



**City of Tacoma**

**City Council Action Memorandum**

**TO:** Elizabeth Pauli, City Manager  
**FROM:** Karen Short, Senior Human Resources Analyst, Human Resources  
Kari Louie, Assistant Human Resources Director  
Shelby Fritz, Human Resources Director  
**COPY:** City Council and City Clerk  
**SUBJECT:** Pay and Compensation Ordinance – October 12, 2021  
**DATE:** October 6, 2021

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**SUMMARY AND PURPOSE:**

An ordinance amending the Tacoma Municipal Code (TMC) Compensation Plan, Chapter 1.12, to implement changes to Section 1.12.229 VEBA Accounts, regarding the eligible contribution of unused and accrued leave by eligible nonrepresented employees at the time of retirement.

**BACKGROUND:**

The ordinance will provide for language changes to Tacoma Municipal Code (TMC) Section 1.12.229 related to VEBA Accounts specifically for nonrepresented employees, and the contribution of unused and accrued leave at the time of retirement.

**1.12.229 Voluntary Employee Beneficiary Association (VEBA) Accounts**

Ordinance 26070, adopted September 30, 1997, provides for nonrepresented employees, participation in VEBA accounts as an alternative to the taxable severance payment made to employees of unused sick leave accruals upon retirement. Employees currently meeting eligibility requirements have 25 percent of their sick leave accruals deposited into a VEBA account upon their retirement on a pre-tax basis.

In June 1998, the City made a change to leave plans for non-represented employees. Instead of traditional vacation and sick leave plans, the Personal Time Off (PTO) plan was created as a replacement for vacation and sick leave plans. The PTO plan provides that 100 percent of unused PTO leave accruals are paid to the employee in cash at the time of their retirement or separation. Currently, approximately 90 percent of non-represented employees are enrolled in the PTO plan.

Human Resources conducted a survey of nonrepresented employees from May 20, 2021 to June 14, 2021, and determined there was interest in providing for a change to the current VEBA plan to allow for some or all of the value of unused PTO accruals to be deposited to a VEBA account on behalf of the employee at the time of retirement. Due to IRS regulations regarding the administration of VEBA plans, any changes made for non-represented employees need to be made as a group, and there can be no individual employee election allowed at the time of retirement.

Based on the response rate to the survey, a majority of nonrepresented employees are in favor of expanding the VEBA program, to provide for a contribution of PTO accruals at time of retirement. Human Resources recommends a new subsection be added to TMC Section 1.12.229, to provide for the following changes to the VEBA plan for nonrepresented employees.

- A voting mechanism would be established for eligible nonrepresented employees, to determine whether to participate in the VEBA plan for the next calendar year or not. Eligible employees would be defined as nonrepresented employees identified as eligible to retire within the next calendar year.
- Eligible employees would receive an annual reminder of their ability to request a vote to take place to determine whether unused PTO accruals at time of retirement would be contributed to the VEBA the next calendar year or paid in cash.
- For 2022, such vote shall occur in 2021 following Council approval of the ordinance.
- The VEBA plan would be in effect for each calendar year, unless, 20 percent of eligible nonrepresented employees request a vote to take place to determine whether unused PTO accruals would be paid in cash or contributed to the VEBA plan. If a vote is held, the majority of returned ballots would determine the election for all nonrepresented employees for the following calendar year only. If a vote is not conducted, the default would be a contribution to a VEBA plan.



- For years in which the VEBA plan is in force for nonrepresented employees, the VEBA plan would be funded with both unused Sick Leave and PTO hours upon retirement or death as follows: For sick leave – under current code language, the employee would receive a sum equivalent to 25 percent of unused sick leave accruals contributed to a VEBA; for Personal Time Off (PTO) - under this ordinance, the employee would also receive a sum equivalent to 50 percent of unused PTO contributed to the VEBA. The remaining balance of unused accrued PTO accruals would be paid to the employee in cash and would be considered taxable earnings.

**COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:**

**2025 STRATEGIC PRIORITIES:**

**Economy/Workforce:** Moderate Opportunity

**Explain how your legislation will affect the selected indicator(s).**

This legislation supports the responsible and sustainable management of City funds.

**ALTERNATIVES:**

Presumably, your recommendation is not the only potential course of action; please discuss other alternatives or actions that City Council or staff could take. Please use table below.

Alternative(s)	Positive Impact(s)	Negative Impact(s)
Do not approve the legislation	N/A	unknown

**EVALUATION AND FOLLOW UP:**

**STAFF/SPONSOR RECOMMENDATION:**

Authorization from the City Council by ordinance is required to implement changes to the Tacoma Municipal Code related to Voluntary Employee Beneficiary Association (VEBA) Accounts for nonrepresented employees.

**FISCAL IMPACT:** There is no fiscal impact for this request.