

THE EXPANDING COMPLEXITY OF EMPLOYEE COMPENSATION



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AGENDA



- GOVERNMENT WORKFORCE ISSUES
- EMPLOYEE COMPENSATION
- COMPENSATED ABSENCES
- PAYROLL RULES
- GOVERNMENT FINANCIAL REPORTING
- FAIR LABOR STANDARDS ACT & OVERTIME RULES
- 2025 SALARY THRESHOLD RECENT CHANGES
- OVERTIME & WAGE/HOUR COMPLIANCE
- INTERNAL CONTROLS FOR PAYROLL

"The Expanding Complexity of Employee Compensation"

- Potential challenges:
 - Short-term budget challenges
 - Current wage, salary, bonus expenditure increases
 - Longer-term uncertainty
 - Potential overtime exposure throughout duration of employment
 - Future leave payouts

Government Workforce Issues

- “State and local governments are...grappling with roughly half a million vacancies and longstanding recruitment challenges”
- “Meanwhile, the retirement of the Baby Boomer generation, combined with shifting career preferences among younger workers, has accelerated critical staffing gaps across the public sector.”
- “If local governments are to serve as the frontlines of service delivery and adapt to changes at the federal level, they need immediate, practical solutions to their staffing crisis.”
- “As retirement-age employees exit the workforce en masse, those who remain are burdened with increasingly unsustainable workloads, leading to burnout and even more vacancies.”
- “Some governments are enhancing benefits and rewards by front-loading vacation time, offering signing bonuses, and increasing parental leave. These initiatives help make public sector jobs more competitive.”

Source: November 2025 *Public Management*, “Tacking the Local Government Talent Shortage”

Government Workforce Issues

- Since 2023, the percentage of respondents providing paid family leave is up from 33% to 48%
- 39% offer 4 weeks or more of paid family leave
- 37% offer consolidated annual/personal/sick leave
- 29% offer targeted hiring bonuses
- 22% offer referral bonuses paid to existing employees
- 12% of respondents reported front-loaded benefits so new hires would have quicker access to paid leave
- 5% provide paid leave for employees to attend college classes

Source: MissionSquare Workforce Survey Report (2025)

Government Workforce Issues

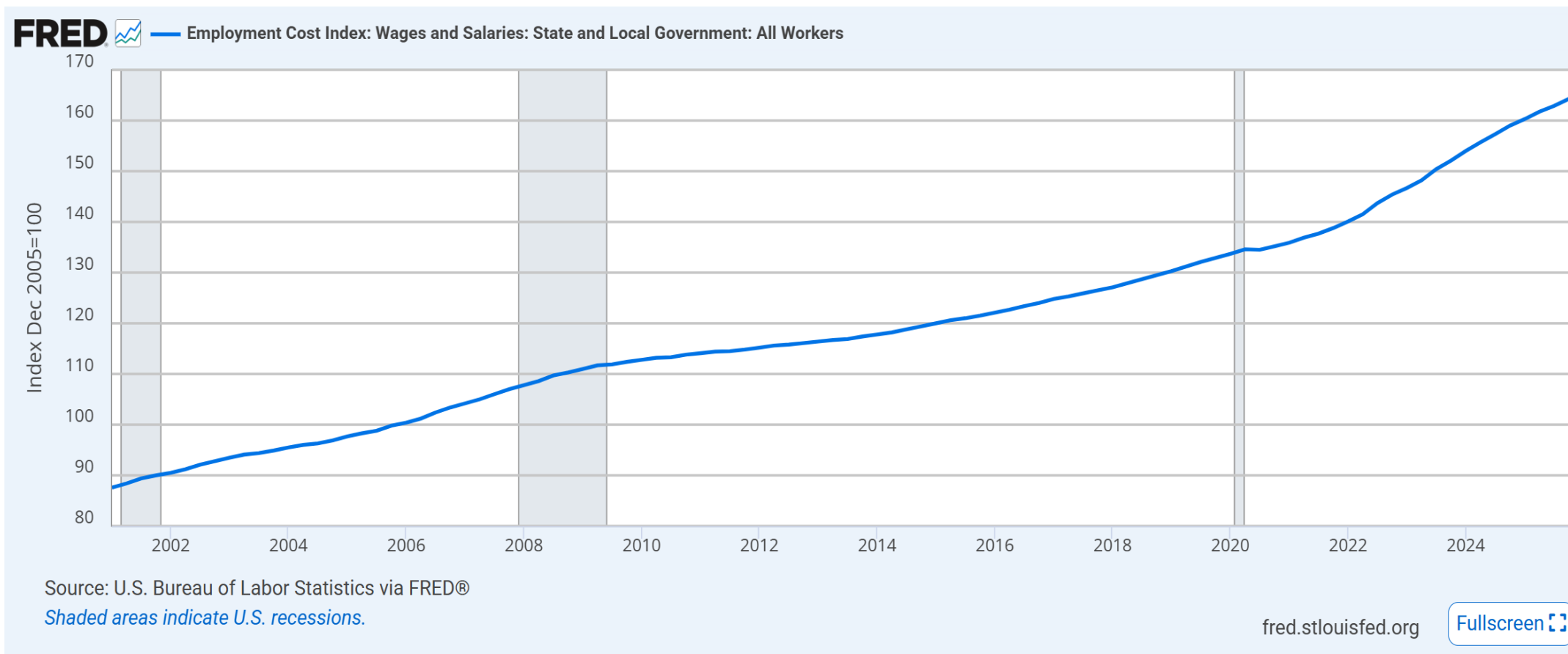
- "More than 70% of [law enforcement] respondents reported that recruitment is more difficult now than 5 years ago. On average, agencies are operating at approximately 91% of their authorized staffing levels."
- "In response to recruitment challenges, about 77% of respondents reported making policy and procedural changes to enhance recruitment and retention."
 - Loosening restrictions
 - Increased recruitment investment
 - Increases in salaries

