



Town Administrator's Office

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Memorandum

Date: October 5, 2016

To: Town Council

From: Matt Wojcik

RE: Fiscal Impact of Teamsters' FY 2017-2019 contract

SUMMARY

The goals for talks with both unions at the table this year were:

1. To bring the effective cost to the Town for insurance products down by 12-15%;
2. To keep year one costs as close to "flat" as possible without a reduction in force;
3. To address, wherever possible, outdated and/or vague language regarding non-economic issues (not addressed in this Fiscal Impact Statement).

The Teamsters proposed contract would increase spending over the entire three year life of the agreement by \$ 92,601. In FY 2019, year three of the contract, the annual cost of the contract would be an estimated \$ 48,611, or 6.2%, higher when compared to FY 2016. Contract costs include all salary, salary-driven and benefits expenses associated with the terms of the tentative agreement, assuming that the employee roster remains exactly the same as it is today (a very unlikely scenario).

The fundamental trade off in the proposal is to institute a premium co-share for insurance benefits, calculated as a percentage of premium, in exchange for a one-time increase in salary to offset it. In the out-years of the contract, the impact of this trade-off is calculated using the Teamsters' Health Services Plan administrator's figures for premiums, which are memorialized as precise dollar amounts in Appendix A of the contract.

BACKGROUND: INSURANCE BENEFIT PLATFORM STRUCTURE AND COSTS

The Teamsters contract is unique in that it provides a national unified insurance benefit platform to members for a price without reference to family vs. individual plans or any so-called "riders" extending extra or special benefits. The Teamster plan includes health, dental, life, AD&D, and ARAG (insurance against various legal expenses) products.

The premium rate for the Teamster plan is set as an hourly charge assessed for every hour a covered employee works (including overtime), capped at 40 hours a week and

450 hours per quarter. Since our DPW employees are required to work 40 hours a week and there are 52 paid weeks a year (a total of 2,080 hours), the Town as a matter of

In the last year of the recently expired contract (FY 2016), Teamster employees paid a very modest annual premium co-share of \$19.59 per pay period, just over \$500 a year, against a maximum premium of just about \$17,933. The full insurance benefit load on a typical AFSCME represented employee with a family plan is \$17,291.

WAGES & INSURANCE BENEFIT

The Teamsters agreed to a 15% premium co-share which translates into approximately \$2,946 per employee in year one of the contract. Compared to the existing co-pay, this agreement represents an additional \$2,446 out of the paycheck of the employees, or about a 5% take home pay reduction.

The proposed rate of wage increases year over year is as follows:

1. Year one (July 1, 2016 – June 30, 2017): 5.0%
2. Year two (July 1, 2017 – June 30, 2018): 2.0%
3. Year three (July 1, 2018 – June 30, 2019): 2.0%

The cost to the Town of a Teamster contract with relatively modest wage increases of 1.5% per year, coupled with little or no movement on insurance co-shares, is substantially higher – about 36% greater – than the tradeoff presented including a one-time wage “bump” coupled with a co-share concession by the union.

Base annual salaries in the Tiverton DPW are estimated to change as follows, with current year provided for sake of comparison. Please note the “take home pay” figures which show gross pay less projected insurance premium co-share, in parentheses:

Pay grade	FY 2016	FY 2017	FY 2018	FY 2019
Head Mechanic / Working Foreman	\$ 48,547 (\$ 48,038)	\$ 50,975 (\$ 48,028)	\$ 51,994 (\$ 48,913)	\$ 53,034 (\$ 49,791)
Lead Man	\$ 46,738 (\$ 46,529)	\$ 49,074 (\$ 46,128)	\$ 50,056 (\$ 46,975)	\$ 51,057 (\$ 47,814)
Heavy Equipment / Landfill Operator	\$ 44,886 (\$ 44,377)	\$ 47,131 (\$ 44,184)	\$ 48,073 (\$ 44,992)	\$ 49,035 (\$ 45,791)
Truck Driver / Landfill Attendant	\$ 42,328 (\$ 41,819)	\$ 44,444 (\$ 41,498)	\$ 45,333 (\$ 42,252)	\$ 46,240 (\$ 42,997)

In consideration of the chart above, with respect to gross take home pay the union is making a year 1 concession, and the end of year 3 take home wage is up 3.2% compared to today’s baseline for the most common wage paid (heavy equipment operator)..

