



MEMO

Department

To: Finance and Personnel

From: HR Director Hodge, on behalf of previous Finance Director Van Rossum

Date: 03/03/2026

Re: Citywide Pay Practice Update for OBBBA Compliance

Background information:

Recent federal legislation, the One Big Beautiful Bill Act (OBBBA), requires employers to identify, track, and report the exempt portion of true Fair Labor Standards Act (FLSA) overtime for all employees. This requirement applies citywide and must be reflected accurately in payroll records and annual W-2 reporting.

Over the past several months, staff have reviewed the City's existing pay practices, evaluated payroll system capabilities, consulted with payroll professionals, met with affected departments (including the Street Department), and consulted with the City's outside labor counsel from Von Briesen, Attorney Patrick Leigl, to ensure the proposed approach is legally compliant and defensible. This work identified inconsistencies in how overtime is treated across departments, particularly when overtime is paid on non-worked hours such as holidays, vacation, or sick leave.

Fire and Police operations already follow FLSA standards by calculating overtime only on hours actually worked. The proposal brings the remainder of the City into alignment with this same standard to ensure compliance, equity, consistency, and efficiency, while recognizing that the Street Department has unique operational overtime needs that require a tailored solution, with examples shown in the memo provided to this group of employees.

A key consideration is the City's obligation to accurately report OBBBA-exempt overtime on employees' W-2s. Manual tracking is technically possible, but it is inefficient, error-prone, and not scalable with roughly 150 employees who qualify for overtime. Reliance on manual processes increases the risk of W-2 reporting errors, amended filings, employee tax corrections, professional service costs, and potential audit or penalty exposure. The proposed approach allows the payroll system to accurately calculate and report the exempt portion of true FLSA overtime, significantly reducing compliance risk. As part of this update, the city will also implement a blended overtime calculation consistent with FLSA. Under this method, the overtime premium is based on the employee's average regular rate of pay for the workweek, including applicable premiums earned during hours worked. The payroll

system will separately identify the base overtime and the overtime premium portion, allowing for accurate OBBBA reporting while minimizing manual intervention.

Street Department – Overtime and Premium Changes

The Street Department has unique operational demands related to emergency response, weather events, and unplanned overtime. To remain compliant while maintaining operational effectiveness, the following changes are proposed:

- Overtime will be calculated only on hours actually worked, consistent with FLSA standards.
- Double-time on holiday and Sunday classifications will be eliminated.
- Employees working weekends or City-assigned holidays will receive a flat premium of \$37.00 per hour in addition to their regular rate of pay.
- The \$37.00 premium was intentionally selected to keep employees whole to the greatest extent possible. It reflects the middle-grade, top-step rate, balancing equity across classifications and fiscal responsibility. It also acknowledges that the premium is consistent for all DPW staff coming in on unscheduled time
- Saturday premium pay is new, providing additional compensation where none previously existed and helping offset changes to overtime treatment.
- Premium pay will be tracked separately from overtime, allowing the payroll system to accurately identify and report the exempt portion of true FLSA overtime and reducing the risk of W-2 errors.

Staff has modeled multiple scenarios. On average, employees most impacted by the change are expected to be held whole through the premium structure, recognizing that individual outcomes may vary due to the unplanned nature of overtime events.

Remaining Non-Exempt Staff

For remaining non-exempt, non-union employees outside of the Street Department, the proposed change is limited and straightforward. Overtime will be calculated only on hours actually worked, consistent with FLSA standards and existing Fire and Police practices. Non-worked hours such as holidays, vacation, and sick leave will no longer count toward the overtime threshold.

No changes are proposed to base pay rates, schedules, or existing premium structures for these employees outside of what was explained above. This update ensures consistency across departments, supports accurate OBBA reporting, and allows the payroll system to correctly identify and track exempt overtime without manual intervention.

Timing Considerations

Staff's original goal was to have the updated pay practices in place by January 1. Additional analysis, departmental discussions, and consultation with legal counsel were necessary to ensure the City selected the most compliant and sustainable approach, placing implementation slightly behind that target.

The longer implementation is delayed, the more payroll periods will require manual review and correction to ensure 2026 W-2 accuracy. Additional time can be taken if desired; however, if changes are not implemented before the City's peak seasonal staffing period, the volume of overtime transactions will increase significantly, resulting in exponentially more manual work, higher error risk, and greater administrative burden.

Strategic Plan:

The proposed action supports the City's Strategic Plan goals related to good governance, operational excellence, fiscal responsibility, and organizational sustainability by promoting consistent employment practices, reducing compliance risk, and relying on efficient system-based controls rather than manual processes.

Budget:

The proposed changes can be implemented within existing payroll systems and departmental payroll budgets. Absent these changes, the City would incur additional administrative costs related to manual tracking, corrective payroll processing, amended W-2 filings, and potential professional services. The proposal mitigates those risks and avoids long-term pressure to add staffing solely to manage compliance.

Staff Recommended Action:

The Council supports the proposed citywide pay practice updates outlined in the Background section, to ensure OBBBA compliance through the automation available through the HR/Payroll software, and to ensure consistent application of FLSA standards.

Previous Meeting Information:

[02/02/2026 – Finance and Personnel Committee proposal brought by Finance Director Van Rossum with supporting documentation.](#)

[02/02/2026 - Finance and Personnel Committee minutes](#)

[02/17/2026 – Committee of the Whole continuation of 02/02/2026 discussion, questions, and answers, along with supporting documentation.](#)

[02/17/2026 – Committee of the Whole minutes](#)