

Notice Number

Date

LOCAL FINANCE NOTICE**Accumulated Absence Management and Financing**

The Local Finance Board recently adopted new rules that govern how local government units manage and finance compensation for accumulated absence time for their employees. Accumulated absence includes any sick days, vacation days, personal days, or other absence time authorized as part of an employer agreement, which are not used by the employee during the allowed period and which are permitted to accumulate over time to the benefit of the employee. The rules are codified as N.J.A.C. 5:30-15. A copy of the adopted rule is attached to this Notice.

The rule addresses the basis for granting accumulated absence benefits, accounting and disclosure of leave benefits, and authority for municipalities and counties to create trust funds to accumulate funding for the employees' carried-forward absence benefits. This Notice reviews the rule that is now in effect.

Purpose of the Rule

These rules are necessary to provide accountability on the way public funds are used for employee benefit purposes. Previously, there were no requirements on the way local units calculate, certify and disclose accumulated absence benefits. The new rules provide uniform procedures that extend to all local units. The rules:

- Provide disclosure of accumulated absence liability as of the end of each budget year;
- Allow local units the option to set-aside reserves for the eventual payment of accumulated absences;
- Provide a consistent and uniform method for estimating the aggregate amount of the benefit that is due to employees;
- Establish procedures for authorizing and certifying that amount, and;
- Establish accounting procedures that local units must follow in appropriating compensated absence fund payments made to compensate employees for their accumulated absences.

The new rules are also in response to disclosures by the State Commission on Investigation (SCI) in its report entitled Pension and Benefit Abuses (December, 1998: www.state.nj.us/sci/pensions1.pdf), which documented abuses by local government units in managing local wage and benefit practices. The SCI report notes that many of the abuses are the result of a system that lacks uniformity, oversight and accountability. Also, in many instances, the public is uninformed of the terms of labor contracts, early-retirement programs and municipal ordinances that permit accumulated absence benefits, despite the fact that tax dollars are used to pay for such benefits.

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Authorization for Accumulated Absence Benefits

The rule codifies and elaborates upon the existing law (N.J.S.A. 40A:9-165) which requires that all benefits must be authorized by the governing body. For the purpose of authorizing accumulated absence benefits, the rule requires that they must be authorized by any one or combination of the following mechanisms:

1. Any duly negotiated and approved labor agreement between the employer and a collective bargaining organization executed pursuant to the New Jersey Employer-Employee Relations Act (N.J.S.A. 34:13A-1 et seq.); or,
2. A provision in a municipal ordinance or county enabling resolution; or,
3. An employment agreement with an individual employee, where a municipal ordinance or county enabling resolution authorizes the use of the benefit.

All accumulated absence benefits must be established by one of these procedures. No benefit payments may be made by any local unit to any employee if the benefit has not been legally authorized. This provision does not void any local existing agreements that may exist; it does mean that they must be put into place in order for payment to be made in the future. *Local unit officials should consult with legal counsel or take other action to review and update their current practices to be sure that the benefit has been legally authorized.*

Before any payment is made, the Chief Financial Officer must certify that sufficient documentation exists as to the amount of the accumulated absence, and that funds are available to pay for the amount due. Sufficient documentation includes:

1. A copy of the agreement authorizing the compensation;
2. Documentation of the amount of accumulated absence time; and
3. The total value of the compensation due.

Should sufficient documentation not exist, payment for the accumulated absence may still be made provided:

1. The employee provides the governing body with a certification that includes an annual itemization of each type of accumulated absence, records to substantiate the accumulated absence, and an explanation as to why sufficient documentation as described above is not available. Where appropriate, other local officials should supplement the employee's information on the lack of records.
2. In the absence of all of the required documentation, the governing body may approve payment, by resolution, based upon the receipt of partial documentation and finding that there is good and reasonable cause to warrant payment in the absence of full documentation.
3. Once certification and acceptance of the employee's records is obtained, or explanation as to why sufficient documentation does not exist, the governing body may authorize payment by resolution, provided the Chief Financial Officer has certified that sufficient funds exist.
4. Any resolution adopted in the absence of sufficient documentation must state that the compensation is being authorized based upon good and reasonable cause to approve.