Source: International Association of Chiefs of Police, "The State of Recruitment & Retention: A Continuing Crisis for Policing" (2024)

Polling questions

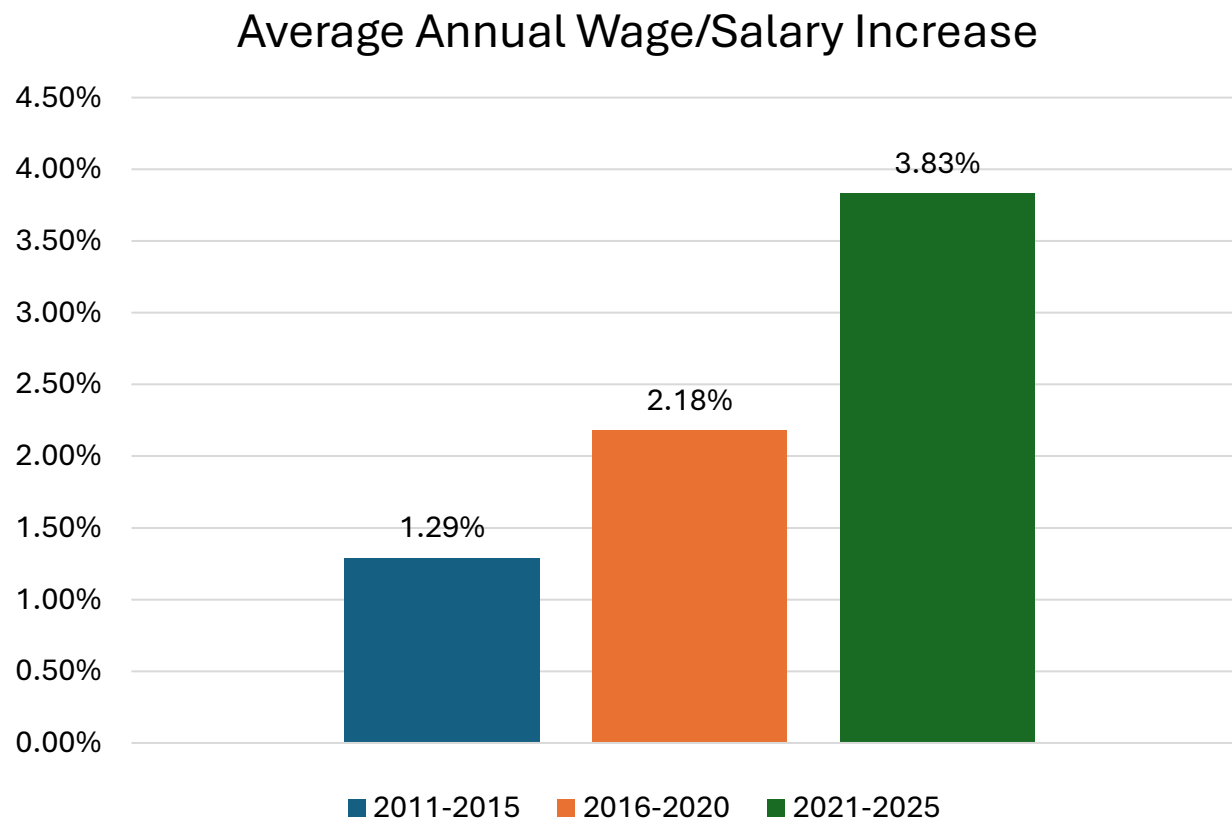
- Do the preceding slides accurately reflect the status of recruitment and retention at your organization?
 - yes
 - no
 - not sure

