Agenda
Finance & Personnel Committee Regular Meeting
August 27, 2026 | 5:00 PM

PLEASE NOTE LOCATION AND TIME CHANGE:
Stanwood City Hall
10220 270th St NW
Stanwood, WA 98292

This meeting will be conducted in person at the Stanwood City Hall, 10220 270th St NW, Stanwood, WA 98292
https://www.stanwoodwa.org.

1. **Call to Order**
2. **New Business**
    a. Paid Time Off Accrual Conversion Election for Non-Represented Employees
3. **Adjourn**

City of Stanwood
Finance & Personnel Committee
Staff Report

Item Number:	2.a.
Date:	August 27, 2026
Subject:	Paid Time Off Accrual Conversion Election for Non-Represented Employees
Contact Person:	David Hammond, Finance Director
Attachments:	1. Paid Time Off Waiver Draft Policy

ISSUE

To establish an optional Paid Time Off (PTO) Accrual Conversion Election for eligible non-represented employees who have provided written notice of an anticipated retirement within five years. The election would allow an employee to waive a portion of future PTO accrual in exchange for additional taxable compensation, subject to City approval and the requirements of the proposed policy.

BACKGROUND:

The City's current PTO structure allows eligible employees to accumulate leave for later use or payout under applicable City policy. For employees approaching retirement, a large accrued balance can create both retention and workforce-planning challenges. Employees may wish to receive some value from future accruals while continuing to work, and the City has an interest in retaining experienced employees through their final prime working years.

A large balance may also lead to situations where an employee uses substantial PTO in their final months before retirement. That practice can extend the period during which the employee remains on payroll and the City continues paying employer medical-benefit costs, while reducing the employee's availability during a critical transition period. Alternatively, a large balance paid at separation is paid at the employee's then-current, usually higher, hourly rate.

DISCUSSION:

The proposed policy creates a voluntary, prospective election rather than a conversion of PTO already earned. To be eligible an employee must be at least fifty-seven years old. They must submit written notice of an intention to retire within five years and may request to waive a specified portion of future PTO accrual. If approved, the value of the waived hours would be paid as additional taxable compensation using the employee's regular base hourly rate.

The draft policy includes safeguards intended to preserve adequate leave and administrative flexibility. Participation is limited to five years; the employee must maintain at least 240 hours of PTO; employees are expected to use at least three weeks of PTO or executive leave annually for vacation and restoration; and no election may waive or interfere with paid sick leave rights required by Washington law. Elections apply only to future accruals and may be denied, modified, suspended, or discontinued when operational, payroll, legal, or compliance concerns arise. In their final year, the employee may not sell back more than 120 hours PTO.

The policy is intended to support succession planning by improving retention and reducing the incentive to take an unusually large amount of leave in the final year of employment. It also makes the cost of selected future PTO accruals more predictable and distributes that cost over the approved election period. The employee would retain the ability to request a prospective modification or discontinuation, subject to City Administrator approval.

FISCAL ANALYSIS:

The fiscal effect is principally a timing and valuation tradeoff. Under the proposed election, the City would pay the value of waived future PTO accruals during the employee's approved participation period at the employee's base hourly rate in effect when the compensation is earned. Without the election, those hours could accumulate and be paid or used later at a higher hourly rate.

The election would increase current payroll costs for participating employees but reduce future PTO liabilities. It may also avoid employer medical-benefit costs associated with an extended period of heavy PTO use immediately before retirement and may reduce operational costs associated with prolonged absences during succession and knowledge transfer. Actual savings will depend on participation, future wage adjustments, the amount of PTO converted, leave-use patterns, and the employee's separation date. Staff will evaluate each request and incorporate approved costs into the applicable budget.

Using as an example, assuming a senior employee converting five weeks of PTO in 2027, the increased cost would be approximately $20,500. This would be offset by cost savings when the employee retires without extended PTO absences. The cost increase if this employee delayed retirement in their final year by taking significant accrued PTO would increase city costs by as much as $20,000 for benefits, and the city would pay full salary during that period. The city would also pay out accumulated PTO at a higher rate of pay.

RECOMMENDATION:

Staff recommends the Finance & Personnel Committee review the proposed PTO Accrual Conversion Election policy for non-represented employees and recommend approval by the City Council.

PTO Accrual Conversion Election — Non-represented Employees

Eligibility and Request Process

Non-represented employees who are eligible and have submitted written notice to Human Resources of their intention to retire within five years may request to waive accrual of a portion of their future Paid Time Off (PTO) in exchange for additional taxable compensation.

Election Submission and Approval

Employees are generally expected to submit their elections in December for the upcoming calendar year, unless an exception is approved by the City Administrator. Mid-year elections may be permitted but will only apply to future PTO accruals. Once approved, the election remains in effect until one of the following occurs: the employee separates from employment, submits written notice to discontinue or modify the election, reaches the maximum election period allowed (5 years), or the City discontinues the election as outlined in this section. The employee must identify the amount of PTO accrual to be waived at the time of election. Once approved, the elected waiver amount will remain in effect unless the employee submits a written request to modify or discontinue the election and the modification is approved by the City Administrator. Any approved modification will apply to future PTO accruals only, and will not apply retroactively.

Election Period and Retirement Date

Participation in the PTO Accrual Conversion Election is limited to a maximum of five years during an employee's tenure with the City. When an employee is within three years of the anticipated retirement date specified in their written notice, this date becomes fixed for the purposes of the election and cannot be extended to continue, restart, or increase eligibility for PTO conversion payments. Any changes, delays, or extensions to the anticipated retirement date will not extend the maximum election period or provide eligibility for additional conversion payments beyond the approved period.

Minimum PTO Balance Requirement

To participate, the employee must maintain a minimum PTO balance of 240 hours. Employees participating in this election are expected to use at least 3 weeks of PTO or executive leave annually for vacation/restoration time away from work.

Calculation and Payment of Waived PTO

The value of waived PTO accruals is calculated by multiplying the number of PTO hours waived by the employee's regular base hourly rate. Payment will be made as an hourly payroll adjustment, the annual value of the waived PTO is divided by 2,080 hours and paid as additional taxable wages over the approved election period.

City Authority to Modify or Discontinue Election

The City reserves the right to deny, modify, suspend, or discontinue an election if the employee's PTO balance falls below the required minimum, the employee changes employment status, changes or withdraws their anticipated retirement date, reaches the maximum election period, separates from employment, or if continuation of the election results in operational, payroll, legal, or compliance concerns.

Employment Status

A PTO accrual conversion election does not establish a contract of employment, guarantee continued employment through the anticipated retirement date, or alter the employee's at-will employment status.