Accounting and Budgeting for Accumulated Absences

The rule provides authority for counties and municipalities to appropriate and reserve funds for the purpose of compensating employees for accumulated absence time. In order to do so, the following procedure must be followed:

- As described above, no funds may be appropriated, reserved, or disbursed without proper authorization of the governing body. The Chief Financial Officer must verify payments charged against reserved funds for accuracy, sufficient supporting documentation, and availability of funds.
- The amount to be appropriated is specifically reserved according to the provisions of the new rules. These provisions are:
 1. Total appropriations for compensated absences are not to exceed the value of the total accumulated absences, less any amount reserved from prior years appropriations and held in the Trust Fund, as calculated by the Chief Finance Officer;
 2. Once appropriated, funds reserved for compensated absence cannot be used for any other purpose unless first approved by the Local Finance Board;
 3. Current fund appropriations for municipalities and counties shall be deposited into a dedicated trust fund pursuant to N.J.S.A. 40A:4-39 (a sample resolution is enclosed); and
 4. Funds are to be disbursed in accordance with the Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 et seq.) as necessary to meet the obligations of the employer agreement.

Appropriations for accumulated absences are **not** CAP exempt.

A local unit may establish an appropriation of any amount (within the cap and limited to the total calculated liability less any amounts reserved in prior years) in their annual budget for this purpose. At the end of the budget year, unexpended balances from other accounts may be transferred into this account as needed, subject to established transfer rules. Budgeted amounts must be shown on a single line item in the budget, and not spread out in different departments.

Calculating and Reporting of Compensated Absences

Beginning with fiscal years starting January 1, 2002, municipalities and counties must annually report on their estimated compensated absence liability as part of their annual budget. A sample calculation and the Statement form are included with this Notice and are available in the Chief Financial Officer's Document Library on GovConnect. They can also be downloaded as spreadsheets from www.state.nj.us/dca/lgs/fiscal/budmenu.htm, the Division's Financial Regulation section of the web site.

Calculating the Benefit

All compensated absence calculations shall be made pursuant to the most recent edition of Government Accounting Standards Board (GASB) Statement Number 16 (1992). This Statement requires that the compensated absences liability be measured using the pay or salary rates in effect at the balance sheet date (the end of the previous fiscal year). Only local authorities are currently required to reflect the cost on their balance sheet as a liability.

To calculate the current value of sick leave and vacation days for all employees:

1. Assume that all employees currently on the payroll will continue as such until they retire. This assumption is for determination of eligibility only (i.e., it is assumed that all employees will eventually collect this benefit). The calculation represents the **current value** of these accumulated days. Future events, such as retirement date or pre-retirement attrition, are not factored into the equation.
2. Apply the formula for terminal payment for retirees to all employees as if they were to have retired at year-end (the calculation date). Example: If the policy is to pay unused time at retirement at a rate of ½ day for every accumulated day, the calculation will reflect that.
3. If the policy has a cap on the amount paid at retirement (i.e., the State of New Jersey caps accumulated sick pay at retirement at \$15,000), the calculation should also limit the liability on each employee to that amount.
4. The liability is the aggregate of all employee calculations.

GASB Statement 16 includes alternate (more detailed) methods which may be used in lieu of the above.

Reporting the Value

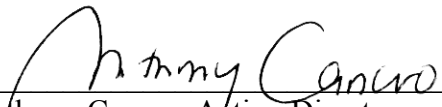
Each municipality and county must include a breakdown of accumulated absences and a preliminary schedule of the value of the compensated absence to be submitted as part of the local unit's annual budget. The report must include the legal basis for the benefit, such as labor contract, local ordinance, or an agreement with an individual employee, and shall summarize any offsetting reserves or budgeted appropriations. The annual audit must include a report on the value of compensated absence owed to employees and the amount accumulated for payment as follows:

- ❑ Municipalities and counties in the annual audit Notes to the Financial Statements;
- ❑ Authorities are to reflect this information as a balance sheet liability; and,
- ❑ Fire districts on the Statement of Net Assets.