Wages and Salaries of State and Local Government Workers



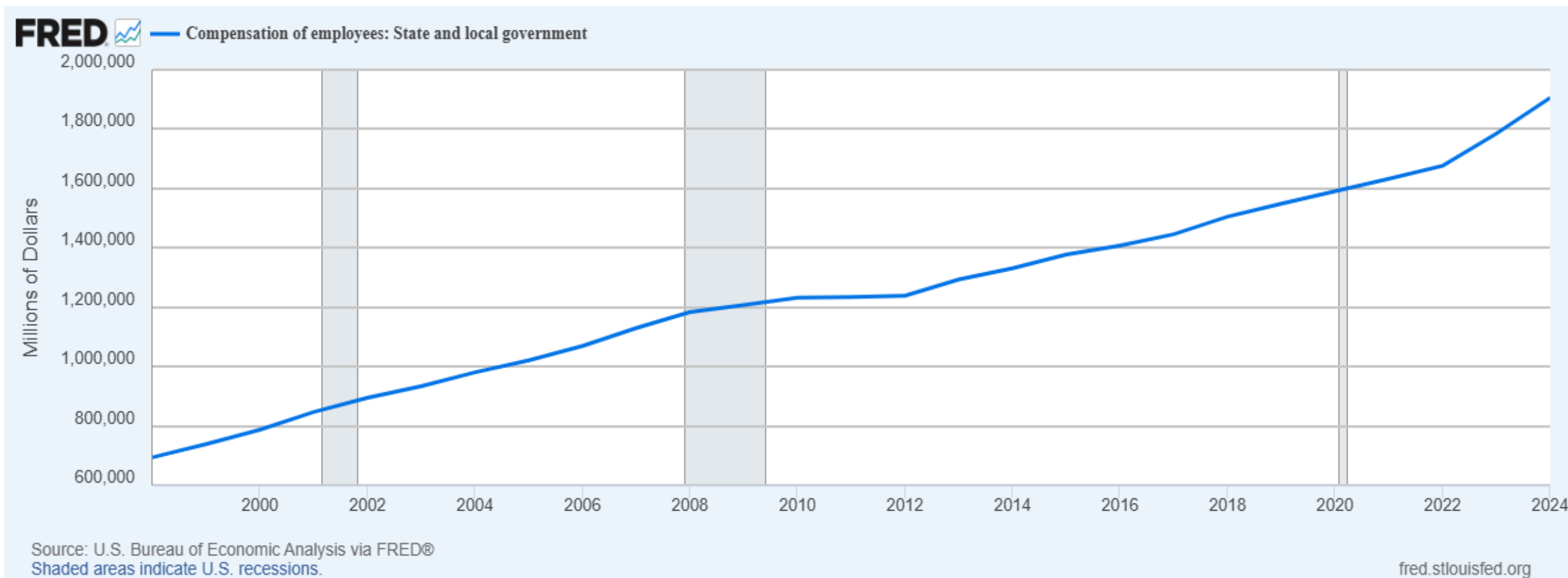
Source: Federal Reserve Bank of St. Louis

Wages and Salaries of State and Local Government Workers



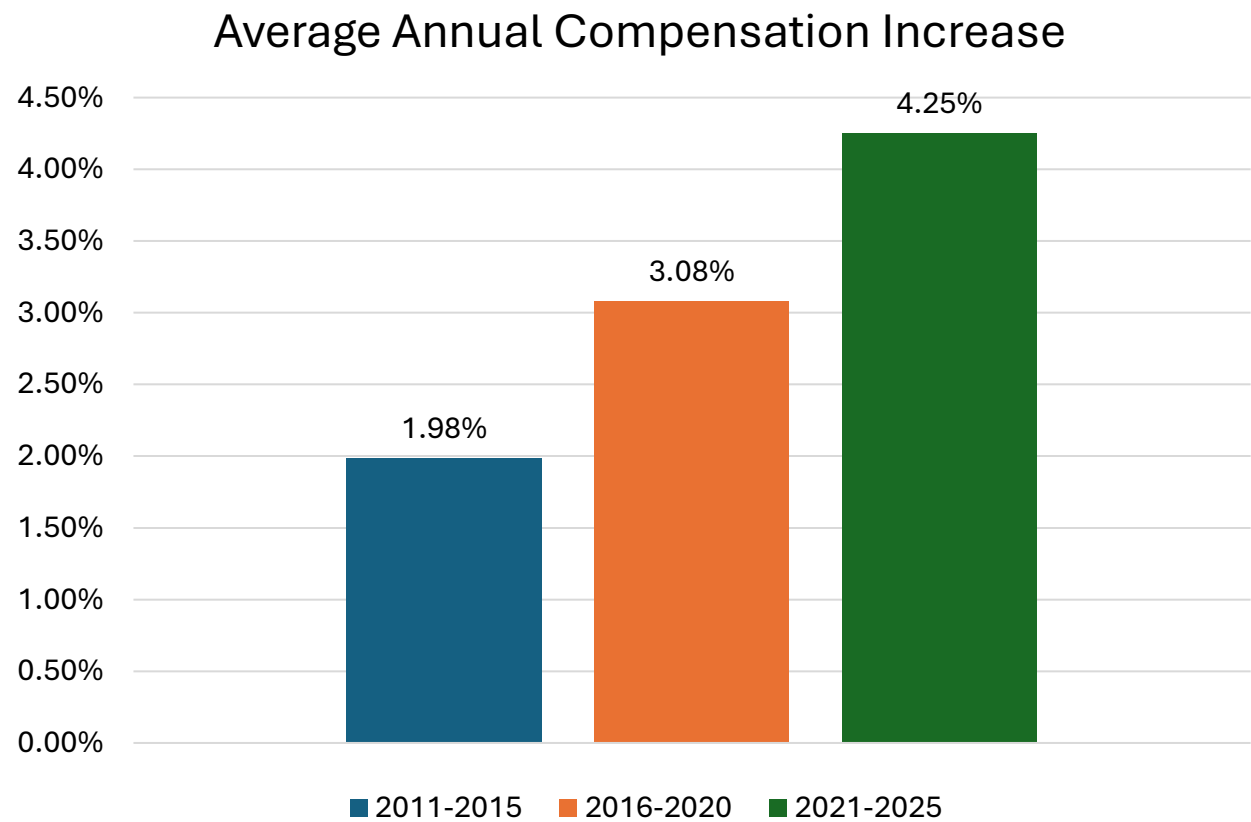
Source: Federal Reserve Bank of St. Louis

