



**CITY OF STANWOOD  
FINANCE COMMITTEE  
AGENDA STAFF REPORT**

**ITEM NUMBER:** 1

**DATE:** October 23, 2014

**SUBJECT:** Proposed New Pay Dates for 2015

**CONTACT PERSON:** Greg Thramer, Finance Director

**ATTACHMENTS:**

- A – 2015 Proposed Pay Dates
- B – 2015 Current Pay Dates
- C – Proposed Amendments to Personnel Policy Manual

**ISSUE**

Should the city amend Sections 604 and 604.1 of the Personnel Policy Manual to pay city employees on the 8<sup>th</sup> and 23<sup>rd</sup> of each month, as shown in Attachment A?

**STAFF RECOMMENDATION**

The city should amend Sections 604 and 604.1 of the Personnel Policy Manual to pay city employees on the 8<sup>th</sup> and 23<sup>rd</sup> of each month, as shown in Attachment A.

**SUMMARY**

Currently the city pays its employees monthly on or before the last day of the calendar month based on a payroll activity cutoff date of the 25<sup>th</sup>. This means that month end pay is based on payroll activity from the 26<sup>th</sup> of the prior month through the 25<sup>th</sup> of the current month. City staff estimate hours worked between the 26<sup>th</sup> and the end of the month. Additionally, a mid-month draw is allowed by employee request on or before the 15<sup>th</sup> of each month.

There are several problems with the city's current pay dates (15<sup>th</sup> and end of month), as follows:

1. By cutting off payroll on the 25<sup>th</sup> and then processing payroll for the calendar month, **the city runs the risk of overpayment (gifting of public funds)** if an employee does not show up for work after the 25<sup>th</sup> cutoff date but gets paid for the entire month. This situation nearly happened this year when a new employee

failed to show up for work near the end of the month and did not notify anyone. The employee was terminated, but was almost paid for the entire month for wages that were not earned. On the last day of payroll processing, the overpayment was caught and corrected just hours before the processing deadline.

2. **Employees who earn overtime or extra pay between the 26<sup>th</sup> and the end of the month must wait until the end of the following month to receive their extra pay.**
3. Oftentimes **there is not sufficient time**, due to weekends, holidays, short months, etc. **to properly process payroll based on a 25<sup>th</sup> cut-off date.** Enough time must be allowed for the following to happen:
  - a. The cutoff period must end.
  - b. Employees must then have time to prepare and sign their monthly timesheets.
  - c. Supervisors must have time to properly review and approve timesheets. Any errors found must be returned to employees for correction and resubmittal.
  - d. Supervisors must have time to review and approve any timesheet resubmittals to ensure recommended changes are accurate.
  - e. Once all timesheets are accurate to the satisfaction of the supervisor, there must be time for submission to payroll.
  - f. Payroll must gather, review and input all payroll timesheets into the BIAS payroll system, allowing time to ask employees and supervisors questions about timesheet entries that are not clear.
  - g. The finance director must review monthly payroll reports
  - h. Once reviewed, payroll must submit payroll ACH deposits to the bank one day prior to pay date.
4. To date, this proposed payroll date change has been discussed with the management team and staff as follows:
  - a. October 7, 2014 – Presented to the management team.
  - b. October 10, 2014 – Presented to both shop stewards (Teamsters-PW and Teamsters-Admin) and a part-time hourly employee. The proposal was discussed and well received by all involved.
  - c. October 10, 2014 – Sent to the Teamsters union representative for review and discussion. We are waiting for their comments at this time.
  - d. October 23, 2014 – Discussed with the Finance Committee, seeking their recommendation to implement this change prior to year end.

## **DISCUSSION**

Currently the city pays its employees monthly, on the last business day of each month as set forth in the Personnel Policy Manual as follows:

### **604 Paydays**

City employees are paid monthly on the last working day of each month. If a regularly scheduled payday falls on Saturday or Sunday or on a holiday, paychecks will be distributed on the previous scheduled working day.

Further, the Personnel Policy Manual allows mid-month employee draws as follows:

### **604.1 Draws**

With the exception of temporary employees, employees may, upon written request, be allowed a draw, which will be paid on the fifteenth (15<sup>th</sup>) day of each month. If the fifteenth (15<sup>th</sup>) day of the month falls on a Saturday, Sunday, or city-recognized paid holiday, payroll draws will be issued on the previous scheduled working day.

In order to allow time for employees to prepare their timesheets, supervisors to review them, and payroll to process them, a “cut-off” date should be established about a week prior to the actual payroll date.

It has been the City of Stanwood’s practice to set a cut-off date of the 25<sup>th</sup>, which means that employees report their work activity on a timesheet from the 26<sup>th</sup> of the previous month through the 25<sup>th</sup> of the current month, and then are paid on the last business day of that month (refer to Attachment B).