Best Practices

While the rule does not require it, the Division recommends that every local unit establish a practice of annual reconciliation of accumulated absence balances. Each department should annually submit to the Chief Financial Officer (CFO) a listing of the authorized accumulated absence balances for each employee. This will allow the CFO to accurately track the obligation in order to properly budget for this expense. Consideration of reporting this information to the CFO on a more frequent basis (i.e., quarterly) is also advisable.

If you have any questions on information in this Notice, please contact the Bureau of Financial Regulation and Assistance at 609-292-4806 or by e-mail at dlgs@dca.state.nj.us.



Anthony Cancro, Acting Director
Division of Local Government Services

Enclosures

Distribution: Chief Financial Officers of all local units

Accumulated Leave Days – Executive Summary

Purpose of the Rule

- *Public disclosure of the year-end accumulated absence liability*
- *Option to set aside a reserve to fund the accumulated absence liability*
- *Procedures to calculate the liability and to certify the amount paid*
- *Procedures for budget appropriations to fund the liability*

Authorization for Accumulated Absence Benefits

- *Labor contracts*
- *Municipal ordinance or county resolution*
- *Employment agreement with an individual employee*

Certification of amount to be paid

- *Back-up documentation*
 - *Copy of the agreement authorizing the compensation*
 - *Documentation of the total accrued time*
 - *Calculation of the value of the accrued time*
- *If sufficient documentation is not available*
 - *CFO provides the governing body whatever documentation is available*
 - *CFO explains why the documentation is not sufficient*
 - *CFO certifies that sufficient funds are available to make payment*
 - *Governing body may approve payment for accumulated absences by resolution based upon good and reasonable cause to approve*

Accounting and Budgeting for Accumulated Absences

- *Appropriation may not exceed the value of the total accumulated absences*
- *Funds appropriated may not be used for other purposes*
- *Current Funds appropriations shall be deposited into a Dedicated Trust Fund*
- *Funds are to be disbursed in accordance with the Local Fiscal Affairs Law as necessary to meet the obligations of the employer agreements*
- *Appropriation funding accumulated absences is not exempt from the CAP*
- *The accumulated absence appropriation must be displayed in one single line item and may not be distributed among different departments*
- *Funds may be transferred into the accumulated absence appropriation*

Calculating and Reporting Accumulated Absences

- *GASB Statement # 16 should be referenced for guidance*
- *Calculating the Liability*
 - *The calculation uses the employees' current rate of pay for all employees*
 - *Apply your contractual formula for payment of accumulated absences to all employees for their accumulated days as if they all retired at year-end*
 - *If your policy places a CAP on the benefit paid at retirement, this calculation also limits the liability on each employee to that amount*
 - *The liability is the aggregate of all employee calculations*
- *Reporting the Value*
 - *Schedule included on all annual budgets detailed by labor contract*
 - *Footnote disclosure in all audited financial statements*
 - *Balance sheet liability for authorities and fire districts*

LOCAL FINANCE BOARD
Accumulated Absence Management and Financing Rules
N.J.A.C 5:30-15

Summary

N.J.A.C. 5:30-15 establishes new rules that govern how local government units manage and finance compensation for accumulated absence time for their respective employees.

Accumulated absence includes any sick days, vacation days, personal days or other absence time authorized as part of an employer agreement, which is not used by the employee during the allowed period and which is permitted to accumulate over time to the benefit of the employee.