Total Compensation of State and Local Government Workers



Source: Federal Reserve Bank of St. Louis

Total Compensation of State and Local Government Workers



Source: Federal Reserve Bank of St. Louis

Bonuses

- Fremont, California (2024)
 - \$100,000 signing bonus for up to 10 lateral police officer hires
- Gastonia, North Carolina (2024)
 - \$15,000 sign-on bonus for in-state certified police officers
 - \$7,500 paid upon hire, \$7,500 paid after 1 year
- Memphis, Tennessee (2025)
 - \$15,000 signing bonus to new police recruits with \$10,000 relocation reimbursement
 - \$5,000 signing bonus to new firefighters with \$5,000 relocation reimbursement

Bonuses

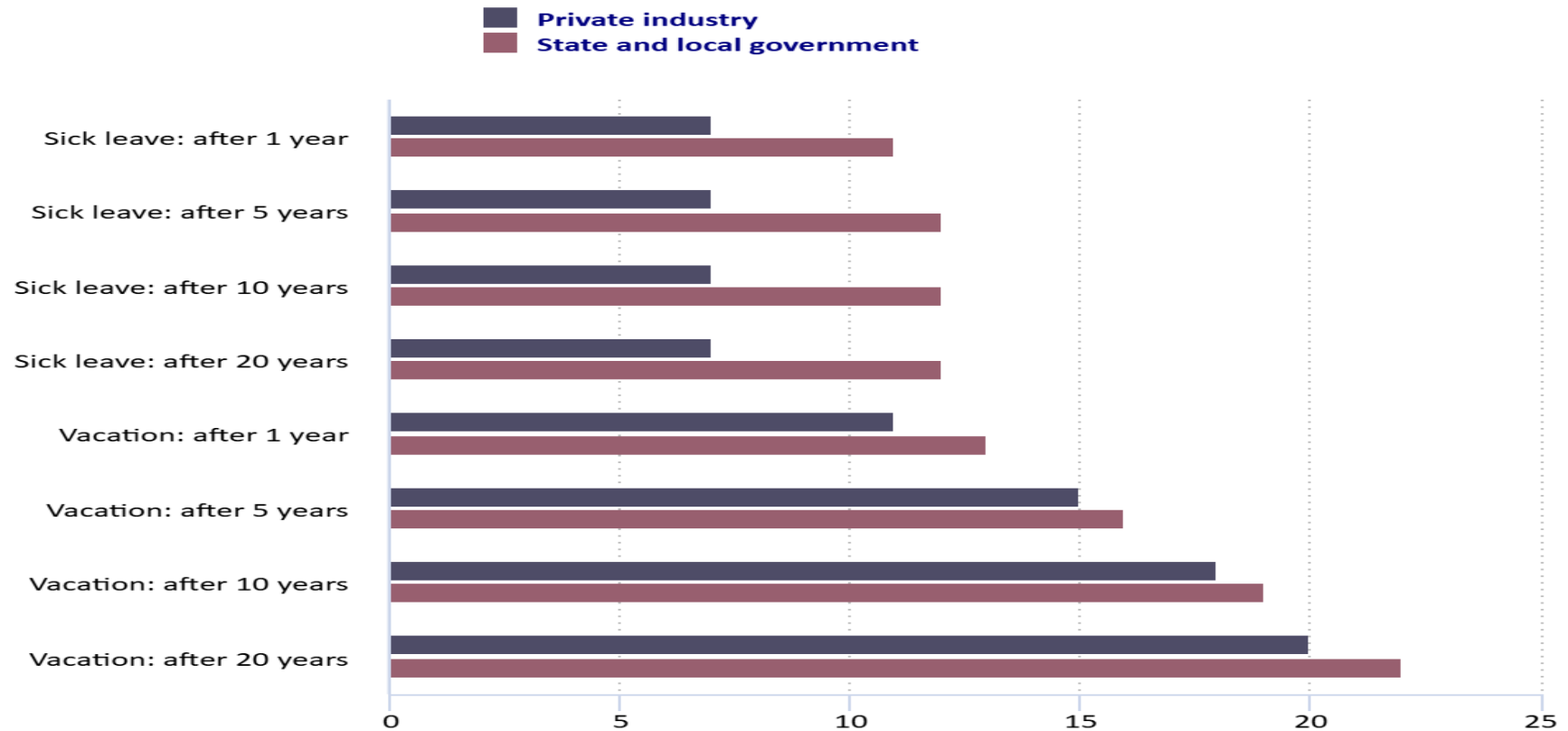
- Fairfax County, Virginia (2025)

