The Gratuities Clause: What You Don’t Know Will Hurt You
Alfred is a Foreman in your Public Works Department. He has been a stellar employee for 12.5 years and is 2.5 years away from vesting in the City’s retirement plan. Unfortunately, Alfred was recently diagnosed with a seizure disorder and he tells HR that he can no longer perform the essential functions of his position. Alfred applies for a total disability pension and his claim is rejected. In order to reward Alfred for his 13.5 years of service, the City Manager receives approval from the Mayor and Council to pay Alfred his salary and benefits in a “new position” while Alfred is out of work for 2.5 years until he can vest in the retirement plan.
Today’s Goals

• I. Understand Ramifications of Violating Gratuities Clause
• II. Overview of Legal Framework
• III. Learn to Spot Potential Gratuities Clause Issues
Gratuities Clause: In the News

• Some want the Legislature to criminalize GC violations

• Incentivize compliance (compare Sunshine Laws)

• Motivate local gov’t officials to improve their understanding of the GC

Make government gratuities a crime, Cobb DA says

Aug 22, 2018
By Dan Klepal, The Atlanta Journal-Constitution

Cobb County District Attorney Vic Reynolds wants the Georgia Legislature to put some teeth in a provision of the state Constitution that prohibits government from giving gifts to individuals without a benefit to taxpayers in return.

Reynolds said violations of the so-called gratuities clause should be criminal offenses, and the associated punishment should be clearly spelled out in statute.
Gratuities Clause: In the News

  - Commissioner violated GC by providing county labor, materials and equipment to pave parking lot for private organization.
  - Commissioner convicted for “malpractice in office” under O.C.G.A § 45–11–4 based on GC violation.
  - “Malpractice in office” defined as “a wrongful or unjust doing of an act which the doer has no right to do, ....”
  - Court rejected the Commissioner’s contention that the indictment failed to clearly inform him of the law that made his actions criminal, holding that he was fully apprised of the prohibitions of the GC. *Kennedy*, 205 Ga. App. at 153.
Gratuities Clause: In the News

• The GC made the agenda because of recent media coverage involving high profile public officials.

  – Associated with some of the largest, most sophisticated local gov’ts in the state.

  – Access to some of the most experienced and knowledgeable local gov’t attorneys in the state.

  – Still managed to run afoul of the GC (or come close enough to doing so to invite challenges and media attention).
commissioners told to halt spending on charities

Oct 13, 2015
Mark Niesse

County’s attorney is advising commissioners to stop using their office budgets to benefit nonprofit and charitable organizations, a practice that investigators have said may be illegal.

County Attorney [redacted] wrote Tuesday that there’s no "bright line rule" that prohibits public funds from being allocated to charities.

But she also said government donations that don't bring a substantial benefit to the county appear to run afoul of the Georgia Constitution's ban on gratuities.

“As you make expenditure decisions in the future, I suggest that you try and ensure that the expenditure does not result in the appearance of providing personal gain or benefit to you. If you and your staff use this concept as guidance as you make decisions, I am hopeful that your future expenditures will not be questioned,” [redacted] wrote.
paid $21,000 to bury beloved staffer. But was it legal?

By Dan Klepal and Jennifer Peebles

When a beloved deputy commissioner in Public Works Department died in 2013, Mayor [REDACTED] wanted to help the family by paying for the funeral and related expenses, but legal experts say it violated a provision in the Georgia Constitution, which specifically prohibits government from giving donations or gifts — known as gratuities — to individuals without taxpayers receiving a tangible benefit in return. A report commissioned by Mayor [REDACTED] earlier this month found that such giveaways violated the state constitution’s gratuities clause and the city’s charter.
Legal defense for [redacted] judge’s ethics case climbs to $56K

Legal representation of Municipal Court Judge [redacted], which the city of [redacted] now says was improper, will nonetheless cost taxpayers $56,000, The Atlanta Journal-Constitution and Channel 2 Action News have learned.

The last of [redacted] attorney [redacted]’s legal invoices were submitted to the city’s Law Department on Aug. 6 — two weeks after City Attorney [redacted] wrote a letter to [redacted] and [redacted] informing them that it was improper under state law to use public money to pay for the private legal matter.

[redacted] letter doesn’t say why the billing is improper, but a clause in the Georgia Constitution prohibits government from giving gifts, also known as gratuities, to individuals without the public receiving a substantial benefit in return.
The GC of the Georgia Constitution provides, in pertinent part, that except as otherwise provided:

- The General Assembly shall not have the power to grant any donation or gratuity or to forgive any debt or obligation owing to the public, and
- The General Assembly shall not grant or authorize extra compensation to any public officer, agent, or contractor after the service has been rendered or the contract entered into.