The Local Finance Board has determined that the rules are necessary because they provide accountability over the use of public funds for employee benefit purposes. Previously, there were no requirements over the way that local units calculated, certified and disclosed accumulated absence benefits. The rules address the need for uniform procedures that extend to all local units. The rules serve the following purposes:

1. They provide disclosure of accumulated absence liability as of the end of each budget year;
2. They allow local units the option to establish reserves for the payment of accumulated absence;
3. They provide a consistent and uniform way of calculating the amount of the benefit that is due to employees, and they establish procedures for authorizing and certifying that amount; and
4. They establish accounting procedures that local units must follow in appropriating compensated absence fund payments made to compensate employees for accumulated absences.

The rules are also in response to disclosures by the State Commission on Investigation (SCI) in their report entitled Pension and Benefit Abuses (December, 1998), which documented abuses by local government units in managing local wage and benefit practices. The report notes that many of the abuses are the result of a

system that lacks uniformity, oversight and accountability. In many instances, the public is uninformed of the terms of labor contracts, early-retirement programs and municipal ordinances that permit accumulated absence benefits, despite the fact that their tax dollars are used to pay for such benefits. In some instances, lucrative absence benefits have had long-term budgetary impacts which often bear upon the necessity to increase local property taxes. The general public is also largely uninformed of the standards and practices that are used by local government units to compute the amount of the benefit.

The statutory authority for the new rules is at N.J.S.A. 52:27BB-10, which empowers the Local Finance Board to promulgate rules and regulations for the administration of State laws that are within the jurisdiction of the Division of Local Government Services. These laws include N.J.S.A. 40A:4-1 et seq., which governs the budget practices of municipalities and counties; N.J.S.A. 40A:5-1 et seq., which governs the audit requirements for municipalities and counties; N.J.S.A. 40A:5A-1 et seq., which assigns financial control responsibilities over local authorities to the Local Finance Board; and N.J.S.A. 40A:14-78.1 et seq., which governs the finance practices of fire districts. In addition, the Board is empowered to promulgate rules and regulations, applicable to counties and municipalities, for the proper use of uniform accounting systems and for proper accounting methods, pursuant to N.J.S.A. 52:27BB-28.

The subchapter is summarized as follows:

N.J.A.C. 5:30-15.1 sets forth the purpose and statutory authority for the proposed new rules.

N.J.A.C. 5:30-15.2 provides definitions for the key words and terms used within the subchapter.

N.J.A.C. 5:30-15.3 provides the reporting requirements that local units must follow in disclosing the value of compensated absence time that is owed to employees. The reporting requirements relate that local units must state the legal basis for the benefit and the amount of the

benefit, and set forth local budgeting and auditing practices that must be followed to ensure full disclosure of the benefit.

N.J.A.C. 5:30-15.4 provides that all compensated absence payments must be authorized locally. The local unit's chief financial officer must certify that sufficient documentation has been provided to warrant payment, and that sufficient funds are available for payment. In the absence of sufficient documentation, payment may be awarded by resolution of the governing body, subject to receipt of a certification of accumulated absence prepared and signed by the employee.

N.J.A.C. 5:30-15.5 sets forth requirements that allow municipalities and counties to establish a permanent reserve account to accumulate compensated absence funds. The amount of the fund cannot exceed the total value of the accumulated absence time, and the funds cannot be used for any other purpose, unless approved by the Local Finance Board.

Full text of the new rules follows:

5:30-15.1 Purpose and authority

(a) The purpose of this subchapter is to authorize and establish procedures for local government units to follow in establishing reserves for compensated absence.

(b) This subchapter is promulgated pursuant to the authority of the Local Finance Board under N.J.S.A. 52:27BB-10, which empowers the Board to promulgate reasonable rules for the interpretation and administration of State laws included within the jurisdiction of the Division of Local Government Services, and N.J.S.A. 52:27BB-28, which empowers the Board to promulgate rules and regulations for the proper use of uniform accounting systems and for proper accounting methods.

5:30-15.2 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise.

"Accumulated absence" means any sick days, vacation days, personal days, or other absence time authorized as part of an employer agreement, which is not used by the employee during the allowed period, and which is permitted to accumulate over time to the benefit of the employee.

