

LRB-FISCAL REVIEW SECTION ANALYSIS

FINANCE AND PERSONNEL COMMITTEE

ITEM 8, FILE # 021511

APRIL 9, 2003

MARK A. RAMION

File #021511 is a substitute ordinance relating to the continuation of city employee compensation as no-interest loans during military leaves of absence.

Background

This ordinance provides that:

- Permanent full time city employees as members of a national guard unit or reserve component of the United States military, called to active duty relating to Operation Enduring Freedom or Operation Iraqi Freedom, may enroll to receive their city pay, less a deduction to their military pay, for a period not to exceed 90 days.
- This compensation is a no-interest loan that the employee may repay up to 2 years from the date of release from active duty.
- Military-related death shall erase the obligation to repay the loan.

Discussion

1. This ordinance will provide the opportunity for full-time city employees who are members of a National Guard unit or a unit of the United States military reserves and are called to active duty to apply for a no-interest loan for up to 90 days equal to their city pay minus a deduction equal to their military pay.
2. This ordinance stipulates the terms of enrollment, collection and repayment of the loan within 2 years from the end of active military duty.
3. In the event that the city employee is hospitalized related to service injuries, the timetable for repayment will be adjusted to accommodate the discharge from the hospital.
4. In the event of a service-related disability, the compensation owed to the city will be adjusted in a proportion equal to the percentage of disability incurred by the employee as determined by the United States Veterans Administration.
5. There are currently 31 city employees who have been called to active duty with another 160 who could potentially be called for deployment.

Fiscal Impact

1. There is no fiscal impact related to this ordinance as the terms of this ordinance dictate the repayment of a no-cost loan within two years.
2. The fiscal impact of the cost to the city for the preparation, monitoring and collection of this loan has not been determined. However, it is anticipated that the following city departments will need to participate in this program:
 - Employee Relations (Certification and Enrollment)
 - City Attorney (Promissory Note)
 - City Treasurer (Collection)
 - Comptroller (Payroll-related concerns)

Further Information

1. The Office of the Comptroller has detailed several internal administrative and federal IRS issues and impacts related to this ordinance, including the need for the IRS to provide a private letter ruling for approval of this program.
2. The Comptroller has indicated that the IRS Code does not allow for an interest-free loan. The payment authorized in this ordinance would need to be considered a continuation of wages or a loan. This continuation would have tax implications and require reporting to the IRS as such.

Prepared by: Mark A. Ramion, X8680
LRB-Fiscal Review Section
April 8, 2003

Cc: Marianne Walsh
W. Martin Morics
Ald. James Bohl
Florence Dukes
Michael Brady
Dennis Yaccarino