The net fiscal impact of the changes in wage rates and insurance co-share are therefore as follows, by year:

Cost Item	FY 2016	FY 2017	FY 2018	FY 2019	Total
Base wages	\$ 455,478	\$ 475,566	\$ 485,077	\$ 494,779	
Net insurance premiums	\$ 174,232	\$ 166,961	\$ 174,611	\$ 183,791	
Net total cost	\$ 629,710	\$ 642,527	\$ 659,688	\$ 678,570	
Net fiscal impact over base year	Base year (0)	+ \$ 12,817	+ \$ 29,978	+ \$ 48,860	+ \$ 91,656

OTHER CONTRACTUAL COMPENSATION AND COST ITEMS

Longevity incentives are still paid to many current employees, but note, no employee hired after 2010 will receive this benefit. We currently have one employee with this status, but retirements are possible this year. The one change in this contract is that longevity will now be paid out quarterly instead of in one annual lump sum, which will reduce the Town's unfunded liability exposure to departing employees.

The men receive an annual clothing allowance of \$150. This term was not changed in the proposed contract.

FICA and MERS expenses are a percentage of base salary and thus move together with base salary changes. The Teamsters are in a MERS rating group along with the Town's non-union employees for purposes of determining the employer contribution rate. This particular fund is overfunded as of the last actuarial report; thus, the employer contribution rate is very low compared to other Town funds, and is expected to decrease to a resting rate of 1.4% by FY 2018. TIAA-CREF defined contribution plan ER expenses are a function of an employee's length of service as of June 30, 2012 and is calculated as a percentage of pensionable wages, ranging from 0% to 1.5%.

The impact of the contract is summarized in the table below, note that there is a roster change from the base year to the current year creating "noise" in the background.

Budget item	FY 2016 (base year)	FY 2017	FY 2018	FY 2019	Total change (3 years)
Longevity	\$ 23,705	\$ 23,240	\$ 23,705	\$ 24,179	
FICA	\$ 36,772	\$ 38,273	\$ 39,037	\$ 39,815	
MERS ER contribution	\$ 15,382	\$ 14,009	\$ 7,144	\$ 7,026	
TIAA-CREF ER contribution	\$ 4,440	\$ 4,618	\$ 4,711	\$ 4,805	
Clothing allowance	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	
Net fiscal impact over base year	Base year (0)	- \$ 158	- \$ 5,702	- \$ 4,473	- \$ 10,333

OVERTIME COMPENSATION EXPOSURE

Overtime compensation is a necessary part of running a DPW with service delivery levels Tiverton expects. The FY 2016 time and a half rate for heavy equipment operators was \$33. Independent contractors operating typical equipment are compensated from \$45 to \$55 an hour. The Town has not had much success recruiting drivers to operate Town equipment at rates competitive with the Teamsters' overtime rate.

For purposes of this discussion, a seven year average of overtime as a percentage of the base payroll could be used to project overtime exposure. This is a factor of just over 11.5% of base wages. With this assumption in place, overtime projections grow at the same rate as the underlying base wage rate each year, as does the FICA associated with that overtime. Overtime at DPW is largely driven by winter storms; a mild winter with little snow could eliminate significant budgeted expenses, but the opposite is also true.

For purposes of this FIS, overtime exposure is estimate at the following levels for the three years of the contract (including resulting FICA cost):

- Year 1: \$ 2,546
- Year 2: \$ 3,751
- Year 3: \$ 4,981

Therefore, using a running average % of payroll spent on overtime, our best predicted exposure for overtime over the three years of the contract is \$ 11,278.