Ga. Const. Art. III, Sec. VI, Para VI.
Text of Gratuities Clause

• As otherwise provided:
  – Compensation for innocent crime victims.
  – Disability and life insurance benefits for public safety employees and public school employees.
  – Temporary disability benefits for public safety employees.

• Ga. Const. Art. III, Sec. VI, Para VI(c), (d), (e), (f) & (g).
While the GC expressly applies to acts of the General Assembly ...

It has been applied by extension to:

- State agencies
- County & municipal gov’ts
- Development authorities
- Local gov’t pension boards
- Hospital authorities
- School boards
- Among others
Gratuities Clause: Threshold Issues

• So the GC is expressed as a limitation imposed on the state legislature’s authority to dispose of public funds / services / assets, but in practice has been applied to all branches of state and local gov’t.
Gratuities Clause: Why is Compliance Important?

- Potential criminal exposure under existing law.
- Bolster support for legislative expansion of criminal exposure.
- Negative publicity.
- Loss of public trust & confidence.
- Enhanced risk of legal challenges under GC.
- Enhanced risk of Whistleblower Act claims.
- Potential disparate treatment claims / morale issues.
Why is Understanding the GC Important?
What is a “Gratuity”? 

• “Gratuity” within meaning of the GC of the Ga. Constitution has been defined as:
  – “[s]omething given freely or without recompense; a gift” or
  – “[s]omething voluntarily given in return for a favor or now especially a service; hence, a bounty; a tip; a bribe.”

• McCook v. Long, 193 Ga. 299, 303 (1942)
What is a “Gratuity”?

• An unlawful “gratuitous” action occurs when the gov’t gives something of value without “sufficient consideration” in return.

• Conversely, therefore, there is “no ‘gratuity’ involved [where] the [local gov’t] is recovering *substantial benefits* in return.”
  – Smith v. Bd. of Comm’rs of Roads & Revenues of Hall County, 244 Ga. 133, 140 (1979)
Identifying Gratuities Clause Issues

• First, does the local gov’t (or official) have legal authority to provide the benefit?
  – If not, perhaps better characterized as an ultra vires act, but often referred to as a GC violation.

• Second, in exchange for the benefit, did the local gov’t receive sufficient consideration; i.e., fair return-of-value or “substantial benefits”?
  – Or was the local gov’t “just as well without [the return]”?
  – Or were the benefits merely “indirect or incidental”?
Sources of Legal Authority to Provide Benefit

• Constitution’s Home Rule provisions

• General Law and Municipal Home Rule Acts

• City Charter or Local Legislation

• Case law?
  – Caution: Expenditure must be *expressly* authorized and such authority is *narrowly* construed.
What is “Sufficient Consideration” or a “Substantial Benefit”?

- Monetary consideration
- Services
  - Op. Att’y Gen. 70-28
- Reduced administrative burden
  - Op. Att’y Gen. 73-145
- Direct benefit to the public (most closely scrutinized)
  - Op. Att’y Gen. 81-17
Gratuities Clause: Threshold Issues

• GC’s direct application to individual public officials is a bit of an open issue, but some cases provide useful guidance.

  – Involved Clerk of Court’s use of public funds to purchase bottled water for employees due to problems with courthouse water.
  – GC is never cited in the decision; instead, Court’s inquiry focused on whether the expenditure was “within the sphere of [the Clerk’s] delegated powers.”
  – Expenditure deemed lawful because Clerk had access to funds budgeted for miscellaneous expenses and had valid basis for the expenditure (despite arguably gratuitous nature).
Gratuities Clause: Threshold Issues

- **Gwinnett County v. Blaney, 275 Ga. 606 (2002).**
  - Involved Solicitor’s use of public funds to retain an attorney to defend him in litigation after County determined he had forfeited coverage under its defense & indemnification policy.
  - GC is never cited in the decision; instead, Court’s inquiry again focused on whether the expenditure was “within the sphere of [the Solicitor’s] delegated powers.”
  - Expenditure deemed unlawful because, while Solicitor (apparently) had access to funds budgeted for miscellaneous expenses, he lacked a valid basis for the expenditure (since it was in circumvention of the defense & indemnification policy).
Gratuities Clause Issues in the Employment Relationship

• Key inquiry:
  – Was there a legal entitlement to the compensation or benefit – whatever its form – when the employee entered into the performance of services for the employer?
  – Or does it amount to “extra compensation” for services already rendered; i.e., compensation or benefits in excess of what was contemplated or committed to when the employee entered into performance?
• Key inquiry (con’t):

• Whether a benefit has flowed from the local gov’t to the employee without his or her providing sufficient consideration – irrespective of the actual cost to the local government.