### **Pros of the Current Payroll Practice**

1. A perceived advantage of the current payroll practice is that it allows for employees to be paid on the end of each month, which is what most employees are used to. Some employees may have their large payments (house and car) scheduled during first week of each month to reflect a month end pay cycle.

### **Cons of the Current Payroll Practice**

1. The biggest disadvantage of the current practice is to those employees who earn overtime, extra time, or pager pay after the 25<sup>th</sup> and before the end of the month. The city often receives complaints from those employees that they must wait until the next month to receive such additional pay.
2. The current schedule requires that pay for the days of the 26<sup>th</sup> to the last day of the month be estimated, and essentially paid in advance. All regular employees

are paid via direct deposit and this data must be submitted to the bank at least 24 hours in advance of payday. The risk of this practice was illustrated recently when an employee failed to report to work again after turning in his timesheet and ultimately abandoned his job before the last day of the month. Payroll had already been processed and scheduled to pay him through the end of the month, including the days he did not report to work. Significant effort was required to address this situation as payroll cannot be changed once the process has been completed. Intervention by BIAS staff was necessary to make the required corrections. By processing and scheduling pay in advance, the city is at risk of paying employees for time that they did not work.

3. Another disadvantage to management of a 25<sup>th</sup> cut-off date is that it is often challenging to review and process payroll. There is also little time for management to address and report employee issues that affect that month's pay, such as the situation where the employee failed to return to work.

Some months it is necessary to move up the cut-off date because there are not an adequate number of working days after the 25<sup>th</sup> to process payroll (An example would be February 2015, there are only 2 days between the cut-off date and payday). Scheduling issues can also require the cut-off date to be moved up. When the timing is changed for these reasons, it causes confusion that often results in timesheets being turned in late. Also, additional work is created as employees make changes to the time they have turned in, wanting to correct the hours that they estimated in advance.

4. The current process does not align with Department of Retirement System reporting requirements. Each employee's hours must be re-computed for the purposes of retirement system reporting. This is a time consuming, manual process and it increases the chances of error.

#### Pros of the New Proposal

1. Employees would always receive their extra pay in a timely manner (overtime, extra time, pager pay, etc.). All such pay in a given month would always be paid timely, on or before the 8<sup>th</sup> of the following month.
2. Employees would have more time to prepare their timesheets, supervisors would have more time to review them, and payroll would have more time to process them, reducing the likelihood of errors.
3. Cut-off dates would never have to be changed, as there would always be ample time to process payroll. This reduces confusion about when timesheets are due.

4. Reporting employee hours to the Department of Retirement Systems hours would be easier to calculate and report. The likelihood of reporting errors would decrease.
5. The city would no longer be basing pay on estimates and processing payroll in advance of the working hours being paid, which greatly reduces the risk that employees will be paid for time that was not worked.

### Challenge of the New Proposal

1. The challenge of the new proposal is “change.” Some employees will be reluctant to change because they would need to have some time to rearrange their finances.

If the proposal is adopted, employees should be given plenty of time to adjust their finances to the new pay schedule. Oftentimes home mortgage payment and car payment dates can be moved to accommodate a different pay schedule.

### **FISCAL IMPACT**

The city would defer payroll by about a week, slightly improving cash flow in the short term. In the long term, there would be no fiscal impact, as all earned payroll and benefits earned will always ultimately be paid.

