

W.7.C.

Memorandum Date: December 4, 2008

TO: Board of County Commissioners
DEPARTMENT: Management Services/Human Resources
PRESENTED BY: Kay Blackburn, Financial Services Manager
AGENDA ITEM TITLE: Discussion – Time Management Sales

I. MOTION

None.

II. DISCUSSION

A. Background/Analysis

The County's APM and agreements with bargaining units allow employees to "cash out" up to 80 hours of accrued Time Management leave each year (with certain restrictions and certain exceptions for employees within 3 years of retirement age).

B. Issue

Because there are inadequate restrictions on the cash-out option, IRS regulations (Sec. 451(a)) consider the 80 hours as taxable income in the year accrued under the "constructive receipt" concept. Employees who had the option of taking cash for the leave should be taxed regardless of whether they chose the cash option or not. Changes need to be made in order to prevent taxing employees for a benefit they did not receive.

To continue to allow the cash-out option, the following restrictions need to be implemented:

- The cash-out must be irrevocably elected prior to the beginning of the year in which the hours will be cashed out.
- The hours must be earned in the year of cash-out prior to the sale.
- If a cash-out is elected and there are inadequate hours in the bank to cover the cash-out, the income would still be taxable under IRS regulations.

C. Recommendation

Finance and Human Resources staff will implement a policy of requiring irrevocable elections prior to January 1st of each year for amounts to be cashed out under the plan. This will require updates to the Administrative Procedures Manual and bargaining unit agreements. This will allow the current benefit to be maintained at the same level, while complying with IRS regulations. No additional cost to the County is anticipated.

The Board could consider other options to address the issue, including:

- Abolish the cash-out option and replace the benefit with a corresponding salary increase (80 hours/2080 hours = 3.85%). This would result in a higher cost to the County , as historically the cash-out option is utilized by around 40% of the eligible employees.
- Abolish the cash-out option with no salary increase.