Common And Some Not So Common Fringe Benefits

- Pay Raises & Shift Differentials
- Paid Leave / Time-Off
  - Sick, Vacation, Holiday, Bereavement
- Pension & Retirement Benefits
- Health Insurance
  - Including Retiree Health Insurance
- Disability Insurance
  - Short-Term & Long-Term
- Life Insurance
Common And Some Not So Common Fringe Benefits

• Bonuses & Pay Incentives:
  – Signing Bonuses, Performance Bonuses, Longevity Bonuses
  – Ad Hoc (Morale) Bonuses / Gifts (e.g., names drawn at holiday party to win cruise)

• Educational Incentives / Tuition Reimbursement

• Wellness Program Incentives (e.g., gym memberships or discounted health insurance premiums)

• Onsite Gym with Trainers

• Free Parking
Common And Some Not So Common Fringe Benefits

• Expense Reimbursement:
  – Travel, Lodging Meals, Tips
  – Entertainment, Alcohol, Spouse/Significant Other
  – Moving / Relocation Expenses
• Day Care Services (e.g., subsidized or onsite)
• “Free Lunch Fridays”
• Funeral Benefits
• Debt Forgiveness Programs
Legal Authority for Fringe Benefits?

• “Fringe benefits of numerous sorts have become a substitute for actual direct increases in wages .... They are no longer bonuses in the traditional sense ... but ... an inherent part of compensation. Payments ... of employees' pension contributions, and insurance [premiums], both life and health, have all become vital ingredients of employment [and] can no longer be considered as gratuities ... since they are essential elements of most compensation arrangements benefit[ing] both the employer and the employee.... [O]ne must overlook present realities to apply a moribund rule ... that where an employer [provides such benefits] for its employees that this constitutes a mere gratuity.” *City of Athens v. McGahee*, 178 Ga. App. 76, 78 (1986).
Legal Authority for Fringe Benefits?

• “[E]ven for individuals performing basically the same tasks increases in salary are given in order to meet the severe increases in the cost of living. To equate such raises with a gift or gratuity is obviously fallacious reasoning. To say a raise or a fringe benefit of that type is without consideration is no longer rational. For, without the raise or added benefit, the employee will actually suffer a reduction in wages and would therefore seek employment elsewhere. Also, raises are often given for seniority or time in service without regard to increased tasks or responsibility. The consideration to the employer is the ability to retain experienced employees.” *Dinnan v. Totis*, 159 Ga. App. 352, 354 (1981).
Substantial Consideration for Fringe Benefits?

• The consideration to the employer is the ability to retain experienced employees.” Dinnan v. Totis, 159 Ga. App. 352, 354 (1981).

• “Such benefits aid in securing more efficient and desirable public employees, resulting in greatly enhanced public security and peace.” In “this is the day and age, ... fringe benefits, such as sick benefits, retirement, etc., are extremely important to the working public, and many people take and hold onto jobs because of such benefits.” Griffin v. Bass, 96 Ga. App. 892, 896 (1958).

• What happened to “Expenditure must be expressly authorized and such authority is narrowly construed?”
Retirement and Pension Plans

• “It is well established that a statute or ordinance establishing a retirement plan for government employees becomes a part of an employee’s contract of employment ..., and if the employee performs services while the law is in effect. Thus, the payment of retirement benefits in compliance with our statutes is not a gratuity.” Gold v. DeKalb Cty. Sch. Dist., 815 S.E.2d 259, 263-64 (Ga. Ct. App. 2018).
How Would the Gratuities Clause Apply?

• Small city’s maintenance man retires after 25 years on the job. Several weeks later, the Mayor discovers that the man was not a participant in any retirement plan and is receiving no retirement benefits. Because the man had devoted his entire adult life to the City, the Mayor and Council agree that the City has a moral obligation to provide him with retirement benefits. Can this be done without violating the GC?
Retirement and Pension Benefits: Timing Matters

• Newly enacted retirement plan can take into account past service of current employee

• Impermissible to provide:
  – “Increased retirement benefits” in the form of “adjusted compensation for services rendered” to a retired employee “since the service was completed prior to the increase of the retirement benefits” and “the grant of extra compensation to a public officer after the service has been rendered.” Carter v. Haynes, 228 Ga. 462, 465-66 (1971).
  – A “pension or retirement allowance granted for services previously rendered and ... fully paid for at the time they were rendered.” Burks v. Bd. of Trustees of Firemen's Pension Fund of City of Atlanta, 214 Ga. 251, 253 (1958).
When Considering a New Fringe Benefit or Auditing Current Benefits

• Ask the Following Questions:
  – Why are we offering the benefit?
  – How does the benefit relate to the future performance of an employee?
  – Is the benefit going to be built into an overall compensation package?

• Then:
  – Seek an advisory opinion from your City Attorney
Questions?
• For questions about the HR Express Program, contact:
  Aileen Harris
  Training Manager
  (678)-686-6293

• For questions relating to this webinar, contact:
  Elarbee Thompson’s Public Sector Group
  (404) 659-6700
  www.PublicEmploymentLaw.com