

# ***Executive Summary***

The beat goes on.

There are local public employees in New Jersey who are guaranteed time off – with full pay at taxpayer expense – to go Christmas shopping or to attend weddings, baptisms and other private events. Others collect bonuses for working on their birthdays or when they leave their jobs. Still others receive multiple paid days off for not being sick or for donating blood; extra cash on top of regular pay for perfect attendance at work; and paid holidays for moving personal belongings.

These are just some of the findings of the State Commission of Investigation's latest probe of waste, excess and abuse in public employee benefit programs. At a time of economic distress unprecedented since the Great Depression – with government budgets depleted and austerity the theme of the day even in the private sector – the gravy train continues to roll without impediment for select groups of employees on the public payroll. The Commission examined a statewide cross-section of local government employment policies, contracts and agreements involving a comprehensive mix of police, fire and civilian personnel and, in addition to extraordinary specialty perks like those described above, found a lucrative array of questionable benefit practices that collectively cost New Jersey taxpayers millions of dollars every year, including:

- Inconsistent, non-existent and/or inadequate restrictions or caps on the accrual and cashing-in of unused accumulated sick, vacation and other leave at retirement, a phenomenon that enables select local government

employees to collect, in addition to generous pensions, lump-sum payouts sometimes ranging well into six figures and in amounts larger than the equivalent of a full year's salary.

- Provisions that enable local public employees to collect cash for unused leave annually while employed, thus effectively circumventing any caps that may exist locally on the redemption of accrued leave at retirement.
- Costly allocation of various forms of so-called "terminal leave," including arrangements that allow local public employees to stay on the public payroll, using up accrued sick time and other leave at full salary and benefits, occupying a position without showing up for work – in some cases for up to a year – prior to retirement.
- On top of pensions and leave redemptions, payments of thousands of dollars in cash bonuses, sometimes couched improperly and inaccurately as "severance," to employees who retire.
- Inordinate amounts of vacation, compensatory time and/or personal days off at full pay.
- Generous health insurance benefits with no requirement that local government employees – unlike their colleagues at the State level – contribute toward the cost of the coverage premium.<sup>1</sup>

During the past 15 years, dating back to 1994, the Commission repeatedly has examined the nature and fiscal impact of questionable and patently excessive public employee benefits

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<sup>1</sup> State government employees, by contrast, contribute 1.5 percent of their annual salaries toward the cost of health insurance coverage under the State Health Benefits Program (SHBP).

and repeatedly has made recommendations for systemic reform.<sup>2</sup> The Commission's findings have demonstrated time and again that significant amounts of taxpayer money can be saved in this arena. Indeed, the SCI's 2006 inquiry into pension padding and excessive and questionable compensation for public school administrators alone pointed the way to initial savings in the range of \$10 million for local property-taxpayers in just those select school districts cited in the report. During this latest investigation, the Commission has identified more than \$39 million worth of excessive cash benefit payouts to public employees in just a small fraction of the State's local governmental entities. Extrapolated statewide, action to curtail such extravagance would result in enormous savings – especially given the fact that, in addition to State aid, nearly \$40 billion is spent by local taxpayers every year to fund municipal governments, school districts and local public authorities in New Jersey. Beyond the SCI's inquiries in this area, public-sector benefits also have been scrutinized from time to time by other mechanisms, including a detailed series of local budget reviews undertaken by the Governor and State Treasurer in the mid- to late-1990s in an effort to cut municipal government costs.

Throughout the Commission's extensive investigative fact-finding, the objective has been consistent: to provide a rational basis for effective legislative, administrative and regulatory remedies to ensure that public employees are treated fairly, prudently and uniformly without sacrificing the vital interests of taxpayers who foot the bill. Progress toward that end, however, has been piecemeal. In 2002, for example, in response to the Commission's 1998 report on pension and benefit abuses – which, among other things, recommended limits on

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<sup>2</sup> See the following reports in which the State Commission of Investigation has addressed the taxpayer cost of public-employee benefit issues in part or in whole: *Point Pleasant School District* (1994); *Borough of Seaside Heights* (1997); *Pension and Benefit Abuses* (1998); *Questionable and Hidden Compensation for Public School Administrators* (2006).

cash redemption of employee leave at all levels of government – the sole action on that issue came from the Department of Community Affairs (DCA). In 2002, DCA adopted rules requiring municipalities annually to disclose the total local budgetary liability for unused leave owed to their employees. In 2007, pursuant to a Commission recommendation in an investigation of questionable and hidden compensation for public school administrators, legislation was enacted to bring certain administrators under the same restriction on cashing-in unused sick leave as applies at the State level – a maximum of \$15,000 at retirement.<sup>3</sup> Additional proposals have been advanced to reduce that sick-leave payout in some fashion, or to eliminate it entirely. Aside from incremental steps such as these, there has been no concerted effort to rein in lavish, unreasonable and excessive public-employee benefit costs in a comprehensive fashion.

