisions adopted in the resolution shall take effect August 1, 2009.

ADOPTED BY THE CITY COUNCIL ON June 22, 2009.

Mayor Cindy Ryu

ATTEST:

Scott Passey
City Clerk

Exhibit A to Resolution

6.01 Annual Vacation

Regular employees shall be given annual vacation. Regular part-time employees shall accrue vacation based on the ratio of their normally scheduled work week to a forty hour week. Extra help employees are not eligible for these benefits. Vacation shall be accrued monthly as follows:

Time	Days	Hours/month
Zero to 12 months	12 days of vacation	8.0 hours
After 1 year employment	13 days of vacation	8.6 hours
After 2 years of employment	14 days of vacation	9.3 hours
After 4 years employment	16 days of vacation	10 hours
After 5 years employment	17 days of vacation	11.3 hours
After 8 years employment	18 days of vacation	12.0 hours
After 10 years employment	19 days of vacation	13.3 hours
After 12 years employment	20 days of vacation	13.3 hours
After 15 years employment	23 days of vacation	15.3 hours

[A. - C. unchanged]

D. In the event of separation from service for any reason other than at retirement, the employee shall be paid for any accrued vacation earned and not taken. In the case of separation for any reason when the employee is eligible for retirement as defined by the rules and regulations of the Washington State Public Employees Retirement system, the maximum cash out shall be 240 hours.

[E - F Unchanged]

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