



# CITY OF HOUSTON

Finance Department

## Interoffice

Correspondence

**To:** Budget and Fiscal Affairs  
Committee

**From:** Kelly Dowe, Director. *KD*

**Date:** April 2, 2012

**Subject:** Houston Fire Department Deferred  
Compensation Pay

### BACKGROUND

During the preparation of the Fiscal Year (FY) 2012 Budget, the City estimated it needed approximately \$13 million in savings to preserve all Houston Fire Department (HFD) classified employees' jobs. This was based on the revenue estimates available at the time from the Harris County Appraisal District for property tax, Dr. Barton Smith for sales tax, and City personnel for other revenues.

Savings that could be achieved through the deferral of accrued leave payments to classified employees was one source identified to help preserve these jobs. Accrued leave payments at the time had a budget of \$12.8 million for 160 retirees. An accrued leave payment, often referred to as "termination pay," is the payment of the value of an employee's accumulated balance of sick and vacation hours. Termination pay is payable to firefighters when they cease working (terminate employment) at the City or is paid throughout phase down should an employee elect to participate in that program.

During the negotiations of the most recent Collective Bargaining Agreement (CBA) between the Houston Professional Fire Fighters Association (HPFFA) and the City, both parties agreed to a provision that provided for the deferral of termination pay. The CBA allowed the City to pay termination pay out over a four year period as opposed to a lump sum payout due within 90 days of termination.

In exchange for the deferral, the retired firefighters would receive a subsidized health benefit rate where they continue to pay the equivalent of an active employee for two years and a percentage of the active employee rate in the third and fourth years. Also included in the agreement was the City's option to pay the firefighter their full balance of termination pay at any time. Upon that payment, the retired firefighters would begin to pay regular retiree health insurance premiums.

This agreement resulted in \$7.8 million being available within the fire department's budget which was allocated to classified personnel compensation to avoid layoffs.

## **CURRENT STATUS**

As FY2012 has progressed, our projected revenues have substantially exceeded budget estimates. As of February 2012, annual revenues are projected to be \$36.6 million over adopted budget. This is mainly due to higher property taxable value and sales tax receipts.

Year-end expenditures are projected \$1.8 million above the adopted budget. After setting aside fund balance of \$5 million for Rainy Day Fund Reimbursement and \$2.7 million for potential payment to ATS as a result of the red light camera settlement, there is a net of \$27.1 million in additional fund balance higher than anticipated. This source of funding can be used to ease future year deferred termination pay obligations and reduce the cost of this program.

## **CONCLUSION**

Due to the FY2012 favorable fund balance position discussed above, the City has decided to pay off all termination balances of firefighters that have retired along with any other firefighters that choose to retire this fiscal year. The payout of this termination pay will avoid pushing liabilities to future years. Additionally, the planned health insurance expenditures will also be reduced as retirees move from active to retiree rates.

In conclusion, an additional \$7 million will be added to the HFD's FY2012 budget to pay termination pay for the 160 firefighters projected to retire in FY2012.