- Hiring Incentive Bonus Program

- Tier A: \$2,500 hiring bonus, 12-month retention period
 - Examples: Automotive Body Repairer, Environmental Technologist, Heavy Equipment Operator, Maintenance Trade Helper, Plant Operator
 - Tier B: \$5,000 hiring bonus, 18-month retention period
 - Examples: Engineer, Finance Manager
 - Tier C: \$10,000 hiring bonus, 24-month retention period
 - Examples: Correctional Health Nurse, Licensed Practical Nurse, Public Health Nurse, Real Estate Finance Manager
 - Tier D: \$15,000, 36-month retention period
 - Examples: Deputy Sheriff, Police Officer

Leave Benefits

Paid leave benefits: Average number of sick and vacation days by length of service requirement, March 2025



Source: U.S. Bureau of Labor Statistics.



Leave Benefits

- Paid Family Leave

- Tampa, Florida (2017)
 - 8 weeks of paid leave to primary caregivers
 - 2 weeks of paid leave to secondary caregivers
- St. Petersburg, Florida (2020)
 - Paid parental leave benefit increased from 6 weeks to 8 weeks for primary or secondary caregivers
- Alabama (2025)
 - State legislature removed a previous two-week limit applicable to donated leave time for child adoption
 - 8 weeks of paid leave available for adopting a child aged 3 or younger
- Allegheny County, Pennsylvania (2025)
 - 12 weeks of paid parental leave annually
- Colorado (2025)
 - 12 weeks paid family leave available to parents with infants in neonatal intensive care units
- Columbus, Ohio (2025)
 - 12 weeks of paid family leave annually

Leave Benefits

- Compensatory Time

- City of Seattle (2021)

- Hourly employees may choose to receive compensatory time off in lieu of wages for overtime hours worked
 - Compensatory time off earned at same rate as overtime wages
 - Compensatory time off shall be paid at the rate at which it was earned or at the rate in effect at the time the employee takes the time off, whichever is higher.
 - An employee may request, and the appointing authority or designated management representative must approve, cash-out of any or all of his or her compensatory time balance at any time.

Source: City of Seattle Personnel Rule 3.6

Leave Benefits

- Fairfax County, Virginia (2012)
 - 16 hours of paid leave time annually to County employees for volunteer service activities
- North Carolina (2022)
 - 8 hours of paid Personal Observance Leave available annually to executive branch employees recognizing a day of cultural, religious, or personal significance
- North Dakota (2025)
 - 40 hours of "new hire leave" to use within first year of employment; may include an additional 1-2 days per month of leave for hard-to-fill occupations
- Maryland (2025)
 - Counties and municipalities may provide up to 30 days of disaster service leave annually

Policy Development

- City of Glencoe, Illinois
- Original benefit: 2 weeks paid childbirth/adoption leave
- 2019: strategic plan adopted, emphasis on being an “employer of choice”
- April 2021: pilot program, 6 weeks paid “family care” leave, expanded eligibility:
 - Childbirth, adoption, foster placement
 - Caring for family member’s serious health condition
 - Fulfilling medical or financial power of attorney responsibilities
 - Applies to spouse, civil union partner, domestic partner, child/step/in-law, parent/step/in-law, aunt, uncle, grandparent/step, in loco parentis, power of attorney
- April 2023: permanent benefit, increased to 8 weeks for non-bargaining unit employees