"Chief financial officer" means, except in the case of a municipality or county, the director of revenue and finance, comptroller, treasurer, collector or other financial officer of a local unit. In the case of a municipality, the chief financial officer means the person appointed pursuant to section 5 of P.L.1998, c.110 (N.J.S.A. 40A:9-140.10); in the case of a county, the chief financial officer means the person appointed pursuant to section 4 of P.L. 1993, c.87 (N.J.S.A.40A:9-28.4).

"Compensated absence" means the value of accumulated absence which is paid to the employee upon separation from the employer, pursuant to an employer agreement.

"Employee" means a member of a State administered pension program who is eligible for compensated absence benefits, pursuant to an employer agreement.

"Employer agreement" or "agreement" means a duly negotiated and approved labor agreement between the local unit and a collective bargaining organization; a local unit employer practice; or, an agreement provided by ordinance or resolution as appropriate to the local unit, which allows the employee to accumulate sick days, vacation days, personal days, or other absence time, and which obligates the local unit to compensate the employee for the value of that time upon retirement.

"Local unit" means any county, municipality, or a local public authority or fire district that is subject to the Local Authorities Fiscal Control Law, N.J.S.A. 40A:5A-1 et seq.

5:30-15.3 Calculation of compensated absence liability

(a) Each municipality and county shall

include a breakdown of accumulated absences and a preliminary schedule of the value of compensated absence, to be submitted as part of the local unit's annual budget. The report shall indicate the amount of accumulated absence and the value of compensated absence by the legal basis for the benefit, such as labor contract, local ordinance, or an agreement with an individual employee, and shall summarize any offsetting reserves or budgeted appropriations.

(b) The annual audit required of every local unit shall report, each year, on the estimated value of compensated absence owed to employees and the amount accumulated for payment. This information shall be reflected in financial reports and the annual audit, as follows:

1. For municipalities and counties, in the Notes to the Financial Statements;
2. For authorities, as a balance sheet liability pursuant to Government Accounting Standards Board (GASB) Statement Number 34 (1999), Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, incorporated herein by reference, as amended and supplemented, and.
3. For fire districts, on the Statement of Net Assets pursuant to GASB Statement 34.

(c) All compensated absence estimates shall be made pursuant to the most recent edition of GASB Statement Number 16 (1992), Accounting for Compensated Absences (C.60), incorporated herein by reference, as amended and supplemented.

(d) Budget appropriations for compensated absences shall be shown on a single budget line in each local unit budget.

5:30-15.4 Authorization for compensated absence payments

(a) All local unit payments for compensated absence shall be authorized locally by any one

or combination of the following practices:

1. Any duly negotiated and approved labor agreement between the employer and a collective bargaining organization, executed pursuant to the New Jersey Employer-Employee Relations Act (N.J.S.A. 34:13A-1 et seq.),
2. A provision in a local ordinance or enabling resolution; and/or
3. An employment agreement with an individual employee, where the use of the benefit therein is authorized by local ordinance or enabling resolution.

(b) Payment for compensated absence shall be made upon certification by the chief financial officer of the local unit that sufficient documentation of the amount of the accumulated absence has been provided, and that funds are available to pay for the amount of compensated absence due. Sufficient documentation shall include:

1. A copy of, or reference to, the agreement authorizing compensation;
2. Documentation of the amount of accumulated absence time; and
3. The total value of the compensation due based on the agreement and accumulated absence time.

(c) In the absence of sufficient documentation, payment for compensated absence may be awarded by resolution of the governing body, subject to the following:

1. The employee shall provide the governing body with a certification that includes an annual itemization of each type of accumulated absence, records maintained by the employee or employer to substantiate the absence, and an explanation as to the reasons that sufficient documentation, as described in (b) above, is not available. Said certification shall be attached to the resolution and shall serve as evidence of the accumulated absence, based on the

employee's records.