As a consequence, startling amounts of taxpayer-funded booty continue to be dispensed across New Jersey without regard for the common good. In Camden, one of the poorest cities in New Jersey and the nation – with a median household income of less than \$25,000 and fiscal problems so serious that the city's administration is under State supervision – 20 municipal employees between 2004 and 2008 received combined cash benefit payouts of more than \$2.3 million, an average of \$115,000 apiece, when they left their jobs. In Atlantic City

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<sup>3</sup> State government employees receive 15 sick days per year and may accrue unlimited sick leave. At retirement, unused sick leave may be exchanged for a lump-sum cash payment equal to one-half of the leave balance, calculated at current salary, up to a maximum of \$15,000. Cash redemption of unused leave by retiring state workers was first authorized in 1973, with the maximum individual payout capped at \$12,000. The Legislature took this step, in part, to provide an incentive against employees using up large blocks of accumulated sick time – so-called “terminal” leave – in the weeks and months leading to retirement. Prior to the enactment of the redemption incentive, sick leave was not treated statutorily as an element of state employee compensation. In 1986, the statute governing state employee sick leave, N.J.S.A 11A:6-19, was again amended to raise the redemption threshold to \$15,000.

during the same five-year period, 160 police officers and firefighters were paid more than \$13.7 million for accrued unused sick leave, in addition to their pensions, at retirement; one of these retirees walked away with a check for \$222,910. In Rockaway Township, Morris County, five individuals between 2005 and 2008 received payments totaling nearly \$780,000 – an average of more than \$155,000 apiece – for cashing in unused holidays and other accumulated time. And in Harrison, a tiny 1.3-square-mile community in Hudson County where the residential property tax bill for municipal purposes has averaged approximately \$2.4 million over the past six years, 23 public employees who retired during that period collected \$1.8 million in combined payouts for unused sick and vacation leave – the equivalent of *more than half* of that average annual community-wide tax bill.

Typically, these and other types of lucrative benefit arrangements are awarded through collective bargaining and carry the force of contracts that often apply only to select individuals or groups of municipal employees, such as police and fire personnel, to the exclusion of all others. Indeed, the Commission found numerous cases in which certain local public employees are subject to strict benefit limits while others who share the same municipal payroll are not. Furthermore, in many instances, the actual contract language governing the award of special benefits is crafted in such intricate, convoluted and creatively targeted ways that, much to the detriment of public transparency, a good deal of technical analysis is required to decipher the true purpose and cost. Some of these documents clearly bear the stamp of more time spent cultivating private rather than taxpayer interests.

It does not have to be this way. The Commission found that a range of government entities in New Jersey have, at their own initiative, put the brakes on runaway employee

benefits by imposing effective local limits on leave redemption, cracking down on buyouts and bonuses and drawing a prudent, common-sense line against exotic perks. Indeed, the New Jersey State League of Municipalities – the lead lobbying and governing assistance association for the State’s 566 municipalities – has long taken a position in general support of reasonable benefit standards for public employees, including uniform caps on leave redemption. At the Commission’s invitation, the League took the opportunity to reiterate that position as part of the record of this investigation. Several examples of municipal action in this area are summarized in this report and should serve as models for local governing boards across this State.

Ultimately, however, while such individual initiative is commendable, the decision on whether to gain greater control of excessive public-employee benefits should not be hostage to discretion born of home rule or any other parochial stricture. Meaningful, balanced and equitable reform in this area requires a systemic approach. Thus, through this report, the Commission renews its repeated calls for standards and uniformity in legislation to restrict the cashing-in of unused leave – by **all** public employees. It also recommends the statutory termination of terminal leave and related schemes that enable public employees to remain on the public payroll without working and prevent government employers from filling the consequent vacancies for the duration of such leave. Uniform rules also should be established to govern the allocation of vacation and personal days and the use of compensatory time and related benefits; to ban retirement “severance” bonuses and similar payouts; and to restrict the awarding of taxpayer-subsidized time off for patently personal circumstances.

The Commission also takes this opportunity to point out once again that New Jersey lacks a comprehensive statutory scheme that explicitly addresses the employment practices of local governmental units. In light of that gap, the Legislature should conduct a thorough review of local government employment and benefits practices in order to establish a set of reasonable standards that will protect both the livelihood of the local public workforce and the integrity of the public purse.