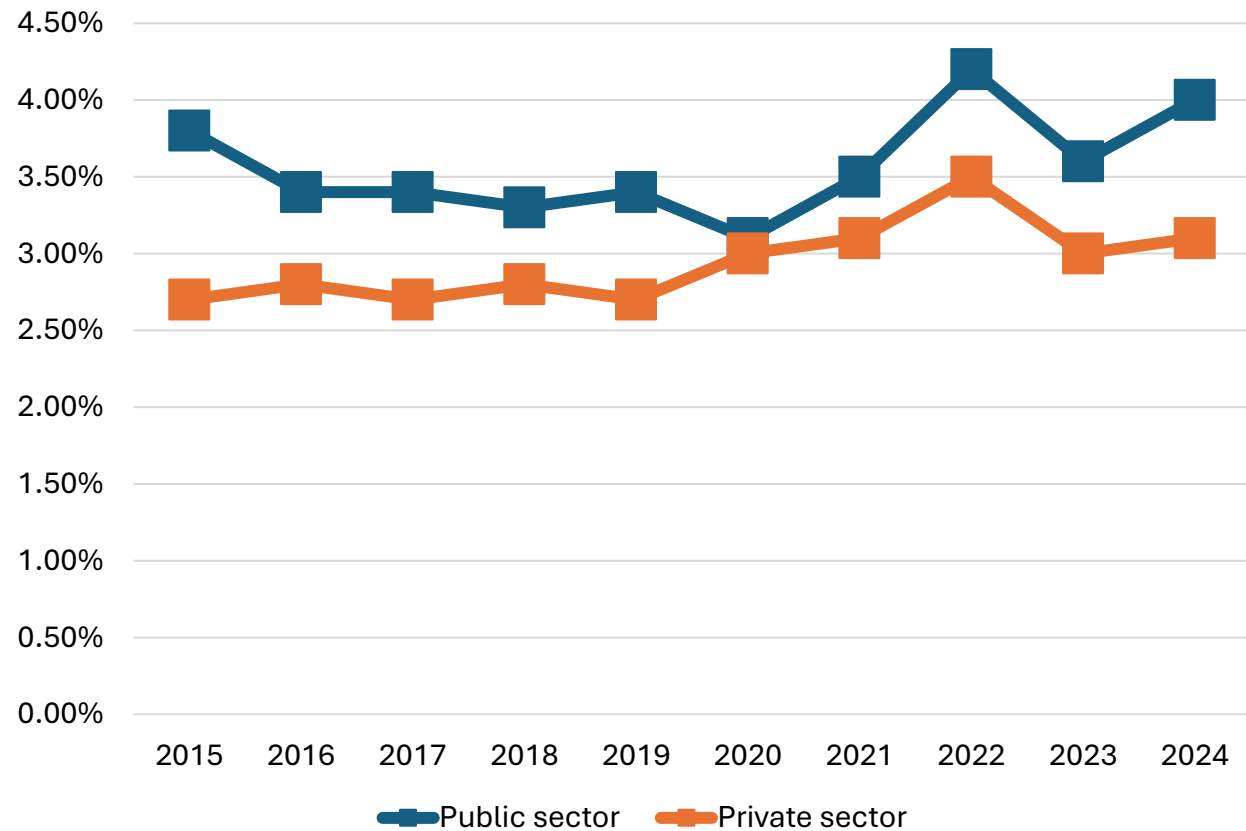
Policy Development

- City of River Falls, Wisconsin
- June 2018: converted from separate sick and vacation leave allowances to paid-time off (PTO)
 - 240-hour lump sum PTO allotment annually
 - 120 hours per year available in an extended FMLA account
 - Converted existing sick leave balances
- November 2022: City adopted “Be Well” leave program
 - Extended FMLA account balances were transferred to the “Be Well” account:
 - 4 weeks parental leave
 - Family leave for any qualifying FMLA event
 - Includes expanded definitions of qualifying immediate family members:
 - Spouse or partner
 - Child, stepchild, child-in-law
 - Parent, stepparent, parent-in-law
 - “Non-traditional” family care situations (e.g., sibling, grandparent, etc.)

Polling question

- Has your organization implemented any similar types of "modern" leave benefits?
 - yes
 - no
 - unsure

Absence Rates



Source: Bureau of Labor Statistics, Table 47

Workforce Demographics

Labor Force Participation Rate	Percent Change, 2014-2024	Percent Change, 2024-2034 (Projected)
Age 65-74	38.9%	15.0%
Age 75+	40.8%	69.8%

Median Age of the Labor Force	2004	2014	2034 (Projected)
Age	40.5	42.0	42.4

Source: Bureau of Labor Statistics, Tables 3.1 and 3.4

Budget Implications

Wicomico County, Maryland

- Resolution No. 167-2023
- Budget amendment "for the payout of leave to a retiring employee"

Jersey City, New Jersey

- Ordinance No. 24-100
- Budget amendment "to fund contractually required severance liabilities resulting from the retirement of employees of the City"

"The Expanding Complexity of Employee Compensation"

- Potential challenges:
 - Short-term budget challenges
 - Current wage, salary, bonus expenditure increases
 - Longer-term uncertainty
 - Potential overtime exposure throughout duration of employment
 - Future leave payouts

Polling question

- Which potential challenge is most concerning to your organization?
 - Current wage, salary, bonus expenditure increases
 - Longer-term uncertainty, potential overtime exposure, leave payouts

Why GASB 101?

- Key distinctions between public and private sector compensated absence reporting:
- Private sector:
 - Recognize a liability only if the leave is:
 - Vested (employee is entitled to it even after termination), or
 - Accumulating (can be carried forward and used in future periods)
 - Common examples: vacation, PTO
 - Sick leave often not recorded unless it vests or pays out
- Public sector
 - Much broader recognition:
 - Vacation
 - Sick leave (if it is paid out or used toward retirement)
 - Compensatory time
 - Sick leave often recorded because it may be convertible to cash or service credit

GASB 101 –COMPENSATED ABSENCES

GASB 101 — Compensated Absences establishes updated guidance on how state and local governments must account for and report *compensated absences* — i.e., paid leave benefits that employees earn and which represent an obligation by the government. It replaces prior guidance (such as GASB 16) with a **unified recognition and measurement model** for leave obligations.

