

MEMORANDUM



TO: VICTOR CARDENAS, CITY MANAGER
FROM: CARL JOHNSON, CFO
SUBJECT: COMPENSATED ABSENCES/FIRE BONUSES
DATE: MARCH 12, 2025

Mayor and Council –

Please see the following correspondence on some unplanned payouts due to retirements and employee separations.

- Victor

This memo provides an update regarding a significant number of employee contractual payouts for compensated absences and firefighter bonuses that have been incurred during the current fiscal year. Following the adoption of the original budget, Finance closely monitors the expenditure activity compared to the amended budget. Amendments are proactively prepared for Mayor and City Council's consideration to ensure expenditures stay within budget by the end of the fiscal year. These amendments are not driven by the need to spend additional revenues but are a necessary step to ensure compliance with the Michigan Budget Act, which prohibits departments from exceeding their budgets.

Once expenditure variances are identified, Finance explores potential unplanned revenues to offset these costs and avoid using fund balance. If unplanned revenues or reductions in other expenditures are not available, expenditure budgets must be amended using fund balance to maintain compliance, or the auditors will disclose a violation of the Budget Act. While departments are not considered over budget until the end of the fiscal year, amendments can be made until June 30.

Compensated Absences Payouts

During the budget process, Finance works with all departments, including Human Resources, to estimate the potential cost of retirements and employee separations for the upcoming fiscal year. These estimated payouts are included in the departmental personnel costs. However, through the first six months of the fiscal year, the City has seen a significant increase in retirements and payouts, particularly in public safety, where there are fewer caps on the number of hours earned and paid out. The original budgeted amounts were exhausted by December 30, 2024.

Approximately \$200,000 in payouts occurred in the first half of the fiscal year, and several additional retirements are expected before the end of the fiscal year, with an additional estimated \$100,000 in payouts. To ensure compliance with the Budget Act, the expenditure budgets will need to be amended. Future budgets will include increased estimates for these payouts to minimize the need for mid-year amendments.

Firefighter Recruitment Bonuses

In previous years, the City has provided recruiting/hiring bonuses to new firefighters to help address staffing shortages. Initially, these bonuses were set to expire on June 30, 2024, and no funding was allocated for them in the 2024/25 fiscal year budget. However,

during the second quarter review, it was discovered that the bonus program had been extended through December 31, 2024, resulting in approximately \$100,000 in expenditures for the first six months of the fiscal year. City Council approved a budget amendment to cover these costs during the January 27, 2025, meeting.

Currently, additional efforts are required to account for nearly \$50,000 in bonus payments made after December 31, 2024, due to the further extension of the bonus program through July 23, 2025. This will be the final extension, and no additional extensions will be granted beyond this date.

Additional Revenue to Offset Expenditure Variances

The projected increase in expenditures due to compensated absences payouts and firefighter recruitment bonuses will necessitate a budget amendment of approximately \$350,000. Finance has reviewed potential unplanned revenues to offset these costs. As in the second quarter, interest income continues to surpass expectations. For January and February 2025, realized interest income is approximately \$400,000 above budget and is projected to exceed the budget by approximately \$500,000 by the end of the quarter. If Mayor and Council choose, this additional revenue can be used to offset the payouts and bonuses outlined above

The above items will be included in the quarterly budget amendment for March 31, 2025, and will be presented to Mayor and City Council at the second meeting in April 2025.