### **FINANCE COMMITTEE OPTIONS**

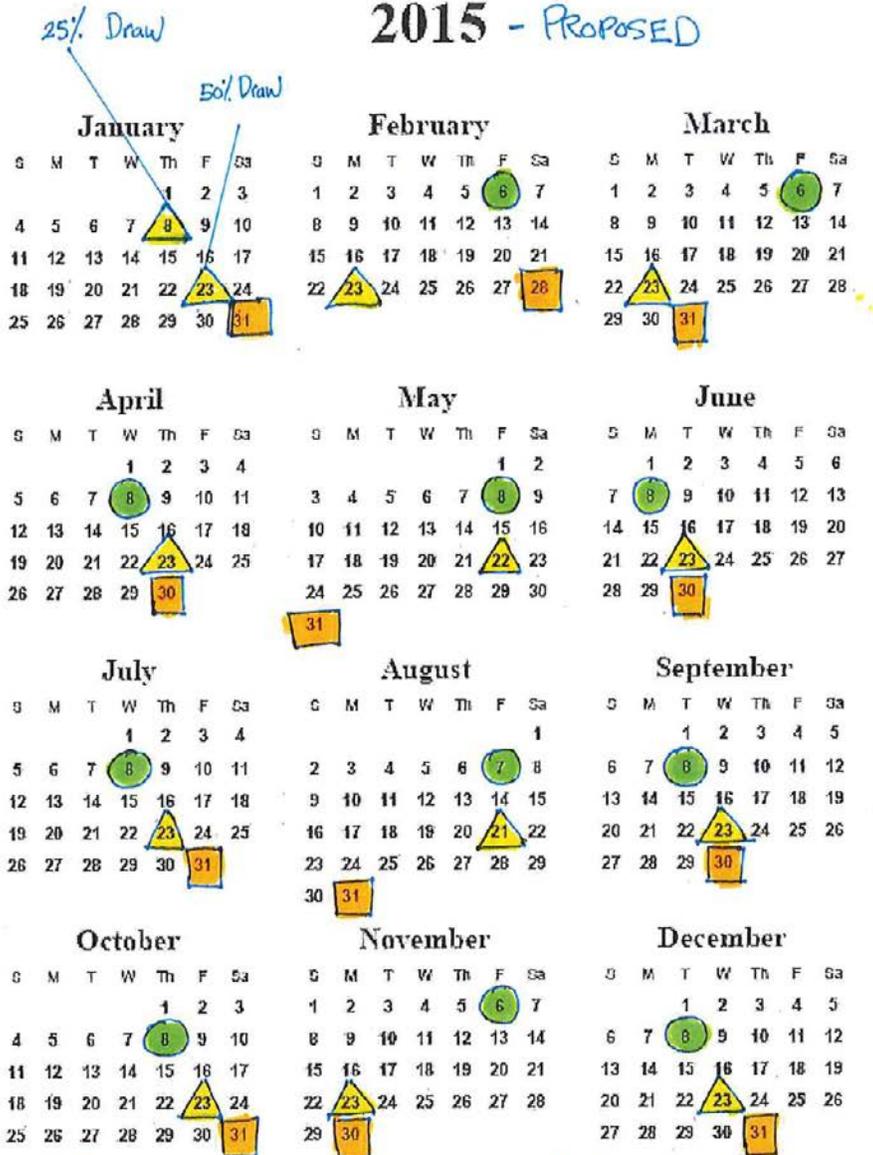
1. Recommend city amend Sections 604 and 604.1 of the Personnel Policy Manual to pay city employees on the 8<sup>th</sup> and 23<sup>rd</sup> of each month, as shown in Attachment A and direct staff to prepare the necessary resolution for presentation at a future city council meeting.
2. Do not recommend city amend Sections 604 and 604.1 of the Personnel Policy Manual to pay city employees on the 8<sup>th</sup> and 23<sup>rd</sup> of each month, as shown in Attachment A.
3. Do not recommend city amend Sections 604 and 604.1 of the Personnel Policy Manual to pay city employees on the 8<sup>th</sup> and 23<sup>rd</sup> of each month, as shown in Attachment A and direct staff to address specific finance committee questions or areas of concern.

**RECOMMENDED MOTION**

***“I move to recommend city amend Sections 604 and 604.1 of the Personnel Policy Manual to pay city employees on the 8<sup>th</sup> and 23<sup>rd</sup> of each month, as shown in Attachment A and direct staff to prepare the necessary resolution for presentation at a future city council meeting.”***

Attachment A

2015 - PROPOSED



- ▲ = Payroll Draw - on or before the 23<sup>rd</sup> (two draws in Jan. to start)
- = Payroll Cut-off - report time worked through last day of each month
- = Pay Date - on or before the 8<sup>th</sup> of each month

## 2015 - CURRENT

### January

S	M	T	W	Th	F	Sa
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

### February

S	M	T	W	Th	F	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28

### March

S	M	T	W	Th	F	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

### April

S	M	T	W	Th	F	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

### May

S	M	T	W	Th	F	Sa
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

### June

S	M	T	W	Th	F	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

### July

S	M	T	W	Th	F	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

### August

S	M	T	W	Th	F	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

### September

S	M	T	W	Th	F	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

### October

S	M	T	W	Th	F	Sa
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

### November

S	M	T	W	Th	F	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

### December

S	M	T	W	Th	F	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

- ▲ = Payroll Draw - on or before the 15th of each month
- = Payroll Cut-off - report time worked through 25th (sometimes earlier)
- = Pay Date - the last business day of each month

## Proposed Amendments to Personnel Policy Manual

### 604 Paydays

City employees are paid monthly on the ~~last~~ eightth (8<sup>th</sup>) working day of each month for employment activity through the end of the previous calendar month. If a regularly scheduled payday falls on Saturday or Sunday or on a holiday, paychecks will be distributed on the previous scheduled working day.

Further, the Personnel Policy Manual allows ~~mid-month~~ employee draws as follows:

#### 604.1 Draws

With the exception of temporary employees, employees may, upon written request, be allowed a draw, which will be paid on the ~~fifteenth (15<sup>th</sup>)~~ twenty-third (23<sup>rd</sup>) day of each month. If the ~~fifteenth (15<sup>th</sup>)~~ twenty-third (23<sup>rd</sup>) day of the month falls on a Saturday, Sunday, or city-recognized paid holiday, payroll draws will be issued on the previous scheduled working day.