Compensated absences include leave for which employees receive:

- Cash when the leave is used for time off (e.g., vacation, PTO),
- Cash for unused leave paid upon termination or retirement,
- Non-cash settlements (e.g., conversion to other benefits), where applicable. (OS
- GASB 101 applies to fiscal years beginning after **December 15, 2023**, so fiscal years ending in 2024 and during 2025 reflect its first full implementation.

GASB 101 –COMPENSATED ABSENCES

Recognition Criteria

Under GASB 101, a liability for compensated absences (e.g., leave balances) must be recognized if **all of the following are true** for leave that has not been used as of the reporting date:

- **Attributable to services already rendered by the employee**
— Leave must have been *earned*, meaning the employee has performed the work entitling them to it.
- **Accumulates**
— Leave must *carry forward* into future reporting periods (i.e., it doesn't wholly expire at year-end).
- **“More likely than not” (>50% likelihood)** to be taken or paid or otherwise settled.
— This “more likely than not” threshold is a lower bar than the older “probable” standard, and it *may result in larger leave liability balances than before*.
- If these criteria are met, the government must record a **liability** (accrued compensated absences) on the financial statements.

GASB 101 –COMPENSATED ABSENCES

What Counts as Accrued Leave

Typical compensated absences include:

- Vacation leave,
- Paid Time Off (PTO),
- Sick leave (even if not paid at termination, if likely to be used),
- Floating holidays,
- Holiday leave if at employee discretion, and similar forms of compensated absences.
- This means employers must analyze their **leave policies and payroll data** to determine:
 - How much unused leave exists at year-end,
 - Whether it is likely to be used or payable,
 - Whether it meets GASB 101's criteria for accrual

GASB 101 –COMPENSATED ABSENCES

How the Liability is Measured

Measurement of a compensated absence liability typically involves:

- Counting unused leave balances that meet the criteria,
- Multiplying by the employee's **current pay rate at the reporting date**, unless the leave will be paid at a different rate.
- Importantly, GASB 101 also requires including **salary-related payments** that are *directly and incrementally associated* with leave payments, such as:
 - Employer portions of payroll taxes (FICA/Medicare),
 - Employer contributions to defined contribution pension plans, and similar directly attributable costs.
- However, amounts already reflected in other defined benefit liabilities (e.g., pensions/OPEB) are not double-counted.

POLLING QUESTION

GASB 101 replaces prior guidance (such as GASB 16) with a unified recognition and measurement model for leave obligations.

It applies to fiscal years beginning:

- December 2023
- December 2024
- December 2025
- You don't know you only registered to get the CPE

GASB 101 –PAYROLL RULES

While GASB 101 is an **accounting standard**, its implementation depends directly on **payroll processes, leave accrual policies, and payroll data quality**:

Leave Earned Is Leave “Attributable to Services”

- Under FLSA payroll compliance, governments often accrue leave (e.g., vacation, sick) based on hours worked or length of service. This leave accumulation, and evidence from payroll systems of time earned/used, provides the **basis for GASB 101 accruals**:
- **Accrual rates from payroll systems** (e.g., hours earned per pay period for PTO) directly feed into GASB’s recognition of leave earned but unused.
- If payroll incorrectly calculates leave or fails to record usage, the **financial statement liability could be misstated**.
- Strong internal payroll controls over leave balances are essential for accurate GASB 101 reporting.

GASB 101 –PAYROLL RULES

Overtime & Comp Time

- **Overtime** pay itself does not create a liability for compensated absences under GASB 101, because overtime is compensation for *hours worked* rather than a “leave benefit” to be taken in the future.
- **Compensatory time (comp time)** — where employees earn *time off in lieu* of overtime pay — *can* create GASB 101 liability if the comp time:
 - Accumulates (i.e., carried forward),
 - Is attributable to services already rendered and is more likely than not to be used or paid.
 - In other words, **comp time that functions as an earned leave balance** must be treated like other compensated absences for financial reporting.

This underscores the need for:

- Accurate comp time tracking in payroll systems,
- Clear linkage between comp time earned and usage or payout patterns.

GASB 101 –PAYROLL RULES

Payroll Information Drives the Liability Measurement

- Because GASB 101 uses **current pay rates at the reporting date** to value leave, any payroll processes that affect pay rates (e.g., raises, step increases, classification changes) **impact the compensated absence liability**:
- A misclassification or failure to update pay rate data in payroll leads to inaccurate GASB 101 values.
- Similarly, payroll must accurately record forfeitures, caps, and leave use patterns — all of which **affect whether a liability exists and how large it is**.

GASB 101- PAYROLL RULES

Topic	How Payroll Rules Affect GASB 101 Leave Accruals
Leave Earned	Payroll leave accrual policies determine what is “attributable to services already rendered.”
Unused Leave	Payroll systems must accurately track unused balances for liability measurement.
Comp Time	Earned comp time that carries forward may be a compensated absence under GASB 101.
Pay Rates	Current payroll pay rates feed into the valuation of the leave liability.
Salary-Related Costs	Payroll data (tax and benefit rates) determines incremental costs to include in liability.