2. If the employee is unable to produce all of the documentation required in (c)1 above, the governing body may, by resolution, approve payment for compensated absence based upon the employee's ability to provide partial documentation, and upon finding that there is good and reasonable cause to warrant payment in the absence of full documentation. Such good and reasonable cause may be in connection with the loss of relevant information due to technological changes in recordkeeping; the loss of data caused by fire, natural disaster and the like; the loss of dated information; or other reasonable explanation by the employee as to why sufficient documentation is not available.
3. Upon receipt of the certification and acceptance of the employee's records, or explanation for not providing sufficient documentation, the governing body may then approve payment by resolution, provided that the chief financial officer has certified that sufficient funds are available for payment.
4. Any resolution that is approved by the local unit in the absence of sufficient documentation shall so state that the compensation is being approved upon finding that there is good and reasonable cause to approve, based on the certified explanation provided by the employee.

5:30-15.5 Accounting for compensated absence funds

(a) A county or municipality may appropriate and reserve funds for the purpose of compensating employees for accumulated absence time in accordance with the following:

1. No funds may be appropriated or reserved unless the local unit has complied with N.J.A.C. 5:30-15.4(a).
2. The amount to be appropriated is specifically reserved to the governing

body. Nothing in this section shall require any specific amount to be appropriated in any given year. In addition:

- i. Total appropriations for compensated absences shall not exceed the value of the total accumulated absence, as determined by the chief financial officer of the local unit.
- ii. Once appropriated, funds so reserved for compensated absence shall not be used for any other purpose unless so approved by the Local Finance Board.
- iii. Current fund appropriations for municipalities and county governments shall be deposited into a dedicated trust fund, pursuant to N.J.S.A. 40A:4-39.
- iv. Funds may be disbursed in accordance with the Local Fiscal Affairs Law, N.J.S.A. 40A:5-1 et seq., as necessary, to meet the obligations of the employer agreement.

SAMPLE DEDICATION BY RIDER RESOLUTION

RESOLUTION requesting approval of the Director of the Division of Local Government Services to Establish a Dedicated Trust by Rider for Accumulated Absences, pursuant to N.J.A.C. 5:30-15

WHEREAS, permission is required of the Director of the Division of Local Government Services for approval as a dedication by rider of revenues received by a municipality when the revenue is not subject to reasonable accurate estimates in advance; and

WHEREAS, N.J.A.C. 5:30-15 permits municipalities to receive amounts for costs incurred for Accumulated Absences; and

WHEREAS, N.J.S.A. 40A:4-39 provides that the Director of the Division of Local Government Services may approve expenditures of monies by dedication by rider;

NOW, THEREFORE, BE IT RESOLVED, by the governing body of the *insert the name of local unit*, County of _____, State of New Jersey as follows:

1. The governing body hereby requests permission of the Director of the Division of Local Government Services to pay expenditures for Accumulated Absences created in accordance with the provisions of N.J.A.C. 5:30-15 as per N.J.S.A. 40A:4-39; and
2. The municipal clerk of the *insert the name of local unit* is hereby directed to forward two certified copies of this resolution to the Director of the Division of Local Government Services.

I, *insert name of municipal clerk*, Municipal Clerk of *insert name of local unit*, in the County of _____ and State of New Jersey do hereby certify that the foregoing is a true and correct copy of a Resolution adopted by the governing body of the *insert the name of the local unit*, County of _____, State of New Jersey at a regular meeting of said governing body held on *insert date of meeting*.

Clerk's Name, Title

Explanatory Statement - (continued)

Budget Message

Analysis of Compensated Absence Liability

Organization/Individuals Eligible for Benefit	Gross Days of Accumulated Absence	Value of Compensated Absences	Legal basis for benefit (check applicable items)		
			Approved Labor Agreement	Local Ordinance	Individual Employment Agreements
Totals					
Total Funds Reserved as of end of 2001:					
Total Funds Appropriated in 2002:					