GASB 101- GOVERNMENT FINANCIAL REPORTING

A. More Comprehensive Leave Liability

GASB 101's unified model and lower threshold mean:

- Leave previously not accrued (e.g., certain sick leave or PTO) may now require accrual, increasing reported liabilities.
- Governments must *analyze policies and historical usage data* to determine what leave is “more likely than not” to be used.

B. Integration With Payroll Systems

Compliance requires *integration* between:

- **Payroll and HR systems** (to track leave earned, used, and accrued), and
 - **Finance/accounting systems** (to perform liability measurement at year-end).
- Incomplete or inaccurate payroll data undermines the reliability of GASB 101 reporting.

GASB 101- GOVERNMENT FINANCIAL REPORTING

C. Enhanced Disclosures

GASB 101 also affects financial statement disclosures:

- Governments must disclose their compensated absence policies and how they measure these liabilities.
- Change in reporting (e.g., recognition criteria and measurement approach) must often be explained.

POLLING QUESTION

Which of the following are considered accrued leave?

- ☐ Paid Time Off (PTO)
- ☐ Sick leave
- ☐ Floating holidays
- ☐ All of the above

FAIR LABOR STANDARDS ACT & OVERTIME RULES

- **Fair Labor Standards Act (FLSA) Framework**
- The **Fair Labor Standards Act (FLSA)** governs federal overtime rules for most U.S. workers.
- **Covered employees** are generally entitled to **overtime pay of at least 1½ times their “regular rate of pay” for hours worked over 40 in a workweek.**
- There is **no federal limit** on total hours worked in a week (employers may schedule more than 40 hours), but overtime premiums apply.

2025 SALARY THRESHOLD RECENT CHANGES

- **Salary Threshold for Exempt Status**
- The 2024 DOL Final Rule **would have raised** the salary threshold for exempt employees significantly.
- However, in **late 2024 a federal court (Eastern District of Texas) vacated that rule**. As a result:
 - The **2019 salary test remains in effect** for enforcement as of 2025.
 - That means **exempt employees must earn at least \$684 per week** ($\approx$ \$35,568/year).
- **Highly Compensated Employees (HCE) Threshold**
- The HCE exemption (for certain employees with minimal duties tests) remains at **\$107,432/year** under the 2019 standard.

ONE BIG BEAUTIFUL BILL ACT

- A 2025 federal tax law (the *One Big Beautiful Bill Act*) allows workers to **deduct some overtime pay** on their income tax returns (federal tax years 2025–2028).
 - Specifically, the premium portion (half-time above regular pay) up to limits (\$12,500 individual / \$25,000 joint).
- This affects *tax liability*, not employer wage obligations.

INTERNAL CONTROLS FOR PAYROLL

Understanding whether the FLSA applies — and what it requires — is the **foundation of payroll compliance**. Employers that misunderstand coverage often fail to pay overtime or maintain required records.

Internal control impact:

- Establishes a **clear compliance framework** that defines what rules payroll must follow.
- Reduces risk of systemic noncompliance caused by incorrect assumptions (e.g., “We’re too small to be covered”).
- Required postings create **employee transparency**, which can deter disputes and whistleblower claims.
- **Control improvement:**
 - Prevents control gaps at the policy level
 - Ensures payroll systems are designed around applicable law

INTERNAL CONTROLS FOR PAYROLL

✓ **Use reliable time-tracking systems**

- Digital, manual, or hybrid systems must accurately record hours and limit off-the-clock work.

✓ **Audit payroll records regularly**

- Identify errors, missed overtime, or misclassification.

✓ **Ensure timely payment**

- Overtime must be paid by the next regular payday following the pay period in which overtime was worked.

INTERNAL CONTROLS FOR PAYROLL

✓ **Maintain accurate records**

- Keep documents showing hours worked, pay rates, actual wages paid (including overtime), and deductions.

✓ **Retain records for the federally required period**

- FLSA generally requires keeping payroll and time records for at least **3 years** and personnel records for at least **2 years**.

✓ **Track updates to wage/hour policies**

- Document policy revisions and implementation dates.

INTERNAL CONTROLS FOR PAYROLL

✓ **Train HR, payroll, and supervisors**

- Provide regular training on FLSA basics, classification, overtime rules, and correct timekeeping practices.

✓ **Conduct periodic internal compliance audits**

- Review payroll, timekeeping, classifications, and records for accuracy and gaps.

✓ **Document audit results and corrective actions**

- Establish a clear process to fix issues and prevent recurrence

POLLING QUESTION

The *One Big Beautiful Bill Act* allows workers to deduct some overtime pay on their income tax returns beginning in federal tax years 2025.

- ☐ True
- ☐ False

REFERENCES

- Government Accounting Standards Board (GASB)
<https://gasb.org/>
- HR Morning. <https://www.hrmorning.com/wp-content/uploads/2025/06/flsa-compliance-checklist-hrmorning-2025.pdf>
- Fair Labor Standards Act (FLSA)
<https://www.dol.gov/agencies/whd/flsa?>

QUESTIONS



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